Newsletter Q3 2024

Bonnefield

FARMLAND for FARMING

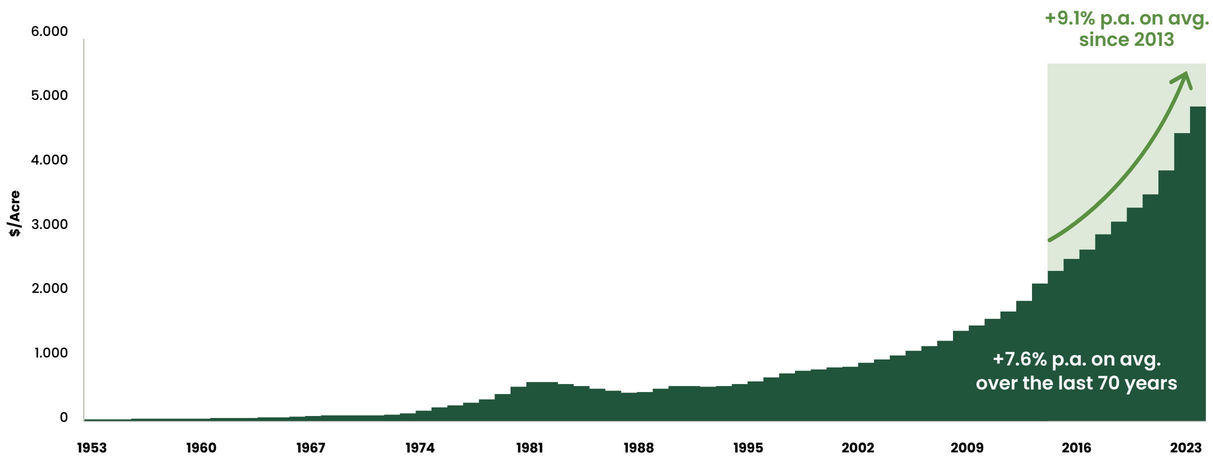
Is Now the Time to Invest in Canadian Farmland?

Introduction

Record-high stock markets, geopolitical crises, US political uncertainty, potential rebound in inflation, currency volatility, interest rate uncertainty… we live in "interesting" times. All this uncertainty has led to an increasing number of investors looking to alternative assets to complement and hedge their investment portfolios. Historically, one of the more attractive assets in times of uncertainty is Canadian farmland. The asset class offers low volatility and has a track record of average annual returns of 7.6%[1] over the last 70 years, without meaningful periods of declining value. More recent data shows Canadian farmland prices have increased by an average of 9.1% annually over the last decade[1]. But after several years of strong farmland returns, is now still a good time to invest in Canadian farmland, or are we at a "peak"?

Let's look at some historic data to see if today's "timing" is good, bad or indifferent to expected farmland returns.

Figure 1: Canadian Farmland Values[1]



"Timing the Market" Not a Relevant Concern for Farmland

Determining the right time to invest is typical in stock and bond markets, as no one wants to enter at the top of the market. The situation is different for a low-volatility and uncorrelated asset like Canadian farmland. To illustrate the point, imagine you had invested in Canadian farmland each year from 1975 to 2023. You would have had positive returns on each of those investments, with only eight entry years showing negative returns[1,2]. In contrast, global equities saw negative returns for 17 of the entry years during the same period[3]. This result is unsurprising for fans of farmland investing who are attracted to its low volatility and uncorrelated returns. We have included in Figure 2 below a summary of the historical holding period returns for both asset classes.

What may be surprising even to long-time farmland investors, however, is that investing in Canadian farmland immediately following a year of heightened value appreciation (10% or above) still resulted in strong, long-term returns in line with historical averages. The data suggest that, rather than waiting for a "dip" in the market to invest in farmland, having exposure to the asset and benefitting from its long-term correlation to inflation should support positive investment returns with limited volatility.

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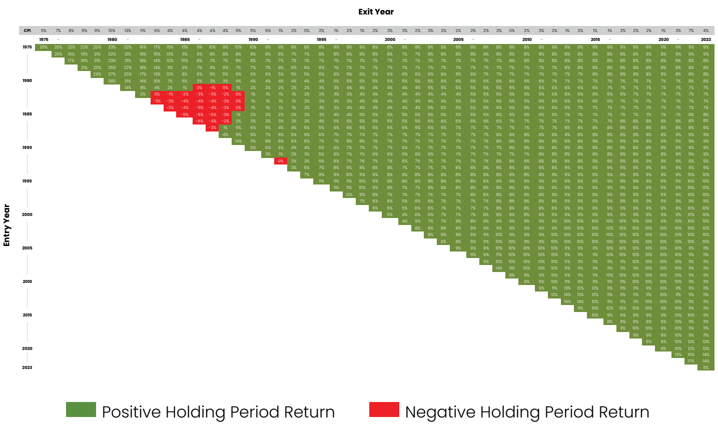
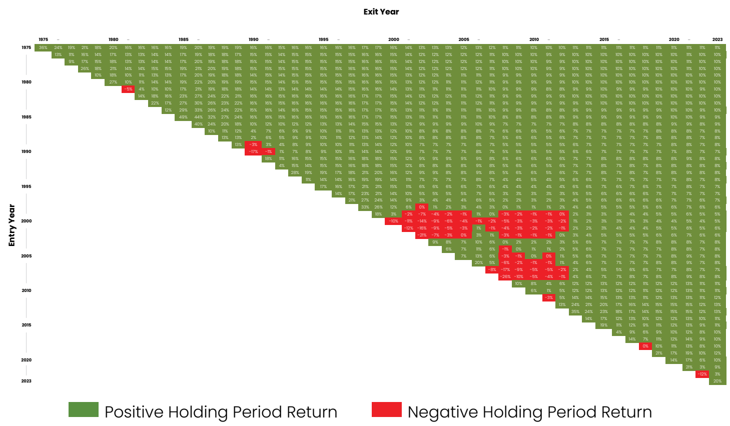
Figure 2: Holding Period Returns Since 1975 – Canadian Farmland vs. Global Equities[1,2]

Canadian Farmland[1]



MSCI Global Equities Index[2]



Can the Trend Continue?

As seen in the figure above, farmland prices have historically increased at a steady rate. The typical pattern for this asset class is a period of strong growth, generally linked with commodity super cycles, followed by more muted growth. Very rarely have there been absolute decreases in land values, and only temporary ones. This long-term growth history can lead some to question whether ongoing value growth is sustainable. At Bonnefield, we believe that it is, and that there remains significant upside in farmland values.

As a scarce resource, high-quality farmland in regions supported by positive long-term climate and water conditions will increasingly be in demand. Farmland is the base upon which we will continue to meet increasing crop production requirements to satisfy food and alternative energy demands and understanding this, along with the drivers of farmland value (e.g., farm revenues and productivity growth, farmland consolidation, etc.), helps to understand why we believe that farmland provides strong, long-term value appreciation potential.

Now is a Great Time to Invest in Canadian Farmland

Bonnefield expects to continue to see growth in Canadian farmland values supported by farm revenue and productivity growth. Along with the limited price volatility of the asset class, we believe that investing in Canadian farmland offers attractive risk-adjusted returns and that investors can benefit from earlier exposure to the asset class rather than waiting for "the right time" to enter the market.

About Bonnefield Financial

Bonnefield is a leading Canadian farmland and agribusiness investment manager. We provide capital to progressive farmers and agribusiness operators through land-lease financing and non-controlling equity solutions. Bonnefield is dedicated to preserving farmland for farming, and the firm partners with growth-oriented farmers and agribusiness operators to help them grow, reduce debt, and finance retirement and succession. The firm's investors are individuals and institutional investors who are committed to the long-term sustainable future of Canadian agriculture.

Sources

1 Statistics Canada. Table 32-10-0047-01 Value per Acre of Farm Land and Buildings at July 1, https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210004701.

2 Holding period returns calculated by varying investment entry and exit years and adding a 2% cash yield (mid-point of the cash yield target of Bonnefield's farmland strategy). Capital appreciation is assumed to be identical to Statistics Canada's farmland values dataset as at July 1st of each year.

3 MSCI World Index total return, large and Mid cap, reported in CAD, https://www.msci.com/end-of-day-data-search.