

# Farmland Values A Strategic Perspective

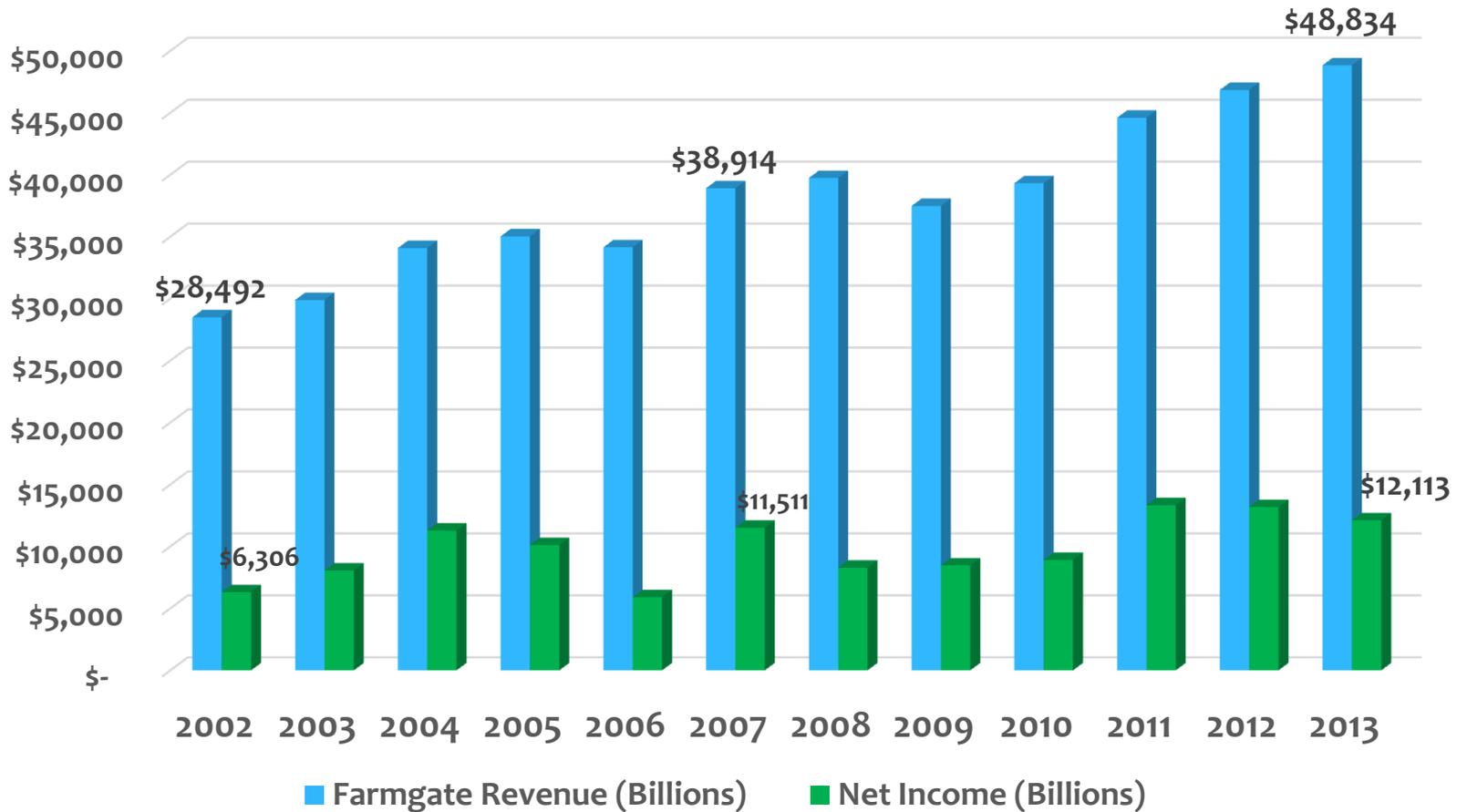
CALIF. STATE BOARD OF FOOD AND AGRICULTURE  
JULY 7, 2015



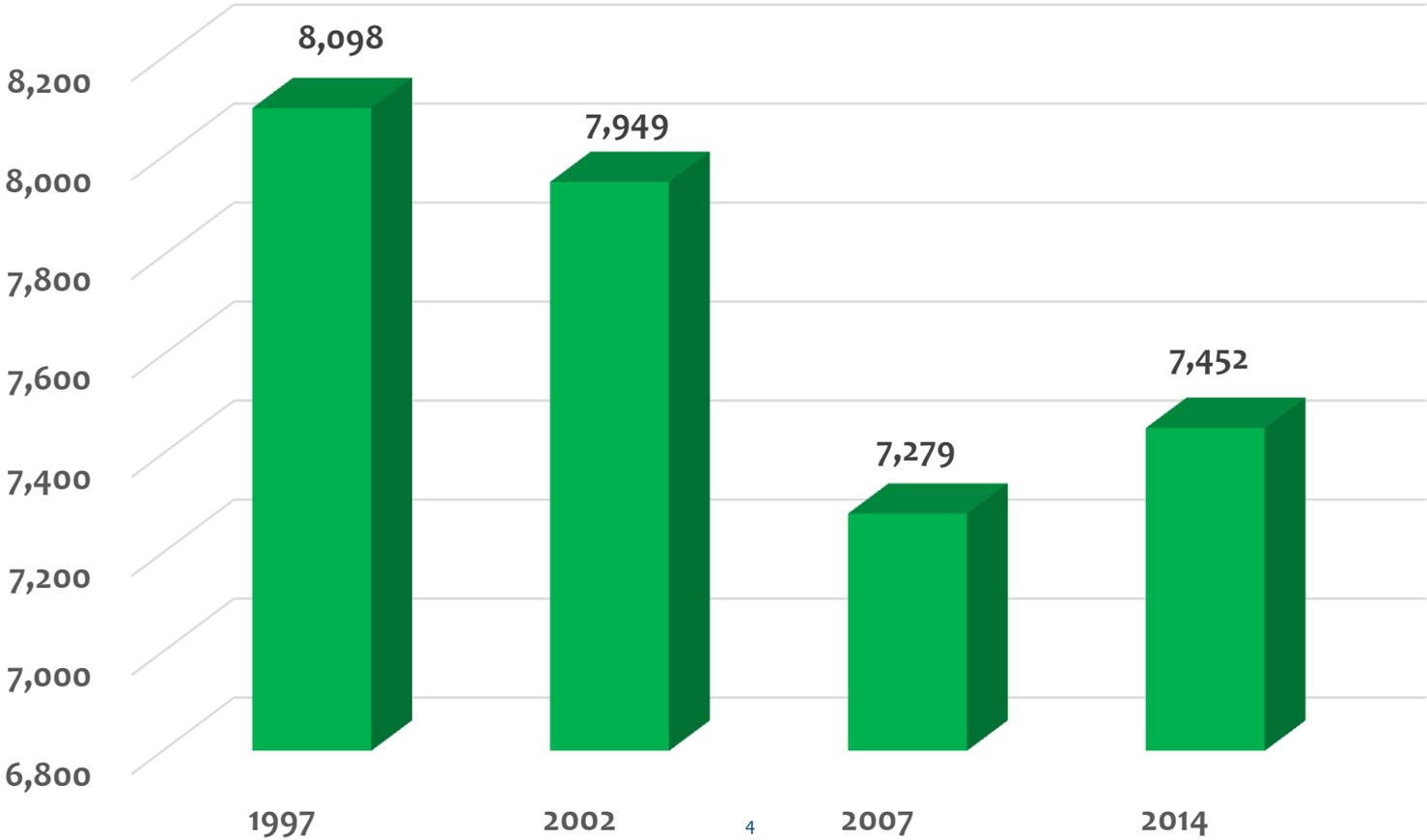
# What's the Context?

- \* A look at selected historic trends
- \* Drivers of value
- \* The current agri-business environment
- \* Something for everyone to worry about
- \* The outlook in a period of uncertainty

## Calif. Agriculture Financial Trends (Source - CDFA)



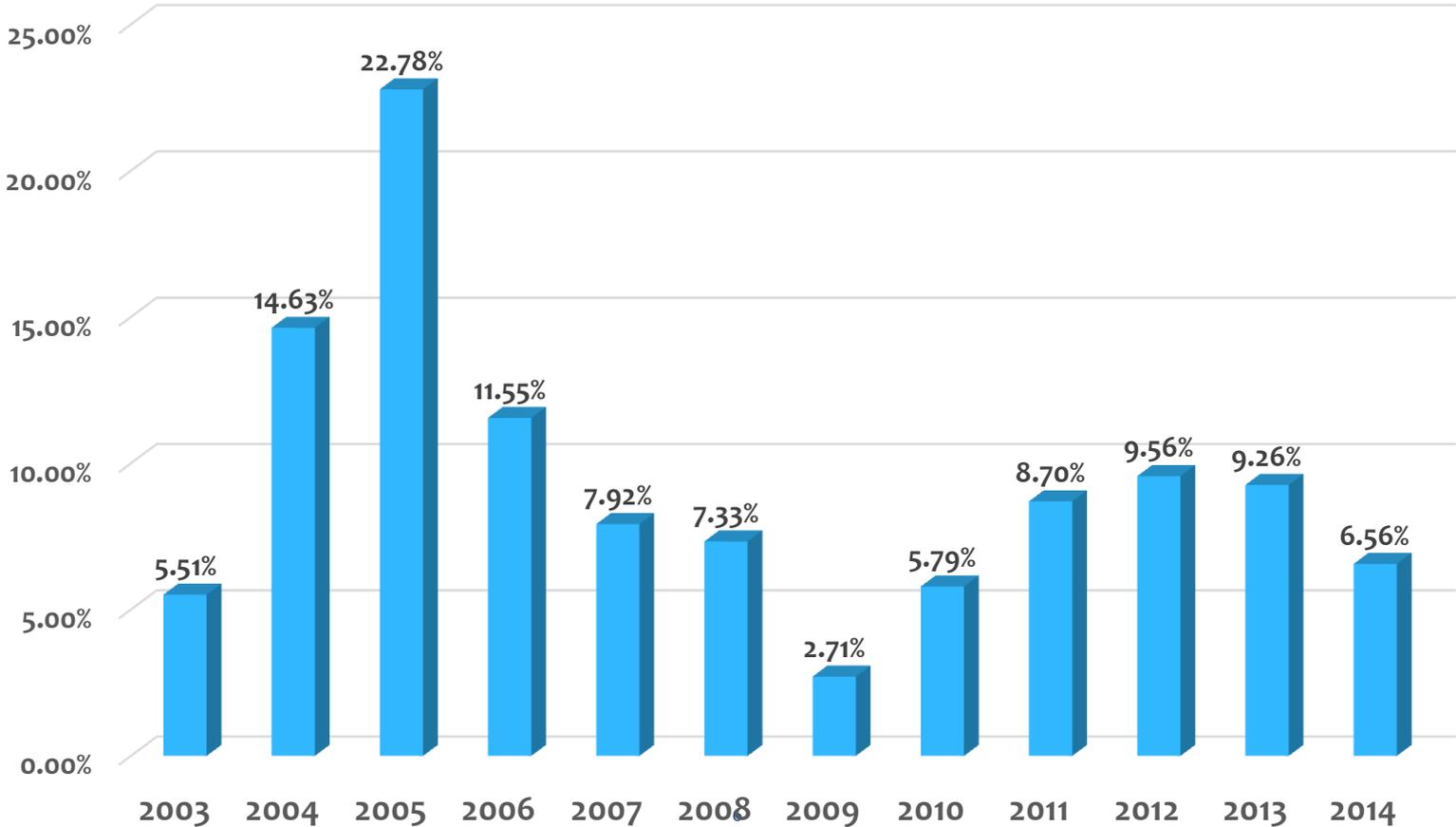
Calif. Irrigated Farmland  
(Acres -000's)



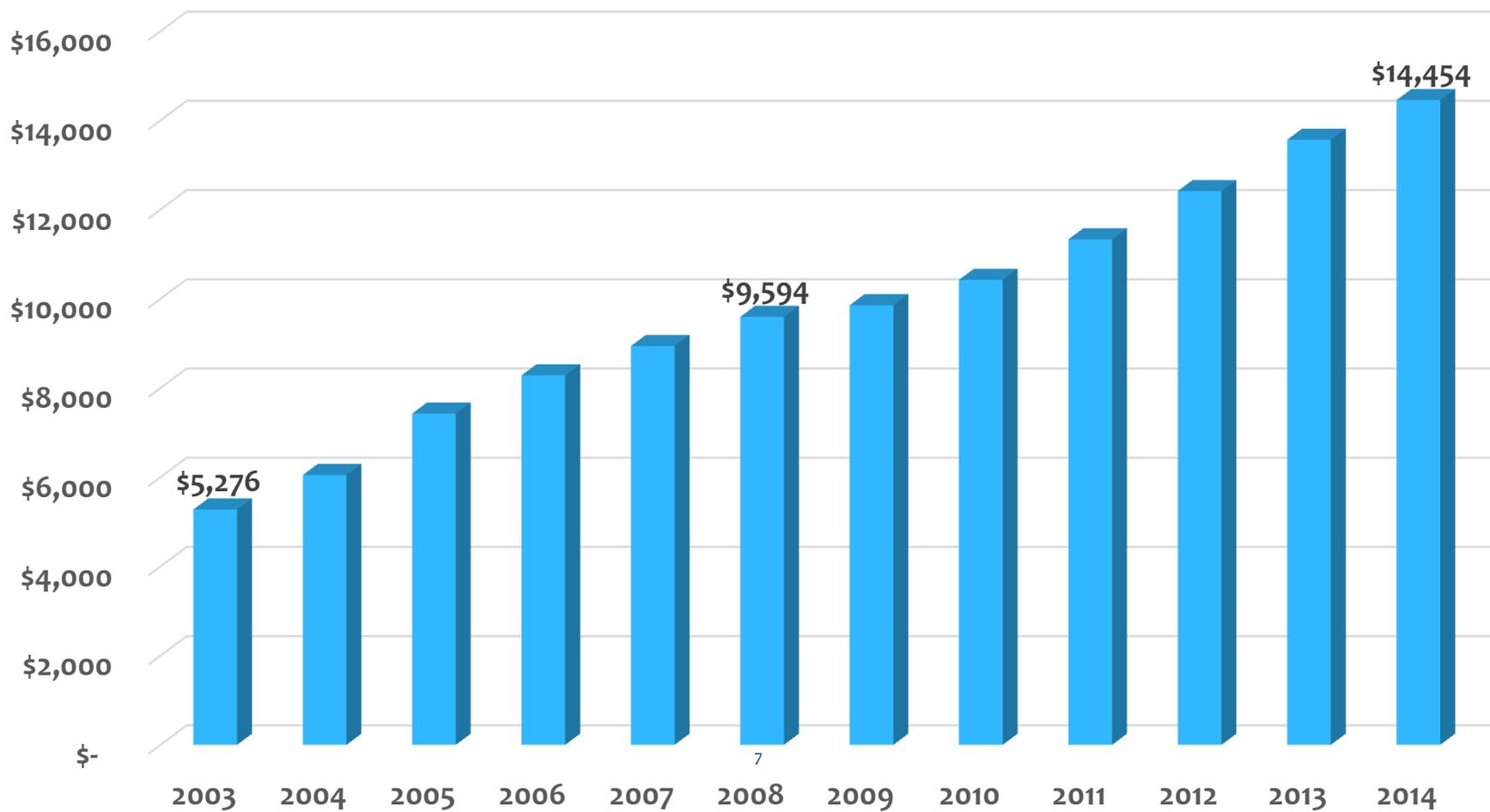
# Farmland Value Drivers

- \* Global population
  - \* 7.0 billion >>> 9.0 billion – 2040
- \* Relatively fixed supplies of arable land and water globally
- \* Rapidly rising incomes – changing eating habits – BRIC
- \* Securities and commercial real estate did not do well in the first decade of this century
  - \* Farmland 2003 – 2012 – 9.5%; Dow Jones – 2003 – 2013 - 4.53%
- \* Current fiscal policies of large developed economies will lead to inflation

### NCREIF Total Annual Return (All U. S. Farmland)



Value per Acre  
\$5,000 Investment in 2002  
NCREIF Indexed Returns



# The Agricultural Business Environment

- \* Historic Drought Conditions – Impending Ground Water Regulation
- \* Record High Farmland Values
- \* Very Low Interest Rates
- \* Selected Crops - Highly profitable levels
- \* Strong Export Demand for Most Crops
- \* A Strengthening Dollar

# We Live in a Complex, Rapidly Changing Environment



# What Could Go Wrong?

- \* The EU – Greek situation leads to global instability
- \* Rapid rises in interest rates
- \* Decline in health of developing economies (China – India)
- \* Significant increase in the dollar – Decline in export demand
- \* Continued drought
- \* An unexpected “event”

# What Might Go Right?

- \* Weather conditions “revert to the mean”
- \* Interest rates remain relatively low
- \* Continued growth in per capita demand for high value crops
- \* Decline in water supplies become a strategic advantage (for some)
- \* America becomes energy independent – costs decline
- \* “New” markets continue to grow

# What's the Outlook?



# Key Factors

- \* Uncertainty is the overriding strategic driver
- \* Farmland markets are extremely illiquid
- \* Increased volatility = More rapid change
- \* Land values will be highly correlated to earnings and water availability
- \* Global market conditions will be a driver and is likely to represent both opportunity for Calif. Ag and as well as a volatility factor

Thank you!

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