

## *U.S. farmland*

The U.S. farmland investment industry represents more than \$2.7 trillion of farmland property. We believe that the U.S. has strong agricultural advantages in its topography and geographic position. Its varied climatic regions allow for the production of a wide variety of agricultural crops, and its central position between industrial centers in Asia, Europe, Canada and South America make it a favorable location for trading. Additionally, unlike many developing nations, the U.S. is a politically stable nation with well-developed infrastructure for transportation and export of crops through established railways and ports; as well as the financial resources (such as investor capital and government support through crop insurance) to sustain its agriculture industry, giving the U.S. a comparative advantage even when the U.S. is not the lowest-cost producer.

### **Market Opportunity**

#### *Farmland as an asset class*

The U.S. farmland investment industry is large and well diversified by commodity groups. As a dominant producer and exporter of key agricultural crops, the U.S. is a leader in agricultural trade. We believe an investment in U.S. farmland can be seen as a hedge against inflation, as farmland value may continue to appreciate regardless of the inflationary environment. Global trends of increasing wealth and population are expected to continue, which should increase demand for farmland and agriculture products. Meanwhile, we believe additional factors that should increase farmland values such as supply constraints due to decreasing arable land, water concerns and urbanization of emerging markets are likely to persist.

#### *The U.S. is a world leader in the agricultural industry*

Crops harvested are broadly categorized into row crops and permanent crops. In general, due to the structure of leases, row crops generate lower cash yields and exhibit less variability of rental return, while permanent crops generate higher cash yields and exhibit greater variability of rental return.

#### *Permanent crops*

Permanent crops include fruits and nuts grown on trees and vines. According to the USDA, permanent crops account for approximately \$18 billion in U.S. farm cash receipts on less than 2% of its harvested cropland acreage. The U.S. is a worldwide leader in certain permanent crops such as almonds. California produces approximately 80% of the global supply and nearly 100% of the domestic supply of this crop. According to the Almond Almanac, emerging markets such as China and India are expected to continue to have significant long-term growth in almond consumption as the middle class in these markets continues to see an increase in disposable income. China alone accounts for over 50% of the Northeast Asia exports and over 11% of global almond exports. In early 2015, China decreased its import tariff on pecans from 24% to 10% to support the nation's burgeoning demand for U.S. pecans.

Fruits remain an important component of the national farm sector, with production increasing on average by 10-20% in the 1990s and 2000s from the 1980s as a result of factors such as: the adoption of newer technologies; inclusion of early and late-season varieties; increased domestic consumption; and export markets. In addition, exports of certain key crop types have been increasing. Fresh berry exports have more than tripled in the ten year period between 2000 and 2010, per the USDA. Annualized returns over the five year period ended June 30, 2015 for permanent crop farmland were 20.2%, based on NCREIF data. Permanent crops have varying multi-year lifespans (e.g., almond trees, in general, are often expected to have an average productive life of 25 years or longer, and walnut trees are expected to have an average productive life of 35 years).