**Area One Farms**
**Expansion Partners**

# Farmland as an Asset Class

## Investment Thesis: Why Invest in Farmland?

**Diversification – Investors are investing in farmland because it diversifies their real asset portfolios and is uncorrelated to traditional asset classes.** Farmland shares attributes that investors have come to expect from real estate and infrastructure, such as real-asset backing and inflation protection. However, farmland's defensive characteristics are more pronounced – the need for basic food in a growing population is unyielding – making it lower risk than other real assets. Farmland returns are uncorrelated because they are driven by rising farm productivity, growing demand for food, and a buyer base made up largely of farmers, who have limited exposure to financial markets. This makes farmland a compelling addition to investor portfolios.

Canadian farmland is largely unaffected by financial institutions with links to other asset classes. Over 99% (worth C$900 billion[1]) is owned by 190,000 farmers[2] and retired landowners, not investors. Farmers are not natural investors in the stock markets. This explains farmland's uncorrelated nature with markets (returns have a -0.2 correlation with bonds and -0.4 with equities[3]) and low volatility (5%, compared to 16% for equities and 21% for real estate). Most farmers need capital to grow, presenting a unique investment opportunity when combined with farmland's strong risk-adjusted returns.

**Strong Risk-Adjusted Returns – Canadian farmland has, on average, appreciated by 9.9% each year in the past 20 years and 8.1% in the past 30 years[4], driven by sustained increases in farm cash receipts.** Each year, Canadian farms have grown more crops on the same land: for example, wheat, canola, and oat annual yield gains have averaged 2% in the past 20 years[5]. Better agronomy and incremental improvements in technology, such as higher-yielding or drought-resistant seed varieties, or better machinery (i.e. that allows for improved seed and fertilizer placement), explain these gains. The introduction of higher value crops (corn, soybeans, and specialty crops), bred to become more adaptable for northern climates, are also increasing farm profits. These factors have accounted for this land appreciation and also explain the market-uncorrelated nature of the returns.

**Hedge Against Inflation – Between 2005 and 2024, farmland appreciation exceeded CPI by 7.8%[6] on average each year due to the farm productivity gains and crop price increases.** Over the past 30 years, wheat prices have increased by 2% on average each year, canola 2%, and oats 5%[7]. Growing global demand for food, feed and fuel, and a diminishing supply of arable land with available water explain rising long-term crop prices, despite short-term commodity cycles. Reversing urbanization, climate change, or human consumption patterns is difficult. Basic food products are essential goods that experience consistent demand even during inflationary periods.

1 Statistics Canada (2024).
2 Government of Canada (2024).
3 Bloomberg and Farm Credit Canada (FCC). 30-year Canadian government bond average yield if held to maturity. S&P/TSX Composite Index total return.
4 Farm Credit Canada (2024): https://www.fcc-fac.ca/en/knowledge/economics/farmland-values-report.
5 Statistics Canada (2024): https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3210035901.
6 Bloomberg and Farm Credit Canada (FCC).
7 Trading Economics and Bloomberg (2023)

**Value-Add Strategies – Farmland investors can increase and diversify their returns by adopting value-add strategies.** Land improvement, the restoration of retired farmland back into productive cropland or the irrigation of dryland, creates 40% to 90% value gains over 2 to 3 years. High-quality, appreciating land can be purchased below fair-market value by partnering with farmers as co-investors. The farmers can buy the land "off-market" because of their existing relationship with the sellers, typically friends, family, neighbours, or long-term landlords. Economies of scale and higher valuations can be achieved by consolidating small farms into larger more-profitable operations.

*Land improvement, the restoration of retired farmland back into productive cropland or the irrigation of dryland, creates 40% to 90% value gains over 2 to 3 years. High-quality, appreciating land can be purchased below fair-market value by partnering with farmers as co-investors.*




8 PSPIB Annual Report (2023).
9 AIMCo Annual Report (2023).

## How to Invest in Farmland?

### INVESTMENT ALLOCATION

**Institutional farmland investors typically allocate 2% - 5% of their portfolios to the asset class.** For example, PSP allocated 5.5% of its portfolio to natural resources, predominately farmland[8]. AIMCo invested 2% of their assets in agriculture and timberland[9].

Institutions usually invest in farmland from their real asset allocations, although in some cases, farmland sits within real estate, which is the case for Area One Farms' ("Area One's") cornerstone investor. In some cases, farmland is considered an impact investment due to its environmental and social impact potential.

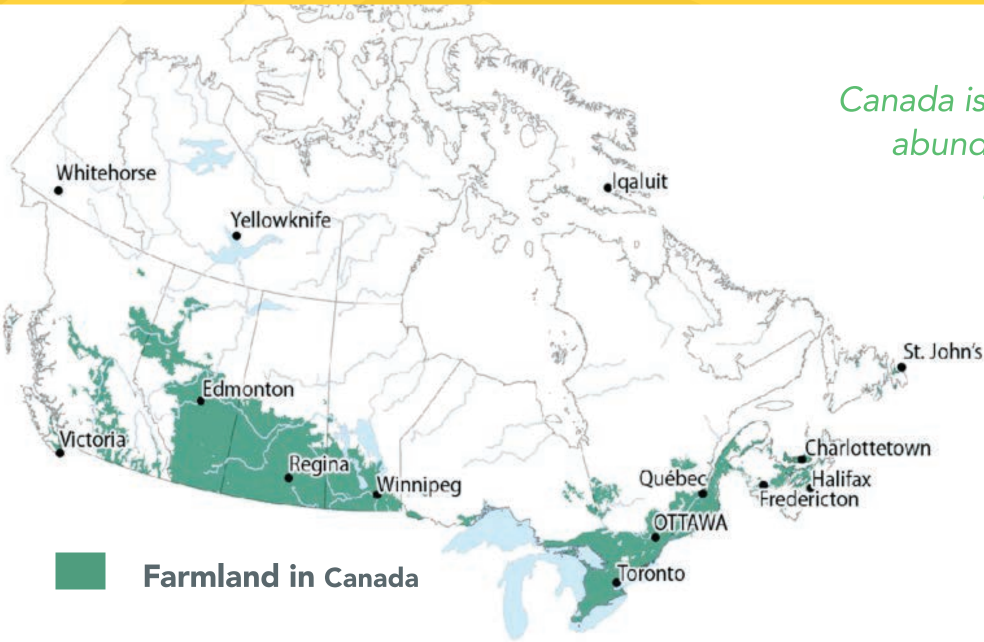
### FARMLAND VS. AGRICULTURE

Some managers bundle other agriculture sectors, such as greenhouses and vertical farming, with farmland, promoting them as low-risk, higher-return options. However, these sectors lack robust real-asset backing and involve high operating risks, including substantial capital expenditures and energy costs, making them more appropriate for private equity allocations.

### TYPES OF FARMLAND

- **Row Crop –** crops that are planted and harvested annually (typically in rows) and require replanting each season (for example, wheat, canola, oats, corn, and soybeans).
- **Permanent Crop –** crops grown on land that is not replanted annually and continue to produce for multiple years (for example, fruit and nut trees).
- **Pasture –** a large area where animals graze and feed on grass and other forage crops.

In row crops, over 90% of the investment value is in the land and the remaining 10%, which is crop, is covered by insurance. Permanent crops offer higher cash yields but carry more risk, as around half the investment value is tied to the trees. Trees take many years to regrow if burned or killed by pests, whereas row crops grow annually. Insurance will pay for replanting the trees, but not for the years of lost income, making row crops a lower risk alternative. Canada has an abundant supply of row crop farmland across different provinces.




*Canada is particularly desirable for its abundant water supply and stable rule of law. The government subsidizes crop insurance, protecting 80% of farmers' annual crop production (with full coverage) from any issue: weather, pathogens, or animals.*

## HEADLINE RISK

**Rural communities are sensitive to institutional investment in farmland through sale-and-leaseback strategies.** Buying land from farmers and leasing it back to them is easier work than operating partnerships but creates misalignment and headline risk. These rental models have come under criticism for reducing farmer land ownership and driving up land values, often seen as competing with local farmers. CPP's Saskatchewan experience in 2013 highlights these challenges. Partnering with farmers mitigates headline risk because farmers are benefitting from expanding their farms (rather than selling them) and ultimately acquiring investors' portion of the land at the end of the partnerships. Area One has worked closely with the governments of Manitoba and Ontario who recognize the benefits of the partnership approach.

## GEOGRAPHIC ALLOCATION

**Canadian institutions invested in farmland in Canada or other high-income countries have performed better than peers invested in globally diversified strategies.** Global strategies have performed poorly, as emerging market currencies (such as the Brazilian real) have fallen, wiping out returns. Emerging market exposure carries higher risk from weaker property rights and an uncertain rule of law. Geographic diversification can be achieved within a single large country like Canada, the US, and Australia. Canada is particularly desirable for its abundant water supply (an issue in parts of the US and Australia) and stable rule of law. The government subsidizes crop insurance, protecting 80% of farmers' annual crop production (with full coverage) from any issue: weather, pathogens, or animals. Canadian tax-exempt institutions have the additional advantage of avoiding tax leakage by staying in Canada. Many investors that Area One works with appear to be comfortable with a fully Canadian portfolio, although some are also adding one other high-income country.

Farm Partners
in Manitoba


Farm Partners
in Ontario


Farm Partners
in Alberta

Farm Partners in Ontario

## Why Area One Farms?

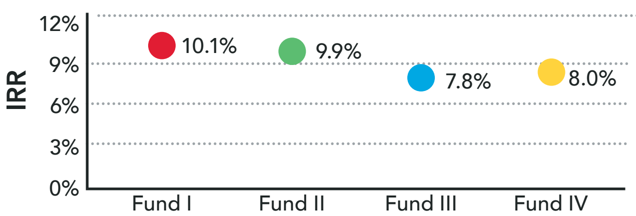
**Established in 2012, Area One has become the largest independent farmland manager in Canada.** It manages over C$750m of assets across five funds, 50 farm partnerships, and over 200,000 acres (including 40,000 acres of land that has been improved). Area One's team of 20 individuals (two thirds of which are in the investment and operations teams) combines strong farming and investment expertise, which has enabled the firm to scale farms and land improvement. Most of Area One's investors are first-time investors in farmland. Area One is currently raising its fifth fund (C$500m).

**Area One is the only manager in Canada investing in partnerships with farmers, enabling access to ~80% of farmland that is sold privately, "off-market".** Often this is the highest quality land, that farmers know, want, and can manage, bought from friends and family at a discount. The risk of overpaying for land or buying low quality assets is mitigated because farmers are co-investors and invest their own capital into the land. Farmers manage the land sustainably for long-term income and appreciation.

**Area One achieves strong diversification by investing a single fund across Canada, different land, crop and partnership types, and with dozens of farm partners.** For example, its fourth fund is invested in 23 farm partnerships across Alberta, Manitoba, and Ontario, with a third of the capital allocated to each province. Land improvement accounts for ~25% of the portfolio's capital. Area One provides mentorship and coaching with farm partners to improve productivity, share best practices, and undertakes other value-add strategies such as land improvement.

**Area One is generating returns within its 8% to 12% net IRR target range.** Fund I (realized) achieved a 10.1% net IRR, Fund II (part realized) is achieving 9.9%, Fund III, 7.8%, and Fund IV, 8.0%.

### Fund IRR Comparison




## The Area One Team

- 20 professionals combining farming and investment experience led by Joelle Faulkner, founder and CEO of Area One.
- On-the-ground farming experts operating in Alberta, Manitoba and Ontario.
- Area One is woman-owned and women-led.

*Area One has experienced significant success over the past decade with over 50 farm partnerships, facilitating farm expansions and land improvement across Canada.*

investorrelations@areaonefarms.ca
(416) 583-5873

**areaonefarms.ca**

Suite 501
1670 Bayview Avenue
Toronto, ON M4G 3C2

Area One Farms Expansion Partners

Partnership. Trust. Success.