

Farmland Fundamentals: Understanding the Asset Class

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As we continue developing our strategic playbook for family office investment in farmland, it is important to establish a foundational understanding of how the asset class generates returns and why it has historically demonstrated resilience across market cycles.

Farmland occupies a unique position within the real asset universe because it combines productive income generation, inflation sensitivity, and long-duration ownership characteristics. Unlike many alternative investments, farmland is tied to the production of essential goods: food, fiber, and fuel. Yet despite its importance, arable land remains limited. Only approximately 16% of land in the United States is considered suitable for agriculture, while globally, only about 10% of land is classified as arable. At the same time, that limited land base is expected to help feed a global population approaching 9.8 billion people by 2050.

Unlike many industries undergoing rapid technological disruption, agriculture also possesses a level of permanence. Technology can improve efficiency and productivity, but it cannot replace the underlying need for productive land.

Farmland is often compared to gold due to its role as a tangible store of value with inherent scarcity. However, unlike gold, farmland is a productive asset that generates current income in addition to long-term appreciation. This combination of cash flow and capital preservation is a defining feature of the asset class.



How Farmland Generates Returns

Farmland returns from an investor's viewpoint are generally derived from two primary sources:

- Current income through leasing arrangements
- Long-term appreciation in land values

From an income perspective, farmland operates similarly to traditional real estate. Landowners lease farmland to farm operators under a variety of structures, with the operator assuming responsibility for production activities.

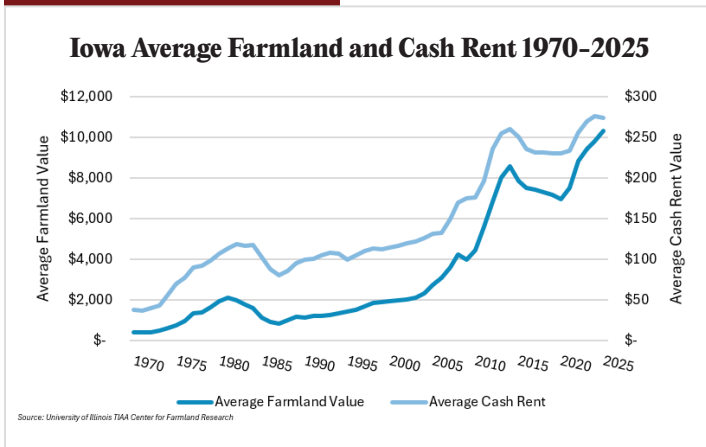
The three primary leasing arrangements in agriculture are fixed cash rent, crop share agreements, and custom farming agreements.

Fixed Cash Rent

By far the most common leasing arrangement, the USDA estimates that approximately 72% of leased farmland operates under fixed cash rent agreements. Under this structure, the farm operator pays the landowner a fixed per-acre rental rate regardless of production outcomes or commodity prices.

As expected, there is generally a strong positive relationship between land values and rental rates. See Figure 1.

FIGURE 1



From the landowner's perspective, fixed cash rent is typically the least risky lease structure because income is contractually defined and does not fluctuate directly with annual yields or market prices. Variations of this arrangement also exist, including "flex leases," which combine a lower guaranteed base rent with bonus payments tied to crop yields or commodity price thresholds.

Crop Share Agreements

Crop share agreements allow the landowner to participate more directly in both the risks and rewards of agricultural production. While structures vary, one of the most common arrangements is a 50/50 crop share agreement in which the landowner and operator equally share production expenses such as seed, fertilizer, and crop protection inputs, while also splitting the harvested crop.

Under this structure, both parties market their share of production independently, allowing landowners to benefit more directly from favorable commodity price environments. However, this also introduces greater exposure to yield variability and market volatility compared to fixed cash rent agreements.

The USDA estimates that approximately 18% of farmland lease agreements are structured as crop share arrangements.

Custom Farming Agreements

Custom farming agreements place greater operational exposure on the landowner than traditional lease structures. Under this arrangement, the landowner hires an operator to perform farming activities such as planting, spraying, and harvesting for a predetermined fee while retaining ownership of the crop and receiving all resulting revenues.

Because returns are tied directly to production outcomes and commodity pricing, custom farming can provide greater upside participation than lease-based structures, but it also introduces more variability and requires a more active ownership approach. While less common nationally, custom farming agreements are more frequently observed in certain Western wheat-producing regions and among sophisticated landowners seeking greater control over operating decisions.

Direct Operating

At the most active end of the ownership spectrum, investors may choose to directly operate farmland themselves rather than leasing the land or hiring a custom operator. Under this structure, the owner retains all crop revenue while also overseeing labor, agronomic decisions, capital expenditures, and the timing of planting and harvest.

Direct operating typically involves the greatest operational complexity and production risk, but it also provides the highest level of control over the asset and the full economic benefit of a successful crop. This structure is more commonly seen in permanent crop operations and vertically integrated agricultural businesses, where direct oversight of production can create efficiencies across the broader food supply chain.

The Role of Crop Insurance

Although fixed cash rent arrangements are generally considered lower risk for landowners, a natural question arises: what happens if crop failure occurs due to drought, flooding, or other weather-related events?

The answer lies in the Federal Crop Insurance Program, one of the most robust federally supported risk management systems in U.S. agriculture. Crop insurance provides protection against both production losses and adverse price movements, significantly reducing financial risk for operators and, indirectly, landowners.

Today, approximately 90% of U.S. corn and soybean acreage is insured. In many cases, crop insurance proceeds help operators maintain financial stability even during difficult production years, supporting lease obligations and improving the overall resilience of the agricultural system.

Appreciation: The Larger Driver of Long-Term Returns

While annual income is an important component of farmland investing, appreciation has historically represented the larger contributor to total returns over time. Farmland capitalization rates have historically trended lower than many forms of commercial real estate, reflecting the market's emphasis on long-term appreciation, capital preservation, and the scarcity of high-quality productive land. Cap rates can vary meaningfully depending on crop type, water availability, geography, and prevailing interest rate conditions, with premier assets often trading differently from the broader market. As a result, farmland is typically evaluated through a total return lens, balancing current income with long-duration appreciation potential. See Figure 2.

FIGURE 2

Average Cap Rate of U.S. Farmland 1990-2025

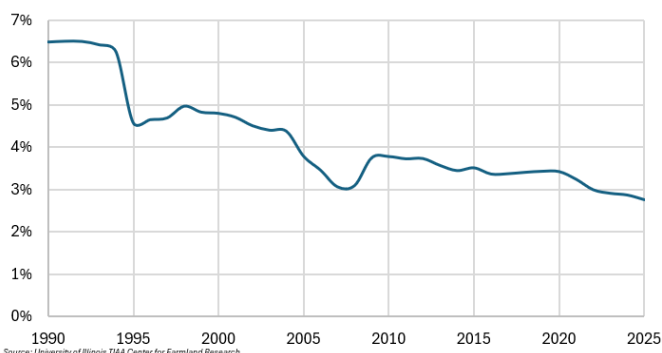
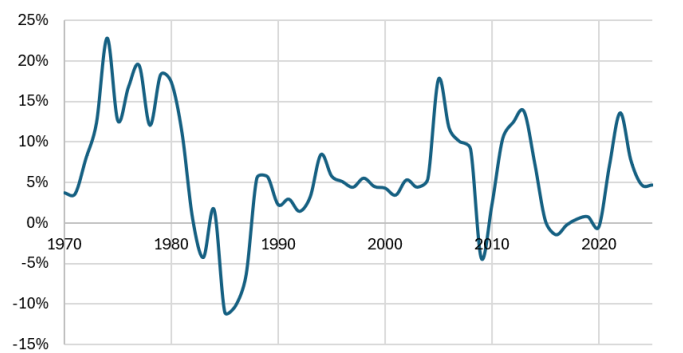


FIGURE 3

U.S. Farmland Average Appreciation Rate by Year



As shown in Figure 3, average U.S. farmland appreciation has historically averaged approximately 5.94% annually. Importantly, farmland has generally experienced fewer and shallower valuation declines than many traditional asset classes, reinforcing its historical role as a capital preservation asset.

Annual Cropland vs. Permanent Cropland

Not all farmland is homogeneous. Values, risk profiles, and return characteristics vary significantly depending on geography, water availability, soil quality, and production type.

Broadly speaking, U.S. agricultural production can be divided into two major categories: annual cropland and permanent cropland.

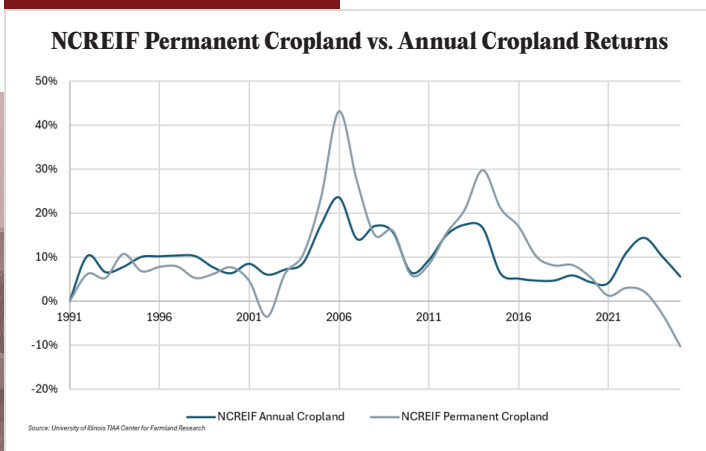
Annual cropland consists of crops that must be replanted each year, including corn, soybeans, wheat, cotton, and barley. Permanent cropland refers to long-lived plantings such as almonds, pistachios, wine grapes, citrus, and avocados that produce crops over multiple years after initial establishment.

Historically, permanent cropland has exhibited greater return volatility than annual row crop farmland. One reason is biological recovery risk. If an annual crop fails due to drought or weather, the operator can typically plant a new crop the following season. In contrast, if a permanent planting such as an orange grove is destroyed, it may take seven to ten years before replacement trees return to full production.

At the same time, permanent crops often command significantly higher per-acre values and revenue potential due to the economics of specialty crop production and their inherent product value.

According to the National Council of Real Estate Investment Fiduciaries (NCREIF), permanent cropland has generated annualized returns of approximately 9.9% since 1991, compared to 9.8% for annual cropland. However, as shown in Figure 4, permanent crop returns have historically experienced considerably greater volatility.

FIGURE 4



Embedded Optionality and Emerging Revenue Streams

In addition to traditional farm income and long-term appreciation, certain farmland assets may benefit from embedded optionality that creates additional sources of value over time. Because farmland is a scarce physical asset with strategic geographic characteristics, some properties may become attractive for uses beyond crop production. Depending on location, infrastructure access, water availability, and zoning, farmland may generate additional revenue options through renewable energy development, battery storage, transmission infrastructure, conservation programs, carbon initiatives, or future land development.

For example, farmland located near expanding metropolitan areas may carry long-term development potential, while land near electrical infrastructure may benefit from solar, battery storage, or data center demand. In some cases, these alternative uses can materially enhance value beyond traditional agricultural economics.

Farmland can also generate value in various environmental ways. Soil carbon sequestration, water conservation, and habitat restoration are increasingly creating additional economic opportunities through conservation programs and emerging environmental markets.

For family offices with long investment horizons, this embedded optionality can be particularly attractive. In addition to annual cash flow and land appreciation, farmland may offer strategic flexibility and access to evolving revenue streams tied to infrastructure, environmental policy, and land use over time.

A Framework for Understanding Farmland Values: Income, Inflation, and Interest Rates

Like all real assets, farmland values are influenced by a combination of income potential, capital market conditions, and local supply-and-demand dynamics. At a high level, these drivers can be simplified into three interconnected forces: income, inflation, and interest rates.

Income

Farmland generates recurring income through lease structures tied to the productive use of the land. Whether through fixed cash rent, crop share agreements, specialty crop production, or alternative optionality, farmland produces annual cash flow supported by ongoing global demand for food, fiber, and fuel.

Farm profitability is heavily influenced by commodity prices. Strong pricing environments for corn, soybeans, wheat, cotton, and specialty crops generally support higher farm income, rental rates, and land values over time. However, farmland values typically move much more gradually than commodity markets themselves. With only approximately 1–2% of U.S. farmland transacting annually, temporary swings in grain prices are often slow to translate into land value changes.

Farmland markets are also intensely local. Soil productivity, drainage, water access, regional infrastructure, and operator competition all influence value. In regions with strong farm operators and limited available inventory, demand for high-quality land can remain elevated even during broader economic slowdowns.

Inflation

Farmland has historically demonstrated a strong relationship with inflation over longer holding periods. Research from the TIAA Center for Farmland Research at the University of Illinois found that farmland returns have generally maintained a positive correlation with inflation while preserving positive real returns across multiple inflationary environments.

This relationship exists because inflation often impacts the same factors that support farmland values, including commodity prices, replacement costs, and the value of scarce productive land. As a result, farmland has historically functioned as a long duration purchasing power preservation asset.

Interest Rates

Interest rates remain one of the most important variables affecting farmland valuations because they directly influence borrowing costs, capitalization rates, and relative asset attractiveness. Lower borrowing costs generally support higher land values by improving farm profitability and increasing buyer purchasing power, while rising rates can place downward pressure on values.

Even so, farmland has historically demonstrated greater stability than many other real estate sectors during rising-rate environments due to modest leverage levels, limited annual transaction volume, and demand tied to essential-use production rather than discretionary consumption.

In certain regions, farmland values are also increasingly influenced by non-agricultural demand drivers such as renewable energy projects, suburban expansion, carbon initiatives, and data center development. In some markets, these alternative uses have created additional appreciation premiums beyond traditional agricultural value.

Together, these three forces help explain farmland's unique position within a diversified portfolio, combining productive income generation, inflation sensitivity, and long-duration real asset ownership.

Farmland Relative to Other Real Assets

Farmland shares characteristics with several major asset classes but also possesses distinct attributes that differentiate it from traditional real estate and private market investments. Compared to commercial real estate, farmland typically exhibits lower vacancy risk and lower correlation to consumer spending trends. Relative to infrastructure or private equity investments, farmland generally offers simpler operational structures and lower technological obsolescence risk.

Notably, farmland has historically demonstrated relatively low correlation with traditional equities and fixed income markets, enhancing its role as a portfolio diversification tool.

Farmland may also offer meaningful tax planning advantages depending on ownership structure, operating strategy, and jurisdiction. These considerations can include depreciation on certain improvements, conservation-related incentives, estate planning benefits, and other tax-efficient wealth transfer strategies. Because tax outcomes vary significantly by structure and investor objectives, we will address these considerations in greater detail in a future piece focused on portfolio construction and implementation.

For family offices evaluating long-duration real assets, farmland presents a combination that is increasingly difficult to replicate elsewhere in modern markets: current income, inflation sensitivity, finite supply, and multigenerational relevance. Understanding the mechanics of the asset class is the first step toward understanding why institutional and private capital continue to increase allocations to farmland today.

Next in the series:

Portfolio Construction: Where Farmland Fits Within Family Office Allocations

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