

PEOPLES COMPANY.com



A global perspective grounded in rural farming roots and a drive to continually innovate is what makes Peoples Company one of the nation's leading providers of **land brokerage, land management, agricultural appraisal, and land investment** services.

With a national footprint, we are able to serve all the major agriculture markets as a full-service national farmland transaction company. Our core business model centers around brokering large, sophisticated land deals around the country, as well as acquiring and managing investment-grade assets for clientele of the highest caliber, including institutional investors, family offices, and high net worth individuals.

Peoples Company's major relationships throughout the industry, with key referral sources and prominent agricultural players, bolster the company's regional strategy and position the company to provide solutions for deals of any scale all across the country.

It All Starts With Land

OFFICES

AgriBusiness Trading Group

109 West Poplar Street
Walla Walla, WA 99362
509.876.8633
Info@AgTradeGroup.com

Landmark Ag

6225 Greenlee Street, Suite 101-#9
Arlington, TN 38002
901.483.0373
LandmarkAg@PeoplesCompany.com

Peoples Company – Clive (HEADQUARTERS)

12119 Stratford Drive, Suite B
Clive, IA 50325
515.222.1347
Info@PeoplesCompany.com

Peoples Company – DeWitt

700 6th Avenue
DeWitt, IA 52742
563.659.8185
Info@PeoplesCompany.com

Peoples Company – Fresno

7498 Remington Avenue, Suite 106
Fresno, CA 93711
559.306.6337
PacificWest@PeoplesCompany.com

Peoples Company – Indianola

113 W. Salem Avenue
Indianola, IA 50125
515.961.0247
Info@PeoplesCompany.com

Peoples Company – Jonesboro

1201 Nettleton Circle
Jonesboro, AR 72401
870.275.6249
Info@PeoplesCompany.com

Peoples Company – Omaha

10665 Bedford Avenue, Suite 102
Omaha, NE 68134
402.334.0256
Info@PeoplesCompany.com

Peoples Company – San Diego

2150 W. Washington Street, Suite 501
San Diego, CA 92110
619.618.0540
PacificWest@PeoplesCompany.com

Peoples Company – Marlette

6446 Morris Street, PO Box 125
Marlette, MI 48453
989.635.0086
Info@PeoplesCompany.com

LICENSING MAP

- Land Management, Brokerage and Appraisal Licensed States
- Land Management and Brokerage Licensed States
- Appraisal Licensed States
- Consulting Available

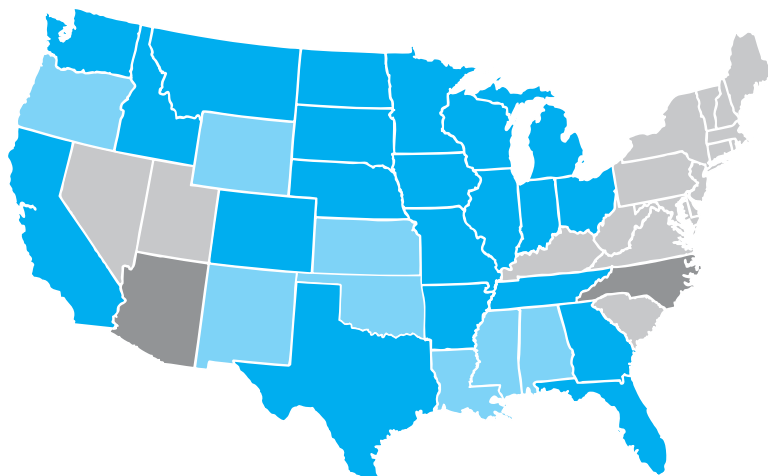




Table of Contents

- 4 US Farmland Market Overview

Regional Market Updates

- 10 Pacific West Market - California
- 12 Pacific Northwest Market
- 14 Delta Market
- 16 Lake States Market
- 18 Southeast Market
- 20 Corn Belt Market
- 23 Tracking the Performance of Farmland Investments: The National Council of Real Estate Investment Fiduciaries (NCREIF) Farmland Index
- 26 Do You Want to Own Dollars? Or Is Owning Acres a Better Investment Strategy?

The strength of farmland prices in 2021 has been remarkable. It's a trend which I expect will continue over the next 12 to 24 months. Farmland values have been driven by a variety of factors: high commodity prices, historically low interest rates, strong demand from farmers, and increased demand for real assets as an inflationary hedge. Additionally, the market has seen an influx of diverse buyers over the last 18 months as institutional investors, speculative buyers, and nascent farmland investment organizations jockey for position.

Peoples Company is proud to present this comprehensive review of farmland values and expand upon our inaugural 2020 report. Our 2021 report contains an analysis of historical market trends, a regional breakdown of current market conditions, and an overview of recent farmland investment outcomes based on the NCREIF index.

Since our last report, Peoples Company has continued to expand its footprint across the country. We now maintain licensing in 30-plus states throughout the major agricultural regions. Our boots on the ground approach with our brokers, managers, and appraisers provides timely data and firsthand analysis of land values, land rents, and insights across different production regions.

A special thank you to Bruce Sherrick, Professor and Director of the TIAA Center for Farmland Research, and Eric O'Keefe, Editor of The Land Report, for their input and expertise. In addition, our appraisal team provided a wealth of key data and essential insights. At Peoples Company, we strive to provide reliable data to owners, investors, and managers nationwide. We welcome the opportunity to assist you with all your farmland needs and encourage your feedback or observations about this report.

A handwritten signature in black ink that reads "Steve Bruere".

STEVE BRUERE | President, Peoples Company

US FARMLAND MARKET OVERVIEW

By **Bruce Sherrick**, Professor & Director
TIAA Center for Farmland Research, University of Illinois

Farmland markets have experienced a remarkable surge in price across much of the country during the last 9 to 12 months with many areas in the Midwest up 20% or more. Farm incomes have been buoyed by strengthening commodity prices, which were supported by increased export demand and recovering domestic usage as well. And all asset market valuations have continued to be supported by sustained low interest rates.

Concern about potential inflation and debate about future monetary policy and stimulus spending regularly generate headlines about future

asset values. And unfortunately, disruptions related to the COVID-19 pandemic and associated policy responses have continued longer than expected. In last year's Market Overview, major issues affecting agricultural asset markets were identified, and it was noted that the demand-side factors supporting continued strong performance would determine near-term performance and that longer-term issues would depend more critically on capital market and interest rate impacts. The reasonably positive projections from a year ago have in fact turned out to be mostly accurate, and the strong market for farmland that developed

since then has continued into the fourth quarter which has traditionally been a strong annual season for farmland markets.

To help provide additional grounding in the performance of agricultural assets as well as the prospects for the future, updated data on national land values, income versus appreciation prospects, and potential impacts of future interest rate and inflation regimes is first provided. This report then turns to regional updates that include historic performance and more specific treatment of local factors impacting returns to agriculture.



FARMLAND MARKETS TODAY HOW DID WE GET HERE?

Agricultural land can be classified by use and type including cropland, pastureland, and a third category that combines all farmland and real estate including buildings and fixtures. Cropland is further divided into the categories of annual row-crop production (e.g., corn, soybeans) and permanent crops (e.g., citrus, tree nuts, wine grapes). USDA publishes the results of its annual survey of land values and lease rates by category along with related information about acreage and use changes, and NCREIF provides complementary information on a quarterly basis on performance of institutionally owned and professionally managed agricultural assets.

Cropland values are influenced by the type of crop grown and relative productivity, and generally reflect the income earning potential of the agricultural production in that location.

Figure 1 shows 2021 average cropland values by state, and Figure 2 shows the percentage change in value from one year ago. Since the release of the updated USDA data, regional surveys in the Midwest in particular have shown an even more rapid increase in the second half of 2021. Moreover, the USDA data are for all cropland including small and hobby holdings, not solely that which would be considered

FIGURE 1 — **Cropland Values \$/Acre 2021**

Source: USDA Land Values 2021 Summary, August 2021

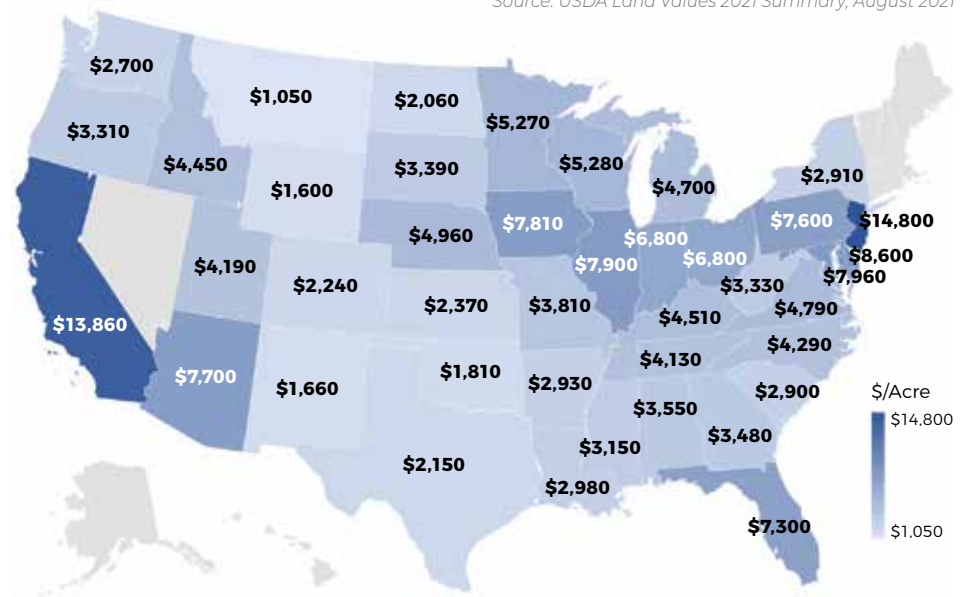
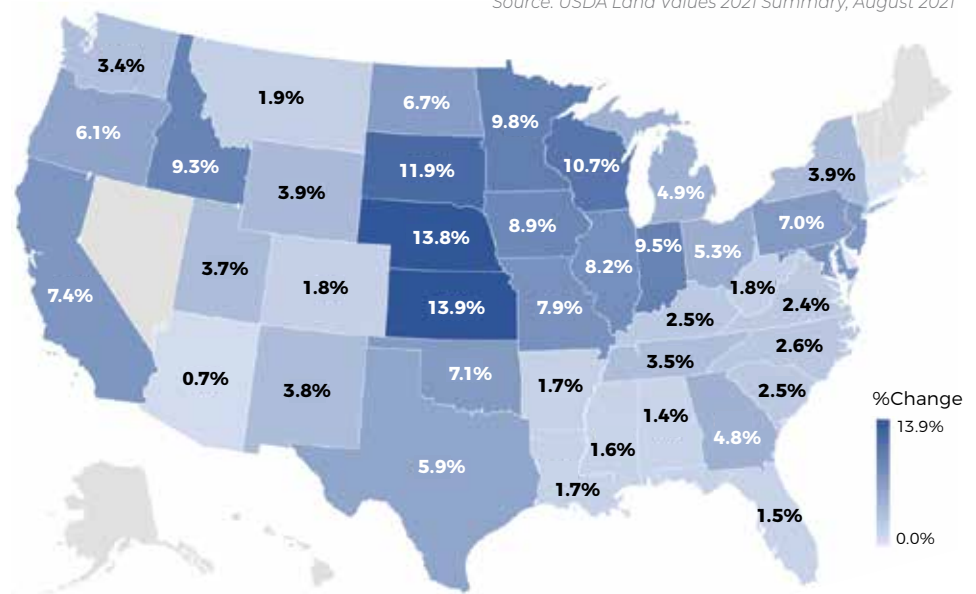


FIGURE 2 — **Cropland Percentage Change \$/Acre 2020-21**

Source: USDA Land Values 2021 Summary, August 2021



commercially viable. As a result, USDA data are often viewed as understating prices and financial performance relative

to farmland that farmers and investors consider to be investment grade primarily for agricultural production value.

Figure 3 shows total return estimates based on USDA data by state derived from rental income plus appreciation less property taxes and maintenance expenses. In these cases, annual cash income can reliably be estimated on a consistent basis through time, and changes reported on a consistent basis. Importantly, these are estimates averaged across all properties in a state and thus mask the wide variation in individual experiences that could be expected to be encountered on a single farm. In any case, the performance is strong by historic standards, and even more impressive when compared to other investment opportunities such as equities or bonds.

FIGURE 3 — **Total Annual Return 2021 (Est)**

Sources: USDA, TIAA Center for Farmland Research

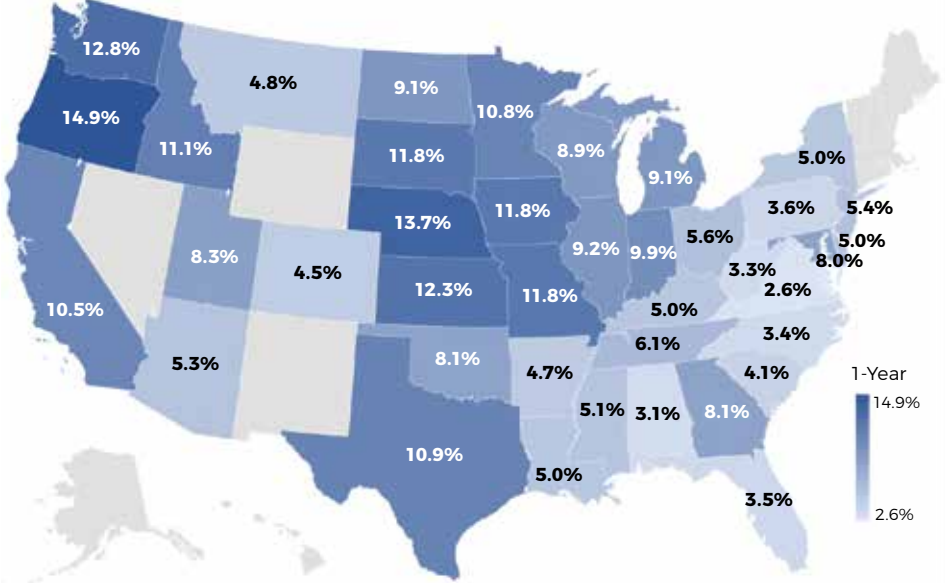


Table 1 to the right provides additional historical context by aggregating this information into the same production regions used by the National Council of Real Estate Investment Fiduciaries (NCREIF) to group areas with similar production crops and practices and reporting total returns by hold period over selected intervals to 20 years. In addition to regional totals based on USDA data, the lower three rows provide total performance for assets held in the NCREIF index by type of production.

TABLE 1 — **Total Cropland Return by Hold Period**

Sources: USDA, TIAA Center for Farmland Research, NCREIF

Region	HOLD PERIOD				
	1-Year	5-Years	10-Years	15-Years	20-Years
Appalachia	4.07%	3.31%	3.37%	3.36%	5.14%
Corn Belt	9.66%	4.32%	6.61%	7.90%	8.75%
Delta	4.94%	5.66%	6.75%	7.18%	8.22%
Lake	9.58%	4.50%	6.45%	6.41%	7.76%
Mountain	6.80%	5.56%	6.38%	5.54%	8.18%
Northeast	5.41%	2.95%	2.82%	1.67%	4.56%
Northern Plains	11.72%	4.14%	9.14%	10.64%	11.26%
Pacific Northwest	13.83%	9.05%	9.84%	10.24%	11.19%
Pacific West	10.51%	8.42%	7.32%	7.17%	9.02%
Southeast	4.70%	3.93%	3.49%	3.06%	5.12%
Southern Plains	9.50%	6.05%	5.93%	6.64%	7.91%
NCREIF Total Farmland	4.97%	5.51%	10.24%	11.12%	12.09%
NCREIF Annual Cropland	6.57%	5.08%	8.18%	9.60%	10.41%
NCREIF Permanent Cropland	2.56%	6.02%	13.31%	13.22%	14.04%

* as of midyear estimates

USING HISTORY TO LOOK FORWARD

It is important to consider the current economic and monetary system environment in which we are examining farmland, with particular attention to interest rates and expected growth rates

for the economy. During the pandemic-induced shutdown, massive monetary stimulus was injected into the economy. Major disruptions took place in supply chains and labor markets, and

considerable shifts occurred in consumer food consumption habits. During the subsequent upswing, there have been strong indications of price shocks in housing, transportation, food,

and other sectors as well as debates about the permanence of the price increases and whether they are transitory effects from shortages and supply channel modifications or if there are signs of higher sustained inflationary pressures from misbalances in the monetary system. One key set of indicators to help demystify these issues is contained in the level of interest rates and broad-based measures of consumer price inflation.

Figure 4 shows the Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) along with the 10-year Treasury Constant Maturity (CMT-10) interest rate. Periods of recession are shaded in gray bars. A strong historic relationship exists between

nominal interest rate movements and inflation with a simple correlation of about 67% from 1965 to present. The weakest statistical relationship took place in the 1980s. The CMT-10 is the most commonly used index of a risk-free capitalization rate reference around which relative credit spread and duration differences can be built to represent different asset cases and time periods.

What could be termed the Monetary Experiment of 2020-21 is currently being conducted with interest rates being held at low levels through direct intervention by the Federal Reserve (Fed). Continued assurances have been made that they can continue to manage growth rates through targeted

interest rate and unemployment levels. Recent signals have begun to emerge that the Fed is acknowledging potential higher inflation, finding longer-term segments of the yield curve to be less responsive, and is beginning to target empirical inflation measures at higher levels than in recent history.

Many would argue that we have entered a new longer-term regime of lower and more stable growth rates than occurred in the period from 1970 to 2000, so perhaps lower earnings may be in store for some time, and perhaps lower “normal” interest rates can be maintained as well.

FIGURE 4 — US Consumer Price Index (CPI) and Ten-Year Treasury Yield 1965-Present

Source: StLouisFed.org



In any case, it is a fair question to ask how farmland values would be impacted in the case of future interest rate increases and/or inflation shocks if these were to occur in the near future as that set of previous implied questions about future interest rates and inflation levels are resolved.

To better gauge these effects, it is instructive to consider historic interactions and any changes in structural relationships that might affect that relationship going forward. Note that coming out of historical recessions, CPI levels often rise and sometimes “overshoot” during the restart of economic activity. Thus, the possibility of transitory inflation carries some historical precedent. Viewing the far right-hand side of the graphic, the rapid spike in the CPI and the relative stability of the interest rates raise questions about future inflation, and what we can learn about farmland’s response to similar shocks in the past. It should be noted that the causes

of this recent recession and the components of the Personal Consumption Expenditures (PCE) and CPI measures contributing to price inflation have few historic analogs, and thus have few certain resolutions at this point.

Farmland is an immense asset class, but it is also one that has limited directly observable data on long-term returns at the level of the individual farm. In the items presented below, the asset class as a whole is considered through the use of a set of returns data at the state level and in various agricultural regions throughout the US from 1969 to present based on USDA data and maintained at the TIAA Center for Farmland Research at the University of Illinois. In simplest form, annual rates of returns are constructed as rental income plus appreciation less property taxes, divided by initial value. All series presented are converted to geometric annual returns for consistency. An aggregated

index of the top 32 agricultural producing states is used as a proxy for the agricultural farmland market to compare to the CPI and Treasury yields.

Some interesting features are evident in the graph over a long time period with differing monetary regimes and inflation rates. During the 1970s after the US went off the gold standard, inflation was largely unchecked. Inflation rates hit double digits, peaking at the start of the 1980s. These were also the halcyon days for agriculture, and farmers and lenders began promoting programs that later backfired under a perfect storm for agricultural producers. Multiple foreign crises then culminated in a grain embargo and oil market turmoil while fixed interest rates on farm mortgages peaked at nearly 18%. Inflation peaked at more than 10%, and farmland was caught in a credit-induced crisis. Thereafter, Treasury rates and inflation become more actively managed by the Fed

FIGURE 5 Farmland Aggregate Returns and Inflation 1970-Present

Sources: Bureau of Labor Statistics, TIAA Center for Farmland Research

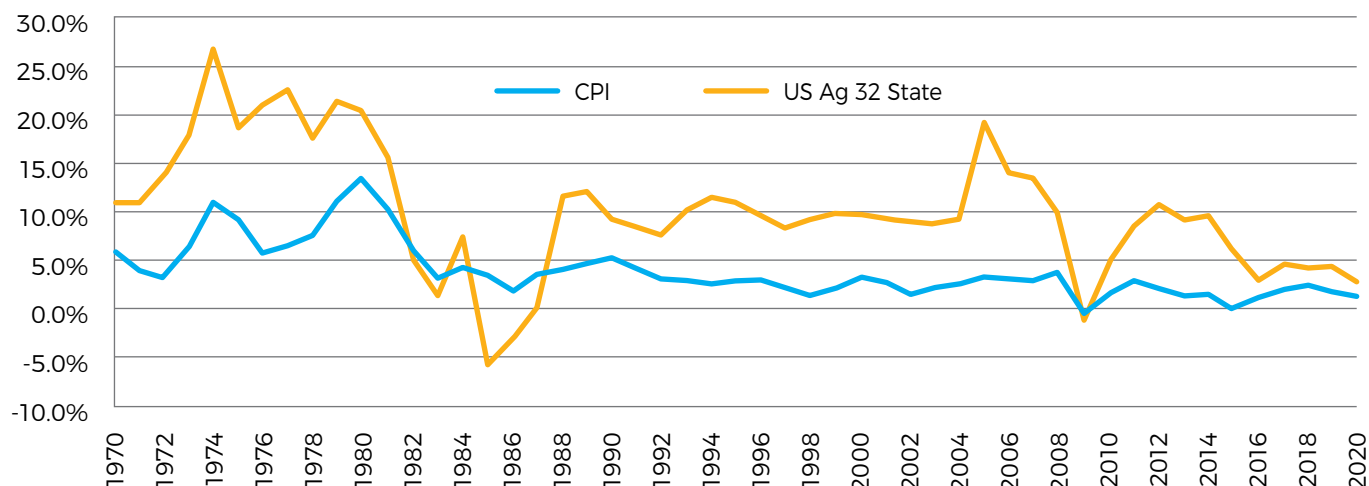


TABLE 2 — Farmland Returns Relative to CPI by Decade

Decade	Farmland to CPI Spread
1970 to 1979	11.1%
1980 to 1989	1.0%
1990 to 1999	6.6%
2000 to 2009	7.6%
2010 to 2019	4.8%
1970 to 2020	6.1%

with ensuing targets below 5% for the period that started in the late 1980s and persists through the present.

Table 2 above summarizes the information in the graph in decade form. In the 1970s, the farmland price boom was the most important feature of returns. Annual appreciation routinely exceeded income. In the 1980s, farm income was positive, but the capital losses were greater than current income in both 1985 and 1986 with total returns of -5.8% and -3.1%, respectively. All other years in the 50-year period show total positive returns except 2009, which is considered to be a sympathetic response to broad market uncertainty generated by the housing crisis.

Individual state-level returns (not shown herein) have very similar patterns but display greater volatility. The majority of the variation in return in both cases is due to appreciation as annual rental income is a very smooth component of total returns on a relative basis.

Clearly, it is more difficult to buy farmland assets than to buy stocks or bonds. Although the transaction costs are higher, the hold periods and tax advantages associated with real assets help to even out initial disparities over time. Every parcel of farmland is unique, thanks to a host of factors including crop type, soils, and regional issues as well as external factors such as terminal locations for products. Increasingly, water

rights, production practices, and environmental attributes impact local markets.

Furthermore, farmland tends to be owned for longer periods of time and is often traded within families. This makes it complicated to assess large numbers of related parcels at any point in time. In fact, only 1.5% or so of regular row crop farmland changes hands annually at arm's length. Thin market features do perhaps also offer supporting lower bounds to some regional markets.

But, it is nearly always the case that farmland transactions are more complex and lack the uniformity of those in other asset classes.

Fortunately, the farmland market is becoming more accessible and more understandable due to advances in ag-tech, improvements in informational sources, and the development of sophisticated and efficient financial channels as well — the financialization of the asset class appears to be in full swing.



REGIONAL MARKET UPDATES

To get a more detailed view of some of the regional differences in farmland markets, the remainder of this report provides an update of the major regional markets.



PACIFIC WEST MARKET — *California*

Despite ongoing and increasing concerns about water usage in agriculture, the presence of wildfires and crippling droughts, labor shortages, and endless headlines about consumer pressures on agricultural production systems,

California remains an agricultural powerhouse due to its sheer size, favorable growing climate, and crop diversity.

Producing more than 400 commodities, “The Golden State” supplies over one-third of the nation’s vegetables and two-thirds of the nation’s fruits and nuts. USDA data indicates that California’s 69,600 farming operations collectively received \$49.1 billion in cash receipts for their output in

2020, representing 13.7% of total US receipts. The state’s agricultural exports totaled over \$21.7 billion according to the California Department of Food and Agriculture, with top exports including almonds, pistachios, dairy and dairy products, wine and walnuts.

Two massive growing areas — the Salinas Valley and the Central Valley — produce almost all of the US sourced lettuce, small vegetable, and fruit products found in the fresh produce aisle of grocery stores nationwide. California holds a dominant position (99% or more) in almonds, artichokes, celery, figs, garlic, grapes/raisins, kiwifruit, melons/honeydew, nectarines, olives, pistachios, peaches/clingstone, plums/prunes, walnuts, and many nursery crops and seed

production. California is also the top milk dairy producing state, and the state is renowned for its wine production, with the Napa and Sonoma wine growing regions known worldwide.

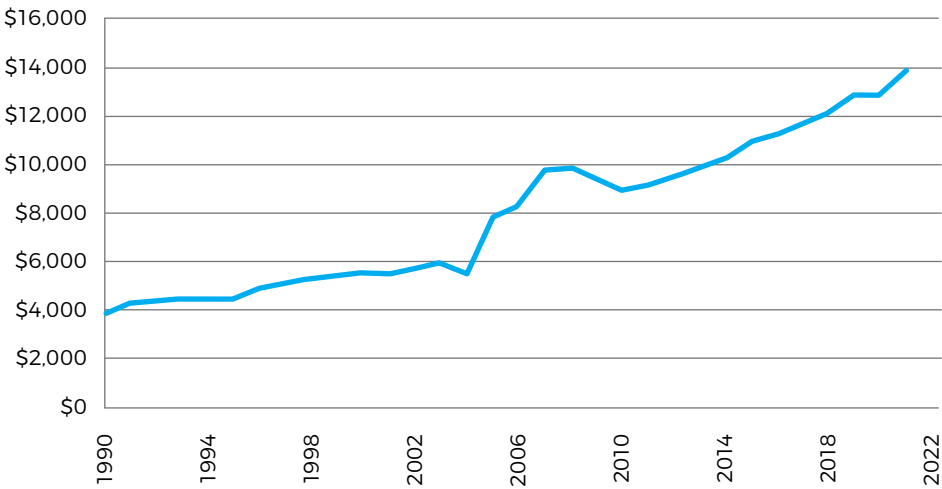
Water access and sustainable water management are vital considerations in California.

The Sustainable Groundwater Management Act (SGMA) — pronounced *sigma* — passed in 2014 is approaching the binding phase in major geographic regions in which tree nuts, citrus, and vegetable production occurs. In short, the law required sustainability plans be created and implemented within water districts over timelines that begin to materially affect water usage in the next couple of years in some of the most intense production regions. In the case of tree nuts, for

example, it is expected to result in revaluations based on access to water. Some land will need to be idled with water diverted to more valuable production areas. Pistachios are viewed as more water efficient than almonds for example, and thus one would expect revaluations based on changing costs of access to sufficient water as SGMA takes effect. Alone among the 50 states, California enjoys a Mediterranean-like climate in the key nut-producing regions, and thus, critical production areas will be difficult to relocate as water availability becomes a greater constraint. It is expected that land will experience relative revaluations based on access to and cost of water, and that crops that are more movable or more water-price sensitive may be driven to other locations as SGMA is fully implemented. In some areas, rental rates have already been materially influenced; permanent crop acreages are already being managed based on expected access to future water resources.

It should be noted that Governor Gavin Newsom announced in 2021 an additional \$5.1 billion plan to develop water infrastructure, improve drought response, and bolster climate resilience. The proactive plan includes \$500 million for land repurposing to support growers and an additional \$60 million to improve water efficiency and enhancement in an effort to integrate SGMA and address conflicts between agriculture usage and urban requirements.

Price - \$/Acre Pacific West



The long-term price trends for California cropland are stable and upward in most cases, reflecting both the agricultural use value and competing pressures which are especially acute in regions with large populations and intense production concentration. California pricing trends are affected by permanent crop returns and vegetable/grape/produce production far more than in other regions.

The long-term breakdown between capital gains and income is fairly balanced in California, with the appreciation component slightly higher than the long-term annual income rate.

Pacific West California from 1990 to 2021	
Income	3.85%
Capital Gain	4.61%
Total Return/Year	8.46%

PACIFIC WEST - CALIFORNIA SUMMARY

The next few years will be key in sorting out the impacts of water usage and SGMA effects, and in understanding the commensurate changes in values and production systems. There will be winners and losers based on access to and cost of water, in addition to the normal factors of demand for outputs. However, the scale and diversity of the region ensures that California will be a major part of US agriculture nonetheless. Institutional investors can handle the large scale and complexity that arises when massive structural change occurs, and it seems likely that these investors will be increasingly important as major changes occur.

PACIFIC NORTHWEST Market



Washington's 35,500 farms produce over 300 different commodities with total annual crop value in excess of \$10 billion. Washington farmers produce over 70% of the apples grown in the US, and the state is also the top producer of blueberries, sweet cherries, hops, pears, hazelnuts, and forage crops, grapes, hay, onions, potatoes, and wheat and dairy are also major crops well-suited to Washington's unique climatic conditions and water resources.

Oregon's total agricultural output is about half as large as Washington, but similar in flexibility. The region has developed a reputation for responsiveness to consumer preferences for differentiated production, including specialty

formats or practices (e.g., sweet onions, creamer potatoes, local produce, organic production, sustainable practice farming, and the like). Being "closer" to the consumer and having more stable water resources and flexible production systems,

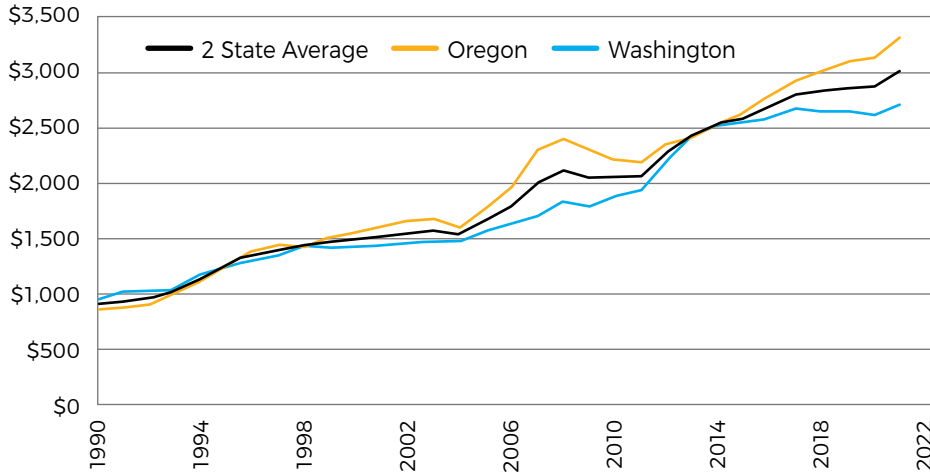
the Pacific Northwest stands to absorb displaced production from regions that are expected to have water constraints in the near future. Lower farmland costs, adaptable production climates, and proximity to West Coast markets all bode well for future valuations in the region.

Though not in the Pacific Northwest using NCREIF region definitions, Idaho is a top producer of potatoes with one-third of the total US crop. It is also a top producer of specialty wheat for export, barley, hay, and sugarbeets. Idaho has experienced a slightly faster rate of price appreciation than Washington and Oregon, but has had slightly lower total returns due to crop mix and commodity prices. The relatively shorter potato crop in recent years has buoyed current prices, however, and it remains a competitive financial performer in the region.

The 2021 season was marked with excessive heat and lower yields across a large number of crops, but higher commodity prices and the importance of access to good water have continued to support land prices in the region. Apple markets in particular experienced a few years of varietal turnover due to consumer trends away from Red Delicious and related clones, but apple growers believe the market has emerged from that trough and that continued export and domestic growth in



Price - \$/Acre Pacific Northwest



more popular varieties such as Honeycrisp and Cosmic Crisp will continue.

Like most major agricultural regions, the Pacific Northwest faces water supply constraints, but producers with access to the Columbia River water system and historic permitted wells hold a major advantage relative to other parts of the country. Grape prices in the major AVAs (American Viticultural Areas) from north of Walla Walla to south of Hood River are recovering from concerns about smoke taint in the 2020 crop and the smaller 2021 harvest. The wine producing regions in the Pacific Northwest are now recognized as being on par with Napa and Sonoma, but with affordable land and more profitable production.

As shown in the graph, **when much of the rest of the country recorded price declines in farmland in 2009 during the mortgage meltdown, land**

in the Pacific Northwest responded positively. The Pacific Northwest had a remarkable relative pricing response both during the period surrounding the housing crisis and during the economic slump that affected many other regions from 2014 to 2017. The resulting impacts on recorded income and rents drove overall returns lower, but the Pacific Northwest proved to be an incredibly resilient region, one that is increasingly popular for institutional investors seeking

broadly diversifiable and larger scale ag-channel investments, including those in the storage and packing channels. **Likewise, during the heightened uncertainty and concerns about supply chains and food systems during the pandemic, the Pacific Northwest was among the top performing regions.**

The following table provides the breakdown between income and capital gains during the period from 1990 to present. The ability to grow a wide variety of traditional and specialty crops has resulted in exceptional performance despite the drag created by a few specific crops. Importantly, the region has not experienced the same “cap rate compression” yet that has occurred more broadly, and the simple gap between income rates and capital costs suggests that there is still “room to run” on the pricing side in this market.

Pacific Northwest 2 State Average 1990 to 2021

Income	8.23%
Capital Gain	4.10%
Total Return/Year	12.33%

PACIFIC NORTHWEST SUMMARY

The Pacific Northwest has better-than-average water resources, ready access to export markets, and a broad diversity of crops. The scale of operations and opportunities for crop and varietal innovation will continue to attract investors of all types, including top institutional sources. Of equal importance is the region’s proven ability to weather market-specific hurdles, such as smoke taint from wildfires, as well as shifting consumer preferences.



DELTA MARKET

Arkansas, Mississippi, and Louisiana form the Delta region, an area whose productivity and land values are generally stronger the nearer they are to the Mississippi River. The region generally has good to excess rainfall, as well as good groundwater resources in areas that are suited for irrigation. The region also tends to have larger farmland tracts and highly productive soils. Furthermore, the access to the river transportation system results in a much stronger basis than in areas where transportation costs to final markets are higher.

Agriculture is the largest industry in Arkansas, adding over \$16 billion to the state's economy annually, according to the Arkansas Farm Bureau. Arkansas is the nation's top rice producer, accounting for almost 50% of US rice production. Arkansas currently ranks third in cotton production with

approximately 7% of the US crop. Agriculture is also the leading industry in Mississippi. According to the Mississippi Department of Agriculture & Commerce, agriculture is a \$7.35 billion industry that employs approximately 17.4% of the state's workforce. Based on the USDA/NASS data, the state has 34,400 farming operations that encompass 10.4 million acres. Louisiana's agriculture and forestry industries contribute \$11.7 billion annually to the state's economy, according to Louisiana's Department of Agriculture and Forestry, with soybeans, rice and corn as the state's top producing crops.

But the Delta does suffer from higher weather risk due to tropical storms and excess rainfall events.

This year's most notable weather event, Hurricane Ida,

caused \$500 million in crop-related damage in Louisiana alone. Ida also substantially disrupted grain shipments and other ag-related activities.

The Delta is also home to several of the most important corporations in the food industry. Walmart is the largest food retailer in the world, Tyson Foods is the largest poultry and meat processor in the nation. Riceland Foods is America's largest rice exporter. Thanks to the presence of these market makers, integrated livestock and agricultural operations thrive in the Delta.

While agriculture in the region has traditionally focused on traditional row crops, there is a growing effort to organize large-scale vegetable operations and develop the infrastructure associated with vegetable and small format fruit production. Agricultural producer groups

have dubbed this effort the “Next California” project. Feasibility studies with the support of university extension systems are underway. As with other areas that have been supported by lower interest rates and improved commodity prices, land in the Delta region has begun to increase in value, and volume of land brought to market is picking up.

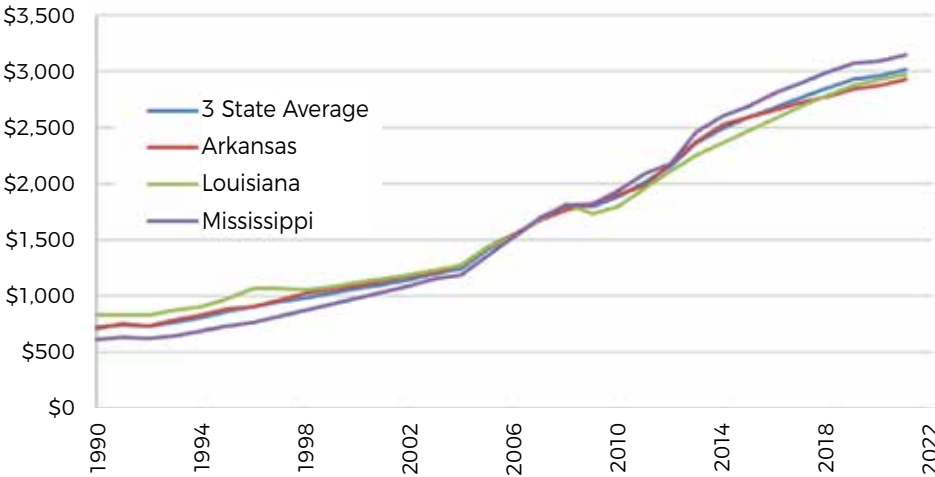
As indicated in the National Overview, the Delta does tend to lag price and returns changes of other row-crop regions in the nation. It comes as no surprise that the transactional volume follows a similar pattern.

The figures to the right show the simple consistency between rental rates and prices per acre. It is commonly observed that the Delta region performs similarly to the Corn Belt, but with slower responses and somewhat muted movements after major market events.

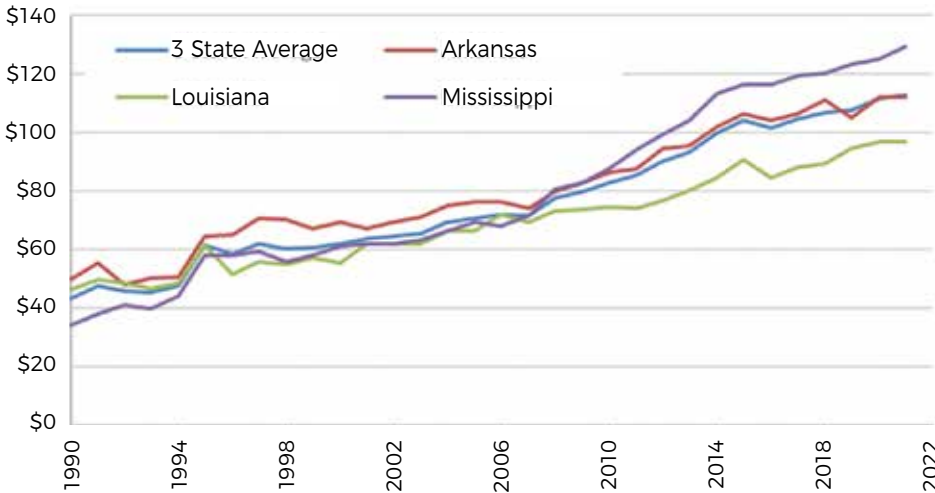
The table below shows the breakdown between annual income and capital gains in the region over the 31-year period from 1990 to present. The Delta region has the rare feature of annual income rates exceeding appreciation rates, but both are quite reasonable and result in a high and fairly stable long-term total rate of return.

Delta	
3 State Average 1990 to 2021	
Income	4.99%
Capital Gain	4.57%
Total Return/Year	9.56%

Price - \$/Acre Delta



Cash Rent - \$/Acre



DELTA SUMMARY

Like other agricultural regions, the Delta faces its own unique challenges, especially with regard to catastrophic weather events. But lower land costs, plentiful water, larger parcel size, and the opportunity to enhance profitability through capital expenditures and more sophisticated farming methods have attracted – and will continue to attract – the attention of investors in the region.

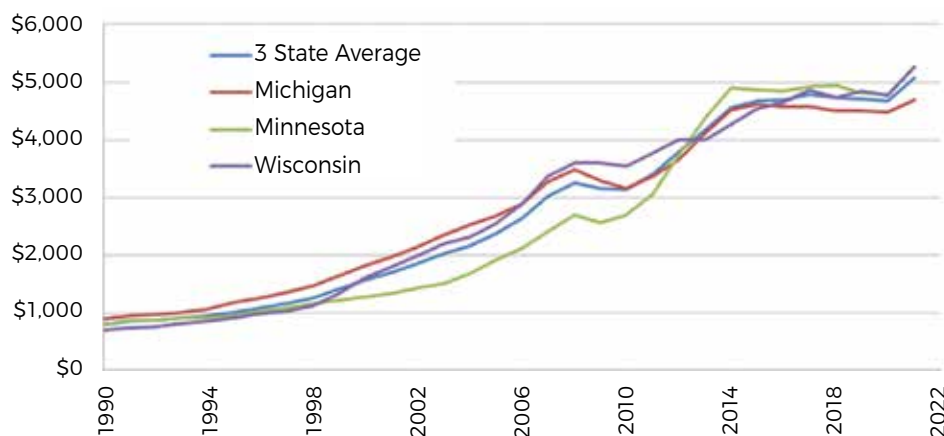
LAKE STATES Market



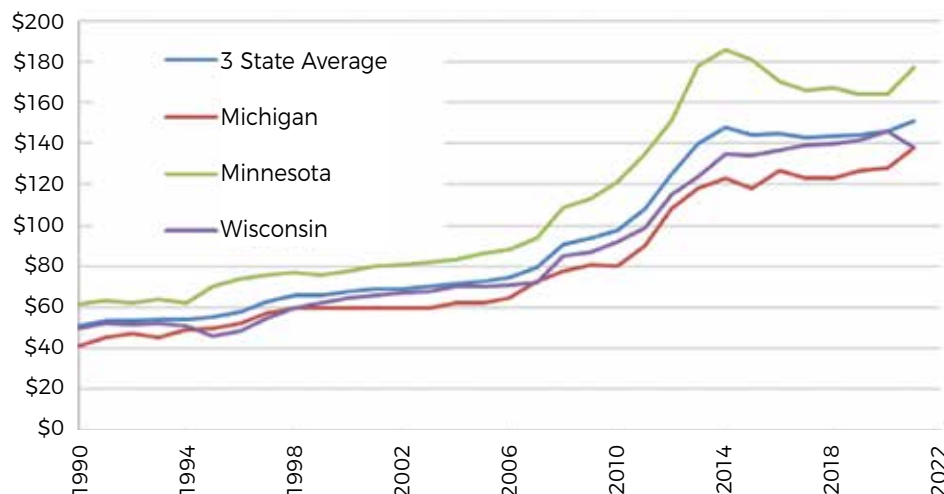
The Lake States region primarily includes Michigan, Minnesota, and Wisconsin, a diverse group of agricultural regions. Michigan has the most varied agricultural production in the region, with areas of row crop production as well as large regions driven by stone fruit and berry/cherry production. Wisconsin has an agricultural history driven by dairy production and crops used to support livestock, but this is in flux thanks to the consolidation of the dairy industry. Lower Minnesota is nearly indistinguishable from neighboring areas of the Corn Belt, with state cash receipts from soybeans and corn ranking third and fourth in the nation, respectively, in 2020. Minnesota also has a mixture of dairy and livestock, as well as sugar beet and wheat producing regions in the northern part of the state.

According to the Michigan Department of Agriculture, the state produces more than 300 commodities and Michigan food and agriculture contributes over \$101 billion annually to the state's economy. The livestock

Price - \$/Acre Lake States



Cash Rent - \$/Acre



industry (including dairy) has the greatest economic impact at \$5.13 billion, followed by field crops with an economic impact of \$5.12 billion. Based on USDA/NASS data, Michigan has just under 10 million acres of farmland and is home to 46,500 farming operations. Michigan ranks first in the nation for production of tart cherries and chestnuts, as well as dry black beans, cranberries, and small red beans. Michigan ranked seventh in milk production in 2020, however, that may soon change given the recent construction of a \$555 million dairy processing facility in St. Johns.

The diversity of agricultural real estate and low drought risk in Michigan makes it attractive to institutional investors.

Minnesota also has diverse agricultural production. Row crops and livestock are produced in the southern tiers, cash grains in the west central, and sugarbeets, wheat, and pulses in the northwest. The northeastern rim of the state is less intense in production. Corn and soybean production regions drive the state's

farmland performance results, with combined production for these two crops valued at approximately \$10 billion in 2020 based on USDA/NASS data. After relatively good crop years when the Corn Belt experienced drought, relative valuations increased in Minnesota compared to other regions, given the perceived lower drought risk and abundant water resources in the state.

Known as "America's Dairyland," Wisconsin has a robust agriculture sector that contributes more than \$104 billion annually to the state's economy, according to the Wisconsin Department of Agriculture, Trade and Consumer Protection. Wisconsin ranks first

in the nation for snap beans for processing, cranberries and corn for silage, and is one of the top states in the production of the major processing vegetables.

As in other regions, the annual appreciation in the Lake States has outpaced the income over the long run, and in total has resulted in double digit returns through time. The recent returns in all regions have been lower than early period returns due to secular declines in interest rates and inflation in general.

Lake States 3 State Average 1990 to 2021	
Income	3.96%
Capital Gain	6.09%
Total Return/Year	10.05%

LAKE STATES SUMMARY

Farmland in the Lake States had particularly strong recent price appreciation, driven in part by good crop yields, higher commodity prices, secure water sources, and continued low interest rates. While yields overall are not as high as in the Corn Belt, solid production and reliable livestock and dairy marketing channels also help smooth income expectations in traditional row crop areas, and there is more acreage flexibility in this market than in the Midwest.



SOUTHEAST MARKET

The Southeast features disparate regions with different types of agriculture and an array of pressures on land markets. Major production centers include Florida, Georgia, and North Carolina. Alabama and South Carolina complete the region.

Cash receipts from marketing Florida agricultural products amounted to over \$7.4 billion in 2020, based on USDA data. Florida is the nation's top producer of oranges, accounting for over 50% of the US crop. The state is also ranked first in the

nation for the production of fresh market tomatoes, sugarcane, bell peppers and watermelon, representing 64%, 53%, 39% and 27% of total US cash receipts for these commodities, respectively, in 2020.

Florida is essentially a collection of local land markets, and for the most part, price appreciation has been reasonable. Although the state has distinct climate advantages due to its unique tropical conditions, Florida's citrus industry continues to struggle

with citrus greening, otherwise known as huanglongbing (HLB), and elevated storm risk exists in its coastal regions. In other areas of the state, the dueling interests of tourism and population growth as a retirement and lifestyle state have led to residential and development pressures.

Agriculture contributes approximately \$73.3 billion annually to Georgia's economy, according to the UGA Center for Agribusiness & Economic Development. Known as "The



Peach State,” Georgia has incredibly diverse agricultural farmland markets as well. Georgia is perennially the top state in the nation in the production of peanuts, pecans, blueberries and spring onions.

Highly productive agricultural regions range from the mountains in the west all the way to the coastal plains.

North Carolina is agriculturally diverse as well, producing more than 150 commodities, according to the North Carolina Department of Agriculture & Consumer Services. The state is a leading producer of sweet potatoes, tobacco, strawberries and Christmas trees. As with other states in the Southeast, price appreciation has not been as great as in other markets, with local exceptions due to population pressures. As a result, there is increased attention by investors interested in production backfill. As production of tobacco and cotton wanes, other crops expand. Similar to Georgia, the coastal plains host the greatest share of row crop and feed grain production.

Agricultural price appreciation and rental values vary by type of production in the Southeast. Institutional investors have focused more on Georgia and North Carolina as opportunities with favorable longer-term optionality.

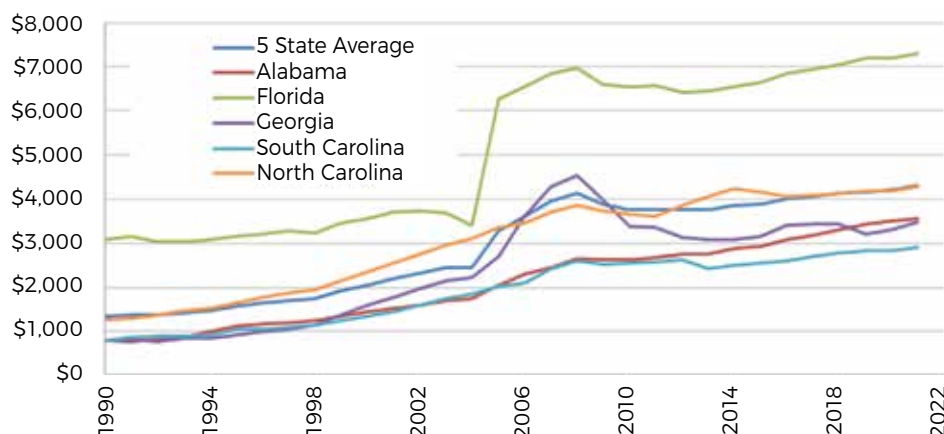
Southeast

5 State Average 1990 to 2021

Income	2.04%
Capital Gain	3.81%
Total Return/Year	5.85%



Price - \$/Acre Southeast



SOUTHEAST SUMMARY

The Southeast is really a collection of separate markets with different problems and opportunities across states. Florida is still in the process of recovering from the loss of large parts of its citrus industry, but benefits from population pressures and some high valued crop production close to population centers. Georgia has a broad array of agricultural opportunities and has garnered the attention of institutional investors, due to flexibility and optionality in production. The Carolinas have recently become more favored by outside investors, as the acquisition costs of farmland are relatively attractive if large enough operations in an area can be controlled.

CORN BELT MARKET

The Corn Belt covers a homogeneous production region across much of the Midwest, including Iowa, Illinois, Indiana, Ohio, and Missouri. Iowa and Illinois typically rank first and second perennially in combined outputs, although Minnesota, Nebraska, and Kansas are states with considerable corn production as

well. The five states in this group allow direct comparison to the NCREIF Corn Belt region with similar economic factors driving farmland markets. With cash receipts for all commodities totaling \$25.7 billion in 2020, Iowa ranks second in the nation behind California, and the four other states in the Corn Belt region all rank in the top 14.

The Corn Belt has a long history with steady annual income that exceeds fixed income yields, reliable appreciation over time, and local land markets driven by neighboring farmers - and in some instances, absentee investors. Table 1 shows the region's total performance over the last 30 years. It is a remarkably steady track record with almost boring returns. On the other hand, Corn Belt returns offer far greater stability when compared to financial investments, including equities, where the annual drawdown has exceeded 20% at least once per decade.

TABLE 1 — Asset Return Characteristics

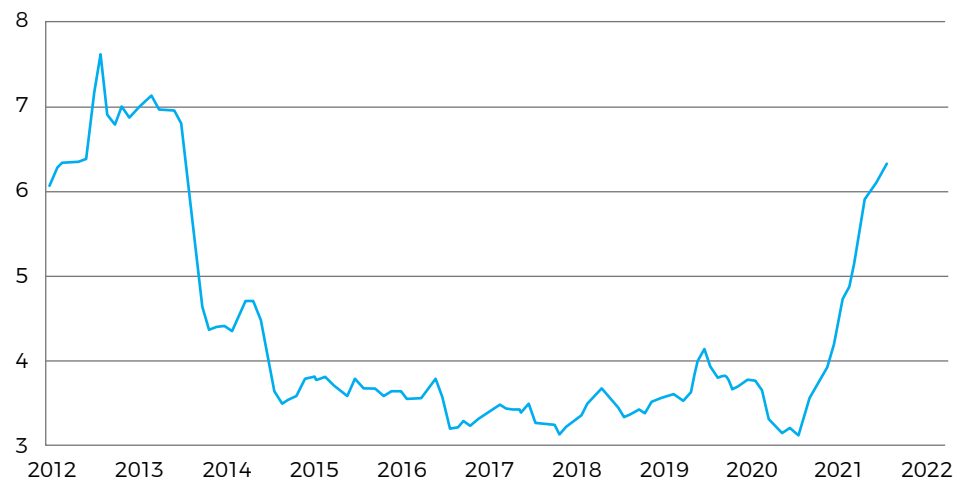
Asset/Index	1991 to 2021			
	Annual Avg Return	Standard Deviation	Minimum Return	Maximum Return
NCREIF Corn Belt	9.9%	7.00%	-3.5%	25.8%
Iowa	10.7%	7.28%	-5.3%	24.9%
Illinois	9.2%	5.56%	0.8%	26.0%
Indiana	9.0%	4.98%	-1.0%	22.0%
Ohio	7.7%	3.64%	-3.3%	14.5%
Missouri	9.6%	4.11%	-2.9%	15.7%

NCREIF Corn Belt returns include annualized fourth quarter estimate through 12/31/2021.

In the past 12 to 18 months, these markets have been moving rapidly with some of the largest gains in values reported over the previous 30 years.

Prices Received for Corn by Month - US

Dollars per bushel



What are the major factors driving this updraft of more than 20% in some instances?

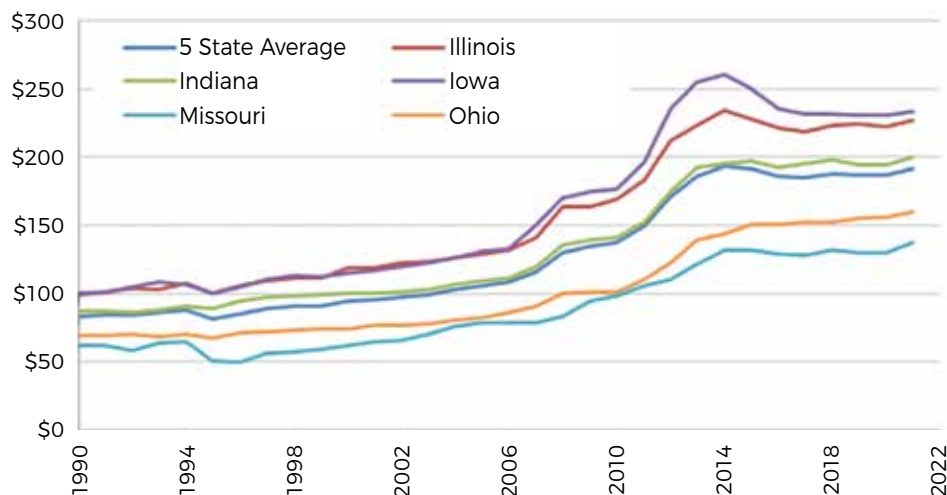
A confluence of positive factors seems to have released both the supply side and demand side to result in current values in recent transactions that are often 20%+ higher than a year ago. Since 2015, corn prices hovered in what many viewed as breakeven range for about five years, before moving sharply throughout the 2021 production season due to continued strength in export demand, resolution of some



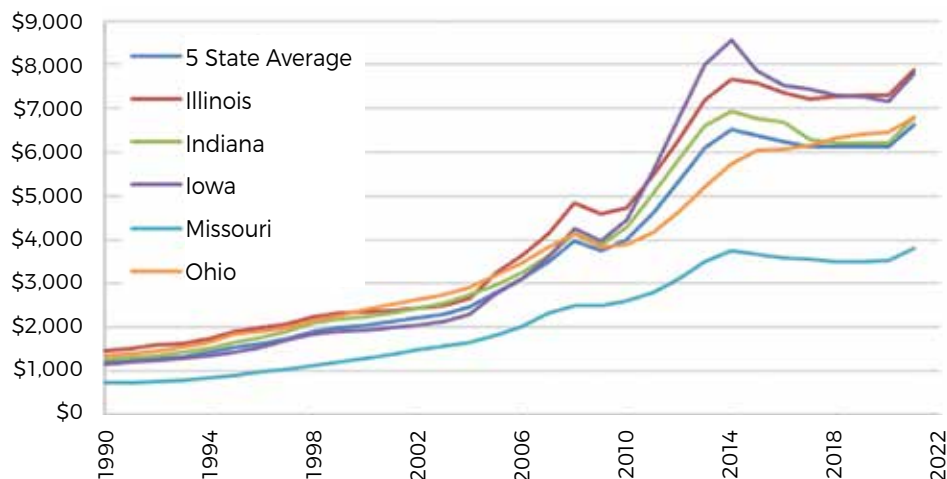
supply channel uncertainty, and stability in domestic demand. While input prices also have moved, net income prospects were dramatically improved by both increasing commodity prices and substantial stimulus and trade-related government payments. The primary buyer of farmland has historically been farmers, but the local demand effect was dramatically increased in the past year.

Farmland cash rental markets account for about 60% of total acreage leased in the Midwest, and these arrangements are viewed as “sticky” for many reasons. First, owners do not like to switch operators due to familiarity and non-pecuniary relationships that develop through time. Second, operators do not want to deal with annual adjustments in locations and acreage farmed, and thus, longer-term arrangements that smooth out short term economics tend to be reflected in rental markets. The pair of graphs to the right highlight the combined effects and also show the average aggregated values

Cash Rent - \$/Acre



Price - \$/Acre Corn Belt



of rental rates and farmland values by state in the Corn Belt. Focusing on the far right-hand portion of the graph, it is notable that the price movements are not directly mimicked in the rental prices, as is more common in other markets.

One result of the stability of rent is that the current income for farmland is constant and predictable. More importantly, this income tends to be greater than other fixed-income investments while offering reliable long-term prospects. The graph proves this point. More importantly, it highlights another complementary feature: interest rates have been low and steadily declining for over a decade. The result is higher multiples paid for future income prospects. In other words, the income generating feature of farmland is more valuable relative to the cost of capital used to control the farmland. Coupled with increased income, this fact is highly supportive of farmland values. Uncertainty about future interest rates remains high, but as noted in the front piece, farmland is poised to take advantage of inflationary pressures as well.

The volume of land brought to market has been highly variable, but on balance it is higher than normal. Sellers are rebalancing ownership and even changing ownership shares. As a rule of thumb, only 1.5% of Corn Belt farmland changes hands at arm's length annually, but 2021 has been marked by a substantial increase in the number of listings, auctions, and private transfers, due to anticipated changes in tax treatment and sellers attempting to lock in their current values.

It sometimes surprises investors to learn of the overall level of return generated through time by Midwest row crop agriculture. As has been the received wisdom, the appreciation, though a bit variable and unpredictable, tends to outpace the income by a bit in this region as well.

**Corn Belt
5 State Average 1990 to 2021**

Income	4.20%
Capital Gain	5.36%
Total Return/Year	9.56%

CORN BELT SUMMARY

The Corn Belt anchors much of the traditional row crop production of the US, and thus in turn for the world. The region has emerged from the recent period of increased trade concerns, and increased attendant government payments during the pandemic, with considerable strength. Continued near-term strength in commodity pricing, stabilizing crop insurance programs, and strong export demand are tempered a bit with concerns about domestic energy policy, rebuilding of commercial stocks, input cost concerns, and responses in other regions of the world. But the story of stability, competitive returns, inflation hedging and diversification in the Corn Belt region are nearly immutable.





TRACKING THE PERFORMANCE *of* FARMLAND INVESTMENTS:

The National Council of Real Estate Investment Fiduciaries (NCREIF) Farmland Index

By **Dave Mielnicki, MAI, SRA**, Director of Appraisal, Peoples Company
and **Curtis Buono**, Pacific West Managing Partner, Peoples Company

Most financial assets can be traded in near real time with low transaction costs and high frequency price information due to the homogeneity of shares of a firm. One share of Amazon stock for example is exactly the same as any other, so only one price and one income measure is needed to fully understand its performance. Farmland is unique in that unlike equities, each parcel is somewhat unique, and regions differ in their predominant crop type and management practice. Row crops and permanent crops are likely to involve very different lease types and have different cost and returns structures. The prevalence of cash accounting at the farm level

also creates difficulty in tracking certain periodic measures of performance, and the long-term nature of farmland makes trading in and out, or rebalancing a portfolio, difficult for an individual.

There are many sources of information about farmland values including those from surveys and tracking projects often conducted at universities, by professional societies such as the American Society of Farm Managers and Rural Appraisers, or the USDA. These sources often rely on surveys or thin market trades, and often are intended to represent the universe of farmland rather than the portion that is managed for profit in

commercial scale sized units. While incredibly valuable, these serve a slightly different purpose than needed by an investor seeking accurate information about returns they might earn from an investment into a diversified holding of farmland.

However, the National Council of Real Estate Investment Fiduciaries (NCREIF) provides an attractive alternative that has particularly useful features for understanding the performance of the asset class by region, crop type, and management type.



NCREIF is most well known for its family of commercial real estate fund indexes, but also produces indexes for timberland and farmland investments. The NCREIF Farmland data were first made available in 1991, and are reported using a consistent accounting system across all contributing members, and are tracked by location, property type, and management type (e.g., direct operation versus cash lease). The properties in the system are each regularly appraised under specific and complete guidelines intended to provide an accurate mark-to-market valuation each quarter. The index contains only commercial scale properties in active agricultural production, and all returns are reported on an unlevered basis to allow a direct assessment of property-level performance on a common base.

As of second quarter 2021, the total market value of the index was \$13.2 billion, comprised of \$8.0 billion in annual cropland and \$5.3 billion in permanent cropland across a total of 1,224 properties across 11 different production regions. Since its

inception over 30 years ago, the average annual total return has been 10.68% with annual cropland returning 9.83% per year (just over 4.9% income and over 4.7% appreciation per year), and permanent cropland returning 11.4% (2.3% appreciation and 9.1% income per year). For the preceding four quarters, annual cropland has earned 6.6% while permanent cropland in the index has earned 2.6% due to the relatively higher weights in apples, grapes, and some tree nuts that were disproportionately affected

during the pandemic. The most heavily represented areas for permanent crops are along the West Coast, and for row crops, the Midwest and Delta regions naturally dominate the index. Importantly, the index focuses on commercial-scale operations and has historically shown higher rates of return across the board than measures derived from USDA sources which include a much broader set of farm types and sizes.

For more information about the farmland index, visit **NCREIF.org**.

Many of the participants in NCREIF are also members of Leading Harvest. This group of investors is putting more emphasis on the environmental aspects of their investments in addition to the financial performance. As investor interest in this asset class grows, so too will interest in sustainability and conservation efforts, and in issues related to ESG reporting. For more information, visit **leadingharvest.org**.

The table below provides returns by state and identifies the NCREIF region within which each state is contained. The relatively stable patterns that emerge over the long run are for the most part highly consistent with the underlying risk and return of the cropping region and farming practices.

State and Regional Returns Over Various Holding Periods

Region	State	1-Year	5-Years	10-Years	15-Years	20-Years
Southeast	Alabama	3.1%	4.1%	4.8%	4.4%	5.0%
Mountain	Arizona	5.3%	5.1%	4.5%	4.2%	8.1%
Delta	Arkansas	4.7%	6.0%	6.9%	7.3%	8.8%
Pacific West	California	10.5%	8.4%	7.3%	7.2%	9.0%
Mountain	Colorado	4.5%	4.6%	7.3%	6.5%	8.3%
Northeast	Delaware	5.0%	3.5%	2.4%	0.2%	6.0%
Southeast	Florida	3.5%	3.2%	2.9%	2.1%	5.2%
Southeast	Georgia	8.1%	4.7%	3.2%	2.3%	5.7%
Mountain	Idaho	11.1%	9.0%	9.1%	7.0%	9.6%
Corn Belt	Illinois	9.2%	4.3%	6.6%	8.1%	9.3%
Corn Belt	Indiana	9.9%	3.5%	5.9%	7.8%	8.3%
Corn Belt	Iowa	11.8%	3.8%	6.4%	9.6%	10.6%
Northern Plains	Kansas	12.3%	4.4%	7.8%	8.8%	9.3%
Appalachia	Kentucky	5.0%	5.5%	7.1%	5.8%	7.2%
Delta	Louisiana	5.0%	5.4%	7.0%	7.3%	7.9%
Northeast	Maryland	8.0%	4.0%	3.3%	1.1%	4.9%
Lake	Michigan	9.1%	3.7%	5.9%	5.0%	6.1%
Lake	Minnesota	10.8%	4.7%	8.1%	8.6%	10.1%
Delta	Mississippi	5.1%	5.6%	6.4%	7.0%	8.1%
Corn Belt	Missouri	11.8%	6.2%	7.6%	7.7%	8.7%
Mountain	Montana	4.8%	3.6%	5.7%	4.7%	8.1%
Northern Plains	Nebraska	13.7%	4.8%	8.6%	11.1%	11.6%
Northeast	New Jersey	5.4%	1.4%	1.0%	-0.3%	2.7%
Northeast	New York	5.0%	2.1%	3.9%	4.0%	4.8%
Appalachia	North Carolina	3.4%	2.5%	2.4%	2.4%	4.2%
Northern Plains	North Dakota	9.1%	4.1%	10.0%	11.3%	11.8%
Corn Belt	Ohio	5.6%	3.8%	6.5%	6.3%	6.9%
Southern Plains	Oklahoma	8.1%	5.2%	6.5%	6.8%	7.9%
Pacific Northwest	Oregon	14.9%	9.2%	8.7%	9.1%	9.6%
Northeast	Pennsylvania	3.6%	3.8%	3.5%	3.4%	4.5%
Southeast	South Carolina	4.1%	3.7%	3.2%	3.5%	4.7%
Northern Plains	South Dakota	11.8%	3.3%	10.2%	11.3%	12.4%
Appalachia	Tennessee	6.1%	4.7%	4.3%	4.6%	5.5%
Southern Plains	Texas	10.9%	6.9%	5.4%	6.4%	7.9%
Mountain	Utah	8.3%	5.4%	5.4%	5.3%	6.8%
Appalachia	Virginia	2.6%	1.9%	1.6%	1.1%	4.2%
Pacific Northwest	Washington	12.8%	8.9%	11.0%	11.4%	12.8%
Appalachia	West Virginia	3.3%	2.0%	1.4%	2.8%	4.6%
Lake	Wisconsin	8.9%	5.1%	5.3%	5.6%	7.1%



DO YOU WANT TO OWN DOLLARS?

Or Is Owning Acres a Better Investment Strategy?

By **Steve Bruere**
President, Peoples Company

The US economy has ventured into unprecedented territory.

The value of many asset classes are at all-time highs. Some consider this a once-in-a-lifetime opportunity to sell appreciated assets in a tax environment that is likely to be as low as we'll see for decades. Yet the question that every farmland seller faces is, "What do you like better than farmland?" And more importantly, "If you sell your farm today, will that dollar buy the same amount of goods a year from now? Or will it be diluted? Will you end up stuck on the sidelines watching your dollars depreciate?"

On the buy side, there seems to be limitless capital looking for a safe return as well as an inflation hedge. Calls come into my office from sellers who have already cashed in on once-in-a-lifetime opportunities to sell assets. Now they're scrambling to find a replacement property for a 1031 Exchange. Most can't find farmland they like better than what they just sold. Instead, they are sitting on the sidelines. Even worse, they might overpay for a replacement property. And don't forget about the new players crashing the party. Crowd-funding models have entered the farmland space. Blockchain-

based farmland investments have emerged. And don't forget about sovereign wealth funds, institutional investors, family offices, and high-net-worth individuals who enter the market regularly.

Only time will tell how this story unfolds, but the long and short of it is that there are plenty of folks making significant moves. The question is no longer where we are at in the cycle of agriculture markets. Certainly, commodity prices are at a level where farmer profitability is going to lead to an increase in rental rates as well as land

values. But we all know that commodity price cycles can quickly change. Input prices and cash rents can quickly eliminate profitability. As they say, the best cure for high prices is high prices. If this were any other agricultural market, the idea of cashing in and taking profits would make a lot of sense. But cashing in without a plan for your gains is a risky decision. Cash is not king when the world is swimming in dollars.

The pandemic stimulus added billions of dollars to the money supply. It also lowered the cost of the debt across the board. These new dollars aren't going away. Suddenly, we have real wage inflation. The smart money realizes this, and this capital is already placing big bets on real assets.

Over the last six months, we have seen an unprecedented rally in land prices nationwide. In the Midwest, surveys show a spike of 15% to 20%. As I watch

transactions in real-time, I'm seeing prices jumping 30% to 40% higher than a year ago. Not only have farmers become aggressive buyers but so has the smart money. As one investor told me, *"If you want to deploy capital in farmland, you have to shoot in front of the duck to get into the game."* While current prices seem aggressive, the bet is that inflation is on its way. If you want to be in the game, you have to get aggressive. Otherwise, you and your money will end up sitting on the sidelines, and your dollars depreciate. It's hard to argue with that approach.

As 2021 winds down, there is an unprecedented amount of land hitting the market. Sellers are doing their best to lock in current tax rates. Land values have room to move higher despite the fact that current prices seem overly aggressive. With less than 1.5% of farmland turning over annually and a potential increase in capital gains rates. After the year-end rush of 2021 sales, we are heading into 2022 with limited inventory and excess capital.

Over the last six months, we have seen an unprecedented rally in land prices nationwide.

Land values are headed higher in 2022. Beyond 2022, I have a real concern about the fundamentals that have been driving farmland markets. Cap rate compression over the last 20 years has made a lot of people feel really smart. Asset values have increased. But as inflationary pressures take hold, the Fed will move to slow down inflation through monetary policy or tax policy.

Farmland is the ultimate inflation hedge. The folks who converted their farmland into greenbacks this year feel really great about their timing. But do they really understand what they traded into? Or what it will be worth a few years from now? I don't think they do.





12119 Stratford Drive, Suite B | Clive, IA 50325
855.800.LAND | Info@PeoplesCompany.com

[PEOPLES COMPANY.com](https://www.PeoplesCompany.com)

