

FARMLAND INDEX

FARMLAND VALUES CONTINUE MODEST UPWARD TREND

FARMLAND TOTAL RETURNS							
	Total NPI	Total Farmland Index	Pacific West	Pacific Northwest	Corn Belt	Delta	Southeast
2nd Qtr 2018	1.81	1.13	0.43	7.01	0.71	1.31	2.06
1st Qtr 2018	1.70	1.32	1.40	1.34	0.67	2.06	0.94
One Year	7.19	6.55	8.60	11.88	2.61	5.65	5.37
Three Year	8.25	7.58	11.13	10.12	(0.51)	3.85	8.26
Five Year	9.77	10.25	17.07	9.41	1.88	5.46	8.05
Seven Year	10.23	12.65	17.55	11.42	7.75	9.26	9.08
Ten Year	6.22	11.73	15.34	9.37	9.26	9.92	6.14
Inception	9.20	11.34	13.66	7.32	10.35	9.88	8.76

FARMLAND INCOME AND APPRECIATION RETURNS					
	Income	Appreciation	Total Return	Property Count	Market Value
2nd Qtr 2018	0.65	0.48	1.13	796	9,161,596,359
1st Qtr 2018	0.51	0.81	1.32	735	8,698,599,870
One Year	4.69	1.79	6.55		
Three Year	5.04	2.45	7.58		
Five Year	6.20	3.90	10.25		
Seven Year	6.59	5.82	12.65		
Ten Year	6.60	4.93	11.73		
Inception	6.81	4.37	11.34		

FARMLAND PROPERTY DISTRIBUTION BY PROPERTY TYPE AND REGION		
Property Type	Number of Properties	Market Value \$ Millions
Annual Cropland	552	5,382
Permanent Cropland	244	3,779
Total	796	9,162
Pacific West	230	4,042
Pacific Northwest	57	644
Corn Belt	199	887
Delta States	100	1,545
Southeast	50	629
Mountain	73	740
Southern Plains	20	237
Lake States	41	268
Other	26	168
Total	796	9,162

CROP TYPE DISTRIBUTION					
Crop Type	Number of Properties	Market Value \$ Millions	1 year returns ending 6/30/2018		
			Income Return	Appreciation Return	Total Return
Annual-Commodity	374	2881	3.19%	0.42%	3.62%
Annual-Fresh Produce	32	595	3.82%	1.74%	5.61%
Annual-All Other	146	1906	4.07%	3.33%	7.5%
Annual-Total	552	5382	3.58%	1.6%	5.22%
Permanent-Apples	22	175	-2.15%	-0.29%	-2.32%
Permanent-Almonds	68	982	7.09%	-6.11%	0.69%
Permanent-Citrus	12	175	8.44%	0.6%	9.08%
Permanent-Pistachios	19	542	8.46%	-5.09%	3.16%
Permanent-Wine Grapes	81	1514	5.84%	11.24%	17.53%
Permanent-All Others	42	391	4.41%	1.92%	6.33%
Permanent-Total	244	3779	6.16%	2.01%	8.25%
TOTAL	796	9162	4.69%	1.79%	6.55%

* Includes Corn, Soybean, Cotton, Wheat, Rice

** Includes ground primarily used to produce fresh vegetables or fresh fruit

*** Includes All varieties of Oranges (Fresh and Juice), Lemons, and Avocados

The NCREIF Farmland Index (NFI) released its second quarter 2018 results with farmland values continuing a modest upward trend. The NFI posted a total return of 1.13% for the second quarter, down from 1.32% last quarter and 1.63% in the second quarter of 2017. The quarterly return was comprised of appreciation and income returns of 0.48% and 0.65% respectively. Income was slightly stronger than the previous quarter, up 14 basis points while appreciation was down 33 basis points. On a trailing twelve-month (TTM) basis, the NFI returned 6.55% overall with income driving performance at 4.69% while appreciation only contributed 1.79%. These numbers reflect that, after six years of positive but weakening returns, farmland returns have stabilized recently with annualized total returns for the past year and two years both at 6.55%.

By property type, annual cropland outperformed permanent cropland in the second quarter with total returns of 1.66% versus 0.39% for permanent cropland. This is part seasonal as permanent cropland has historically had a large income return in Q4. As a result, in the TTM, permanent cropland outperformed annual cropland by 3.03% with a total return of 8.25%.

Geographically, the best performing region both in the second quarter and in the TTM was the Pacific Northwest with a quarterly total return of 7.01% and a TTM total return of 11.88%. Annual cropland drove performance in the region with a quarterly total return of 12.53% and a TTM total return of 19.83%, both due mainly to appreciation. The weakest returning region in Q2 and the TTM was the Lake States with a quarterly total return of -0.15%, the 4th straight quarter of negative returns. While both annual and permanent cropland in the Lake States have negative TTM returns, permanent cropland values (mainly cranberries) have declined at a much higher rate with second quarter appreciation of -1.99% and TTM appreciation of -12.39%.

By crop type, citrus cropland, with an NFI market value of \$175.31 million, had the strongest second quarter with a total return of 3.43%, mainly from income. For the TTM, citrus cropland's total return was 9.08%, but only 0.60% came from appreciation. After two quarters of strong appreciation of 5.99% and 4.88%, wine grape vineyard values leveled off in Q2 only appreciating 0.06%. In the TTM, wine grape vineyards had a total return of 17.53%, 11.24% of which was from appreciation. Nearly all the \$1.51 billion of wine grape vineyards included in the NFI are in California.

Since inception of the NFI, the farmland portfolio has achieved an annualized total return of 11.34% and, perhaps more remarkably, has had positive total returns every year of its existence. This demonstrates that, despite weaker returns in recent years, farmland continues to be a low risk way to diversify an investment portfolio while still achieving strong returns. As a result, institutional investment in farmland continues to grow with \$463.00 million added to the NFI in Q2 to bring the market value to \$9.16 billion.

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