

# FARMLAND INDEX

## PRESSURE ON COMMODITY PRICES REFLECT IN SOFTER TOTAL FARMLAND RETURNS

FARMLAND TOTAL RETURNS							
	Total NPI	Total Farmland Index	Pacific West	Pacific Northwest	Corn Belt	Delta	Southeast
3rd Qtr 2017	1.70	1.02	1.52	0.26	0.88	0.63	0.72
2nd Qtr 2017	1.75	1.63	1.49	7.05	0.57	1.01	2.44
One Year	6.89	6.15	7.87	12.78	0.39	2.93	7.03
Three Year	9.83	9.12	15.54	7.06	(1.26)	3.44	8.05
Five Year	10.35	12.71	19.49	11.00	5.00	7.83	9.29
Seven Year	11.24	13.31	18.44	10.26	9.64	10.10	7.86
Ten Year	6.23	12.61	15.74	10.43	10.57	10.67	6.16
Inception	9.24	11.45	13.78	7.09	10.58	9.97	8.84

FARMLAND INCOME AND APPRECIATION RETURNS					
	Income	Appreciation	Total Return	Property Count	Market Value
3rd Qtr 2017	1.34	(0.31)	1.02	699	8,086,759,941
2nd Qtr 2017	0.57	1.06	1.63	705	8,068,660,645
One Year	4.94	1.17	6.15		
Three Year	6.11	2.89	9.12		
Five Year	6.85	5.62	12.71		
Seven Year	7.06	5.99	13.31		
Ten Year	7.04	5.34	12.61		
Inception	6.87	4.42	11.45		

FARMLAND PROPERTY DISTRIBUTION BY PROPERTY TYPE AND REGION		
Property Type	Number of Properties	Market Value \$ Millions
Annual Cropland	465	4,629
Permanent Cropland	234	3,458
<b>Total</b>	<b>699</b>	<b>8,087</b>
Pacific West	218	3,708
Pacific Northwest	57	525
Corn Belt	163	714
Delta States	80	1,307
Southeast	41	519
Mountain	66	678
Southern Plains	20	235
Lake States	36	273
Other	18	129
<b>Total</b>	<b>699</b>	<b>8,087</b>

CROP TYPE DISTRIBUTION					
Crop Type	Number of Properties	Market Value \$ Millions	1 year returns ending 09/30/2017		
			Income Return	Appreciation Return	Total Return
Annual-Commodity	304	2381	3.12%	-6.67%	-3.71%
Annual-Fresh Produce	29	510	4.05%	-1.96%	2.02%
Annual-All Other	132	1739	4.03%	2.8%	6.91%
<b>Annual-Total</b>	<b>465</b>	<b>4629</b>	<b>3.58%</b>	<b>1.1%</b>	<b>4.71%</b>
Permanent-Apples	23	168	0.85%	4.69%	5.56%
Permanent-Almonds	64	930	6.05%	-10.55%	-4.89%
Permanent-Citrus	11	167	7.63%	-17.87%	-11.24%
Permanent-Pistachios	15	482	14.93%	-6.46%	7.57%
Permanent-Wine Grapes	83	1375	5.41%	5.53%	11.06%
Permanent-All Others	38	335	5.15%	-7.95%	-3.17%
<b>Permanent-Total</b>	<b>234</b>	<b>3458</b>	<b>6.67%</b>	<b>1.24%</b>	<b>7.98%</b>
<b>TOTAL</b>	<b>699</b>	<b>8087</b>	<b>4.94%</b>	<b>1.17%</b>	<b>6.15%</b>

\* 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") ended the third quarter 2017 with returns continuing their bear run with muted performance. Total farmland returns were 1.02% comprised 1.34% income and -0.31% appreciation. Income was slightly stronger than for the previous quarter, up 77 basis points (bps) while appreciation was weaker, down 137 bps. Year-to-date the 3.17% total return continued to be driven by income of 2.43% while appreciation was lack luster at 0.73%. On an

annualized basis total farmland returns were 6.15% reflecting a similar story with income driving the majority of the performance at 4.94% and appreciation a much smaller contributor to total returns at 1.17%. Since inception total returns for farmland were 11.45% with row and permanent cropland performing in-line with long term expectations. Specifically, row cropland since inception returns have achieved a total of 10.50% with a relatively equal contribution from income of 4.90% and appreciation of 5.40%. For permanent cropland returns of 12.27% were comprised mostly of income at 9.62% and appreciation of 2.60%.

As of September 30, 2017, the NFI had 699 properties in the Index with a market value of \$8.09 billion, the composition of which was 465 properties of annual farmland for a total value of \$4.63 billion, representing 57.2% of the Index and 234 permanent cropland properties with a total value of \$3.46 billion or 42.8% of the Index.

Annualized total returns for farmland have been trending down as evidenced with five year returns at 12.71% versus 6.15% for the one year. This softening reflects weaker commodity prices over the same period across the entire farmland complex albeit a greater softening for row crop commodities.

Geographically, the best performing region on a one-year basis was the Pacific Northwest achieving a total of 12.78% driven by very strong appreciation of 9.82%. Annual cropland drove the performance in the region for a total of 21.15% compared to 6.09% for total return for permanent cropland. This is consistent with the high demand from buyers for annual cropland and limited properties for sale. In contrast, the weakest returns for the year were seen in the Corn Belt reflecting the soft prices for corn and soybeans achieving a total 0.39% led by negative appreciation of -2.53%.

Permanent crops continued their stronger performance within the farmland sector and on an annualized basis, wine grapes returned 13.05% driven by strong appreciation of 7.42% and income of 5.40%. Pistachios returned 11.74%, and despite subdued appreciation of -2.87%, income was the driver of performance returning a stellar 14.96%.

Notwithstanding the cyclical decline in commodity prices, institutional investors are presented with buying opportunities in most regions. Permanent croplands remain attractive within a portfolio not only for diversification purposes but also because they are less vulnerable to price volatility and are not as readily exposed to substitution and international competition. For row crops, the rebalance in grains and oilseeds are expected to see a readjustment in land values as commodity prices correct and stabilize.

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