The Farmland Index total return for 2018 came in at 6.74% compared to 6.19% for 2017 or nearly 9% higher. The stronger return was driven by a higher rate of appreciation in farmland values, 2.19% in 2018 versus 1.54% for 2017. The 2018 income return was slightly lower than the 2017 income yield at 4.47% versus 4.61%. The total market value of all 900 properties in the Index database at year-end was $10.2 billion, split 62% by value in annual cropland and 38% by value in permanent cropland. The Pacific West region has the highest total market value at $4.1 billion with $3.3 billion of that in permanent cropland. In Q4 2018 the total return was 2.85% which is slightly lower than Q4 2017 at 2.93%. The difference is attributed to lower appreciation in Q4 2018 compared to Q4 2017 at 0.66% in Q4 2018 and 0.80% in Q4 2017.

Looking at the annual returns by region, the Pacific Northwest edged out the Pacific West with a total return of 8.86% compared to 8.66% for the Pacific West. The Pacific Northwest return was largely due to appreciation of 7.79% while the Pacific West return was primarily driven by income of 6.34%. In fact, the Pacific Northwest turned in the lowest annual income return of 1.05%. The lowest total return was 0.23% in the Lake States followed by the Corn Belt at 2.64%. Both regions saw a decline in market value of -3.23% and -0.22% respectively.

Drilling down further into returns by crop type, wine grapes turned in the best total annual returns of 13.48%, with 59% of that coming from appreciation. Pistachios came in close behind with a total annual return of 13.48%, with 59% of that coming from appreciation. Almonds also experienced a decline in market value of -3.23% and -0.22% respectively.

Farmland performed well in Q4 and for the year compared to equity and debt markets demonstrating in real-time the diversification traits of the asset class.

James B. McCandless, Managing Director Head of Real Estate – Farmland Real Estate & Private Markets, UBS Asset Management