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## Farmland increasingly sought by investment funds

Behind the increased institutional interest in farmland are concerns about stagflation, a condition where there is below-trend growth and above-trend inflation

BY JOHN MINER, *Ontario Farmer*

When the SOLD sign goes up on the farm down the road, there's an increasing chance your new neighbour might turn out to be a pension fund.

Insurance giant and international fund manager, Manulife Financial Corporation launched a new retirement fund this summer that invests in farmland, real estate, infrastructure, and timber.

Available for defined contribution pension plans, the pitch to investors is that these assets can protect against inflation, provide diversification, and may reduce volatility, improving retirement outcomes for Canadians.

"This marks a significant development in the Canadian retirement market," Brett Marchand, head of Manulife Group Retirement, Canada, said in a release announcing the fund.

But Manulife isn't alone in developing an appetite to own farmland.

Other investment funds have looked at the increases in farmland values and concluded their portfolios can benefit from more than bonds and equities.

"It's attracting interest and it is attracting capital," said Stephen Johnston, a director at Omnigen Asset Management, an investment firm that currently owns 140,000 acres of farmland across Canada valued at \$500 million.

In the past year, Omnigen added 18,100 acres to its farmland portfolio, boosting the value of its holding by \$100 million.

Johnston, who is credited with launching Canada's first RRSP/TFSA eligible farmland investment vehicle in 2007, said interest by financial institutions in farmland is basically increasing everywhere.

"It is not a blip," he said in an interview.

Behind the increased institutional interest in farmland are concerns about stagflation, a condition where there is below-trend growth and above-trend inflation, Johnston said.

"A pension plan is looking to hedge that risk and farmland hedges stagflation



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risk extremely well."

During the 1970s, when there was the last burst of stagflation, farmland values in Western Canada climbed 400 percent in nominal terms and 275 percent in real terms.

"That outperformed every other asset class," Johnston said. "This asset class is growing globally as an allocation for institutions."

Johnston sees a parallel with the past investment by pension funds in timber.

Twenty to 30 years ago pension plans wouldn't have a dedicated allocation to timber, but now they all do, he said.

"If you went to all the pension plans today very few would have a dedicated allocation to farmland, but I think you'll find in 20 years it will be a standard part of their portfolio. And that's a lot of capital that's looking for a home in Canada."

It is a situation that alarms Yves Millette, chief executive officer of Farm Business Consultants, a financial services company with more than 20,000 farmer clients.

Millette said the rise of outside investors threatens the future of family farms and rural communities, contributing to rising land prices that make it nearly impossible for young farm-

### Farmland ownership restrictions

Ontario, British Columbia, Nova Scotia, Newfoundland and Labrador, and New Brunswick do not restrict foreign ownership and non-resident ownership of farmland.

#### Saskatchewan

Saskatchewan restricts farmland ownership to Canadian citizens and permanent residents of Canada and corporations that are 100 per cent Canadian-owned and are not publicly traded. Non-residents may only acquire 10 acres.

#### Alberta

Foreign citizens and foreign controlled corporations are only allowed to own up to two parcels of farmland not exceeding 20 acres in total.

#### Manitoba

Manitoba limits foreign interest in farm land to 40 acres.

#### Prince Edward Island

PEI restricts ownership of farmland to 1,000 acres for individuals and 3,000 acres for corporations, including foreign entities.

#### Quebec

Non-residents and foreign entities require authorization by the province's Commission de protection du territoire agricole for ownership of agricultural land.

ers to buy land and build viable operations.

"This last year was the worst from an affordability perspective since 1983 so it's a huge, huge issue," Millette said.

Investment funds owning farmland changes the social fabric of rural communities, he said. Instead of farms being owned by a local entrepreneur and business person, farm operators become employees.

"I think that is unfortunate," he said.

A farmer can choose what crops they want to grow based on keeping the land healthy, rotational needs and good stewardship of the land. Investment funds are focused on how they can get the biggest return, he said.

"Return on investment is king to them," Millette said. "They don't care if it's a mine, they don't care if it's farmland, they don't care if it's strip malls."

Millette favours limits being placed on farmland ownership, such as there are in Saskatchewan and Prince Edward Island.

If not, the ownership of farmland by investment funds will keep accelerating.

"There's lots of capital out there. As long as we let them purchase, and purchase and purchase, they'll do it until they get to 100 percent."



**Yves Millette, CEO of Farm Business Consultants, says outside investment in farmland threatens family farms**