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'Like gold with yield': Evolving intersections between farmland and finance

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Abstract[1]

Since 2007, capital markets have acquired a newfound interest in agricultural land as a portfolio investment. This phenomenon is examined through the theoretical lens of financialization. On the surface the trend resembles a sort of financialization in reverse—many new investments involve agricultural production in addition to land ownership. Farmland also fits well into current financial discourses, which emphasize getting the right kind of exposure to long-term trends and "value investing" in genuinely productive companies. However, capital markets' current affinity for farmland also represents significant continuity with the financialization era, particularly in the treatment of land as a financial asset. Capital gains are central to current farmland investments, both as a source of inflation hedging growth and of potentially large speculative profits. New types of farmland investment management organizations ("FIMOs") are emerging, including from among large farmland operators which formerly valued land primarily as a productive asset and source of use value. Finally, the first tentative steps toward the securitization of farmland demonstrate the potential for a much more complete financialization of farmland in the future.

Introduction

At the turn of the 21st century, farmland was still considered an investment backwater by most of the financial sector. Although some pension funds and insurance companies have had farmland holdings for years, most institutional investors found farmland, and agricultural investment in general, unappealing compared to the much higher returns to be made in financial assets. However, this began to shift around 2006 as the prices of agricultural commodities started to climb. The recession that began with the bursting of the U.S. housing bubble in 2008 caused the sector to suffer a momentary dip but also added fuel to the fire, as investors sought alternative, and more secure, places to put their money. The effects of the resulting farmland investment boom can be seen in both the Global South and the Global North. The large "land grabs" (GRAIN 2008) taking place in developing countries have their parallel in roaring land prices in countries with more developed land markets (Knight Frank 2011),[2] which have led to speculation about a possible land price bubble (Abbott 2011).

Whether or not farmland markets are dangerously overheated, they are certainly hot. Celebrity investors like George Soros are known to be investing in farmland (O'Keefe 2009), while agricultural investment conferences, which provide opportunities for fund managers and farmland operators to network with end investors, have exploded in popularity. The extent of capital markets' interest in farmland is still relatively minor; even those institutional investors that have most enthusiastically embraced farmland generally commit no more than one

[1] A version of this paper is currently under review at the *Journal of Peasant Studies*.

[2] Financial sector demand for farmland is only partially responsible for steep land prices. For instance, existing farmers represented 72% of Iowa farmland sales in 2009, while investors were responsible for only 23% (Duffy 2009).

percent of their portfolios to this uncertain "new" asset class (Carter 2010), and estimates of total institutional investment in farmland range between $30 and $40 billion globally (Wheaton and Kiernan 2012). However, it is undeniable that since 2007, farmland real estate has undergone a makeover to become a desirable alternative asset class.

In October of 2010, the muckraking financial blog Zero Hedge (2010) wrote about the giant pension fund TIAA-CREF's two billion dollar allocation to agricultural land. The many reader comments that follow the post capture the irony of financial markets' sudden affinity for farms. One reader jokes that a farmland bubble is emerging which will culminate with the appearance of a new reality TV show, "Farm Flippers, Thursdays this fall on HGTV" and even envisions some fake content: "of course [we] put in all stainless steel & granite feed troughs and watering buckets. We project we'll make a 300% profit when we sell next month." Another reader asks whether the turn to real assets is a "Sign of Wall Street's fake paper going the way of the dodo? Or, more fake paper?" In this article I do not attempt to answer the interesting question of whether or not farmland is in a bubble, but I do take seriously the second reader's question. Slightly rephrased, the question might read: does the turn to farmland, among other real assets, signal a shift away from financialization? Or does it simply indicate that farmland itself is increasingly being treated as a financial asset?

I argue that the current wave of farmland investment combines a renewed interest in productive, real assets with an underlying adherence to the logic of financialization. Land plays two different economic roles; it is one of the essential factors of production, but it also acts as a reserve of value that creates wealth through passive appreciation. In other words, it is a productive asset that moonlights as a financial asset. I suggest that we are currently seeing the emergence of a new form of financialization in which the capacities developed by the financial sector since the 1970s are deployed in relation to real assets and in ways not necessarily divorced from their productive use.

The relationship between land grabbing and global finance is only just beginning to receive academic scrutiny. McMichael (2012) provides a useful theoretical framework by locating land grabs within the literature on "global food regimes" (see also Burch and Lawrence 2009). The current land rush, he argues, signals the deepening contradictions of the corporate food regime. It is part of the response to a crisis precipitated by both rising costs of production (energy prices) and social reproduction (food prices). Finance plays an enabling role in this salvage mission, by increasing the fungibility of land and opening up new frontiers for investment. Harvey (2010) sees the land grab as a way to sop up excess capital; when opportunities for investment at home are limited, new parts of the global economy are brought into capitalism's embrace, providing a "spatial fix" to the crisis. On an empirical level, Daniel (2012) explores the rise of private equity funds operating in African land markets and the ways that development finance institutions facilitate this trend. The present paper contributes to this nascent interest area with a theoretical examination of the current intersections between farmland and finance.

This paper draws from over forty interviews with actors along the farmland investment chain – end investors, asset managers, and farmland operators – as well as from participant observation at farmland investment conferences and analysis of farmland investment reports and news releases. The following section provides the paper's theoretical framework, which relates to financialization and the treatment of property as a financial asset. The third section describes the ways in which the current wave of farmland investment deviates from the norm of financialization; many investors acquire farmland as part of a productive agricultural operation, and the trend is bolstered by broader discourses which stress the use value of farmland. The fourth section, however, argues that the new farmland investment boom nonetheless represents significant continuity with the financialization era. Capital gains, that mainstay of financialization, are central to even the most productive farmland investments, both as a source of inflation hedging growth and of potentially large speculative profits. The emergence of new types of farmland investment management organizations ("FIMOs") also suggests that the desire to profit from farmland as a financial asset exists not only among financial actors but also among commercial actors who have typically invested in farmland primarily as a use value. Finally, steps toward the securitization of farmland represent the frontier of farmland financialization. The conclusion considers possible social and environmental implications of Wall Street's emerging love affair with agriculture.

Financialization and land as a financial asset

Financialization: Macro-level and institutional approaches

The literature on financialization includes many diverse strands that range from sweeping historical research (Arrighi 1994) to analyses of the changing patterns of daily life (Martin 2002). Epstein (2005:3) captures the breadth of this literature in his blanket definition of financialization as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies."

On a macro-level, many theorists with roots in Marxist or World Systems analysis see financialization as a response to the systemic problem of capitalist overaccumulation (Arrighi 1994, Harvey 2010, Magdoff and Sweezy 1987).[3] For Arrighi (1994), financialization is defined as a period in which capitalist accumulation occurs primarily through financial channels rather than through commodity production or trade (see also Krippner 2011).[4] The U.S.-led cycle of accumulation that occurred in the 20th century, he argues, shifted into a phase of financial

[3] These theorists agree that a crisis of overaccumulation was the ultimate cause of declining corporate profits in the 1970s but disagree on the proximate cause. Arrighi and Harvey blame increasing corporate competition, while Magdoff and Sweezy blame growing corporate concentration and the rise of "monopoly capital" (Magdoff and Sweezy 1987, Sweezy 1997).

[4] He describes several historical cycles of accumulation. Each cycle is organized under a different hegemon. The four cycles of accumulation he discusses were led by the Genoese city states (15th to early 17th century), the Dutch provinces (17th to late 18th century), Britain (the late 18th century to early 20th century), and the United States (the early 20th century to the early 21st century). Each is characterized by a period of material expansion, followed by heightened competition and stagnating profits, and finally a period of financial expansion in which firms switch from commodity production and trade to financial activities.

expansion in the early 1970s. The U.S. government, working to maintain its hegemony, facilitated this shift through the abandonment of gold convertibility for floating exchange rates, the adoption of tight monetary policy and high interest rates, and deregulation of the banking sector. Harvey (2010), like Arrighi, sees the turn to financialization in the early 1970s as resulting from a capitalist crisis of overaccumulation, though he sees it as more historically specific to the political and ideological rise of neoliberalism. The actual mechanism by which financialization is able to postpone a crisis of accumulation is best addressed by literature on market bubbles (Kindleberger and Aliber 2005, Minsky 1975, Shiller 2000). During a financial bubble, skyrocketing expectations remove the limit on asset prices, allowing for far higher returns than are available in the stagnating real economy (Arrighi 2009, Sweezy 1997).

The distinction between "real" and financial sources of profit is a central element of this literature. Following in the Arrighian tradition, Krippner (2005, 2011) provides empirical evidence for the financialization of the U.S. economy by using two discrete measures that she sometimes refers to as "sectoral" and "non-sectoral" respectively (Krippner 2005). First, she demonstrates that the financial sector is playing an increasingly large role in the economy as a whole relative to other sectors; the profits made by banks, asset managers and other providers of financial services have been steadily gaining on those made in other lines of business. Second, she demonstrates the growing importance to nonfinancial firms of financial income in the form of earned interest, dividends, and capital gains on investments; rather than just selling cars and plane tickets, auto companies and airlines increasingly make money from financing car loans or investing in energy derivatives. Some have suggested that this increasing investment in financial assets on the part of nonfinancial companies could be detrimental to overall economic growth by crowding out investment in real capital assets (Orhangazi 2008).

Shifting economic institutions have contributed to the financialization process. The growing concentration of investment power in the hands of institutional investors such as pension funds and insurance companies (Useem 1996), the corporate takeover movement of the 1980s (Dobbin and Zorn 2005), and the emergence of "shareholder value" as a principle of corporate governance (Fligstein 2001) have all played a role. These trends put increasing pressure on non-financial companies to demonstrate impressive performance for capital markets and to prioritize high returns to investors (Davis 2009, Orhangazi 2008). This has led to concern that firms may be sacrificing long-term investment in productive capacity in order to meet the short-term demands of institutional investors (Lazonick and O'Sullivan 2000). Competitive pressure within the business of investment management has also led managers toward shorter and shorter investment horizons (Parenteau 2005). The pressure from capital markets is such that some firms even engineer returns for their investors by engaging in "accounting shenanigans" (Dobbin and Zorn 2005).

Another institutional shift associated with financialization, is the proliferation and growing complexity of financial securities in recent years (Phillips 2008). Securitization is the aggregation of income streams from a pool of underlying assets to form a new financial instrument in which investors buy shares. It turns illiquid assets liquid and spreads the risk of the underlying enterprise among many investors. Leyshon and Thrift (2007:100) argue that a key dimension of

financialization is the search for ever more unorthodox asset streams to use as a means for raising investor capital. They stress, however, that though the growing complexity of securities has increasingly obscured the relationship between financial assets and the real income streams upon which they are based, this connection, however tenuous, cannot be severed entirely.

Arrighi (2009) has recently argued that the current wave of financialization may now have run its course. He argues that the crisis of 1973 was the "signal crisis" which set off the phase of financial expansion, while the crisis of 2008 was the "terminal crisis" which indicated that this wave of financialization could no longer sustain itself. The next cycle of accumulation will now have to begin, perhaps led by the explosive economic growth of China. For Krippner (2011), the financialization of the U.S. economy was the unintended consequence of a series of actions on the part of the government, each aiming to avoid the distributional questions raised by the resource constraints of the 1970s. By turning the decision over to the market, she argues, the government could avoid making difficult political choices associated with the social, fiscal, and legitimacy crises it was facing. Now, however, "the limits of financialization as a strategy for deferring social and political conflicts appear to have been reached (Krippner 2011:137)," raising the question of what comes next. On an institutional level, Fligstein (2005) has also hinted that financialization may have reached its limits. He argues that, thanks to such corporate accounting scandals as Enron, "Financialization in the pursuit of increasing shareholder value has been given a bad name from which it is unlikely to recover" (Fligstein 2005: 223).

The current farmland investment boom can shed some light on the future of financialization. Investor interest in such a tangible, productive asset could lend support to the idea that financialization is "going the way of the dodo" as the ZeroHedge reader suggested. Land's second economic role as a financial asset, however, complicates this picture.

Land as a financial asset

The posited distinction between the real and the financial economies becomes somewhat tenuous when applied to farmland. Real estate, in general, occupies an uncertain position in relation to the world of finance, leading Krippner (2011:172) to deliberate on whether it is best classified with financial or with non-financial activities. She concludes that "At the boundary, the distinction between 'financial' and 'nonfinancial' sectors of the economy is ambiguous." This fuzzy boundary arises from land's double function as productive and financial asset.

Harvey (1982) delves into the source of this ambiguity and in doing so establishes a theoretical framework for the financialization of land. He argues that the distinction between landlords, who collect ground rent based on their monopoly control of a natural resource, and capitalists who collect interest on invested capital via the use of land as a means of production, is increasingly becoming blurred. Rather than consisting of two separate social classes, he argues, capitalist investors are increasingly buying the land themselves and viewing it as a claim on anticipated future revenues just like any other interest-bearing investment. In other words, under the capitalist system, landed property is increasingly being treated as a purely financial

asset. "The land becomes a form of fictitious capital, and the land market functions simply as a particular branch – albeit with some special characteristics – of the circulation of interest-bearing capital" (Harvey 1982: 347). While rent theories from Ricardo to Schumpeter to Keynes have viewed the rent paid to landlords as a source of market dysfunction (Haila 1988), Harvey argues that its growing treatment as a purely financial asset encourages the efficient working of capitalism, since dispassionate investors play a useful coordinating function.

In his examination of British property markets of the 1980s, Coakley (1994) finds support for Harvey's general theory about increasing integration of property and financial markets, but argues that property is still only a "quasi-financial asset". He takes as his starting point the view that property serves as both a use value and an exchange value (Haila 1988). "Property serves as a use value to end users as diverse as workers and multinational corporations, but it is typically regarded as an exchange value by financial investors such as insurance companies and pension funds. This distinction between use value and exchange value mirrors that between occupier and investment markets made in orthodox analysis"(Coakley 1994:698). He finds that the economic deregulation and urban property boom of the 1980s led property to be bought for its exchange value and treated as a financial asset with increasing frequency. While investor market actors are always primarily interested in property as an exchange value, during booms even occupier market actors begin to consider property exchange value alongside use value. This shift manifests itself in increasing property turnover as end users become more likely to "flip" properties for a profit. Similarly, in her study of Helsinki property markets, Haila (1988:92) finds that "Not only have there appeared new species of calculating owners and professionals in the real estate business, but also the calculating (rent-maximizing) attitude has spread among other landowners. Firms have begun to require maximum profitability also from their real property which has until now served as a framework for activity". This distinction between the treatment of property as a financial asset by investor and occupier markets has parallels to Krippner's description of sectoral and non-sectoral measures of financialization.

One prominent dimension of the financialization of property is the school of thought arguing that value may lay "hidden" in property investments, making it possible to "unlock" this value through institutional arrangements that increase liquidity. The classic version of this theory comes from de Soto (2000), who argues that formalizing property ownership for the poor allows them to release value by using property titles as collateral on loans. A corporate version of this thesis appears in the "opco-propco" schemes which argue that property-owning corporations can raise more investment capital by splitting themselves into two distinct entities: an operating company which runs the business and a property company which owns the property and collects (securitizable) rental payments from the operating company (Christophers 2010, Burch and Lawrence 2013). Christophers (2010) argues that both of these models rest on a "mystification" which alleges first that property itself contains a source of value outside of the activities it houses, and second that it is possible to disentangle the exchange and use values of a property and market them separately. He argues that this view is particularly worrying when aimed at property users rather than at professional investors.

The limited literature on the treatment of property of a financial asset has tended to focus on urban real estate (Coakley 1994, Haila 1988). Very little attention has been paid to the treatment of agricultural land as a financial asset (however see Cochet and Merlet 2011). Indeed the financialization of farmland seems to present unique challenges. Use and exchange value may be particularly difficult to disentangle given that the property itself acts as an essential substrate for the value-producing economic activity rather than just the location for those activities.

The farmland investment boom: A return to the real...

Taking an Arrighian understanding of financialization as increasing accumulation through financial channels as opposed to productive ones, several aspects of the current farmland investment boom break with the trend. For one thing, many of the farmland investments that have been initiated since 2007 are functional agricultural projects, not just land purchases. Investors looking to get exposure to agriculture have three basic options for investment strategies which I will call "own-lease out," "own-operate," and "lease-operate." The existence of these three options confirms that the line between landlord and capitalist is increasingly blurred and the income streams from rent and interest on investment frequently mixed. The "own-lease out" approach is the most conservative. The investor simply acquires the land and finds a tenant operator, which could be a family farmer or a large operating company, and receives the income stream in the form of rent. The land acquisition and leasing is often done via an external asset manager, who in turn takes a cut of the profits. This strategy fits Harvey's view of treatment of land as a pure financial asset. In the "own-operate" approach, the investor is financially involved in both the purchase of the land and the agricultural production that takes place on it. Again, the investment is generally undertaken via an investment management organization (discussed in more detail below). In this case, the investor is exposed to the higher risks and returns associated with engagement in agricultural production. Finally, in the approach with the highest risk-return—"lease-operate"—the investor rents the land and is only invested in the production. The first two of these approaches both involve the purchase of land and are the focus of this paper. Though farmland ownership is very attractive to investors for its wealth storage characteristics many *also* want to be exposed to the potentially higher returns that come from agricultural production itself. The "own-operate" approach is therefore quite popular among the new farmland investors.

In addition, whether investors choose an "own-lease out" or "own-operate" strategy, the discourses they draw from indicate a view of farmland that is uncharacteristic of financialization. Two current financial perspectives, in particular, support this turn to land and agriculture. First of all, investors who are drawn to farmland are often motivated by a desire to get the right kind of exposure to long-term trends or extreme events that would alter the political economy of global agriculture. This perspective finds support in popular financial writings such as those of Nassim Taleb (2010) who argues that we tend to underestimate the importance of "black swan" events – outlier events that have extreme impacts and, until they occur, are difficult or impossible for people to predict.

Among the new farmland investors, the most common iteration of this perspective is a focus on global population growth and increasing resource scarcity. The influential investor Jeremy Grantham, for instance, takes an unapologetically neo-Malthusian view (Grantham 2011) which leads him to conclude that farmland and forestry will outperform other assets over the long term (Kolesnikova 2011). At one major agricultural investment conference, all of the attendees were given a DVD of the documentary film “Last Supper for Malthus,” which examines the global food crisis. The film ends on a note of technological optimism, but not before hitting home Malthusian arguments about population growth and resource scarcity. Meanwhile, the Hamburg-based investment firm Aquila Capital, which has funds for agriculture along with other real assets, has Dennis Meadows, the former director of the Club of Rome think tank and co-author of *The Limits to Growth*, on its board of directors (McIntosh 2011).

A second, influential financial perspective comes from advocates of “value investing”. This deceptively simple investment paradigm, popularized by Warren Buffett, emphasizes choosing investments based on their intrinsic value and long-term fundamentals, thereby providing some degree of insulation from the vagaries of investor sentiment. When asked in an interview for his view on gold, Buffett contrasted it unfavorably with farmland, emphasizing productive capacity. He said that if he had a choice between all of the gold in the world, worth $7 trillion, or an equivalent value in productive assets, he would choose the latter:

> [If] you offered me the choice of looking at some 67-foot cube of gold and… fondling it occasionally, you know, and then saying, you know, ‘Do something for me,' and it says, `I don't do anything. I just stand here and look pretty.’ And the alternative to that was to have all the farmland of the country, everything, cotton, corn, soybeans, [and] seven Exxon Mobils… call me crazy but I'll take the farmland and the Exxon Mobils (Crippen 2011).

Since 2008, this perspective on farmland has gained adherents due to increased investor distrust of markets. Unlike many financial products, the source of farmland’s value is appealingly transparent. One of the farmland fund managers interviewed explained that many of his investors were searching for more concrete investment options:

> They say ‘I don’t want to have any more derivative operations and I don’t have any idea what they are doing at the end of the line. I can see and I can understand soybean production, a sugar mill operation, I can see, I can test, touch, and I can understand all the numbers, so I want to put at least part of the money in this kind of investment’.

For investors motivated by this logic, a direct investment in farmland is significantly different from investments in financial assets based on agriculture. As the keynote speaker at one mid-Western farmland investment conference put it, “You don’t invest in commodities, you speculate or hedge with commodities. You invest in something like land” (Dotzour 2012).

The approach to agricultural investment that emerges from these two, interconnected perspectives deviates from the *modus operandi* of the financialization era. At least in theory, it takes a relatively long-term view of farmland ownership and prizes it for its use value. A prominent investor speaking at a recent agricultural investment conference could almost have been paraphrasing Arrighi (2009) on the “terminal crisis” of financialization:

> The world is changing dramatically. You know, for many periods in world history it was the financial centers that were in charge, and then for many periods it was the people who produced real goods – the oilmen, farmers, the miners – and then you had long periods when the finance people were in charge again. This is a huge change that is taking place, which unfortunately most people don’t see… I mean, finance is a terrible place to go right now. It’s over competitive. Huge leverage…

He concluded that direct involvement in agricultural production or mining was the best way to stay on the right side of this historical shift away from finance.

Of course an investor who chooses an “own-lease out” strategy on the thesis that agricultural production will be increasingly vital in years to come is still treating land as Harvey’s pure financial asset. However, investor motivations are not entirely inconsequential in that they seem to reveal at least a partial break with financialization construed more broadly. They indicate that, at least among a sub-section of capital market investors, investment in production or in the means of production has a renewed appeal. The discourses and investor rationales that characterize the current turn to farmland investing indicate disillusionment with accumulation via financial channels and a desire, albeit partial and perhaps temporary, to return to the real economy.

The farmland investment boom: …. or finance as usual?

Concurrent with this movement to make productive investments in agriculture and other natural resources, however, is a contradictory trend that represents a continuation of the process identified by Harvey (1982) in which land is increasingly treated as a financial asset. From this perspective, as TIAA-CREF’s Head of Natural Resources and Infrastructure Investments put it, farmland "is just another asset class that has the potential of going the route that real estate, private equity, [and] hedge funds did in the past" (McFarlane 2010). However, rather than being treated as a *pure* financial asset as Harvey suggests, many of the new farmland investments are premised on land’s profitability as both a productive and a financial asset.

This section discusses three aspects of the ongoing financialization of farmland. First, it is argued that even the productive, “own-operate” investments discussed above place a heavy emphasis on the profits to be made from land appreciation. Even in these projects, the land is a quasi-financial asset. Second, the emergence of new farmland management entities from within both the financial sector and the agribusiness sector demonstrates that this treatment of land as a financial asset goes beyond capital markets to those who have traditionally been

interested in land for its use value alone. Finally, the emergence of farmland securitization schemes illustrates an extreme case of farmland financialization in which the profit streams from agricultural land are used as the basis to construct an actual financial asset. These aspects of the current farmland investment boom suggest that the movement of investor resources toward real assets and agricultural production are far from leaving behind the logic and institutions of financialization.

Cultivating capital gains

Although land's economic role as productive asset is a major driving force behind its current appeal to investors, its simultaneous role as financial asset is ever present. This is obvious in the case of those institutional investors who adopt an "own-lease out" approach and see farmland essentially as a steady stream of rental payments, but it is also true among those investors who adopt an "own-operate" approach. In this latter case it can be seen in the centrality of capital gains on land appreciation. The cash returns to the productive use of farmland are generally in the range of 3-7% (Allison 2005). This is a profoundly uninspiring figure to many institutional investors, who are often accustomed to double-digit returns and who, in the case of pension funds, frequently base estimates of future obligations to retirees on a return expectation of at least 8% (Reilly 2010).

Under these circumstances, modest farmland has largely managed to capture the eye of capital markets because of its potential for capital gains. Of the operating companies and farmland funds interviewed for this study, very few expected the cash returns from production to contribute more than 50% of the total internal rate of return (IRR) and many expected it to contribute substantially less. The rest of the IRR is made up with capital gains. Of farmland's split personality as both productive and financial asset, the latter constitutes a primary incentive for all the new farmland investors and is *the* primary incentive for many. Among investors, the importance of land's financial qualities is evident both among those who see it primarily as an inflation hedge and among those who take a more speculative approach.

Many investors are drawn to farmland primarily because it is widely believed to act as an inflation hedge, preserving the value of invested capital better than most financial assets. These hedgers may be quite conservative; they often seek an ownership stake in developed country farmland (such as North American or Australian) and take a long-term view of the asset. For these staid investors, capital gains are central to the investment thesis. One large, Midwestern farmland investor and operator summed it up for me:

> the long term, historic returns to land appreciation have been between 4 and 6 percent in the core of the Midwest… So that's why you invest is that 5% appreciation per year. And then the second thing you get is you should get, again, somewhere between 4 and 6% a year of rent.

Farmland's desirability as a store of value and inflation hedge is perhaps best illustrated by the comparisons between farmland and gold that have proliferated over the last few years. Like gold, farmland is limited in quantity, appreciates over time, and benefits from the "flight to

quality" during economic downturns. Unlike gold, however, farmland is also a means of production, a fact that—Warren Buffet's example notwithstanding—sometimes gets lost in the metaphor. In media and investment publications, farmland is frequently referred to as "black gold" (Cole 2012), as "like gold with yield" (Gilbert 2010, Koven 2012), or "gold with a coupon" (Land Commodities 2009). At one investment conference, a South American agricultural fund manager took this analogy even further, arguing that if Brazilian and Argentine row crop farmland is like gold, then a more niche investment in Chilean vineyards or orchards is like investing in diamonds, emeralds, and rubies. Such expressions are telling because they imply that farmland's primary appeal is its ability to store and even increase in value (leading to capital gains), while the fact that it also comes "with yield" in the form of the cash flow from production is just the icing on the cake. These comparisons imply that it is a store of value first and foremost and a means of production only as an afterthought.

Farmland's inflation hedging properties alone, however, are not sufficient to tempt many investors. As a manager at one university endowment put it, "farmland competes for every investment dollar like any other asset class would. That said we look for certain diversification, but we are not willing to accept a lower yield on the thesis of food prices going up or keeping an inflation hedge". This quote perfectly illustrates Harvey's (1982:347) view of land as a financial asset which "is in principle no different from similar investments in government debt, stocks and shares of enterprises, consumer debt and so on". It also shows that many capital market investors are extremely reluctant to temper their high return expectations to accommodate farmland's relatively low cash returns. For this group of investors and the asset managers who work for them, the potential for large capital gains takes on an even more prominent role. They invest in regions that are undergoing particularly fast appreciation whether it be from policy changes, infrastructural improvements, or simply growing investor interest. Timing is important because, as one investment publication put it, "their focus is a carefully timed purchase and subsequent disposal" (InvestAg Savills 2011).

Many farmland managers also actively cultivate appreciation by employing a "transformative" approach that seeks to add value to the property. The methods for adding value range from simply formalizing legal titles to the wholesale transformation of forested land into farmland. Other common transformations include the addition of irrigation or transportation infrastructure, the consolidation of a number of smaller properties, and managerial or technological improvements that increase land value simply by increasing the amount produced on it. Once these sources of appreciation are added to the cash returns from production, the IRR envisioned by asset managers at farmland investment conferences and in interviews can easily be 20% or more for transformative investment strategies on marginal land in Latin America, Africa, and Eastern Europe.

Due to land's dual nature as a productive and a financial asset, it is possible to use the land productively while simultaneously speculating on financial returns from its appreciation. The ongoing centrality of capital gains, for both hedgers and speculators, indicates that the farmland investment boom has not deviated in any substantial way from the logic of financialization. But it would also be inaccurate to compare a productive asset like farmland

with purely financial asset like a mortgage-backed CDO. Instead, Coakley's assessment of property as quasi-financial appears particularly apt for farmland. However land's status as a quasi-financial asset goes beyond Coakley's argument that it is subject to demand from both investor markets, which want it for its exchange value, and occupier markets—or in this case "operator markets"—which want it for its use value. Instead, many new farmland investment projects along the "owner-operator" model profit from the productive use of land while simultaneously counting on increasing property values (which can be seen as increasing rents, albeit internalized) as a source of capital gains. Contrary to simplistic portrayals of recent large-scale farmland acquisitions as *either* productive *or* speculative this demonstrates that they can be, and frequently are, both at the same time.

The new "FIMOs"

Structural changes within the farmland investment sector indicate that farmland is being used as a financial asset by two different sets of actors; new farmland managers are emerging from within the financial sector but also from within agribusiness itself. Just as Haila (1988) and Coakley (1994) observed in the case of the booming urban property markets of the 1980s, farmland property is not only being treated as a financial asset by financial companies, but is increasingly being treated as a financial asset by non-financial companies which previously saw it only as a "framework for activity" and a source of use value.

In certain ways, the structural transformations occurring within farmland investing mirror those that have already occurred in timberlands. As Gunnoe and Gellert (2010) observe, the institutional transformations that characterized the 1980s and 1990s—the increasing size and power of institutional investors and the corporate takeover movement—can be observed in the financialization of U.S. timberland that began in the 1980s (see also Binkley et al. 1996). Vertically integrated U.S. timber companies, facing increasing market pressure, began to view their land holdings as deadweight on their balance sheets, and ownership was gradually transferred to institutional investors. The land was either included in a real estate investment trust (REIT) or was managed on behalf of institutional investors by a Timberland Investment Management Organization (TIMO).

A similar structural change in the management of farmland may now be underway. While REITs are discussed in detail in the following section, this section considers the emergence of new asset managers dedicated to farmland, referred to here as "FIMOs". In the U.S., three major FIMOs—Hancock Agricultural Investment Group (HAIG), Prudential Agricultural Investments, and UBS Agrivest—have existed since the 1980s or 90s, and the former two share parent companies with major TIMOs. Like TIMOs, these management firms assemble a portfolio of land tailored to fit the client's investment thesis and appetite for risk in exchange for a management fee. They generally have a minimum investment of $50 million and so are accessible only to institutions and extremely wealthy individuals. They also tend to take a relatively long-term view of farmland assets in which land is held for years or decades as a source of rental income and a store of value. In recent years, however, the farmland investment landscape has changed with the emergence of two new types of FIMOs.

The first type of FIMO has its origins in the financial sector. The years since 2007 have seen the advent and proliferation of farmland private equity funds (Merian Research and CRBM 2010, Bergdolt and Mittal 2012, Daniel 2012). Investors now encounter a buffet of options for making private equity investments in global farmland, from NCH Capital's Agribusiness Partners Fund, which boasts 700,000 ha of farmland in the former Soviet Union and Baltic States (Bergdolt and Mittal 2012), to Emergent Asset Management's African Agri-Land Fund, which focuses on sub-Saharan Africa (Daniel 2012). While private equity funds are generally associated with the purchase, upgrading and resale of companies, these new funds may acquire farmland-owning agribusinesses or simply invest directly in a portfolio of farmland. Like typical private equity funds, however, they are usually set up as limited partnerships, operate for a fixed term of seven or ten years, and have management fees and carried interest on the order of 2% and 20% respectively. While this fee structure is likely higher than that of the managed accounts offered by traditional FIMOs, these funds also have much lower barriers to entry, sometimes available to investors with as little as $200,000 to put into farmland. They therefore offer investors exposure to a portfolio of farmland that is generally at least somewhat geographically-diversified—and therefore less risky—for an amount of capital that would otherwise have barely been sufficient for the down payment on one U.S. farm property.

In order to return capital to investors after the term of the fund is complete and receive their own compensation, the fund managers must have some kind of exit strategy. The most common exit strategies are taking the entire fund public via an initial public offering (IPO) on the stock market, selling off the properties to a strategic buyer, or rolling them over into a new fund. This last option would allow investors to keep the farmland assets even after the fund's term ended. Because most of these funds are only in their third or fourth year of operation it is not yet possible to know the form that most of these exits will take. Although many of these funds produce on, and often make improvements to, the land they acquire, they treat their portfolio of farmland much like any other investment portfolio in terms of expected profits and time frame of investment.

A second type of FIMO which has emerged since 2007 has its lineage in large agricultural operators, some of which are seeking to capitalize on high rates of farmland appreciation by spinning off a part of their farmland portfolio into a separate asset management business. This is particularly the case in South America where a concentrated land ownership structure has made it possible for operators to own hundreds of thousands of hectares of land. The case of the publicly traded, Brazilian agricultural producer SLC Agrícola is illustrative. This cotton, corn, and soy producer has recently created a separate agricultural property company called SLC LandCo. In order to construct LandCo., SLC took 60,000 ha of its existing 200,000 ha land portfolio and used it to raise ~$240 million from British asset management firm Valliance in exchange for a share of just under 50% in LandCo. (SLC Agrícola 2012). These funds will be used to purchase additional agricultural land with potential for rapid appreciation, all of which will be operated by SLC. The creation of this land-focused fund in addition to SLC's normal operations signals the current appeal of capital gains from land appreciation. The company underscores this point in the title of their current investor presentation: "SLC Agrícola: Value from both Farm and Land" (SLC Agrícola 2012).

A second public Brazilian agribusiness, the sugar-alcohol sector company Cosan, has adopted a similar model. In 2008, Cosan collaborated with TIAA-CREF to create Radar Propriedades Agrícolas, a rural real estate business. As the Cosan website explains, Radar aims to "capitalize on new business opportunities in the Brazilian rural real estate market, purchasing properties with significant potential for appreciation and leasing them to major agricultural producers. After they reach their target value, the properties are put on the market" (Cosan 2012). These examples mirror the timberland financialization story but with a new twist: rather than transferring their land assets to investors outright, these companies maintain a stake in the new businesses.

The examples of LandCo and Radar Propriedades Agrícolas demonstrate that in a booming land market, agricultural operators are also increasingly aware of the exchange value of their land base. HighQuest Partners (2010:9) explains that, "The rationale for this move is twofold: to unlock 'hidden value' in [the company's] equity which trades at a discount to its net asset value and to create a platform for raising capital from a larger universe of investors which maintains a preference for land ownership (a hard asset) over investing in farm management operations." To the extent that the parent operating company is attempting to release value from its existing land portfolio, these projects make use of the same logic that Christophers (2010) observes in de Soto's economic theory and opco-propco restructurings. LandCo.'s initial portfolio, for example, consists of four farms already owned and operated by SLC Agrícola. Through this restructuring, these properties become the basis to raise additional capital—though in a different form than the examples studied by Christophers. Value is "unlocked" insofar as new investors are attracted to the project by the opportunity to get exposure to more of the capital gains side of the business and less of the operation side. Although the parent companies are still primarily commercial operators and the land is still used as a productive asset, the creation of these new farmland management entities indicate an increasing awareness of land as a financial asset with a rapidly increasing exchange value. While treatment of land as a portfolio investment is perhaps to be expected in the case of the new farmland private equity funds, given that their roots can generally be found in the financial sector, it is more telling in the case of the FIMOs that have emerged from within the commercial agricultural sector itself.

Increasing land liquidity through farmland securitization

Securitization represents the frontier of farmland financialization. It would transform farmland from a notoriously illiquid asset to an extremely liquid one. Securitization of residential real estate is, of course, widespread and was intimately connected with the crash of the U.S. housing market in 2008.[5] Securitization of farmland real estate, however, is only in its initial

[5] The term "securitization" is most often used to refer to the bundling of debt obligations, as in the infamous mortgage-backed securities of housing crisis fame. However, as Leyshon and Thrift (2007) observe, almost any income stream can be turned into a security. Urban real estate has also been securitized through equity REITs, in which the income stream comes from rental payments. It has also recently been reported that some real estate firms are considering renting out the foreclosed homes that resulted from the housing crisis, packaging these rental payments together and selling bonds to the income flow (Neumann 2013).

stages. It would likely mean the aggregation of the rental payments made by tenant farmers or operating companies on several properties into a single income stream that investors can then buy into, probably in the form of stock in a publicly listed farmland fund.

The securitization of farmland is all the more significant because it actually poses some serious difficulties not present in the securitization of other types of real estate. Land's ability to store value and appreciate over time, which makes it desirable to many investors, also makes it a weight on public company balance sheets. Buildings, equipment and most other capital assets are classified as depreciable by the Generally Accepted Accounting Principles (GAAP). Farmland, however, is not (IRS 2011). Asset depreciation allows a company to declare the initial capital outlay for the asset as a tax-deductible expense over the years that follow. For publicly listed companies with a large amount of their fixed assets in farmland, the inability to depreciate sets them at a disadvantage relative to other public companies. In the shareholder value era, when stock price largely depends on company financial statements, farmland can therefore pose something of a liability in public markets.

Until recently, North American retail investors and those who wanted a more liquid investment could only invest in farmland indirectly by buying stock in a landowning public company, such as the South America-based agribusiness giants AdecoAgro, Cosan, and Cresud, all of which own hundreds of thousands of hectares of land and are traded on the New York Stock Exchange. In 2007 investors gained a second investment option with the appearance of the agribusiness exchange-traded fund (ETF). ETFs, such as the Market Vectors Agribusiness Fund, hold securities for publicly traded agribusinesses, and shares in the fund are themselves traded like stocks. Because many of the agribusinesses whose stocks are included in these ETFs own farmland, they give investors some indirect exposure to farmland.

The most obvious way for the securitization of farmland to occur is via a REIT. Established in the U.S. with the Real Estate Investment Trust Act of 1960, a REIT is a corporate entity that is exempt from paying corporate taxes by virtue of the fact that it distributes 90% of its income directly to investors. The U.S. has several timberland REITs, as mentioned above, while Australia and Malaysia boast public REITs focusing on timber and palm oil production respectively (Agricultural Land Management Limited 2012, Al-Hadharah 2012). However, the international leader in farmland securitization is, strangely enough, Bulgaria. Bulgarian REITs, known as Special Purpose Investment Companies (SPICs), were made possible with the passage of a 2003 act which exempted these entities from corporate tax provided they, like U.S. REITs, distribute 90% of income to investors (DTT 2005). At least five public REITs were created in 2005 and 2006 with the view of profiting from inevitable land price increases when Bulgaria joined the EU in 2007. They also aim to profit from the improved rent to be gained by consolidating the fragmented plots that resulted from the distribution of former state farms to their previous owners during the transition from communism.

Until a few years ago, North America did not even have a single *private* farmland REIT, but now there are several, and a few companies are racing to take farmland public. The first through the gate is Gladstone Land Corporation, a farmland-focused real estate firm based in Virginia that

raised $50 million in a January 2013 IPO (NASDAQ symbol: LAND). Gladstone Land's parent company, Gladstone Investment Corporation, already runs a public REIT composed of commercial real estate and Gladstone Land intends to apply for REIT tax status for the 2013 tax year (NASDAQ 2013). Gladstone Land owns 14 farms in California, Florida, Michigan, and Oregan, comprising 1,950 acres (Gladstone Land 2013b). The company takes no part in farm operation, and its profits come from leasing the farm properties out to corporate and independent farmer tenants. It acquires land, in part, through "sale-leaseback" deals, in which the farmer sells land to the company in return for a long-term lease to continue as the farm operator (Gladstone Land 2013a).

Another company that has expressed interest in launching a public farmland REIT is Optima Fund Management, a $4.5 billion dollar investment firm that has generally specialized in hedge funds but began buying farmland in 2008 (Gillam 2010). Optima's first farmland fund, a private REIT called the American Farmland Co. closed in 2010 with $100 million under management. As of 2010, Optima claimed plans to take this REIT public (Gilbert 2010).

Finally, in January of 2012, the Canadian farmland investment company, Bonnefield Financial announced that it had applied to the Canadian security regulatory authority to launch a $100 million initial public offering of a farmland ETF on the Toronto Stock Exchange (Canada Newswire 2012). Bonnefield, already owns around 7,000 acres of Canadian farmland, which, like Gladstone Land, it acquires, in part, through sale-leaseback deals (Bonnefield 2012, Pitts 2011). In Saskatchewan and Manitoba, where corporate ownership restrictions prohibit public companies from owning land, Bonnefield intends to buy farmland mortgages instead of the land itself (Koven 2012)—a disconcerting idea given the role that mortgage-backed securities played in the financial crisis.

Turning farmland into a public security can have the unintended consequence of allowing use values and exchange values to become further detached. Although labor-using agricultural production remains the source of value in farmland investments (Harvey 1982) and securities depend upon such real income streams for their worth (Leyshon and Thrift 2007), they allow for an increasing divergence between the two. In an interview, an executive at one of the Bulgarian REITs explained how the crisis had increased this divergence in his company: "After the financial crisis there is a big difference between the book value of the share and the market value because the price on the stock exchange is not so closely connected to our profits and activities." The issue of share prices diverging from assessed land price is not specific to REITs, but is also a trait of farmland-owning public companies more generally. For instance, analysts often comment that shares in the South American farmland operator AdecoAgro trade well below their net asset value (see for instance Orihuela 2012). This divergence may relate back to the unique challenges of taking farmland public mentioned above.

However, public farmland funds are not the only unusual financial vehicles aimed at increasing the liquidity of land. A new "crowdfunding" company called Fquare, launched in August of 2012, is in the business of selling *private* farmland securities. Crowdfunding, best known for donation-based web sites like Kickstarter and Indigogo, is no longer just about supporting

artists and charities. In April of 2012, the Jumpstart Our Business Startups (JOBS) Act was signed into law, reducing the securities regulations that apply to crowdfunding, thereby paving the way for a new kind of "investment crowdsourcing" (Cortese 2013). While crowdfunded companies could previously only compensate their "investors" with gifts like t-shirts and signed CDs, investors can now receive company debt or equity in return for their investment. In short, investment crowdfunding has become a new type of private market, which is easily accessible over the internet and not highly regulated (Rattner 2013). So far Fquare accepts only accredited U.S. investors—individuals with a relatively high level of wealth and financial sophistication. Their investment buys them an ownership stake in an operational Corn Belt grain farm acquired via sale-leaseback. Investor profits come from farm lease payments and take the form of quarterly dividends in the range of 3-6%. Investors are able to select which farm properties they hold equity in, and both investment periods (3, 5, or 7 years), and minimum investments (from $1,000 to $300,000) vary between investment properties (Fquare 2013). Perhaps most significantly, Fquare features a secondary market in which investors can buy and sell their farmland ownership shares to other Fquare investors.

Although farmland has always had appeal as a financial asset, the amount of fixed capital it involves and the difficulty of re-selling it in a hurry have acted as barriers to investment. By securitizing farmland, Gladstone, Fquare, and other companies like them are attempting to remove these barriers, transforming farmland from a notoriously illiquid asset into an extremely liquid one.

Conclusion

Occurring in the wake of a global financial crisis and in the midst of global economic shifts that have brought renewed prominence to natural resources, the current farmland investment boom could be seen to indicate a deviation from the process of financialization. Farmland investors often draw from discourses that stress the profitability of long-term, productive investments and frequently choose an "own-operate" approach that involves investment in agricultural production as well as just land. In many ways, however, this trend represents a continuation of financialization into new territories. Many farmland investors are eager to get exposure to agricultural production but their investment calculus is also heavily dependent on the potential for capital gains from land appreciation. These investments depend on both the use- and exchange-value aspects of land. Meanwhile, new FIMOs are emerging both from within the financial sector and from agribusiness itself, indicating that the use of land as a financial asset is not restricted to professional investors. Instead the sector is characterized by crossover; financiers are using land as a productive asset, while operators are using land as a financial asset. Rather than a situation in which land is increasingly treated as a purely financial asset, as Harvey (1982) envisioned, land's financial qualities are increasingly valued but not necessarily divorced from its productive qualities. Perhaps what we are seeing is the emergence of a new type of financialization for an era of growing resource scarcity – one in which farmland's role as a quasi-financial asset will be even more prominent. Indeed, this resource financialization is central to the food regime restructuring which McMichael (2012) observes.

This paper has focused primarily on the trends that are unfolding in the space where finance meets farmland, giving relatively short shrift to the potential consequences of these developments. This is partly because the many worrying social and environmental implications associated with the global rush for farmland—among them peasant dispossession, deepening food insecurity, and sweeping conversion to industrial agriculture—are already being capably analyzed by other researchers. However, there are a few implications that are unique to increasing interest in land as a financial asset. First, to the extent that institutional investors pursue an "own-lease out" approach to their farmland investments, they contribute to the separation of ownership and control in land markets. The sale-leaseback arrangements pursued by Gladstone, Bonnefield, others can provide farmers with much needed financing, but they also transfer ownership away from the person farming the land. This reduces the farmer's incentive to use sustainable practices.

There is also a danger of importing the short-termism of finance into land markets. This concern relates particularly to the more speculative investments being pursued by private equity funds. If capital gains are to be realized, rather than just serving the purpose of value storage, then the land (or the company that owns the land) must eventually be sold. For this reason, the new farmland private equity funds generally have seven or ten year time horizons. Fund managers need an exit to get paid, and an exit usually implies a sale. The idea of entering into land ownership with an "exit strategy" in place would thoroughly confound most of the world's farmers, for whom hanging on to their land is a primary objective. For the investors involved, seven years actually is a long-term commitment, given that they can drop an unprofitable stock in an instant. Although many private equity fund managers argue that their short tenure as landowner will involve soil quality or other property improvements as a means to increase profit on re-sale, it seems equally likely that such a short-term view could lead to careless treatment of soil and water resources.

The financialization of farmland could also alter land market dynamics. If attempts at farmland securitization progress, it would become possible to buy or sell farmland almost instantaneously and for retail investors to acquire land as a financial asset. The increasing liquidity and volume of investment associated with securitization could greatly increase the volatility of farmland markets. Though increased volatility translates into the possibility of higher profits for speculators, it would not necessarily be welcome to those more staid farmland investors that were drawn to the sector for the steady, predictable returns. However, these investors—many of the pension funds and others employing a "own-lease out" strategy—could also contribute to changing land market dynamics. Global pension funds alone manage over $20 trillion in assets (Hua 2012). If all allocated just 1% of their portfolios to farmland investments, there would be $200 billion of pension money competing in global land markets. Many commentators have argued that the increasing participation of index funds in agricultural commodity markets has contributed to soaring global grain prices (Colbran 2010, Wahl 2009), and this could potentially have a similar effect. This amount of capital could raise the floor of land prices, putting it out of reach of small farmers, especially if it concentrated it a handful of attractive markets.

Increasing financial interest in farmland may prove to be a transient phenomenon The farmland bubble, if indeed one exists, may soon burst or simply deflate. If, however, powerful institutional investors and financial companies continue to embrace farmland as a financial asset, it could have lasting effects on land ownership and farming worldwide.

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Food Sovereignty:
A Critical Dialogue

INTERNATIONAL CONFERENCE
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FOOD SOVEREIGNTY: A CRITICAL DIALOGUE INTERNATIONAL CONFERENCE PAPER SERIES

A fundamentally contested concept, food sovereignty has — as a political project and campaign, an alternative, a social movement, and an analytical framework — barged into global agrarian discourse over the last two decades. Since then, it has inspired and mobilized diverse publics: workers, scholars and public intellectuals, farmers and peasant movements, NGOs and human rights activists in the North and global South. The term has become a challenging subject for social science research, and has been interpreted and reinterpreted in a variety of ways by various groups and individuals. Indeed, it is a concept that is broadly defined as the right of peoples to democratically control or determine the shape of their food system, and to produce sufficient and healthy food in culturally appropriate and ecologically sustainable ways in and near their territory. As such it spans issues such as food politics, agroecology, land reform, biofuels, genetically modified organisms (GMOs), urban gardening, the patenting of life forms, labor migration, the feeding of volatile cities, ecological sustainability, and subsistence rights.

Sponsored by the Program in Agrarian Studies at Yale University and the Journal of Peasant Studies, and co-organized by Food First, Initiatives in Critical Agrarian Studies (ICAS) and the International Institute of Social Studies (ISS) in The Hague, as well as the Amsterdam-based Transnational Institute (TNI), the conference "Food Sovereignty: A Critical Dialogue" will be held at Yale University on September 14–15, 2013. The event will bring together leading scholars and political activists who are advocates of and sympathetic to the idea of food sovereignty, as well as those who are skeptical to the concept of food sovereignty to foster a critical and productive dialogue on the issue. The purpose of the meeting is to examine what food sovereignty might mean, how it might be variously construed, and what policies (e.g. of land use, commodity policy, and food subsidies) it implies. Moreover, such a dialogue aims at exploring whether the subject of food sovereignty has an "intellectual future" in critical agrarian studies and, if so, on what terms.

ABOUT THE AUTHOR

Madeleine Fairbairn is a PhD candidate in the joint Sociology/Community and Environmental Sociology graduate program at the University of Wisconsin-Madison. Her previous research examined food sovereignty as a social movement frame. She has also studied land grabbing in Mozambique. Her current work explores growing interest in farmland on the part of the financial sector, as well as the policy debate that surrounds foreign farmland investment in the case of Brazil.