

Row Crop Returns versus Permanent Crop Returns in Q1 2021

US row crop land appreciated at a higher rate than permanent crop land in Q1 2021

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US row crop land appreciated at a higher rate than permanent crop land in Q1 2021 according to NCREIF. Row crops are planted, grown, and harvested every year and represent

more than 75% of all planted acres in the US according to the USDA. By comparison, permanent crops have a lifecycle of years and include products such as fruits and nuts.



The return profiles of permanent and row crop land are traditionally thought to be different. Permanent crops acres are thought to produce greater cash-on-cash returns over their life cycles compared to row crops due to the higher value of the output. However, total combined returns for permanent vs. row crops may not be as dissimilar as appears on first analysis. Permanent crop investments experience depreciation that properly maintained row crop land does not based on the finite life span of the permanent crop plants. While both row and permanent crop land have experienced consistent appreciation over the last two decades, fruit- and nut-bearing plants lose value over time, partially offsetting via this depreciation what has recently been higher appreciation rates in the permanent crop land market. The result – row crops historically generate less output driven cash flow and more appreciation, while permanent crops generate more output driven cash flow and less appreciation. These return profiles have a knock-on effect on risk – a larger component of returns linked to cash flow from product sales allows more commodity price volatility and consumer preference risk to leak into permanent crop investment returns.

On the demand side, both row crop and permanent crop land capture similar drivers – population growth, demand for protein and water.

- Population: Global farmland acres are expected to have to feed a population of more than

nine billion people by 2050 — an increase that will require a 60% increase in productivity.

- Protein:** As the developing world's becomes middle class it improves the variety in its diet and increases its protein consumption which in turn multiplies demand for permanent crops and for global grain supplies as feed.

- Water:** Industrialisation and urban development consume farmland acres. At the same time water scarcity in large importing countries – China and India – drives a de facto water importing requirement in form of agricultural commodities produced in countries with excess water supply – eg Canada exporting to China.

Both permanent and row crop land investments have interesting financial features and strong return drivers, but investors need to understand that these two investments are materially different at the investment and operational level and do not have the same volatility/risk profiles. In recognition of these different but complementary features many sophisticated farmland investors construct portfolios with combined row/permanent crop land investment mandates. For example, TIAA-CREF is said to target a 70-30 row/permanent crop allocation.

For further details please visit: www.veripathfarmland.com

Who is Veripath: Veripath is a Canadian alternative investment firm. Members of Veripath's management team have decades of farmland, private equity, and private credit investment experience and manage over 70,000 acres of Canadian row crop farmland. Veripath implements its farmland strategy in a way that seeks to preserve as far as possible farmland's low-volatility return profile – the attribute that generates a material portion of Canadian farmland's superior risk adjusted return profile. Canadian farmland covers an area exceeding 160 million acres, with an estimated total capitalization of roughly \$500 billion. Veripath funds are configured in an open-ended, evergreen structure, rather than the traditional fixed-term approach. The result is that Veripath allows shorter- and longer-duration holdings to exist side-by-side, thus enabling investors to choose the holding period that best fits their portfolio requirements.

For more information on Veripath please feel free to register online at www.veripathfarmland.com or call 587-390-8267.

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