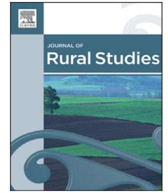
Journal of Rural Studies 49 (2017) 92–103

Contents lists available at ScienceDirect

Journal of Rural Studies

journal homepage: www.elsevier.com/locate/jrurstud



Farmland investment and financialization in Saskatchewan, 2003–2014: An empirical analysis of farmland transactions

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ARTICLE INFO

Article history:
Received 26 May 2016
Received in revised form
12 September 2016
Accepted 14 November 2016
Available online 25 November 2016

Keywords:
Farmland
Financialization
Canada
Government regulation

ABSTRACT

Since the province of Saskatchewan, Canada liberalized its farmland ownership rules in 2003, private equity firms, pension funds, and wealthy individuals have acquired more than 800,000 acres of farmland. These investors have acquired land with the aim of securing income flows by renting land to independent farm operators and realizing capital gains. The influx of outside investment has raised questions about how these trends could change patterns of farmland ownership, influence farmland values, and affect rural communities. This article analyzes a database of all farmland transactions in Saskatchewan from the period 2003–2014 in order to examine investor behaviour in relation to the farmland market. We present data on the amount of farmland changing hands (the turnover rate), the scale of investor farmland purchases, and prices paid by investors and non-investors, on an annual basis. Our analysis reveals that investors acquired their farmland portfolios over a relatively short period of time; that investor activity seems to have peaked in 2012; and that, on average, investors paid more for farmland than other buyers in a number of 'high-activity' regions of the province. Furthermore, while some investors continually accumulated land throughout the study period, others bought and sold large portfolios over a few years. These trends provide further evidence of the 'financialization' of farmland in Saskatchewan.

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1. Introduction

In 2015, the government of Saskatchewan, Canada launched a review of its farmland ownership legislation in response to growing public concern over the role of large, institutional buyers in the province's farmland market. The Canada Pension Plan's 2014 purchase of 115,000 acres of farmland for $CAD 128 million, the single largest farmland transaction in modern times, was particularly controversial (Briere, 2014). Some farm organizations and politicians have argued that institutional investors, with billions of dollars at their disposal, create an uneven playing field for farmers who wish to buy farmland. Meanwhile, the CPP and other investors have argued that, by purchasing farmland, they are supplying much needed capital to the agricultural industry (Leduc, 2015) and helping to facilitate the process of farm succession by buying land from retiring farmers (White, 2015). Saskatchewan farmland values have risen very rapidly in recent years – 138% between 2007 and 2015 (FCC, 2016) – reflecting strong agricultural incomes as well as investor interest in farmland as an asset class. While Saskatchewan's ownership rules are already quite restrictive, the debate has raised crucial questions about the politics of farmland ownership: Who should be allowed to own farmland? What are the implications of investor activity for family farms, rural communities, and the agricultural sector?

These debates and questions reflect broader currents in the global agri-food sector. There is a growing body of literature on the 'financialization of farmland', the process by which financial actors, including hedge funds, private equity firms, wealthy individuals, and pension funds, are buying farmland as part of investment strategies (Daniel, 2012; Gunnoe, 2014; Fairbairn, 2014b; Magnan, 2015; Sommerville, 2013; Sommerville and Magnan, 2015). To date, the literature has documented macro trends at regional, national and international scales, explored the motivations and business models of key actors, and examined the financialization of land in the context of the broader transformation of the agri-food system (Burch and Lawrence, 2009; McMichael, 2012). In this article, we provide a fine-grained analysis of changing patterns of farmland ownership in Saskatchewan, Canada's leading

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http://dx.doi.org/10.1016/j.jrurstud.2016.11.007
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agricultural producer and exporter. Our purpose is to shed some light on the dynamics of farmland ownership change, including the amount of land changing hands, the scale of investor farmland purchases, and the behaviour of investors over time. In turn, we relate these patterns to legislative changes, the financialization of farmland, and broader changes to the agricultural sector in Saskatchewan. Our analysis contributes to understanding financialization as an empirical phenomenon and to debates around the social and economic implications of investor activity.

The article is organized as follows. First we provide a brief review of the literature on financialization and farmland ownership, with a focus on patterns of change in industrialized countries. Next, we provide context for understanding the dynamics of farmland ownership and investment in Saskatchewan. We explain our methodology in the following section, before presenting our findings on key trends. In the discussion, we interpret these trends in light of the institutional, political, and economic context in Saskatchewan and make some observations about the significance of farmland financialization in patterns of rural change.

1.1. Financialization and farmland ownership

In recent years, scholars have been documenting the growing involvement of financial actors — commodity speculators, hedge funds, pensions, private equity firms, and the like — in the global agri-food sector (Burch and Lawrence, 2009; Clapp, 2012, 2014; Daniel, 2012; Williams, 2014; Isakson, 2014; Fairbairn, 2014b). The financialization of agri-food is driven, in part, by restructuring and change within the sector. As agricultural supply chains and corporations become globally integrated, various facets of the agri-food sector — including highly industrialized farms (Visser et al., 2012; Murmis and Murmis, 2012; Visser, 2015), agricultural inputs and risk management (Isakson, 2014), supermarket chains (Burch and Lawrence, 2013), and farmland (Fairbairn, 2014b; Gunnoe, 2014) – have become more attractive targets of financial investment. Investors have also turned to the agri-food sector in response to forecasts of rising demand for food, fuel, and fibre linked to the growth of middle classes and changing dietary patterns in the developing world (Cotula, 2012; McMichael, 2012; Weis, 2013). Scholars are interested in the ways in which the growing influence of financial actors and logics may contribute to further agri-food restructuring and change relationships among key actors such as governments, farmers, food corporations, workers and consumers.

The financialization of farmland is of particular interest, not only because of the centrality of land to food production, but also because of the unique social and economic context of farmland ownership. As a result of 19th and 20th century patterns of colonial dispossession and agricultural development, farmland ownership in places such as Canada and the U.S. has traditionally been distributed among many thousands of discrete owners, usually farm families, who are descendents of Euro-American settlers. This pattern persisted, even as farm numbers declined precipitously from the mid-20th century onward through a process of consolidation and increasing farm size. While some families who exited agriculture held on to farmland as a form of retirement security or investment, the bulk of farmland continued to be held by farming families, with only small amounts owned by corporations, institutions, or investors. For instance, in 1999, corporations represented fewer than 3% of landlords who owned farmland in the U.S. (Jackson-Smith and Petrzelka, 2014). In Saskatchewan, investors held less than 0.1% of farmland in 2002 (Desmarais et al., 2016).

The role of non-farm actors in rural land markets around the world has been increasing since the mid-2000s (GRAIN, 2010; Daniel, 2012; Cotula, 2012; Visser et al., 2012; Fairbairn, 2014a,b). Interest in farmland emerged in the wake of the global financial crisis, as investors fled from riskier assets toward the relative safety of 'real assets' like land and gold. Investors have touted farmland as a hedge against inflation, a low-risk store of wealth, and an asset that delivers both capital appreciation and an income stream through rents (Fairbairn, 2014b). The 'financialization' of farmland thus refers to the way in which financial actors are deploying capital to acquire farmland through pension plans, private equity funds, public companies, and Real Estate Investment Trusts (Fairbairn, 2014b; Gunnoe, 2014; Visser, 2015; Magnan, 2015). As part of this phenomenon, some investors have targeted farmland in industrialized countries (Highquest Partners, 2010). In the U.S., institutional investors, including UBS Agrivest, a Swiss financial services firm, Hancock Agricultural Investment Group, a subsidiary of a major insurance company, and the TIAA-CREF, a public pension plan, have invested hundreds of millions of dollars in approximately 540,000 acres of farmland (Mittal and Moore, 2014). In the EU, some Eastern European countries have seen considerable outside investment into farmland, usually in the form of huge, integrated corporate farming operations (van der Ploeg et al., 2015). Since the mid-2000s, there has been a significant increase in foreign investment in Australian farmland and farm operations, driven by institutional investors, wealthy individuals, and sovereign wealth funds (Lawrence and Campbell, 2014; Magnan, 2015; Larder et al., 2015; Sippel, 2015).

Investment in farmland in the industrialized countries tends to be driven by relatively long-term investors seeking low-risk portfolio diversification (Knuth, 2015). Typically, investors acquire a portfolio of land that is geographically dispersed, to help mitigate weather and disease risks, and sometimes diversified by production sector (e.g., permanent crops, annual crops, dairy, meat). Investment models differ in terms of the relationship between farmland owners and agricultural production. In some cases, an investing firm both owns and operates the farm, providing investors exposure to the appreciating value of the farmland and to potential profits from agricultural production. In other cases, investors own the farmland, but rent it out to independent farm operators or to third party farm management firms. This 'own lease-out' model is common in the U.S. and Canada, while there is a more even mixture of different models used in places such as Australia (Magnan, 2015). The 'own lease out' model is considered a lower-risk, more passive approach, while 'own operate' is somewhat higher risk, as it provides investors exposure to agricultural commodity prices. There are as yet few studies that have directly examined the impact of financial investment on farmland on rural community dynamics. Case studies of financialization in rural Australia suggest that the entry of financial actors can have mixed effects on local farmers and residents (Sippel, 2015; Sippel et al., 2016). For instance, while some rural residents felt uneasy with land purchases by financial entities, other actors — notably, large farm family entrepreneurs — either accepted these investments as benign or actively partnered with financial firms in order to further their own business objectives (Sippel et al., 2016).

Recent scholarly commentary has cautioned against overstating the financialization thesis (Christophers, 2015), and in particular, presenting the financialization of agri-food as a straightforward, inevitable, or monolithic process (Ouma, 2014, 2015). The process is certainly more complex than sometimes presented in popular treatments. Recent research has acknowledged, for instance, that there is a range of investor types involved in farmland acquisition, and that these investors may differ considerably in their goals, expectations, and activities (Knuth, 2015). Others have recognized the tensions and obstacles involved in the financialization of land. In the investment world, agriculture is considered an 'alternative asset class' and investors are actively engaged in constructing

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