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Farmland

Resilience, risks, and repositioning across market cycles

KEY TAKEAWAYS

INFLATION RESILIENCE

US farmland has strong linkages to inflation across cycles, supported by essential-goods demand, contractual rents, and constrained supply dynamics. During inflation and interest rate shocks, leased farmland preserved income and capital when traditional equities and bonds struggled significantly.

BUILT-IN STABILITY ACROSS CYCLES

Farmland's long-term appeal rests on capital preservation, low volatility, and durable cash flows. Its performance through downturns and periods of market stress underscores its role as a stabilizing allocation within diversified real asset portfolios.

RETURNS VARY WITH STRUCTURE AND COMPLEXITY

Risk-adjusted outcomes differ significantly by crop type and operating model. Leased row crops offer scale, simplicity, and downside protection, with stable income streams. Directly operated permanent crops introduce higher return potential but materially greater operational complexity, underwriting requirements, and execution risk.

US farmland has provided investors seeking inflation protection and real asset exposure with steady returns and stable cash flows. Although diversification across regions, crop types, and structures is important, care must be taken when stress testing for water constraints, climate risks, and export dependencies.

Since the early 1990s, US farmland has established itself as a durable and stable component of real asset portfolios. As the broader investment landscape has weathered shocks such as the global financial crisis and commodity downturns, as well as the COVID-19 pandemic, inflation surges, and recent interest rate resets, farmland has repeatedly exhibited characteristics that support its reputation as a resilient and cash-flowing asset.

US farmland is a subset of global agricultural land predominantly privately owned with fee-simple property rights. It encompasses both annual cropland (such as corn, soybeans, and wheat) and permanent cropland (including fruits, nuts, and vineyards). In the US, row crops tend to be leased while permanent crops tend to be directly operated. The terms 'row crops' and 'annual crops' are used interchangeably.

This article explores the hypothesis that stability and resilience are not merely incidental outcomes, but intrinsic to farmland's value proposition. Through a cycle-by-cycle review, we dissect the factors underpinning farmland's performance and highlight lessons relevant to risk-adjusted future portfolio construction.

Stability in US farmland

Farmland's ability to protect principal, maintain relatively steady returns, and generate reliable cash flows has historically set it apart from more volatile asset classes. This is particularly evident in leased farmland, which provides stable cash flow that stems from

contractual rents and low vacancy rates (see 1). While increasing stability often reduces long-term growth potential, farmland's historical correlation with inflation and its diversification benefits help offset this risk, distinguishing it from traditional fixed income investments.

Cycle-by-cycle performance review

A granular review of farmland's performance across major economic cycles provides insight into the sources of its resilience.

- **The global financial crisis (GFC) (2008 to 2012):** Where US GDP growth stagnated at approximately 1%, and commercial real estate (CRE) struggled, farmland generated about 5% income alongside capital appreciation, demonstrating non-correlated behavior. Key factors included low leverage in the agricultural sector, robust global demand growth, and stable crop revenues. Farmland's limited reliance on debt reduced its exposure to broader credit market disruptions, while its essential-goods status supported stable demand. Demand grew both domestically and internationally; ethanol mandates expanded domestic corn consumption, while a weak US dollar supported exports of a wide range of commodities, such as soybeans, almonds, and pistachios.
- **Commodity downturn and pre-COVID normal (2014 to 2018):** Aggregate US farm revenues declined by roughly 12%, yet land values remained largely intact. Strong farm balance sheets and limited farmland supply kept rental rates and land values stable despite a period of lower commodity crop revenues. Although agriculture economies such as Brazil grew strongly, a weakening Brazilian real offset gains for US investors with unhedged portfolios. Permanent crops (such as nuts and fruits) outperformed annual row crops, underscoring the importance of crop type diversification across geographies and property types (commodity, vegetables, and permanent).
- **COVID-19, inflation, and interest rate shocks (2020 to 2024):** Amid unprecedented volatility and supply-chain disruptions, farmland exhibited resilience, supported by stable food demand and growing institutional allocations to real assets for diversification and inflation protection. As inflation surged in 2021 and 2022, farmland's strong inflation linkage helped sustain returns: higher input costs weighed on operators, while higher crop prices and lease structures helped insulate landlords. In 2022, when inflation topped 6% and both stocks and bonds fell more than 10%, diversified leased farmland delivered returns of over 12%, even as CRE posted negative real returns.

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From 2022 to 2024, rising real interest rates typically posed headwinds for real assets, yet farmland continued to prove defensive. Cap rates remained relatively stable, reflecting low leverage, diversified income streams, and highly constrained liquidity — only about 1% of US farmland trades annually — which supported price stability and lower volatility relative to other asset classes.

1

Leased farmland has outperformed total US farmland

Over the past decade, leased farmland has delivered more consistent and higher risk-adjusted returns than total farmland, underscoring the value of contractual income and lower operating risk.

	Annualized total return									
As of December 2025	1 year	2 year	3 year	4 year	5 year	6 year	7 year	8 year	9 year	10 year
Total US Farmland (NFI)	0.20%	-0.42%	1.34%	3.32%	4.20%	4.02%	4.13%	4.45%	4.64%	4.89%
Leased US Farmland (CFI)	2.90%	3.11%	5.01%	6.87%	7.49%	6.98%	6.64%	6.59%	6.52%	6.39%

Note: Total US farmland utilizes the NCREIF Farmland Index (NFI) as a proxy for the US farmland market, and is composed of all annual and permanent cropland investments in the NFI that are leased or directly operated. Leased US farmland utilizes the Core Farmland Index (CFI) as a proxy for leased farmland, and is composed of all annual and permanent cropland investments in the NFI that are leased.

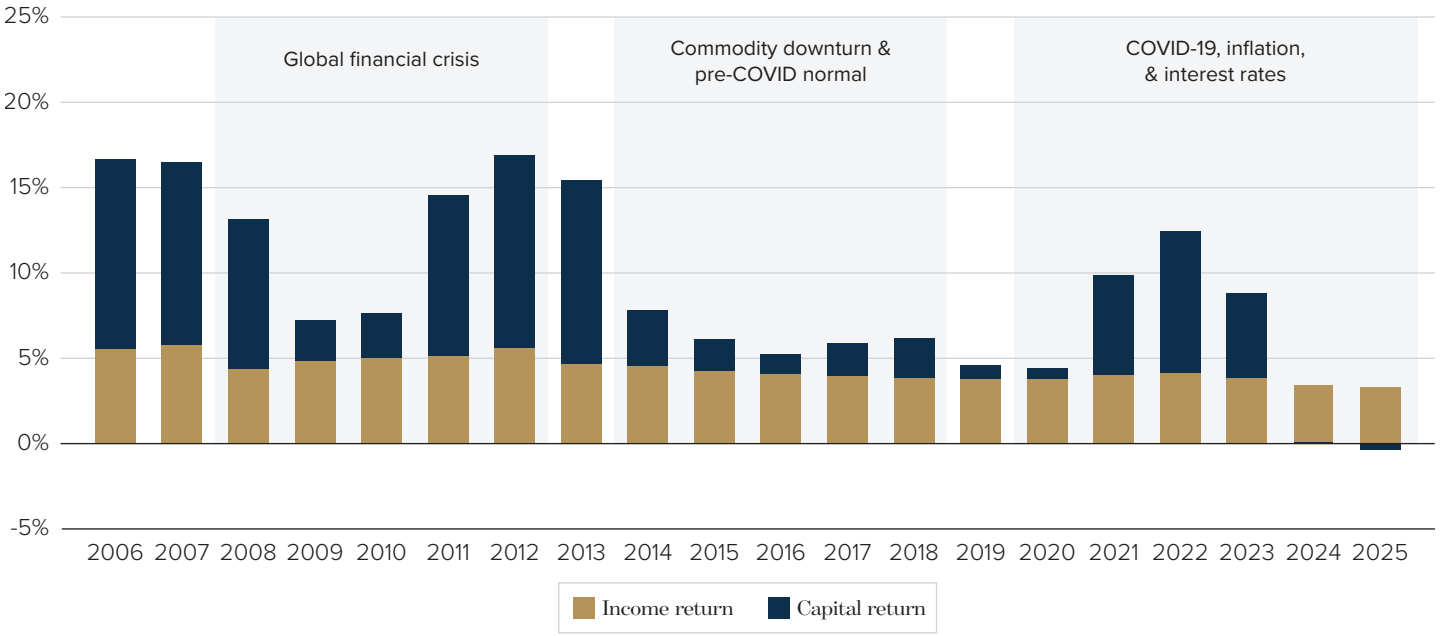
Source: NCREIF. Data as of December 31, 2025.

2

Leased US farmland has historically provided attractive income and total returns

Leased US farmland shows annual income returns historically in the range of 2.5% to 5.5% and total returns of 7% to 10%, accompanied by moderate volatility. Capital returns slid into negative territory in 2024 as interest rates rose.

DECOMPOSED ANNUAL RETURN



Note: Leased US farmland utilizes the Core Farmland Index (CFI) as a proxy for leased farmland, and is composed of all annual and permanent cropland investments in the NCREIF Farmland Index (NFI) that are leased.

Source: NCREIF. Data as of December 31, 2025.

3

US farmland can provide diversification benefits, with income stability and capital preservation

Leased farmland, the predominant US type, is negatively correlated with equities and bonds, and most strongly correlated with commercial real estate and timber.

1991 to 2025	Correlations					
Asset classes	CPI	Bonds	Stocks	CRE	Timber	Leased farmland (80% row, 20% permanent)
CPI	1.00					
Bonds	(0.33)	1.00				
Stocks	0.05	0.22	1.00			
CRE	0.11	(0.15)	0.04	1.00		
Timber	0.25	0.04	0.08	0.01	1.00	
Leased farmland	0.23	(0.16)	(0.11)	0.39	0.36	1.00

Sources: UBS Asset Management, Bureau of Labor Statistics, St. Louis Fed, the Bar-Cap Aggregate Bond Index, EAFE International Stock Index, S&P 500 Stock Index, IA SBBI US Small Stock Index, NAREIT, NCREIF Property Index, NCREIF Farmland Index, and NCREIF Timber. Real asset returns are not unsmoothed. Correlation is annual. Data as of December 31, 2025.

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Farmland performance

Long-term returns in US farmland have historically proven competitive, with income returns typically in the range of 2.5% to 5.5% and total returns generally between 7% and 10%, accompanied by moderate volatility (see 2). Income stability and capital preservation remain a recurring theme across crop types.

Farmland has a historically low to negative correlation with equities and bonds, limited correlation with CRE, and a positive correlation with inflation (see 3).

Crop types and characteristics

Farmland risk and return characteristics differ primarily by crop type (annual/row vs. permanent) and investment structure (leased vs. directly operated). Farmland investments generally fall into three categories:

- **Leased row crops,** which represent a large share of US farmland and dominate institutional allocations, have historically delivered the lowest volatility and most predictable income, supported by contractual rents, deep tenant markets, and limited operational risk, though returns remain tied to global grain cycles and policy dynamics.
- **Leased permanent crops,** such as fruits and nuts, rely on long-lived biological assets and have offered higher income potential with moderately higher volatility, reflecting greater exposure to water availability, climate conditions, and regional concentration risks.
- **Directly operated permanent crops** capture full production revenues but introduce significantly greater volatility and operational complexity, with exposure to labor, input costs, yields, and commodity prices. Historically, these higher gross revenues have not translated into superior risk-adjusted performance, reinforcing why leased cropland, particularly leased row crops, has exhibited the core attributes most valued by investors: capital preservation, low volatility, and consistent income. (see 4).

Across cycles, portfolio concentration by region or crop type has underperformed diversified strategies, except during isolated periods in regions such as the Corn Belt or Pacific West, both of which are currently facing headwinds. Diversified portfolios have been more effective in absorbing crop-

Farmland vs. other real assets

Within the real asset universe, farmland, timberland, and infrastructure each target similar return ranges (7% to 12%), but are differentiated by their risk profiles and value drivers.

- **Farmland:** Can offer robust inflation hedging, essential-goods demand, and commodity diversification. Liquidity is limited and operational complexity varies by crop type.
- **Timberland:** Returns are underpinned by biological growth and cycles tied to housing and construction markets. Longer harvest cycles favor patient capital, but timberland is less countercyclical than farmland.
- **Infrastructure:** Characterized by contracted cash flows and regulatory exposure. Assets are globally dispersed, capital-intensive, and subject to higher fee structures. Illiquidity of the underlying asset in infrastructure funds is also likely more pronounced compared to farmland.

4

Leased row crops have historically demonstrated lower volatility and predictable income of 3% to 7%

The predominant institutional US farmland exposure type is supported by contractual cash rents and deep tenant markets, but is more exposed to commodity markets.

Leased row crops	Leased permanent crops	Directly operated permanent crops
Predictable cash rents	Predictable cash rents	Potentially higher revenue
Lower volatility	Moderated volatility compared to directly operated permanent crops	Higher volatility
Superior risk-adjusted returns compared to other farmland strategies	No direct farm operating risk	Farm operating risk

Calendar year return range*	Leased row crops	Leased permanent crops	Directly operated permanent crops
Income return	3% to 7%	4% to 12%	1% to 21%
Total return	4% to 24%	-7% to 29%	-12% to 48%

* Aggregate properties, since index inception (1991).

Source: NCREIF. Data as of December 31, 2025.

specific shocks, including tariffs, oversupply, weather events, and disease, and have historically provided a level of stability that concentrated strategies have often lacked.

Supply, demand, and structural drivers

The fundamental drivers of US farmland performance span demand growth, supply constraints, and productivity-enhancing innovation.

- **Demand drivers:** Global population and income growth in low- to middle-income countries, combined with shifting diets toward higher protein, fruit, and nut consumption, continue to support long-term export demand.
- **Supply constraints:** The supply of high-quality farmland in the US is essentially fixed, with water availability intensifying regional risk divergence.
- **Productivity and technology:** Advances in genetics, precision agriculture, and satellite-guided equipment have improved yields and baseline returns, while widening performance gaps between high-productivity and marginal regions. These innovations have also helped mitigate structural labor constraints.

While long-term fundamentals remain supportive, US farmland faces ongoing headwinds. Elevated input costs, fluctuating commodity prices, and higher interest rates have pressured farm profitability in recent years and slowed valuation growth in certain regions. Climate and water-related risks, labor constraints, and evolving regulatory requirements contribute to increasing regional and crop-specific dispersion. In addition, farmland's inherent illiquidity is another consideration for investors, reinforcing the need for disciplined underwriting, prudent leverage, and a focus on stable, lease-based income structures.

US farmland has continuously demonstrated resilience through multiple macroeconomic shocks, with stability emerging as its most attractive attribute.

Portfolio construction implications

Practical recommendations for constructing resilient farmland portfolios emphasize the importance of diversification across US regions, crop types, and lease and income structures. However, each additional diversification factor may add distinct risks and increase overall portfolio volatility. Care must be taken when stress testing for water constraints, climate risks, and export dependencies. Modeling cap rate sensitivity to interest rates and incorporating long-term productivity assumptions can further support execution.

Similar to other investments, manager platform strength is critical, and track records across farmland cycles, rather than recent performance alone, should guide selection. Liquidity and structure considerations include the expansion of open-end funds (still limited) and the dominance of separate accounts, with trade-offs in fees, governance, and diversification.

Global considerations

The US is the largest agricultural economy in the world; by comparison, California alone has an agricultural economy larger than that of Australia. Investing outside the US often means operating in smaller markets with narrower crop diversity and shallower tenant bases. The presence of high-quality farmland does not necessarily imply the presence of a compelling investment opportunity. Currency exposure, legislative and political risk, and variability in infrastructure, technology, proximity to demand centers, and the depth of experienced farming operators all materially affect outcomes and must be carefully evaluated in the underwriting process.

Conclusion

US farmland has continuously demonstrated resilience through multiple macroeconomic shocks, with stability emerging as its most attractive attribute. Concentrated strategies have underperformed diversified approaches, and structural demand growth, supply constraints, and inflation-hedging characteristics position farmland as a compelling, though operationally complex real asset. For investors who understand the nuances of crop mix, operator selection, and regional exposure, farmland can be considered a core allocation well into the next decade. While operational complexity can be significantly reduced through leasing, the importance of nuanced strategy and disciplined execution cannot be overstated.

The enduring lesson is that stability, defined by capital preservation, low volatility, and consistent income, is not merely a defining characteristic of farmland but a foundational requirement for resilient real asset portfolios. Through its performance across multiple economic cycles and its capacity to provide inflation protection, the US farmland market offers valuable insights for asset managers seeking to balance risk, return, and long-term resilience. Q

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