VERIPATH PARTNERS

THE EFFECT OF LONG-TERM REAL RATES ON FARMLAND APPRECIATION BEHAVIOUR

ABSTRACT:

A review of the historical behaviour of Canadian farmland prices versus long-term real interest rates — with a focus on average appreciation rates, average up-year appreciation rates and risk of drawdowns.

KEYWORDS:

Global farmland, Canadian farmland, real interest rates, growth rates, drawdown risk

INTRODUCTION:

Canadian farmland appreciation rates are impacted by the real rate environment which we have subdivided into two rate regimes for the purposes of this analysis:

- Lower-rate environments – real rates less than 4%
- Higher-rate environments – real rates equal to or greater than 5%

DISCUSSION:

Farmland has historically had a significant positive correlation to inflation. We took this analysis one step further and examined the effect of long-term real rates (10-year CAD bonds – CPI) on Canadian farmland appreciation behaviour.

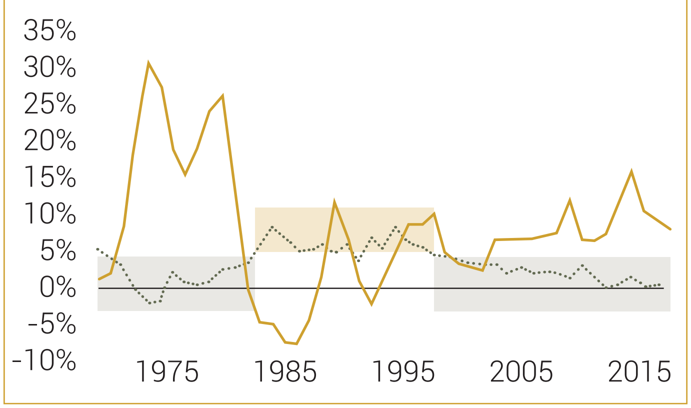
We created a cut-off into lower and higher real rate regimes at lower than 4% and higher than 5% respectively and then analysed return data from 1970 to 2019. This series obviously includes the unique 1970s stagflation event (GDP contraction combined with accommodative fiscal and monetary policy). By analyzing the series in this fashion rather than simply conducting a correlation analysis over the time series an interesting behaviour became apparent and is summarized in the table below:

Table 1: Farmland Price Changes – above and below 4% real rate threshold

	Real Rates	
	< 4%	> =5%
Average Annual Appreciation	11.3%	-0.1%
Up Years as Percent of all Years	97.1%	26.7%
Average Size of Up Year	11.7%	5.7%

The data from the table above can be visualized in the following chart:

Chart 1: Farmland Price Changes (yellow line) – 1970 to 2019 – versus long-term real rate trend (dotted line)



CONCLUSION:

Real rates appear to have had a material effect on the behavior of Canadian farmland over the 40-year period studied. This effect was expressed in both average appreciation rates and the likelihood of draw-down – both of which improved as real rates dropped below 4%. The current lower real rate environment, if it continues, appears to be highly favorable to ongoing farmland appreciation prospects.

REFERENCES & NOTES:

1. Statistics Canada
2. Macrotrends
3. Hancock Agricultural
4. St Lous Federal Reserve- CAD 10 year rates
5. Real rates = CAD 10-year bonds – CPI, series runs to 2019
6. Veripath analytics

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. 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 returns. Veripath does this by seeking to minimize operational, weather, geographic and business-related risks – and capture the pure return from land appreciation. Veripath holds over32,000acresinitsportfolio and has experienced rapid growth as capital providers seek exposure to the Canadian farmland asset class. Veripath's offerings can be accessed through several full-service Canadian broker dealers and on the Deal Square electronic order processing platform. Utilising a unique split fund, evergreen structure, Veripath opens the Canadian farmland thesis to the largest possible universe of investors and for the first time makes compliance with the various provincial farmland ownership regulations simple and straightforward. Canadian farmland allocations have several compelling characteristics that make them a worthwhile portfolio allocation for both institutional and retail investors and Veripath's structures are available to both.

For more information on Veripath please feel free to register online at www.veripathfarmland.com or call587-390-8267.

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