



PRODUCTIVE RETURNS

PANKAJ KHANDELWAL enumerates the reasons to make a farmland investment

Agriculture land ownership can be an extremely rewarding investment opportunity. The finite availability of arable land, increasing demand-supply mismatch of agricultural commodities, climate change and economic prosperity of India have created an environment where agricultural land investment is poised to generate superior and safer returns.

LAND FUNDAMENTALS

They don't make it any more

God stopped making land quite some time back! As per 2001 census India had 54% of arable land. However, the per capita availability of land has declined by 70% over the last 70 years.

India was relatively immune to this supply side constraint over the last fifty years due to the dramatic increase in agricultural productivity through green revolution. Without a fundamental shift in productivity enhancement, India would face intermittent food crisis and the land supply shortage is going to be the key concern for the next two generations.

Declining land available for agriculture

With dramatic urbanisation, land degradation and scarcity of water, the availability of arable land is like-

ly to be further constrained over the next 20 years. The productive agriculture land is shrinking much faster than new productive land being added.

Competing commodities for agriculture land: Fuel, Food, Fodder

While on one hand availability of arable land per capita is declining and productivity improvement is stagnant, on the other hand, there is significant new demand being created for agriculture land through some major economic shifts - rising demand for food and feed and focus on bio-fuels.

Increasing per capita income

Economic prosperity leads to changes in consumer behaviour giving rise to further pressure on arable land. For e.g. as per capita income increases, consumption of meat increases - the production of meat is estimated to be three times more inefficient compared to production of vegetables from land use perspective. Along with the demand for more (higher wastage) and superior quality food, the consumers also demand more space in the form of second home, holiday home, luxury home, tourism and farm houses.

Love for land

Besides the economic reasons for de-

mand-supply mismatch for agricultural land, there are unique cultural factors in India (and also in other Asian countries) which further reduce the availability of land for transactions. *Jameen hamari mata hai* ('Land is my mother') is ingrained in the rural Indian psyche. It is a social taboo to sell land ('signifies financial distress to the local community'), the amount of land you hold is your social status symbol, and wives don't want husbands to sell land since the capital created shall be destroyed in drinking and buying unproductive assets (bike, car). Increase in commodity prices is leading to superior productive returns from agriculture land.



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QUALITY OF ASSET

Safe and Superior investment

Agricultural Land investment provides high level of capital protection (backed by hard asset and is not depreciated); an attractive portfolio diversification tool (low correlation to equity markets); has fundamental limits to supply and is a productive asset. It is a long-term investment (3+ years) and relatively illiquid (though it is an acceptable loan guarantee instrument).

INVESTMENT TIMING

Increasing investor interest

While the investor interest has been on a rise over last five-six years on farmland investment, most financial investors have only now started looking at it. However, most investment advisors do not understand the intricacies and risks of farmland investment. Thus the investor interest is only at the initiation stage and likely to increase significantly over next four-five years. This, therefore, still provides an early mover advantage to the investors.

RETURNS ON INVESTMENT

Superior Capital Gains

Farmland is a stable income producing asset which has, throughout history, been the most basic repository of wealth and value through good times and bad. A large number of studies across a range of markets and timescales have demonstrated that farmland has consistently produced superior total and risk adjusted returns compared to other asset classes.

Increase in commodity prices is leading to superior rental returns

Over the last century, there have been good and bad times to be in agriculture. However, agriculture is now entering a phase that has been unprecedented in human history: both in terms of challenges and opportunities. Rising population and eventual demand supply mismatch for agriculture commodities are providing superior profitability. However, it must be noted that generating productive returns is a specialised activity and requires significant expertise in developing and managing agri-businesses.

Tax Free Income

Agriculture income is free from income tax. Also, it is unlikely to be made taxable in the next decade given the current socio-political-economic environment. Taking into consideration the tax savings for agriculture income, the returns on investment are best-in-class.

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