Danish farmland investments: a window of opportunity

Rising demand, steep declines in land prices, legislation facilitating foreign investment, and an ideal political and regulatory environment–Danish farmland represents a promising investment opportunity.

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Feeding a population expected to grow to 9.6 billion by 2050 will likely prove to be one of the greatest challenges that humanity will face. According to recent forecasts, the world population could reach 10.9 billion people by 2100. As a result, considerable investments will be needed to develop agricultural productivity and increase output. An FAO report published in 2009 estimates that by the year 2050 agricultural production must increase by 70% to meet the needs of this growing population.

However, the situation becomes more complex as climate change and urban encroachment on to agricultural land inevitably alter the arable land map. A limited resource, farmland of good quality that is located in favourable climatic zones is highly sought after.

During this transitional phase, it is recommended to invest in democratic countries that promote good agricultural practices and are net exporters of food.

While Denmark's health and high-tech industries have traditionally appealed to sophisticated investors, it is within agricultural investments that a window of opportunity currently exists.

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A leader in agriculture

More than 60% of Denmark's territory is devoted to agriculture. A net exporter of food, Denmark could today feed 20 million people–4 times its current population. Widely heralded as a model of organisation and efficiency, Danish agriculture is one of the most technologically advanced and best performing in Europe.

According to the EU "Farm Economics 2012" report, Denmark ranks highest in Europe in Farm net value added (FNVA**).

Thanks to its stable microclimate, Danish agriculture is one of the leading European producers of cereals, dairy products and pork. Reputational risk is low as strict regulations are in place to ensure traceability, food safety and to fight against pollution.

Agricultural land: an overview

The state of Danish agriculture today stands out as a unique case in Europe. Indeed, the price of agricultural land has declined by more than 40% since 2009. This dramatic drop is due to the high level of debt of Danish farmers, a rate that more than doubled during the housing bubble. In the 10 years between 2000 and 2010, farm debt increased from 165 to 359 billion DKK (approx. €22 to €48 billion). Suffering from income fluctuations, the farms encountered difficulties in the wake of the 2008 crisis and the falling prices of agricultural products in 2008 and 2009.

The decline in land prices coupled with the forced restructuring of the balance sheets of the lending banks resulted in blocked funding and a subsequent halt in farm modernization, even though they remained profitable. Furthermore, Danish farmers who were heavily in debt before the crisis of 2008 were unable to obtain refinancing and were forced to sell.

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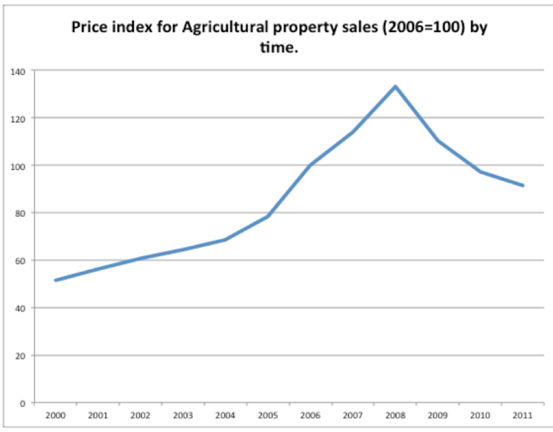
A window of opportunity

The latest legislative changes made it possible for foreigners to acquire a farm in Denmark, provided that the land remains cultivated according to Danish regulations and the farm inhabited by a local farmer.

Having fallen by 40-50 % since the peak in 2008, Danish land prices are now at 2006 levels. However, because of the regulatory changes mentioned above, it is likely that increased demand will result in a return to 2008 prices.



Source: Statistikbanken Denmark

Danish land today costs approximately €16,000 per hectare, compared to €24,900 in England and €18,900 in the Corn Belt in the USA. At present, the projected yield of 7% (derived from the rental income) does not take into account the expected land-appreciation over 5 to 8 years.

The Danish Hedge

Investing in real assets such as farmland can mean low, or even negative correlation with other asset classes, as well as protection against inflation. In addition, investing in Denmark is an opportunity to invest in Danish Kroner, a "free hedge" against a potential fall in the EUR.

Its AAA rating reconfirmed in September 2013, Denmark has a strong economy, one of the lowest levels of corruption, and a stable parliamentary democracy, all-important factors in the context of agricultural investments.

*Translated by Carl Ankarcrona from the original article in French published in "market" magazine, Switzerland Nr. 112, October-November, 2013.

**Farm net value added (FNVA) is equal to gross farm income minus costs of depreciation. It is used to remunerate the fixed factors of production (work, land and capital), whether they are external or family factors. As a result, agricultural holdings can be compared regardless of the family/non-family nature of the factors of production employed.

FNVA = output + Pillar I and Pillar II payments + VAT balance - intermediate consumption - farm taxes (income taxes are not included) - depreciation. The value is given per annual work unit (AWU) in order to take into account the differences in the scale of farms and to obtain a better measure of the productivity of the agricultural workforce.