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Growth Farms launches $140 million fund

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A specialist Australian agricultural investment company is launching a new $140 million farmland fund to capture interest from self-managed super funds, family offices and wealthy individuals.

Growth Farms Australia, which manages rural farmland worth $450m on behalf of overseas and family investors, says its latest trust is open to sophisticated investors with between $100,000 and $1m to invest.

GFA managing director David Sackett said the new 10-year fund would not run the farms themselves, but earn income from leasing land out to farmers and through capital appreciation of the farmland.

Mr Sackett plans for the fund to buy 20 to 25 farms worth $4m-$6m each — a smaller farm size that allows for both geographical and commodity diversity while suiting farmers looking to lease smaller parcels of additional nearby farmland to their existing operations to expand.

The fund will invest in higher-rainfall dairy, cropping, livestock and horticultural farms spread along Australia's east from Tasmania to Queensland.

About 20 per cent of the fund will be invested in high-value water entitlements that can be traded.

Mr Sackett expects the fund, after fees, to return about 10-12 per cent a year for investors leaving their money in the trust for the full 10 years.

The farms will be sold at the end of the fund's decade — although Mr Sackett envisages a secondary market developing for any investors who need their cash earlier — with the farm families that have leased the farmland from Growth Farms being given the first option to buy.

On an annual basis, without accounting for rural land value rises, the Australian Agricultural Lease Fund will return about 4.5 per cent from the lease of the land to farmers who will run the rural business.

The model is similar to that of the world's leading agricultural farmland investment manager, US giant Westchester, which estimates that over the long term farmland returns 5-6 per cent a year on investment from food production and lease income, and a further 6 per cent from capital land value appreciation.

"There are a lot of investors out there who want to be in agriculture, but who either don't have enough funds to buy individual farms themselves, or who don't want the hassle and stress of being a farmer directly, with the risk exposure that brings to seasons, the weather and commodity prices," Mr Sackett said.

Farm leasing is a well-established model in the US and other markets, and Growth Farms Australia believes it has strong potential in the local sector.

Mr Sackett said the advantage of the leasing model was that it gave farmers an opportunity to expand their businesses without having to find the capital to buy more land.

"Many existing farms are subscale and capital-constrained. Leasing overcomes this."

Investing in a farm leasing fund is similar to investing in a commercial property fund, where investors receive an income based on the rental yield and are exposed to the change in the capital value of the property, not the value of the business using the property.