

## FAST FACT

INDIA HAS THE SECOND LARGEST ARABLE LAND IN THE WORLD

Farmland investment can generate three to four times returns compared to other real estate investments

## REAP RICH RETURNS

PANKAJ KHANDELWAL shares light on what makes agricultural land a good asset class for investment



can generate three to four times of returns compared to other real estate investments. And to top it all, you have a farm-house where you can spend your weekends in the peace and quiet of rural India.

#### THE MYTH - ONLY AGRICULTURISTS CAN OWN LAND IN INDIA

This is only partially true. Agriculture is a state subject and the laws vary from state to state. While states like Maharashtra and Gujarat restrict agriculture land ownership to "agriculturists", there is no such restriction in states like Rajasthan and Madhya Pradesh. Whichever state you are planning to acquire land, just get a good lawyer to advise you. There are ceiling restrictions in most states and is also dependent on the type of land you acquire. Despite the ceiling and restrictions, a family of four can easily own land from 100 to 200 acres, which is a reasonable size.

#### LAND ACQUISITION PROCESS - THE PRACTICAL ASPECTS

The land acquisition process can be a time-consuming, tiring and risky proposition. While the laws are generally well-defined, the presence of a large number of touts and fraudsters make the process cumbersome. Here are some suggestions:

- **Hire a good broker:** Find someone who is trustworthy and organised. Define the parameters for land search and ask him to show you only the land which meets your criteria! And keep your eyes and ears open - do independent local search.
- **Get a good legal advisor:** Ask him to provide a clear opinion on the land title and ask him to verify with personal visit to registrar's office.
- **Get a good farm management company on board:** You would not be able to manage the farm yourself - don't try it unless you are 100% dedicated to it. Get a company/ person who will manage your farm before land acquisition itself - so that you make the right choice of soil type, location, water requirements etc.
- **Give a notice in a local newspaper:** Don't worry about these small costs - even if it is not legally required, ensure that you give the notice to know that there is no bank loan or private loan given against the land.

- **Meet the owner before closing the deal:** Don't just rely on the broker! Preferably ask the seller to come and meet you at your place.
- **Ensure that all documents are mutated in your favour:** Ensure that brokerage is paid only after this is completed.
- **Get land demarcation done:** Leave some amount to be paid to the seller.
- **Budget six months for the acquisition process:** Don't be in a hurry - it takes time.

#### PORTFOLIO MANAGEMENT APPROACH

If you have a large agriculture land investment, use investment portfolio management techniques to get an idea about the risk profiles and balance the investments. A farmland portfolio needs to consider many parameters:

- **Undeveloped v/s developed land:** Undeveloped land takes longer to give returns but with significant rural infrastructure development will provide higher returns (though riskier also).
- **Permanent v/s Row Crop:** Crop types make a huge difference in designing the portfolio. Crops like corn, soy, wheat, barley, etc are known to provide quick but unpredictable returns whereas permanent crops like an apple or pomegranate orchard take a long time to develop but provide consistent long term returns.
- **Land Escalation v/s Agricultural Returns:** Good agriculture returns are generated on land near water sources whereas land escalation is generated near road infrastructure.

The long term fundamentals, improvements in rural road infrastructure, new approaches for productivity improvements, availability of professionals (lawyers, brokers and farm managers) and the demand-supply mismatch make this an attractive class of investment. There has never been a better time to invest into agriculture land!

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During the last five years, there has been a vigorous interest in investment into agriculture land by individuals, corporations and countries. From China and Gulf nations to Indian corporates - everyone is investing heavily into agriculture land.

The reasons are compelling - per capita availability of arable land has reduced dramatically, the world is going through an unprecedented surge in demand owing to growth of China and India, the weather patterns are becoming unpredictable, the world is at its lowest level of food-grain stock, increasing use of biomass in fuel and there is increased demand of urban land. The future is going to be hungry!

All this would lead to dramatic demand-supply mismatch and therefore agriculture land investment is going to provide superior returns. At the same time, the prices of the commodities have seen an unprecedented upward trend leading to attractive annual/ rental returns.

Investing in agricultural land on a long-term basis provides a close relationship between returns on agricultural land investments and the related markets. There are a lot of investment strategies available today and also new vehicles are being devised and used to enhance agricultural production in different regions across the globe. These are tailored to react to local conditions: type of production, access to financial

networks and different sources of capital, political/legal/governance issues, infrastructure challenges, environmental sustainability constrain and overall risk and security challenges.

#### INDIAN SCENARIO

India has the world's second largest arable land in the world, but in terms of arable land per person, India is ranked 104th in the world. Couple this with the expected growth in population and rising income (thereby leading to increase demand for urban infrastructure and superior food), India is going to experience the highest mismatch between land demand and supply as well as food demand and supply! This in turn would lead to disproportionate increase in land prices and superior annual returns from farming activities.

Interestingly, while international play is likely to be more suitable for large corporates (due to problems in consolidation and socio-political issues in India), individuals stand to reap greater benefits in India. With the increased focus on contract farming and availability of "Professional Farm Managers", it is now possible to gain from capital appreciation as well 8-15% annual returns from operations. This makes it the most attractive asset class to invest into since most residential and commercial properties provide returns from 2-7%. Add to that, the fact that both the capital gains and farming income is exempt from income tax, a farmland investment

#### QUICK BYTE

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