The following article appeared in the Wall Street Journal, a Dow Jones publication. It's an excellent summary of the current investor movement towards income-generating assets like land and timber.

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MORE INDIVIDUALS ARE LOOKING TO INVEST IN FARM AND TIMBERLAND

Land can be a good hedge against inflation because the income it derives and its value typically will rise if prices in the broad economy pick up. Bloomberg News

Some investors are trying to get more grounded—by dedicating a chunk of their investment portfolios to farmland or timberland.

Interest in land from high-net-worth investors is up at a time when stocks hover near record highs and bonds could be hurt by rising interest rates.

Land is popular, investors say, because it can produce a steady income in the form of rents paid by farmers who are growing crops or sales of trees to paper and furniture companies. And land can be a good hedge against inflation because the income it derives and its value typically will rise if prices in the broad economy pick up. Land also is in demand because it doesn't rise and fall in step with the value of other assets, notably stocks. That can make it a good addition to a portfolio, investors say.

Farmland returned 20.9% in combined appreciation and income last year, and timberland returned 9.8%, according to an index compiled by the National Council of Real Estate Investment Fiduciaries in Chicago. Over 20 years, farmland has returned an average 12.5% a year and timberland has returned 8.3%, the group says.

U.S. Trust's Specialty Asset Management group, a part of Bank of America, is hiring to bulk up its farm and timberland investment groups to keep up with client demand. U.S. Trust currently has $170 million of investor money waiting to be invested in farmland and ranchland and another $215 million for timberland, on top of the $1 billion-plus in farmland it already manages and $300 million in timberland. Clients have at least $50 million in investible assets and invest a minimum of $5 million, says Dennis Moon, the head of the specialty asset group.

Investors with less money to commit often invest through professionally assembled portfolios. Ceres Partners in South Bend, Ind., manages $346 million for 259 investors in its farmland fund. The fund is open to qualified investors (those with more than $1 million in assets, excluding their homes, or annual incomes exceeding $200,000 for the past couple of years) and requires a minimum investment of $250,000.

Ceres Partners president Perry Vieth founded the company in 2007 after a decade as a fixed-income and currency investor at PanAgora Asset Management, a Boston hedge fund firm.

"I wanted to get my assets into hard assets, and gold doesn't pay you anything. Farmland does," Mr. Vieth says.

The costs to fund investors are 1% or 2% of assets each year, plus 20% of profits. The fund was up 12.6% last year, net of fees, Mr. Vieth says.

Tom Rowland, chief executive of American Timberlands, a Columbia, S.C., timberland-investing company, says the firm is looking to raise a fund of $100 million to $200 million. Many of its current individual investors are medical doctors who are looking at the run-up in their stock portfolios over the last two years and "want something that isn't in the stock market," he says.

The new fund will have a minimum investment of $1 million, and the money will be locked up for at least five years. American Timberlands' existing fund charges fees of 1.5% and 20%, and returned 24.2% last year, net of fees.

The recent strong returns and investor interest have some longtime investors sounding notes of caution. "The market is overheated," says William Ade, a 60-year-old geologist who grew up on an Indiana farm and has purchased 1,000 acres of Midwestern crop and forest land since the early 1980s.

Land prices might fall this year because large crop production could lower farm-income expectations, which could drive away some investor interest, says Bruce Sherrick, a professor of farmland economics at the University of Illinois at Urbana-Champaign. He says he gets three to four calls a week about investing in farmland.

Already average farmland prices have softened across several Midwestern states, according to first-quarter reports by various Federal Reserve Banks in May. That comes off the most recent boom, from 2009 to mid-2013, a period when average prices rose by half. Mr. Sherrick and other experts don't envision a crash as seen in the early 1980s, when rising interest rates hit debt-laden farms.

Of the $2.5 trillion in U.S. farmland, most of it is owned by farmers. Just $10 billion, or 0.4%, is owned by investment funds, Mr. Sherrick says.

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