

Farmland

IN PERSPECTIVE

Summer 2016

Volume 37, No. 2

G LAUB FARM MANAGEMENT

MANAGEMENT • REAL ESTATE • CONSULTING
INVESTMENTS • LAND AUCTIONS

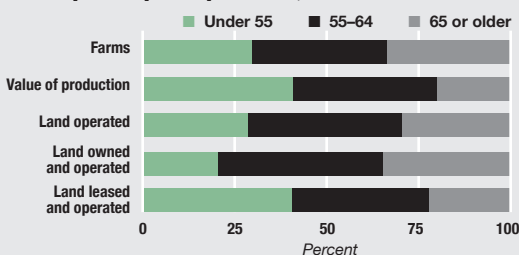
Older farmers play a larger role in farmland ownership than in production

The average age of principal operators in the latest Census of Agriculture (2012) was 58 and has been greater than 50 since the 1959 Census. That farmers are older, on average, than other self-employed workers is understandable, as the farm is home for most farmers, and they can gradually phase out of farming over a decade or more.

While older (age 65+) farmers make up a third of all farm operators, they account for a much smaller share (20%) of production. Nevertheless, older farmers still operate on 29% of all U.S. farmland (on land owned or leased, slightly less than their share of all farms).

The largest portion of owned farmland is held by producers age 55-64; operators over 55 tend to own the land they farm, while younger operators are more likely to lease it. Older farmers' land will shift to existing or new farms—or go into nonagricultural uses—as they exit agriculture.

Distribution of farms, value of production, and land operated—owned and rented—by age of principal operator, 2014



Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Agricultural Resource Management Survey (ARMS).

A 2016 Agricultural Land Outlook

by K.C. Conway, MAI, CRE

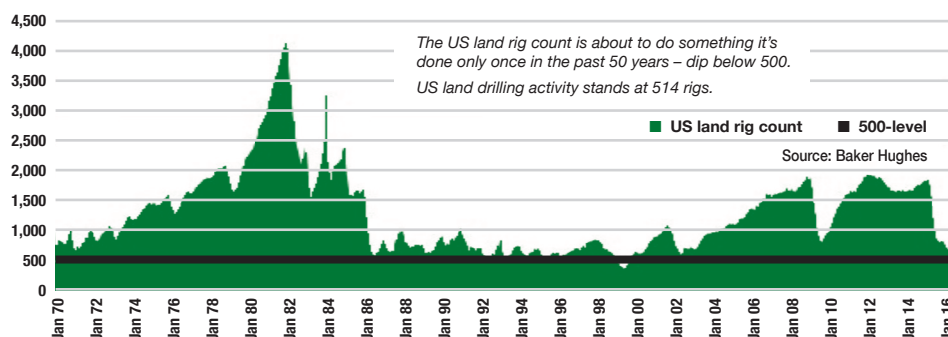
Earlier this year, professionals among the Realtors Land Institute (RLI) of the National Association of Realtors gathered to discuss what's new in farmland, ranchland and overall agricultural related land. Dr. Mark Dotzour and I presented economic and land value forecasts. Dotzour, a real estate economist, recently retired. He had served as the chief economist of the Real Estate Center at Texas A&M (www.markdotzour.com).

Being a well-known economist, appraiser, and banker with real estate in my DNA, I served as the Federal Reserve's real estate advisor to the Board of Governors. In addition, I served as an economic advisor to Chairmen Greenspan and Bernanke in 2005–2010 during the financial and housing crises. My presentation to the RLI titled "Never A Dull Vision" shared a macro economic outlook for U.S. land.

At first, my presentation may have given some indigestion, due to its candid overview of the adverse impact the decline on energy prices is having on the nation and on energy-producing states. The most alarming energy statistic is the decline in active, land-based oil rigs in the U.S. The decline is unprecedented and will result in the U.S. having fewer land rigs in operation in 2016 than at any point during the past 50 years, just 405 as of April 2016 according to Baker-Hughes. To monitor the energy industry at no cost go to www.OilPro.com.

Dotzour and I both shared that the decline in energy prices has economic benefits for consumers, farmers and ranchers, yet it poses a material national security concern. Just when the U.S. reached a point of energy independence, no longer being dependent solely on Middle East oil, the Organization of Petroleum Exporting Countries (OPEC) is reasserting itself to crush the U.S. energy industry. As Yogi Berra would say, "It's kind of like déjà vu all over again."

US land drilling is now dangerously close to 50-year lows



Continued on page 2

The economic outlooks from Dotzour and me concluded with these key points:

- Gross domestic product (GDP) is downshifting to something well below 2%,
- Small business owners are treading water, and their optimism is at a two-year low due mainly to political uncertainty, and
- Anemic job growth, with a still-near-three-decade-low labor participation rate.

Yet, the outlook we presented and the resulting arm-chair economic chat contained some good news for individuals with agricultural, farmland and ranchland investment interests:

- **Farm, crop, and ranch land values have not plummeted** despite the decline in energy prices and the decline in demand for agricultural land with oil and gas reserves beneath it in the numerous shale regions – Permian, Eagle Ford, Williston, etc. The rate of appreciation may have slowed, but values are holding up. This year's U.S. Department of Agriculture (USDA) annual Land Values Report showed that:

- Cropland values were up +0.7% in 2015 and averaged \$4,130 per acre;
- Farmland values increased 2.4% in 2015 and averaged \$3,020 per acre; and
- Pastureland rose 2.3% and averaged \$1,330 per acre nationwide.

- **Housing recovery is a plus for agricultural land values in large metros with strong job growth.** Housing's recovery is real, sustainable and resulting in strong demand once again for suburban agricultural land in large, job-producing metros such as Atlanta, Denver, Orlando and Phoenix.

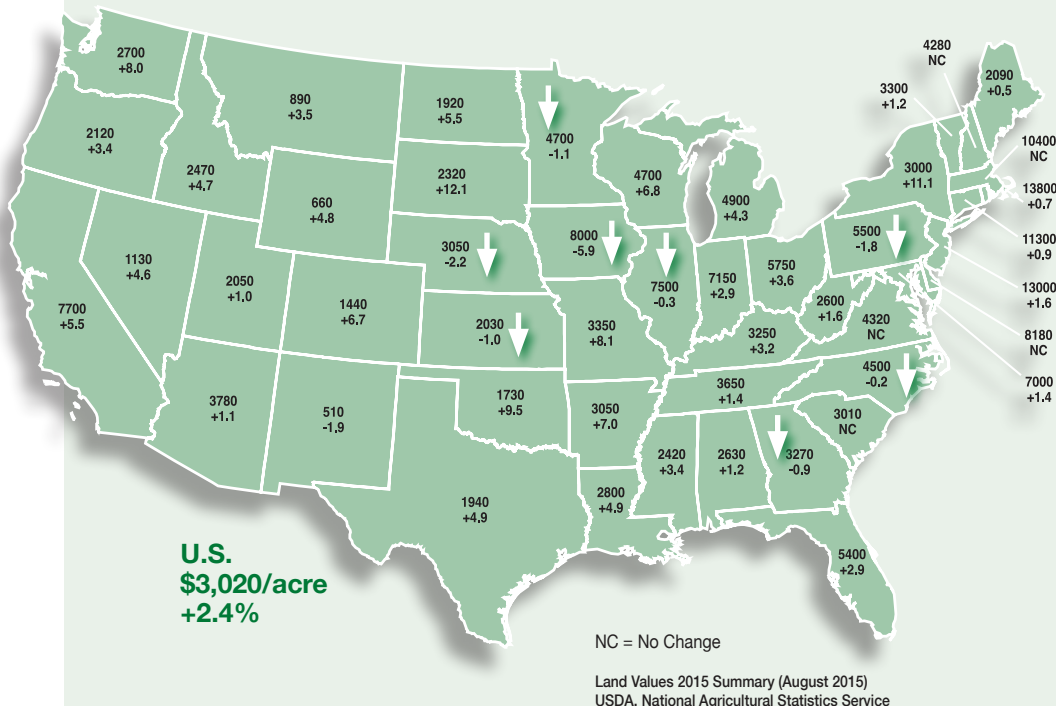
- **Agricultural land price increases peaked in 2013 with a +9% average rise and are still rising, but at a slower pace.** A good resource for farmers and ranchers with investments in agricultural land is the farmland index <https://www.ncreif.org/farmland-returns.aspx> available from the National Council of Real

Land Value Trends – Farmland: \$3,020/acre up 2.4%

The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged \$3,020 per acre for 2015, up 2.4% from 2014 values. Regional changes in the average value of farm real estate ranged from a 6.1% increase in the Southern Plains region to 0.3% decrease in the Corn Belt region. The highest farm real estate values were in the Corn Belt region at \$6,350 per acre. The Mountain region had the lowest farm real estate value at \$1,100 per acre.

2015 Farm Real Estate Value by State

Dollars per acre and percent change from 2014



Farmland values declined for 2015 in MN, IA, NE, KS, IL, PA, NC, GA

Estate Investment Fiduciaries (NCREIF).

Agricultural land price increases peaked in 2013 with a 9% average rise; but land prices have moderated their rate of increase since then. The 2015 increase in the index exceeded 4% in Q4 2015. In other words, the headwinds of energy price declines, reduced demand for agricultural land in shale regions, a strong U.S. dollar adversely impacting the demand for U.S. agricultural commodities, and a “downshifting” U.S. economy have not resulted in a decline in agricultural land value, yet. The rate of price increase in agricultural land values has clearly slowed from double digit to low

single digit, but values have not declined broadly. Pass the news along to your banker.

- **Remaking of the North American supply chain with an East Coast and Gulf Coast port focus is good for agricultural producers.** The remaking of the North American supply chain, from one with a West Coast anchor to one that will shift to be East Coast and Gulf Coast concentric is good news for ranchers and farmers. The transportation efficiencies and cost savings to agricultural producers will be quite material. The deeper and more automated East Coast and Gulf Coast ports, which have better rail access, will enable agricultural producers to move commodities

to more global markets more efficiently. This will mitigate some of the headwind from a strong U.S. dollar.

The remaking of the North American supply chain from the West Coast to the East Coast and Gulf Coast will be beneficial for agricultural landowners near the new freight ways linking modernized ports to rail and inland ports. The Port of Charleston, for example, recently pursued a second inland port in rural Dillon, SC, along I-95.

That said, remember, everything is closer than it appears, just as the warning in car side-view mirrors reads. In other words, every day brings the next recession closer as we advance in this now-seven-year-long recovery.

Summary

Land investors are encouraged to keep their eyes open for opportunities. Energy prices may be closing the door of opportunity in shale regions, but another door is being opened by the housing recovery and a rejuvenated demand for agricultural land in the suburbs of growing metropolitan statistical areas (MSAs) such as Atlanta, Denver, Phoenix, and Orlando. In addition, the remaking of the North American supply chain promises benefits for landowners near the new freight ways.



K.C. Conway, MAI, CRE is a Sr. VP – Credit Risk Management, with responsibilities for real estate valuation and environmental services and for market intelligence at SunTrust Bank. Conway has 30

years of experience as an appraiser, underwriter, lender, credit officer and economist. Noteworthy recent roles prior to joining SunTrust Bank include Chief Economist for Colliers | U.S. (2010-2014), Commercial Real Estate Risk Specialty Officer – NY Federal Reserve Bank (2009-2010), Counselor of Real Estate (CRE) Subject Matter Expert – Atlanta FED (2005-2009), and Director of Underwriting – legacy SouthTrust Bank (1995-2005). Conway is a frequent lecturer and speaker on CRE markets and valuation matters for government agencies, financial institutions, and private industry groups. Kiernan.Conway@SunTrust.com

SMALL FAMILY FARMS

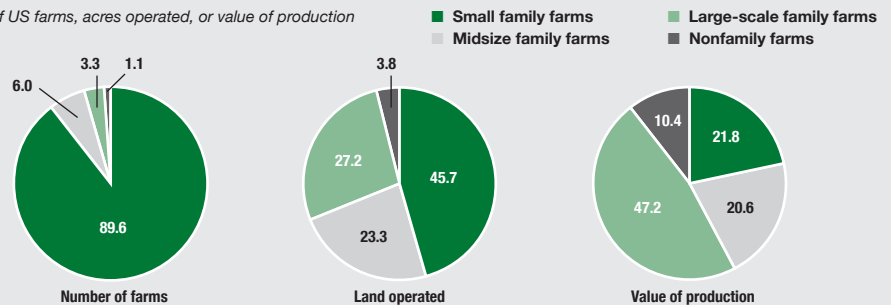
Nearly half of U.S. farmland and 22% of the value of production

In 2014, 99% of U.S. farms were family farms, where the principal operator and his or her relatives owned the majority of the business. Most were small family farms, having less than \$350,000 in annual gross cash farm income (GCFI). GCFI includes commodity cash receipts, other farm-related income (such as receipts from custom work or production contract fees), and government payments.

In 2014, these small family farms accounted for 90% of all U.S. farms, 46% of the land operated by farms, and 22% of agricultural production, according to the Economic Research Service of the U.S. Department of Agriculture. Large-scale family farms, with \$1 million or more in annual GCFI, accounted for about 3% of all farms, but had a disproportionately large share of the value of production (47%).

Distribution of U.S. farms, land operated, and value of production, by farm type, 2014

Percent of US farms, acres operated, or value of production



Small family farms have annual gross cash farm income (GCFI) less than \$350,000. Midsized family farms have GCFI of \$350,000 to \$999,999. Large-scale family farms have GCFI of \$1,000,000 or more. Nonfamily farms are those where neither the principal operator, nor individuals related to the operator, own a majority of the business.

Source: USDA, Economic Research Service and National Agricultural Statistics Service, 2014 Agricultural Resource Management Survey.

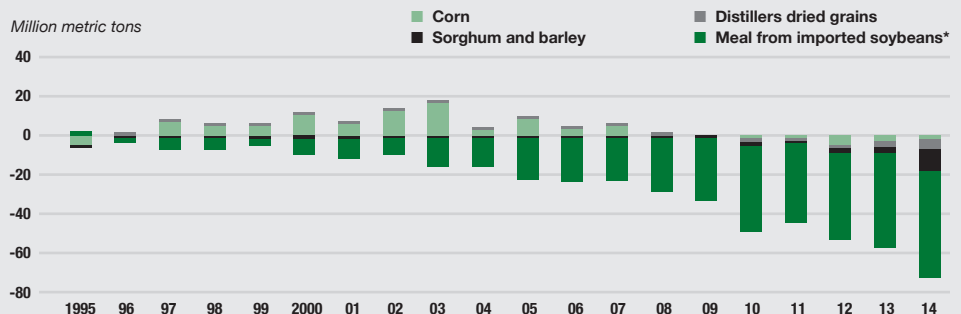
China's growing feed industry depends heavily on imported ingredients

After nearly four decades of transitioning from a largely plant-based diet toward greater meat consumption, China is now the world's largest producer of livestock products and also has emerged as the largest manufacturer of animal feed, according to the Economic Research Service of the U.S. Department of Agriculture.

This industry's need for a reliable supply of feed ingredients has led to a reduction of China's import barriers for many agricultural commodities and to China's emergence as the world's largest importer of soybeans and a growing market for imported distillers dried grains, sorghum and barley. The need for corn is still met largely through domestic production, but China became a net corn importer in 2009.

The continued growth of the feed industry and demand for feed ingredients could further curb the use of trade barriers that protect Chinese grain and oilseed producers. As advocates for lower import barriers, Chinese feed companies help to forge closer integration between China's agricultural markets and global markets.

China net trade in feed raw materials, 1995–2014



* Includes estimated meal derived from imported soybeans plus imported soybean meal.

Note: Net trade = exports-imports. Data are for calendar years.

Source: USDA, Economic Research Service analysis of Government of China Customs Statistics.

Farmland

IN PERSPECTIVE

1702 Stone St., Suite C
Jonesboro, AR 72401

RETURN SERVICE REQUESTED

Prsrt. Std.
U.S. Postage
PAID
Jonesboro, AR 72401
Permit No. 131



LET GLAUB FARM MANAGEMENT BE *Your Partner in Farming*

Land prices are driven by national and international economic factors. These economic factors can be directly or indirectly linked to agriculture. Working with an Accredited Farm Manager through the American Society of Farm Managers and Rural Appraisers and Accredited Land Consultants through the Realtors Land Institute can help you stay attuned to the changing agricultural economy. GFM remains confident real assets such as cropland will continue to be quality long term investments. Contact us for a no obligation discussion about buying opportunities or selling options for your agricultural asset.

We want to be Your Partner in Farming!



MANAGEMENT • REAL ESTATE • CONSULTING
INVESTMENTS • LAND AUCTIONS



TED GLAUB • AFM, ALC



JEFFREY HIGNIGHT • AFM



870-972-6996 • 1702 Stone St., Suite C • Jonesboro, AR 72401
1-866-972-FARM (3276) • e-mail: info@glaubfm.com • web: www.glaubfm.com

The American Society of Farm Managers and Rural Appraisers awards the titles of ACCREDITED FARM MANAGER and ACCREDITED RURAL APPRAISER to those members who have had years of experience, are technically trained, have passed rigid examinations, and subscribe to a high code of ethics.