

# Farmland

## IN PERSPECTIVE

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### G GLAUB FARM MANAGEMENT

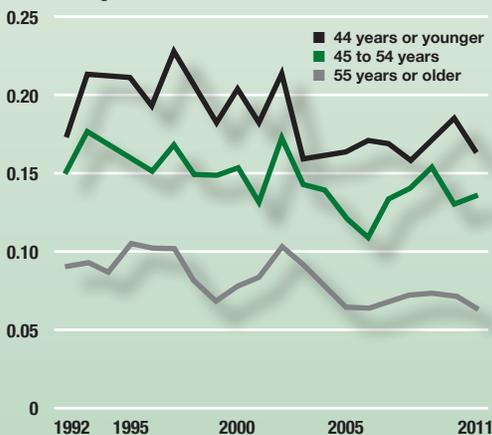
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## Farm businesses well-positioned financially

Debt owed by U.S. farm businesses rose 39% between 1992 and 2011, after adjusting for inflation. Despite rising debts, financial leverage — measured as debt relative to the value of assets — declined over this period for the typical farm business. Debt use and financial leverage varies widely, but the vast majority of farm businesses are better positioned to withstand unexpected changes in farm income or interest rates than they were in the 1990s.

### Farm business debt-to-asset ratios fell for each principal operator age group between 1992 and 2011

Average debt/asset ratio



Source: USDA, Economic Research Service and National Agricultural Statistics Service, 1992–1995 Farm Costs and Returns Survey and 1996–2011 Agricultural Resource Management Survey.

## Manage your farm for optimal income and investment results

by Professor Gary Schmitkey, University of Illinois

Farmland has been and will continue to be an excellent investment. However, farmland is not an investment that can be “left alone.” To achieve optimal results, farmland must be managed, and successful management requires information. Four areas require attention: farmland return outlook, farmland productivity, stewardship, and plans.

### Farmland Returns

Farmland returns can vary dramatically from year to year. In recent years, commodity prices increased substantially in 2006, with many commodities reaching high price levels in 2012 and 2013. In 2014, commodity prices are declining. Costs of production also have fluctuated in recent years. These items impact returns that are available to split between the landowner and the farmer.

This information is particularly needed for landowners who cash rent their farmland. Most cash rent levels will have to be re-evaluated each year as market conditions change, with the possibility of needing changes each year. When cash rents have not been adjusted, the cash rent the landowner receives may be too low, even though agricultural returns are high, such as occurred in 2010 through 2013. When returns are lower, farmland returns may need to be adjusted downward.

Market information is available from many sites. The extension services at many universities publish land ownership information and provide market outlook. One such source is farmdoc ([www.farmdoc.illinois.edu](http://www.farmdoc.illinois.edu)), which publishes a variety of helpful information in its management section.

### Farmland Productivity

Some farms will produce higher crop yields than other farms. It is good to maintain a gauge of the productivity of the farm as it affects the rental income from the farm. Two sources of information are useful:

**1. Soil maps and productivity information.** Soil maps will show the types of soils on the farm and their location. Different soils have different productivities. Soil maps can be obtained from the National Resource Conservation Service, an agency of the U.S. Department of Agriculture. Online professional services also provide this information.

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**2. Yield histories.** Maintaining an accurate history of yields from a farm will aid in judging yield potential, as well as maintenance of the farm. As part of the lease, the landowner should require the farmer to provide the final yields from the farm each year.

### Good Stewardship

Good stewardship requires that farmland be maintained. Four areas require attention.

This first is soil fertility levels. Phosphorus and potassium must be maintained so that optimal yields can be received from a parcel of farmland. In addition, lime applications may be required so as to maintain pH in acceptable ranges. Conducting soil tests every two or three years will provide information whether phosphorus, potassium, and pH are in acceptable ranges. Owners can then be assured that fertilizer applications are being made to maintain soil fertility.

Second, soil conservation structures should be maintained. These structures could include grass waterways, ditch and stream setbacks,

terraces, and drainage structures. Some farms may have many of these structures while some may have none. The landowner should know what exists on the farm, and periodically inspect these structures or have his professional farm manager/consultant inspect them to assure that they are in proper maintenance.

Third, buildings should be properly evaluated and a plan for them developed. Plans of maintenance for buildings to remain on the farm should be initiated and these buildings should be periodically inspected to insure that they are in proper order.

Fourth, commodity program sign-up should be monitored. Congress passes a farm bill about every five years, with one being passed in 2014. It's very important to know that the 2014 Farm Bill requires that one-time decisions be made that will impact farm program payments for the next five years. Landowners should assure that these decisions are being made. They need to confer with their tenants about the requirements of the program and options available. Decisions need to

be made before the farm is put into the farm program.

### Plans

Nothing with farmland happens fast. If farmland is to be sold or transferred, plans need to be made so that those transactions can occur with desired results. Sales and transfers often have tax implications, which can be large. Selling, buying, and transferring farmland requires the use of professionals. Finding those professionals can take time.

As a result, landowners need to review their long-run objectives and contingent plans. Will the farmland be sold in the near future? If the farmland is to be kept indefinitely, who will receive the farmland and how will it be transferred during an estate process? Having an estate and succession plan are some of the keys to the successful transfer of farmland.

The above list may seem daunting, but it is manageable. Landowners can employ professional farm managers or consultants to assist them in information collection and decision-making. In addition, professional

## Asia and Western Hemisphere propel growth in U.S. agricultural exports

U.S. agricultural exports are forecast to reach a record \$149.5 billion in fiscal 2014 (year ending September 30), \$8.6 billion above 2013, according to the U.S. Department of Agriculture (USDA). Exports to Asian and Western Hemisphere countries account for most of the growth.

China is forecast to remain the largest U.S. market, with U.S. sales expected to rise from \$23.5 billion in fiscal 2013 to \$28 billion in fiscal 2014, according to the USDA. Other Asian markets that are forecast to show significant growth include Hong Kong, Indonesia, the Philippines, Malaysia, and Thailand.

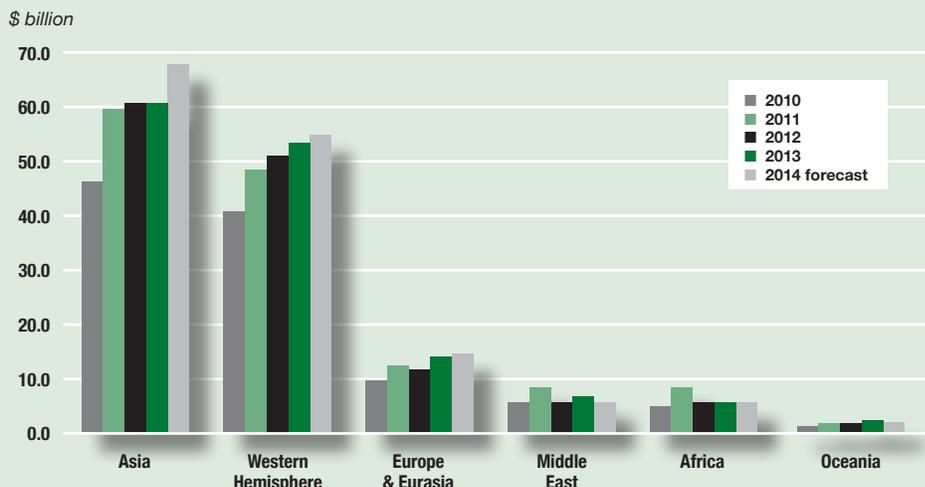
In the Western Hemisphere, exports to Canada, the second largest U.S. market, are expected to rise marginally to \$21.6 billion, while exports to Mexico, the third largest market, are forecast to rise to \$18.6 billion.

U.S. export growth is also forecast for South America, including Brazil, Colombia, and Peru. Higher income

growth and a lower U.S. exchange rate are expected to support continued growth in U.S. exports, especially within the Western Hemisphere.

Although slower income growth is anticipated for China in 2014, demand for agricultural goods is expected to remain robust.

U.S. agricultural exports by global region



Source: USDA, Economic Research Service using data from U.S. Census Bureau, U.S. Department of Commerce.

rural appraisers and brokers who specialize in farmland can help in the analysis and valuation of the landowners' assets.

There are many rewards to owning farmland. Each parcel of farmland is individual and has its own characteristics that make it desirable. Farmland is a real asset that provides a cash return while still maintaining an inflation hedge. Farmland returns have been very competitive with other investments. These desirable characteristics more than compensate for the management needs associated with farmland.

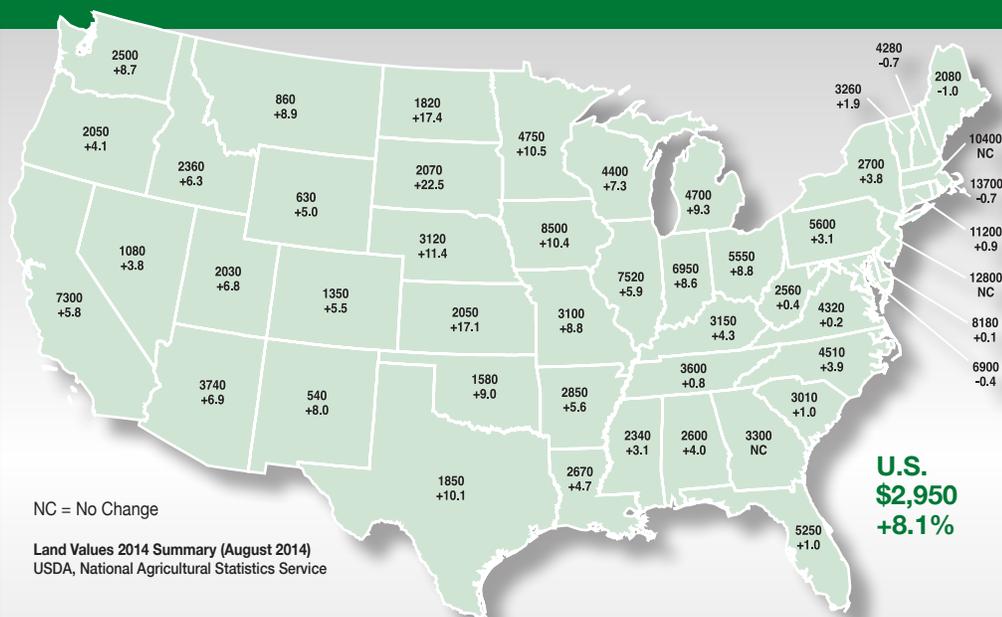


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focus on risk management and farm income evaluation.

## 2014 Farm Real Estate Value by State

Dollars per acre and percent change from 2013



The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged \$2,950 per acre for 2014, up 8.1% from 2013 values. Regional changes in the average value of farm real estate ranged from a 16.3% increase in the Northern Plains region to 1.1% increase in the Southeast region. The highest farm real estate values were in the Corn Belt region averaging \$6,370 per acre. The Mountain region had the lowest farm real estate value averaging \$1,070 per acre.

## Despite gains, food insecurity remains concentrated in Sub-Saharan Africa

A recent, international food security assessment by the Economic Research Service (ERS) of the U.S. Department of Agriculture indicates that Sub-Saharan Africa remains the most food-insecure region in the world, although the region shows significant improvement over previous assessments. The share of the population that is food insecure is projected to decline to under 30% in 2014, compared to 50% or more of the population estimated to be food insecure in the late 1990s.

Estimates of the distribution gap — the amount of additional food needed to increase per capita consumption in all income groups to the nutritional target of about 2,100 calories per day — show that the overall gap for the region will decline about 17% in 2014. However, the intensity of food insecurity in Sub-Saharan Africa — measured by the distribution gap — is expected to remain high relative to other regions studied.

The overall improvement in food security in the region in 2014 is primarily due to the outlook for increased grain production. The ERS assessment also foresees improved

food security conditions in 2014 in Asia and the Latin America and Caribbean region, as well as improvements in the generally food-secure conditions in North Africa.

### Intensity of food insecurity in study countries, 2014



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Farmland ownership involves correctly making many critical decisions to maximize income and asset value. However, many landowners do not have the time, resources, or knowledge to achieve optimal results.

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