

## Will farmers be driving Lamborghinis?

by Ben Alder

Before you start sending me hate mail for the title of my article, it is clear that today's commodity prices have taken the wind out of the sail since 2012 when well-known Wall Street investor Jim Rogers made this statement: **“The title did however grab your attention enough to read this far, so stick with me.”**



Farmland investing has quietly been a conservative method for farmers and private investors to grow long-term wealth. It appears Rogers was calling the agricultural community out on this grow-rich-slowly strategy when he made his Lamborghini comment. For the record, Lamborghini does make tractors as well as the better-known speedy coups.

Long term farmland investing is now a readily accepted investment vehicle to maintain wealth and protect institutional monies like pension systems, hedge funds and college endowments from financial forces such as inflation. Additionally, as investment vehicles go, it is starting to appear as sophisticated a purchase as a new Aventador Roadster as Rogers points out.

Buying “scalable dirt” has brought the largest retirement system in the United States known as TIAA to control \$8 billion in farmland globally. TIAA is considered an institutional investor not be confused with real estate investment groups, often structured as a Real Estate Investment Trusts. REITs have come into the agricultural investment arena in the last decade and are clearly recognizable now as strong actors in the land marketplace nationwide.

Institutional investors like TIAA and REITs seek returns on investment capital based largely on lease rates for the agricultural land while maximizing farmland returns to ensure the land is

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managed in the most sustainable manner to maintain aspects of the farm like soil quality and water resources. Gladstone Land Corp. is an example of an agricultural REIT and recently they have been focusing on the rapidly developing organic food demand.

The Gladstone philosophy states their goal is build an ownership of farms leased on a triple-net basis to tenants with a strong operational background and “deep farming resources.” Their role in the land market place is rapidly developing as the generational wealth of farmland accumulated over the past few generations will now transfer to heirs less tied to the land than ever before in history. While farming has become more efficient in doing more work with less labor, the balance of generational farmers have moved into other forms of work. Moving off the farm for other careers leaves the farm to be inherited by a generation removed from agriculture.

This fact has opened the opportunity for REITs and according to David Gladstone as he believes “the long-term values are compelling for investors looking for consistent dividends from the rent paid by farmers to farm the farmland we own in the United States. We pay monthly dividends so investors have the security of the farmland and the farmer has the land without having a lot of money tied up in the land. We act as the farmland provider to the farmer. We do not farm. Just like the seed salesman, the fertilizer salesman, and others selling to the farmer, we are the land-rental salesman. We would like the farmer to rent our land for eternity.”

A significant challenge rests in the financial modeling of investment grade agriculture. It is a basic rule in evaluation of the farm for investment and boils down to the income of the property. The net income from primarily the farm lease drives the equation. For the investment to make sense from a capital investment stand point the income must yield on average a 5-percent return on investment. The calculation of this capitalization rate may be calculated by internalizing all types of income to the property such as hunting leases and or other ancillary values, but the rate of return must primarily tie back to the agricultural rents. This approach removes any consideration for future value through appreciation or speculative value from transition of land use if part of the farm were developed for another use. The basic evaluation for an investment agriculture acquisition focuses squarely on existing net income from the agricultural operation.

Clearly, on the Delmarva Peninsula this type of analysis is a challenge. Getting the average \$7,000 per acre farmland in Maryland to deliver a 5% return. The cash rent required for this average acre in Maryland would require a \$350 per acre annual rent. While this might be attainable for some truck crops like watermelons, small grain would certainly not support this without irrigation and the highest quality soils. Needless-to-say the conditions under which a 5-percent return is attainable on the Delmarva Peninsula are limited.

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This brief mathematical exercise points out that the Delmarva land market is diverse. It is based on more than simply agricultural commodities and the demand for land in the region rests in a myriad of values from pure recreational, to transitional or changing land use as suburban development creeps out from the urban edge of the city. New land uses such as Solar development have made big splash in the news, but little impact as far as the value of farmland. The basic values rounding out our market include agricultural, recreational, development, and to some extent conservation value has made an impact. The local, state, and federal government agencies in partnership with national non-profits have purchased thousands of acres of land for conservation thus shaping land values around the Delmarva. In summary, the myriad of values creates stability in our land marketplace, not leaving the Delmarva open to one singular market force to push values up or down.

While investing in land may not be as exciting as a new red Aventador, I can safely recommend that farmland will prove to be a strong place to put your money. Perhaps the long term returns as Mr. Rogers suggests will give you the ability to purchase more land or a Lamborghini. Don't forget Lamborghini makes tractors and that might look good running across a field on the Delmarva.

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