



WILL YIELDS HELP PAY FOR FARMLAND?

I often get calls from clients who are looking at buying farmland and want me to do a feasibility analysis. I gladly do, but I would like to share some of my thought process and analysis.

First, even though farmland is at record highs, in the right case it's still a good investment. But there are several factors you need to consider. For example, what will the acquisition do to your overall liquidity, leverage and repayment capacity position?

ONE REASON TO invest in farmland is to hedge against inflation. Farmland values in Iowa for the 50-year period from 1950 through 2000 inflated at 4.38%/year. I went back 100 years from 1900 to 2000, and it inflated 3.83%/year.

A 50- or 100-year trend is good enough for me so I generally project 4% inflation/year in my analysis.

Over a 20-year period a 4% increase in value per year will more than double the purchase price. Increased values do not make the payments, but it needs to go into the analysis.

Another reason to own farmland is its production capacity.

The charts show trend-line yields for corn and soybeans in the U.S. for the last 30 years. The average annual increase in corn yields has been 1.71%. For the last 15 years it has been nearly 2%. But just using 1.71% growth in yield per year, purchasing a farm now that has an average national average yield of 163 will have a yield of 228 bu./acre. Using 2% brings the yield to 254 bu. in 20 years.

SOME WILL ARGUE that with technological advancements improving geometrically it can likely be greater than 2%, and I agree. Bottom

line is this kind of productivity can be considered in your purchasing decision.

The challenge is in the early part of the 20-year period, before the yields ramp up. You'll need a margin for adversity in your overall financial picture to get you through financial bumps in the road. Working capital is the first financial "shock absorber." The

more the better, but half your annual revenue is a good goal.

For soybeans, the average annual increase for the last 30 years has been 1.30%. The same logic applies.

The wild card is what will happen to costs. I believe some of the same technology can also help us manage costs in the future.

The biggest risk in the next 20 years may be water – the availability, quality, cost and competing demand from alternative uses. **CSD**

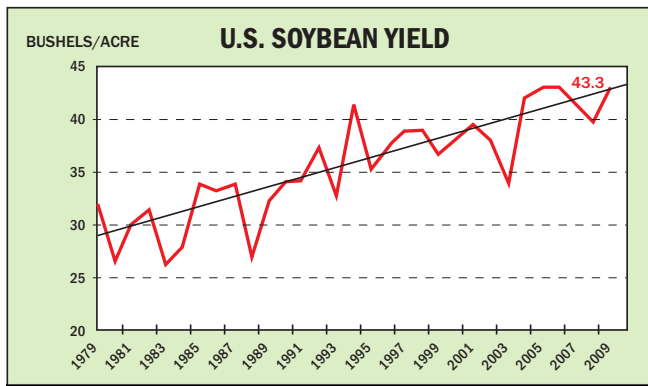
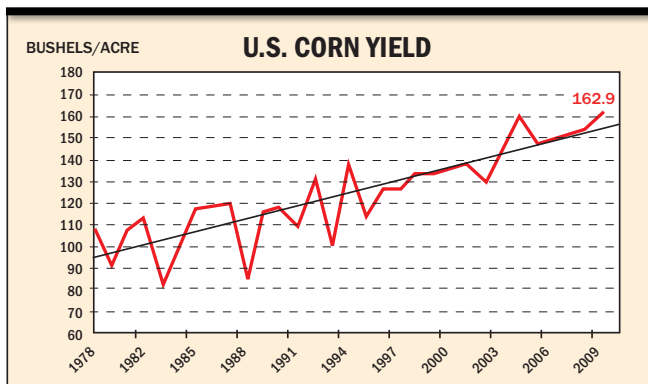
DOES OWNERSHIP EQUAL SUCCESS?

Owning farmland is not a prerequisite to being a successful grower. In fact, many of our clients who show some of the greatest return on equity on an earned basis lease a high percentage of the land they farm.

At a recent speech to an audience at CME Group last month, Danny Klinefelter, an agricultural economist from Texas A&M University, cited USDA data showing that 42% of the land in farms today is owned by non-operators. Of the remaining 58% of land owned by farmers, 61.3% is owned by farmers with less than \$250,000 in annual gross sales.

Owning farmland is not a key to success, but if it fits it can be a good investment. ◀

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SOURCE: USDA-NASS