

## Farmland as Investment

by Teresa Talerico for REDNews



**George Clift**  
Owner  
Clift Land Brokers

"In today's challenging real estate market, smart investors will set their sights on good old-fashioned farmland," says George Clift, owner of Amarillo-based Clift Land Brokers, which sells mostly farm and ranch land in the Texas Panhandle. In fact, the company bills itself as the largest land broker in that 26-county region.

"If investors understood agriculture, they would invest (in land)," he says. "You can see, feel and touch it – you don't have to worry about someone absconding with the money."

Moreover, lenders in the agricultural sector have money and seem willing to share it, unlike skittish lenders in other real estate sectors. Typically, lenders have required approximately 25 percent down, which hasn't changed in the current economic climate. However, some new rules and regulations will likely slow down the financing process.

Charles E. Gilliland, a research economist with the Real Estate Center at Texas A&M University, says cultivating a farmland investment is a wise move as the nation recovers from the fiscal crisis.

"Those properties are going to be the first ones that come out of the trough, if you will, and prosper," he says.

The most common crops today are corn, wheat and milo. Cattle ranches are also prevalent.

Traditionally, farms are purchased on a return basis, Clift says. Until recently the expected return was 8 to 10 percent. For example, investors who bought land at \$1,000 an acre could expect a return of \$100 an acre. Now, however, returns have dropped to between 5 and 7 percent. The reason? Input cost has increased. However, it's still higher than the stock market. Texas, Oklahoma and western Kansas – where returns average 5 to 7 percent – are the last frontiers for good investment return. By comparison, Illinois farm returns have fallen as low as 3 percent.

There doesn't seem to be a big rush yet on farmland, so those who act fast should be ahead of the pack. So far 2009 seems to mirror 2008 in terms of the number of buyers and the amount of listings, Clift says. And to date, the sector has been spared the foreclosures that have spread like wildfire through the single-family home market.

The price of farmland has escalated by 30 to 40 percent in the past five years. This year prices may be off by as much as 7 percent. After the financial debacle, Clift recalls, buyers would call him, saying, "When farmland falls 20 percent, I want to buy."

His response: "It isn't going to happen."

In 2008 his biggest deal totaled \$22 million. Among those buyers were pension funds, hedge funds and a larger number of land investors. This year is similar; however, Clift has been hearing more lately from institutional investors.

The timing seems good for potential farmland investors who are

looking for loans. Clift says he's fielding a lot of calls from lenders who tell him they've got the money; just send them the borrowers.

There is one big risk factor in farm and ranch land: the price of commodities, which experts say could go up or down, depending on which expert is asked.

"Some investors are arguing that commodity prices are going to remain high for a number of years and that farmland is the place to be investing, and then there are others who are skeptical that supply won't expand, driving prices back down," Gilliland says. "Both sides of the argument can cite facts and figures to justify their argument."

Investors interested in farmland essentially have three options for production, Clift says.

The first is called a "flat cash rent."

"That means that if I own a farm and want to cash rent it, I take your check and you take the production risk," he says. "That's the most simple scenario. It's also the most conservative approach for returns."

The second option is a crop-share arrangement, where the buyer shares in crop expenses, crop yields and crop prices with a tenant.

"So you've got more money in the game," Clift says. "The return is a little better, but you assume some risk with that. It's about risk reward."

The third, a custom farming arrangement, has the highest returns. "If I own a farm and you own tractors and combines, I pay you to till, harvest the crop and then I assume, as the landowner, all the management decisions, all the marketing decisions. The risk is greater (for the owner) with that custom farming arrangement, but the rewards are greater."

Clift noted that cap rates aren't used in this particular segment of commercial agriculture real estate.

"From a conservative standpoint, we'll use a 5 to 7 percent return as the most conservative return you would expect owning a farm," he says.

Considering the current downturn, Clift says investors should take another look at farmland.

"They need to," he says. "I think we will see some of that. But it's just a comfort zone of understanding agriculture."

And he's not just speaking as a broker; Clift also owns a farm, which grows corn and wheat and is operated under the custom farming arrangement.

"My farm did not go down in value at all with the financial debacle," Clift says. "My house did go down in value. It's a long-term investment. I didn't buy it today to sell it next week like a rent house."



**Charles E. Gilliland**  
Research Economist  
Real Estate Center



### Pay Dirt Farmland as Investment

Continuing economic uncertainty is prompting some investors to purchase farmland as an investment. Cropland prices and rents have increased steadily since 2004, in part because of rising commodity prices. But the 2008 run-up and subsequent collapse in commodity prices have caused other investors to rethink their strategies.

Takeaway from Tierra Grande article by Charles Gilliland

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