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## FARM BUSINESS NEWS

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### MBAg by Adam Erwin What to Do If the Farm Next Door Is for Sale



**Adam Erwin** DTN Special Correspondent  
Bio | Email

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At \$8,000 per acre or more, your instinct probably says freeze rather than buy farmland. But that's no guarantee that you won't get cooked. At least it didn't work that way one Saturday during harvest when my 11-year-old son was riding in the combine with me.

The little man cub, a lover of all things outdoors, begged me to stop so that he could pursue the hares flushed out of the corn when we approached the final header of full rows. Leaving the combine at high idle, he tore down the ladder and flipped out the blade of a very expensive Swiss Army knife.

To my amazement, Jim Bowie, Jr. nailed the rabbit with a throw from 15 feet. The next day we were feasting on hasenpfeffer at Grandma's Sunday dinner table.

Obviously, it paid to make an unconventional move. Freezing made you dead meat.

#### ON THE LAND HUNT

Go to a land auction and it's as crowded and irrational as the season opener. All that's missing is the blazing orange vests. But I'm not buying all this talk that this market is solely driven by debt-free farmer buying, which makes putting a bid on the farm next door more like shooting ducks at the carnival than a real hunt.

The land auctions I have attended in the last few weeks have been heavily populated by non-farm investors. White-shirt-and-cuff-link types who look about as comfortable at the event as the sale barn cafe crew would be at a five-star restaurant.

I can't speak to whether investors leverage their money or always have the cash, but from the farmer's point of view, hocking something to bag the big game gives you the easiest shot.

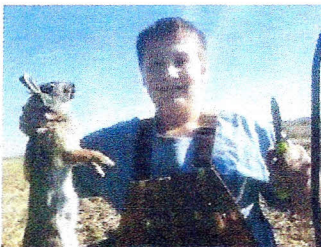
Short-term rates are 2 points to 3 points less than fixed rates, so it's really tempting to borrow against current assets to close a new land deal. Or, with land prices up, it's easy to increase an existing mortgage on another property to get the cash. In either case, the official entry in the county recorder's books shows the new property was purchased without revealing corresponding debt, leaving plenty of room for illusion that every farmer has a million and a half bucks just lying around waiting to buy a quarter section.

#### IN THE CROSSHAIRS

OK, say the farm you always dreamed of owning does come available. The one which Grandpa should not have passed on right after the Great Depression for \$35 an acre -- or the one you or Dad have driven past twice a day for the last 40 years. You have to aim and shoot fast because in this market, farmland lies around about as long as a pack of deer sticks in a pickup load of hunters. You're only going to get one shot. So do you pull the trigger?

Well, that depends on where you are in the hunt. Since financial conditions and career position vary, here's what I think.

#### BIG GAME HUNTING



Unconventional strategies can pay in both hunting and farm ownership, but you might only get one chance to strike. (DTN photo by Adam Erwin)

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You are in the last decade of your career. You have the money in the bank and it's earning a percent or two. You can't find anything better to invest in or you want to see your grandkids farm the land. Buy it. Shamelessly.

Why? Because you want land more than you want money. An 80-year-old Palouse wheat farmer once told me two axioms about buying land that fit in this case. First, he asked, "How do you know if you can afford to buy a farm?" His answer, "If you can write the check!"

Next he told me "you can never pay too much for land, but you can pay it too soon." It made me think of my first 80 I bought as a kid in 1981. I paid \$3,000 an acre for it, watched it drop to a third of that in the 1980s, and now it might bring triple of the original purchase price. So did I just "pay it too soon?" Absolutely.

Furthermore, over the years, I've seen plenty of land scalpers make more money owning land than farming it by snapping it up when the neighbors thought it sold "just a touch high." Then, a year or two later, that same gun-shy neighbor gets his courage up and the speculator sells to him reaping a 20 percent profit, all because he was trigger happy and they weren't. Admittedly, this is 20-20 hindsight in an "always up" market, but if you have the cash now, just get over it and fire.

#### BAGGING A TROPHY

Say you're mid-career and realistically you're land rich and cash poor. This describes me now. You want more land, but you are gun shy of the next apocalypse. Lower grain prices, higher interest rates, bankers who say this will push your magic financial ratios out of whack or whatever. In this case, you need to buy the farm, but you need to be equally cautious about adding more land.

Since this is the dream farm we're talking about here, surely you have a tract you love less. Bag the trophy and spin off something less meaningful to your operation. Plus, in this market, meeting a nice investor who will cash you out of a less-loved farm and rent it back to you for a long, long time shouldn't be any harder than meeting a nice girl at a church box social. Call a few realtors, a farm manager or put an ad in the paper, and like the ballplayers in the cornfield in the "Field of Dreams," investors will come.

Load your weapon by spinning off an existing property, then ready, aim and fire. Think of it as if you were one of those hot-shot residential property investors in an old episode of cable TV's "Flip This House" before the housing market collapsed. You stored your money in a 40, rolled it to an 80, and now your dollars grew into a notable position to buy the perfect quarter section. Congratulations. You loaded for bear and you got a big one!

#### YOUTH SEASON

You are looking to buy your first farm. Do you go long at the top of the market? To this, I have two words to share: dead horse. What if you buy, then land prices drop?

I spent most of the 1980s shackled from opportunity because I had a farm worth half of the debt I owed on it on my balance sheet. This precluded me from opportunity after opportunity. Bankers thought I was toxic. Finally, land improved enough in value to help dilute the debt, and I made enough money to help heal my finances. Eventually, I buried that dead horse.

So, should I have bought land? Probably, but I should have done it smarter. I should have had a bigger down payment. I should have bought a smaller tract, or sought a partner and pre-arranged to buy them out and roll them to another additional property that I could lease if the trend stayed up. I should have correctly financed with long-term, locked interest rates. And I should have locked in grain prices for years and years ahead of production.

Please, if you're going out on your first hunt, do it smarter than I did. Don't take your shot with a Daisy Red Rider when you should be packing major heat.

#### HUNTING LEGENDS

Earlier, I referred to my rabbit-knifing son as Jim Bowie, the pioneer and folk hero whose prowess with a blade made him and his weapon, the Bowie knife, famous. Ironically, Bowie made his fortune as a Louisiana land speculator. More ironically, though, his land speculation activity led him to be a leader in the Texas Revolution, and regardless of legendary hunting skills, he met his end at the Alamo! Please, be careful!

(M2TAG/C2)

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