

# Land—To Buy or Not?

**T**o buy or not to buy? That's the question farmers most frequently ask at my seminars. Is the land boom over? Should I sell now or buy more to average my costs? The answer depends on the inquirer's perspective and age.

Almost five years ago, I wrote a column ("Too Late for Land," January 2007) where I justified the value of \$3,000 per acre farmland in Illinois. I argued that you could justify \$6,000 per acre given the paradigm shift of corn becoming energy-related, economic globalization and the rise of the middle classes in India and Asia. I got a number of negative comments, primarily from accountants, suggesting it was a poor analogy. Since then, investing in farmland has made a mockery out of any other investment choice.

**Timing Is Important.** In my early years of farming, a senior farmer offered advice that has stood the test of time. "Over the years," he said, "you will find that the best time to buy land was yesterday." While times have changed, my experience in seeing a long-term plan work for two generations might shed some light.

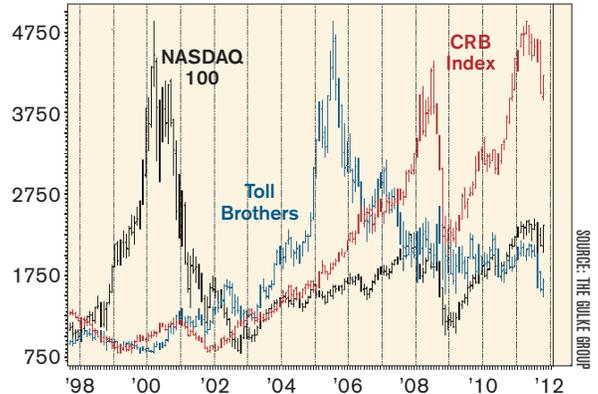
I recall my father telling me in the 1950s that he paid for a quarter-section in North Dakota with one year's production of flaxseed. Land I purchased in the mid-1970s netted more in pre-tax income this year than I paid. Never in my wildest imagination did I think that would happen twice in my generation. For cash buyers, rental income on any land rivals bank interest rates by a wide margin. It is hard to have a negative cash flow on debt-free land, but being born at the right time is a huge advantage.

**Cash Flow and Debt Reduction.** The coffee shop talk a decade or two ago was that a 500-acre farmer couldn't make it in the world of "big" producers. A part-time farmer who worked in a factory and bought land 20 years ago is likely netting more pre-tax than the CEO of the company he worked for. So size doesn't matter if you are in it for the long haul!

The Rule of Sevens states that money doubles every 7.2 years at 10% interest



## Comparative Analysis



> This chart depicts a long-term historical representation of housing (Toll Brothers stock), equities (NASDAQ) and the CRB Cash Index (commodities such as grains, energies and metals). A rebalancing might be eminent, selling what is high and buying what is low.

or return on investment. Using my experience as an example, \$650 land in 1974 should have doubled to \$1,300 by 1984, \$2,600 by 1994 and so on.

	1974	1984	1994	2004	2014	2024	2034
Value per acre	\$650	\$1,300	\$2,600	\$5,200	\$10,400	\$20,800	\$41,600

Land in Illinois hit \$3,000 per acre in 1982, ahead of projections thanks to near hyperinflation. The ag crisis and 14% cost of money broke the back of inflation and took land to \$1,200 by 1985. By 2005, that same land was \$3,000 per acre. Now, there's rumor of small tracts selling for \$16,000 in Illinois and Iowa, once again ahead of projections. Land likely won't double again, but history suggests equities and housing might.

If you're young and a land purchase cash-flows at \$4.50 corn, the Rule of Sevens says you'll be fine in the next 20 years. If you're 55, it might be time to rebalance your assets and convert a high-priced item (land) into a low-priced retirement home. ■

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