

Land Investment Monthly â€™“ May 2016

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Gold with a Coupon

Institutions and publicly traded real estate investment trusts in recent years have spent billions of dollars to acquire agricultural properties, coined by some as “gold with a coupon, nationwide. According to the U.S. Department of Agriculture, non-farming landlords hold roughly 80 percent of the 353.8 million acres farmed in the United States. They also collected \$31.2 billion in rental income in 2014. The annual return on farmland has averaged 11.5 percent over the past 25 years – performing nearly 4 percentage points better than the Standard & Poor’s 500 averaged over the same period.

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Low Opener

Pro Farmer editor Mike Walsten reports that pension funds have noted the weakest opening quarter since 2010. The annual total farmland return was 9.6 percent for the year ending Q1 2016. That’s down from 12.3 percent over the prior 12 months – and 17.4 percent over the year ending first quarter 2014. Total first-quarter returns from a portfolio of both annual and permanent farmland held by pension funds was 1.4 percent, according to the National Council of Real Estate Investment Fiduciaries. Annual cropland had

modestly stronger total returns.

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Comparative Strength

U.S. agricultural lenders could feel the pinch of an idling farm economy, Reuters reported, though the comparative strength of the Farm Credit System and a less volatile interest rate may ease any negative impact. Given the significant differences between this downturn and the agricultural crisis of the 1980s, according to Fitch Ratings, the bearing on the U.S. lending sector is expected to be more benign.

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Quick Dip

Farmland values in portions of the Midwest fell during Q1 at their fastest pace in nearly 30 years. The St. Louis Fed region, including parts of Illinois, Indiana and Missouri, reported the sharpest decline as the average price of “quality” farmland fell 6.4 percent in the quarter. According to the Chicago Fed, prices in an area that includes parts of Illinois, Indiana, Iowa, Michigan and Wisconsin fell 5 percent – the largest quarterly decline since 1987. Declines in the Kansas City Fed’s district, which includes Kansas and Nebraska, were less pronounced. The price of ranchland used to graze livestock was largely unchanged. Via The Wall Street Journal.

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China Town

Chinese investment in U.S. real estate is expected to double in the next five years as wealthy nationals pour money into both residential and commercial assets. The Guardian reports that a surge in Chinese buying has taken their five-year investment total to more than \$110 billion. Half of the \$17 billion that Chinese buyers put into U.S. commercial real estate, between 2010 and 2015, was spent in the last year alone. During the same period, at least \$93 billion went into U.S. homes.

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No Evidence

A new study published by the National Academy of Sciences, Engineering and Medicine has found no substantiated evidence to support the notion that food produced from genetically engineered crops is less safe or more harmful to people, animals or the environment. A 20-member committee, composed primarily of researchers from U.S. universities, reached this conclusion following its examination of 900 publications from the past 20 years. The assessment includes a look at technology found in up to 80 percent of packaged foods – and review of data on incidence of cancers and other health problems over time. Via The Des Moines Register.

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Water Woes

A \$125,000 fine by the U.S. Securities and Exchange Commission has been levied on California’s largest agricultural water district. California has endured a drought that spurred Gov. Jerry Brown to mandate a 25 percent cut in water use in urban areas. The Westlands Water District, which allegedly misled investors by overstating its ability to make payments on a \$77 million bond offering in 2012, supplies water to more than 700 family-owned farms that produce \$1 billion in crops each year.

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