

Sold Any Land Lately?

Ag lenders have money for credit-worthy buyers, but landowners wanting to sell may be waiting for those buyers to agree on the price.

Texas agricultural land transactions have slowed down considerably from 2007 to 2008 — an unpleasant surprise, perhaps, to a lot of landowners.

Charles Gilliland, research economist of the Texas Real Estate Center, says real estate brokers are telling him that their volume of listings is growing. “Part of it that a lot of the owners are getting older,” he says. “Some of them have, I think, kind of anticipated with the economic situation we’ve been in that perhaps we’ve seen the biggest increases in land prices, and would like to cash out now while the prices are still up there. The problem is that they had anticipated marking up the price from last year’s levels, and they’re just not going to get those prices in today’s market.”



Founded in 1973, the Real Estate Center moved last year to its new location at the Texas A&M Research Park at College Station. It was established largely through the efforts of the state real estate industry, and is supported by a portion of realtors’ license renewal fees.

Says Gilliland, “We serve the general public and the real estate industry; we have a substantial amount of information available on our Web site, including information on land prices, that we make available on-line, and in articles and reports that we publish.”

Gilliland says their data show the volume of third quarter 2009 land sales was down 44% from the same period in 2008; ’08 was off 27% from ’07, which he calls a banner year.

“There’s an impasse between buyers and sellers,” Gilliland says. “Buyers are apparently anticipating lower prices and are making relatively low offers compared to historical prices, and the sellers are unwilling to accept those offers. So, they’re basically kind of staring at each other over the table.”

For instance, a group of land brokers in central Texas had complained to him that potential sellers are hoping the economy will improve by spring, “so they’re unwilling to make compromises that it takes right now to get a transaction closed.”

Small parcels easier to sell, at the moment

Gilliland says sales have been so few and far between, and the parcels that are selling are so small, that he hesitates to say just where the price currently is. For example, he says, there had only been about a dozen sales reported as of the end of November in Texas’ Trans-Pecos region. “And most of them are 500 acres or smaller,” says Gilliland. “That’s an area where ranches are typically 10,000 acres and up, so that simply tells me that there is nothing happening in those larger properties out there, period.

If someone asks what the value of those is, you're going to have to go back to 2008, maybe 2007, to find any kind of market information to look at, and we know that the economic situation has changed dramatically since that time."

The reason the sales have all been of smaller parcels, he believes, is because the total price tag on a property increases dramatically as the parcel on offer becomes larger. That, Gilliland says, is part of the problem: "The buyers are just not willing to part with as much for those larger properties as they have been in the past."

However, he adds, "In the timberland areas and also in some of the irrigated cropland areas, there have been a couple of recent transactions that would indicate prices are probably quite a bit lower than they were in 2008."

First decline in 21 years

In August, USDA said U.S. farm real estate values had declined in 2008 for the first time in 21 years. In its annual report on land values and cash rents, the National Agricultural Statistics Service (NASS) said the value of all land and buildings on farms as of Jan. 1, 2009 averaged \$2,100 an acre, down 3.2% from a year ago.

Cropland fell 4%, while pastureland declined 1.8%; in Texas, though, the trend was the reverse—cropland values declined 1.3%, while pastureland was off 2.9%.

One of the factors NASS cited for the declines was the contraction in the overall economy, which has caused less commercial and residential development.

From the mid-90s up until 2008, average ranchland values in Texas had been gaining on cropland. "Much of the rangeland here in Texas has a substantial recreational component to the value," Gilliland explains. "A lot of quail and deer hunting activity takes place on those properties. So if you're looking at grazing income for most properties, that's not really the primary source of value right now, or it hasn't been...But by the same token, those kinds of expenditures are some of the first ones that people give up when economic difficulties materialize, so that I think is part of the impasse that we're talking about."

Seventy-five to 80 percent of rural Texas is grazing land, he notes, so that's where a lot of the land trade has been over the past 10-15 years.

Gilliland says the soaring commodity prices of 2007 and particularly 2008 brought "nearly a frenzy" of investment in cropland; it also raised fears of a repeat of the 1970s land boom that turned into the equity crisis of the early 80s.

But there are a couple of significant differences from that era, and one is that the 70s run-up was fueled by borrowed money, leaving mortgage holders undercollateralized when land prices collapsed.

"When the economy turned south," Gilliland says, "people who were counting on income from their other businesses to make those land payments were not able to sustain that ownership because their other businesses went south and they simply didn't have the resources, so that caused the wave of foreclosures."

Where did the money come from?

The gains of the last decade, on the other hand, are thought to have largely built on all-cash transactions, so those landowners would not be as vulnerable to a

downturn. “If that’s true,” Gilliland says, “then these potential sellers may have some staying power and can hold out indefinitely. But at some point we’re likely to see some sellers that have to settle for what they can get. In other words, if you’re settling an estate—or if indeed you have borrowed a lot of money and now your business in Houston



or Dallas is not doing well, or if the price of oil drops and you’re not making as much money from the oilfields as you have been—you’re going to be under some pressure to sell the property.”

And he’s skeptical about the conventional wisdom that it was all cash on the barrelhead; “I do know that there were quite a number of financial institutions that were very active in the land market from about 2003 until probably late into 2007,” he observes, “so somebody was borrowing some money to buy something.”

But Robby Vann, chief appraiser for the Farm Credit Bank of Texas, says it appears cash transactions are on the rise. “I was talking to one of our loan officers up in the Haskell area,” Vann says, “and he indicated that his biggest competitor right now is a lot of the buyers are bringing cash to the market rather than needing to get financing.”

While he agrees with Gilliland that transactions are down by as much as half, and most of what’s selling is smaller tracts, “the good news is that it seems to be increasing as the year goes on,” he says, but adds the quality of the property is a factor. “A good quality farm or ranch will be on the market for less time and seems to bring closer to what the market was in ’07 and ’08,” Vann says. “If it’s a more marginal tract, then maybe the seller does have to consider a flat discount or something to get a buyer.”

Although the types of sellers “run the gamut,” Vann thinks most are “just the sales you would normally see, people wanting to move their money into something else.”

As for rangeland buyers, Vann believes they’re largely recreational users who see land as a good investment in this market, and a hedge against inflation and higher interest rates. The latter, he says, are the lowest he’s seen in 27 years with the cooperative lender.

While low interest rates are likely an incentive to stimulating transactions, the flip side is Vann says they’re “definitely” allowing sellers to hold their land longer without worrying about running out of cash flow. On the other hand, he says the development market near urban areas is “pretty dead. Those are probably overpriced with some speculation involved; you don’t see many buyers for those types of properties right now.”

Agricultural lenders were largely missed by the first wave of the Fall 2008 credit crisis, but it’s starting to catch up with them. The Farm Credit System reported its net income for the first nine months of 2009 was down 15%; FCS has also sharply increased its loan loss reserves, setting aside \$733 million versus just \$124 million in the first three quarters of 2008. The lender said that reflected credit deterioration in sectors impacted by volatile input prices and reduced demand, such as ethanol, dairy and hogs, and those affected by the overall downturn in the general economy, like the communications and forestry industries.

A jump in nonperforming loans

Although loan volume was up 0.5% for the year to date at \$162 billion, nonperforming loans jumped a startling 78% percent from the end of 2008—

32% in the third quarter alone--to nearly \$4.3 billion. During a June U.S. House Agriculture Subcommittee hearing, Farm Credit Administration CEO Leland Strom said delinquency rates among Farm Credit System borrowers had been unusually low in recent years and are just returning to historic levels. However, Strom said FCS is having some problems providing access to long-term loans; he also said demand was rising in some areas due to failures of commercial lenders, and from farmers needing more credit because they've lost their off-farm jobs.

Vann says for a creditworthy borrower, securing FCB-Texas financing is “not a problem at all,” but the bank has also taken its lumps. Most of the losses, though, have been on ventures outside of Texas. “For example,” he says with a rueful chuckle, “we diversified into the Florida market; it was a mistake.”

But Vann says he’s one of the few people who’s optimistic the pace of transactions will continue to pick up. “From what I’m hearing from our loan officers out in the field,” he says, “here in the last few weeks there have been more inquiries; there seems to be more activity starting to come back to the market.”

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