FARMERS ARE MAKING MORE MONEY USING THEIR LAND FOR HOUSING INSTEAD OF AGRICULTURE!

California agricultural land farming values were mostly softer in 2017 as the gap narrowed between highs and lows commanded for some properties. The income from farming seems to be in decline.

This year's much-anticipated annual trends report, published by the California chapter of the American Society of Farm Managers and Rural Appraisers, showed only highs in one market: wine grape properties in Napa. The rest showed lows and dairy values declined to levels not seen since 2000. In all, says Janie Gatzman, agricultural appraiser with Gatzman Appraisal in Oakdale it was telling.

WATER CONCERNS

Perhaps the most interesting thing she saw when studying 2017 data was the relative concern over irrigation water around the state. While Sacramento Valley buyers and sellers were largely ambivalent to state water regulations and issues centered around the Sustainable Groundwater Management Act (SGMA), such was not the case in the San Joaquin Valley (SJV) and Central Coast, where those issues tended to drive land values.

In one south SJV sale, Gatzman says, a buyer thinking he would need to fallow significant acreage was unwilling to pay full asking price for an entire pistachio block, even though the seller assured him water supplies were sufficient for the entire orchard.

Similar instances are reported in areas elsewhere in the Valley with limited groundwater access. For properties with good wells and access to surface water, land prices are comparatively better. This was most evident in Tulare County, where cropland values ranged from a low of $15,000 to almost $30,000 per acre. This spread in values from low-to-high began to widen after 2013. Prior to that, the difference between low and high was well-under $5,000 year-over-year, and in 2003 and 2004 was about $1,000 between the extremes.

MUCH UNCERTAINTY

"There's still a lot of uncertainty out there with respect to SMGA and the plans required by the state," Gatzman says.

Water politics had a chilling effect on range land prices in the northern SJV from 2007-2009 after investors speculated up the price of range land for conversion to almonds. Rang eland in the northern SJV, which spiked above $5,000 an acre in 2009, fell to $2,000 the following year.

With the build-out of Napa Valley virtually complete, land values on the margins are being impacted. This was seen most notably in the Lodi region last year, where vineyard values grew 5 percent over the previous year, and 16 percent from 2015. Much of the demand was attributed to Napa's appetite for Lodi grapes.

Fresno-area vineyard values continued to slide in 2017, down to under $30,000 per acre, to levels similarly seen in 2014. These prices continue to soften as imported wine competes with San Joaquin Valley grapes and growers convert vineyards there to nut crops.

Though almond orchard prices slipped from record values in 2015 and 2016, Tiffany Holmes, senior appraiser with Edwards, Lien & Toso at Hilmar, says there's more to the story. While sales prices did soften slightly in most cases, the band in which these properties traded narrowed.

While the Sacramento Valley seems to be enjoying its highest-ever price for almond orchards, the remaining regions are off as much as 22 percent from their 2015 peak of $40,000 to $45,000 for a top orchard.

LABOR ISSUES

The fact of today is that you can't get farm labor like you used to and all payments must be above board for all labor.

At between $20,000 and $30,000 per acre, Sacramento Valley almond orchards were the ***only*** nut category to see an increase in mean prices — up 4 percent from 2016 and up 14 percent from 2015. This happened as the price range shrunk to $10,000 between the highest and lowest price sold.

Walnut orchard values across the state peaked in 2014 and 2015, at or above $40,000 an acre.

Pistachio orchard prices likewise declined after peaking at or above $40,000. Orchard prices in the central region ranged from about $16,000 to just over $35,000 an acre, while in the south SJV that range was a narrower $25,000 to $32,000.

Grove establishment costs and costs of production continue to rise, with trees costing about $13 each, and with grove densities ranging from about 120 trees per acre for Navel oranges to about 200 per acre for mandarins.

Water continues to be a concern as some growing regions of the state have limited supplies of groundwater and no surface water. Pennebaker echoed the sentiments of SGMA, saying growers, appraisers, and the banking industry still don't know the full impact it will have across the state as groundwater management plans are written and implemented.

INCREASING FRUIT AND VEGETABLE DISEASES FROM INTERNATIONAL TRANSPORT

Another unknown looming over the citrus industry remains the proliferation in southern California of Huanglongbing and the fear it could spread to commercial citrus in the state. Pennebaker noted that more than 500 residential citrus trees across southern California have been removed by state regulators after the trees tested positive for the deadly bacterial disease.

Using farm land for housing instead of fruits and vegetables eliminates the farm owners anxiety about crop diseases, labor uncertainty, immigration issues, climate uncertainty, irrigation access, early morning work days and, most of all, income dead-zones and cash flow. You always make money, every month, with housing.

THE NEXT GENERATION OF “FARMS” AND FARMERS

Old age is about to claim the lives of most farmers. There are more senior farmers in America than ever in history. What will they leave to their children to make money from?

All farms in America need to be either upgraded or converted to another revenue source. First, lets take a look at what the children of the farmers are challenged with in next-generation economics:

The first thing the child of a contemporary farmer might do is get a degree in agriculture, since he/she would need a competitive advantage in modern farming. This will cost somewhere between $20,000 and $120,000, depending on where he/she goes and what scholarships are available. The average of those two numbers is $70,000, which will require student loan debt for most young people. Of course, a degree is not required, but it might come in handy for convincing banks to loan money or landlords to lease cropland.

The equipment upgrade requirement could be an extensive discussion; however, I'll try to keep it as short as possible. One could buy all new machines, but to get started, let’s assume the acquisition of decent used equipment – about 5 to 10 years old.

The basic list would include: a combine with corn head and grain platform for $175,000; a big tractor for plowing and planting at 125K; a grain truck for 60K; a planter that runs about 75K; a grain drill for 40K; a disk at around 30K; a chisel-plow for 30K; a field cultivator at 25K; a pull-type sprayer costs 35K; a grain dryer is 30K; a utility tractor for brush-hogging/ditching/grading at 35K; a grain cart for 15K; a trailer at around 15K; an ATV for 10K; and a full complement of tools costs 15K.

We may be missing something here, but that’s already $715,000 in equipment.

The building requirement probably includes a couple of metal buildings ($200,000) and at least a few grain storage bins to hold 75,000 bushels, about $75,000. There is no hard-and-fast land requirement. However, the farmers I spoke with said that someone would need at least 500 owned acres and 1,000 leased acres to make a living.

The quality of the land certainly affects those numbers. For this article, let’s assume 150-plus corn bushel-per-acre land for about $7,500 an acre. If you bought 500 acres as a base of operations, the total land cost would be $3,750,000.

The total thus far is $4,810,000. However, we still need operating capital to plant the first crop and survive for the first growing season. To plant, fertilize, and spray 750 acres of beans and 750 acres of corn right now will cost you about $140 an acre for beans and $290 an acre for corn – $322,500 in total. To survive for six months until harvest will cost at least $25,000.

Add it all up, and we arrive at $5,157,500. Wow! That’s a big number, and it’s out of reach for most farmers children.

Because of the cost of land and equipment today, some farmers are concerned about how their kids can follow them into profitability. How will they fund the enterprise, even with family land and equipment?

The problem is not just start-up capital but also surviving drought years and low commodity prices until they turn around. Unfortunately, even though you are already a biologist, engineer, equipment operator, accountant, carpenter, and mechanic, you have to become an expert financier, as well, to get into farming and stay there.

On the other hand, if you convert your farm to modern, clean, pre-fab housing and collect your monthly revenue check, the financial incentives are much more attractive.

Pre-fab designed communities are anything but “ghettos’. Even if the housing is for “poor people” modern community policy and “slob laws” have proven to keep those new communities looking clean, futuristic, and showcase.

California, and other states, have an admitted “housing crisis” which can be solved rather quickly with revenue-conversion and pre-fab. Why not help farmers turn a “crisis” into an opportunity.

Farm Belt bankruptcies are soaring. Time to use farms for pre-fab housing!

By Jesse Newman, Jacob Bunge

A wave of bankruptcies is sweeping the U.S. Farm Belt as trade disputes add pain to the low commodity prices that have been grinding down American farmers for years.

Throughout much of the Midwest, U.S. farmers are filing for chapter 12 bankruptcy protection at levels not seen for at least a decade, a Wall Street Journal review of federal data shows.

Bankruptcies in three regions covering major farm states last year rose to the highest level in at least 10 years. The Seventh Circuit Court of Appeals, which includes Illinois, Indiana and Wisconsin, had double the bankruptcies in 2018 compared with 2008. In the Eighth Circuit, which includes states from North Dakota to Arkansas, bankruptcies swelled 96%. The 10th Circuit, which covers Kansas and other states, last year had 59% more bankruptcies than a decade earlier.

States in those circuits accounted for nearly half of all sales of U.S. farm products in 2017, according to U.S. Department of Agriculture data.

The rise in farm bankruptcies represents a reckoning for rural America, which has suffered a multiyear slump in prices for corn, soybeans and other farm commodities touched off by a world-wide glut, made worse by growing competition from agriculture powerhouses such as Russia and Brazil.

Related video: What the U.S.-China Trade War Means for Workers on the Ground

Trade disputes under the Trump administration with major buyers of U.S. farm goods, such as China and Mexico, have further roiled agricultural markets and pressured farmers’ incomes. Prices for soybeans and hogs plummeted after those countries retaliated against U.S. steel and aluminum tariffs by imposing duties on U.S. products like oilseeds and pork, slashing shipments to big buyers.

Low milk prices are driving dairy farmers out of business in a market that's also struggling with retaliatory tariffs on U.S. cheese from Mexico and China. Tariffs on U.S. pork have helped contribute to a record buildup in U.S. meat supplies, leading to lower prices for beef and chicken.

Agribusinesses such as Archer Daniels Midland Co., Bunge Ltd. and Cargill Inc. are feeling the heat, too. Even though lower crop prices translate into less-expensive raw materials for the commodity buyers, tariffs impact the global flow of goods and in some cases drive down prices, cutting into profits.

Low prices and mounting farm debts have sparked fears of more farm closures to come, among both large-scale farms that grew rapidly on rented land and small farms run by families working multiple jobs.

For Nebraska farmer Kirk Duensing, filing for bankruptcy was a last resort, his only choice after several years of low corn and soybean prices meant too many bills he couldn't pay.

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Mr. Duensing has managed to keep farming, hiring himself out to plant crops for other farmers for extra income and borrowing from an investment group at an interest rate twice as high as offered by traditional lenders. Despite selling some land and equipment, Mr. Duensing remains more than $1 million in debt.

"I've been through several dips in 40 years," said Mr. Duensing. "This one here is gonna kick my butt."

More than half of U.S. farm households lost money farming in recent years, according to the USDA, which estimated that median farm income for U.S. farm households was negative $1,548 in 2018. Farm incomes have slid despite record productivity on American farms, because oversupply drives down commodity prices.

Chapter 12 bankruptcy, created during the 1980s farm crisis, allows distressed family farmers or fishermen to devise a plan to repay creditors over three to five years. Only farms with debts that don't exceed about $4.1 million may file for the protection.

U.S. farm debt—covering operations, land, equipment, livestock and more—last year climbed to more than $409 billion, according to a USDA forecast. That's the largest sum in nearly four decades and a level not seen since the 1980s, when farmland values plunged and interest rates skyrocketed, boosting debts and pushing many farmers and lenders out of business.

Nationwide, the volume of loans to fund current operating expenses grew 22% in the fourth quarter from year-ago levels, hitting a quarterly record of $58.7 billion, according to the Federal Reserve Bank of Kansas City. The average size of these loans rose to $74,190, the highest fourth-quarter level in history when adjusted for inflation, the bank said.

To stay in business, some farmers have sold second homes purchased during a prosperous period earlier in the decade. They or their spouses have sought off-farm jobs to bring in additional income or pay for health insurance. Others have shrunk their operations, giving up rented ground or selling equipment to lower debt loads. Those struggles are driving consolidation, shifting a greater number of acres under fewer, larger farms.

Agricultural lenders, bankruptcy attorneys and farm advisers warn further bankruptcies are in the offing as more farmers shed assets and get deeper in debt, and banks deny the funds needed to plant a crop this spring.

“We are seeing producers who are running out of options,” said Tim Koch, senior vice president at Omaha, Neb.-based Farm Credit Services of America, which lends to farmers and ranchers in Iowa, Nebraska, South Dakota and Wyoming.

He said bankruptcy filings among the bank’s customers doubled last year compared with 2017, though they still represent a tiny fraction of its overall portfolio. Anticipating the rough patch, the bank three years ago added 30 lenders to focus exclusively on stressed accounts, and dedicated a team of a dozen analysts to such accounts.

Curt Hudnutt, who oversees rural banking for Rabobank North America, one of the biggest U.S. farm lenders, said that while its losses have been minimal so far, the bank’s farm-loan portfolio is deteriorating and he expects bankruptcies to increase among U.S. farmers this year.

“We thought 2019 would be the year things turned around,” said Mr. Hudnutt. “Then the trade dispute happened and that really put a damper on things.”

Nathan Kauffman, Omaha branch executive at the Kansas City Fed, called the recent rise in bankruptcies modest. He said that while further increases are likely, he doesn’t anticipate a sharp jump in filings, though the downturn in agriculture could drag on for years to come.

The slump in commodity prices followed a period of historic profitability in the Farm Belt, which left operators with significant cash reserves. Interest rates, while on the rise, have remained relatively low. Farmland values, a major factor in a farm’s net worth, have declined modestly, as demand for land continues from fund investors and large farms that are still well capitalized.

Nationwide, chapter 12 bankruptcy filings are below highs reached in 2010, when commodity prices dropped following the U.S. recession. But bankruptcies are climbing across swaths of the Midwest that produce much of the nation’s grain and meat. Last year, bankruptcies in the Seventh, Eighth and 10th Circuits made up 48% of the U.S. total of chapter 12 bankruptcies, versus 37% a decade earlier.

Mounting stress in the Farm Belt has meant big, if somber, business for the region’s bankruptcy attorneys. In Wichita, Kan., the firm of bankruptcy attorney David Prelle Eron filed 10 farm bankruptcies in 2018, the most it has ever handled in one year. Wade Pittman, a bankruptcy attorney based in Madison, Wis., said his firm filed about 20 farm bankruptcies last year, ahead of past years, and he said he expects the numbers to continue to rise as milk prices remain stagnant.

Joe Peiffer, a Cedar Rapids, Iowa-based attorney, said his office is the busiest—and most profitable—it has ever been. Just before Christmas, he sent letters to eight farmers declining to represent them because he didn’t have sufficient staff to handle their cases promptly. He is doubling his office space and interviewing new attorneys to join the firm.

One factor driving bankruptcies is tighter lending standards, said Mr. Peiffer, including at agricultural banks, which are under pressure from regulators to exercise greater caution over their farm-loan portfolios.

“I’m dealing with people on century farms who may be losing them,” said Mr. Peiffer, whose own father sold his farm in the late 1980s.

Conversations with distressed farmers have become more frequent for Frank Friar, a retired agricultural lender who mans phones at the Wisconsin Farm Center. The organization advises dairy farmers and crop producers on financing options, bankruptcy and when to leave the farm behind. Last year, it received more than 2,300 calls, the most since 2010, and the center has hired more staff in the past two years.

About a dozen times a year, Mr. Friar and his colleagues talk with a farmer who seems to be contemplating suicide, he said. The center’s staff often calls family members or neighbors who can check on the farmers, and sometimes Mr. Friar drives out to farms himself. “The uncertainty, will they survive on the home farm, is [causing] more people to think negatively,” Mr. Friar said.

It was a Sunday in April 2017 when a queasy feeling in Darrell Crapp’s stomach sent him rushing home. He found his wife, Diana, lying crumpled on the floor of their Lancaster, Wis., bathroom. She had swallowed a handful of pills.

Overwhelmed with debt and with little prospect of turning a profit that year, the Crapps knew BMO Harris Bank NA wouldn’t lend them money to plant. The bank had frozen the farm’s checking account.

Mrs. Crapp managed the fifth-generation corn, cattle and hog farm’s books. She had stayed up nights drafting dozens of budgets to try to stave off disaster, including 30-day, 60-day and 90-day budgets.

“It was too much for her,” Mr. Crapp, 63, said of his wife, who survived the incident.

Crapp Farms filed for chapter 11 bankruptcy the next month, with a total debt of $36 million.

In a written statement, Patrick O’Herlihy, a BMO spokesman, said the bank doesn’t comment on specific customer relationships but strives to “approach every situation with empathy, and to help our customers manage challenging financial situations.” He said the bank had been working in the agricultural sector for more than a century and was committed to the industry.

At its height, Mr. Crapp and his two sons had grown crops on 17,000 acres. The farm’s last 197 acres, homesteaded by Mr. Crapp’s ancestors in the 1860s, will likely be auctioned this month.

Mr. Crapp now sells farmland for a regional realty company and helps run the family’s trucking business, which transports grain and livestock feed for area farmers. His younger son drives trucks for the company. His older son repairs grain storage bins. Mr. Crapp said he would have to file bankruptcy again—likely under chapter 12—to discharge his remaining debts.

“We haven’t won very many battles,” said Mr. Crapp. “The bank pretty much owns us.”