

ECONOMICS

Buyer goals determine land purchase considerations

by Job Springer / jdspringer@noble.org



When purchasing agricultural land, it is essential to define the overall goal of the acquisition. Some people buy for quality-of-life reasons. Sometimes

land is purchased as an investment. Others purchase to generate a profit from agricultural practices.

With any of these goals, buyers should be aware of potential pitfalls. It is important to know if there are any liens, covenants, easements, dumps, property line disputes or endangered species on the property. Strongly consider purchasing title insurance; while it will not protect against all of these issues, it will protect from financial loss due to defects in title to the property. Any or all of these issues could result in future, sometimes costly, headaches. If one or more of these problems exist, it is important to understand potential economic and legal ramifications so an appropriate offer can be made.

Quality of Life

For those in search of an ideal property suitable for quality-of-life goals, I recommend gathering as much information as possible about the owners and tenants of neighboring



properties. Unattractive sights or disturbing noises and smells coming from nearby factories, machinery or traffic are all common issues that prospective buyers should take notice of while searching for land. In addition, it is important to be aware of how shifting wind direction might affect the air quality for properties located near industries such as manufacturing or oil refining. It is imperative to remember that wind can either reduce or transmit sounds and smells.

Land Appreciation

For those interested in capitalizing on long-term appreciation of agricultur-

al land, it is important to be aware of pending or potential zoning changes. It is also vital to determine the direction in which nearby towns are growing. It is usually favorable, from a land appreciation standpoint, to have city expansion towards the property. Other things that create land appreciation are falling interest rates and high commodity prices. Many current forecasts predict interest rates to rise while commodity prices are expected to fall or experience flat growth. Both of these factors will contribute to land values remaining approximately the same for several years. ▶

Enterprise Profit

Individuals looking to buy land for agricultural production should consider several issues. First, one should determine what types of soils are present and if soil nutrients are adequate for the planned agricultural enterprises. This information will help guide decisions about the types of enterprises that can be supported by the land.

Second, what water resources are available on the land (i.e., watersheds and water catchments)? What is the quality and quantity of the groundwater available, and what permits are needed to access surface and groundwater? Water quality is very important to the health of livestock and crops, and is directly related to profitability.

Third, what types of improvements are on the property (e.g., barns, corrals and roads)? Where are they located and what is their condition?

Will these improvements contribute to the planned enterprises or will they be a liability?

Fourth, what is the proximity of the land from where you live or from other property that you own? Miles driven by vehicles and time spent in transit can quickly add up when several trips are made to and from the property. In addition, it is important to know the distances to purchase inputs and sell outputs for the planned enterprises.

Fifth, it is important to understand the potential net returns of enterprises that can be conducted on the property. Data show that the five-year average net return on a per-cow basis in a cow/calf operation is negative when considering all costs of production except labor and management. Stocker cattle grazing enterprises, on average for the last five years, have made a slight profit per head without

considering labor and management. Row crops have provided the largest net return to labor and management over the last five years, with returns of about \$100 per acre, depending on the crop. However, market projections suggest that net returns from crop production will decrease over the coming years. Therefore, to make a profit, it is important for the landowner to have a competitive advantage and effective cost management to allow positive net returns.

All these factors should be considered prior to signing a purchase agreement. The overall goal – whether for quality of life, appreciation, enterprise profit or all three – will determine what information should be discovered. While a first time land purchase may seem daunting, a little effort up front will go a long way towards making a successful purchase. ■