Price discovery is one way of finding out what the market thinks is a fair price for farmland, so landlords and growers can reach a fair deal.

In other posts we explored different approaches to determining fair market rent for your farmland. We explored different methods for calculating cash rent and one way to structure a flex lease. However, neither one of those approaches really solves the problem of understanding what the fair market rent is for your farm, which is one reason why we created Tillable.

What is price discovery?
Price discovery is the process of determining the price of an asset in a marketplace through the interactions of buyers and sellers. This is how most of the free world operates and is a cornerstone of free market economics. All farms that are listed as accepting offers for rent on Tillable are going through a price discovery process. Until Tillable, no price discovery, or very limited price discovery (e.g., asking people at the coffee shop how much they’d pay is technically a form of price discovery), existed for renting farmland.

To achieve price discovery, you must have a marketplace, and that is one of the primary functions of Tillable. When it comes to pricing farmland, we believe in farmers over formulas. When a farm is listed for price discovery on the Tillable platform, it means
that buyers (farmers) are telling sellers (landlords) what the fair market rent for that farm should be, based on their knowledge of the land, the area and the local market conditions.

It’s important to note that not all of any type of asset has to be bought and sold to achieve price discovery. For example, only a portion of a company’s stock is bought or sold at any given time, but the interactions between buyers and sellers on that portion of stock, at the time it is sold, give us a good indicator of the value of that stock given current market conditions.

**Common questions about price discovery**

One of the most common questions we receive after we explain how price discovery works is, “Does that mean the farm is changing hands?” Often the answer is yes: the current farmer may be unable or unwilling to continue farming that land, or the landlord may be looking for a farmer who is a better fit. However, sometimes the answer is no. In those cases, if the current farmer continues to farm the land, they also now have the benefit of knowing what the market says is a fair rent for that farm. We understand the relationship between landowners and their farmer can be deeply personal, but farmland is an investment and we believe that landowners deserve to be fairly compensated.

The second question we often receive is, “Does price discovery have to happen every year?” While it’s up to the landlord, our recommendation is no. Once fair market rent is established, there’s no need to go through the process again the next year unless there are other factors at play (for example, perhaps the farmer is retiring, or the relationship between the farmer and the landlord is poor).

**How price discovery works**

Every farm listed for price discovery on Tillable includes as much information as possible on the farm, so that interested farmers can evaluate the farm and determine whether or not to make an offer. Importantly, all farmers see the same information on the farm, creating a level playing field in which each farmer must draw their own conclusions and formulate their own opinions about what the land is worth.

Below is a sample of what a listing looks like.
Farm Details

This property is publicly available to rent.

The Tazewell Farm is made up of 4 flat fields with great soils. All have a PI above 138. There are no wet holes or washouts.

Map

Fields

1. Main-160
   160 Acres
   Tazewell County, IL

2. Dundee-80
   80 Acres
   Tazewell County, IL

3. Neims-100
   100 Acres
   Tazewell County, IL

4. South-160
   160 Acres
   Tazewell County, IL
Once a farm is listed, interested farmers will make offers based on the listing criteria. Any special criteria, such as organic farming only, no till or even a requirement for plowing the landowner’s driveway in the winter, will be included in the listing. Once a farmer is chosen, those additional criteria will also become a part of the lease.

**Choosing a farmer through price discovery**

On average, farms listed on Tillable receive 11 offers from quality farmers. Each offer comes with additional information about that farmer, including how long they have been farming, distance from their operation to the farm, total number of acres they currently farm, and the farming practices and philosophy that they employ. These factors are critically important in farmer selection and in fact, more often than not, we see that the highest bid does not necessarily win on Tillable. That’s why it’s crucial that farmers include as much information as possible in their farmer profiles, to demonstrate their experience and skills beyond just the rental price per acre they’ve chosen to offer.

For example, the graphic below is a histogram of cash rent per acre offers made on a farm listed for the 2018 growing season.

![Histogram of Offers](image)

There is a host of offers to choose from. From looking at this chart we can determine that the top of the market for this farm is $315-330 per acre. We can also see that taking anything below $270 per acre would be accepting too little.

The next step is to look at the farmers that best meet other criteria. For example, we could also look at their farming experience compared to their offer.
This chart reinforces that some of the most experienced farmers are also making high offers. Offers can be viewed in the context of experience instead of price, and often the goal is to find the best combination of both.

This data is important because most farmers struggle to grow their operation by more than 20% per year. If adding a new farm means surpassing that 20% growth threshold for a farmer, it’s important to discuss their plan to expand and their ability to manage that growth.

In addition to pure data, each offer includes a detailed profile of the farmer who made it, including any additional information they want to share about their philosophy and approach to farming.
Why does Tillable use price discovery?
The only real price is what somebody is willing to pay for something. Tillable helps landowners understand what farmers are willing to pay to rent their farms.

When Americans sell just about anything of value—a car, a house, a boat, a computer, etc.—we seek multiple offers for that item. If we are selling it to a friend at a discount, most people still look at market prices to determine just how big a discount they are willing to give to their friend.

Farmland is different. It is an asset that needs to be taken care of and protected for the future. Taking care of the land is important, but it also isn’t an excuse not to pay what the land is worth. A good farmer can both take care of the land and pay a fair market price.

While we don’t expect every farm on Tillable to go through price discovery, the farms that do can still teach us a great deal about current market conditions, and provide insights on what would be considered fair rent for similar farms. (On Tillable, farms marked as “accepting offers” are going through the price discovery process.) Tillable’s marketplace offers true price discovery so landowners can understand what their farm is really worth. In addition, Tillable’s data collection ensures that landowners have a record of their farm’s production capability, building value for the future.