



WHAT MAKES PRICE DISCOVERY IN FARMING DIFFERENT

Mason Troendle | January 15, 2020



At Tillable, we believe that price discovery should be more than an auction. Here's what makes the price discovery process different when it comes to farmland.

Few people know how much their farmland is actually worth to rent and too many are leaving money on the table—leased American farmland is undervalued by an estimated \$8 billion dollars each year. But why is this the case?

Most agricultural land for lease doesn't undergo a price discovery process. In other markets, if you're trading stocks or exchanging ownership in financial markets, you'll have a wealth of data to help you understand the value of your asset. Whether you have farmland for rent or you're looking to rent farmland, price discovery will ensure that both parties agree on fair market value.

Evaluating how much a piece of farmland is worth may not be simple, but the value of a cash rent lease on farmland is worth considering holistically: the price someone is willing to pay per acre to rent farmland shouldn't just take into account the potential productivity of the land, the number of acres and the amount paid last year for cash rent (or in the last sale).

Here's what you need to know about price discovery on Tillable and why data-based farmland valuation is going to drive everyone's crop data collection going forward.

Farmland valuation takes more than an auction

As Sano Shimoda and Terry Jones wrote back in 2011, “the widely used valuation framework (capitalization of rents, or income) used for the valuation of farmland today, in our view, has become obsolete, given the dramatic volatility of change in key variables that affect farmland valuation.” And there is so much more that goes into farmland valuation.

The relationship at the core of a farmland rental agreement is a major component in this transaction, and it is highly valuable. Partnering with the right person doesn’t just make for a friendly experience—a strong tenant-landlord relationship can help produce greater yields and encourage better stewardship of the land.

Professionalism in farmland rental negotiations matters

When you think about how to make your offer or how to pick the right farmer for your land, you’re not just looking for someone who has the scale to easily take on the number of acres you have available. The geography of the farmland needs to work, but your values and goals should also align.

Professionalism in farming matters as much as it does in any other business, and how you treat people will impact the price you get for your acres. If you do not treat people well, folks won’t want to work with you, whichever side of the transaction you’re on.

Farmers on the Tillable network are asked to provide three references because one of the most important parts of the offer evaluation process is talking to people who know you in a professional and personal capacity to get an understanding of how you deal with people.

Interviewing farmers may sound fluffy when compared to hard numbers, but talking to people and understanding the foundations of the relationship you’re building is as much a part of the farmland rental process as evaluating soil health or recent yields.

Peripheral activities in farming add value

One of the many reasons price discovery is a good idea is because tillable land isn’t the only thing involved in a farmland rental negotiation. In addition to the land itself, there are other peripheral activities, assets and considerations that may enter into the rental negotiation process:

- **Outbuildings** aren’t typically something we manage through the Tillable platform, but they can be interesting to a farmer if they’re available for winter storage.
- **Grain storage** onsite is certainly important, but proximity to local elevators may also be a consideration.

- **Maintaining field borders, right of way, buffer strips and riparian zones** should be taken into account when someone makes an offer: this much per acre plus doing these other things. It's important to establish how these tasks and zones will be handled, and this is something that farmers or farmland owners can raise in the lease negotiation process or as part of their offer.

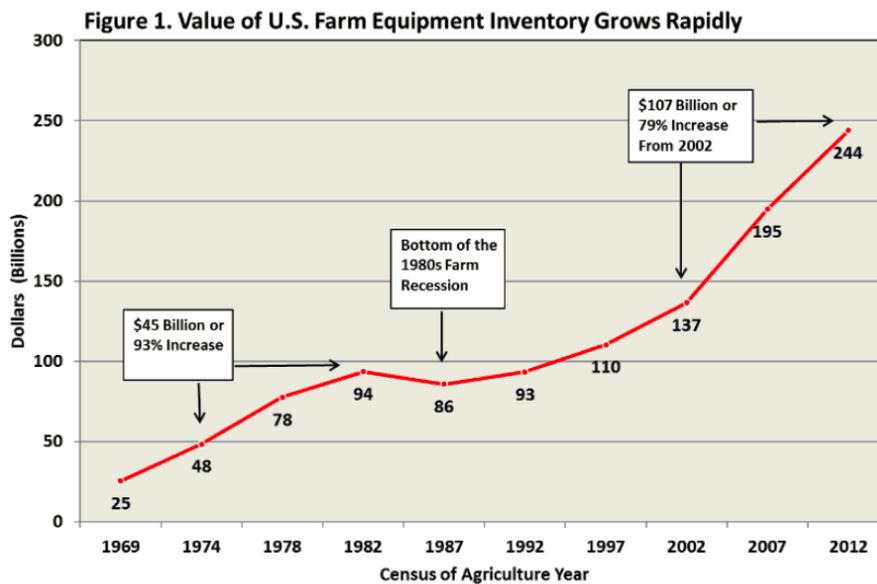
It's fairly typical for farmers to maintain ditches, sides of the field and borders. If the land requires more than that the fence lines be mowed twice a year, this should be called out explicitly in the farmland rental contract.

While these aspects are often covered and set in the lease, you should always be willing to get into the details. When you're in the process of negotiating a lease, think about how much this labor is worth and who is doing it when you put together or review your offers, especially if you're in a competitive county.

The costs and benefits of specialized agtech

The price of farmland isn't determined within a vacuum. The cost of equipment, labor and inputs plays a role in what farmers are willing and able to pay. And this has been changed by the advent of agtech.

Farmers today spend far less on labor and more on inputs and fertilizer. The value (and cost) of farm equipment has gone up significantly over the past fifty years. And the relatively steady rise in new farm equipment prices doesn't show any sign of slowing down.



Source: FCA/ORP, data compiled from the U.S. Department of Agriculture, Census of Agriculture.

source: <https://www.fca.gov/template-fca/download/EconomicReports/7%20UpdateOnFarmEquipmentTrends.pdf>

As farmers may move to rent equipment and keep up with advances in smart agtech, the economic balance for farmers has changed. The smart ag tech that allows farmers to work on a larger scale has also bolstered productivity. Because so many factors in technology costs and productivity vary widely by region, depending on the market to price and the asset is the best thing you can do.

Farmland is unlike any other asset

Unlike other types of real estate, farmland is a uniquely valuable resource. Its health and maintenance require careful attention to the soil and the yields it produces. While you never know what the weather will bring one year to the next, farmland's potential is always worth careful evaluation.

If you were selling your house, you wouldn't take a wild guess at how much it's worth. You also wouldn't just look at the last sale prices of the neighbors' homes. When it comes to farmland, hyperlocal differences in soil quality and productivity make a difference in the price per acre.

The best way to find out how much your tillable land is worth is to undergo a true price discovery process. To get started, reach out to our team.

VISIT [TILLABLE.COM](https://www.tillable.com) OR CALL (833) 845-5225.

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