



Ag Decision Maker

A Business Newsletter for Agriculture

Vol. 15, No. 6

www.extension.iastate.edu/agdm

April 2011



Comparing the stock market and Iowa land values: a question of timing

by Mike Duffy, extension economist, 515-294-6160, mduffy@iastate.edu

The recent increase in Iowa farmland values and the turbulence in the stock market have resurrected a perennial question. Which is a better investment—the stock market or farmland?

Iowa farmland values have shown yearly increases for ten of the past eleven years. The values remain at record high levels where they have been for the past eight years. Based on the Iowa State University Land Value Survey, the 2010 estimated average farmland value in Iowa was \$5,064 per acre. This was an increase of 15.9 percent from the 2009 estimate. Since 1990, the estimated average value of Iowa land has more than quadrupled, going from \$1,214 to \$5,064 per acre.

The composite value of the stock market, as measured by the Standard & Poor's Index (S&P) average, has started recovering from the disastrous 2008 year. Even though the S&P lost almost 32 percent of its value between 2000 and 2008, its overall record has been impressive since 1990. Stock values rose

from 328.75 in 1990 to 1,241.53 in December 2010, an increase of over 300 percent in spite of the decline in 2008.

To determine which option provided the better investment, this paper compares and contrasts the returns to farmland and the stock market since 1960. It also discusses some of the important factors to consider over the next few years.

Data

The returns to land or stock shares are composed of two parts. The first is capital gains or the increase in value. Obviously, this also could be a capital loss if values decrease. The second component is yearly returns.

Owning land has an unavoidable annual ownership cost not associated with stocks. Property taxes must be paid and should be included in a comparison of owning stocks or farmland. Additionally, if farmland is held as an investment and not by an owner-operator, there could be a professional farm manager involved

and the fee for this service would have to be considered. There is also a need for some maintenance and insurance with farmland not associated with owning stocks.

continued on page 2

Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Iowa Corn and Soybean County Yields -- A1-14 (4 pages)

Historical Costs of Crop Production -- A1-21 (2 pages)

Farmland Values Survey (Realtors) -- C2-75 (2 pages)

Financial Performance Measures for Iowa Farms -- C3-55 (8 pages)

Please add these files to your handbook and remove the out-of-date material.

continued on page 6

Inside . . .

No enforcement of USDOT number requirement for private trucks in intrastate farm operations
.....Page 5

Comparing the stock market and Iowa land values: a question of timing, continued from page 1

The data used for this analysis comes from different sources. The Iowa average land values come from the yearly Iowa State University Extension publication FM 1825. The average farmland rental rate was obtained from USDA/Economic Research Service (ERS) in the Land Use, Value, and Management briefing room. The average land tax per acre is calculated using data from ERS farm income data. Taxes per acre were calculated as the real estate taxes paid divided by the total number of acres.

The Standard & Poor's averages and yearly dividends for 1960 to 2010 were taken from the website of Dr. Robert J. Shiller at Yale University (<http://www.econ.yale.edu/~shiller>). The value used is for December of each year.

A few assumptions are necessary to determine which provides the better investment. It is assumed \$1,000 is invested in each alternative at the end of the year. The amount of land or stock purchased will depend on the existing value. For example, in 1960 the average farmland value in Iowa was \$261 per acre. So, for \$1,000, 3.83 acres could have been purchased.

A second assumption is that all the net land rent or the dividend earned in any year will be reinvested in the land or the stock market. This will increase the number of units held. To continue the example above, average Iowa farmland rent in 1961 was \$17.10 per acre. Average taxes in 1961 were \$3.79 per acre. Using a 7 percent of gross rent management fee and a 6 percent of gross rent charge for insurance and maintenance, the net return per acre in 1961 was \$11.08.

The net rent in 1961 represented a 4.25 percent return. For the \$1,000 investment this would be a return of \$42.50. In 1961, the average land value had remained unchanged at \$261 per acre. If the entire return were invested back into land, 0.16 acres could have been purchased. So, at the end of 1961 the investor would have 3.99 acres worth \$1,042. This process is repeated each year in the analysis.

Land taxes, a management fee, insurance and maintenance are the only ownership costs considered for land. There is no ownership cost assumed for stocks. No transactions costs or other costs are considered in this analysis.

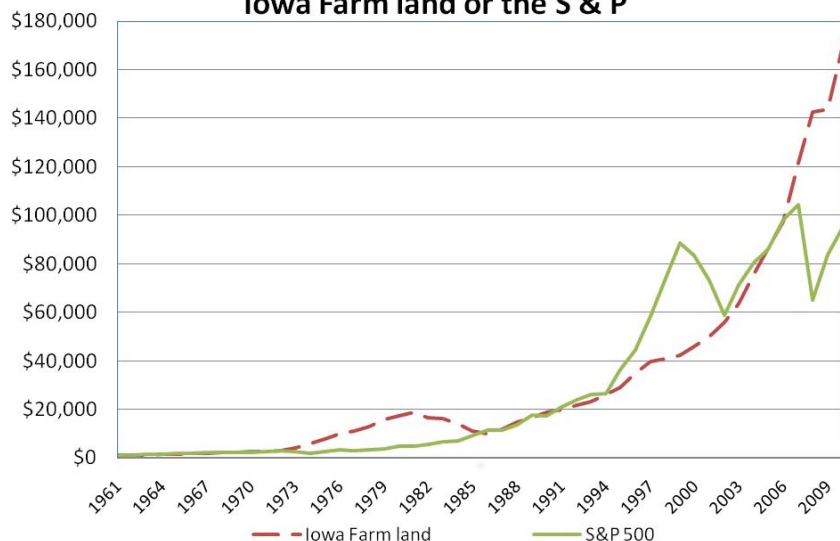
The annual percentage changes since 1960 in the S&P and Iowa land values reflect considerable yearly variation in both investments. Land values changed an average of 6.8 percent with a standard deviation of 12 percent. Yearly percentage change for land ranged from a negative 30.1 percent to a positive 31.7 percent. The Standard & Poor's yearly closing value showed an average percentage change of 7.7 percent with a standard deviation of 16.8 percent. The yearly percentage change in the S&P ranged from a negative 40.7 percent to a positive 35 percent.

The yearly return to land after taxes, management fee and insurance and maintenance has averaged 4.60 percent of land values since 1960. The standard deviation of the yearly return to land has been 1.1 percent. The maximum yearly return was 7.9 percent while the low was 2.6 percent. The Standard and Poor yearly dividend has averaged 3.1 percent of the S&P closing level from 1960 to 2010. The standard deviation was 1.2 percent, the maximum yearly return was 5.4 percent and the lowest yearly return was 1.2 percent over the same time period.

Analysis

Figure 1 shows the return to \$1,000 invested in 1960. At that time, \$1,000 would have purchased 3.83 acres or 17.6 shares of the S&P. Using the assumptions above, an investor at the end of 2010 would have 33.57 acres worth approximately, \$170,012 or they would have 76.73 shares of the Standard and Poor's, worth approximately \$95,265. In other words, the value of the S&P investment would be only 56 percent of the value of the land investment.

Figure 1: Value of \$1,000 Invested in 1960 in Iowa Farm land or the S & P



Comparing the stock market and Iowa land values: a question of timing, continued from page 2

There have been periods since 1960 when the returns to the stock market have been higher. However, for the most part, land has shown higher returns over the past 50 years. It is interesting to note the recent dramatic swings in the S&P, as shown in Figure 1.

Figure 2 shows what would have happened if the \$1,000 investment in land or the S&P had been made in 1970. At that time \$1,000 would purchase 2.39 acres or 11.1 shares of the S&P. By 2010, the land investment would have been worth \$69,173, while the S&P investment would have been worth \$44,366. An investment made in the S&P in 1970 would be 64 percent of the value of an investment in land.

Figure 3 presents the results of a \$1,000 investment had it been made in 1980, near the previous peak in Iowa land values. In 1980, the \$1,000 investment in land would have purchased only .48 acres of land or 7.49 shares of the S&P. By 2010, the land investment would have been worth \$9,839 while the S&P investment would have been worth \$19,739. The land investment would only be 49 percent of the stock market investment.

Figure 4 shows a comparison of the returns in 2010 based on the year of the initial investment. This figure presents the returns to Iowa farmland as a percent of the returns to the S&P. If the value is above 100 percent then the farmland would have a higher value, conversely if the value is below 100 percent then the S&P would have a higher value for an investment made in that year.

Figure 4 shows that the timing of the investment makes a difference in which appears to be a better investment. Land would have been the better investment in all years except the period from 1974 to 1984. This period coincides with the rise in land values during the 1970s. Land values in Iowa began their rapid rise in 1973 and peaked in 1981.

Conclusions

Which is the better investment, Iowa farmland or the stock market, is a complicated question and one for which there is no one best answer. Several factors need to be considered when

trying to answer this question and several assumptions have to be made.

In this paper, real estate taxes, a management fee, insurance and maintenance were subtracted from the return to land. These were the only ownership costs assumed for land. There would be other costs that would vary with the individual circumstances.

This study also assumed there would be no transactions costs. There would be costs associated with either the purchase of land or the purchase of stocks.

Finally, this study assumed average performance for land values, rents and for the stock market. Deviations from average performance would produce different results.

Figure 2: Value of \$1,000 Invested in 1970 in Iowa Farm Land or the S & P

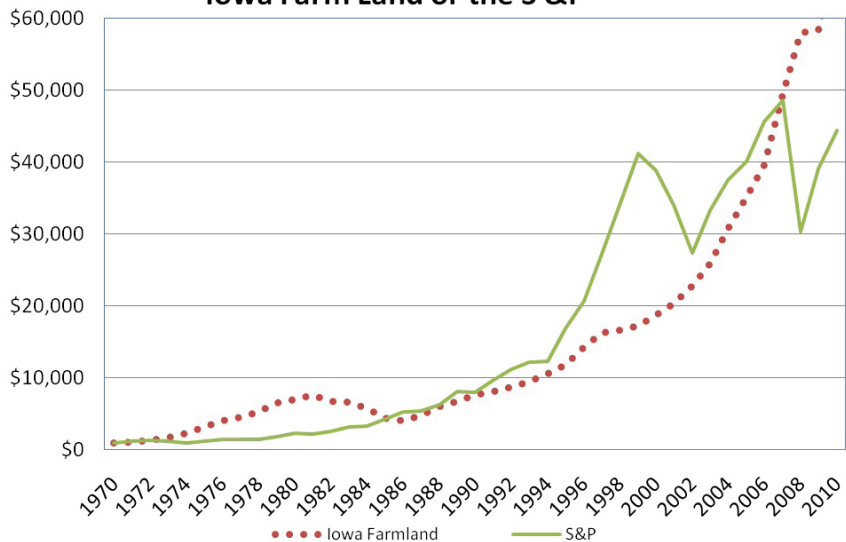
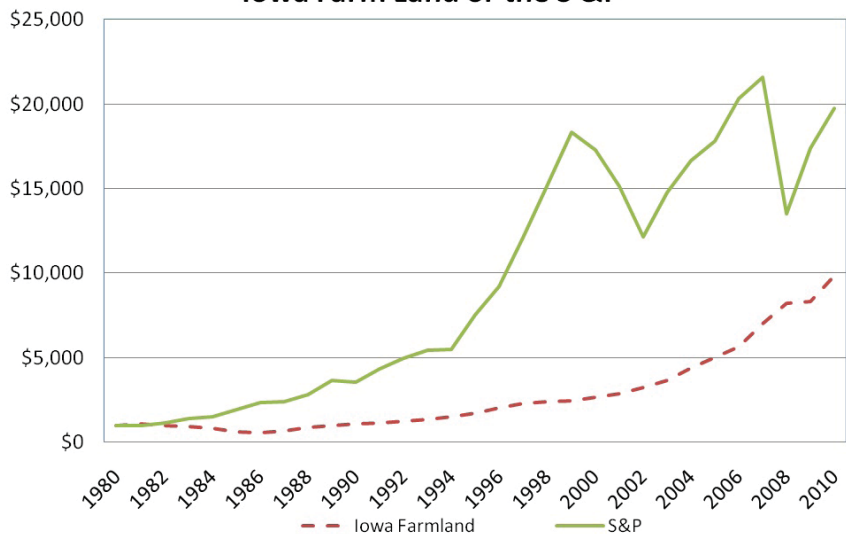


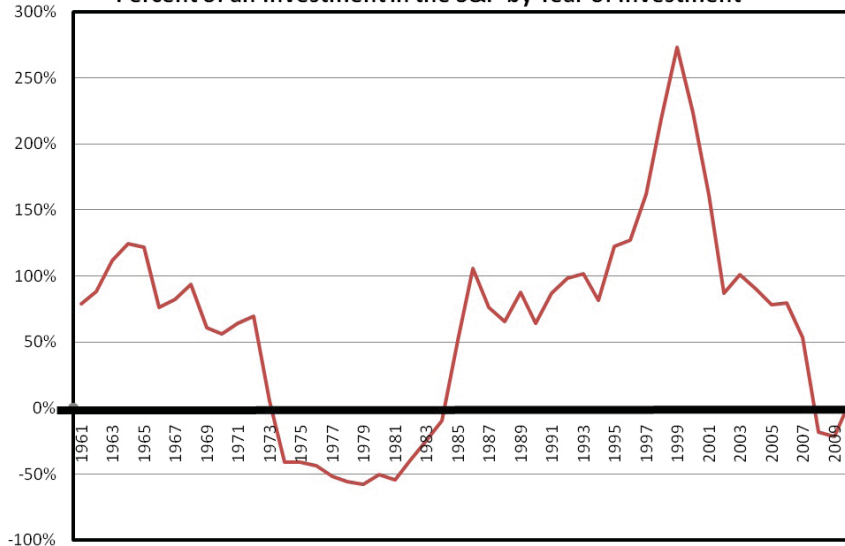
Figure 3: Value of \$1,000 Invested in 1980 in Iowa Farm Land or the S & P



continued on page 4

Comparing the stock market and Iowa land values: a question of timing, continued from page 3

Figure 4: Value of an Investment made in Iowa Farmland as a Percent of an Investment in the S&P by Year of Investment



The majority of land is purchased by existing farmers. They purchase the land for a variety of reasons that may or may not fit with traditional investment theory. In spite of this, land, over the long run, has produced competitive, if not superior, returns compared to the stock market.

What will happen to the value of farmland over the next several years? The future is hard to predict, but in this case it is especially difficult. There are several factors that will have an immediate impact on land values and other longer-term factors that will determine the future performance of land.

The value of land is determined by its income earning potential. For the most part, in Iowa, that means the returns to corn and/or soybeans. Returns will be influenced by a number of factors over the next several years. Oil prices, ethanol prices, crop yields, costs of production, economic recovery, alternative biomass sources and a host of other major issues will have an influence on the price of land.

Another uncertainty in the land market is the changing landowner demographics. In 1982, 12 percent of the farmland in Iowa was owned by someone over 75 years old. By 2007, this percentage had more than doubled to 28 percent. In 2007, over half, 55 percent, of the farmland in Iowa was owned by someone over the age of 65. How this land will be transferred from one generation to the next is not entirely clear at this time.

It appears that the majority of it will be passed on to the children, usually in equal shares. This means there will be more landowners and more out of state owners. Whether they will want to continue to own the land or sell it is unknown. Too much land being offered for sale is not a problem at this time but it could become one if the next generation doesn't want to hold on to the land.

The performance of the stock market for the next few years is also not clear. The impact of the stimulus package and how soon it will be felt are unknown at this time. Further compounding the situation is the impact of government ownership of several major companies.

The budget deficit continues to grow and will place a burden on the economy as the U.S. seeks to find ways to support the level of expenditures and revenues it has seen over the past few years.

The imbalance of trade is another area of uncertainty with respect to possible impacts on the U.S. economy and the performance of the stock market and the land market.

A complete discussion of all the factors that could influence the land or stock market is beyond the scope of this paper. Suffice it to say there is considerable uncertainty as one looks ahead. While uncertainty about the future is not new, there is a level of concern for both the land market and the stock market.

Land and the stock market are different types of investments and assets. This simple comparison was based strictly on averages. There are a number of individual stocks that perform better than the S&P. But, there are some that don't perform as well. Anyone contemplating the question which is a better investment needs to know their goals.

Land's performance relative to the stock market over the past few years has been spectacular. Will this trend continue? Time will tell. Which is the better investment? As the old saying goes, timing is everything in the success of a rain dance.



No enforcement of USDOT number requirement for private trucks in intrastate farm operations

by *Melissa O'Rourke, extension farm management specialist, 712-737-4230, morourke@iastate.edu*

The Federal Motor Carrier Safety Administration (FMCSA) was established within the Department of Transportation (USDOT) on Jan. 1, 2000. The FMCSA's primary mission is to prevent commercial motor vehicle-related fatalities and injuries. Strategies for achieving this mission include registration of commercial vehicles and partnering with state enforcement agencies, such as the Iowa Department of Transportation (Iowa DOT), to implement safety regulations and related inspections.

During 2010 and early 2011, Iowa farmers were presented with conflicting information regarding requirements for farm trucks used solely within Iowa (referred to as "intrastate" operations) and the need to obtain and display USDOT numbers. The Iowa DOT first published information announcing that enforcement of such a requirement would begin in 2010, and later pushed back the enforcement date to January 2011.

As of April 2011, Iowa DOT Motor Vehicle Enforcement Officer Ron Schipper confirms that enforcement of this requirement is not being implemented by the DOT. Specifically, Iowa farmers who privately (not for-hire) operate farm trucks entirely within the State of Iowa are not being required to obtain and display USDOT numbers.

Iowa DOT emphasizes that if the farm truck crosses state lines, the truck is then involved in interstate commerce, and USDOT registration is required.

Further, if the farm truck is operated for-hire – such as hauling livestock, chemicals or commodities for other operations – the USDOT registration and applicable regulations apply to the vehicle.

If there is any possibility that the truck will cross state lines in the course of farm operations, or if the truck may be used for-hire, farmers should consider USDOT registration. The proper form to request a USDOT number is the MCS-150. This form can best be obtained by going to the website at www.fmcsa.dot.gov where complete, step-by-step instructions are available. The direct link to the form is: <http://www.fmcsa.dot.gov/documents/forms/r-l/MCS-150-Instructions-and-Form.pdf>

Review of farm vehicle safety requirements

With spring planting just around the corner, it is worth noting that whether or not a farm vehicle is USDOT-registered, the legal requirements for proper lighting and marking of farm tractors, towed equipment and self-propelled implements of husbandry remain in place. This is the time of year to review the minimum requirements for lighting safety equipment and slow-moving vehicle (SMV) emblem use. According to the Iowa DOT, these are the minimum requirements:

- **Steady white headlamp:** All animal-drawn vehicles and self-propelled implements of husbandry must be equipped with at least one lighted lamp or lantern exhibiting a white light visible from a distance of 500 feet in front of the vehicle.
- **Steady red tail lamp:** All self-propelled implements of husbandry must be equipped with a lamp or lantern exhibiting a red light visible from a distance of 500 feet behind the vehicle.
- **Flashing amber light:**
 - Animal-drawn vehicles must be equipped with a flashing amber light visible from a distance of 500 feet behind the vehicle.
 - A farm tractor, farm tractor with towed equipment or self-propelled implement of husbandry operated on a primary or secondary road at a speed of 35 mph or less must be equipped with and display an amber flashing light visible from the rear. If the amber flashing light is obstructed by the towed equipment, the towed equipment must also be equipped with and display an amber flashing light.
- **Lighted white, red or amber lamps** or lanterns are required at all times from sunset to sunrise, and at other times when conditions such as fog, snow, sleet or rain provide insufficient lighting to render clearly discernible persons and vehicles on the highway at a distance of 500 feet ahead.
- **SMV emblem:** When operated on a highway at a speed of 35 mph or less, every farm tractor, tractor with towed equipment, self-propelled implement of husbandry, horse-drawn vehicle or any other vehicle principally designed for use off the highway must be equipped with a SMV emblem visible from the rear of the slow-moving vehicle. SMV emblems (consisting of a fluorescent,

No enforcement of USDOT number requirement, continued from page 3

red-orange equilateral triangle with a red retroreflective border) must be mounted with the point of the triangle upward, and may be permanently mounted or movable in a manner that provides secure and rigid attachment. SMV emblems must be mounted on the rear of the vehicle and either centered or as near to the left of center of the vehicle or equipment as practical so that it is clearly visible. Any towed wagons or other implements must also be equipped with a SMV emblem that is clearly visible to the driver of a vehicle approaching from the rear. The effective reflectivity and fluorescence of the emblem must be sufficient so that the triangular shape is readily identifiable both day and night. If the slow-moving vehicle operates at speeds greater than 35 mph, the SMV emblem must be removed or hidden from view. Persons operating horse-drawn vehicles with religious objections to using a reflective triangle device should contact the Iowa DOT for alternate regulations.

Additional ways to make farm vehicles and equipment more visible, beyond the minimum requirements, include the following suggestions:

- Use two red tail lamps, rather than the one that is required.
- Use two white head lamps, rather than the one that is required.

- Use retroreflective tape or conspicuity tape that is visible at night from a distance of 1,200 feet when directly exposed to the high beam of headlights.
- Use amber reflectors to mark the front of towed implements that protrude beyond the width of the towing farm tractor.
- Make sure the SMV sign is clean and not faded and that all lights are free of dust and dirt.
- If a tractor or self-propelled implement is wider than 8.5 feet, the Iowa DOT recommends displaying steady amber warning lights at the widest part of the vehicle.

For more information about farm truck and implement requirements, farmers may wish to review materials contained on pages 59-69 of the Iowa Truck Information Guide (2010-2011 version) available at <http://www.iowadot.gov/mvd/omve/truckguide.pdf>. These materials outline truck and implement equipment requirements as well as licensing regulations. If farmers have questions about these regulations, the Iowa DOT can also be contacted at 1-800-925-6469.

Updates, continued from page 1

Internet Updates

The following tools have been added or updated on www.extension.iastate.edu/agdm.

Historical Iowa Farm Custom Rate Survey -- A3-12 (3 pages)

Historical Farmland Values Survey -- C2-72 (10 pages)

Decision Tools and Current Profitability

The following tools have been added or updated on www.extension.iastate.edu/agdm.

Corn Profitability -- A1-85

Soybean Profitability -- A1-86

Ethanol Profitability -- D1-10

Biodiesel Profitability -- D1-15

Returns for Farrow-to-Finish -- B1-30

Returns for Weaned Pigs -- B1-33

Returns for Steer Calves -- B1-35

Returns for Yearling Steers -- B1-35

... and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write

USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964. Issued in furtherance of Cooperative Extension work, Acts of May 8 and July 30, 1914, in cooperation with the U.S. Department of Agriculture. Gerald A. Miller, interim director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.

Permission to copy

Permission is given to reprint ISU Extension materials contained in this publication via copy machine or other copy technology, so long as the source (Ag Decision Maker Iowa State University Extension) is clearly identifiable and the appropriate author is properly credited.