



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 2009 were taken from the web site of Dr. Robert J. Shiller at Yale University ([www.econ.yale.edu/~shiller](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.

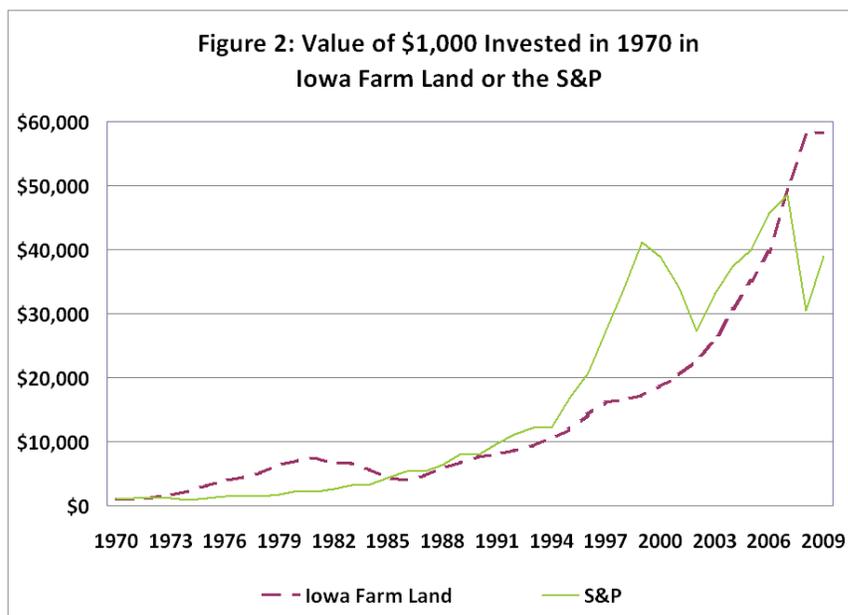
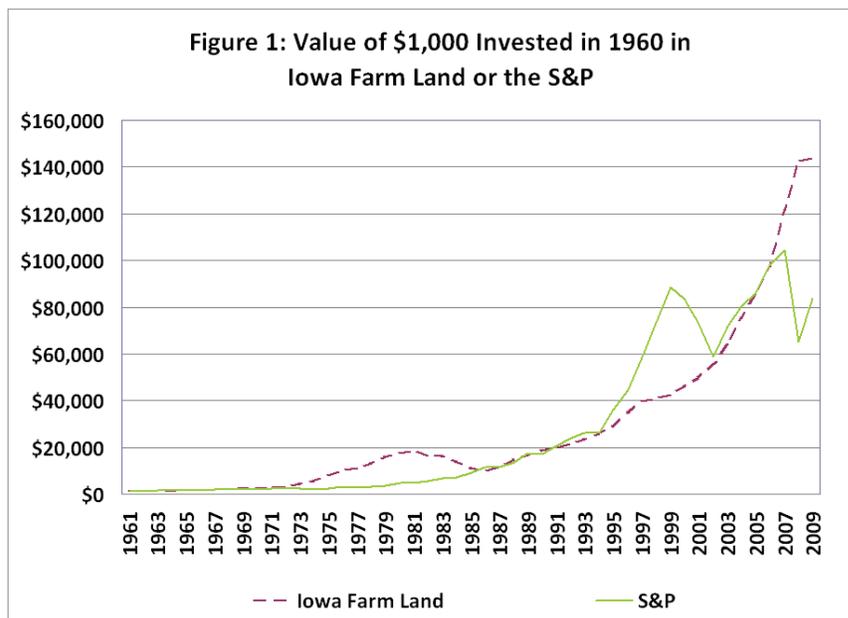
A second assumption is that all the net land rent or the dividend earned in any year will be reinvested in the land or the stock market. This will increase the number of units held. To continue the example above, average Iowa farmland rent in 1961 was \$17.10 per acre. Average taxes in 1961 were \$3.79 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, .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 6.6 percent with a standard deviation of 12.0 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.



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The yearly return to land after taxes, management fee and insurance and maintenance has averaged 4.68 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 2.8 percent. The Standard and Poor yearly dividend has averaged 3.2 percent of the S&P closing level from 1960 to 2008. 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 2009 would have 32.87 acres worth approximately \$143,672, or they would have 75.58 shares of the Standard and Poor's worth approximately \$83,805. In other words, the value of the S&P investment would be only 58 percent of the value of the land investment.

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 49 years. It is interesting to note the recent dramatic swings in the S&P, as shown in Figure 1.

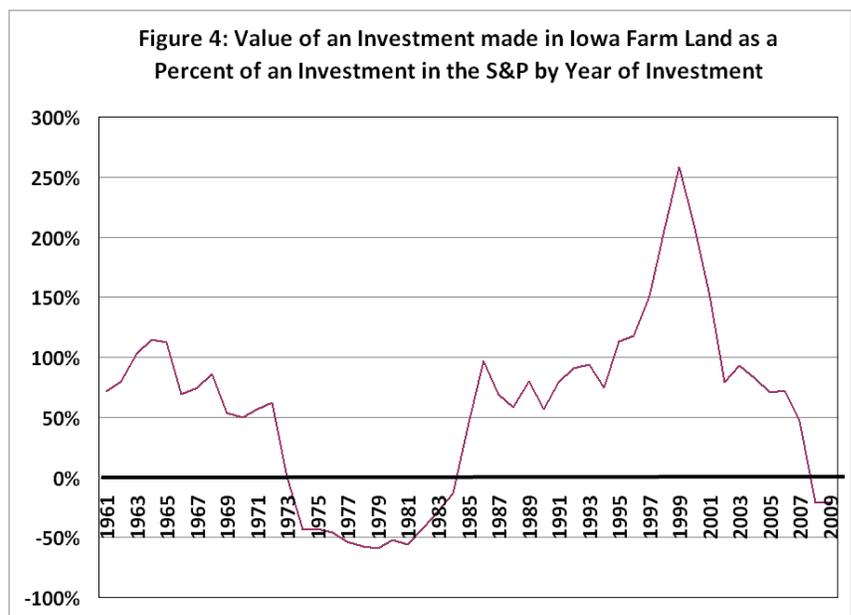
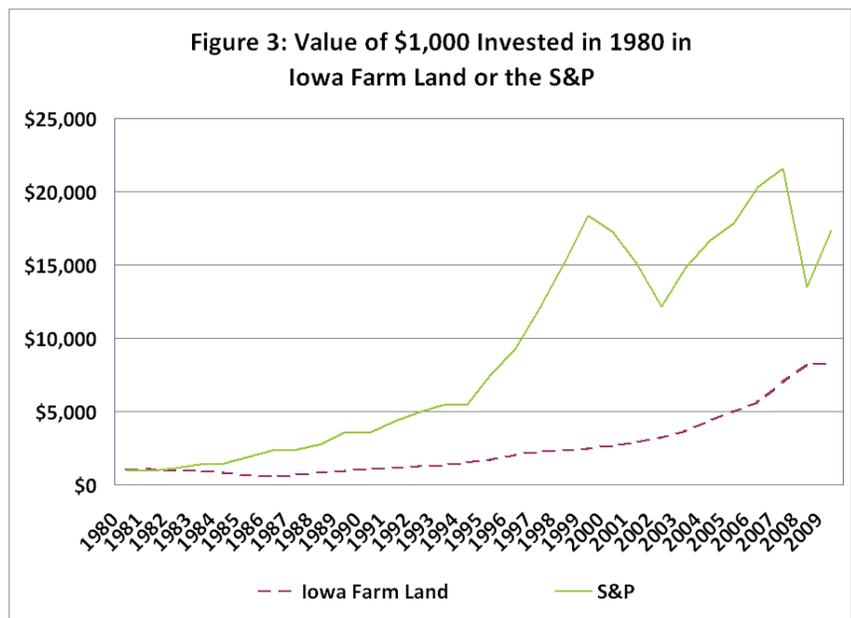
Figure 2 shows what would have happened if the \$1,000 investment in land or the S&P had been made in 1970. At that time \$1,000 would purchase 2.39 acres or 11.1 shares of the S&P. By 2009, the land investment would have been worth \$58,456, while the S&P investment would have been worth \$39,029. An investment made in the S&P in 1970 would be 67 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 2009, the land investment would have been worth \$8,314 while the S&P

investment would have been worth \$17,365. The land investment would only be 48 percent of the stock market investment.

Figure 4 shows a comparison of the returns in 2009 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.



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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.

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.



## 2008 SURE disaster claims begin in January

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USDA's Farm Service Agency announced that growers could sign up for disaster payments on 2008-crop losses starting Jan. 4, 2010. A final application date for the 2008 SURE Program has not been determined. The news is welcome after the original sign up date of Nov. 2, 2009 passed and final regulations by the USDA Farm Service Agency (FSA) were not released.

The new disaster program called SUPplemental REvenue Assistance program (SURE), created as 2008 farm law, is a permanent disaster program that is directly tied to the level of crop insurance purchased. What's different is that instead of covering losses on individual crops, SURE triggers only when your whole farm income falls below a pre-established threshold. That trigger includes revenue from all crops on all farms in all counties in all states. Harvested forage and specialty crops also needed to be protected with either crop insurance or Non-Insured Crop Disaster Assistance Program (NAP) policies to guarantee your whole farm eligibility.

If 2008 total farm revenue meets the threshold for losses, farmers could be entitled to financial assistance. Estimates for losses could be worth upwards of \$100 per acre for some Iowa farms. Iowa was hard hit by excessive spring floods during the 2008 season and some growers suffered severe yield losses. In addition, 2008 saw record high crop insurance price guarantees that will benefit producers that elected crop insurance revenue coverage.

In general, the better your crop insurance coverage, the more likely of collecting a crop disaster payment under the new law. For example, those farmers who select CAT coverage will have their SURE coverage based on 50 percent coverage at 55 percent of the price. However, farmers insuring at the 75 percent level will also have their SURE disaster aid based on 75 percent coverage at 100 percent of the price election. That price election for 2008 crop insurance revenue products was \$5.40/bu for corn and \$13.36/bu for soybeans, respectively. This revenue guarantee will be compared to the actual revenue loss for all farms.

Since the national average cash price is used to determine the amount of the SURE claim, losses cannot be determined until approximately one year after the fall harvest when this national cash price average is known. The actual marketing year prices for the 2008 crops were \$4.06 for corn and \$9.97 for soybeans.

SURE is available to eligible producers on:

- 1) Farms in counties with Secretarial disaster declarations, including contiguous counties, that have incurred crop production losses and/or crop quality losses during the crop year;
- 2) Any farm in which, for the crop year, the actual production on the farm because of disaster-related conditions is 50 percent or less than the normal production of the farm.

In 2008, 69 of Iowa's 99 counties received disaster declarations from the USDA Secretary of Agriculture plus an additional 21 were contiguous counties. Thus farmers in 90 counties will be initially eligible to file for SURE claims.

The SURE revenue guarantee is based on a complex calculation of whole farm revenue. At least a 10 percent yield loss on one major crop is required in order to file a claim. In Iowa this crop will likely have been soybeans in 2008 as state's final yield of 46 bu/A proved to be about 10 percent below the state's five-year trendline yield. Producers with very diverse cropping mixes will be less likely to collect SURE disaster payments than farms with traditional corn-soybean rotations. That's because of the lack of crop insurance coverage or NAP coverage purchased for these crops. However, any crop deemed of economic significance should have been insured in 2008 or NAP coverage purchased. This includes any crop that has attributed to at least 5 percent of the total crop revenue of all the participant's crops on the farm.

Please contact your local USDA Farm Service Agency (FSA) office for final details on filing 2008 SURE Loss Claims which began Monday, Jan. 4.

For an overview of USDA Disaster Assistance Programs, see the links on the FSA web site: <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=landing>

For a copy of the 19-page final SURE regulations posted to the Federal Register on Dec. 28, 2009, go to: <http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=031776200208+1+2+0&WAISaction=retrieve>

For a more basic explanation of the SURE program, see Iowa State University Extension's explanation of SURE at the Ag Decision Maker web site: <http://www.extension.iastate.edu/agdm/crops/html/a1-44.html>

Updates, continued from page 1

**Internet Updates**

The following updates have been added on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

- Introduction to Grant Writing** – C5-06 (4 pages)
- Conducting Focus Groups** – C5-31 (2 pages)
- Writing Materials for Promotion** – C5-131 (2 pages)
- Writing Press Releases** – C5-132 (2 pages)
- Writing a Newsletter** – C5-133 (1 page)
- Writing and Designing a Brochure** – C5-134 (3 pages)
- Creating a Display** – C5-135 (2 pages)
- Creating a Web Site** – C5-136 (4 pages)
- Creating a PowerPoint Presentation** – C5-137 (2 pages)
- Creating Business Cards** – C5-138 (1 page)

**Decision Tools and Current Profitability**

The following tools have been added or updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

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| <b>SURE Payment Calculator</b> – A1-44         | <b>Biodiesel Profitability</b> – D1-15      |
| <b>Season Average Price Calculator</b> – A2-15 | <b>Returns for Farrow-to-Finish</b> - B1-30 |
| <b>Corn Profitability</b> – A1-85              | <b>Returns for Weaned Pigs</b> - B1-33      |
| <b>Soybean Profitability</b> – A1-86           | <b>Returns for Steer Calves</b> - B1-35     |
| <b>Ethanol Profitability</b> – D1-10           | <b>Returns for Yearling Steers</b> - B1-35  |

**... and justice for all**

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