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High Farmland Value – Low Farmland Rent Unintended Consequences

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A commonly held opinion is that high farmland prices are a formidable barrier to those wishing to enter farming. This month, we discuss how extraordinarily high New Jersey farmland prices–among the highest in the US–became coupled to low cost leasing. These conditions may offer a 'silver lining' opportunity for individuals who desire to enter the profession of farming, and to society, which values farmland stewardship.

Bob Bruch, retired NJ Department of Ag, describes a NJ phenomenon he calls *reverse rent,* in which owners provide highly attractive lease terms to farmers. Rent may be for near the cost of Farmland Tax Assessment (FTA), near zero, or owners may even pay to have their land actively farmed to maintain FTA. These terms are uncommon in other farming regions. They are the externalities–the unintended consequences–of FTA, without which there would likely be no commercial farming remaining in NJ. Society benefits because FTA land remains actively farmed open space.

Amenity Owners & Farmland Price Pressure
Who are farmland owners that benefit from an arrangement like this? They are not growers, but rather a combination of amenity farmland owners and investors. NJ farmers benefit from, and depend on leasing farmland at attractive rates. The capital cost of expensive farmland ownership is too great a farm viability risk.

Historically, we think of speculative owners as being responsible for upward pressure on farmland prices. They make long-term investments anticipating alternative future developed uses of farmland.

However, many farmland buyers in recent years are "amenity farmland consumers" who purchase farms and farmland for values like privacy and rural pastoral enjoyment. They are not speculating, not investing for cash rent, or farming income. These buyers pay high prices even for deed restricted or preserved farmland. There are enough amenity farmland consumers to continue pressuring farmland prices. Their land management skills and goals for farmland do not match that of farmer-owners, resulting in decreased land productivity and stewardship.

Comparing Farmland Values by State
Table 1 shows USDA reported 2012 and 2008 values of tillable cropland. The last time selected cash rents were available was 2008. Cropland value does not include improvements such as buildings, conservation practices, or permanent irrigation. Since long-term invested improvements have negligible effect on cropland values, they can be ignored.

Table 1. USDA 2012 and 2008 cropland average value per acre in NJ and approx. 20 states with significant urban fringe production for comparison.

State	2012 Cropland Value/A $	2008 Cropland Value/A $	2008 Avg. Cash Rent $
NJ	12,300	15,600	irrig. is higher 53
CA	9,810	9,880	irrig. 360
AZ	8,500	11,500	irrig. 180
DE	7,800	9,800	72
IA	7,300	4,260	170
MD	7,000	7,800	67
NE states (composite of CT, ME, MA, NH, RI, VT)	6,940	7,930	
IL	6,800	4,850	163
FL	5,730	6,980	40
PA	5,650	6,000	55
VA	4,700	5,350	41
MI	4,000	3,480	78
WV	3,500	3,800	28
NY	2,600	2,150	42
OR	2,510	2,380	irrig. 195
WA	2,230	1,830	irrig. 250
US Average	**3,550**	**2,760**	**86**
NE Avg.	**5,260**	**5,590**	**52**

Table 1 shows that farmland ownership in NJ requires investment capital beyond the reach of new farmers. Even with nearby customers, New Jersey's extraordinary high land values present a unique disadvantage for farmland purchases by new farmers.

Evidence that the purchase of NJ farmland trends toward amenity, rather than production or rent, is seen in Table 2. In other US regions, the value of pastureland is typically only one-quarter to one-half of cropland. Table 2 shows NJ pastureland, at $13,500, equal to or 10% higher valued than cropland. In other states impacted by urban fringe "amenity farmland consumers," such as FL or VA, pastureland is still lower in value by about 25% and 13%, respectively. NJ and NC are among few states with amenity values so high that less productive pastureland carries an equal or higher value than cropland.

Table 2. 2012 USDA reported pastureland avg. value as a percent of cropland avg. value per acre among selected states with lifestyle farmland amenity consumption.

	Pastureland Value/A $	Cropland Value/A $	Pastureland percent cropland
US Average	**1,150**	**3,550**	**32%**
FL	4,300	5,730	75%
VA	4,100	4,700	87%
NC	4,400	4,000	110%
NJ	13,500	12,300	110%

Policies Lead to Unintended Consequences
50 years of New Jersey policies have attempted to address pressures on loss of farmland and loss of farming from urbanization, and the reduced quality of life sprawl brings to all residents and taxpayers. These include a combination of FTA, Farmland Preservation, Right-to-Farm, and insidious downzoning ordinances or "environmental takings" regulations.

In some NJ locations, there are abandoned urban fringe farm parcels that could be in active farm leasing. They are typically in permanent hay, they may be preserved or unpreserved, they look like cropland, they *could* be cultivated, but they are actually open space; no longer productive well-maintained farmland. Their current value is amenity, not production. Such publically owned farmland may cost taxpayers money instead of producing economic benefits.

Cultivated urban fringe farmland abandonment occurred when suburbanization isolated the former owners of smaller farms with high costs. They had insufficient marketing and sales to support viable livelihoods and experienced nuisance conflicts with neighbors and municipalities.

Opportunities for Growers
Despite high purchase prices for farmland, there are compelling low cost opportunities to enter farming by leasing; taking advantage of the requirement on landowners to maintain FTA. There are thousands of acres of preserved farmland held by public and private organizations whose goals include maintaining access to productive working farmland.

Make Lease Terms Attractive & Cheap
Owners of preserved NJ farmland, especially public or not-for-profit owners, should offer generously flexible and longer-term (not annual) lease terms if they want to attract working farmers.

Owners should resist the temptation to overly proscribe farming practices in lease terms. In suburban New England communities, where the effects of urban fringe cultivated land abandonment are widespread, conservation groups, communities, and other public farmland owners frequently offer below market $1 per acre "reverse rent" leases. This is one method they use to get farmland moving back in the direction of working farms and economically contributing to surrounding communities. Below market "reverse rent" leasing will likely be required here to entice active husbandry by new farmers.

Low leasing rates offer new or part-time farmers the opportunities to work hard, sacrifice, and save. They can generate cash income without mortgage debt service, begin accumulating equipment, and go through the farming learning curve with lower risk on leased land.

Benefits to Society
For societal benefits of stewardship to emerge, public and private farmland owners need to offer attractive 5-year and longer leases. Why long leases? Farmers' incentives to sustainably improve productivity on leased land are lower than on land they own. As former Secretary of the Treasury and Harvard President Larry Summers humorously explained, "No one in the history of the world ever washed a rented car." Why? Because they don't own it. Summers knows that farmers who don't own their land won't worry about depleting soil. Preserving someone else's long-term value is not as important to them as preserving their own short-term viability.

We can't lower farmland prices without introducing unintended consequences. Market supply and demand, willing sellers and buyers, determine prices. NJ farmland price pressures will remain. We've addressed extremely high farmland price issues with differential taxes and deed restriction. Now we need to address stewardship with attractive, long-term leases for farmers.