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TIP SHEET: Farmland Fund Expects Prices To Keep Soaring

By Tom Polanskek

CHICAGO – Cheap farmland is hard to find.

Values in Iowa and other key agricultural states jumped 12% in 2010, the second-biggest increase in the past 30 years, according to the Federal Reserve Bank of Chicago. Nationwide, prices have doubled during the past decade and climbed about 58% when adjusted for inflation, U.S. Department of Agriculture statistics show.

Still, Greyson Colvin is hunting for deals as managing partner of two farmland funds for his agriculture-focused investment firm Colvin & Co., which aims to acquire undervalued properties.

"The farmland market is certainly tighter than it's been over the last 12 months," Colvin acknowledged.

Colvin manages about 1,500 acres of farmland in South Dakota and Wisconsin, worth $7 million, in the Sather Agriculture LP fund, along with about 350 acres held in individual accounts. The fund, which was launched in 2009, had a return of 29.6% in 2010, up from 7.8% in 2009, according to the company, compared with 15.1% and 26.5%, respectively, for the S&P 500.

There are signs investors will continue to reap gains from the sector, Colvin said. He touted farmland as "the one element that you can't replace across the agricultural equation" and said rising global demand for meat will keep pressure on growers to increase production of grain, which is used to feed livestock.

The company targets land that produces corn and soybeans, the dominant crops in the fertile Midwest. Colvin and his brother-in-law, an associate in the company, inspect properties personally before making purchases to check their quality.

He scoffed at observers who warn soaring land values may form a bubble. Agricultural fundamentals are the best in decades, he argued, saying rising farm income and cash rental rates justify the appreciation in farmland.

"We really believe that farmland is actually underpricing commodities at this point in time," Colvin said.

Indeed, farmers have the potential to cash in big on coming harvests, as corn, soybean and wheat futures recently surged above 2 1/2-year highs on concerns about tight supplies. Domestic corn inventories are expected to plunge to a 15-year low by the end of the crop's marketing year on Aug. 31 due to strong demand and a disappointing harvest last fall.

If cash prices for corn, which is trading around $6.20 a bushel, remain above $5 at the end of the year, Colvin said farmland values should be up an additional 10% to 15%. The outlook for corn prices is uncertain because farmers are projected to harvest a record crop this fall to replenish supplies. Gary Schnitkey, a professor of agricultural and consumer economics at the University of Illinois, predicted corn prices won't be above $5, a historically high price, if the harvest goes smoothly. However, he said he doesn't think farmland is overpriced, saying values will stay well supported unless commodity prices collapse or interest rates rise.

Colvin acknowledged the coming harvest could weigh on grain prices but said they won't retreat too far. Farmland is a longer-term investment and he projected corn prices will be above $7 a bushel in five years.

Still, regulators warn farmland values could be rising too far, too fast. Federal Deposit Insurance Corp. Chairman Sheila Bair, speaking at an FDIC symposium on farm prices Thursday, said the surge "creates the potential for an agricultural credit problem sometime down the road" if there is a downturn in the sector.

Bob Wisner, a well-known crop specialist and professor emeritus at Iowa State University, also is feeling uneasy. The recent rally in energy prices has sparked concerns about a global economic slowdown that could curb demand for commodities, including meat and grain.

"You can draw a scenario where farmland prices might be overreaching and might be able to settle back from where they are now," Wisner said.