

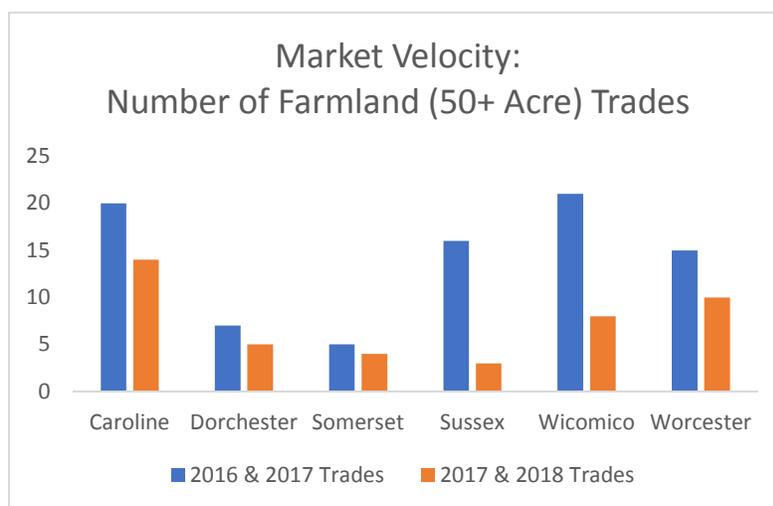
A Shift in the Land Market

by Nick Campanaro

The goal of our monthly newsletter is to provide research and data to assist readers in making educating decisions with their land investments. In order to do so, we keep our finger on the pulse of local land markets by tracking every major land transaction in over 10 counties in MD, DE and VA. We publish all of this data free of charge on our land portal (<https://thelandgroup.us/land-portal/>). This is our way of giving back to individuals that care about our work and subscribe to our portal.

This month's newsletter is about analyzing farmland sales data from the last three years. For this analysis we looked at the six counties where we are most active (Caroline, Dorchester, Somerset, Wicomico, and Worcester in Maryland & Sussex, DE) and placed emphasis on arms-length raw farmland trades occurring in 2016, 2017, and 2018. We grouped the data in two-year increments to obtain a significant number of trades for each county. The results of the analysis show several interesting trends in our local land markets that can be explained by weak grain prices and poor farming conditions coupled with a strong overall economy.

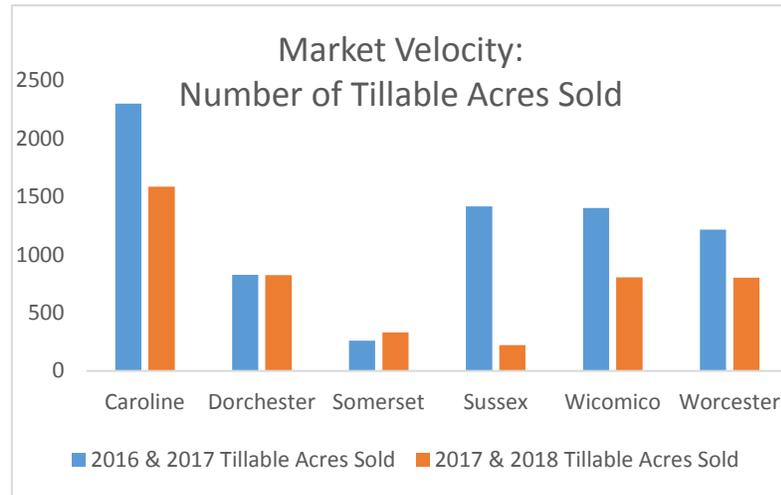
First, we looked at market velocity, which in Real Estate can be defined as the number of trades in a given market for a specific product type. We separated farmland trades from timberland trades and compared the number of trades that occurred between the two-year periods of 2016 & 2017, and 2017 & 2018 respectively. The data shows declining velocity in all 6 counties.



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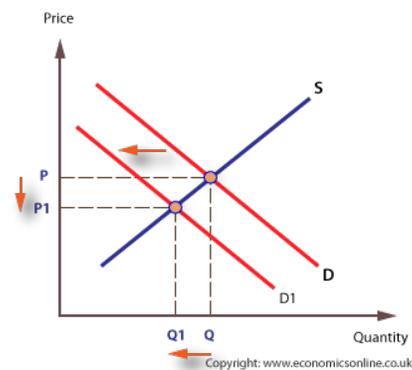
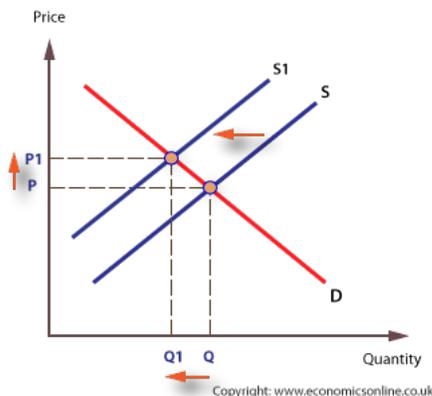
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Next, we looked at the number of tillable acres sold over the same two-year increments in each county. This is another way to measure the velocity of our local farmland market. The data shows declining velocity in four of the 6 counties. Dorchester County shows unchanged velocity, while Somerset County shows a slight increase.



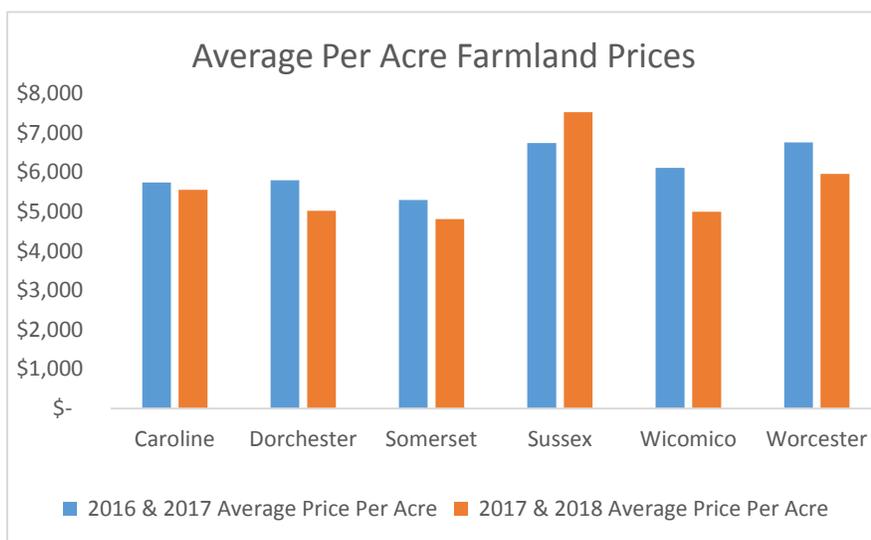
Overall, we are seeing a decline in farmland market velocity over the last Three years.

As the theories of supply and demand economics dictate, a decrease in market velocity can either be caused by a decrease in the supply of farmland on the market OR a decrease in the demand for farmland. A decrease in the supply of farmland would lead to increased per acre pricing for farmland, whereas a decrease in the demand for farmland would lead to decreased per acre pricing. The key to determining whether the trend is a result of supply side economics or demand side economics is all about price movement. Here are two charts showing the basic economics of supply and demand.



If the decreasing velocity in the land market is due to a lack of farmland on the market, we would expect the price of farmland to increase as seen in chart 1. However, if the decreasing velocity in the land market is due to a decrease in the demand for farmland, we would expect the price of farmland to decrease as seen in chart 2.

Thus, our next step was to look at how farmland prices have behaved over the last three years. In all 5 Maryland Counties we have seen a falling average price per acre for farmland. Coupled with decreasing velocity, this leads us to believe that we are experiencing a decreased



demand for farmland on the Eastern Shore of Maryland. However, Delaware is telling a quite different story. Average per acre farmland prices in Delaware have increased over the Three-year period. This leads us to believe that the major factor contributing to decreased velocity in Sussex County farmland is due to the lack of supply of farmland on the market.

From our personal experiences in the land market over the past Three years, these results make total sense. Our team is currently sitting on more high-quality farmland listings in Maryland than we have seen in years. Five years ago, this was not the case. If we found a good tillable piece of ground to sell it was usually sold within a couple weeks. Our problem back then was finding a good piece to sell. Today, our problem is finding good buyers. The market in Maryland has clearly shifted from a “seller’s market” to a “buyer’s market”.

There are two major reasons contributing to the decreased demand for farmland in Maryland. The first factor is low grain prices. We are currently looking at sub \$4 per bushel corn and sub \$10 per bushel soybeans. These low grain prices over the last several years have left farmers with little excess cash to

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make new land investments. The second major factor has been poor growing conditions due to an excess of rain at the wrong times. Average annual rainfall on the Eastern Shore is between 40 and 45 inches. In 2018 many parts of the Eastern Shore saw over 70 inches of rain with several major flooding events. Combined with low grain prices, it's clear why we are seeing a decreased demand for farmland. The good news is that both contributing factors could shift at any moment and reverse the demand cycle.

INVESTMENT ADVICE: Buy Maryland farmland while the prices are down, this buyer's market will likely not last.

As we previously mentioned, Sussex County, DE seems to be the anomaly, and from our experience this also makes perfect sense. In next month's Newsletter we will dive into the timberland market where we are seeing a huge boom in DE timberland sales. However, as far as Delaware farmland goes there is certainly a lack of supply. We believe the main reason for this is the booming residential new construction market in Sussex County, which is causing many farmland owners to hold land in hopes of cashing out for big development value. When we say "lack of supply" for farmland we are referring to true agricultural land. There is certainly no lack of supply of land being marketed for high development numbers.

INVESTMENT ADVICE: Sell Delaware farmland while the supply is down, and prices are up.