Wall Street Journal

November 14, 2011

U.S. Farmers Reclaim Land From Developers

By ROBBIE WHELAN

Five years into a brutal national housing downturn, raw land destined for residential development has fallen so far in value that thousands of acres across the country are being used again for agriculture.

During the fast-moving days of the housing boom, real-estate speculators in California, Arizona, Florida and other states paid top dollar to buy land from farmers and convert it from citrus groves and cotton fields to potential subdivisions.

Now, with crop prices soaring and housing in a deep slump, the economics of land investment have turned upside down. Farmers and investors are buying land that had been slated for development and using it for agriculture. And they are paying a small fraction of what housing developers paid for the same land before the recession.

The trend, if it continues, could represent a historic shift away from development in the far reaches of metropolitan areas. These properties had fueled much of the housing industry's bubble last decade.

In September, the Vanderweys, an Arizona dairy farming family, paid $8 million for a 760-acre alfalfa and cotton field that had fallen into foreclosure in Buckeye, Ariz., about 30 miles west of Phoenix. That same parcel, called Liberty Farm, had been sold to real-estate speculators in 2005 for $40.8 million. The Vanderweys want to plant hay.

Robbie Whelan/The Wall Street Journal

California farmer Paul Singh bought this land from housing developers.

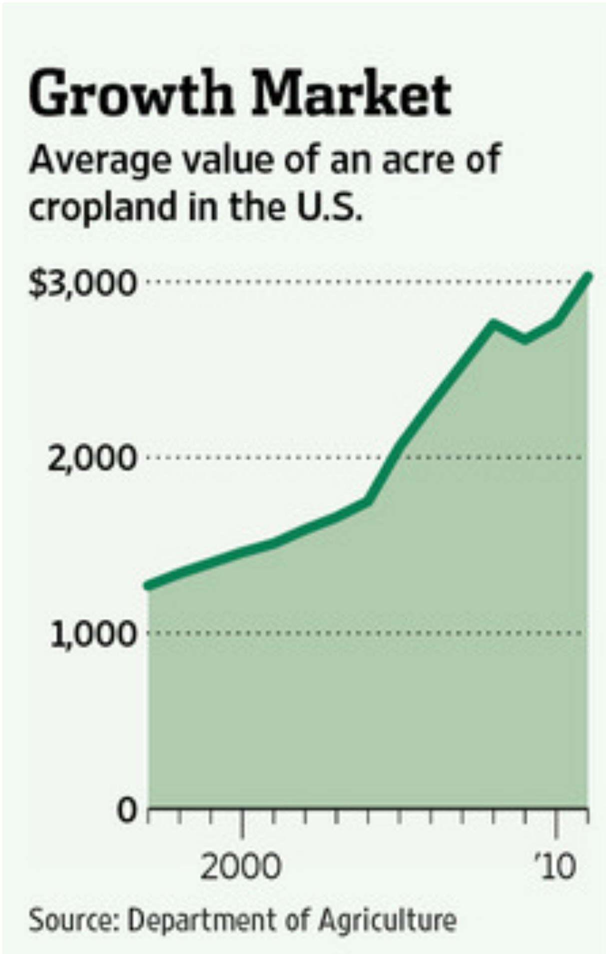
"These prices are becoming the new normal," said Nick Vanderwey, one of four brothers who purchased the farmland. "Everything in this area is coming back into farmers' hands."

Nationwide, residential land values in the U.S. have fallen nearly 70% since peaking in the second quarter of 2006, according to a recent report by the Lincoln Institute of Land Policy, a Cambridge, Mass., think tank. Meanwhile, the value of U.S. cropland (excluding Alaska and Hawaii) rose close to 20% between 2007 and 2011, according to the U.S. Department of Agriculture.

The demand for farmland is being fueled by rising prices for everything from corn to cotton. Net farm income is forecast to climb 31% in 2011 to $103.6 billion, its highest level on an inflation-adjusted basis since 1973, according to the USDA.

"Right now, people are working that land for whatever value it has, which usually means they're farming it or selling it to farmers," said Vernon Crowder, an economist with Rabobank International, a major U.S. agricultural lender based in the Netherlands.

These changing dynamics have turned farmers into land speculators and beneficiaries of the housing bust—sometimes buying back the same land they had sold earlier.



Consider the England family, which recently repurchased 430 acres of cotton fields in Eloy, Ariz. In 2004, the Englands had paid $731,000 for the parcel about 65 miles southeast of Phoenix. The family then flipped the property in 2009 to a Milwaukee-based apartment builder for $8.6 million. Two months ago, the family, which had been leasing the land to grow cotton, bought back the farm out of foreclosure for $1.75 million.

"It was a pretty good deal," said Don England Jr., as he rode his tractor around the property one day recently.

Putting residential land back under the plow reflects a major demographic shift. Since World War II, development has spread out from cities to suburbs and then to fringe areas known as exurbs. During the housing boom, builders poured hundreds of millions of dollars into land in the exurbs, where they built quick-and-easy tract homes and sold them to first-time buyers willing to commute long distances to employment centers. The strategy worked as long as gasoline was cheap and jobs plentiful.

Now, with gas prices above $3.40 a gallon, unemployment hovering around 9% and home values sinking, demand for new exurban houses has largely evaporated.

"There's no foreseeable market for that housing in the future," said Christopher Leinberger, a visiting fellow at the Brookings Institution who has written about land-pricing trends.

Between 2000 and 2007, the amount of land used for farms fell by two million to four million acres a year, according to USDA surveys. But since 2007, the conversion rate has slowed and the amount of land being farmed has held steady at 920 million acres.

Values of land once slated for housing also have fallen sharply in the Midwest, which didn't see the same big run-up in prices as California, Nevada and Arizona.

In late May, a group of corn and soybean farmers bought 650 acres near Manteno, Ill., about 50 miles south of Chicago, that had fallen into foreclosure after the developer who owned it filed for bankruptcy. The land originally was purchased for $15,000 to $20,000 an acre for housing for Chicago-area commuters, according to brokers involved in the deal. It was sold by a bank this year to the farmers for $8,000 an acre.

"The primary thing that was driving development here was people's desire and willingness to get out of the city," said Dean Retherford, the broker who negotiated the sale. "But development is over. It's done…It'll be 15-20 years before this land is developed."

Last year in California, Paul Singh, who grows nut trees and grapes used for raisins, paid $27,600 an acre, or a total of $9 million, for 326 acres in Hanford in the San Joaquin Valley, one of the nation's largest farming regions.

A few years earlier, the land had been purchased for $82,800 an acre by Ennis Homes Inc. of Porterville, Calif. It envisioned a development called Villagio, with nearly 1,500 homes along with a shopping center. Ennis filed for bankruptcy in 2010 due to falling land values.

Mr. Singh plans to plant a wine-grape vineyard on the property and grow walnuts. He expects to net $800,000 to $1 million a year, roughly a 10% return on his land investment.

"Right now, it's as good as it gets. All the crops are doing really well," Mr. Singh said. "Why would any farmer sell right now? Everyone's making so much money."