

# Trends in Agricultural Land & Lease Values

## California

Presented by the



**California Chapter**  
**ASFMRA**  
*Western Ag Professionals*

California State Board of Food and Agriculture

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Sacramento, California

# Disclaimer

The land value and lease data presented today and in the *Trends* publication represents a general range of sales and rental data for each stated market. Specific sales or leases may be present in the market which are higher or lower than the ranges noted. Due to many factors, one should not assume that all of the farms or ranches within a certain market area or crop will fall within the ranges shown.

We strongly recommend that you obtain the assistance of a trained professional in your area to determine the value or appropriate rental level for a specific property.

# CAUTION!

Rapidly changing conditions for irrigation water supplies in 2015 and beyond due to the current drought may have a material impact on the land values and rental data presented today and in the *Trends* publication.

# CAUTION!

Ground water regulation is imminent, and its implementation could change most commonly held perceptions about farmland markets.

## REGIONS 1, 3, 4 and 5

The Sacramento and San Joaquin Valleys  
and Sierra Foothills, (west)

# The Great Central Valley

## REGIONS 1, 3, 4 and 5

### The Sacramento and San Joaquin Valleys and Sierra Foothills, (west)

#### **Primary Market Driver:**

- Profitability in permanent plantings
  - almonds, walnuts, pistachios, table grapes and citrus
- Water:
  - amount, stability of supply, quality and cost

#### **Secondary Market Drivers:**

- Scarcity:
  - lack of available properties on the market

# *Primary Market Driver*

## **Nut Crops:**

- All California nut crops compete in the world market
- Prices tend to trend together
- Demand fueled by:
  - Positive nutritional news
  - New products/uses
  - Limited growing areas (worldwide)
  - Rising incomes in Asia

# Almonds

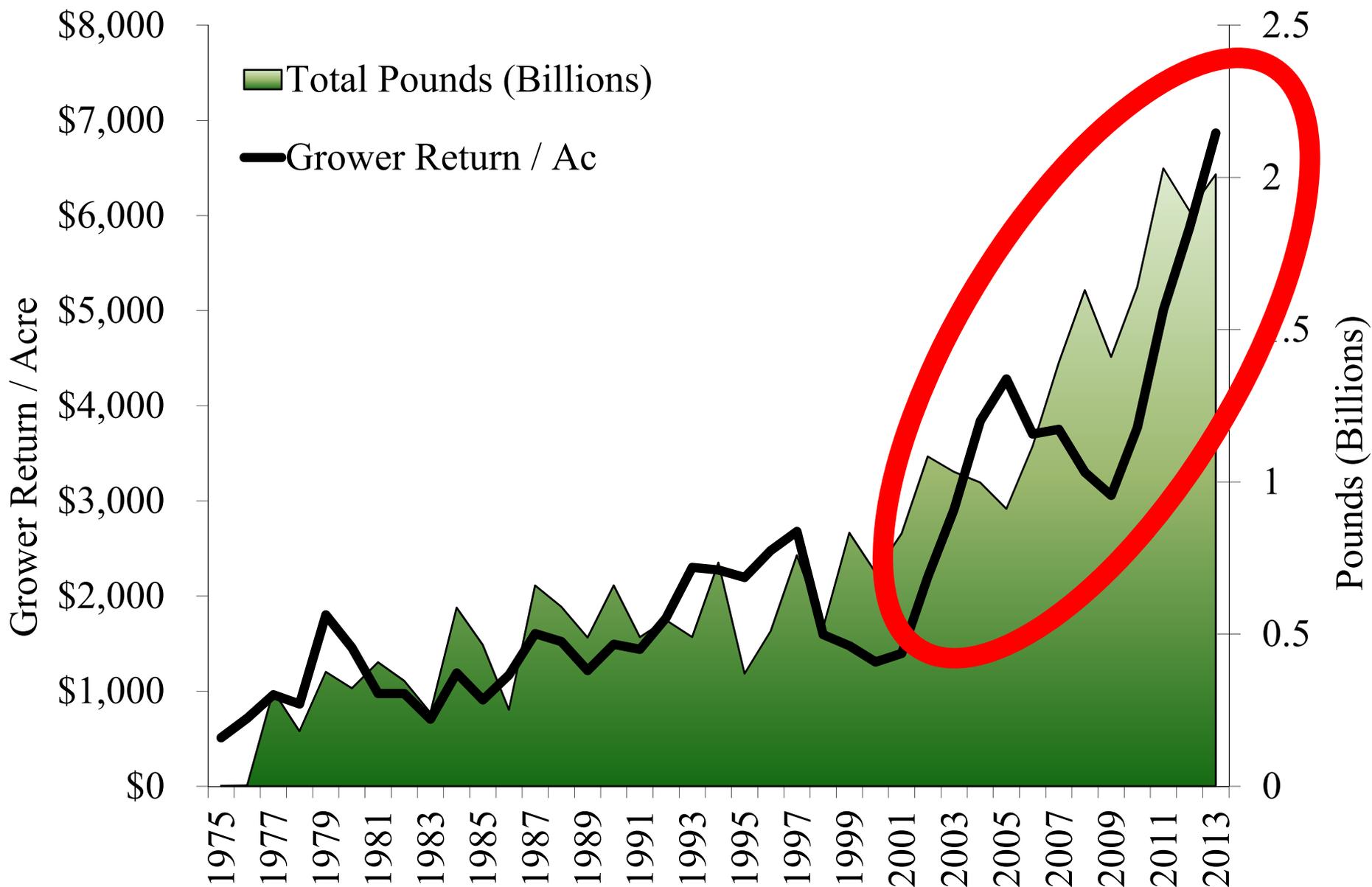


# Primary Market Driver

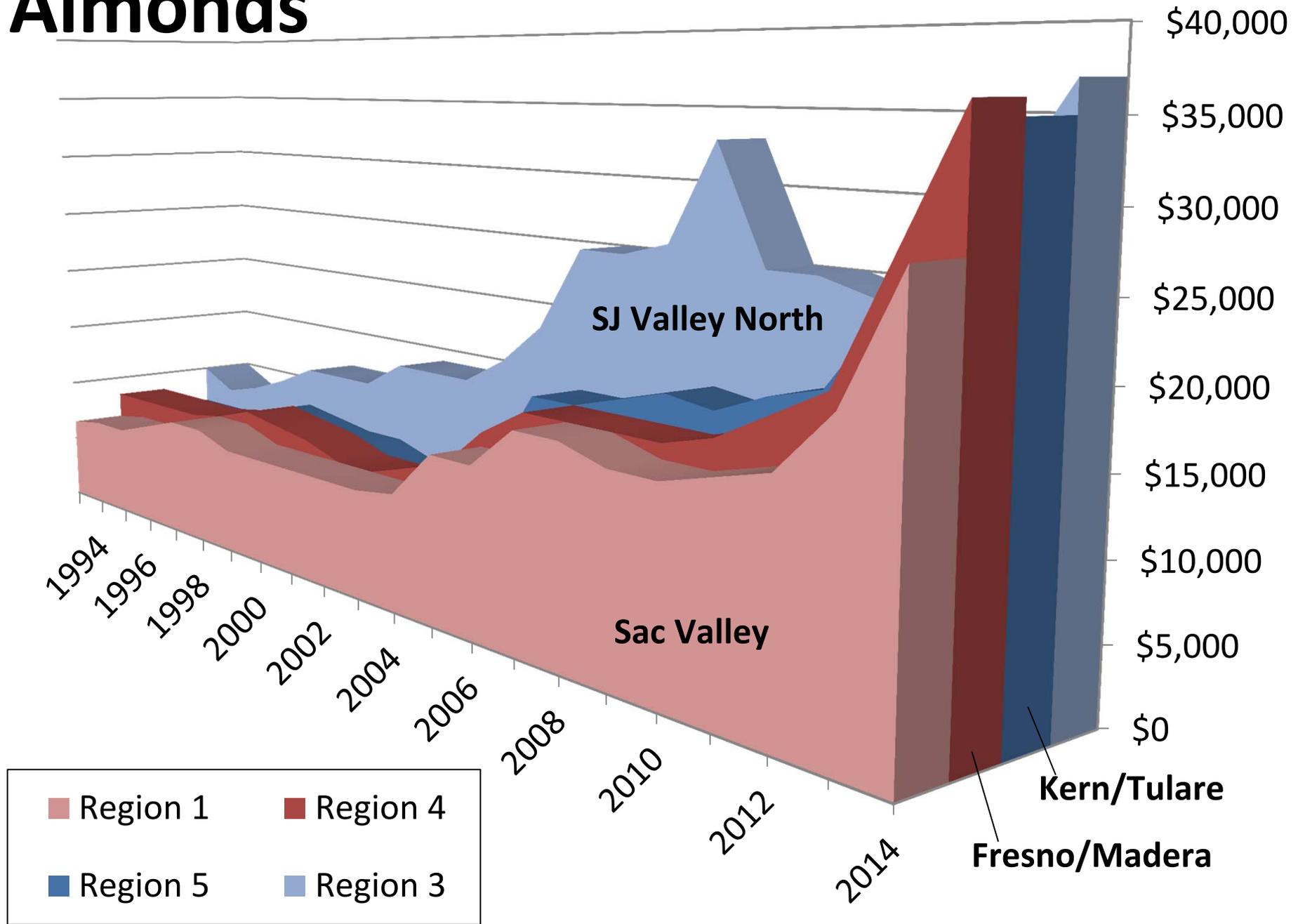
## Almonds:

- Average grower returns
  - increased from \$1.45 to \$2.87 ('08 – '13), a **99%** increase
- Bearing acreage
  - has increased over 20% during that same period +/- 900,000 acres
- 2014 crop was “short”, 1.8+ billion pounds
- 2015 estimate is near same levels at 1.8 billion pounds
- Current spot prices are over \$4.00 per pound
- **Drought conditions have, and continue to constrain supply**

# Grower Return and Total Crop Size



# Almonds



# Walnuts

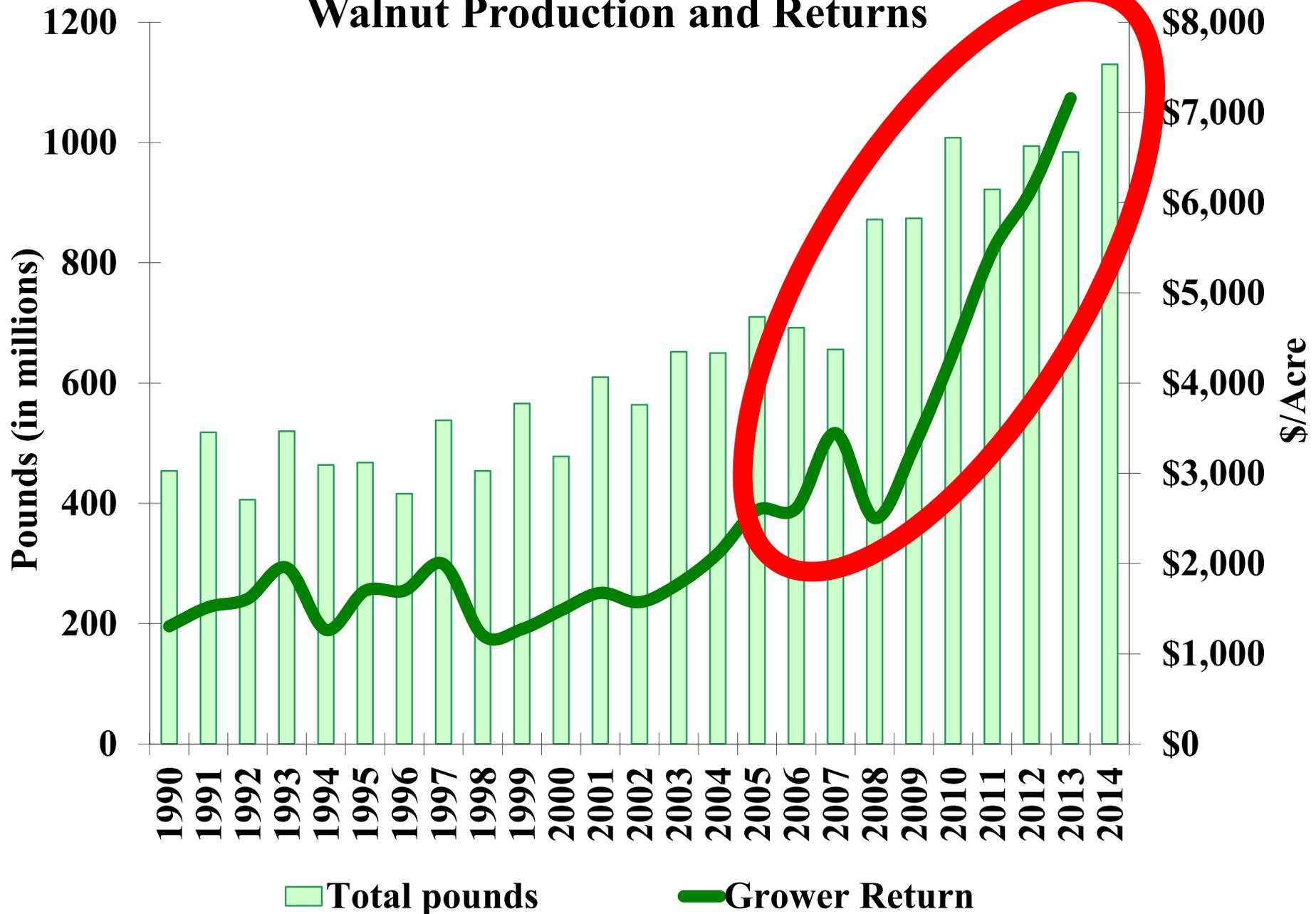


# Primary Market Driver

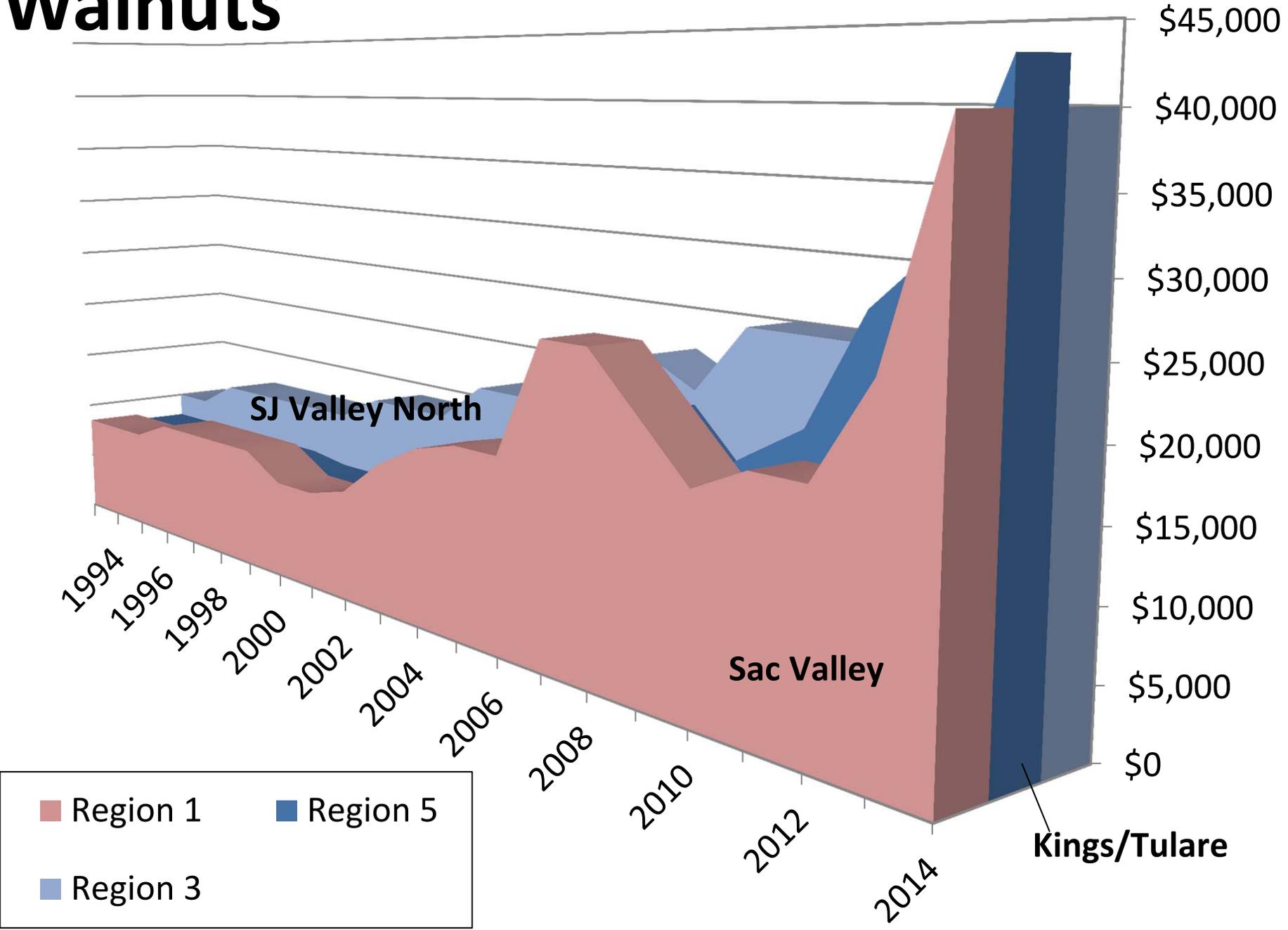
## Walnuts:

- Average grower returns
  - increased from \$.64 to \$1.86 in ('08 – '13) a **190%** increase
- Bearing acreage
  - increased 30% during that same period to +/- 300,000
- 2014 crop was approximately 1.1 billion pounds
- Availability of nursery stock continues to limit new plantings, (Chandler, Howard and Tulare)

# Walnut Production and Returns



# Walnuts



# Pistachios

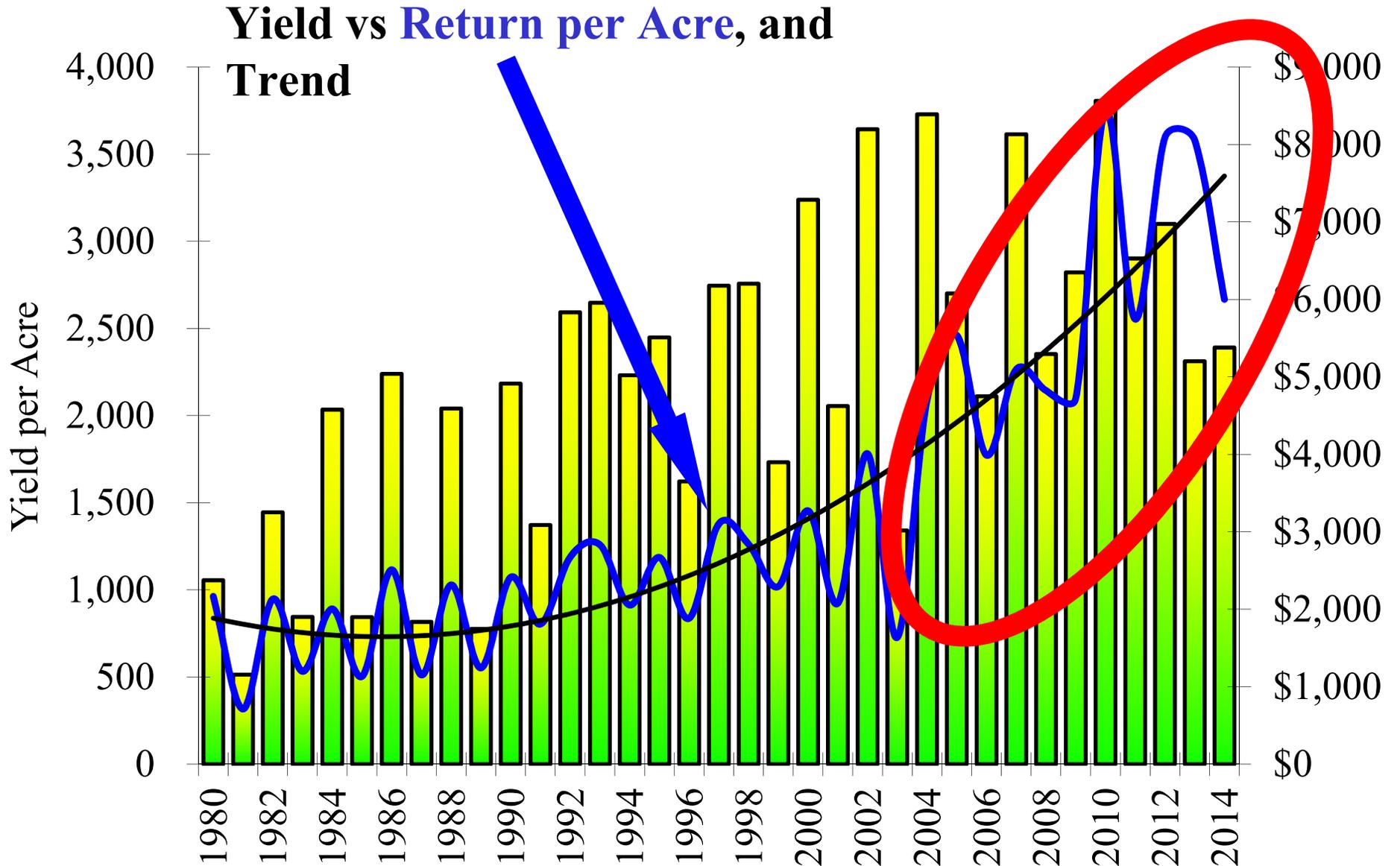


# Primary Market Driver

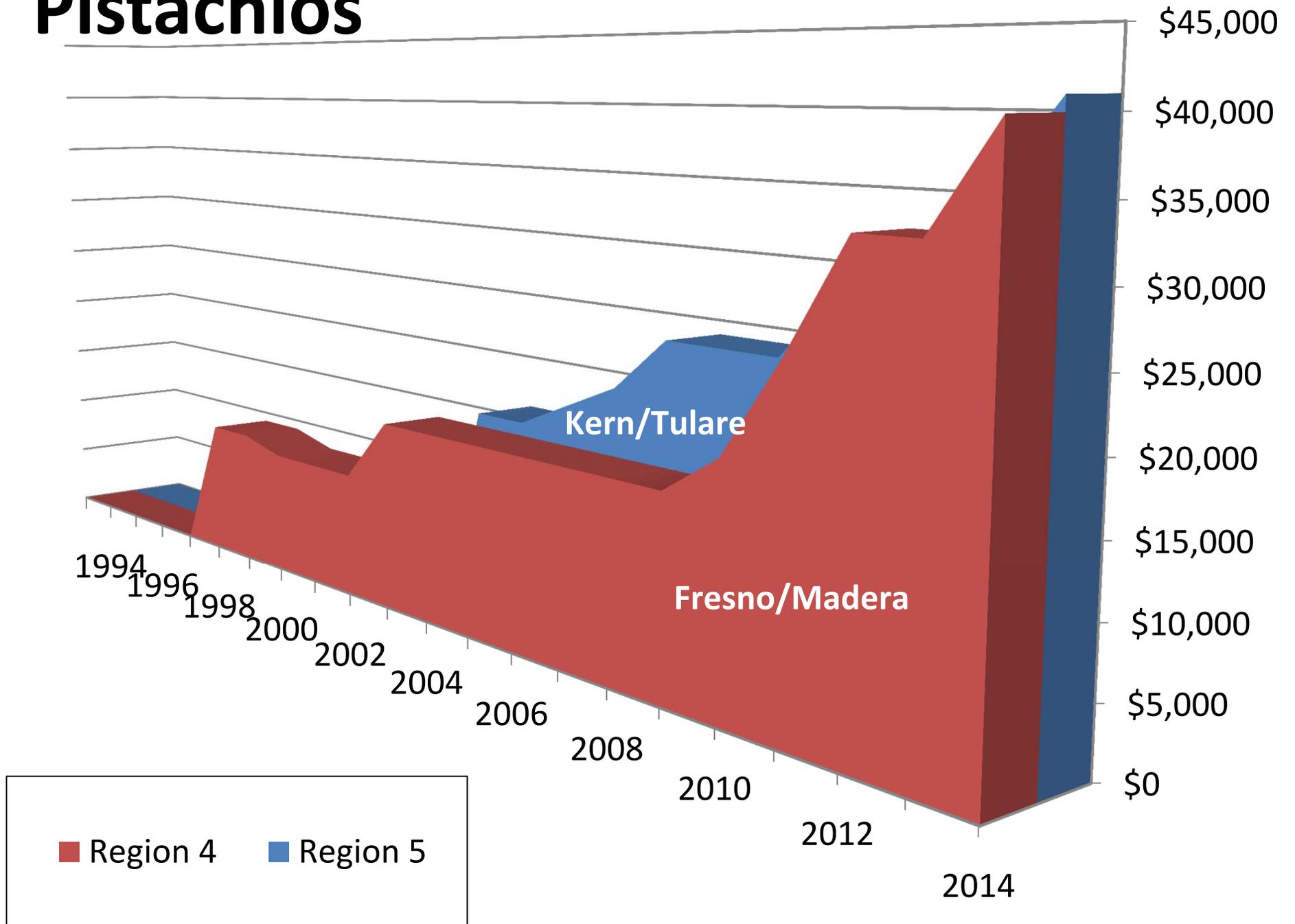
## **Pistachios:**

- Average grower returns
  - increased from \$2.05 to \$2.51+ ('08 to '14)
- Bearing acreage
  - increased 100% during that same period to +/- 270,000
- Current non-bearing acreage
  - could equal 175 million pounds
- 2014 crop was approximately 514 million pounds
  - Impacted by drought, low chilling hours
- Industry expects 1 billion pound crop before 2020

# Price Vs. Return Per Acre and Trend



# Pistachios



# Other Primary Market Drivers

## **Wine Grapes:**

- Not a stellar year in 2014
- Prices down
- Some un-contracted grapes went un-harvested
- Light Thompson Seedless crop
- Many vineyards were pulled out and redeveloped to other permanent plantings, primarily nut crops

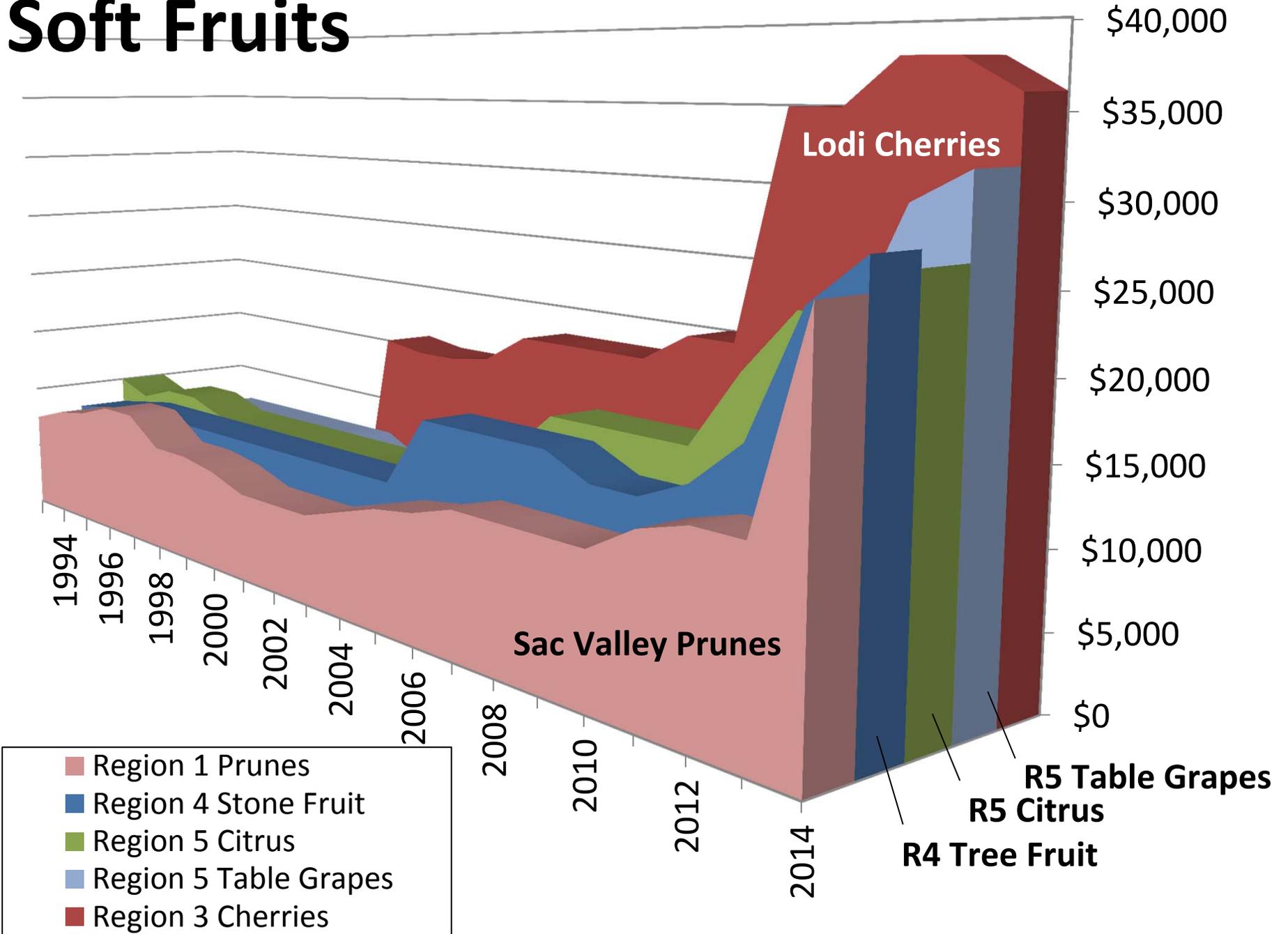
# Other Primary Market Drivers

## **Soft Fruits:**

(table grapes, stone fruit, citrus)

- Expansion by
  - large growers
  - vertically-integrated operators
- Price recovery in:
  - Prunes
  - Canning peaches
- No freeze in citrus (successful crop)
- Stronger orchard/grove prices for most crops

# Soft Fruits



# *Secondary Market Driver*

## **Water:**

- Now a primary driver
- Knowledgeable buyers have always focused on water
- Can, and will remain, property specific
- The current situation is **worse** than 2014
- Even best districts are facing limits
- Permanent plantings are not just facing a bad year...
- Potential loss of entire investment

# SIERRA SNOW: LAST 3 YEARS

FEB 9, 2013



FEB 9, 2014



TODAY



**SNOWPACK VS. AVG.**

**27% NORMAL TO DATE**

**WARMER STORMS SO FAR  
= HIGH SNOW LEVELS**

\*Source: NBC Bay Area

Is it time to go back to Oklahoma??



# Other Primary Market Drivers

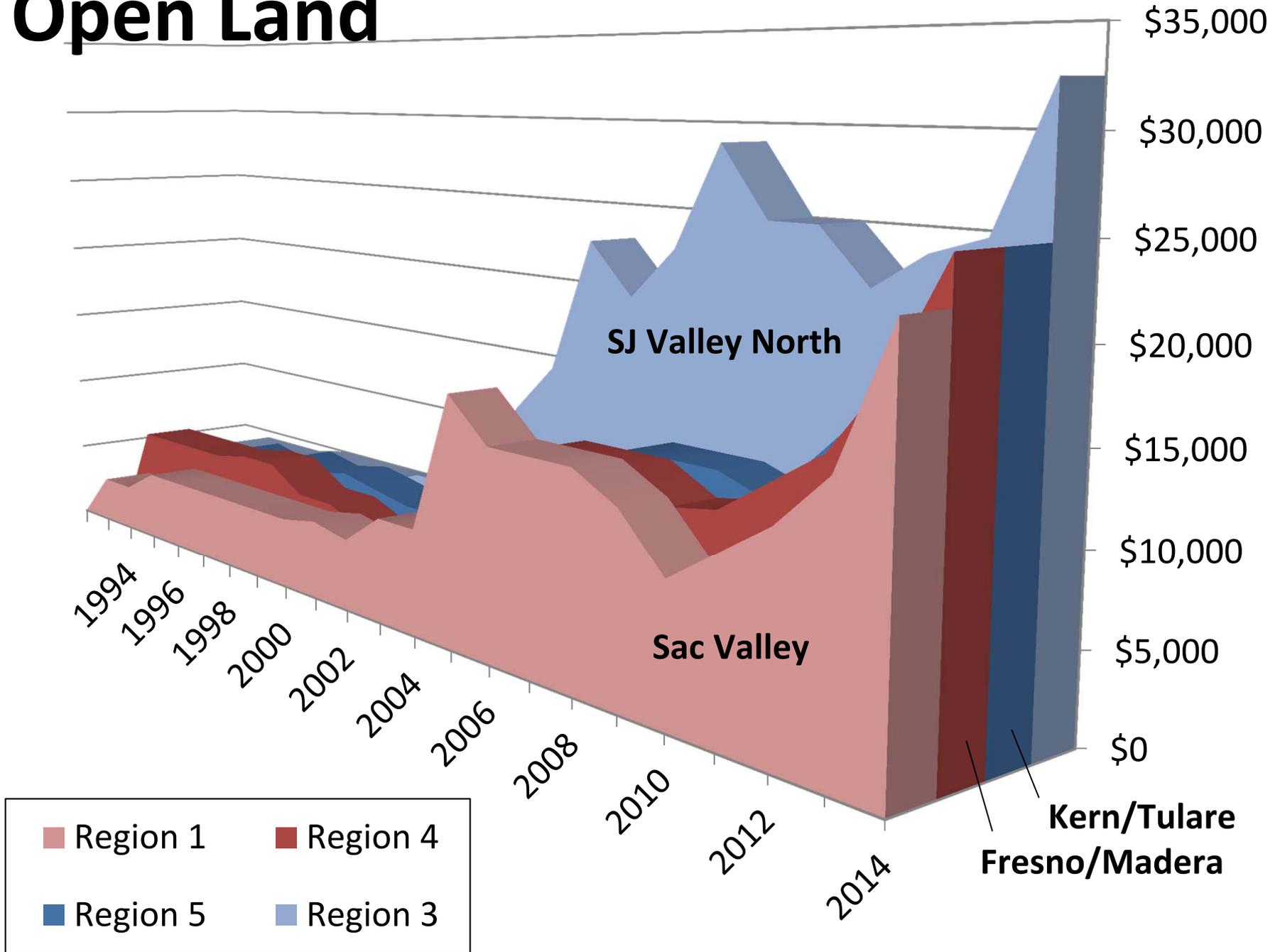
## **Scarcity:**

- Limited availability of good to excellent properties
- Especially those with good water conditions
- In light of their current earnings this is not surprising
- Older plantings at/near end life are available
- Some sellers would rather sell than drill a new well

# Impact on Land Values

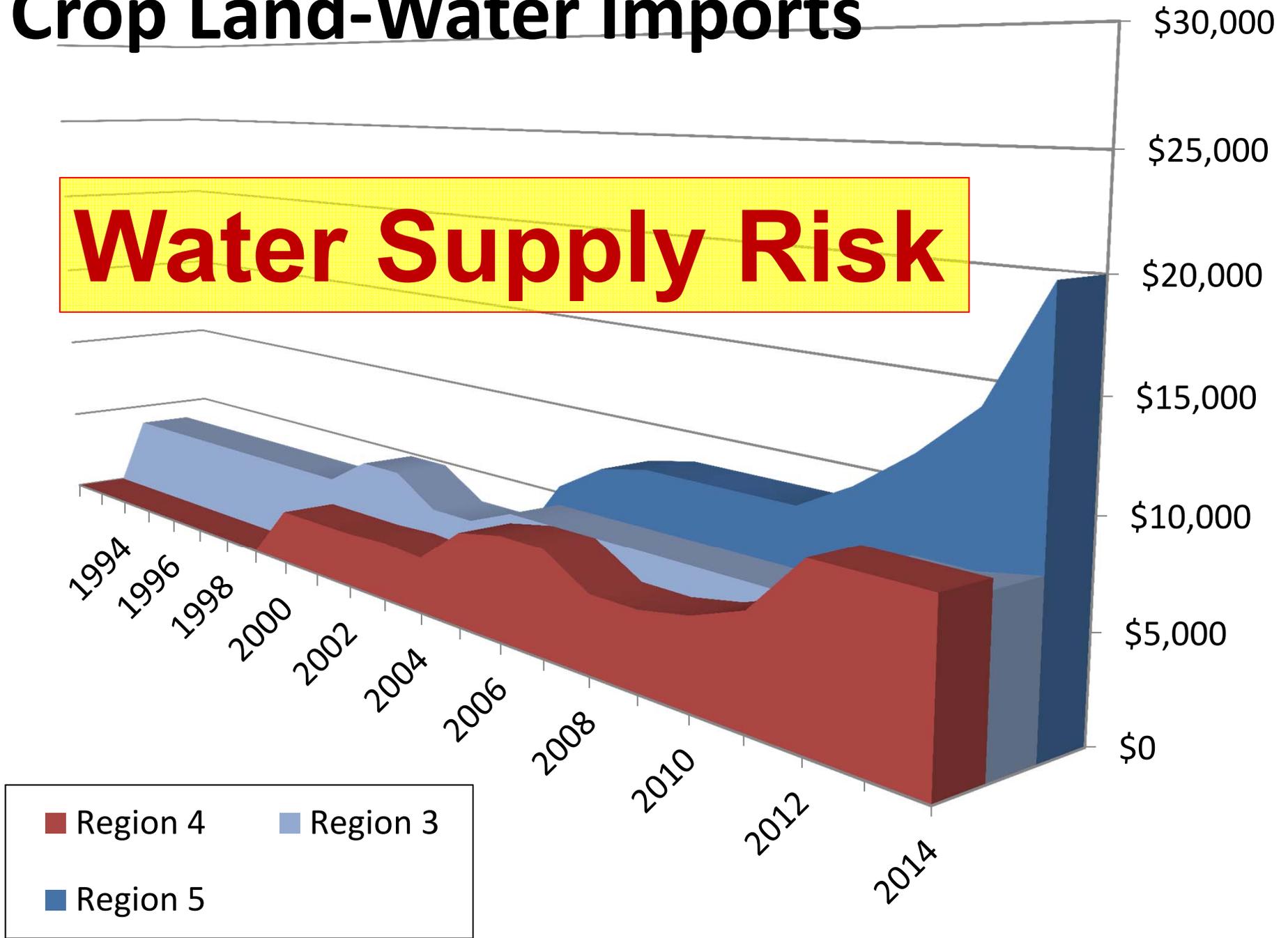
- In most areas
- Disconnect between land price and land rent
  - Market is driven by permanent plantings
- Values for land in “fringe” or untested areas have increased significantly
  - Market is driven by permanent plantings
- Commodity prices for most row crops remain favorable
- Dairy profitability returned in 2014, but must compete with nut growers for land

# Open Land



# Crop Land-Water Imports

**Water Supply Risk**



## REGION 2

# The North Coast

Napa, Sonoma, Marin, Lake, Mendocino, Del Norte, Trinity and Humboldt Counties

### **Primary Market Driver:**

- Profitability in the wine industry,  
(Wine prices drive grape prices drive vineyard values)

### **Secondary Market Drivers:**

- **Scarcity:** lack of land available for vineyard development
- **Control:** Manage grape supplies and costs
- **Water:** Irrigation and frost control

# Primary Market Driver

## **Profitability in the Wine Industry:**

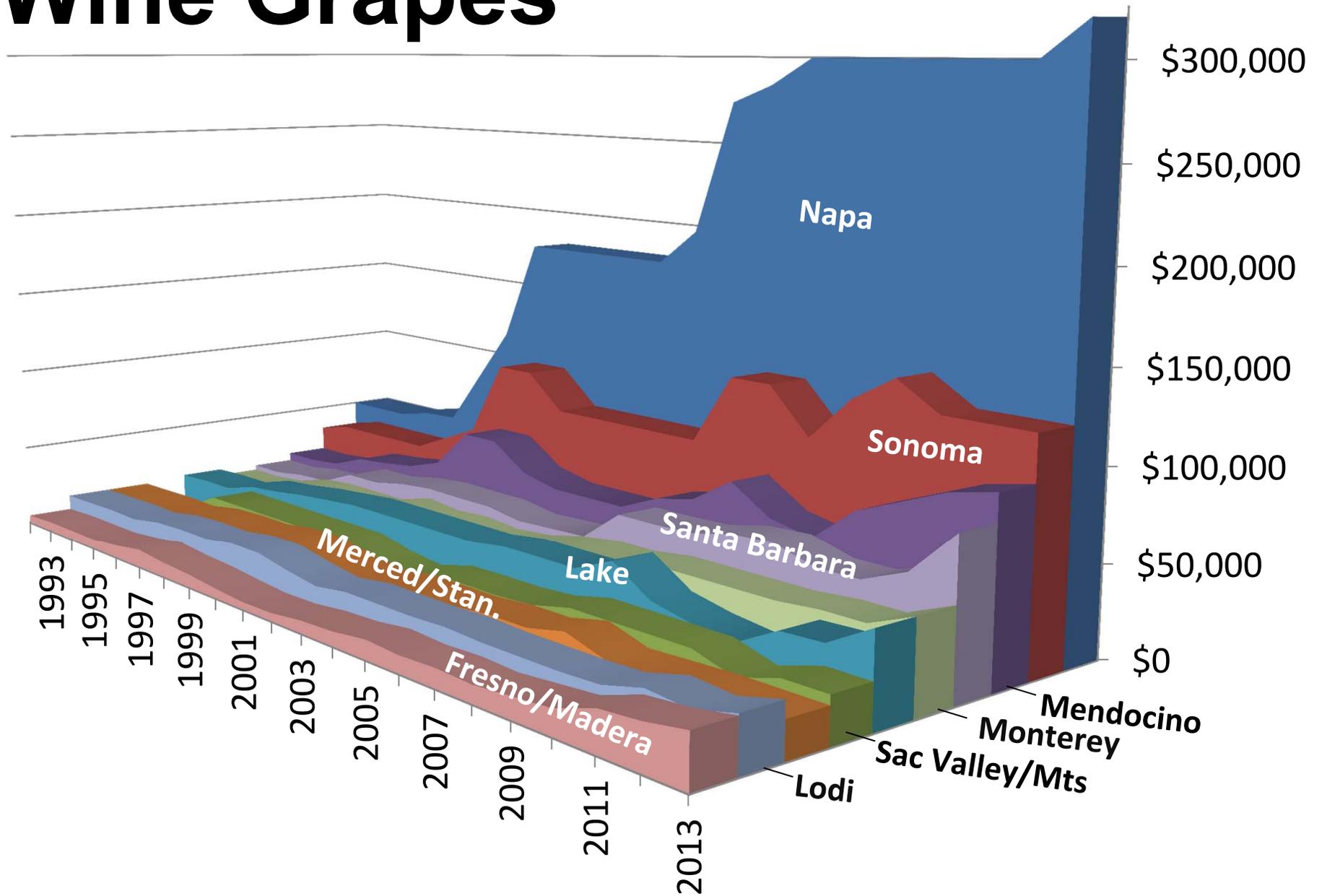
- Unlike nut crops...
- Wine profitability links to general economy
  - Luxury good
- Three good to great harvests in a row ('12, '13, '14)
- Increasing prices despite bigger crops
- Increased profitability to growers
- Concerns about “cost of goods” for wineries

# Primary Market Driver

## **Profitability in the Wine Industry:**

- Rising grape prices
  - plus
- Strong yields, (unprecedented three years in a row)
  - Equals
- Good grower returns in 2012, 2013, and 2014

# Wine Grapes



# Secondary Market Drivers

## **Scarcity:**

- Best areas essentially planted out
- New development constrained by erosion, scenic view and stream set-back regulations
- Approved projects are expensive, time-consuming and UNCERTAIN
- Basic laws of economics are pushing values higher

# Secondary Market Drivers

## **Control:**

- Rising grape prices concern wineries
- To control cost, wineries purchase vineyards

# Secondary Market Drivers

## **Water:**

- Not a significant driver in 2014
- Winter 2014/15 was actually fairly normal
- Impact of regulatory and compliance issues will continue to be felt

## REGION 6

### The Central Coast

Alameda, Santa Clara, San Mateo, Santa Cruz, San Benito, Monterey, San Luis Obispo, Santa Barbara and Ventura Counties

#### **Primary Market Drivers:**

- Profitability in the wine and vegetable industries
- Growth in the berry industry, (strawberries, raspberries and other bush berries)

#### **Secondary Market Drivers:**

- Scarcity: lack of land available for purchase/development
- Control: Manage grape/berry supplies and costs
- Water: Irrigation and frost control

# Primary Market Driver

## **Profitability in the Wine Industry:**

- Like the North Coast, most production areas of the Central Coast enjoyed strong yields in '12, '13 and '14
- Prices have increased
- Unlike North Coast, water is much more of a concern
- Some locations (Paso Robles) water is a dominant factor

# Primary Market Driver

## **Profitability in the Vegetable Industry:**

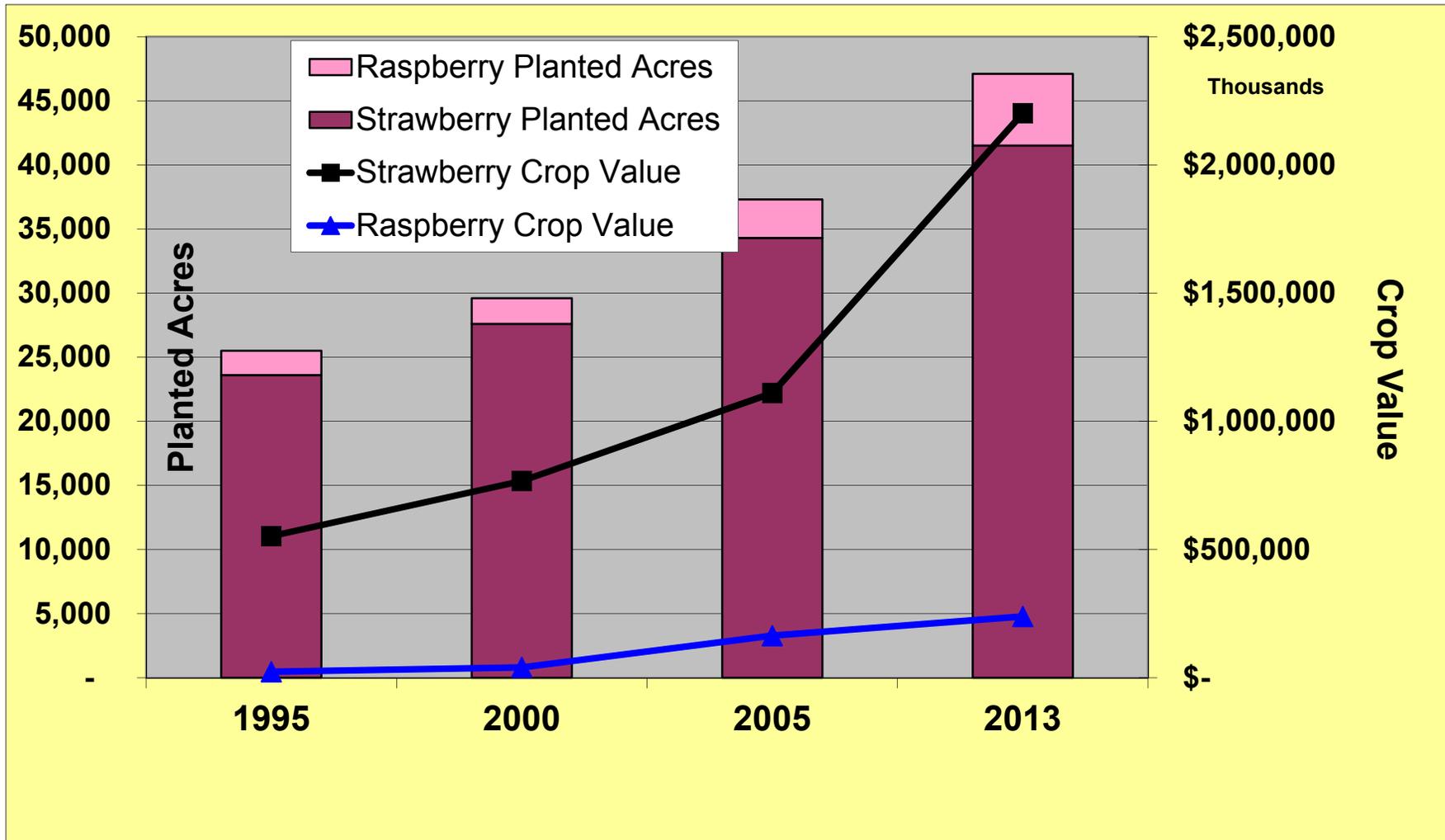
- Profitable year for most vegetable crops
- 2014 sales transactions were limited in most areas
- Local growers and investors are the typical buyers
- Demand for land for purchase or to lease, especially for berries, appears strong
- 2014-15 winter season in the desert was break-even to moderately profitable, strong demand for land and thus values and rents in 2014 remains in place
- Impact of California drought, (Huron)

# Primary Market Driver

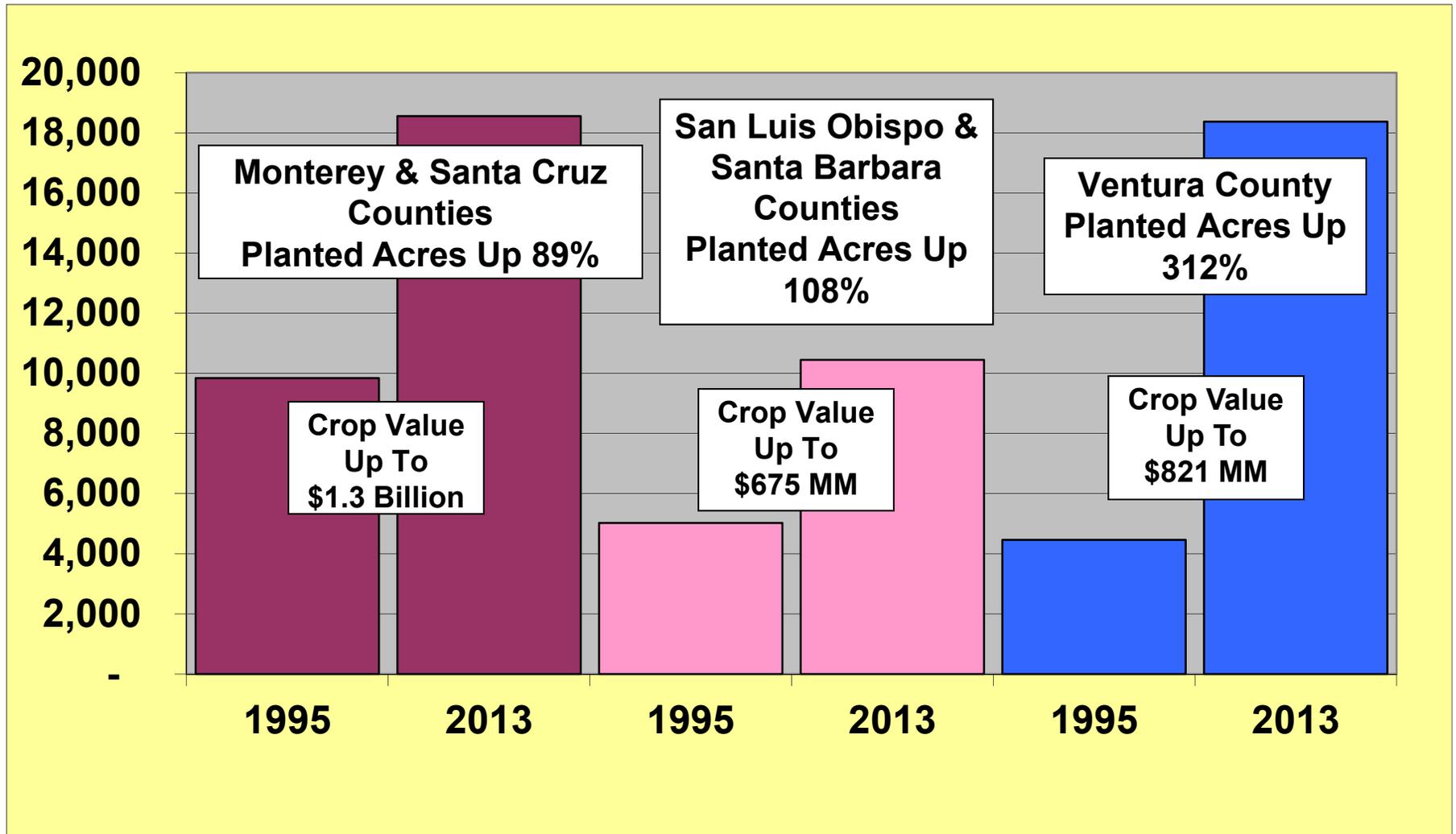
## **Growth in the Berry Industry:**

- Prices and yields were generally good in 2014 after a disastrous start in Camarillo in 2013
- Increased acreage of other berries, particularly raspberries and blackberries, (how many new hoop houses are out there?)
- Labor cost and availability remain as issues
- Impact of fumigation restrictions

# Growth in the California Berry Industry



# Planted Berry Acres in California



# Secondary Market Drivers

## **Scarcity:**

- Several large transactions in 2014
- Historically, most properties were not exposed to the open market but privately negotiated between buyer and seller
- In recent years, there has been more broker involvement

## **Control:**

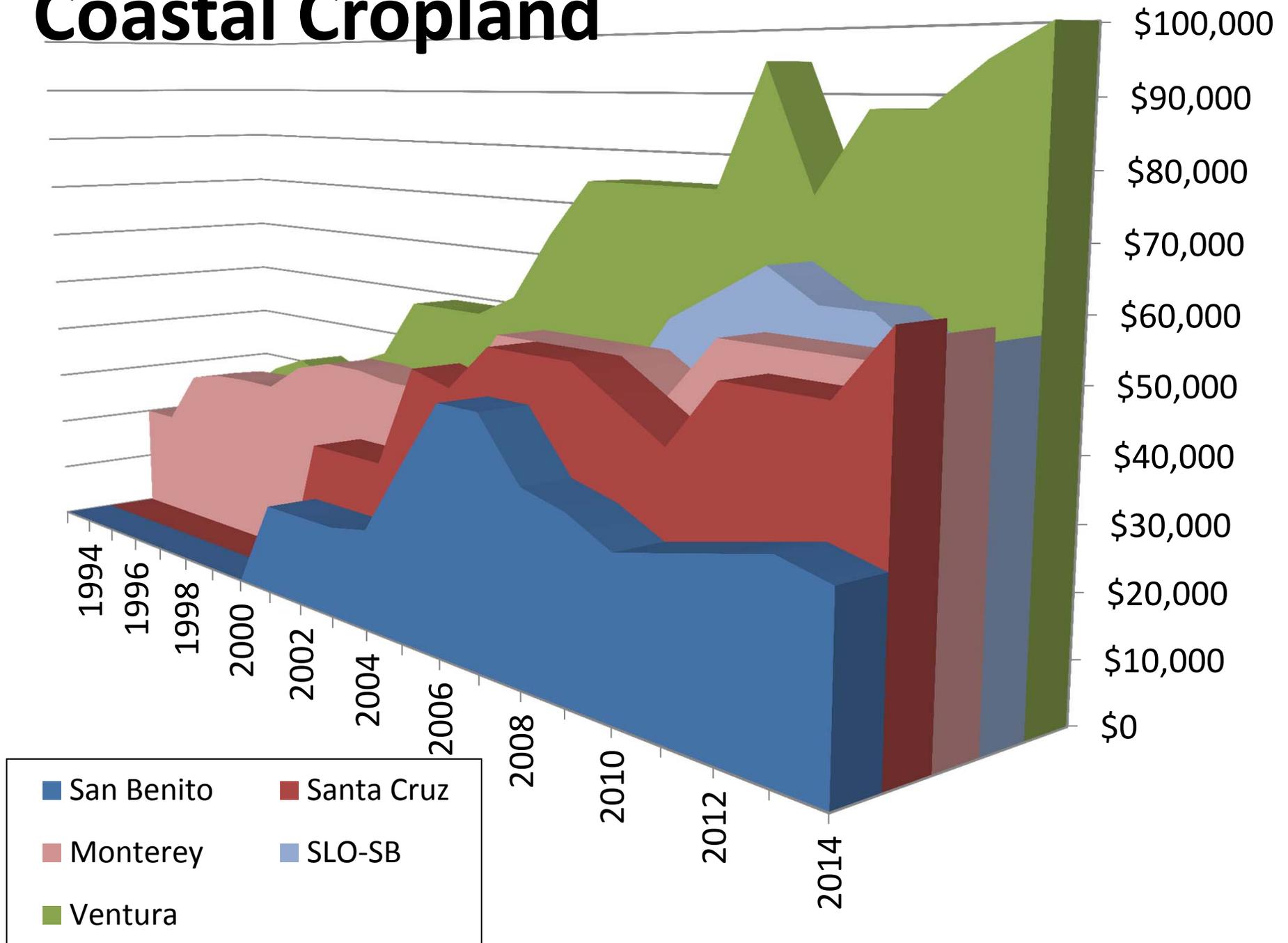
- Buyers for vineyards and row crop land for vegetables or berries are looking to control output and costs

# Secondary Market Drivers

## **Water:**

- Most areas of the Central Coast rely on groundwater
- Increased vineyard development in recent years in the Paso Robles area and dry conditions combined to lower water levels
- In August of 2013 an injunction on further well development was issued by the county
- The impact on land values and future vineyard development is unclear

# Coastal Cropland



# REGION 7

## Southern California

Los Angeles, Orange, Riverside, San Bernardino, San Diego and Imperial Counties

### **Primary Market Drivers:**

- Urbanization is key, both to pace of transition of farmland to other uses and demand for nursery, sod and other products, (exception is the Imperial and Palo Verde Valleys)
- Water: cost, reliability and availability. Impact of water agreements with urban agencies
- For some crops and areas, agri-tourism is crucial, (Temecula Valley)

# Secondary Market Drivers

- Impact of foreign competition on avocado, floral and other specialized crops
- Impact of "big box" stores and real-estate development on nursery business
- The higher quality farmland in the Imperial Valley is impacted by winter vegetable crops and markets
- Commodity prices for most row crops grown in the Imperial and Palo Verde Valleys remain favorable.

## REGION 8

# Mountain Areas

Alpine, Amador (East), Calaveras (East), El Dorado (East), Inyo, Lassen, Mariposa, Modoc, Mono, Nevada, Placer (East), Plumas, Shasta, Sierra, Siskiyou and Tuolumne Counties

(Comments are generally applicable to other ranching areas)

### **Primary Market Drivers:**

- Livestock prices
- Impact of drought on crop acreage, feed availability and costs

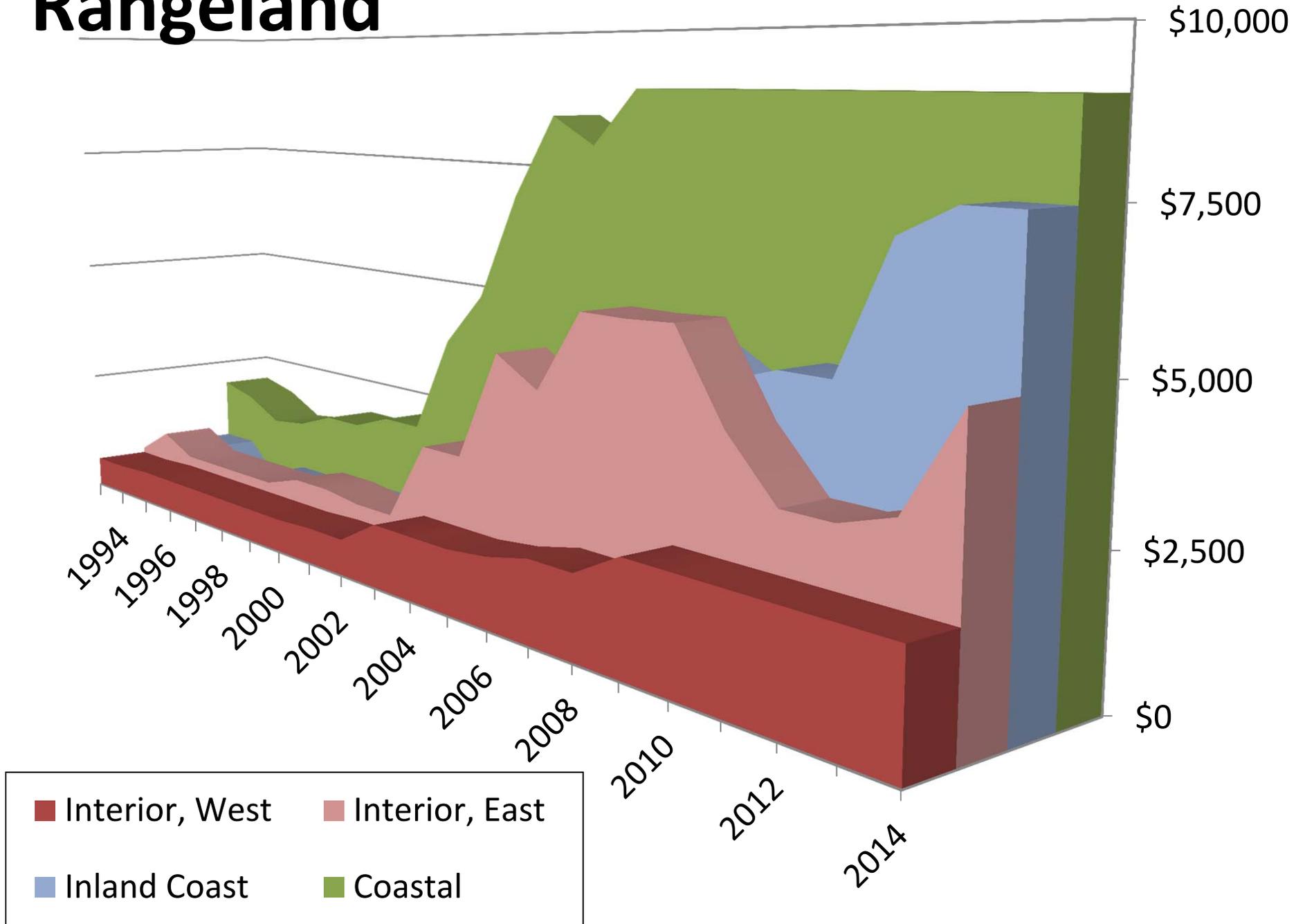
### **Secondary Market Drivers:**

- Impact of recreational, retreat and homesite buyers remains mostly muted after 2008 recession
- Commodity prices remain attractive for feed and other crops
- Several mountain valleys have seen increases in strawberry plant acreage

# Ranch Properties

- Limited sales activity across most of California
- 1031 Exchange transactions remain limited
- Prices generally stable and marketing periods for higher quality grazing land are shorter than 2013
- Cattle prices are high due to historically low cattle inventories and growing export markets
- Drought has increased demand for higher quality ranches in Northern California
- Some land formerly used for grazing is being converted to permanent plantings

# Rangeland



## Summary

# California

- California commodities have enjoyed an impressive run
- In most markets increasing profits have driven farm values to record highs
- Acute drought event threatens many growers in 2015
- Long term water policy will have long term ramifications
- Property in areas with threatened ground and surface water are at risk
- Property in areas with good water will continue to be attractive

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# Thank You!