Several of my physician colleagues have sought my advice regarding whether investing in agricultural or timber real estate makes sense for them.

Why Me?

When I am approached for advice, I imagine that it is because I grew up farming with my father and grandfather, and now also own a farm of my own. The sum of these experiences lends to some insight into what owning land involves...both the upsides and the downsides.
My Background

I am an anesthesiologist who lives on a working farm (we currently grow corn, soybeans, and timber) in the Midwest. The posh suburbs and “doctors’ neighborhoods” are great, but just not for me!

After residency, I returned to practice in my family’s hometown, and have now been here for nearly a decade. Shortly after signing my employment contract, the opportunity arose to purchase a sizable farm with a house and barns on it, so I took the leap and dove into this experience.

Eventually, I met my wife, who is also in medicine and hails from this same town, so I did not have to sell rural living to her! (This is a key point…as I have several friends who have also had interest in purchasing a farm, but could not convince their spouse to be on board with the idea.)

Having been a landowner for nearly a decade, I’ve learned some lessons on property ownership that I hope others might find instructive as they consider this investment.

Our Investment Philosophy

Dr Hesler and his wife showing off their favorite tax deduction
My wife and I are both first-generation healthcare providers. Many in our family did not have the opportunity to attend college, but they did instill within us the values of hard work and of saving a dollar. Growing up in families with “lesser offenses” (earning) but “strong defenses” (living on less) taught us to appreciate the incomes we now enjoy without feeling the need to live in a “high-income doctor neighborhood.” This has certainly been helpful to our financial situation. It is much easier to curtail your spending habits and invest more money when you live in an area where the median income is not six-figures.

We share a philosophy of living on far less than we earn, saving money, giving to charity through our church and community, and rapid debt reduction/borrowing wisely.

We consider tangible assets to be an important investment class in our portfolio, but that does not stop us from funding our traditional market-based IRA/401k portfolios, especially given the advantages of tax-deferred investing during our peak earning years. Essentially this is a two-pronged approach of investment in both the stock market and in tangible assets such as real estate.

Not for Everyone

Please allow me to preface this by saying: Owning farmland is not for everyone! Many of you will read this commentary and find that you are more comfortable investing in the stock market, commercial/rental house real estate, or some other alternative investment. Even under ideal circumstances, owning farmland may take more time and energy to deal with than many other investment vehicles, especially compared to passively investing in a market index fund. I am not here to sell anyone on the idea of rushing out and buying farm or timber land; I am merely presenting the arguments both for and against it. It is a serious and long-term commitment, and even though there
can be many upsides, many people have been burned speculating in the real estate market. It is imperative that you enter this process informed.

**Economic Upsides of Investing in Land and Timber**

1. Land is an Income-Producing Tangible Asset that will fluctuate in value, but will never be “worth nothing.”
2. It is a dividend-yielding asset that, if historical patterns hold, should appreciate over a long-term time horizon.
3. Even in real estate market downturns or economic depression, land maintains some intrinsic value.
4. Land produces items that should be in high demand virtually forever: food and timber.
5. It is a physically-held property, not a paper stock certificate for a business that can become worthless in a moment’s notice. This contrasts to stocks in companies such as Enron, WorldCom, or Bernie Madoff’s firm…all of which became as worthless as the paper they were printed on in a matter of days.

6. Multi-Generational Asset: Land is an asset that can be passed down to future generations as part of your “legacy.”
7. Hedge against stock market volatility.
8. Land prices are often not correlated to stock market performance—neither the ups, nor the downs.
9. Excellent motivation for me to live on less and invest more early on in life.
10. Because I was motivated, I paid off the mortgage in 5 years instead of 30.
11. It helped me maintain financial focus, contain my lifestyle, and “not live like a doctor.” I am not sure I would have had this much financial discipline early in my attending career if I had been investing exclusively in the stock market.
12. When set up properly (good tenants, fair leases, etc.), farmland can provide fewer headaches than commercial or residential rental properties, as well as have less costs of managing the property and collecting rent payments.
13. Cash rental payments are often made by the tenant twice annually, Spring and Fall, which makes collecting rent an easy process compared to that of rental houses.
14. Tenant farmers are usually responsible people (often CEO’s of a multi-million dollar farming operation), and the rent collection process is usually not unpleasant or difficult. This stands in stark contrast to many of the tenants of low-budget rental homes who don’t always have a reputation as the most pleasant or reliable folks to collect monthly rent payments from.
15. If you have enough (paid-off) land by retirement, it can be a great source of passive income.
16. “Snowball Accumulation” can work well. If you have income-producing farms, once you have one farm paid for, you can purchase a second and have two farms paying for one. This cycle can continue to compound several times at an accelerating pace until you are the owner of several tracts of land by your retirement.
17. This snowball relies on your financial discipline to reinvest the rental/timber proceeds back into the land, whether on capital improvements, or on early mortgage
payoff. It should not be treated like additional income until you have reached financial independence.

Non-Economic Upsides

1. Gold Level Scholarship Sponsor

For my family, it is our chosen way-of-life. We love living in the middle of God’s country with no neighbors, traffic, or skyscrapers to contend with. We look forward to instilling the same values of hard work and common sense in our children as our parents and grandparents did for us growing up around a farm.

2. After a hard day of stressful work at the hospital, there is nothing better than coming home and relaxing in God’s Creation.

3. Hunting, fishing, and recreational activities abound for us. Cutting firewood is also a great way to get off the couch in the winter time.

4. Some of the “tools” you need around the farm are just plain fun, and may be tax-deductible if you structure the business model properly. For instance, a tractor may be a necessary expense to maintain the property, and hence a tax deduction. (Check with your accountant ahead
of time, as Hobby-Loss rules may apply.)
5. As my Dad always told me: “You’ll never go hungry if you own some land.”

**Economic Downsides**

1. Investing in land is not for Rookies. Many investors have lost significant money speculating on land. You need to understand the local community structure, and the nature of the business, or you can face some severe financial losses. Someone with an agricultural or rural background (and local connections) probably stands a much better chance of making money from this investment.

2. There can be just as much volatility in land as in the stock or housing markets.

3. To make the “Snowball Accumulation” model work, you may need to subsidize the first farm’s rental income to pay the mortgage off rapidly (this cuts into your discretionary income the first few years you purchase it).

4. ROI rates may not be as high as with commercial or residential rentals.

5. Major Annual Expenses such as property taxes, insurance (I definitely recommend carrying a sizable liability policy and umbrella coverage on yourself that also insures your property), and maintenance (might be done by Tenant, depending on lease).

6. Other Major Possible Expenses such as major repairs to buildings, grain bins, wells, field ditching tiles, roadways, and timber stand improvements.

7. Limitation of Tax Benefits: Hobby-Loss rules prevent showing a “loss” for too many years, so expenses are only deductible to a certain expense cap. Work with your accountant ahead of time to develop a good game plan before this is an issue. According to my accountant, doctors who own farms are more likely to be audited because “You’re in the business of medicine, not
Non-Economic Downsides

Land can turn into “just another headache to deal with” to an already busy physician. Owning land has to be a personal passion, or else you are probably better off investing in other more market-based investments. There can be a significant amount of upkeep (time and/or expense) required, depending on the situation.

Many people may have no interest in owning land, and are better off building a portfolio of investments that have a “paper value” to them.

Key Points for Investors

Land Valuation

It is important to know what you are buying, and how much it is truly worth versus what you are paying for it.

Determine the income-generating potential of the land:

1. Crops- cash rent or sharecropping arrangements on crops
such as corn, soybeans, or wheat
2. Hay
3. Livestock
4. Rental of Barns or Grain Storage
5. Timber Income
6. Mineral Rights—oil, natural gas, etc. (Verify that the purchase agreement conveys all mineral rights with the land.)

Property Taxes
Rates vary greatly between states, and even between adjoining counties.

Liens
Make sure you aren’t inheriting any unknown liens with purchase. Even if you are buying a property in cash, paying for a title search will be money well spent.

Many variables play into the value of a parcel of land:
1. Topography (size, borders, “rolling” versus “flat”)
2. Soil type (clay, sandy, or black)
3. Whether soil quality and fertility has been kept up by prior tenants
4. The condition of drainage/tile systems, waterways, fences, buildings/grain bins, and roadways. Repair of these items can be very costly.

**Transitioning to New Tenants**

Determine whether the current tenant has any rights to lease past the current growing season. Attempt to execute a seamless transition to the subsequent tenant if you choose to change tenants.

**How to Have a Good Tenant Relationship**

1. Attempt to find a fair, honest, good tenant who will take care of your investment (the land) and is financially stable in his/her farming operation. (Avoid tenants who have an appearance or reputation of being over-leveraged.)
2. It is advantageous to find the right tenant for a long-term business relationship, rather than to change tenants every few years. Continuity and stability have value in a landowner-tenant relationship.
3. Have a good/fair contract in place with your tenant, and make sure the tenant has a good reputation locally.
4. Sometimes it is more valuable to have a tenant who pays slightly less but takes better care of the land (maintaining soil fertility, ditching, and general upkeep) than a tenant who may pay a little more but does not properly care for your land. Remember that your land is YOUR investment that you want to maintain for decades to come.
5. If you don’t live in the area or have good contacts in the area (or have limited knowledge of agriculture or
timber), consider retaining a reputable land management firm. This will eat into your profit margins though, similar to a property manager for rental houses. A property manager is an unnecessary expense if you understand agriculture, have a good relationship with your tenant, and live reasonably proximal where you can check on the land frequently.

Publications/Reports to Help Determine Values

Utilize objective reports such as the following, to help determine purchase/sale prices, cash rent values, and soil values:

1. “Purdue Agricultural Economics Report”
2. “Illinois Soil Productivity Index“
3. “Iowa Corn Suitability Rating“

Unique Aspects of Timber

1. Timber is unique in that it is a “once-a-decade” payment:
2. It can be sold in varying years, and keeps for years on end until you decide to sell some timber from your woods.
3. Can be sold strategically based on:
4. Your tax situation of each year
5. Timber market fluctuations in the value of the timber
6. Timber income is treated as passive income subject to capital gains rates. There may be value in your tax situation to have income from this “bucket.”

Do you have any “alternative investments” that double as a life-long dream, a loved hobby, or a way of life for you and your family outside of medicine? Have the sacrifices to make that dream a reality been worth it? Comment below!