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Consider buying rural land in 2009
By Curtis Seltzer

BLUE GRASS, Va.—The year 2008 started out not so good for a lot of people and ended up worse than anyone imagined.

We begin 2009 afraid of what's coming. Most of us are scared about our income. So we are spending less and beginning to horde. Cash in hand feels like a good long-term investment.

Franklin Roosevelt told Americans in March, 1933 that "…the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance." He said: "This Nation asks for action, and action now."

Over the last four months, we, too, have acted. Of the $350 billion made available under the Bush Administration's Troubled Asset Relief Program (TARP), 116 banks received $250 billion for one thing or another; $40 billion went to an insurance company—American International Group (AIG); $20 billion went to the New York Federal Reserve to cover possible lending losses to owners of securities backed by various types of debt; $20 billion was invested in Citigroup on top of its first $25 billion and in addition to $5 billion to cover loans; and $13.4 billion went to GM and Chrysler. (Jeanne Sahadi, "How to spend $350 billion in 77 days," CNNMoney.com, December 19, 2008.)

And what have the banks and AIG done with this money? No one's telling. Of 21 banks that received at least $1 billion in TARP money, the Associated Press reported that not one would provide specific answers to how much was spent and on what, how much was held in savings, and their plans for the rest. Matt Apuzzo, AP, "Banks mum on where TARP money is going," Rutland (VT) Herald, December 23, 2008.)

With TARP money in their hands, banks were supposed to begin lending again. But the Treasury Department never required them to do so or even report what they did with it. So TARP-bank lending still seems to be stuck in low idle, and no one seems to know where the money has gone.

I'm not an economist and I don't play one on TV, but it does seem that "acting" in this manner has been slightly lax and less than overwhelmingly effective.

The 2009 round of pushing public capital into the economy will probably avoid dropping more money into the black hole of banks and focus on bricksand-mortar projects that goose employment. As President-elect Obama says, things will get worse before they get better. Real estate will continue to be under the recession’s thumb for the next six-to-nine months. What, then, might this period of lag present to rural land buyers?

Desperate sellers are softening. Unlike residential prices, rural land prices did not erode much in 2008. But during the last month or two, some asking prices came down as stale inventory clogged website after website.

Rural land, as a whole, has appreciated steadily for two decades without the crazy price bubbles that eventually blew up “hot” urban, residential markets like Phoenix and Las Vegas. Still, some farmland was overvalued because of the get-rich-quick lure of corn-based ethanol. And a lot of timberland was priced up as second-home property, which overvalued it for timberland buyers.

Asking prices for rural land seem to be above where they should be by 15 to 20 percent overall and as much as 50 percent for timberland in spots, according to the extremely advanced survey-research technique I use--Poking Around 3.0.

My sense is that that many sellers will accept big discounts on properties they need to move and know are overpriced even though their asking prices have not been lowered.

For example, I looked at a 30-acre, second-home-type, non-farm farmette that was priced at about $290,000 for most of 2008, then reduced to $270,000. I offered $147,000, which I thought was generous, considering the property’s problems. A few weeks after I was rejected, it sold in the mid-$170,000s, more than 40 percent off the original asking price.

It’s painful for sellers to watch their hyped-up expectations deflate. But it’s the only way to get things sold. When market conditions force price reductions, both buyers and sellers should remember it’s business, not personal.

Money is available. Credit unions and local banks operating in small towns and rural areas remain accessible sources of mortgage money for land and country property. Generally speaking, these lenders are not in trouble with their mortgage loans.

The Farm Credit System (FCS) is a federally sponsored, tax-favored network of coops that lends on a wide range of rural properties and agricultural needs. I checked FCS sites this week for quotes on a 30-year, fixed-rate mortgage. I found rates ranging from about 5.3 percent with one point to as much as eight percent.

Year in and year out, credit unions offer the best mortgage money, if only because they are not taxed as profit-making organizations.

Interest rates will be as low as they're going to get. The Federal Reserve has stated (not hinted, not suggested, not whispered) that it will keep interest rates as low as possible in hope that people will borrow and make our economic engine turn again. Fixed rates on long-term mortgages are not likely to be better than during 2009's first six months.

Inflation will work its dark magic. The federal government is printing and borrowing money to fund the bailouts and the stimulus packages, present and future, which may ultimately approach $2 trillion. We will deal with inflation later, when we have to, Federal Reserve Chairman Bernancke has said.

Land investments bought in 2009 when prices are pressured will benefit from the inflation that looms in the future.

No investment is free of all risks. Buying land involves three types of risks: 1) paying more than the property is worth to the buyer; 2) not knowing something about the property that would have negative future consequences; and 3) being buffeted by deteriorating personal finances or economic changes that force an untimely sale.

Disciplined buying can prevent impulsive, emotional overpaying for property. The price a buyer should pay is based on what the property's assets and problems are worth to him in light of his resources and plans. The buyer's price has nothing to do with the seller's asking price, appraisal number, tax-assessed value and the seller's opinions of value. Research can almost always discover defects in a property and establish the true values of its assets. These two risks, accordingly, can be minimized through research and analysis.

The risk of changed circumstances cannot be controlled. It runs with everything we do, and don't do. It should be factored in to every decision to buy property as in: What do I do if something bad happens? Dismissing the risk of changed circumstances because it's hard to forecast and quantify doesn't diminish it. Lack of planning for the worst case simply increases the cost if things come to that.

I have shelves of books written by "real-estate gurus," most of whom I consider borderline Bernie Madoffs. They approach buying property as a testosterone competition to "git 'er done." Buying something was their goal, not buying intelligently. Any idiot could "git 'er done" in recent years, and many now regret having done so.

Smart buying is a matter of getting the right property done at the right price and terms with no surprises. It’s a matter of thinking through, of discarding 100 possibilities to find one that works, of knowing how to determine a buyer’s price.

The 2009 buyer’s market does not relieve buyers of the responsibility they bear to themselves to act prudently when the smell of seller fear fills them with the scent of opportunity.

Using one’s head in real estate is usually a pretty good rule to follow.

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