GROWING NO-TILL. Iowa no-tiller Clay Mitchell and four other investors and farmers formed Fall Line Farms to help fellow no-tillers expand and improve their operations.

New Company Aims To Help No-Tillers Expand

Fall Line Farms will lease farm ground to top no-tillers or buy it from farmers wanting to see good soil stewardship practiced.

By John Dobberstein, Managing Editor

A GROUP OF farmers and investors is spearheading an effort to help no-tillers expand their operations.

Fall Line Farms (FLF) is offering to become capital partners for no-tillers who don't have the resources to buy farmland — either because current prices are economically unfeasible or because they're already highly leveraged but still need to grow.

The group says it will lease land to top no-tillers or buy land from owners who care about soil stewardship. The effort was made public during the 20th annual National No-Tillage Conference held in January.

The founding partners in FLF include:

- Clay Mitchell, a fifth-generation no-tiller from Iowa with deep knowledge of precision technology and productive no-till systems;
- Scott Day, a fifth-generation no-tiller from Manitoba and a professional agronomist;
- Laurence Trebesch, who comes from a fifth-generation farm, ranch and ag-finance family in Idaho and Montana
- Baptiste Tellier, a farm manager for an international farming and food company with farming experience in North and South America, Europe and Africa;
- Eric O'Brien, a former managing director for Lightspeed Venture Partners with 13 years of professional investment experience in the U.S. and internationally.

The group will consider prospects in any geographical area in the U.S. and may also offer advice on equipment, technology and agronomy to lessees.

It's not clear how the lease contracts will work, but "flex leases make sense these days," says Mitchell, who no-tills 2,500 acres of corn and soybeans in northeast Iowa.

The benefits of this arrangement, Mitchell says, is for no-tillers to grow their operations without having to purchase new land, to gain access to new technologies and best practices, and for farmers to free up capital in a sale lease-back of their own land.

For potential sellers of farmland to FLF, the benefits could include keeping land in ag production with top no-tillers and taking advantage of potential tax-deferred structures for estate-planning purposes.

FLF may set out some best-management practices in the lease, but there isn't a particular farming system the group would dogmatically follow.

"We want to have long-term relationships with farmers, so leases that keep the farmer strong are important to us," Mitchell says. "We're going to work very hard at land improvements. We also understand everything that can go wrong in farming and we're more sympathetic than city landlords."

In The Family. The investors want to work with family farms, rather than focusing on the biggest operations.

"We would prefer to work with no-tillers who use local retailers for seed, chemicals, fertilizers and machinery, rather than larger farms that may cut out the middleman and become beholden to single suppliers," Mitchell says. "We will not have buyers' clubs or anything like that.

"We want to create value by improving land and supporting the best farmers. While

I think mega farmers do as good of a job, on average, as small farmers, the very best farmers are all family farmers who are owner-operators."

Outdated Metrics. Mitchell says he was convinced to start FLF after spending year after year going the extra mile to be a good steward of the land he no-tills, only to see neighboring farmers mine nutrients and lose topsoil through excessive tillage.

He doubts these farmers pay more than he does to rent farmland or have much trouble finding land to rent.

"I've realized that land degradation isn't internalized into farmland economics, and that creates a big inefficiency in the farmland market," Mitchell says.

He adds there are plenty of reasons why unnecessary tillage is still happening:

- **Dorian Grey Effect:** Tillage covers over the scars of erosion, while no-till keeps the scars visible.
- **Romanticism:** While tillage causes soil loss, it's still associated with organic operation and the "old ways" of farming.
- **Obfuscation By Technology:** Breeding and production gains have increased yields in most fields faster than erosion has reduced them.
- **Farmland Identity:** Investors believe that land has agricultural value because of signs of agricultural identity, such as location within agricultural landscape, barns, fences, proximity to markets or green hedgerows.
- **Yield:** In the short-term, tillage might increase yields on compacted or poorly farmed ground. During the early years of intensive farming of fertile but erosion-prone steep slopes, "farmers and policy-makers may be lulled into a false sense of security by strong growth in yields in spite of heavy erosion," he says.
- **Time Lag:** Because of the concavity of yield response to topsoil depth, large amounts of soil are lost before yield loss begins, creating a large time lag between the action and consequence.

No-Till Value. No-tilled farm acres will be far more valuable in the future as world demand for food begins to outstrip resources, Mitchell says, noting that tilled farmland loses one to two orders of magnitude more soil than no-tilled land.

Because nutrients in soil are mostly in the top few inches, no-till soils will, over time, have more topsoil and nutrients than tilled soil, he says.

"People in Iowa still buy farmland off of the Corn Suitability Rating (CSR), and in other states the ratings are based off decades-old soil surveys that are used as a proxy for farmland value," Mitchell says.

Mitchell adds he's done a lot of multidepth soil sampling and sees that soils with the same CSR ratings can have vastly different amounts of topsoil and vastly different productive capacities. The most important factor in predicting this is tillage history.

"My analysis has shown that investing in no-till farmland is a huge arbitrage," he says. "It will take a time for the marketplace to seek a current inventory of soil productivity, but as it begins to happen, I think we can make a lot of money."

We want to have long-term relationships with farmers, so leases that keep the farmer strong are important to us...

Clay Mitchell

Strong Gains. In the last few years, bidding wars over productive farmland have erupted across the Plains and Midwest Corn Belt, helping to push farmland prices to historic highs.

In the past year, prices of farmland in Iowa, Illinois and Indiana have skyrocketed by 20% or more, and by 12% and 8% in Michigan and Wisconsin, respectively.

The USDA reported last August that the average price of farm real estate nationwide had been $2,140 an acre as of Jan. 1, 2010, up 1.4% from the level a year earlier, but 86.1% above the level a decade before.

Cropland values in the Plains States rose more than 25% over the past year to a record high, the Federal Reserve Bank of Kansas City said in a quarterly survey of 243 banks in the region.

Nebraska posted the strongest gains, with irrigated and non-irrigated land values rising approximately 40% above year-ago levels, says the Kansas City Fed. Oklahoma, mired in one of its worst droughts ever, saw a gain of just over 10%.

The price of farmland in the Corn Belt rose 25% in the third quarter, the biggest year-on-year jump in more than 3 decades, another Federal Reserve Bank survey showed.

Recent declines in crop prices have cooled the enthusiasm a bit, but few experts see the farmland-value bubble bursting anytime soon. Unlike the 1980s, buyers are paying cash rather than relying on credit, and farmers are paying down their debt loads.

Demand for U.S. grains by China, India and other countries shows no sign of subsiding as the world's population tops 7 billion. And there is growing demand for biofuel, which uses about 40% of the U.S. corn supply.

Most Landlords Not Farmers. Although production has shifted dramatically to larger farms over the past 25 years, 97% of all farms remain family farms, generating 82% of the total value of U.S. agricultural production, the USDA says.

And most of the farmland rented by farmers is leased from people who are not currently farm operators themselves.

In 2007, 277,500 farm operators reported renting 62 million acres of farmland to others, which accounted for only 16% of the 395 million acres of rented farmland, the USDA says. Non-operator landlords provided the rest of the rented land.

Mitchell believes high farmland prices are being driven by a combination of factors — including low interest rates, high grain prices and poor recent returns in other asset classes.

But he also sees a new appreciation emerging for farmland scarcity. It's estimated that only 18% of the world's arable land is not being farmed, and 37,000 square miles per year is being lost to soil erosion.

"The biotech industry says we can double yields to meet new demand, but we'll have to produce more grain in the next 40 years than the previous 500," he asserts. "The U.S. is losing soil 10 times faster than the replacement rate, and China and India are losing soil 30 to 40 times faster than the replacement rate.

"Owning farmland that still has great productive potential is the best investment in the world."

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