Non-Resident Alien Investment Activity In Iowa Farmland: A Preliminary Analysis

Craig Currie
Iowa State University

Michael Boehlje
Iowa State University

Neil Harl
Iowa State University

Duane Harris
Iowa State University

Follow this and additional works at: http://lib.dr.iastate.edu/econ_las_economicreports

Part of the Agribusiness Commons, Finance and Financial Management Commons, International Business Commons, and the Real Estate Commons

Recommended Citation
Currie, Craig; Boehlje, Michael; Harl, Neil; and Harris, Duane, "Non-Resident Alien Investment Activity In Iowa Farmland: A Preliminary Analysis" (1975). ISU Economic Report Series. 27.
http://lib.dr.iastate.edu/econ_las_economicreports/27

This Article is brought to you for free and open access by the Economics at Iowa State University Digital Repository. It has been accepted for inclusion in ISU Economic Report Series by an authorized administrator of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.
Non-Resident Alien Investment Activity In Iowa Farmland: A Preliminary Analysis

Abstract
The issue of non-resident alien investment in U.S. business and agriculture has recently attracted the attention of numerous groups at the local, state, and national level. Public discussion and concern on this issue are based largely upon hearsay evidence and incomplete information. A comprehensive source of data or general picture of foreign investment in U.S. agriculture does not exist. Not only are the number of cases and characteristics (type of land, motivations of the investor, the intermediary channels, etc.) of actual investment activity unknown, but the nature and incidence of inquiries are equally unclear...

Disciplines
Agribusiness | Finance and Financial Management | International Business | Real Estate

This article is available at Iowa State University Digital Repository: http://lib.dr.iastate.edu/econ_las_economicreports/27
NON-RESIDENT ALIEN INVESTMENT
ACTIVITY IN IOWA FARMLAND: A PRELIMINARY ANALYSIS

Craig Currie, Michael Boehlje
Neil Harl, Duane Harris

NO. 5

September, 1975
I. INTRODUCTION

The issue of non-resident alien investment in U.S. business and agriculture has recently attracted the attention of numerous groups at the local, state, and national level. Public discussion and concern on this issue are based largely upon hearsay evidence and incomplete information. A comprehensive source of data or general picture of foreign investment in U.S. agriculture does not exist. Not only are the number of cases and characteristics (type of land, motivations of the investor, the intermediary channels, etc.) of actual investment activity unknown, but the nature and incidence of inquiries are equally unclear.

This paper attempts to document the characteristics of recent transactions and inquiries by non-resident aliens in the Iowa rural real estate market. Section II provides a basic review of the issues and interest in non-resident alien investment in farm land. In Section III the methodology used in the study is described. Section IV summarizes the results of the study with particular emphasis on the characteristics of the real estate involved in foreign investment activity, the nature of the investor, the intermediary...
channels, the negotiation process, financing arrangements, the farm operation arrangement and the reaction of local residents. Finally Section V provides a summary of the study and recommendations for further research.

II. FOREIGN INVESTMENT IN AGRICULTURE

Within the last twelve months there has developed an increasing awareness of and concern about the acquisition of U.S. and Iowa real estate, especially farmland, by non-resident aliens. This investment activity is believed by some to represent large flows of foreign capital into the agricultural sector and to be part of a significant increase in foreign investment of all kinds throughout the United States. Krause and Scofield suggest several incentives for foreign investment in the U.S. agricultural sector, assuring a supply of U.S. food for foreign consumption, learning American techniques of food production and marketing, obtaining the U.S. rates of return on investment which, in the agricultural sector, often exceed those of other countries, capital appreciation of land which increased in value at a spectacular rate in recent years in the United States, and obtaining a stability of investment to protect wealth from inflation or other loss [6]. The devaluation of the U.S. dollar relative to other national currencies—thus making U.S. land relatively less costly than foreign real estate; the accumulation of large excess foreign exchange holdings by some countries in western Europe, by Japan, and by the oil exporting nations; and the growing world concern with food shortages, are all additional factors cited as possible reasons for increased foreign interest in U.S. investment.
in general, and in the agricultural sector in particular.

To focus public attention on this issue, congressional hearings on foreign investment activity in the U.S. were held in January and February, 1974 by the U.S. House Committee on Foreign Affairs, Subcommittee on Foreign Economic Policy, chaired by Representative John Culver [2]. The Senate Committee on Commerce, Subcommittee on Foreign Commerce and Tourism, chaired by Senator Daniel Inouye also held hearings on the subject in March and September of 1974 [3]. Various reports prepared by the Economic Research Service, U.S. Department of Agriculture, have developed the need for and methods of obtaining data and analysis of foreign investment in agriculture and the food system [5]. E.R.S. has also prepared a report on the state and federal regulation of alien land ownership [7].

In Iowa, the State Legislature has recently passed a provision requiring foreign interests owning farmland to report their holdings [4]. Several newspapers in Iowa have printed numerous reports of land sales and inquiries about land involving aliens in many parts of the state [1]. Individual Iowans express concern for the loss of local control in their communities, the rise of a feudal-like system of non-responsive-absentee landlords, substantial increases in the cost of land, and increased rents paid by tenant operators if large tracts of land become controlled by non-resident aliens.

Iowa presently has a law (Iowa Code, Chapter 567), dating from the nineteenth century and last amended in 1965, that prohibits non-resident aliens from owning more than 640 acres of land outside cities and towns.
However, a number of techniques have been suggested to circumvent this limitation and allow a foreign interest to acquire control of more than 640 acres. It has been argued that an individual can organize separate corporations or partnerships in which he or she can participate as an investor. Each such firm apparently could be used as an investment vehicle and acquire 640 acres of farmland. Alternatively, devices are available to conceal the identity of the actual owners of land. These include the use of "dummy names" by which a fictitious person is listed as the owner of record; "straw person" arrangements using limited partnerships or other legal instruments, corporations where a foreign investor owns controlling interest in a domestic corporation whose recorded officers and directors are all U.S. citizens and whose stockholders are not legally required to be publicly listed; and ownership by trust where only the trustee is made a matter of record. Also, ownership could be concealed by not publicly recording the title transfer of the land. Of course, failure to record a transfer could subject the purchaser to possible claims by subsequent good faith purchases from the seller or the seller's creditors.

A number of questions are being raised with regard to foreign investment activity. What are the motivations of the investors? Are there large inflows of capital entering the Iowa economy as a result of this phenomena? Is there a shift away from local operation or a shift in land use? What is the local reaction to the reported activity? Is there a measurable impact on the land values? Does the foreign investment phenomenon involve large amounts of land? These are the issues the following discussion will attempt to clarify.
III. METHODOLOGY

To collect the data a special six month edition of the annual Iowa Land Survey conducted by the Iowa Agricultural and Home Economic Experiment Station was used. Questions were added to the survey that was mailed on May 1, 1975, to 710 registered real estate brokers in Iowa. The respondents were asked to report foreign investment activity of which they were aware, and to differentiate in their responses between inquiries made by potential investors and completed transactions involving foreign interests. Five-hundred eleven brokers returned the questionnaire with at least three coming from each county. Sixty-five indicated some type of activity—fifty-four brokers reported inquiries and thirty brokers reported transactions. The spatial distribution of the brokers reporting transactions and inquiries is shown in Figure 1. A complete summary of the responses is given in Appendix A.

The next step was to contact each of the sixty-five respondents by letter and request a follow-up, personal interview. Fourteen brokers consented to such an interview, and these were conducted during June and July of 1975. Nine of the interviews were with realtors reporting foreign inquiries only, and five were with realtors reporting completed transactions. The interview format is shown in Appendix B. From these discussions, a description of each case of inquiry or transaction was compiled. For each reported transaction, county courthouse records were reviewed to verify that a transaction, had, in fact, occurred and to ascertain the details of title transfer. The reported inquiries and transactions were also compared with data developed by the Iowa Agricultural Stabilization and Conservation Service. From this source, additional transactions were identified and then researched in local county courthouses.
Figure 1. Location of Brokers Responding to the Survey.
Several limitations or qualifications of the methodology should be mentioned at the outset. First, the sixty-five initial broker responses from the Land Value Survey apparently include numerous multiple observations on the same transactions. The Land Value Survey asked for cases of which the respondent had knowledge, not necessarily those with which he was personally involved. In any specific local area, several realtors could have knowledge of a transaction and could have reported it.

Second, the five interviewees who reported on transactions were not personally involved in the negotiations and could give only indirect information. Third, the fourteen brokers who were interviewed were unable to give much information concerning the background of the investors because intermediary representatives often were involved at the local level. Finally, some of the realtors who granted interviews displayed an unfavorable attitude toward foreign investment in Iowa. Other realtors who are more in favor of and thus more actively involved in such activity may have declined participation for fear of drawing local attention to this sensitive issue.

IV. THE INTERVIEW RESULTS

The Transactions and Inquiries

Nine realtors reported thirteen investment inquiries and five realtors reported seven completed transactions. Data on three other transactions were subsequently documented from informational sources other than the interviewed brokers. A summary of the characteristics of the ten transactions is contained in Table 1.

Inquiries

The inquiries, with one exception, all occurred since the beginning of
Table 1. Summary of Transactions Characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Per acre</td>
<td>$750</td>
<td>$1000</td>
<td>$1300-$1400</td>
<td>$1300-$1400</td>
<td>$1500</td>
</tr>
<tr>
<td>Size in acres</td>
<td>202</td>
<td>536</td>
<td>400</td>
<td>700</td>
<td>400</td>
</tr>
<tr>
<td>Seller</td>
<td>Non-farmer</td>
<td>Retired farmer</td>
<td>Active farmer</td>
<td>Active farmer</td>
<td>Retired farmer</td>
</tr>
<tr>
<td>Land Use</td>
<td>Cash grain</td>
<td>Cash grain</td>
<td>Cash grain</td>
<td>Cash grain</td>
<td>Cash grain</td>
</tr>
<tr>
<td>Investor Nationality</td>
<td>German</td>
<td>German</td>
<td>Italian</td>
<td>Italian</td>
<td>German</td>
</tr>
<tr>
<td>Nature of Purchaser</td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</td>
<td>Corporation</td>
</tr>
<tr>
<td>Motivation</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
</tr>
<tr>
<td>Financing</td>
<td>Contract</td>
<td>Contract</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Contract</td>
</tr>
<tr>
<td>Operations</td>
<td>Rented locally</td>
<td>Rented locally</td>
<td>Rented locally</td>
<td>Rented locally</td>
<td>Rented locally</td>
</tr>
<tr>
<td>Local Reaction</td>
<td>Indifferent</td>
<td>Indifferent</td>
<td>Negative</td>
<td>Negative</td>
<td>Indifferent</td>
</tr>
<tr>
<td>Characteristic</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10*</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>------</td>
</tr>
<tr>
<td>Price per acre</td>
<td>$1500</td>
<td>$1500</td>
<td>$1500</td>
<td>$1650</td>
<td>$1625</td>
</tr>
<tr>
<td>Size in acres</td>
<td>50</td>
<td>320</td>
<td>160</td>
<td>240</td>
<td>2125</td>
</tr>
<tr>
<td>Seller</td>
<td>Estate</td>
<td>Retired farmer</td>
<td>Retired farmer</td>
<td>Estate</td>
<td>Non-farmer</td>
</tr>
<tr>
<td>Land Use</td>
<td>Cash grain</td>
<td>Cash grain</td>
<td>Cash grain</td>
<td>Cash grain</td>
<td>Cash grain</td>
</tr>
<tr>
<td>Investor Nationality</td>
<td>German</td>
<td>German</td>
<td>German</td>
<td>German</td>
<td>German</td>
</tr>
<tr>
<td>Nature of Purchaser</td>
<td>Corporation</td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</td>
</tr>
<tr>
<td>Motivation</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
<td>Secure wealth</td>
<td>Unknown</td>
</tr>
<tr>
<td>Financing</td>
<td>Contract</td>
<td>Warranty deed</td>
<td>Warranty deed</td>
<td>Warranty deed</td>
<td>Contract</td>
</tr>
<tr>
<td>Operation</td>
<td>Rented locally</td>
<td>Rented locally</td>
<td>Rented locally</td>
<td>Rented locally</td>
<td>Rented locally</td>
</tr>
<tr>
<td>Local reaction</td>
<td>Indifferent</td>
<td>Negative</td>
<td>Negative</td>
<td>Negative</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

*This transaction involved the sale of four tracts of land to two related couples (two sisters and their husbands). The sale included the land and all improvements, growing crops, and all personal property used in connection with the land and improvements except the tractors and trucks. It should be noted that each tract was less than 640 acres and purchased in sole ownership by one of the investors. Thus, the Iowa regulation regarding the maximum acreage to be owned by a non-resident alien (640 acres) does not apply.*
1974. The exception took place in 1972 and involved a broker who operates within a large geographic area and received a foreign inquiry about general land availability through his involvement with a national, professional realtors' organization. This early case seems to precede the more recent Iowa activity because the particular realtor had contacts considerably beyond the local area. The remaining twelve inquiries occurred during 1974 and 1975. The realtors described the normal length of negotiation between initial contact and cessation of discussions to be from thirty to sixty days. In several instances further negotiation did not occur after the first contact because the broker declined to participate.

Transactions

The transactions were all completed in 1974 or 1975 with negotiations lasting from two to four months. Eight of the ten transactions resulted in title transfers or land contracts recorded at county courthouses. Three transactions have dates of instrument in February, 1975; two dates of instrument are in January, 1975; one in December, 1974; one in March, 1975 and one date of instrument is in August, 1975.

Characteristics of the Land

The location of the land in the documented transactions and inquiries are shown in Figure 2.

Inquiries

Some realtors were contacted about any available land in their local area, while others were contacted about specific tracts that they had listed for sale. Only one of the realtors involved with the inquiries dealt with
Figure 2. Location of Documented Transactions and Inquiries
land beyond the local area.

Several investors specified in their inquiry that price was no concern or was not to be a limiting factor. All of the price per acre quotes were in the $1,000 to $1,500 range, and all the brokers indicated that these prices were at the top or somewhat above the fair market value of good quality land in the area. In all cases, only top grade land was desired by the investor. Sizes of land tracts desired by the potential investor varied considerably in the inquiries, from 240 to 5,000 acres. Inquiries for smaller tracts typically involved specific farms listed by the realtor. The larger tract sizes suggest the sizes the investors indicated they would like to acquire. The desired land use for all the inquiries was a cash grain operation. Every investor wanted top grade, tillable soil without improvements. In several cases where specific, listed tracts were being considered, the transaction was not consumated because of the presence of buildings on the land. Several investors wanted to buy only the tillable area and split off the acres relating to any livestock operation.

Transactions

The ten transactions were located in the following counties; two in Fayette County, two in Linn County, three in Cedar County, one in Worth County, one in Mitchell County and one in Kossuth County. 1/ The prices paid per acre for the transactions ranged from $750 to $1650. The prices for all ten transactions appear in Table 1. The land in every case was reported to be of the best quality in the area and the brokers indicated that these values were at the top of prices being paid locally, and in several cases had set a new high value for land in the area. The sizes of the farms in the transactions ranged from 50 to 2125 acres and are summarized in Table 1.

1/ The Kossuth county transactions actually involved four closely related investors (two sisters and their husbands) who purchased the real estate from one individual. Because the purchases were all made at the same time with identical terms, they are treated as one transaction.
The sellers were local residents in seven cases and absentee owners in three cases. In two instances, the previous owners were active farmers, in two instances the seller was the estate of a deceased farmer, in four cases the sellers were retired farmers, and in two cases the seller was a non-farmer. In six of the situations where the land had been leased before the sale, a new tenant was placed on the land by the foreign investor. These new tenants were all local residents. All of the transactions involved cash grain operations primarily. The foreign investors showed little or no interest in livestock operations.

Nature of Investor

Inquiries

Of the thirteen reported inquiries, eight of them were from West Germany, four from Japan, and one from Belgium. Not all realtors were able to discover whether they were dealing with individuals or with corporations. Seven inquiries were reported to be from individuals and three from corporations. The occupational background was not clearly discerned in any of the cases, nor was the degree of familiarity with U.S. agriculture or the existence of other U.S. investments clearly established.

The motivation of the West German inquiries was to secure their wealth and store it in an asset form that would be stable in value and secure from any loss. The interest in only the best tillable land and cash grain operations, the suggested rental arrangements involving this land and the questions and comments by the investors all substantiate such a motivation.
One investor asked for "land of value for generations to come." A German investor expressly mentioned his concern that the withdrawal of U.S. troops from western Europe would lead to eventual Russian control, and he wished to put his funds into property across the Atlantic Ocean. Three other inquiring investors, all Japanese, indicated that a yearly return on investment was their purpose in acquiring the land. Their questions and comments were more concerned about operations and production potential than with capital appreciation.

Transactions

Two of the land transactions reportedly involved an Italian individual. These transactions have not been recorded in any offices of the county courthouse. Two transactions involve an Iowa corporation which is reported to have West German stockholders. These transfers are recorded in the courthouse with the corporation listed as grantee in the title transfer. Three other farms are reported as having been purchased by West German individuals, but the title transfers list only trust account numbers as grantees. Three transactions were with West German individuals in whose name the courthouse records list ownership.

Once again the brokers report that the motivations for these investments were to acquire a store of value and to secure personal wealth. Very little is known concerning occupation, other investments, or familiarity with U.S. agriculture of these foreign investors. The transactions were negotiated through a number of intermediaries, and little, if any, direct contact took place between the non-resident aliens and residents or brokers in the local area where the land is located.

Intermediary Channels

One of the most varied characteristics between both inquiries and
transactions, the German investor employed a Chicago bank that contacted a local bank that acted as the local representative for the various sellers. No information as to the intermediary structure was available for the five other transactions.

**Nature of Negotiation**

**Inquiries**

Negotiations between local parties and the investor representatives took place by several means. Initial contact in the inquiries was usually by letter or telephone. While most brokers continued interaction by these means, four also received personal visits by the potential investor's representative and in one case by the investing party. Those brokers involved with inquiries reported several different types of obstructions to negotiation. The most prevalent reason for a breakdown in negotiation was the lack of suitable land to meet the investor's specifications. Land proved to be unsuitable due to such factors as poor soil quality, too small tract sizes, and the presence of improvements. Non-availability of suitable land was cited as the major impediment by seven of the realtors. In two cases, the price demanded by the potential seller was considered too high by the investors. In three cases, adverse local reaction, to which most investors seemed quite sensitive, caused a cessation of negotiation.

**Transactions**

The transactions were also negotiated by letter and telephone, but in addition, the activity in five cases involved personal visitation from investor representatives. In all transactions and all inquiries but one, the sales process was or would have been by private negotiation. In one inquiry, the land under
consideration was sold at public auction, but the foreign representative chose not to participate in the bidding.

Financing Arrangements

Inquiries

Not all of the inquiries included detail on the type of financing arrangements desired. Of those that did, two wished to enter into a land contract, four specified a cash transaction, and one desired a contract or mortgage with a large downpayment.

Transactions

Financing details for the transactions were ascertained from public records at the county courthouses. The three transactions in Cedar County involve general warranty deeds, all apparently being cash transactions. The two in Linn County involve land contracts. One farm sold at a price of $97,000 with $10,000 down and an $18,000 payment the first year and $9,000 every year thereafter. The second farm sold for $614,000 with $75,000 down and a $45,000 annual payment. The Fayette County transactions are not recorded in county offices, and the types of financing are unknown. The Worth County transaction was shown as a land contract and title is not to pass to the buyer until 40 percent of the $565,000 price is paid. Earnest money in the transaction was $40,000 and paid August 16, 1974, with the first payment of $120,000 made March 1, 1975. A second payment of $125,000 is due March 1, 1976, and every year after that a payment of more than $15,000 but less than $35,000 is to be made until the debt is retired. The interest rate on the unpaid balance is 7 1/2 percent annually throughout the life of the contract.

The Mitchell County transaction is also on contract and title does not pass to the buyer until 40 percent of the $148,470 price is paid. The
downpayment amount was $20,000 and interest is paid on the declining balance at an annual rate of seven percent. The contract calls for a minimum annual payment of $2500 and a maximum payment of $10,000. The entire balance is due in 1995.

The Kossuth County land was acquired on contract with 30 percent of the purchase price payable on the date of closing, 20 percent on August 1, 1976, and the balance in equal annual installments with the final payment due on August 1, 1986. The interest rate on the unpaid contract balance was specified at 7 percent. Upon payment of 50 percent of the total purchase price, the buyer is to receive a warranty deed and execute a mortgage to the sellers for the remainder of the indebtedness.

Farm Operation

Inquiries

Only one inquiry included any indication of the desired operating arrangement. An investor who had expressed interest in a particular 440 acre tract also said it could be leased back to the present owner-operator. Rent would have been on a cash per acre basis sufficient to cover annual taxes and costs. The realtor reported that such a rent would have been equal to the local average rent levels.

Transactions

For the completed transactions, the land is leased to a local operator in all cases. In five cases, the lease provides for a cash rent per acre, and in two cases a crop-share lease is involved. One of the farms will be custom farmed. Rental arrangements for two of the transaction farms are unknown.
In three transactions the investors are reported to employ a local bank as a source of managerial assistance. In two transactions, a local resident stockholder in the controlling corporation provides the management, and in one transaction an out of state farm management service and an Iowa resident provide the management input. In four transactions the source of managerial assistance is unknown.

Local Reaction

Of the fourteen realtors interviewed, a large majority indicated an unfavorable local reaction to foreign interests acquiring farmland in the community. Eleven reported that farmers objected to such activity for fear of land prices rising beyond the bidding potential of local people. Several farmers in one county told a realtor that they "felt priced out of the land market" after the foreign acquisitions raised seller's expectations of what their land was worth. In one instance, many farmers have expressed strong resentment toward the local bank that acted as an intermediary in that county's transactions. The same eleven brokers felt that area non-farm residents and merchants were also generally opposed to alien investment. Most expressed fears of loss of local control in the community. One realtor reported a situation in which 240 acres were to be sold at public auction. A Japanese investment agent visited the local area and made inquiries about the farm at the office of the realtor-auctioneer who was arranging the sale. The agent was strongly discouraged from bidding by the local people who informed him that outside interests were not desired by the community. The foreign investor declined to participate in the auction. Several brokers mentioned that their communities desired to maintain strong ethnic traditions, and local residents perceived foreign investment as an erosion of such tradition where
the interested investor was not of the same ethnicity.

In three cases no negative response by either local farmers or townspeople was reported. In one of these situations the investing corporation had a local resident as well as foreign interests holding stock in the firm. The local person was reported to be active in the corporation’s operation in the community and all other investors maintained a low profile. In another instance in which local reaction was somewhat positive, a 7,000 acre purchase of land by out-of-state interests in 1967 had brought beneficial changes to the local economy. The realtor felt this earlier transaction had increased local acceptance of foreign investment. In the third community the local population is of German descent and the investors were also German. This fact, plus the belief that only limited amounts of land were involved, tempered local attitudes. Local residents saw the level of activity as relatively small compared to the total land holdings of the area; and thus perceived no threat to local control of the community.

The brokers’ own attitudes concerning foreign investment varied considerably. Six indicated they were opposed to such activity. Their major concern was that they were local businessmen and did not wish to offend local farmers and thereby jeopardize their business. One broker was told by his local banker to take his accounts elsewhere if he sold any land to alien interests. Three of these realtors also mentioned wanting to maintain local control of the community and fear of a system of absentee landlords. Several of these realtors refused to deal further upon learning that alien investors were involved.

Four of the brokers expressed indifference to foreign investment. These realtors felt the level of activity was relatively small, and as long as
regular land use and local operation were maintained it would not be detrimental to the community.

Four other realtors were in favor of alien investment. Some of these brokers had solicited contact with foreign interests, but at least one case involved land seventy miles from the broker's local community. These realtors felt foreign investment was part of free competition and anyone had the right to make an investment in a farming operation and to earn a competitive return on their investment. They also stated that benefits could be derived from the infusion of capital into the local area.

CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER STUDY

Conclusions

The following tentative conclusions are offered. Because they are derived from a limited sample of respondents who may possibly be biased, the implications of these results should be accepted with a great deal of caution.

The motivation of investors appears to vary with national background. The major motivation of German investors seems to be to secure their personal wealth by purchasing high quality land, sometimes, at premium prices, with less concern about short-term operation or production potential. The Japanese interests appear to be motivated by a desire for a favorable annual return on their investment. There has been no indication of purely speculative intent or of any desire to secure U.S. agricultural commodities for foreign consumption in the alien acquisition of Iowa farmland.
Local reaction to alien investment activity is often unfavorable, particularly if the local residents fear an increase in land prices or the loss of local control in the community. Where such fears don't arise, local reaction apparently has not been adverse. Unfavorable local reaction may be causing some foreign investors to conceal their involvement by complex intermediary channels or by not listing themselves publicly as owners of record.

The current inflows of foreign capital into Iowa appear to be small compared to the total capital in the agricultural sector. There are only a very limited number of foreign investment transactions in farmland that can be documented. It should also be noted that many of the transactions have involved a contract with the investment funds coming into the state over time as the contract payments are made.

The investment activity by the nonresident aliens surveyed has not altered the land use of the tracts acquired. In all cases land was and continues to be used for grain production. Local residents continue to be the operators of the land after it is purchased by alien investors. Land prices paid in some instances appear to have raised expectations of other sellers in several local areas and caused them to demand higher prices for their land. A significant influence on land values beyond the specific localities has not been documented.

The amount of land involved in foreign acquisitions, relative to the total farmland of Iowa, is small. The number of inquiries is much higher than the number of actual transactions as foreign investors are often not finding land available to meet their specifications or are encountering strong local opposition.
Hypotheses for Further Study

The results of this preliminary survey lead to the following hypotheses that merit further empirical investigation.

1. The primary motivation of the foreign investor (with some exceptions, notably the Japanese) to acquire farmland is to obtain an asset that will be a store of value or wealth rather than a source of current income.

2. The investment in farmland by foreign investors has not been motivated by attempts to gain control of U.S. commodity supplies or access to U.S. farm production technology.

3. Acquisition of farmland by foreign investors has little impact on the intensity of land use, the production practices utilized or the level of management compared to other investors or farmers.

4. Foreign investors own and have control over a very small proportion of the farmland in the state of Iowa, or any county or township in the state.

5. Foreign investors desire to acquire high quality, larger than average size units with no improvements, and are willing to pay premium prices for these units.

6. Foreign investors have increased the sales price of real estate in local areas by paying premium prices for land and increasing the expectations of other sellers in the local area.

7. Strong negative reactions by communities to foreign investment has been an effective force in discouraging foreign investors.

8. The limited availability of land in their own country is a significant determinant of the nationality of foreign investors in Iowa and U.S. farm land.
9. Ethnic considerations and extended family relations to U.S. citizens influence the nationality of the foreign investor and the location of the farm land in which he has an interest.

10. Because of the concern for negative reactions in the local community elaborate intermediary channels are frequently developed to conceal the identity of the foreign investor.

11. Most foreign investors lease the land to local operators and the lease arrangements do not vary significantly from domestically owned farms.

To test these hypotheses, additional data must be obtained on the number and characteristics of foreign investment transactions. This information may be available from surveys and interviews with farm management firms, and banks and trust companies that are involved in the transaction or the management of the property. Interviews with local community leaders and businessman may also be useful. However, it should be noted that unbiased data to test these hypotheses will be difficult to obtain on a voluntary basis and facilitating legislation to mandate reporting may be necessary.

Further investigation of the background of alien investors should also be made to ascertain the investor's occupation, other U.S. and foreign investments, and familiarity with U.S. agriculture. This could best be accomplished by research and contact within the home country of the investors. Finally, the need for and effectiveness of legally required reporting systems that list all alien holdings should be evaluated.
REFERENCES


## APPENDIX A

### Summary of Realtor Survey Responses

<table>
<thead>
<tr>
<th>County</th>
<th>Transactions</th>
<th>Inquiries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acres</td>
<td>Nationality</td>
</tr>
<tr>
<td>Worth</td>
<td>340</td>
<td>German</td>
</tr>
<tr>
<td>Worth</td>
<td>320</td>
<td>German</td>
</tr>
<tr>
<td>Worth</td>
<td>900</td>
<td>German</td>
</tr>
<tr>
<td>Fayette</td>
<td>1000</td>
<td>Italian</td>
</tr>
<tr>
<td>Page</td>
<td>800</td>
<td>Japanese</td>
</tr>
<tr>
<td>Cedar</td>
<td>600</td>
<td>West German</td>
</tr>
<tr>
<td>Fayette</td>
<td>360</td>
<td>Italian</td>
</tr>
<tr>
<td>Linn</td>
<td>1000</td>
<td>German</td>
</tr>
<tr>
<td>Mitchell</td>
<td>202</td>
<td>German</td>
</tr>
<tr>
<td>Worth</td>
<td>530</td>
<td>German</td>
</tr>
<tr>
<td>Page</td>
<td>200</td>
<td>Japanese</td>
</tr>
<tr>
<td>Davis</td>
<td>unknown</td>
<td>Japanese</td>
</tr>
<tr>
<td>Cedar</td>
<td>160</td>
<td>German</td>
</tr>
<tr>
<td>Fayette</td>
<td>1240</td>
<td>Italian</td>
</tr>
<tr>
<td>Cedar</td>
<td>600</td>
<td>German</td>
</tr>
<tr>
<td>Cedar</td>
<td>240</td>
<td>West German</td>
</tr>
<tr>
<td>Benton</td>
<td>320</td>
<td>Italian</td>
</tr>
<tr>
<td>Benton</td>
<td>2000</td>
<td>Japanese</td>
</tr>
<tr>
<td>Mitchell</td>
<td>500+</td>
<td>German</td>
</tr>
<tr>
<td>Worth</td>
<td>500+</td>
<td>German</td>
</tr>
<tr>
<td>Linn</td>
<td>unknown</td>
<td>German</td>
</tr>
<tr>
<td>Worth</td>
<td>unknown</td>
<td>unknown</td>
</tr>
<tr>
<td>Cedar</td>
<td>unknown</td>
<td>German</td>
</tr>
<tr>
<td>Cedar</td>
<td>2000+</td>
<td>German</td>
</tr>
<tr>
<td>Cedar</td>
<td>900+</td>
<td>German</td>
</tr>
<tr>
<td>Cedar</td>
<td>unknown</td>
<td>unknown</td>
</tr>
<tr>
<td>Worth</td>
<td>500</td>
<td>German</td>
</tr>
<tr>
<td>Cedar</td>
<td>650</td>
<td>unknown</td>
</tr>
<tr>
<td>Mitchell</td>
<td>500-10,000</td>
<td>German</td>
</tr>
<tr>
<td>S. Minn.</td>
<td>500-10,000</td>
<td>Argentine</td>
</tr>
<tr>
<td>Linn</td>
<td>640</td>
<td>Austrian, German</td>
</tr>
<tr>
<td>Wapello</td>
<td>460</td>
<td>German</td>
</tr>
<tr>
<td>Hancock</td>
<td>640</td>
<td>German</td>
</tr>
<tr>
<td>Floyd</td>
<td>920</td>
<td>Australian</td>
</tr>
<tr>
<td>Worth</td>
<td>120</td>
<td>German</td>
</tr>
<tr>
<td>Pocahontas</td>
<td>400</td>
<td>Austrian</td>
</tr>
<tr>
<td>Mitchell</td>
<td>unknown</td>
<td>German</td>
</tr>
<tr>
<td>Dickinson</td>
<td>unknown</td>
<td>unknown</td>
</tr>
<tr>
<td>Marshall</td>
<td>unknown</td>
<td>Japanese</td>
</tr>
<tr>
<td>Hardin</td>
<td>unknown</td>
<td>German</td>
</tr>
</tbody>
</table>
APPENDIX B

ALIEN LAND TRANSACTION AND INQUIRY QUESTIONNAIRE

The following questionnaire format was used as a guide for discussion in the personal interviews with realtors.

1. Nature of local representative: located within 25 miles of land ______
   outside 25 miles from land ______
   _____ realtor ______
   _____ attorney ______
   _____ bank or trust co. ______
   _____ other financial institution ______
   _____ other: ___________________________

2. Date of initial contact by investor: ________________________________

3. Period of negotiation: ________________________________

4. Date transaction completed: ________________________________

5. Land location: ______
   county __, township __, range __, section __, quarter __.

6. Land use:
   _____ cash-grain ______ hog farrowing
   _____ beef finishing ______ dairy
   _____ hog finishing ______ poultry: __ turkey, __ broiler, __ egg
   _____ cow-calf ______ other: ____________________________

7. Farm size:
   a. acres ____________
   b. ______ contiguous
      ______ non-contiguous

8. Method of operation:
   _____ lease
   a. length of lease __________________________
   b. rent arrangement
      _____ crop share - ratio ___________________
      _____ livestock share - ratio ___________________
      _____ cash rent - amount per acre __________
   c. input cost share
      inputs ______ ratio

   d. present tenant is __ prior owner, __ prior tenant, __ new tenant
      ___ employee
      ___ other: ____________________________
9. Land value:
   a. price per acre ________
   b. amount above ________ or below ________ comparative fair market value.

*10. Numbers of livestock in which non-resident alien has an interest:
   fat cattle ________
   dairy cows ________
   stock cows ________
   poultry ________
   shoats ________
   sows ________

*11. Type of sale:
   ___ private negotiation
   ___ public auction
   ___ other: ______________________

12. Intermediary channel structure:
   ___ investor prior owner
   ___ investor local rep prior owner
   ___ investor investor rep local rep prior owner
   ___ investor
   ___ other: ______________________

13. Transfer and financing:
   ___ contract
   a. amount of downpayment ________
   b. length of contract ________
   c. forfeiture clause ________
   d. type of contract form used ________
   e. interest rate ________

   ___ deed
   ___ general warranty
   ___ special warranty
   ___ quit claim
   ___ deed and mortgage
   a. mortgagee ________
   b. amount of mortgage ________
   c. length of mortgage ________
   d. interest rate ________
   ___ other: ______________________

14. Nature of investor representative:
   Iowa: ________
   U.S.: ________
   Alien: ________
   ___ lawyer
   ___ bank or trust co.
   ___ realtor
   ___ farm management service
   ___ other: ______________________

*15. Nature of prior owner:
   ___ indiv.
   ___ part.
   ___ corp.
   ___ estate or heirs
   ___ active farmer
   ___ retired farmer
   ___ local investor
   ___ non-local, Iowa invest
   ___ non-Iowa, U.S. invest
   ___ alien investor
   ___ other ________

*16. Nature of prior operator:
   ___ prior owner, ___ prior tenant, ___ present tenant.
17. Prior use of land:
   ___ cash-grain    ___ cow-calf    ___ poultry
   ___ beef finishing ___ hog farrowing ___ other: ________________
   ___ hog finishing  ___ dairy

18. Source of managerial assistance for the non-resident alien investor:
   ___ farm management service    ___ tenant operator
   ___ bank or trust co.           ___ other: ________________
   ___ lawyer

19. Nature of investor:
   a. entity form: ___ individual, ___ partnership, ___ corporation
   b. nationality: ________________
   c. occupation: ___ investor, ___ businessman, ___ professional, ___ farmer
   d. familiarity with US agriculture: ___ considerable, ___ limited, ___ none
   e. other U.S. investments: ___ mfg., ___ agr., ___ commercial, ___ none

20. Nature of negotiation:
   a. channels of information transfer:
      ___ letter, ___ telephone, ___ personal visitation, ___ other: ________________
   b. obstructions to dealings:
      ___ legal limitation on ownership
      ___ communication or understanding difficulties
      ___ adverse local reaction
      ___ other: ________________

21. Motivation of investor:
   ___ speculation in land values
   ___ inflation
   ___ investment return on land production
   ___ access to U.S. food production
   ___ influence upon U.S. public policy
   ___ store of value
   ___ other

22. Local reaction to foreign investment:
   a. farmers: ___ positive, ___ negative, ___ indifferent
   b. commercial businessmen: ___ positive, ___ negative, ___ indifferent
   c. other realtors: ___ positive, ___ negative, ___ indifferent
   d. general community: ___ positive, ___ negative, ___ indifferent
   e. this realtor: ___ positive, ___ negative, ___ indifferent

23. Impact upon local land values:
   ___ increase, by how much per acre ______
   ___ no impact
   ___ decrease, by how much per acre ______

24. Expectations of additional purchases by this investor:
   ___ yes
   ___ no

*Transactions only