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URBANIZATION AND AVOCADO GROWING

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What does the future hold for an avocado grower in rapidly urbanizing southern California, especially the districts of Orange and Los Angeles Counties?

Predictions about things to come can sometimes be hazardous for the one doing the predicting. However, in the case of the avocado grower from the districts just mentioned some guesses can be made that have excellent possibilities of coming true. Changes are destined to occur. The unanswered questions are mainly concerned with when and how rapidly they will take place.

The individual grower who recognizes these changes is in an enviable position. He can take advantage of a land value increase the likes of which few individuals have ever witnessed—even in sunny, southern California. So, what is the story on the outlook for the urban avocado grower? What are some of the changes that will influence his industry? How can he take advantage of urban growth?

From the standpoint of production and returns per acre, the outlook is not so good. Why? Several reasons can be brought to mind.

The statewide bearing acreage of avocados is anticipated to increase from 21,000 to 28,000 acres by 1970. Production levels should move higher on a per acre basis because varieties established in recent plantings plus those top worked in established areas are demonstrating better yields. Total crops of 125 million pounds may be typical for the industry soon. On-tree fruit returns are expected to reflect this larger volume.

The greater per acre yields will be offset by a lower on-tree price resulting in a stable or lower income.

The on-tree price to growers in the middle industry counties of Orange and Los Angeles may even be relatively lower than the northern or central area returns in the future. This is contemplated because traditionally the mid-counties have relied to a greater degree on the early fall season fruit supply when prices are at their seasonal peak. This market advantage is rapidly disappearing with the larger volume of summer fruit being held into early fall by the northern districts. In effect, there may be no such thing as a distinct fall market in the years to come.

Production costs will play an important role in the urban avocado grower's future. Land taxes will go in one direction—up! Water costs will also rise. Competition by industry for labor will siphon off some of the supply resulting in a greater labor cost.

The overall effect of yields, prices, and costs is a predicted smaller net return to the grower. Certain efforts can and should be made to obtain maximum production at

minimum expense. Unfortunately, there are limits to these efforts aimed at both objectives and there comes a time when the value of the investment cannot be warranted strictly from the agricultural income. A grower holding land that has a value greater than its agricultural productivity can justify his position if he realizes he has now become a landowner/speculator.

The word speculator used in this sense carries none of the less desirable connotation often associated with such activity. The following arithmetical example serves to explain how many, indeed if not most, avocado growers of these two counties are already speculating with their land.

Let's take the example of a grower who receives ten cents a pound on-tree for a two and half ton per acre avocado crop. He has a gross income of $500 an acre for his efforts.

By careful management, he keeps all his expenses at $250 per acre. This pays the taxes, the overhead, and all materials and labor (hired, as well as fair value for his own). The remaining profit of $250 represents a return to him as both manager and an investor. He may feel that he is a good manager worth ten per cent of his gross income. He credits himself with $50 and the remaining $200 represents his return on his investment. If he considers six per cent as a fair return on invested capital, then the $200 represents investment income from land with an agricultural value of $3,333 per acre as a grove. Now, do you suppose he will be willing to sell his grove for $3,333 an acre? Obviously, no, since the buyers of land must offer $9,000 to $10,000 an acre and more just to stimulate interest in his neighborhood for potential sales. The difference between the sale value and the agricultural value is what makes many farmers landowner/speculators. Each time they refuse a buyer's offer, they are gambling the land's price will go higher. When they sell, they have gambled on making the transaction at the best price.

If it is a fact that most urban avocado growers are landowner/speculators, it seems appropriate that they be concerned with certain management practices that may promote speculative income. Speculative income, in this case, being represented by the increase in land value gained over and above the agricultural productivity of such land. The sample calculations in the previous paragraph show how a grower is willing to spend $250 on a $3,333 capital investment to secure an additional $250 profit. By similar reasoning, doesn't it seem appropriate to expend energy and resources on speculative income? An orchard such as described in the sample calculations actually has a greater part of its sales price represented by speculative value rather than agricultural value; i.e., $12,000 per acre selling price minus $3,333 agricultural value equals $8,667 speculative value. It may be possible for this property to gain increase several thousand dollars in value with the same potential for $500 agricultural income each year.

What can be done to encourage this type of growth in the capital value of land? Essentially, the land must be made as attractive as possible in order to bring the greatest number of buyers to consider purchase. In short, enhance the land's desirability. How can this be done?

An understanding of the trends of urbanization is a must. Area developments affect the

desirability of a particular piece of property. Many sources of information on urban growth matters are available: Some are the reports of planning commissions, research institutes and banks.

Recognition of the steps necessary to keep land appreciating has already proven valuable to growers. Master planning, better zoning, improvements such as municipal water supplies, sewers, and adequate schools have enhanced property value allowing the increased tax burden to be viewed more as an investment in the future than as a cost to be avoided.

Progressive growers have realized the limitations they have as a specialized manager in this particular field of land speculation. A poor decision is expensive. Some growers have wisely sought the counsel of tax experts and land appraisers to better understand their position in the market. This has helped them know better what they have to sell.

When the time for a transaction appears imminent, there should be an understanding gained of the different types of sales. This is also a time to be sure the titles are clear and that there are no clouds that may cause a delay in the transaction or actual nullifying of the deal. By understanding the nature of transactions in common use, a landowner is in a position to select the one that serves him to best advantage. He should realize that the prospective buyers will also have certain types of transactions in mind since they are governed largely in the offering price for property by what its ultimate use may be.

The landowner/speculator can, and in many cases should, work out some of the details that help determine the use to which his land can ultimately be put. When he has this knowledge and understanding, he is in a position to act on behalf of his own best interest. It may be said that he is husbanding his property as well as farming it.