



FARMLAND VALUES: PERSPECTIVES FROM THE FIELD

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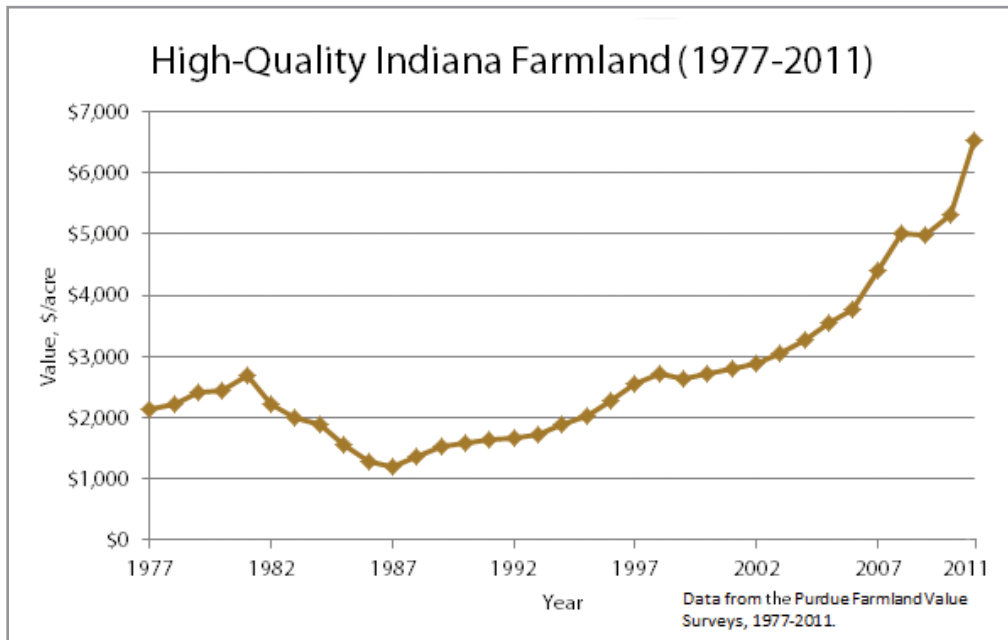
PURDUE
UNIVERSITY

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After the weather, farmland values might well be the second most popular topic of conversation among farmers. Those with more than 30 years of experience in farming likely remember the 1980s with clarity. After dramatic increases in the 1970s, farmland values fell hard. Farmland values across the United States lost nearly half of their value between 1981 and 1987. From a high in 1981 to the low in 1987, farmland values in Indiana fell 55 percent for the state's most productive land.

Falling incomes and devalued farmland triggered a financial crisis for farms and agribusinesses across the United States. Large numbers of farm bankruptcies followed. This period was dark and devastating for the entire agricultural community.



In recent years, farmland values have risen across the country and particularly throughout the Corn Belt. From 2004 to 2011, Indiana's most productive farmland basically doubled in value, with Illinois and Iowa seeing even more dramatic increases. From 2010 to 2011 alone, Indiana land values jumped 22.8 percent. Many people are now questioning whether the dramatic run-up in farmland values is sustainable.

In an effort to discover how actual investors are navigating the market, the Center for Commercial Agriculture at Purdue University surveyed nearly 250 farmland market participants in late February 2012. The respondents represented a variety of backgrounds, including farmers, farmland investors, agricultural lenders and agribusinesses. Nearly half of the respondents indicated that their operation was primarily located in Indiana, with the vast majority of the remaining respondents representing the surrounding Corn Belt states. The survey results provide insight on the rapidly changing market and shed light on the attitudes, beliefs and expectations of the participants therein.

A BUBBLE COMING?

Results showed that respondents are concerned, with 54 percent indicating that the farmland market is in a bubble. However, larger and more experienced farmers were less likely to be concerned than buyers with fewer acres and fewer years of experience in the market. Overall, the results show that buyers are cautious but optimistic, as most (74 percent) plan to make additional land purchases within the next five years.

Farmland Ownership of Respondents that Believe Farmland Prices are in a Bubble

Characteristics	Believe Prices are in a Bubble	In a Bubble	Not in a Bubble
	--Percent--	--Median Acres Owned*--	
All respondents	54	365	655
Actively operate a farm	54	600	850
Primarily a landowner and rent to others	45	320	740
Agricultural lenders, agribusiness and others	58	110	215
Own farmland	49	365	655
Do not own farmland	67	-----	-----
Purchased land in the last 5 years	46	500	1,000
Interested in purchasing land in the next 5 years	47	420	800

*Calculation of median acreages exclude respondents that did not own farmland.

Opinions as to Whether Farmland Prices are in a Bubble by Experience in Farming

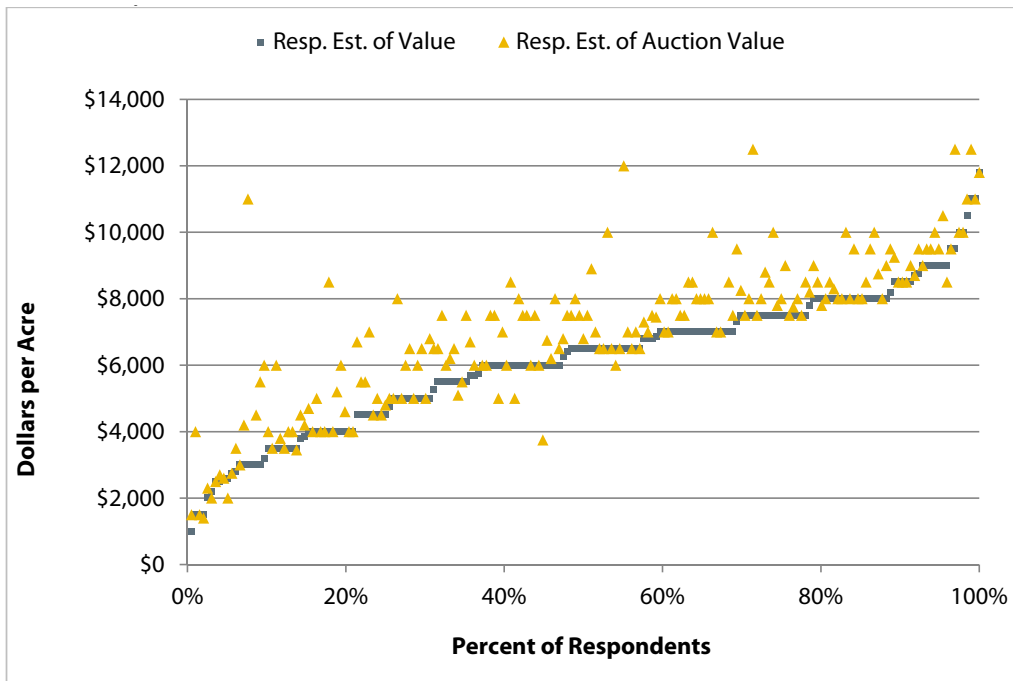
Age	Believe Prices are in a Bubble	In a Bubble	Not in a Bubble
	--Percent--	--Median Acres Owned*--	
All respondents	54	365	655
0 to 10 years experience	61	225	500
11 to 20 years experience	51	185	557
More than 20 years experience	48	600	750

*Calculation of median acreages excludes respondents that did not own farmland.

DIFFERENCES OF OPINIONS ON VALUES

Respondents were asked to consider 80 acres of farmland with a typical production capability of 165 bushels of corn per acre under normal rain-fed conditions. They provided an estimate for their perceived value (what they would be willing to pay for it), what they felt it would rent for and what they thought it would sell for at auction. Their estimates of what they would pay varied considerably, with an average of about \$6,179 per acre. Most respondents indicated that others would be willing to pay more at auction than they themselves thought the farm was worth. They were right — for all but four respondents of the survey, there was at least one respondent who had estimated the value of the land higher than what other respondents had said it would sell for at auction.

Respondents' Estimates of their Value and the Auction Price of 80 acres of Farmland with a Production Capability of 165 bushels per acre of Corn Under Normal Rain-Fed Conditions



THE FUTURE OF LAND VALUES?

To measure confidence in future farmland values, respondents were asked about expected conditions five years from now. On average, respondents expected a modest (12.5 percent) increase over the next five years. This is substantially slower than recent growth. And what about a best- and worst-case scenario? On average, respondents said there was a 1 in 10 chance of seeing prices go below \$4,550 and above \$9,145.

Distribution of Respondents' Expected Land Value and Cash Rental Rate (Five years from now for 80 acres of farmland with a production capability of 165 bushels of corn per acre under normal rain-fed conditions, \$'s per acre)

Farmland Values	Land Value	Cash Rental Rate
There is a 1 in 10 chance that the (land value/cash rental rate) will be less than:	\$4,550	\$201
The farm will most likely be worth:	\$6,953	\$267
There is a 1 in 10 chance that the (land value/cash rental rate) would be more than:	\$9,145	\$342

CORN PRICES AND LAND VALUES

A major contributor to the increase of farmland values has been an increase in commodity prices. Respondents were asked to report their estimates of cash corn prices over the next five years. Consistent with the general consensus that land values would modestly increase over the next five years, respondents, on average, also believe that current corn price levels are likely to persist, with an estimated average corn price of \$5.41 per bushel in five years. They saw little chances of prices going lower than \$4 or greater than \$7 per bushel.

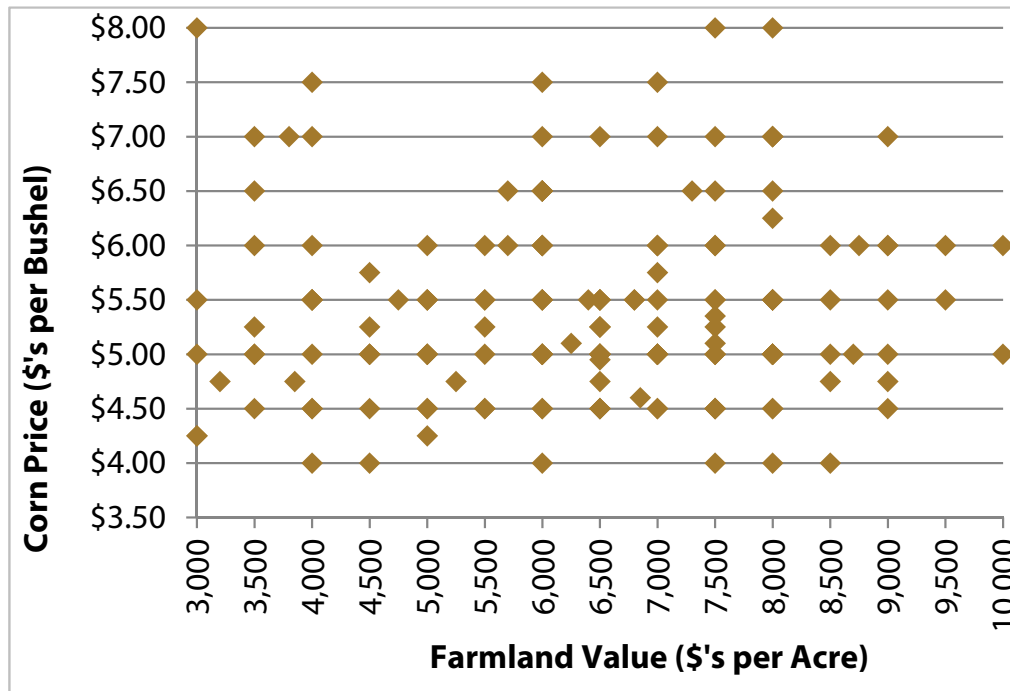
Distribution of Respondents' Expectations of the Average Cash Corn Prices Over the Next 5 Years (\$'s per bushel)

Cash Corn Prices	Average Response	Median Response
There is a 1 in 10 chance that the average corn price will be less than:	\$3.93	\$4.00
The average corn price will most likely be:	\$5.41	\$5.25
There is a 1 in 10 chance that the average corn price will be greater than:	\$7.19	\$7.00

Perhaps the most surprising finding of the survey is shown in the next graph, illustrating the lack of correlation between current farmland values and expected cash corn prices. The expectation is that those who place high values on farmland would also tend to expect corn prices to be high. However, observation (and statistical analysis) reveals essentially no relationship between the two values. Respondents were all over the board in their estimates, and the correlation between these two variables was close to zero.

Relationship Between Most Likely Corn Price Forecast and Estimate of Farmland Value.*

*Figure shows respondents with land value estimates between \$3,000 and \$10,000 per acre.



CASH OR CREDIT?

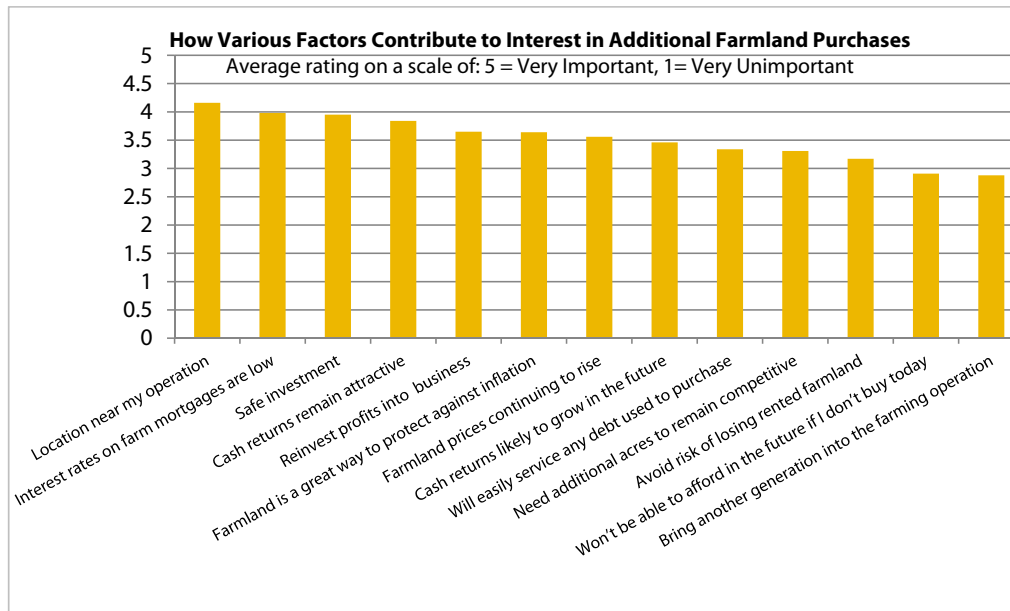
To understand how respondents would fund the purchase of additional acres, the survey asked how they would finance the purchase of 80 acres. Most respondents felt that it was relatively easy to obtain credit for farmland purchases, and 92 percent indicated that they would use credit. This is contrary to the often-reported anecdote that farmland purchases are often made with 100 percent equity. Many indicated that low interest rates on farmland mortgages were an important factor in their interest in purchasing farmland, but others indicated that purchasing farmland with debt would be risky.

RENTAL RATES

An important factor to consider when looking into the value of farmland is the cash rental rate of that land. In addition to being asked the value of the 80 acres of land with corn yields of 165 bushels, respondents were asked to evaluate the cash rental value. The average cash rental value was reported at \$233 per acre. Respondents were willing to purchase land at approximately 27 times its cash rental value. A multiple of 27 is high in the context of the last 40 years, but consistent with current conditions in much of the Corn Belt. Further, respondents expect that multiples will stay at these levels as they forecasted cash rental rates and land values to increase in roughly the same proportion over the next five years.

INFLUENCING FACTORS

There are a host of reasons why someone would purchase land. The survey asked respondents to evaluate 13 different factors that influence their interest in purchasing farmland. Of all the factors considered, the location of farmland for sale near their existing operation had the highest average importance rating. Nearly half of all those who wanted to make additional purchases indicated that this was an extremely important factor. Other factors that received high ratings included low interest rates on farm mortgages, the attractiveness of cash returns to farming and the safety of farmland investments. Factors viewed as much less important were the need to bring additional family members into the farming operation, needing the additional acreage to remain competitive and avoiding the risk of losing rented acreage.



CONCLUSION

Where farmland values ultimately go will be dependent upon the market and how economic conditions unfold. The wide ranges in perceived value and relatively limited amounts of farmland available for purchase suggest that market transactions will be driven by those with more optimistic views of the value of farmland. In general, the purchasing capacity of the people willing to pay the most will be a key determinant of how high land values ultimately go.

It is clear that there are a number of people with very positive attitudes about the future of farmland values. It is also clear that many have some concerns about the possibility for price increases to moderate. Overall, one might best characterize the majority of respondents as cautiously optimistic about future farmland values.

To learn more about the survey and data or to download the full report, "Farmland Value Expectations and Influences: Evidence from the Field," visit the Center for Commercial Agriculture's website at www.agecon.purdue.edu/commercialag.