THEME OVERVIEW: FARMLAND VALUES

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JEL Classifications: Q14, Q15
Keywords: Farmland, Land Values, Farm Real Estate

Farmland values are often viewed as the bellwether for the U.S. farm sector. Historically, booming farm incomes have been quickly capitalized into farmland values. Over the past year, cropland values in the Corn Belt have jumped more than 25% above year ago levels according to various university and Federal Reserve surveys. Moreover, ranchland values are posting strong double-digit gains in some regions of the country.

Farmland values, however, are shaped by more than farm incomes. Interest rate shifts affect the rate at which income flows are capitalized into farmland values. Urbanization and recreation use for hunting, fishing, and wildlife watching have also transformed nonfarm demand for land in many parts of the nation. At the same time, the supply of U.S. farmland for sale remains limited. Together, strong farm and nonfarm demand and the relatively limited number of farm sales have propelled sharp increases in U.S. farmland values.

Despite rising farmland prices, risks remain. While inflation adjusted farmland values have reached record highs, what are the risks that they could retreat once again? Farmland values are capable of falling just as sharply as they have risen, as evidenced by the 1970s farm boom and the 1980s farm bust. The volatility in agricultural prices has increased and farm incomes have fluctuated widely over the past decade. Although the crisis of the 1980s is nearly 30 years behind us, memories of the financial hardship and personal loss that it caused remain and frequently cause people to question whether a repeat of the 1980s is in store for the agricultural sector.

This Choices theme explores recent farmland value trends and the risks to farmland markets. The issue is organized into two broad sections. The first consists of four articles selected to provide readers with background on farm and pasture land value trends, valuation basics, and the role of debt in farmland ownership. The second section includes two articles that examine how changes in factors such as income, interest rates, or urban pressures influence farmland values. It is our hope that readers of the issue will gain some perspective on farmland values, the factors that determine these values, and how values might change as economic conditions shift.

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