**THEY’LL INCREASE**

by Rex E. Wilcox

People involved with agriculture have one common interest in addition to local crops, prices and weather: the price of land. Land prices are the “Dow Jones” of agriculture, the barometer of the general economic health of the sector.

Northwest Iowa, where I work, has seen a good recovery in land prices. A recent Iowa State University Extension survey of Northwest Iowa land prices shows high grade land topping at $3,037 in 1980, bottoming at $1,131 in 1986 and presently valued at $1,898 per acre.

I feel that Midwest land prices will increase annually by 3 to 4 percent between now and the year 2000. This would be a 25 to 35 percent increase in nominal prices in the next 8 years.

There are several factors I see which will move prices higher:

- **Moderate Interest Rates.** Present low interest rates will boost land prices for several reasons:
  - Capital will tend to flow to agriculture as land earnings outperform other types of investments. Six to eight percent returns on rental land versus less than 5 percent CD’s will increase absentee investor interest in farmland.
  - Lower interest rates leave farm operators with more net income to invest in land to expand their operation and become more efficient.
  - Reasonable long term interest rates give land buyers confidence for long-term commitments.
  - For the first time since the mid-1970s, there are areas where interest on land mortgages after a modest down payment is less than cash rent.

- **Higher Commodity Prices.** Government stocks of commodities are low. The market no longer has reserves and trigger prices to use as targets when shortages develop. Prices will be more volatile and higher without government stocks over the market. Demand or supply surprises in the next few years will produce record commodity prices which will increase land prices.

- **Operator Productivity.** Farm operators will continue the trend of farming more acres with less labor input. This leads to larger operations with increasing ability to expand land base through purchases.

- **Portfolio Diversification.** There have been several news articles recently about pension fund and investment manager interest in adding farmland to investment portfolios. This interest is recognition of several of the positive traits of farmland investment:

  Continued on Page 26

---

**THEY’LL STABILIZE**

by Philip M. Raup

Agricultural America has just quieted down from two decades of a wrenching boom and bust cycle in land values. This has left searing memories that invite comparison with the depression years of the 1920s and 1930s.

The legacy of this most recent experience includes a degree of caution that will not dissipate quickly on the part of farmland buyers, bankers, and farm input suppliers.

Real land values in major farming regions are back to the levels prevailing before the boom at the end of the 1960s. If inflation can be controlled (a big if) the prospect is for land values in the 1990s that more or less keep pace with inflation. In short, no major changes in real values are expected for the rest of the decade.

This judgement involves a composite weighting of a greatly expanded list of variables. Before the boom of the 1970s the participation of the United States in total world trade averaged 5 to 7 percent of GNP. Today this percentage has more than doubled, and it continues to rise. Agricultural exports as a percent of cash receipts from farm marketings in the 1980s were almost twice the level of the 1960s. This has tremendous significance for the course of farmland values.

The 1970s boom was triggered by a coming together of many events, led by the unexpected appearance of the Soviet Union as a grain importer after 1971-72. This coincided with fears of a world food shortage, well publicized discoveries of a population explosion, scary forecasts of the limits to growth, and the invention of OPEC. On the domestic scene, the forces were augmented by inflation that drove real rates of interest on farm mortgages to historic lows for an eight-year period from 1973 to 1981. These same years saw the peak of the cumulative effects of the system of interstate highways on the demand for rural land and the peak household-forming years of the baby boom generation.

Farmland values took off on a climb that exceeded in scale and geographic extent even the most euphoric land booms on the frontier in the 19th century, or in the railroad era after the Civil War. None of the causal events that drove this boom seem likely to reemerge in the 1990s.

The most prominent impending possibility is a decline in grain imports by the Soviet republics. No evidence of distress is so galling as the fact that they cannot feed themselves. Emerging political leaders will place major emphasis on the cessation of grain imports. The restructuring needed to achieve this is clearly

Continued on Page 26

---

Rex E. Wilcox is Vice President, Stalcup Agricultural Service, Inc., Iowa.

Philip M. Raup is Professor Emeritus, Department of Agricultural and Applied Economics, University of Minnesota.
THEY’LL INCREASE –
Wilcox Continued

- Compared to stocks and bonds, farmland has a better long-term record for appreciation and income.
- Farmland is a stable income producer not affected by swings in the market. Even during the worst downturn in the mid-1980s, the government supported income at good levels. Farmer failures made the headlines, but the silent majority were banking profits.
- People can lose their investment capital through events or problems they have no control over in many markets. However, a good farm is a very secure investment with low risk to the original investment.
- Agriculture is a healthy industry. It manufactures vital products with an expanding demand base. There is no question whether the product being produced is marketable.
- Comparisons of dividend income on stocks versus farmland rental income show that farmland provides a higher return along with a good chance for substantial appreciation.
- Agriculture tends to cycle at different times than the rest of the economy. Using land as part of an investment plan adds stability.

Increasing Yields. Application of new genetics and management techniques will increase yield per acre, and cut relative costs on a per unit basis to maintain or improve profit margins.

New Crops, New Uses. Each year more uses are found for our common crops. Several new uses are making an impact already: soybean ink, corn syrup sweeteners, corn starch plastics, and ethanol fuel additives. More industrial uses will be perfected. The seed industry will adopt genetics to maximize the value of crops according to end users needs.

Competitive World Advantage. Many ingredients including climate, soils, transportation, land grant universities and the ag supply industry form a unique combination to produce a cost competitive agriculture in the Midwest. As trade policies are revised to lower tariffs, American agriculture should be able to serve markets as well as anyone in the world.

Land Use Restrictions. Controlling erosion and less intensive use of land with high leaching potential will tend to reduce crop acreage, forcing more production to high quality Midwest land.

Water Restrictions. Western areas are struggling with water allocation, farmland versus urban. Water will be reallocated to urban areas, transferring production to the Midwest where water is not a scarce resource.

Summary

This is a view of the positive things that could affect land prices before the end of the decade. There are also negatives to consider: possible high interest rates, continued slow economic growth, and high rates of ag production by third world countries. However, in the next 8 years I believe land prices will trend higher, with the positive market factors far outweighing the negative potentials which might develop.

THEY’LL STABILIZE –
Raup Continued

within their grasp, and it could come relatively quickly. Russian grain imports are unlikely to be a driving force in U.S. farmland values by the latter years of the 1990s.

However, there are other emerging trends that may keep export prospects for grains near the top of the list of forces affecting American farmland values for the rest of this decade. One is the growth of import demands by the countries of North Africa and the Middle East. With some of the highest rates of population increase in the world, and oil revenues to bolster effective demand, these two regions imported more wheat than did the USSR and China combined in 1989-90, the last full trade year before the disruption caused by the Gulf War. These effects of population and oil revenues on imports are likely to be re-established and strengthened in the 1990s.

The overriding force that could reignite land boom fever is fear of inflation. This may seem remote, with the current annual rate hovering around 3 percent, but it remains threatening. A high real rate of interest now exerts a dampening influence on land values. If inflation accelerates and real interest rates drop, all forecasts are off.

Absent the threat of inflation, a number of retarding influences will dampen any buoyancy in land values in the 1990s. One is the rising cost of environmental protection. Another is the prospect of a declining number of aggressive farm expansion buyers. They now dominate the farmland market in field crop regions, but the easy gains through farm size enlargement have largely been achieved. Memories of collapsed farmland values in the 1980s are still green, and the aversion to debt is still strong. Coupled with a penitent population of sobered farmland lenders, a credit-driven rise in land values seems unlikely for the remainder of the decade.

Among other unknowns, the political climate that will condition debate over a new Farm Bill in 1995 is not likely to favor further increases in real land values. That debate will involve the problem of renewing or replacing the Conservation Reserve Program. If some of these lands come onto the market they may well have a retarding effect on land prices. Whatever the outcome, it is difficult to imagine a renewed CRP that would equal the supporting effects on land prices initially exerted in the 1980s.

So I come back to the point of departure: With luck, the 1990s could be a decade of relative stability in American farmland values.