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## 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 more net income to invest in land to expand their operation and become more efficient.

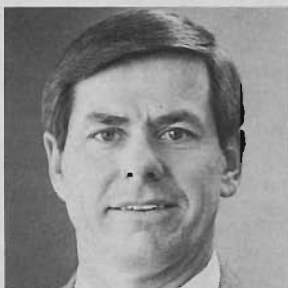
- Reasonable long term interest rates give land buyers confidence for long-term commitments.

- 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*

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# Panel on Farmland Prices to 2000

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## THEY'LL INCREASE –

Wilcox *Continued*

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- 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.