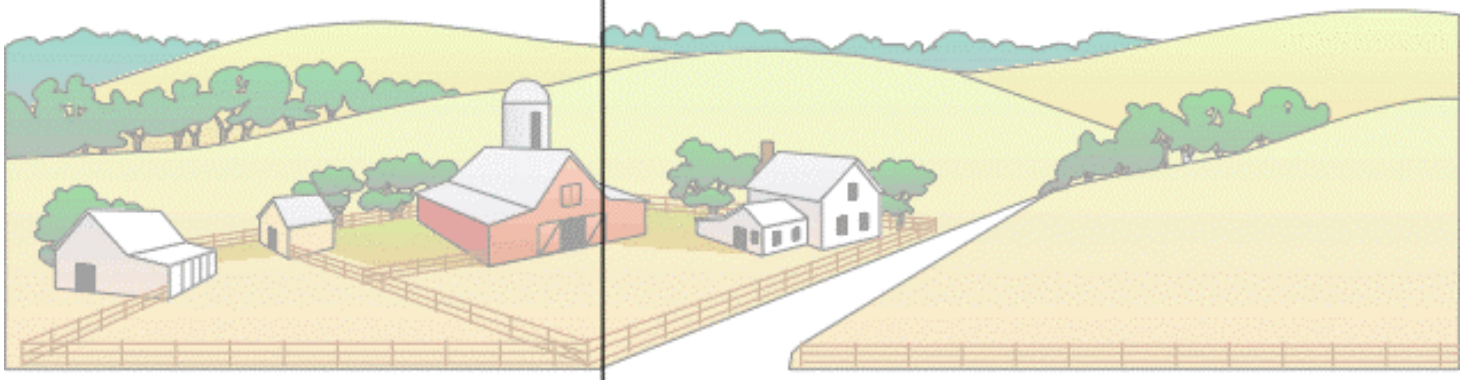
Farm Credit Administration
Office of Examination

U. S. Agricultural Real Estate Trends
1994-1999



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December 1999

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U. S. Agricultural Real Estate Trends – Executive Summary

Agricultural real estate values remain stable. The positive national trend reflects steady improvements in general agricultural productivity and growth of land values in line with the U.S. inflation rate. Studies conducted by the United States Department of Agriculture (USDA) for the period from 1994 through 1998 provided the historical trend information on agricultural real estate values. Information for 1999 was obtained from the Farm Credit System's (FCS or System) chief appraisers to validate current trends in values, land rents and sales activity. These appraisers are accredited professionals and actively involved in the System's current appraisal processes. The System's chief appraisers indicated no significant decline in average agricultural real estate prices or land rents, but there is a general decline in the number of farm land sales.

System appraisers reported that steady consolidation into larger, more efficient farm units and the significant growth of non-farm interests in agricultural real estate were additional factors supporting continued stability. Each of these factors is stronger today than they were during the 1980s, when agricultural real estate values plummeted. However, current low commodity prices could place downward pressure on agricultural real estate values and thus increase the risk in FCS institution portfolios by reducing farmer equity and tightening the loan-to-collateral margins. This downward effect will be most pronounced in those areas or regions where non-farm influences are at a minimum. However, lending practices have evolved substantially since the 1980s and the overwhelming majority of FCS institutions have written loan underwriting standards that require loans to have adequate cash flows, sufficient equity, and reasonable margins for future adversity. While loan-to-collateral ratios are still measured and included as part of most underwriting standards, this is seldom the only factor considered for loan approvals. In addition to these sources, the Federal Government's recent approval of $8.7 billion in additional financial assistance to farmers will help maintain stable real estate values.

Background

Conditions that led to the farm crisis of the 1980s should be remembered. If commodity prices remain low and the financial condition of farmers worsen, monitoring changes and trends in the value of agricultural real estate could provide an early warning mechanism of emerging risk in System institutions. Agricultural real estate comprises approximately 80 percent of the total net worth of America's farmers; therefore, any significant downward movement in land values will adversely impact farmer balance sheets and may result in lower quality loan portfolios. In addition, conditions during the farm crisis of the 1980s reveal the impact that changes in the value of agricultural real estate can have on System institutions and their borrowers. The rapid decline in the value of agricultural real estate during that period was a critical factor contributing to the System's loan losses. However, current real estate trends have not approached either the rate of growth or decline seen in the 1980s.

System institutions placed a high reliance on loan-to-collateral ratios during the rapid loan growth period from 1977 through 1983. Much of the growth during this period occurred because of liberal lending practices to borrowers whose financial net worth was comprised of appreciated real estate. In many other cases, loans were made to borrowers that did not have sufficient repayment capacity because collateral was used as a substitute for cash flow to justify the loan decision. As long as collateral values kept increasing, FCS institutions financed troubled borrowers and reported them as performing loans of acceptable quality. This lending practice was accepted during that era because the borrower's debts were refinanced within the 85 percent loan-to-value criteria for farm mortgage lending.

Low commodity prices and increased interest rates ultimately stressed the cash flows needed to support the debt on real estate. The resulting decline in real estate values caused many FCS institutions to recognize substantial loan losses beginning in 1984. Total System losses recorded during this period (prior to any subsequent recoveries) exceeded $4.2 billion and real estate land values declined by over 50 percent in many states, especially in the Midwest. The liberal lending practices and collateral-based lending practices that led to the farm crisis of the 1980s must not be repeated. Compared to the 1980s, most System institutions today follow lending practices that include adherence to formal loan underwriting standards and sound credit administration emphasizing repayment capacity and adequate cash flows. Additionally, FCA examinations encouraged FCS institutions to base their current loan decisions on sound analysis considering all credit factors and not merely relying on a low loan-to-collateral ratio.

Real Estate Trends and Analysis

USDA studies and FCS chief appraisers provide information on states/regions that require monitoring. To supplement knowledge of specific land values trends for the territories serviced by System institutions, an overview of statewide and regional land value trends was developed. It provides the basis to anticipate worsening conditions in agriculture and support for individual examination findings. A database using historical USDA and current FCS supplied national information was developed to increase awareness of these regional and statewide trends. Data for the period from 1994 through 1998 was based on USDA reports of agricultural land values. The 1999 information was obtained through a survey of FCS district chief appraisers and conversations with other FCS appraisers at the System's 1999 RAAW Conference. This information is included in Attachment #1.

The value of U. S. agricultural real estate continues to increase. As shown in the real estate trend database, cumulative U.S. agricultural real estate values have risen on average by 17.5 percent for the 4-year period ending December 31, 1998. During that period, the greatest land value growth was in 3 regions of the country - the Corn Belt, the Lake Region, and Appalachia. These areas cumulatively have risen over 23.5 percent during the period – which was 35 percent higher than the national average. Most noteworthy, the States of Idaho, Indiana, Iowa, Michigan, Minnesota, Nevada, and Tennessee (Attachment #3) have shown the greatest percentage increases from 1995 through 1998. However, while the current land value trend for 1999 remains positive, the rate of increase for five of these states has slowed down significantly from the prior 4-year period, and Minnesota has a decline for 1999. Indiana's growth rate for 1999 has actually increased from 1998, but it still remains lower than the 4-year average. These are several of the same Midwestern states that had some of the highest real estate value declines during the farm crisis of the 1980s. These are also regions where FCS institutions incurred substantial losses. In addition, FCA's June 30, 1999 Stress Analysis Report identified 6 associations that cover territory either in or adjacent to these states where the prospect for continued stress is projected to adversely affect their respective loan portfolios.

The Lake Region and Appalachia[1] have significantly more non-farm influences that affect the value of agricultural real estate in their respective region. Appraisers from both areas reported that recreational and residential buyers are increasingly active in the rural land market. This group of buyers is larger now than in previous periods and has demonstrated a willingness to purchase agricultural real estate for other purposes. Also, this group has influenced the increased value of farm real estate during the 1990s. These buyers are expected

[1] The effect of recent major flooding in the eastern 1/3 of North Carolina on rural real estate was not considered for this analysis.

to continue putting upward pressure on land values and they have the cash resources from off-farm income to support higher land values than those justified for strictly agricultural uses. These regions are not affected by many of the agricultural-related pressures noted in the Corn Belt and therefore are not as vulnerable to the effects of low commodity prices.

According to FCS appraisers and based on district trends, increases in agricultural land values continued in all regions of the U. S. for 1999, except for the Corn Belt (Attachment #2). On a state-by-state basis, the greatest increases during 1999 were reported in Wisconsin, Mississippi, Louisiana, and California. Declines were reported in North Dakota, Illinois and Minnesota. Furthermore, a number of states, primarily in the Corn Belt region, had substantially no change in land values from 1998.[2]

Agricultural land rental rates and terms are not increasing. FCS appraisers indicated that 1999 rents were relatively unchanged from 1998 (Attachment #2). Agricultural rents and terms are indicators of the income producing capacity of the land and one of the primary components for determining the appraised value of real estate. However, System appraisers in the Northwest states reported a 10 percent decline in general rental rates and/or terms for agricultural land in their territory. These lower land rents indicate farmer expectations in that territory for lower incomes from the units being rented. It is reasonable to conclude that these expectations are linked with the current low commodity prices for grain and livestock. Declines in real estate rental rates tend to be a leading indicator in a declining farm real estate market and, if this trend continues, lower income expectations will have a negative impact on the current market value of farm land.

Number of farm land sales decreasing in 1999. Most FCS appraisers reported significant decreases in the number of agricultural land sales compared to the previous year and no area of the country reported any increase in the number of sales (Attachment #2). Land sales are important indicators of market activity and declining sales were a leading indicator of lower land values in the 1980s. This may be a predictor of what may be forthcoming. Declines in the number of sales were significant in the Texas District and in the Corn Belt region serviced by associations in both the AgAmerica and AgriBank Districts.

Another indicator of the declining trend in the number of farmland sales can be seen in current auctions held by retiring farmers. FCA examiners reported that many retiring farmers, especially in the Midwest, are selling their farm equipment, but not their farm real estate, as they get out of business. Farmers who retire with sufficient equity to retain their land will reduce the number of

[2] Some of the FCS appraisers specifically identified land sales for geographic regions and states; however, some appraisers only reported land sales and trends on a district-wide basis. The district-wide information sales information was extrapolated for each state to be consistent with the USDA data.

properties available for sale and be a contributing factor for the decline in the number of sales.

The highest concern regions are the Corn Belt and the Northwest. Based on the information provided by USDA and FCS appraisers, regions of the country that merit additional attention are those Midwest states that comprise the Corn Belt and the states in the Northwest. These areas comprise the AgriBank and AgAmerica Districts. Both areas have experienced significant declines in the number of farm sales and a flat-to-declining land rent trend. Actual rural property sales in these areas for 1999 do not indicate lower land values except for slight declines in Illinois and Minnesota. Land sales in those states are not yet indicative of a material adverse trend; however, closer scrutiny to local conditions and increase monitoring of institutions serving those areas is warranted. The Corn Belt (see Attachment #4) is important because land values in that region experienced growth rates during the 1990s at rates higher than national averages. The average annual growth rate for the Corn Belt was 5.9 percent/year compared to 4.4 percent/year for the nation as a whole (35 percent higher). In addition, this was the region that experienced some of the System's greatest losses during 1980s.

Emerging Risk Considerations

Risks for future agricultural land value declines are on the horizon, yet current conditions do not warrant undue alarm. The rate of increase in agricultural land values has slowed significantly since the beginning of 1998 and current trends in the number of land sales may indicate a future decline in the value of agricultural real estate. These trends are somewhat mitigated by the dramatic increase in Federal disaster assistance granted to farmers in 1998 and again in 1999. Direct assistance payments to farmers will provide additional cash flow to meet farm real estate debt payments and support stability for future real estate values.

Information in the attachments that show trends in real estate values along with FCA's Early Warning System and other macro-economic sources can assist monitoring and analysis of risk in FCS institutions. There have been substantial changes in FCS lending practices since the last period of the agricultural real estate decline in the 1980s and FCA examiners routinely monitor and rate institution conditions and performance. Increased emphasis on underwriting standards, sound credit administration and management accountability has strengthened System asset quality. These changes in System lending practices and controls should help insulate institutions from excessive risk if real estate values experience any significant future declines. Nonetheless, institutions must be aware that competitive pressures for farm loans, low commodity prices and a rising interest rate environment will place additional stress on their portfolios. System institutions must recognize any downward trends in land values and appropriately structure individual loans and adequately provide for any emerging risks.

Attachment #1

TRENDS FOR AVERAGE VALUE PER ACRE
U.S. FARM REAL ESTATE -- DECEMBER 31, 1994-1999*

STATE	12/31/94	12/31/95	Percent Change	12/31/96	Percent Change	12/31/97	Percent Change	12/31/98	Percent Change	1994 to 1998 Percent Change	1999 to Date Sales Percent Change**
CONNECTICUT	5,950	5,950	0.00%	5,950	0.00%	5,950	0.00%	6,100	2.52%	2.52%	3.00%
DELAWARE	2,440	2,550	4.51%	2,580	1.18%	2,660	3.10%	2,750	3.38%	12.70%	3.00%
MAINE	1,130	1,150	1.77%	1,170	1.74%	1,190	1.71%	1,200	0.84%	6.19%	3.00%
MARYLAND	3,100	3,110	0.32%	3,150	1.29%	3,180	0.95%	3,300	3.77%	6.45%	3.00%
MASSACHUSETTS	5,060	5,100	0.79%	5,150	0.98%	5,210	1.17%	5,400	3.65%	6.72%	3.00%
NEW HAMPSHIRE	2,250	2,250	0.00%	2,250	0.00%	2,250	0.00%	2,250	0.00%	0.00%	3.00%
NEW JERSEY	7,000	7,100	1.43%	7,100	0.00%	7,000	-1.41%	7,000	0.00%	0.00%	3.00%
NEW YORK	1,280	1,260	-1.56%	1,250	-0.79%	1,280	2.40%	1,280	0.00%	0.00%	3.00%
PENNSYLVANIA	2,200	2,270	3.18%	2,300	1.32%	2,390	3.91%	2,440	2.09%	10.91%	3.00%
RHODE ISLAND	6,500	6,500	0.00%	6,500	0.00%	6,500	0.00%	6,500	0.00%	0.00%	3.00%
VERMONT	1,450	1,490	2.76%	1,500	0.67%	1,520	1.33%	1,550	1.97%	6.90%	3.00%
Northeast	**2,200**	**2,220**	**0.91%**	**2,240**	**0.90%**	**2,280**	**1.79%**	**2,320**	**1.75%**	**5.45%**	**3.00%**
MICHIGAN	1,330	1,420	6.77%	1,530	7.75%	1,670	9.15%	1,730	3.59%	30.08%	3.95%
MINNESOTA	950	1,030	8.42%	1,090	5.83%	1,160	6.42%	1,190	2.59%	25.26%	-0.10%
WISCONSIN	1,040	1,130	8.65%	1,170	3.54%	1,240	5.98%	1,280	3.23%	23.08%	16.90%
Lake	**1,050**	**1,130**	**7.62%**	**1,200**	**6.19%**	**1,280**	**6.67%**	**1,320**	**3.13%**	**25.71%**	**6.92%**
ILLINOIS	1,820	1,900	4.40%	1,980	4.21%	2,130	7.58%	2,190	2.82%	20.33%	-0.23%
INDIANA	1,620	1,740	7.41%	1,870	7.47%	2,060	10.16%	2,110	2.43%	30.25%	6.00%
IOWA	1,350	1,450	7.41%	1,600	10.34%	1,700	6.25%	1,700	0.00%	25.93%	0.00%
MISSOURI	880	950	7.91%	1,010	6.32%	1,070	5.94%	1,100	2.80%	24.95%	6.60%
OHIO	1,750	1,820	4.00%	1,890	3.85%	2,040	7.94%	2,100	2.94%	20.00%	4.60%
Corn Belt	**1,430**	**1,510**	**5.59%**	**1,610**	**6.62%**	**1,730**	**7.45%**	**1,770**	**2.31%**	**23.78%**	**3.40%**
KANSAS	535	553	3.30%	565	2.23%	577	2.12%	580	0.52%	8.41%	0.00%
NEBRASKA	580	610	5.17%	620	1.64%	645	4.03%	660	2.33%	13.79%	0.00%
NORTH DAKOTA	373	383	2.50%	390	1.95%	401	2.82%	400	-0.25%	7.18%	-2.00%
SOUTH DAKOTA	302	310	2.51%	325	4.84%	348	7.08%	355	2.01%	17.99%	-2.00%
N. Plains	**453**	**463**	**2.22%**	**481**	**3.84%**	**499**	**3.80%**	**505**	**1.19%**	**11.50%**	**-0.50%**
KENTUCKY	1,250	1,300	4.00%	1,350	3.85%	1,450	7.41%	1,500	3.45%	20.00%	6.30%
NORTH CAROLINA	1,750	1,900	8.57%	2,000	5.26%	2,080	4.00%	2,160	3.85%	23.42%	3.00%
TENNESSEE	1,340	1,530	14.20%	1,650	7.82%	1,810	9.70%	1,870	3.31%	39.55%	3.30%
VIRGINIA	1,720	1,840	6.98%	1,880	2.17%	1,920	2.13%	1,980	3.65%	15.70%	3.00%
WEST VIRGINIA	920	980	6.52%	1,050	7.14%	1,090	3.81%	1,110	1.83%	20.65%	3.00%
Appalachian	**1,430**	**1,550**	**8.39%**	**1,630**	**5.16%**	**1,720**	**5.52%**	**1,780**	**3.49%**	**24.48%**	**3.70%**

* Information based on USDA data

** Farm Credit System Reported 1999 Ag Land Sales

STATE	12/31/94	12/31/95	Percent Change	12/31/96	Percent Change	12/31/97	Percent Change	12/31/98	Percent Change	1994 to 1998 Percent Change	1999 to Date Sales Percent Change**
ALABAMA	1,260	1,320	4.76%	1,360	3.03%	1,440	5.88%	1,490	3.47%	18.25%	5.50%
FLORIDA	2,110	2,150	1.90%	2,200	2.33%	2,240	1.82%	2,260	0.89%	7.11%	3.00%
GEORGIA	1,260	1,360	7.94%	1,430	5.15%	1,510	5.59%	1,560	3.31%	23.81%	3.00%
SOUTH CAROLINA	1,340	1,360	1.49%	1,400	2.94%	1,480	5.71%	1,520	2.70%	13.43%	3.00%
Southeast	**1,520**	**1,580**	**3.95%**	**1,630**	**3.16%**	**1,700**	**4.29%**	**1,740**	**2.35%**	**14.47%**	**4.40%**
ARKANSAS	983	1,010	2.75%	1,070	5.94%	1,150	7.48%	1,180	2.61%	20.04%	2.10%
LOUISIANA	1,080	1,180	9.26%	1,190	0.85%	1,210	1.68%	1,200	-0.83%	11.11%	11.00%
MISSISSIPPI	886	917	3.50%	980	6.84%	1,050	7.14%	1,080	2.86%	21.87%	13.00%
Delta States	**973**	**1,020**	**4.83%**	**1,070**	**4.90%**	**1,130**	**5.61%**	**1,150**	**1.77%**	**18.19%**	**8.70%**
OKLAHOMA	547	547	0.00%	570	4.14%	610	7.02%	610	0.00%	11.45%	3.00%
TEXAS	525	540	2.86%	554	2.59%	593	7.04%	595	0.34%	13.33%	3.00%
Southern Plains	**529**	**541**	**2.27%**	**557**	**3.01%**	**596**	**6.95%**	**598**	**0.34%**	**13.04%**	**3.00%**
ARIZONA	840	880	4.76%	920	4.55%	987	7.28%	1,020	3.34%	21.43%	3.00%
COLORADO	520	558	7.30%	590	5.64%	618	4.75%	630	1.94%	21.04%	3.00%
IDAHO	840	900	7.14%	960	6.67%	1,020	6.25%	1,060	3.92%	26.19%	2.00%
MONTANA	277	289	4.50%	291	0.58%	294	1.03%	296	0.68%	6.91%	2.00%
NEVADA	289	332	15.00%	366	10.11%	392	7.10%	405	3.32%	40.12%	3.00%
NEW MEXICO	209	212	1.44%	215	1.42%	217	0.93%	219	0.92%	4.78%	3.00%
UTAH	710	740	4.23%	780	5.41%	807	3.46%	815	0.99%	14.79%	3.00%
WYOMING	192	206	7.30%	215	4.51%	222	3.26%	220	-0.90%	14.75%	0.00%
Mountain	**362**	**383**	**5.80%**	**399**	**4.18%**	**415**	**4.01%**	**422**	**1.69%**	**16.57%**	**2.75%**
CALIFORNIA	2,220	2,400	8.11%	2,500	4.17%	2,610	4.40%	2,630	0.77%	18.47%	10.00%
OREGON	844	928	9.90%	960	3.46%	960	0.00%	970	1.04%	14.88%	2.00%
WASHINGTON	1,070	1,120	4.67%	1,160	3.57%	1,190	2.59%	1,200	0.84%	12.15%	2.00%
Pacific	**1,540**	**1,670**	**8.44%**	**1,730**	**3.59%**	**1,780**	**2.89%**	**1,800**	**1.12%**	**16.88%**	**4.70%**
48 STATES	**844**	**887**	**5.09%**	**926**	**4.40%**	**974**	**5.18%**	**992**	**1.85%**	**17.54%**	**3.54%**

* Information based on USDA data

** Farm Credit System Reported 1999 Ag Land Sales

TRENDS FOR AVERAGE VALUE PER ACRE BY REGION
U.S. FARM REAL ESTATE -- DECEMBER 31, 1994-1999*

REGION	12/31/94	12/31/95	Percent Change	12/31/96	Percent Change	12/31/97	Percent Change	12/31/98	Percent Change	1994 to 1998 Percent Change	1999 to Date Sales Percent Change**
Northeast	2,200	2,220	0.91%	2,240	0.90%	2,280	1.79%	2,320	1.75%	5.45%	3.00%
Lake	1,050	1,130	7.62%	1,200	6.19%	1,280	6.67%	1,320	3.13%	25.71%	6.92%
Corn Belt	1,430	1,510	5.59%	1,610	6.62%	1,730	7.45%	1,770	2.31%	23.78%	3.40%
Northern Plains	453	463	2.22%	481	3.84%	499	3.80%	505	1.19%	11.50%	-0.50%
Appalachian	1,430	1,550	8.39%	1,630	5.16%	1,720	5.52%	1,780	3.49%	24.48%	3.70%
Southeast	1,520	1,580	3.95%	1,630	3.16%	1,700	4.29%	1,740	2.35%	14.47%	4.40%
Delta States	973	1,020	4.83%	1,070	4.90%	1,130	5.61%	1,150	1.77%	18.19%	8.70%
Southern Plains	529	541	2.27%	557	3.01%	596	6.95%	598	0.34%	13.04%	3.00%
Mountain	362	383	5.80%	399	4.18%	415	4.01%	422	1.69%	16.57%	2.75%
Pacific	1,540	1,670	8.44%	1,730	3.59%	1,780	2.89%	1,800	1.12%	16.88%	4.70%
48 STATES	844	887	5.09%	926	4.40%	974	5.18%	992	1.85%	17.54%	3.54%

* Information based on USDA data

** Farm Credit System Reported 1999 Ag Land Sales

Attachment #2

1999 Ag Real Estate Values *

District	Avg RE Values	% Chg from 1998 (increase)	% Decrease in No. of Sales	% Change in the Cost of Land Rent
AgAmerica (Northwest)	900/ac	2.0%	30-40%	-10%
AgAmerica (Cornbelt)	734/ac	0.0%	20.0%	0%
AgriBank	1800/ac	3.1%	30-40%	0%
AgFirst	1880/ac	3.0%	10-15%	0%
CoBank (Northeast)	3378/ac	3.0%	0.0%	0%
Texas	800/ac	3.0%	38.0%	0%
Western (California)	2925/ac	10.0%	10-15%	0%
Wichita	790/ac	3.0%	0.0%	0%

* Based on 1999 land sales as reported by FCS District Appraisers

Attachment #3

States with Highest Real Estate Growth Rates Since 1995

State	1995 RE Value per acre	1998 RE Value per acre	1995-1998 Percent Change	Average Annual Growth	1999 Sales Percent Change Since 1998*
Nevada	$ 289	$ 405	40.1%	10.0%	3.0%
Tennessee	$ 1,340	$ 1,870	39.6%	9.9%	3.3%
Indiana	$ 1,620	$ 2,110	30.3%	7.6%	6.0%
Michigan	$ 1,330	$ 1,730	30.1%	7.5%	4.0%
Idaho	$ 840	$ 1,060	26.2%	6.6%	2.0%
Iowa	$ 1,350	$ 1,700	25.9%	6.5%	0.0%
Minnesota	$ 950	$ 1,190	25.3%	6.3%	-0.1%
U. S. Average	$ 844	$ 992	17.5%	4.4%	3.5%

* Based on FCS Reported 1999 Land Sales

Attachment #4

Corn Belt States (Illinois, Indiana, Iowa, Missouri & Ohio)
Significantly Higher Growth in RE Values than National Average