What's holding up American farmland values?

By Porter J. Martin Accredited Land Consultant (ALC), Certified International Property Specialist (CIPS).

Porter is the first Realtors Land Institute (RLI) member, and the 10th person in the world, to earn the International Real Estate Federation's CIPS credentials. Porter earned RLI's highest honor, the Land Realtor of America award. He's an internationally known speaker and writer on ag real estate. Porter and his family are Illinois farmland owners.

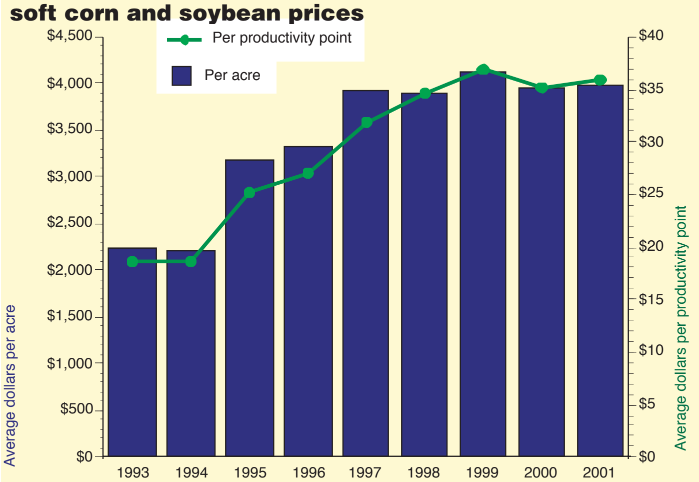
Prepared for distribution via the Internet following USDA's 2002 Agricultural Outlook Forum at the Crystal Gateway Marriott Hotel, Arlington, Va., Feb. 21-22.

Wherever I go across the countryside, the question people ask me the most is, "What is keeping farmland prices so strong?"

You can find localities of soft land prices, but the main trend is stable to strong. Then there are occasional "upside" surprises. Our appraiser, Chuck Foster, told me about a northeast Illinois farm that sold in January 2000 for $2,800, then sold again 23 months later in December 2001 for $3,350 — almost a 20% increase in less than two years.

Sales of farmland in our home county, DeKalb County, Ill., have remained strong the past five years, as you can see in the chart of sales below.

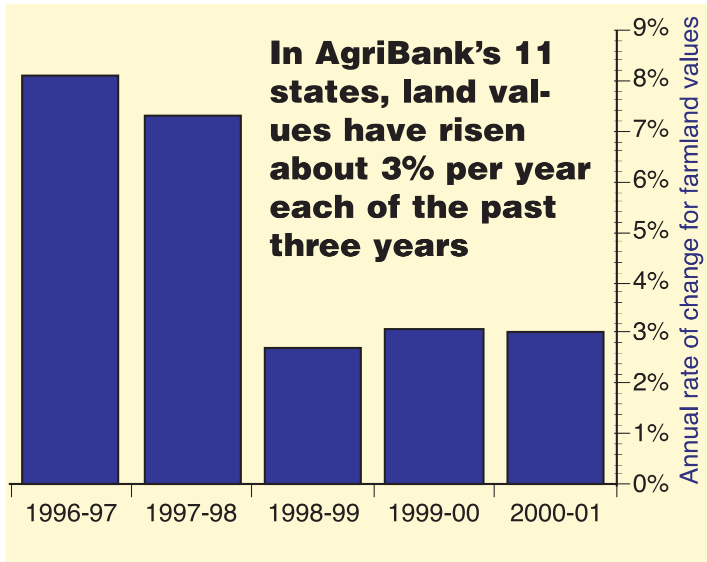
Farmland values in DeKalb County, Ill. have remained stable and strong through five years of soft corn and soybean prices



A few days ago, USDA Chief Economist Keith Collins said on USDA radio that farmland's national average value rose another 3% in 2001. That's on top of a 35% increase the previous five years — in spite of weak prices for most of the eight main farm-program crops!

Keith Collins' report was confirmed by data from AgriBank, the Farm Credit Services division covering a 11-state region stretching from North Dakota to Arkansas, including Illinois.

AgriBank's head of appraisals, Ed Dillman, reported that the region has seen about a 3% increase in farmland values in each of the past three years. For the past five years, farmland values have increased more than 25%. Dillman says that the past three years have been essentially stable in real terms. AgriBank is now in joint management with AgAmerica Farm Credit Bank, which includes the FCS of America association of Iowa, South Dakota, Nebraska and Wyoming. Altogether, these FCS entities monitor land values in some 20 states. Here's the region-wide chart from AgriBank:



The latest update of Farm Credit Services of America benchmark farms in Iowa, Nebraska, South Dakota and Wyoming shows that its Iowa benchmark farms have gained 60.8% in value over the past 10 years.

Strong farmland prices look totally rational when you add up the multiple motives for buying and holding onto land. We're in a dramatically different situation than at the outset of the 1981-87 bust, when farmland values plunged.

First, look at the general scope of the farmland market — it's traditionally a "thin" market. The urge to hold land in the family for generations limits the market supply. At our brokerage firm, we almost always have more buyers than sellers.

USDA found in a 1987 study by Gene Wunderlich that an average farm or ranch changes owners once a generation — about 22 years.

In more than 60% of the title changes, the new owner is an heir or relative, so these farms passing within the family never test the open market. The slow turnover of farms is a