What Price Farmland?

William H. Heneberry and Charles H. Barnard,
agricultural economists, Land Economics Branch,
Economic Research Service

The fall in farmland values in the early 1980's was the first such major decline many farmers can remember. Except for slight setbacks in 1939, 1950, and 1954, values had risen steadily for nearly half a century, culminating in nine consecutive years (1973-1981) of double-digit annual increases in value. Understanding why farmland values change depends very much on understanding of how farmland itself has changed.

Early Estimates

Early in the Nation's history the efforts of the Federal Government to dispose of land and encourage private ownership greatly influenced land values. The Land Ordinance of 1785 required half the land to be sold as sections of 640 acres each. The minimum price was $1 an acre. While this minimum doubled by 1796, competition from States and individuals reselling their land kept values low for undeveloped land. By 1820, the minimum price had dropped to $1.25 an acre, and the minimum transactions involved 80 acres. These prices were for unimproved land close to its natural state.

The development of transportation systems influenced farmland value during this period. Improvements in river navigation, railroads, and wagon roads increased farmland values by improving the market for farm products and bringing in more settlers to develop the land and compete for farms already operating.

Farms in some Eastern States were declining in value by 1839 because of soil erosion and depletion of plant nutrients as well as competition from newly developed land farther west.

The 10-Year Census

The U.S. Department of Agriculture (USDA) using census data has estimated values for most States at 10-year intervals beginning in 1850. The census of 1850 reported many counties as having an average farmland value of less than $.50 an acre. In contrast, New York County, New York, had the highest average value, at $1,847 an acre.

The effects of the Civil War can be inferred from a comparison of the 1860 and 1870 estimates. Values fell by 50 percent during the decade in many parts of the South, while farmland increased in value in the Northern States during the same period.

Early 20th Century Values

USDA's annual estimates of value,

available from 1912 to the present, recorded the Nation's rising land market that led to the land boom of World War I. Land values rose gradually from an average of $40 an acre in 1910 to $43 in 1915. However, by 1920, primed by a prosperous agriculture, land was $69 an acre, 60 percent more than in 1915.

High farm commodity prices during World War I contributed to the optimism over land values, as American farmers supplied Europe, where the war had interrupted food production. While many stated that land would never be cheaper in 1919, a few observers warned that prices had risen above what farm income could support.

Falling Values, 1921-1933

Farmland values quickly reversed in 1921, as falling farm commodity prices pressured farmers and ended land speculation among nonfarmers. By 1928, values were 29 percent below their peak, and a much steeper decline began in 1930 with the onslaught of the Great Depression. Nationwide by 1933, values had dropped 39 percent below 1930 and 56 percent below the 1920 peak. In States where the land boom was biggest, the drop was even more drastic. After 1933, values leveled out and remained low throughout the decade.

Recovery, 1934-1960

Potential land buyers were wary of the improvement in agriculture and the economy in the 1940's. People remembered the "boom and bust" and feared a similar cycle after World War II. Lenders were cautious also, preferring to base loans well below the market value.

Nevertheless, values more than doubled from 1940 to 1950, and rose 80 percent from 1950 to 1960.

During the decade of the 1960's, American agriculture was relatively stable. In this economic climate, average farmland values rose an average compound increase of 5.1 percent annually.

The Seventies—Beginning of Volatility

An unprecedented rise in farmland prices occurred between 1972 and 1981 beginning with massive sales of U.S. grain to the Russians in 1972, and a whole series of events that led to expanded American farm exports and improved farm income.

Farmers and nonfarm investors bid up the price of land 23 percent during 1973. Farmland prices then increased by double digits every year until 1981. The largest regional increase was in the Corn Belt where values increased by 33 percent during 1976.

The climate was conducive to rising expectations and rising land values. Credit for land purchases was readily available, and mortgage interest rates were low relative to inflation and were actually outpaced by inflation in 1974 and 1975, creating negative real (inflation-adjusted) interest rates. Real interest rates averaged only 1.5 percent for the decade. The high rates of inflation in the general economy made

When farmland values increased in the 1970's, valuable Corn Belt land such as this partially harvested cornfield in Hamilton County, Nebraska, increased the most. When values dropped in the 1980's, Corn Belt land values dropped the most. (Gene Alexander, SCS, NEB-2267)

farmland a valuable inflation hedge and tax shelter, encouraging real estate purchases for investment and speculation. Additionally, during the second half of the seventies, rising commodity program loan rates substantially reduced the risk in much of agricultural production.

Overall, land values increased by 275 percent from 1972 to 1981, an average compound annual rate of 14.2 percent. In the Corn Belt, value rose from $406 an acre in 1972, the first year of double-digit increases in farmland values, to $1,776 in 1981.

Eighties

Expectations for continually increasing farmland earnings and inflation changed sharply in the early 1980's. New macroeconomic policy, particularly monetary policy, led to a dramatic reversal in inflation rates and a substantial rise in interest rates. High real interest rates strengthened the value of the dollar in international markets, boosting U.S. prices overseas and contributing to the reduction in the volume and value of agricultural exports as U.S. prices became less competitive.

Declining exports, in turn, led to surplus domestic stocks, lower commodity prices, and lower farm incomes. In 1980, net farm income fell nearly $11 billion from 1979, largely because of higher interest rates, higher costs of manufactured farm inputs, and lower cattle prices. The continued decline in U.S. farm exports also contributed to a more pessimistic outlook for farmland values.

By early 1987, farm real estate values had fallen by percentages unprecedented since the Great Depression. Nominal values had fallen 33 percent in the 48 contiguous States and a spectacular 54 percent in the Corn Belt. Adjusted for inflation, real land values fell 47 percent below the 1980 peak. In the Corn Belt, the average real value was only 35 percent of the 1980 peak for the region.

Outlook

As of mid-1987, the dollar declined on world markets, holding out the possibility of greater export volume and higher commodity prices, but also the possibility of higher interest rates. Farm income was at an all-time high, but an unprecedented proportion of that income was from government payments.

And farm expenses had fallen for 3 years running, for the first time in memory. The declining expenses were due, in part, to lower energy costs and, in part, to the Conservation Reserve Program, intended to idle as much as 45 million acres under 10-year contracts. The farm programs continued to be in flux, leading to uncertainty about the direction and level of farm returns.