Ag Summit: No Farmland Bubble

Land Values Create Buzz at Ag Summit

Jesup, Iowa, farmer Ben Riensche said the high prices, including this week’s sale, are all about liquidity. Farmers are coming off five good years and an even better 2011. If a piece of land opens up that someone wants, that person is willing to go out and secure it.

"This is just simply having the money," Riensche said. "If you are an old-seated Dutchman or German and you have been waiting on that land, you are going to buy it ... I can afford it and I want it to be mine."

Even with corn taking a $2 per-bushel hit since early September and soybeans falling $3 a bushel over that time, Riensche said it would take an "economic tsunami" to do anything more than keep land values from leveling off.

Kevin Dhuyvetter (left), extension agricultural economist at Kansas State University, and Terry Kastens, professor emeritus of agricultural economics, KSU, spoke at the DTN/The Progressive Farmer Ag Summit about the chances of a farmland bubble forming. (DTN photo by Jim Patrico)

CHICAGO (DTN) -- Farmers were buzzing Thursday at the DTN/The Progressive Farmer Ag Summit about news that 74 acres of farmland in northwest Iowa had sold for a record price of $20,000 an acre.

The summit ballroom was packed and the audience attentive by the time Kansas State University economists Kevin Dhuyvetter and Terry Kastens gave their slated morning presentation asking the question: Are we in a farmland bubble?

Most economists would say no. They and others like to point out some major differences between now and the run-up in land values preceding the market crash in the 1980s. Farmers are paying less than half what interest rates were when they peaked at that time, and also are carrying less debt.

Still, there are risks that agriculture could suffer if China slips into a recession, or if the ethanol industry suffers from lack of federal support. Along with that, interest rates can only go up from where they are now. Lenders and investors could also get carried away with land values, if they are not already. Some economists are cautioning that the spikes in land values are signs of a bubble ready to burst.

Dhuyvetter said a lot of variables could have gone into the bidding up on the property that sold on Wednesday in Sioux County, Iowa. That same area in northwest Iowa also has brought two other sales of tracts this fall for more than $16,000 an acre.

"Maybe this $20,000 an acre makes sense," he said. "We don’t know everything that’s going on with it."

What is clear from that kind of sale is that it ignites more sales, and raises the bar for what others want for their sale. "Everyone’s expectation changes," Dhuyvetter said.

Examining rate of return on land in 39 states since 1951, agricultural states such as Illinois, Iowa and Kansas have largely been at the lower end of the long-term rankings. Over the past 60 years, Iowa land values have risen an average of 6.4% a year, still peaked at that time, and also are carrying less debt.

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"It might take two or three down years to really suck up the liquidity in the market," he said.

In valuing land, the K-State economists suggest picking a selling point, such as 30 years from now, and projecting how much the land would be worth at that time. Consider the increase that could come from property taxes, as well as capital-gains taxes for a future sale.

"If you want a good investment you buy the land that will give you a good rate of return," Dhuyvetter said.

Kastens and Dhuyvetter also had data showing annual rent prices compared to the value of the land has declined steadily from 8% in the 1950s to 3% average this year.

In balancing out land values and rental rates, a land owner should be considering a target rent closer to 4.5% of the purchasing price of land. The economists said a potential land buyer who won't farm the land themselves should be skeptical of buying ground if the rent is less than 3.5% of the value.

But what of land that's $10,000 an acre? "You should ask yourself, would you pay a landlord $450 an acre for that land?" Kastens said.

Given that rent has lagged behind land values, more landowners are also considering rent auctions. That's a trend picking up in parts of Iowa. Dhuyvetter said he has seen signs in Kansas that rent auctions could grow, especially after a rent auction last spring doubled rent on a farm and prompted the auctioneer to send out flyers to landowners touting the price effect.

"I don't like it, but we're going to have more of those auctions because of these big numbers," Dhuyvetter said.

Chris Clayton can be reached at chris.clayton@telventdttn.com

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