Is Iowa Farmland in a Bubble?

Spring Seminar
Iowa Chapters, ASFMRA and RLI
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Recognition

- Some of my general remarks will be from the speakers at the March 10 FDIC Symposium.
- “A bubble implies irrationality in the market and/or a short term structural issue that impacts market transactions”
  - Buying/selling in a panic, forced to sell for liquidity, encouraged to buy with high risk & debt and prices diverge from reasonable view of econ. fundamentals
  - Brent Gloy, Purdue
Conclusion

- I don’t think that Iowa farmland is in a speculative bubble.
- There is always a need for caution in highly uncertain times with dramatic changes but this isn’t the 80s nor is farmland the urban real estate market of the early 2000s
- Thank-you
Background

• Iowa land values remain very robust
• Sales are still lagging behind normal although they do appear to be increasing
• Income projections are very strong
• Interest rates remain low
• Debt does not appear to be a problem
Background

- Demand projections are strong
- Major uncertainties to watch:
  - Impact of Japanese catastrophe remains to be seen; exports, world economic conditions and other impacts
  - Middle East unrest
  - Input prices
Quarterly Values S&P/Case-Shiller US Housing Price Index
Percent Change in US Cropland, Case-Shiller Housing Price Index

- Cropland
- US Housing Index
Percent Change in Farmland Values 7th Federal Reserve Board District

- IL
- IN
- IA (High)
- WI
- 7th District

- 4th Qt. 10
- Jan '10 to Jan. '11
Iowa Land Values from ISU and USDA Rents

Land values and rents over time from 1950 to 2010.
Income
Iowa Land Values, Gross and Net Farm Income

- Land values
- Gross farm income
- Net farm income
Inflation Adjusted Iowa Land Values, Gross and Net Farm Income

- Land values
- Gross farm income
- Net farm income
US and Iowa Net Farm Income
Correlation Coefficients with Iowa Land Values

- Gross Income: 90%
- Net Income: 80%
- Returns to operator: 70%
Regional disparity for farm business income prospects in 2011

The farm level forecasts are derived from partial budget modeling on the 2009 Agricultural Resource Management Survey (ARMS) using parameters from the sector forecasts.
Estimated Costs of Producing an Acre of Corn in Iowa
Iowa Monthly Average Corn and Soybean Prices

- Corn
- Soybeans
Iowa Land Values and Average Return to Corn/Soybeans with and without Government Payments
Profit per Acre Divided by Iowa Land Values
Debt
U.S. Farm Total, Real Estate and NonReal Estate Debt

Total
Real Estate
Non Real Estate
Average Interest Rates 7th Federal Reserve Board District

- Operating
- Real Estate

Data points from 1974 to 2004.
Sales
ISU Land Value Survey;
Farmer versus Investor Land Purchase Index
Farmer Purchase Relative to Investor
Total Iowa Sales Reported by Farm Credit System

- 2007: 2300
- 2008: 2550
- 2009: 1650
- 2010: 1800
Iowa Farmland Owner
Demographics
Distribution of Iowa Farmland by Age of Owner and Year

- < 25
- 25-34
- 35-44
- 45-54
- 55-64
- 65-74
- > 75

Comparative years:
- 1982
- 1992
- 2002
- 2007
Percent of Iowa Farmland by Residence of Owner

- Iowa Resident
- Non-Iowa Resident

Percent of Iowa Farmland by Acquisition Method and Residence

- Iowan
  - Percentage Purchased: 80%
  - Percentage Gifted: 60%
  - Percentage Inherited: 20%

- Part-time Iowan
  - Percentage Purchased: 10%
  - Percentage Gifted: 10%
  - Percentage Inherited: 10%

- Non-Iowan
  - Percentage Purchased: 5%
  - Percentage Gifted: 5%
  - Percentage Inherited: 5%
Land as an Investment
Value of $1,000 Invested in 1960 in Iowa Farm land or the S & P

- **Iowa Farm land**
- **S&P 500**
Value of $1,000 Invested in 1980 in Iowa Farm Land or the S &P

- **Iowa Farmland** (green line)
- **S&P** (red line)

The graph shows the comparison of the value of $1,000 invested in Iowa farm land and the S&P stock index over the years from 1980 to 2010.
Value of $1,000 Invested in Farmland Over a Similar Investment in the S&P for Each Year
Value of an Investment made in Iowa Farmland as a Percent of an Investment in the S&P by Year of Investment
Outlook

• Short term
  – Strong demand and limited supply will continue
  – Prices and income will remain strong
  – Low interest rates
Outlook

• Long (er) term;
  – Interest rates
  – Value of the dollar
  – Overall condition of US economy
  – Food demand will remain strong but biofuel demand could soften as new technologies are developed.
  – Energy availability and costs
Factors to Watch

– What will happen as a result of Japan’s catastrophe
Factors to Watch

- What will happen as a result of Japan’s catastrophe
- Climate change
- Fertilizer costs and availability
- Technology changes
- World economic conditions; Middle East
- What will next generation do with the land
Conclusions

• The Iowa farmland market is strong and the strength is supported by fundamentals
• The outlook is positive in the short run barring major changes
• Longer term is not so clear especially as it relates to world order and economic conditions
Conclusions

• Odds of farmland experiencing a collapse similar to the 1980s or the urban real estate market are not high
• Farmland is a good long term investment and will likely remain that way for the foreseeable future
• Farmers buy land to own it, not to sell it. As long as there is income they will hold on to it
• Time will tell
Thank-you

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