

Midwest Land Values & Land Rent: Current Conditions & Trends

IOWA STATE UNIVERSITY
Extension and Outreach



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2020 Virtual Midwest Extension Outlook and North Central
Farm Management Meeting, August 18, 2020

Midwest Land Values Stable, but trend lower

Percent change in dollar value of “good” farmland

	April 1, 2020 to July 1, 2020	July 1, 2019 to July 1, 2020
Illinois	+1	0
Indiana	-1	+4
Iowa	-1	0
Michigan	*	*
Wisconsin	+3	+1
Seventh District	0	+1

*Insufficient response.

AgLetter: August 2020

By David Oppedahl

FEDERAL RESERVE BANK of CHICAGO



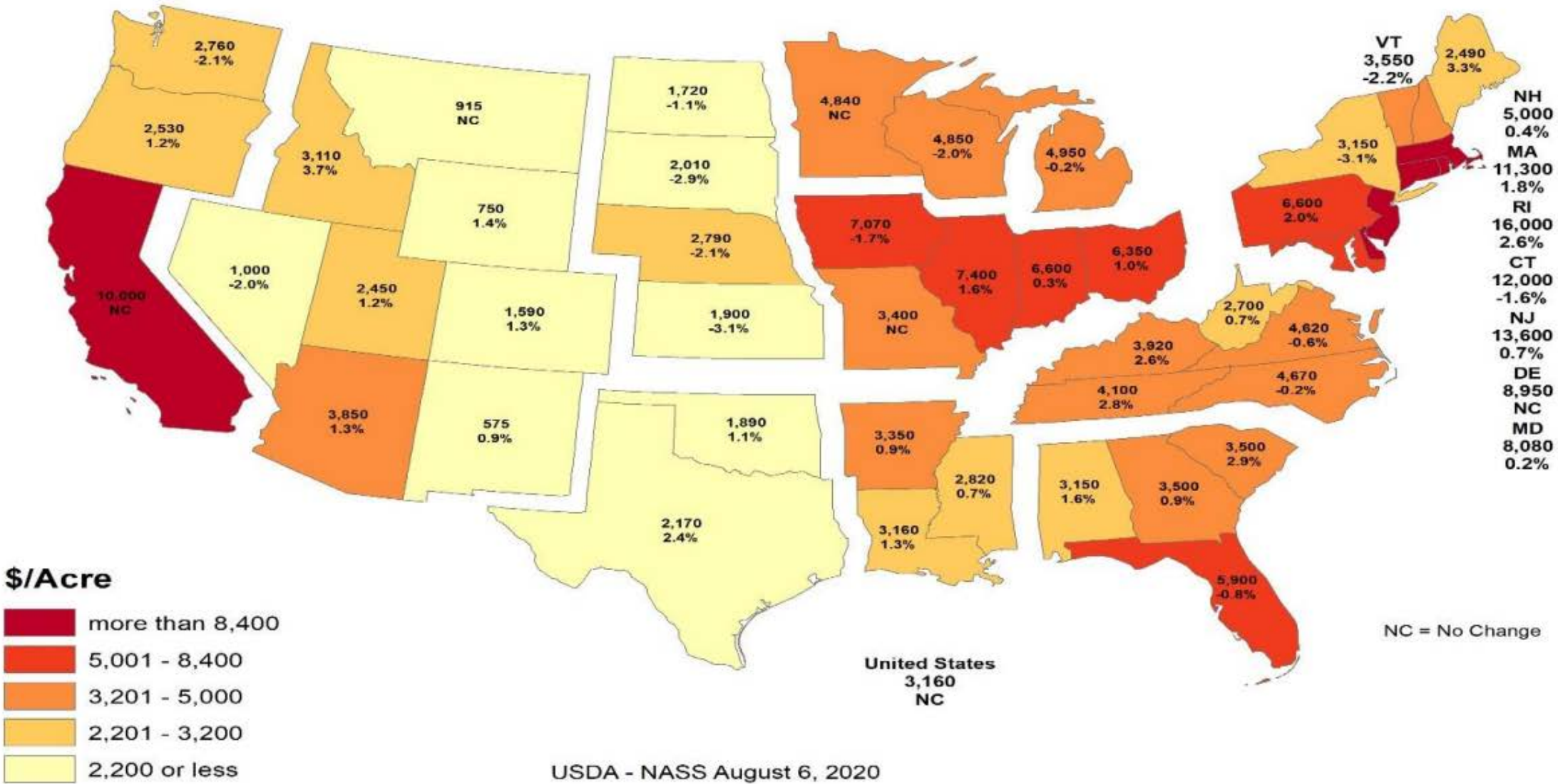
Top: April 1, 2020 to July 1, 2020

Bottom: July 1, 2020 to July 1, 2020

USDA Land Value Report (June to June)

2020 Farm Real Estate Value by State

Dollars per Acre and Percent Change from 2019



Some additional estimates from Aug 20

– Farm Credit & Kansas City Fed

Land Value Trends for 1st Half of 2020

Iowa, Wyoming: +0.3%

Nebraska: -0.4%

South Dakota: -2.0%

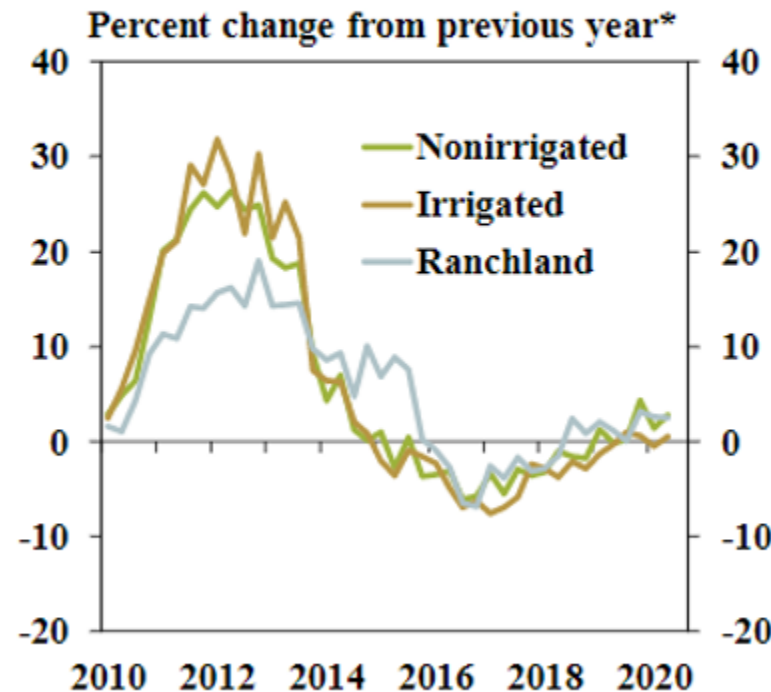
(pasture loss + residual flooding impacts)

Land Sales Move from Auction to Private or Brokered Sales in Q2

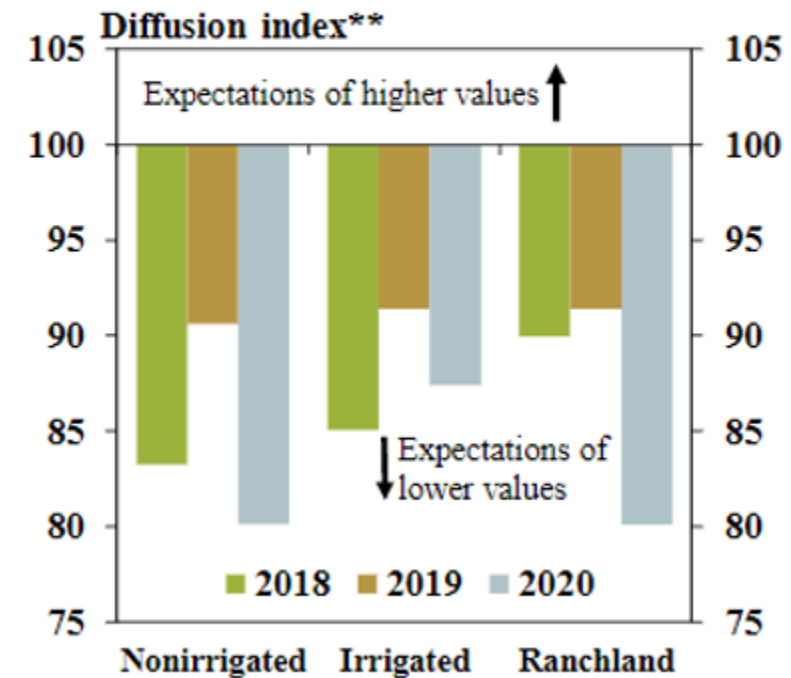
Nebraska: -21%; Wyoming: -35%

Iowa: -8%; S. Dakota: -31%

Farmland Values



Farmland Value Expectation
Expectations, Second Quarter



<https://www.morningagclips.com/2020-farmland-values-are-stable/>



<https://kansascityfed.org/research/indicatorsdata/agcreditsurvey/articles/2020/8-13-2020/pandemic-adds-pressure-to-farm-finances>

Agricultural professionals expect lower farmland values over the next 18 months, continued from page 5

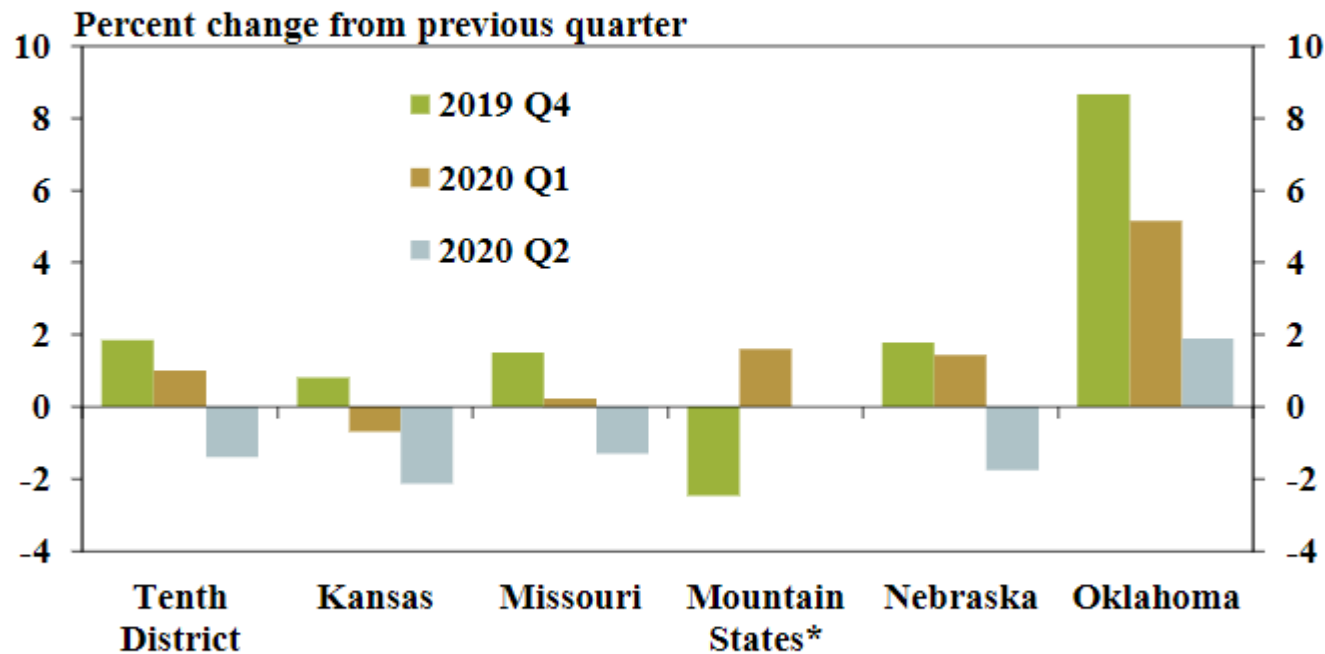
Table 2. 2020 SMLV estimated land price forecasts and gross capitalization rate for land value across Iowa regions

	STATE	Iowa Tillable Farmland Auction Summary: \$/Soil Quality Index (CSR2)		
Percent change in land value from May '20 to Nov '20	-2.3%			
Percent change in land value from May '20 to Nov '21	-1.2%			
Percent change in land value from May '20 to Nov '22	0.7%			
Percent change in land value from May '20 to Nov '25	10.4%			
Percent change in land value from May '20 to Nov '40	44.1%			
	STATE		2019 Q1-2	2020 Q1-2
		\$/CSR2	\$111	\$108
Gross capitalization rate May 1, 2020	3.2%	Tillable	25,180	20,282
Gross capitalization rate Nov 1, 2020	3.1%	acres sold		
Gross capitalization rate Nov 1, 2021	3.1%	# auctions	325	224
Gross capitalization rate Nov 1, 2022	3.1%			
Gross capitalization rate Nov 1, 2025	3.1%			
Gross capitalization rate Nov 1, 2040	3.1%			

Jim Rothermich, Iowa Appraiser

Cash Rent: sticky

Chart 10: Cash Rents on Nonirrigated Cropland



*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

<https://kansascityfed.org/research/indicatorsdata/agcreditsurvey/articles/2020/8-13-2020/pandemic-adds-pressure-to-farm-finances>

Iowa Cropland Rent – ISU:

May 2016: \$230/acre

May 2018: \$222/acre

May 2019: \$219/acre

May 2020: \$222/acre

Indiana Cropland Rent - Purdue

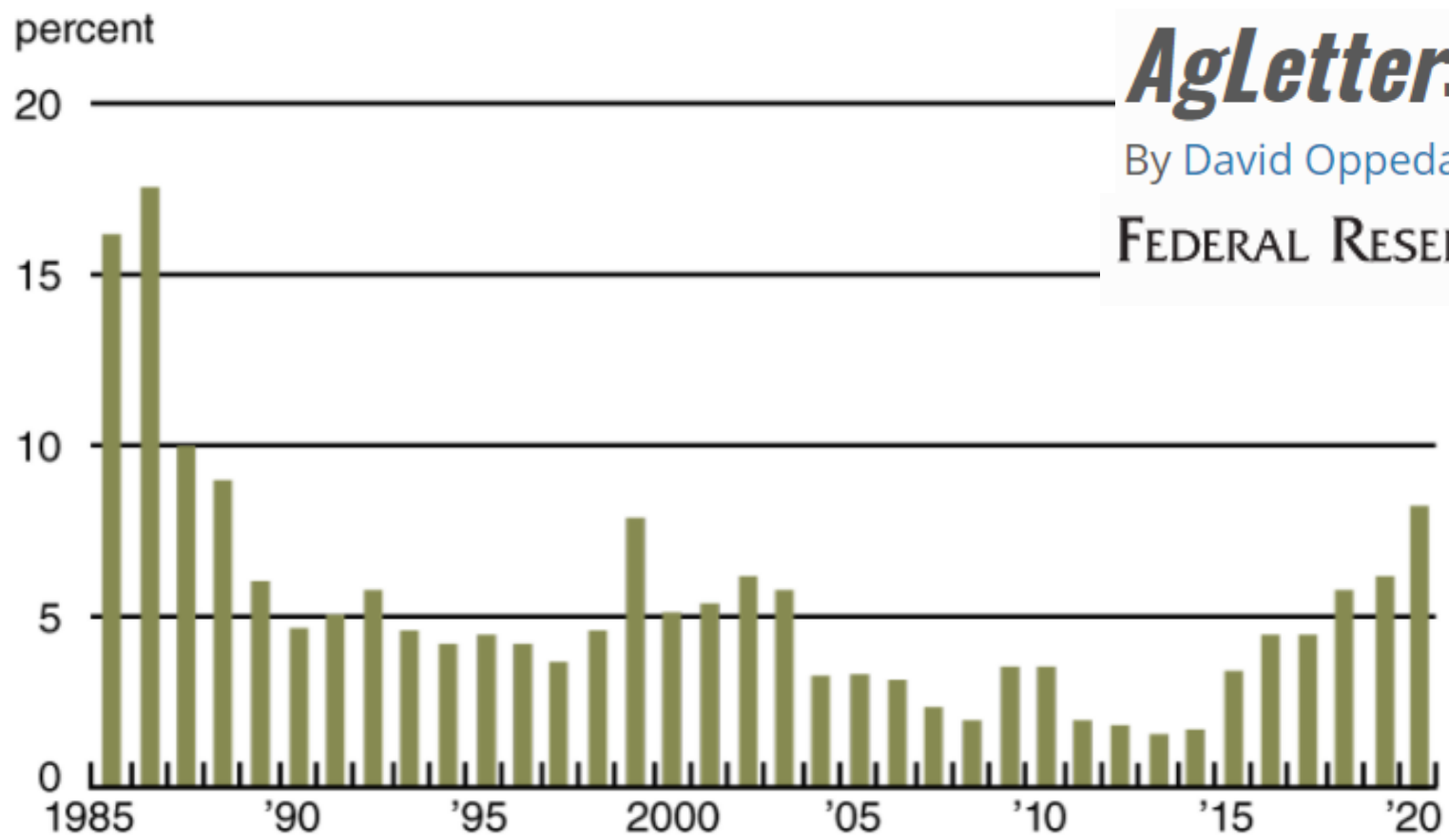
June 2019: \$207/acre

June 2020: \$217/acre

Land Values down 1-2%
since Dec 19

Farm Financial Stress

2. Percentage of Seventh District farm loan portfolio with “major” or “severe” repayment problems



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Source: Author's calculations based on data from Federal Reserve Bank of Chicago surveys of farmland values (for the second quarter of each year).

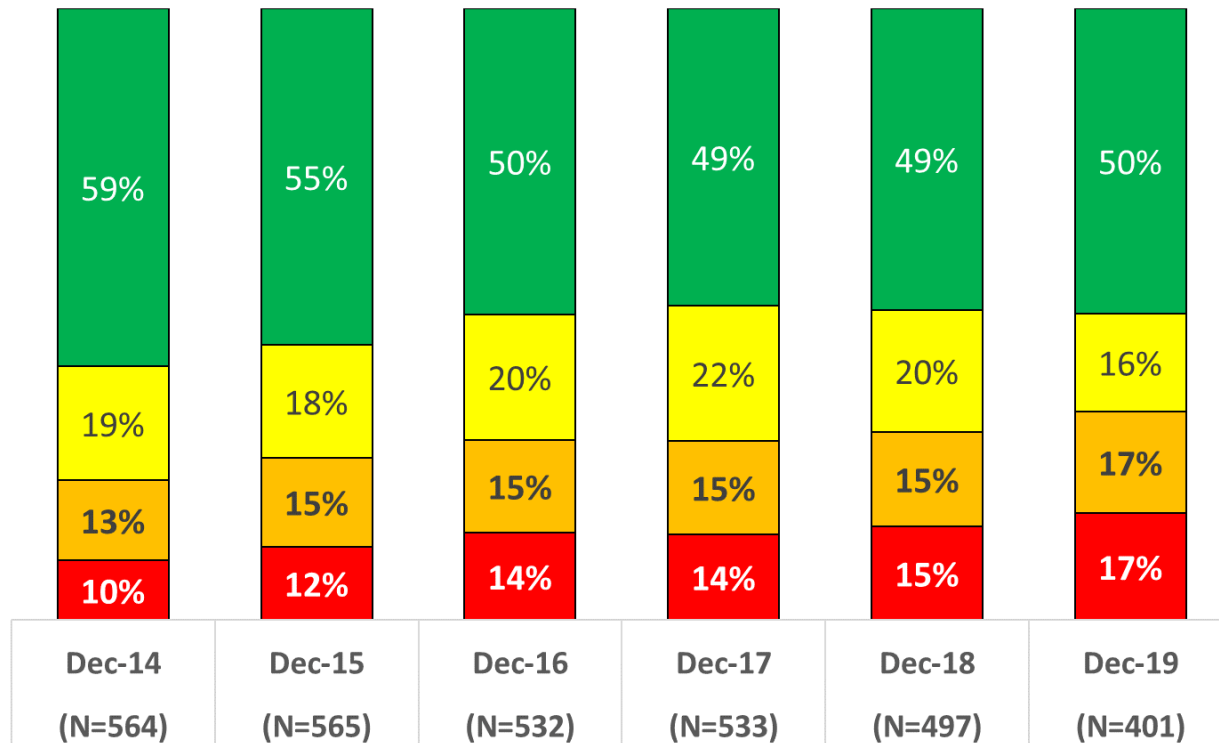
<https://www.chicagofed.org/publications/agletter/2020-2024/august-2020>

Farm Financial Stress in Iowa

28% of farms have current ratio ≤ 1.3 in Dec 2019;
17% has no working capital

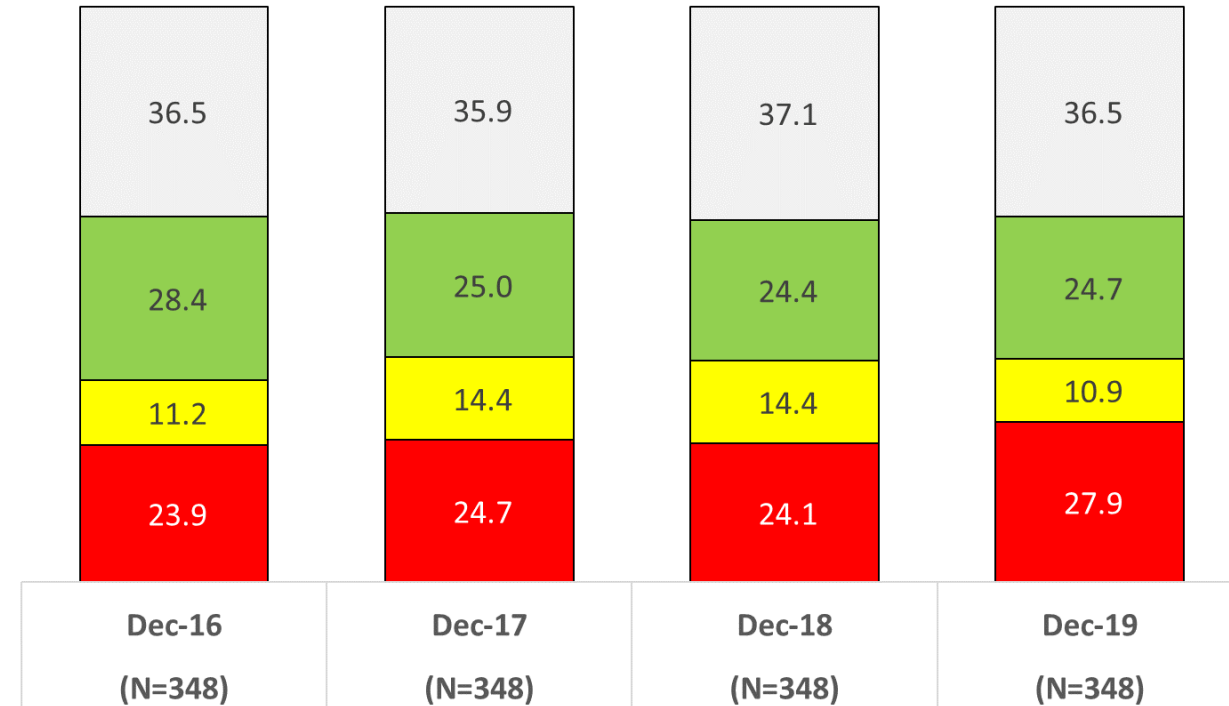
Distribution of Working Capital per Acre

■ <\$0 ■ \$0-\$250 ■ \$250-\$500 ■ \$500+



Percent of Farms by CR Status

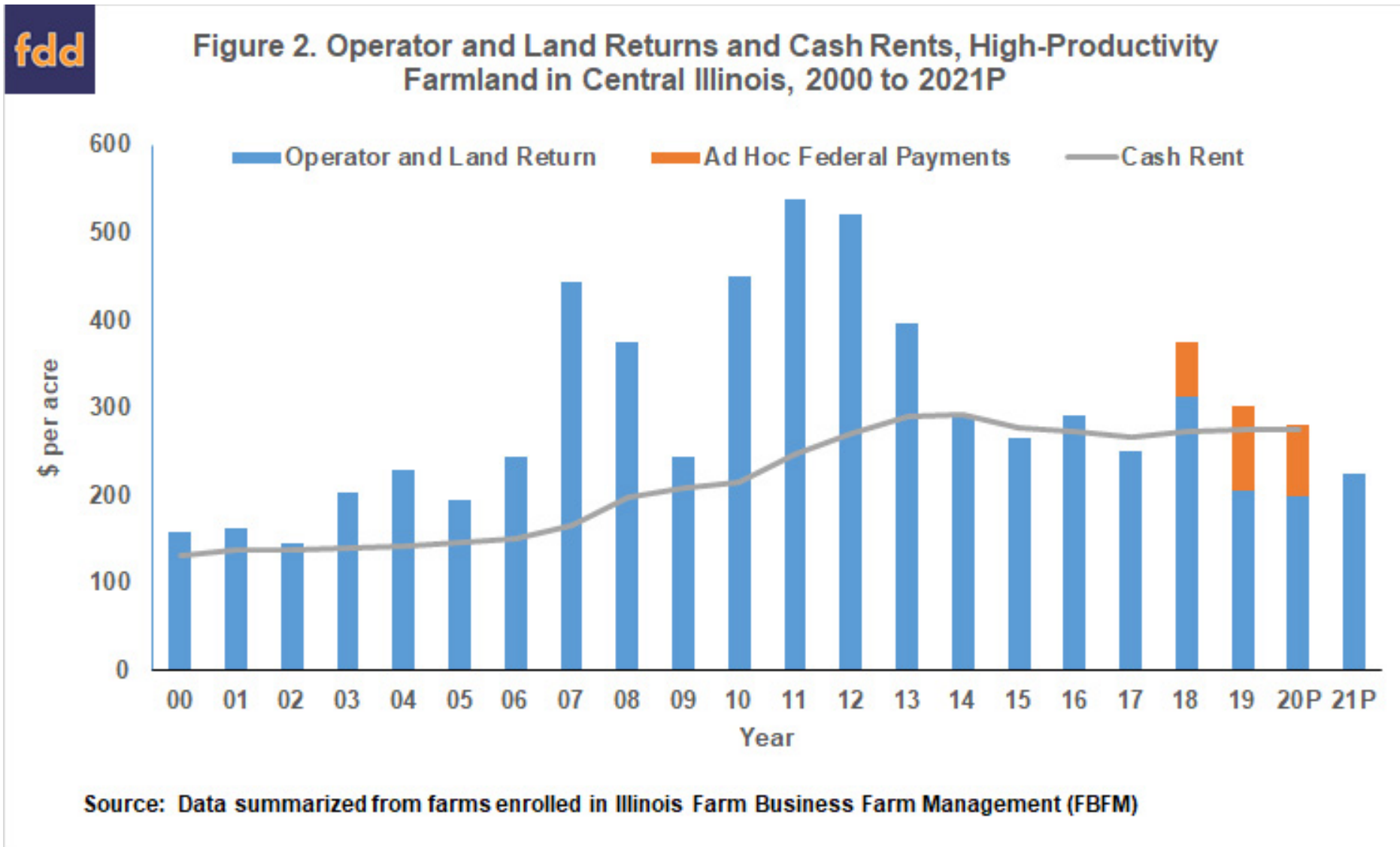
■ a)Vulnerable (CR ≤ 1.3) ■ b)Normal(1.3<CR ≤ 2.0)
■ c)Strong (CR>2) □ d)No current liabilities



Source: Alejandro Plastina @ ISU with data from Iowa Farm Business Association

<https://www.extension.iastate.edu/agdm/articles/plastina/PlaJun20b.html>

Lower ad hoc federal payments could put downward pressure on cash rents



<https://farmdocdaily.illinois.edu/2020/08/cash-rents-in-2020-and-2021.html>

Concluding Thoughts

- **Farmland values** faces downward pressure but is still fairly stable with strong demand and limited sales
- **Cash rent** still high & sticky and could face downward pressure especially if ad hoc federal payments are low
- Expectation for **capitalization rate** is fairly stable around 3%
- **Considerable uncertainty**
 - Impact of COVID-19 & federal payments
 - Trade situation especially with respect to China
 - Land value is roughly localized income divided by interest rates
 - Federal reserve moves on federal funds rate takes 10+ years to be fully capitalized
 - Ad hoc federal payments immediately impact farm income & land values next year

Thank You!



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2019 ISU Land Value Survey


2019 ISU Land Value Survey


The 2019 ISU Land Value Survey shows a 2.3 percent increase in average Iowa farmland values from November 2018 to November 2019. The average statewide value of an acre of farmland is now estimated at \$7,432. This modest increase, which barely exceeds the pace of inflation, is the second rise over the past six years, but still represents a 15 percent decrease from the 2013 peak in nominal land values, or a 23 percent drop in inflation-adjusted values.

2017 Iowa Farmland Ownership & Tenure Survey Paper Copy Available for Order (\$5 Only)

The new, 60-page **2017 Iowa Farmland Ownership and Tenure Survey report is available for order at the Extension Store** for only \$5 each paper copy. This is a unique survey across the nation which provides statistically representative information on many aspects of land ownership, tenure and transitions in Iowa. For example, the survey finds that 60% of Iowa land is owned by people 65 years or older, 82% of Iowa land is owned free of debt, and 29% of all acres is primarily owned for family or sentimental reasons.

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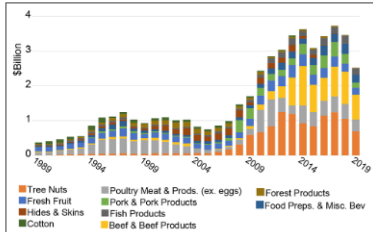
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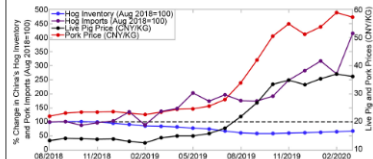
Xi He and Wendong Zhang, 2020. "Implications of Hong Kong's Special Status Revocation for Agricultural Trade between the United States, Hong Kong, and Mainland China." *Agricultural Policy Review*. Center for Agricultural and Rural Development, Iowa State University.

In 1992, the United States granted Hong Kong status as a customs territory separate from mainland China. On June 29, 2020, however, the US Department of Commerce withdrew that status due to recent tensions between China and the United States. Hong Kong, as the world's largest re-exporting port, plays a large intermediary role in US-China trade, and the revocation of its special status may provoke China into taking retaliatory economic and/or political actions. He and Zhang examine trends in Hong Kong's import/export of US agricultural products and how that trade may be affected. They find that the revocation itself is not likely to directly affect US-China agricultural trade prospects much if neither China nor the United States responds with further actions.



Chen-Ti Chen, Tao Xiong, and Wendong Zhang, 2020. "Large Hog Companies Gain from China's Ongoing African Swine Fever." *Agricultural Policy Review*. Center for Agricultural and Rural Development, Iowa State University.

Since November 2018, China has reduced its hog and sow inventory by almost 32% due to ongoing outbreaks of African Swine Fever (ASF).



www.card.iastate.edu/china

News Analysis: How bad could U.S.-China relations get?

The New York Times

Trade Emerges as an Area of Calm

The trade deal is providing a rare point of stability as relations between the United States and China fray over Hong Kong, the coronavirus and accusations of espionage.



By [Ana Swanson](#) and [Keith Bradsher](#)

July 25, 2020

Caveat: **“The trade deal means less to me now than it did when I made it,” Trump said in a press conference. “When I made it, it was a great deal.”**

The beginning of the end to the China deal?

07/29/20 6:49 AM By Bill Tomson



What remains unchanged: Comparative advantage for US Ag

