

Ag In Uncertain Times Webinar on December 13, 2011.

Title: *Regional Perspectives on Economic Forces Shaping Land Asset Values*

Speakers:

Dr. Michael Duffy, Professor of Agriculture Economics, Iowa State University

(answers in blue text below)

Dr. Damona Doye, Extension Farm Management Specialist, Oklahoma State University

(answers in rust colored text below)

- **General recommendation to review two publications**
 - **Federal Reserve, Ag Credit Conditions and Impact on Land Values:**
 - <http://www.kc.frb.org/publications/research/er/index.cfm>
 - **Ag Credit Survey:**
 - <http://www.kc.frb.org/research/indicatorsdata/agcredit/index.cfm>
 - **Other references such as Choices and Farmland Investor Center**
 - <http://www.choicesmagazine.org/choices-magazine>
 - <http://www.farmlandinvestorcenter.com/>

Roger Cramer, Senior Vice President of Risk Management, Northwest Farm Credit Services

Questions entered by participants into the Q & A Pod during this webinar. The questions listed below were edited to remove interaction with participants who were having technical difficulties and questions about the availability of reference material, slides sets, etc.

Answered Questions (23)

8. Brent: If ethanol supports went away, what would happen to corn prices?

Ethanol represents a significant portion of the current demand for corn. Anything that decreased that demand would impact prices. There would be an iterative process, however, because the byproducts are a feed stock that would be substituted with a change in availability. One thing to remember is that the demand for ethanol is also a function of the price of oil, and this in turn will impact corn prices. I am not sure the exact amount of an impact but CARD did estimates a few years ago. There would be an impact from dropping the blenders credit but the biggest impact would be from dropping the mandated use. This could be as much as a couple of dollars per bushel.

9. Cornelia Flora: How is land farmed by management companies covered in this chart on land by owner/renter?

I am not sure which chart but if it is the chart with data presented as percent of land and percent of farmers based on the amount of land rented, I believe the company would be considered an entity and a farmer.

11. Warren Kriesel: Will currency exchange rates have a big role like they did in the 70's?

The value of the dollar impacts exports and so it will have an impact on land values. One of the reasons exports increased so much in the 1970s was that we opened trade with the former Soviet Union. 1973 was the year of the Russian wheat deal. A lot of people say that's what started the big run up in land values.

12. Jenny: Have we seen a rise in the number of land transaction?

The Iowa data shows that the number of transactions is down from what would be considered normal. They are up from 2009 but with people holding on to land we just aren't seeing the same level of sales that we would expect.

In Oklahoma, the data that we collect from the Farm Credit Services in Oklahoma (FCS) has many fewer transactions in recent years compared to the peak in 2000 (agecon.okstate.edu/oklandvalues). This has been true for both pasture and cropland. FCS attempts to collect comparable sales data for all ag transactions, but we don't know exactly what percent of the population of sales are captured nor how much that might vary from year-to-year. I'm not aware of any public national sources for land transactions data. In a presentation I saw in May at the North Central Farm Management Extension Committee meetings, Steven Taff showed an ever-thinning market with fewer farmland sales from data underlying the Minnesota Land Economics website .

13. Matt Miller: What would the average per acre need to be before we really approach the possibility of a bust considering today's prices?

I am not sure how to answer this question. To me the level of income is the key. If income continues strong or increasing then land values will continue to increase. One factor to consider is the amount of debt. If this increases then we could be setting ourselves up for trouble.

14. James Novak: What are the terms, down payment, interest rate, and payback period for Iowa land loans.

These will vary a lot by borrower and conditions. One of the things we are seeing is that banks are only loaning a flat amount (\$3500 to \$5000 per acre being the most common) Whatever prices are above that, the purchasers will need to find. The average real estate interest reported for the third quarter in the Chicago district was 5.36 percent. Our rates would be in that range to higher.

15. Allen Torell: What has happened to the value of rangelands and particularly grazing permit values?

The best available source for national data on pasture land values and rental rates is the NASS data:

- http://www.nass.usda.gov/Charts_and_Maps/Land_Values/index.asp
- <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1446>

17. Tom Platt: Roger, do you see crop share arrangements changing as a result of land values?

18. j titford: There is an ongoing redesignation of private land being taken through eminent domain and turned into wilderness areas. Is this taken into consideration as a part of the dwindling acreage available?

USDA/NRCS periodically conducts a national resources inventory documenting land use and natural resources conditions:

<http://www.nrcs.usda.gov/wps/portal/nrcs/main/national/technical/nra/nri>

19. Greg: What kind of annual income can a land owner expect with today's land value In Iowa the average rent to value is about 4.2% based on ISU surveys. When you take off taxes and a management fee that will drop to 3.4%. With the new ISU surveys and projected increases in rents it should stay in the 3.4% range. If you are an owner-operator the returns the past year would have been 6 to 7%. Of course there are a lot of assumptions in that.

Agricultural income will of course vary by type of land, crops that can be grown on the land, average rainfall, etc. as well as market prices for crops. The best proxy for annual income would be the cash rental rate for crops or pasture as appropriate for land in a given area.

20. Willie Huot: When the "inherited land is being sold, does it normally get sold to one buyer or multiple buyers?

I don't have good statistics on selling of inherited land. But, in general sales are either to a single person or couple. That would be about three-fourths of the sales.

Unfortunately, the most recent Agricultural Economics and Land Ownership survey (AELOS) I found was conducted in 1999.

21. Lucas: If this is a bubble, and it indeed bursts, what will be the first signs of such a burst?

Sign of a burst would be a major drop in land values followed by 'panic' selling. I think a major collapse in output prices (and income) would be what would precipitate the drop.

23. Cornelia Flora: Relation between input costs and market prices

Generally as market prices rise, so will input costs. Most production ag. is close to purely competitive and so as prices and income rise costs will rise to capture the excess profits. Land is usually the residual claimant to these profits. Land values and/or rents get bid up.

Questions Entered by AIUT Team Members:

--What is the impact of the drought in the Southwest on "local" and national land prices?

The drought has slowed the rate of increase in land values in the southern plains states and has certainly contributed to a shift in the cowherd population if not an overall decline in inventory numbers for the U.S. (NASS releases a report in January of cattle numbers). At the same time, oil and gas royalty income has benefitted some landowners and provided support for land prices in these and other states. In the longer run, a prolonged drought might impact prices more and result in a shift relative to prices in other states.

--What is the correlation between types of ag land and the changes we are seeing in prices?

What we are seeing in Iowa is that the poorer quality land is not going up as much as the better quality land. Some of the poorer quality land would have the potential for recreational/second home use and as Roger said that market is about dried up for now.

Prices and the changes differ among states. Pastureland prices have increased relative to cropland in many southern states, exceeding them on average in many states.

--What is the time horizon most current investors are using when purchasing agricultural land? 5, 10, 15, 30 yrs or lifetime?

That depends on the nature of the investor. Some of the retirement fund, foundation, and similar type have a much longer time horizon. The individual or smaller group investors would have the 5 year or shorter length horizon.

--Is there a land price bubble and if so where are we in that process?

To the extent that a bubble is defined as 'irrational exuberance' then no, we are not experiencing a land price bubble. Prices are justified by the fundamental changes we have seen in income. Can we expect 30% increases, no. Will we experience a drop in a month or quarter, I don't think so. What brought us up (high commodity prices, low interest rates) are what we need to watch. As these change so too can land prices. It has been describe as more a leak and gradual deflating than a bubble bursting.

--What portion of current land prices are the result of profitability (investing in ag) and what portion is the result of investing in the inflation in ag land values?

Early on (2006 to 2010) I didn't think too much was the inflation in land value aspect. Recently however I think we are seeing some of that investing. What proportion it is I wouldn't want to hazard a guess.

--To the extent that land prices are determined by commodity prices and net income, what is the lag time between commodity price changes, up or down, and land value changes?

In general it would be about a year or a little longer. Notice what happened in 2009. But, when you have a lot of inertia behind the increases (or decreases) it will be longer.

--If there is a big correction in Ag land values, assuming a bubble and a downward correction, what affect, if any will there be on the general economy?

I think this question might be reversed in that a problem in the general economy would most likely lead to the correction in ag land values. Given that there isn't a lot of debt against the land, yet, the big correction would be due to changes in prices and the factors that led to those changes would be driving things more than the change in land values.

--Are there any leading indicators to watch for in land price changes?

Income, commodity prices, interest rates, how much debt is being assumed and the factors that would lead to changes in commodity prices. I also think oil price changes and problems in supplying regions could be a problem.