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Returns to farmland ownership

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ranging from a high of 36.8 percent in 1977 to a low of negative 28.1 percent in 1985. Over the entire period, land values increased by an average of 5.9 percent per year.

Total returns — The total return (annual cash return plus change in land value) was 13.4 percent per year. It ranged from a low of a negative 19.1 percent in 1985 to a high of 43.1 percent in 1977.

Results by financial period

Rates of return have varied greatly during specific time periods over the past thirty-three

years. The rates of return during the farm boom period, farm crisis period and the current period are shown in Table 2.

Farm boom period — During the farmland boom period of 1970 through 1981, land values increased rapidly (15 percent on average) providing a total return of 22.3 percent. It should be noted that cash rental rates and land values for the decade before 1970 were very stable. Farmland values and rental rates started their rapid rise in 1973/74 when grain shortages pushed prices to extremely high levels.

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Table 1. Returns to farmland ownership per year (per acre).

Year	Whole Farm Cash Rent	Market Land Value	Cash Rent as Percent of Land Value	Percentage Change in Land Value	Total Percentage Return
2002	\$116	\$1980	5.9%	4.2%	10.1%
2001	114	1900	6.0	4.4	10.4
2000	112	1820	6.2	2.8	9.0
1999	109	1,770	6.2	4.1	10.3
1998	109	1,700	6.4	6.3	12.7
1997	106	1,600	6.6	10.3	17.0
1996	107	1,450	7.4	7.4	14.8
1995	102	1,350	7.6	5.5	13.0
1994	100	1,280	7.8	5.6	13.4
1993	102	1,212	8.4	5.1	13.5
1992	101	1,153	8.8	1.2	10.0
1991	97	1,139	8.5	4.5	13.0
1990	96	1,090	8.8	-0.5	8.4
1989	91	1,095	8.3	15.6	23.9
1988	82	947	8.7	20.5	29.1
1987	76	786	9.7	-10.0	-0.3
1986	83	873	9.5	-20.0	-10.5
1985	98	1,091	9.0	-28.1	-19.1
1984	109	1,518	7.2	-3.2	4.0
1983	106	1,568	6.8	-13.0	-6.2
1982	106	1,802	5.9	-7.2	-1.3
1981	102	1,941	5.3	7.2	12.4
1980	96	1,811	5.3	16.8	22.1
1979	89	1,550	5.7	16.5	22.2
1978	82	1,331	6.2	5.7	11.9
1977	79	1,259	6.3	36.8	43.1
1976	69	920	7.5	28.0	35.5
1975	60	719	8.3	20.4	28.8
1974	53	597	8.9	28.1	37.0
1973	39	466	8.4	12.6	20.9
1972	35	414	8.5	5.6	14.1
1971	34	392	8.7	0.0	8.7
1970	33	392	8.4	2.6	11.0

Source: USDA Annual Survey of Agricultural Land Values and Cash Rents. Cash rental rates for 1995 through 2002 are estimates.

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Table 2. Returns to farmland by time period.

Time period	Cash rent as percent of value	Percentage change in land value	Total percentage return
Boom period—1970-81	7.3%	15.0%	22.3%
Farm crisis—1982-87	8.0	-13.6	-5.6
Current period—1988-02	7.4	6.5	13.9
Entire period—1970-02	7.5	5.9	13.4

Farm crisis period – During the farm crisis of 1982 through 1987, land value declined rapidly – an average of 13.6 percent per year. As noted previously, cash returns actually increased during this period because land value dropped faster than rental rates. However, the land value declines more than offset cash returns and the total return was a negative 5.6 percent.

Current period – During the period after the farm crisis and up to the current time (1988 – 2002), land values and rental rates resumed their upward trend, although slower than during the boom period. The average rate of return during this period is similar to the average rate of return over the entire period.

Results by alternative land purchase dates

Rates of return on farmland investments vary greatly depending on when farmland is purchased. In Table 3, farmland is assumed to be purchased at three different time-periods; the beginning of the boom period (1970), the end of

the boom period (1981) and the end of the crisis period (1987). The rates of return for each of these three investment period are shown in Table 3.

Beginning of boom period (1970)

– A typical Iowa farmland purchase in 1970 would have been \$392 per acre. The value of the farmland 32 years later in 2002 was \$1,980, for an increase of 405 percent or 13 percent per year. The average cash return over the period was 22 percent. This was computed by dividing the cash rental rate for each year by the \$392 purchase price. The cash return was 30 percent in 2002 when cash rent was \$116 per acre.

End of boom period (1981)

– A farmland purchase in 1981 would have been for \$1,941 per acre. The value 21 years later in 2002 was two percent higher. The average cash return over the period was five percent. The cash return was six percent in 2002 when cash rents were \$116 per acre.

End of the crisis period (1987)

– In 1987 farmland value was \$786 per acre. The value in 2002, 15 years later, was \$1,980 for an increase of 152 percent or 10 percent per year. The average cash return over the period was 13 percent. The cash return in 2002 was 15 percent.

Table 3. Returns to farmland ownership by purchase date

Ownership period	Purchase price	2002 Price	Percent increase in price	Average annual rent as percent of purchase price*
Beginning of boom period to present (1970 – 2002)	\$392	\$1,980	405%	22%
End of boom period to present (1981 – 2002)	1,941	1,980	2	5
End of crisis period to present (1987- 2002)	786	1,980	152	13

*The cash return per year is computed by dividing the cash rental rate for each year during the time period by the farmland purchase price. An average cash return is then computed for the time period.