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What will happen to the value of farmland over the next several years?

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As always, the future is hard to predict, but in this case it is especially difficult. There are several factors that will have an immediate impact on land values and other longer-term factors that will determine the future performance of land.

Several critical factors will influence land values and returns over the next few years. The first relates to the future of the government farm programs. As noted, farmers are the primary purchasers of farmland and net farm income influences how likely farmers are to entertain thoughts of buying land. Over the past several years, the majority of net farm income has come from direct government payments. While the 2002 Farm Bill will continue to provide a relatively high level of government payments, investors must consider whether those payments have already been factored into the cost and how long the payments will continue.

The second major unknown is the performance of the stock market over the next few years. If the market resumes its decline, it will have a decided impact on investor interest in farmland. Land that was purchased for recreational purposes could be returned to the market and depress prices. If the Federal Reserve takes steps to prevent major problems in the overall economy, mainly raising interest rates, land values will be affected. Finally, a declining stock market may encourage investors who are looking for a safer place for their money to consider land purchases. There could be positive and negative effects on land values from a prolonged decline in the stock market. At this time it is not possible to know which economic and social factors will exert the most pressure.

Interest rates are closely related to stock market performance. Today’s historically low interest rates make long-term investments such as land more attractive.

Land values are always influenced by the returns available. The financial returns are affected by the levels of production and demand. Weather and technological changes have a tremendous influence on the supply. And, in the global economy, changes in supply and demand conditions around the world can impact Iowa land values.

In the longer term, there are changes occurring in agriculture that will have an influence on land values. One of these is the structural change of increasing farm size. If this trend continues, there will be fewer farms and farmers. This will alter many aspects of the rural countryside, including land values.

Another element of change is the increasing age of Iowa farmland owners. Based on Iowa State University studies, 48 percent of Iowa farmland was owned by people over the age of 65 in 2002. This means that over the next few years a sizeable percentage of Iowa farmland will change hands. Will it enter the market, will family members retain control, or will it be divided? No one knows for sure, but this is likely to have an impact on land values.

The relative performance of the land and stock markets has varied over the past 50 years. Timing has been the key to which investment produces the highest returns.

What are the future trends? What will happen to land values? These questions are difficult to answer. At present, in my opinion, land values will continue to hold steady with only slight changes. There will be year-to-year variations, depending upon the current conditions and outlook for agricultural returns. In the long run, I think that land values will increase. But, for how long and by how much, no one knows. And, there is always the potential for downside risk if government support programs change substantially.