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Iowa farmland value at record level for fourth year in a row

By Mike Duffy, extension economist, 515-294-6160, mduffy@iastate.edu

The average value of an acre of farmland in Iowa increased $290 to an all-time high of $3,204 in 2006, according to an annual survey conducted by Iowa State University. This is the fourth year in a row with a new record high.

The 2006 average value topped a previous record of $2,914 reported last year, and it represented a 10.0 percent increase statewide over the 2005 average and the first time the average value of an acre of land in Iowa topped $3,000. Values increased in all 99 counties in Iowa, with seven counties topping $4,000 an acre, and one, Scott County on the Mississippi River in eastern Iowa topping out at $5,073 per acre, the highest ever recorded in the history of the survey.

The total value of the state’s 32.6 million acres of farmland is about $105 billion. The results of this year’s survey are notable not just for the relative strength and record values reported. The increases can be tied to the rapid increases in grain prices. Corn prices averaged $2.07 per bushel from January to October of this year, but current cash corn prices are well over $3.00 and it is possible to sell corn for the next couple of years for that price.

The change in demand for corn, partly attributed to its role in the bioeconomy, is having far reaching impacts on Iowa agriculture. Land values and rents are increasing. One difference noted in this year’s survey is that the percentage of land sales to existing farmers increased this year for the first time in several years, after losing ground to investor purchases.

The double-digit percentage increases of the past three years raise the question of whether we are entering a time similar to the 1970s when land values increased rapidly, only to crash.

Handbook updates
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Livestock Planning Prices – B1-10 (1 page)

Hog Price Changes by Two-Week Period – B2-15 (1 page)

Cattle Price Changes by Two-Week Period – B2-20 (1 page)

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in the 1980s. There are several important differences to keep in mind when pondering that question. Iowa land values increased more than 30 percent per year for 1973, 1974 and 1975, but the current increases in values are nowhere near that level. The boom in the values in the early 1970s followed a period of relative stability in Iowa land values.

The increases we are seeing today are coming at a time when Iowa land values have been increasing fairly steadily over the past several years. Since 2000 Iowa land values have increased $1,347 per acre on average or a 73 percent increase. This is a substantial increase, to be sure, but it is nowhere near the over 125 percent increase in values from 1972 to 1975. There are other differences such as the level of inflation, the fact that the more land is held without debt and the fact that more land is being held by older people.

Values increased in all 99 Iowa counties and topped $1,400 an acre in every county for the first time since ISU began conducting the survey in 1941. The highest average values in the state were reported in the Northwest Iowa crop reporting district at $3,783 per acre. The South Central district had the lowest average values at $1,927, and that district also had the lowest percentage of increase at 7.5 percent on average. The highest percentage of increase was 14.7 percent in Southeast Iowa.

The survey of real estate brokers, farm lenders, and others who work directly with the land markets, indicated nearly half of the counties (45) in the state showed increases of more than 10 percent. There were 59 counties with average values between $3,000 and $4,000 an acre. The smallest percentage increase was 2.9 percent in Jones County, and the largest increase was 17.2 percent in Audubon County. The average value increased for the seventh year in a row after slight declines in 1998 and 1999. The largest dollar increase was $495 per acre in Louisa County.

Good grain prices were a major factor in value increases this year and were mentioned by 42 percent of those responding to the survey. Other positive factors were good crop yields, mentioned by 18 percent of the respondents; low interest rates, tax-free treatment of transactions involving land exchanges, and bio-fuel demand, each mentioned by 14 percent; and scarcity of listings, mentioned by 13 percent.

Negative factors that worked against greater increases this year included an uptrend in interest rates, mentioned by 16 percent of the respondents, high input and machinery costs, mentioned by 12 percent, and land prices that are already too high, mentioned by 11 percent.

The survey indicated low grade land, which averaged $2,195 per acre in 2006, increased 11.9 percent over the previous year. Medium grade land averaged $3,011 per acre, a 10.0 percent increase, and high grade land averaged $3,835 per acre, an increase of 9.2 percent.

Fifty-one percent of the survey respondents said the number of sales this year was about the same as last year, while 26 percent said there were more sales in 2006, and 23 percent said there were fewer sales. Existing farmers were the buyers in about 60 percent of the transactions this year, with investors accounting for about 35 percent of the sales, new farmers 3 percent and other purchasers 2 percent.

About 1,100 copies of the survey are mailed each year to licensed real estate brokers, ag lenders, and others knowledgeable of Iowa land values. Respondents are asked to report values as of Nov. 1. Average response is 500 to 600 completed surveys, with 490 usable surveys returned this year. Respondents provided 623 individual county estimates, including land values in nearby counties if they had knowledge of values in those counties.

Only the state average and the averages for the nine crop reporting districts are based directly on data collected in the survey. The county estimates are derived through a procedure that combines ISU survey results with data from the U.S. Census of Agriculture. The ISU survey is the only one of several conducted throughout the year that reports data for all 99 counties.

The survey is sponsored by the Iowa Agriculture
and Home Economics Experiment Station at ISU, with results reported by ISU Extension. I was assisted this year by Darnell Smith, extension program specialist in economics.

Additional information on the 2006 survey is available on the ISU Extension Web site at www.extension.iastate.edu/landvalue/ .