

Land Market Soars; More Potential Shifts on Horizon?

The farmland market has continued to run at full throttle this fall, but inventory shifts, and inflation-led interest rate concerns, may scale back enthusiasm in the new year.

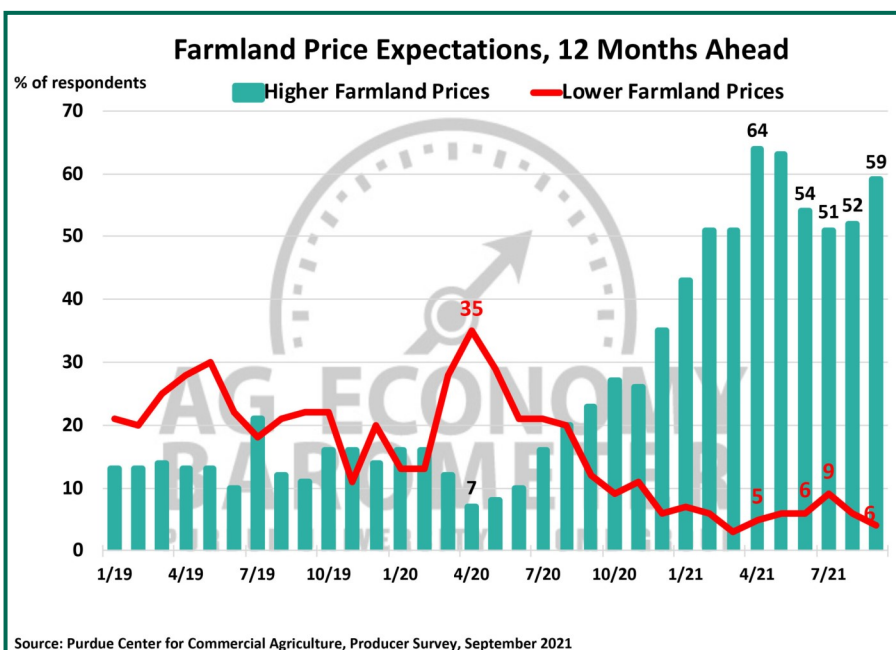
The surge in land prices began a year ago, fueled by strengthening crop prices and low interest rates. Commodity markets started climbing after the devastating derecho winds swept across Iowa and Illinois in August 2020, and China went on a commodity buying spree through the 2020-21 winter.

“Commodity markets peaked in mid-May 2021 and the strong crop prices translated into an incredible amount of strength in the farmland market in June, July and August,” explains Doug Hensley, president of Hertz Real Estate Services.

From June 1 through September 30 – typically a slightly slower time for land sales – Hertz Real Estate Services sold 104 farms at auction. “During this period in 2021, the market shifted into high gear for sellers,” says Hensley.

More land on the market is one of the caution flags that could slow appreciating values in some local areas. “The thing that is different than even six months ago is the volume of land that is available,”

Hensley reports. “In 2020, there was very little land for sale and when a farm did come up for sale, there was a lot of competition to buy it. That changed this summer.”



Source: Purdue Center for Commercial Agriculture, Producer Survey, September 2021

So far, Hensley notes, the market has been able to absorb the increase in land for sale.

Motivated Sellers

Landowners who were hesitant to sell a year ago because of market and COVID concerns, look at today’s land values that have exceeded the market highs set in 2013-14 and now wonder how much higher they can go, explains Hensley.

“Everyone wants to perfectly time a sale, but many Sellers are also concerned about significant tax policy changes,” Hensley adds. “And what is being discussed in Congress has great potential to make taxes a lot more complicated – so along with higher prices, that concern has also nudged some Sellers.”

Also, the possibility for rising interest rates is worth watching, advises Hensley. Higher interest rates negatively affect capital purchases like farmland. The Federal Reserve is closely monitoring inflation numbers and has indicated a tighter interest rate

Inside This Issue

Page 2: Surveys Report Exceptional Strength

Page 3: Land Market Soars

Page 4: Hertz Offices

Land Value Surveys Report Exceptional Strength

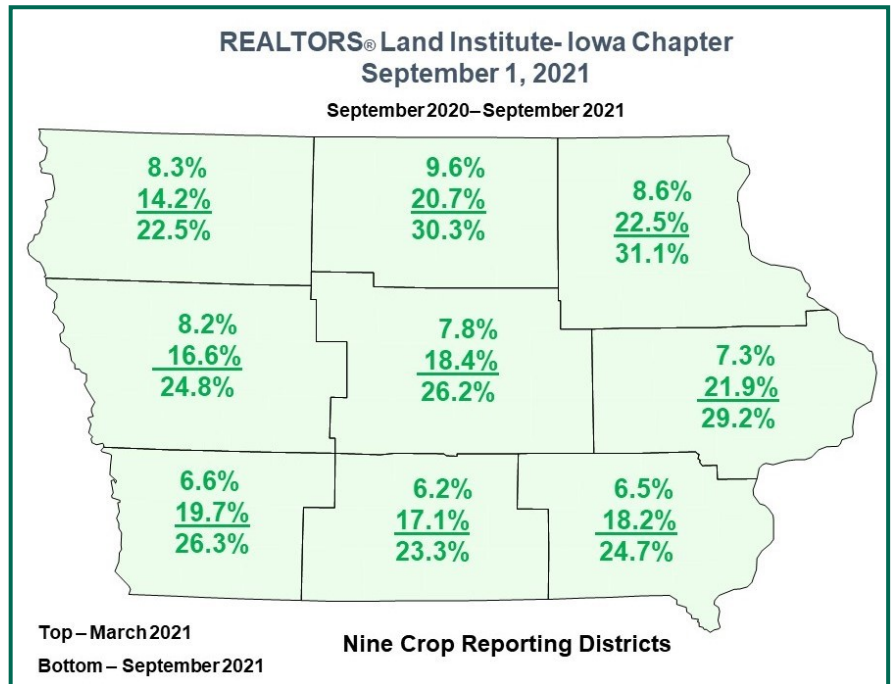
Iowa farmland specialists surveyed on September 1, 2021 report the average price of Iowa land jumped 26.6% in the past year, with the bulk of that hike (18.8%) coming between March and September.

North central and northeast Iowa saw the largest gains in farmland values, slightly over 30% in the past year. The survey conducted semi-annually by the Iowa chapter of the Realtors Land Institute gathered land values in the nine crop reporting districts.

The southern third of counties saw an annual increase of between 23% and 26%, with values taking off in the March-September period.

Statewide, the average value for high quality crop land jumped from \$10,221 per acre in March to \$12,182 in September. The highest land prices were in the East Central Iowa crop reporting district with an average value of \$14,261 per acre for top quality land, up 22% since March.

The only Iowa district with average top land values under \$10,000 per acre was in south central Iowa, reporting \$7,972 per acre for high quality crop land, an increase of 17% since March.



Illinois and Indiana were not far behind. The north half of Illinois and the northern two-thirds of Indiana both saw a 12% increase in “good” agricultural land values between July 1, 2020 and July 1, 2021. Wisconsin’s farmland values jumped a similar 13% higher.

The Federal Reserve survey of 152 bankers, released in August, reported the largest year-over-year gain in eight years for farmland values. And, 70% of those surveyed forecasted higher prices continuing with the other 30% expecting stable land values.

The Kansas City Federal Reserve’s second quarter survey of ag bankers reported farmland values up a little over 10% in that district compared to year earlier levels.

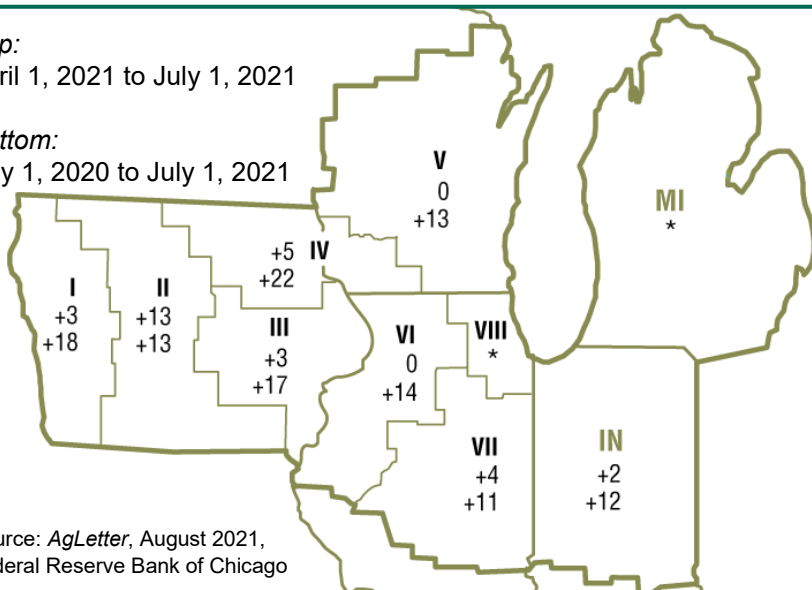
In the Minneapolis Federal Reserve district, non-irrigated cropland values jumped 16% compared with second quarter 2020.

Low interest rates continue to be a key factor in strong land values. The Chicago Federal Reserve reported real estate loan rates of 4.02% at the end of the second

quarter this year, compared with 4.08% in the first quarter. In fact, after adjusting for inflation using the Personal Consumption Expenditure Price Index, the average agricultural interest rates were below the levels last seen in the third quarter of 1975.

Top:
 April 1, 2021 to July 1, 2021

Bottom:
 July 1, 2020 to July 1, 2021



Source: *AgLetter*, August 2021, Federal Reserve Bank of Chicago

The value of Iowa pasture land and non-tillable/timber ground also saw double digit increases from 11% to 20% in the six months between March 1 and September 1.

While Iowa led the way in the second quarter Chicago Federal Reserve district farmland survey,

Land Market Soars *continued*

policy may be needed to keep inflation in check. “Interest rates, historically speaking, are still very, very low,” says Hensley. “But, inflation – which we have not really talked about much since the early 1990s – will become a topic of conversation in the next 12 months.”

What may be most top-of-mind at the local level is the amount of land inventory for sale. “When you go from nothing for sale in a farming neighborhood (one or two townships) to four, or six, or eight sales, some of the “dry powder” (e.g., local capital) gets used up,” says Hensley. Local farmers are often the strongest bidders for land, and tend to be willing to pay top dollar for the farm next door. But they don’t and can’t buy four farms per year. They buy one farm in a year, or one every few years, Hensley explains. “If we get to the point in a neighborhood where there are more sellers than buyers, it is possible we may see some softness in prices in those local neighborhoods.” That has not happened thus far, but this is something to pay attention to.

Unprecedented Times

This past year was extremely unusual in that all the market factors aligned in support of strong land values: extremely low farmland inventory, historically low interest rates, small amount of leveraged land, surging commodity markets, government aid to agriculture, strong farm profit margins and a decent crop in most areas across the Midwest. “It is very rare to see such widespread strength across the Midwest, the Plains states, the Delta and Texas,” Hensley reports.

That adds up to a lot of cash in farm country. “Farm operations are going to make very, very handsome profits in 2021. And one thing I’ve learned about farmers: When they make money, they re-invest in their business by buying land and/or machinery,” says Hensley. “With 82% of Iowa farmland owned with no mortgage – and similarly strong overall equity positions in Illinois, Minnesota, Nebraska, and other row-crop regions – buying an 80-acre tract or 160-acre parcel today without much leverage, doesn’t overstretch many of today’s farm businesses,” adds Hensley. “That is a real strength in this market.”

Institutional money and individual investors are also active buyers. “They see the volatility in the equity markets and inflation concerns on the horizon, and many want to diversify with the stability of agricultural land,” says Hensley.

Lenders continue to be disciplined and are not

encouraging over use of leverage, which should keep a strong underpinning in this market, explains Hensley. That helps avoid the mistakes made in the late 1970s and ‘80s which saw a rapid rise in farmland prices, only to see values collapse when interest rates took off and farmers couldn’t afford their mortgages.

Recreational Land

Even less productive land has strength in this market. “The recreational land market continues to be supported by a strong general economy,” says Hensley. “When people have more disposable income in their pocket, they tend to buy luxury items, whether a boat, a condo in Florida or a place to hunt,” Hensley notes.

Low quality cropland has also increased in value, but not as much, from a dollars per acre perspective, as high-quality land. “All land classes have seen appreciation, but the gap between low and high-quality cropland continues to grow wider,” Hensley reports.

A Look Ahead

Profit margins for farmers will be weaker in 2022 because of the higher input prices. “Everything is more expensive,” Hensley notes. “Yet, with forward prices for the 2022 crop, farm operations can still make money – just not as much as this year.”

If interest rates increase, that may also take some of the steam out of the farmland market. And, potential revisions in tax policy, especially those changes that appreciably raise taxes on asset owners, are likely to negatively affect land sales.

As for inventory, watch for those pockets with increased land sale volume and potential saturation in a local community, suppressing the rise in values. “Farmland is an imperfect market,” explains Hensley. One locale may experience several sales while another neighborhood many not have any, maintaining steady to higher farmland values.

“I tell people that it’s really hard to time the market,” Hensley concludes. “Even people who bought farmland at the prior peak in 2013, and who by 2015 or 2016 had some slight regrets because of the then tougher times in agriculture in that period, now look back and are pleased they were able to press through. Control and access to land is so important, if production ag is your business and livelihood. Farmland buyers realize that you buy land when it is available, not when it is convenient. ‘Time in the market’ is much more important than ‘timing the market.’”



PRSRT STD
U.S. Postage
PAID
Ames, IA
Permit No. 307

Corporate Headquarters
415 S. 11th St., P.O. Box 500
Nevada, IA 50201-0500
(515) 382-1500
www.Hertz.ag

RETURN SERVICE REQUESTED

Hertz Office Directory

(800) 593-LAND (5263)

www.Hertz.ag

Hertz Real Estate Services
415 S. 11th St
PO Box 500
Nevada, IA 50201-0500
515-382-1500
E-mail: Doug.Hensley@Hertz.ag

Hertz Real Estate Services
6314 Chancellor Drive
PO Box 1105
Cedar Falls, IA 50613
319-234-1949
E-mail: MorganT@Hertz.ag

Hertz Farm Management
1101 13th St, N, Ste. 2
PO Box 503
Humboldt, IA 50548-0503
515-332-1406
E-mail: TomC@Hertz.ag

Hertz Real Estate Services
2800 4th St. SW, Ste. 7
Mason City, IA 50401-1596
641-423-9531
E-mail: CalD@Hertz.ag

Hertz Real Estate Services
102 Palisades Road & Hwy. 1
PO Box 50
Mt. Vernon, IA 52314-0050
319-895-8858
E-mail: TroyL@Hertz.ag

Hertz Farm Management
120 W Mission Street
PO Box 157
Strawberry Point, IA 52076
563-933-4973
E-mail: JoelK@Hertz.ag

Hertz Real Estate Services
143 N 2nd St.
PO Box 907
DeKalb, IL 60115
815-748-4440
E-mail: RichG@Hertz.ag

Hertz Real Estate Services
720 E. Culver Court
P.O. Box 9
Geneseo, IL 61254-0009
309-944-2184
E-mail: ChadK@Hertz.ag

Hertz Real Estate Services
200 E. Court St., Ste. 600
Kankakee, IL 60901
815-935-9878
E-mail: EricW@Hertz.ag

Hertz Real Estate Services
700 W Bridge St.
PO Box 467
Monticello, IL 61856-0467
217-762-9881
E-mail: BrentB@Hertz.ag

Hertz Farm Management
11717 M Circle
Omaha, NE 68137
402-697-7500
E-mail: MikeK@Hertz.ag

Hertz Farm Management
100 North 34th Street, Suite A
Norfolk, NE 68701-7700
402-371-9336
E-mail: ScottA@Hertz.ag