Farm Real Estate Values Continue To Increase

U.S. farm real estate values rose for the ninth consecutive year in 1995. The January 1, 1996 value of $890 per acre for farmland and buildings reflected an increase of 7 percent, up from 6.4 percent in 1993 and 1994 and the strongest gain recorded since 1987. The nominal gains since that year contrast with the downturn in farm real estate values in the early and mid-1980's. In real (inflation-adjusted) terms, the 1995 increase was 4.4 percent, and represents the fourth consecutive year of real increases.

With economic conditions favorable in 1996, farm values are likely to increase for the year. Improved returns, and strong domestic and foreign demand for U.S. agricultural products, are expected to support the growth in farm real estate values. Nonagricultural demand factors may also contribute to gains in farm real estate values, particularly in regions experiencing rapid population growth or other development-related demand.

Land Values Increased In Most Regions

The Appalachian region led the nation in the nominal increase in farm real estate value in 1995 with an 11.2-percent growth rate. Tennessee led the region with a 14.2-percent increase, followed by North Carolina (12.6 percent), Kentucky (10.2 percent) and Virginia (8.7 percent).

The performance of the Mountain states, which recorded the fastest growth in 1994, was mixed during 1995—strong increases in the southern portions of the region were tempered by more moderate increases in the north. Population growth and demand for residential and recreational housing likely contributed to increases in farm real estate values in the Mountain region. Recent population gains may also be affecting farm real estate values in other states, including Georgia, with an 8.1-percent increase in land values, and Oregon, which recorded a 9.9-percent increase.

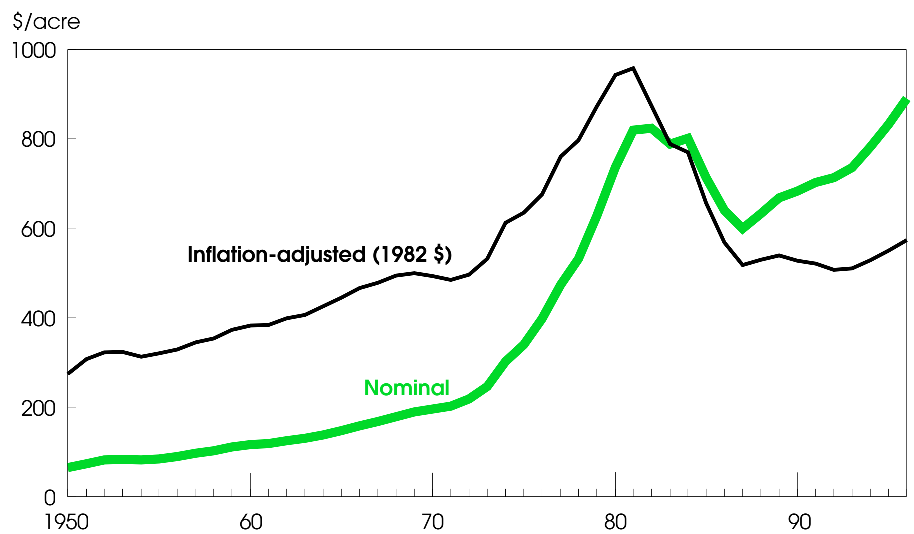
The Corn Belt also experienced above-average growth in farm real estate values (9 percent), led by Illinois (10.8 percent), Ohio (10.6 percent), and Indiana (8.9 percent). A major factor behind these gains is market forces affecting crop prices, since population in the Corn Belt has been increasing much more slowly than in other regions. Wisconsin led the Lake States with a strong 10.3-percent increase in farm real estate values, balancing more moderate performances in Michigan and Minnesota.

Severe drought in the Southern Plains had a dampening effect on farm real estate values in large areas of north Texas, Oklahoma, western Kansas, and northeast New Mexico. Temporary climatic conditions such as the drought are not expected to have a long-term influence on the value of land in the region, but the diminished number of potential buyers (usually farmers who are experiencing reduced cash incomes due to the drought) led to a temporary leveling off of land prices. Land values in Texas rose only 2.9 percent, while values in Oklahoma were essentially flat.

Farm real estate values in most of the Northeast continued to rise, led by Delaware at 8.1 percent and Pennsylvania at 7.1 percent increases. However, values in New York dropped 3.4 percent, possibly related to recent losses in population and flat economic performance in that state.

With the U.S. economy now in its sixth year of expansion, the farm economy has continued to perform well in most parts of the country in 1996, with increased agricultural land values the likely outcome. Several factors are contributing to the growth in farm real estate values, including improved returns and strong demand for agricultural products, both domestically and abroad. Continued pressures on agricultural land for residential, commercial, and industrial development along the fringes of urbanized areas, combined with demand for rural land for recreational purposes, will provide further impetus to gains in values.

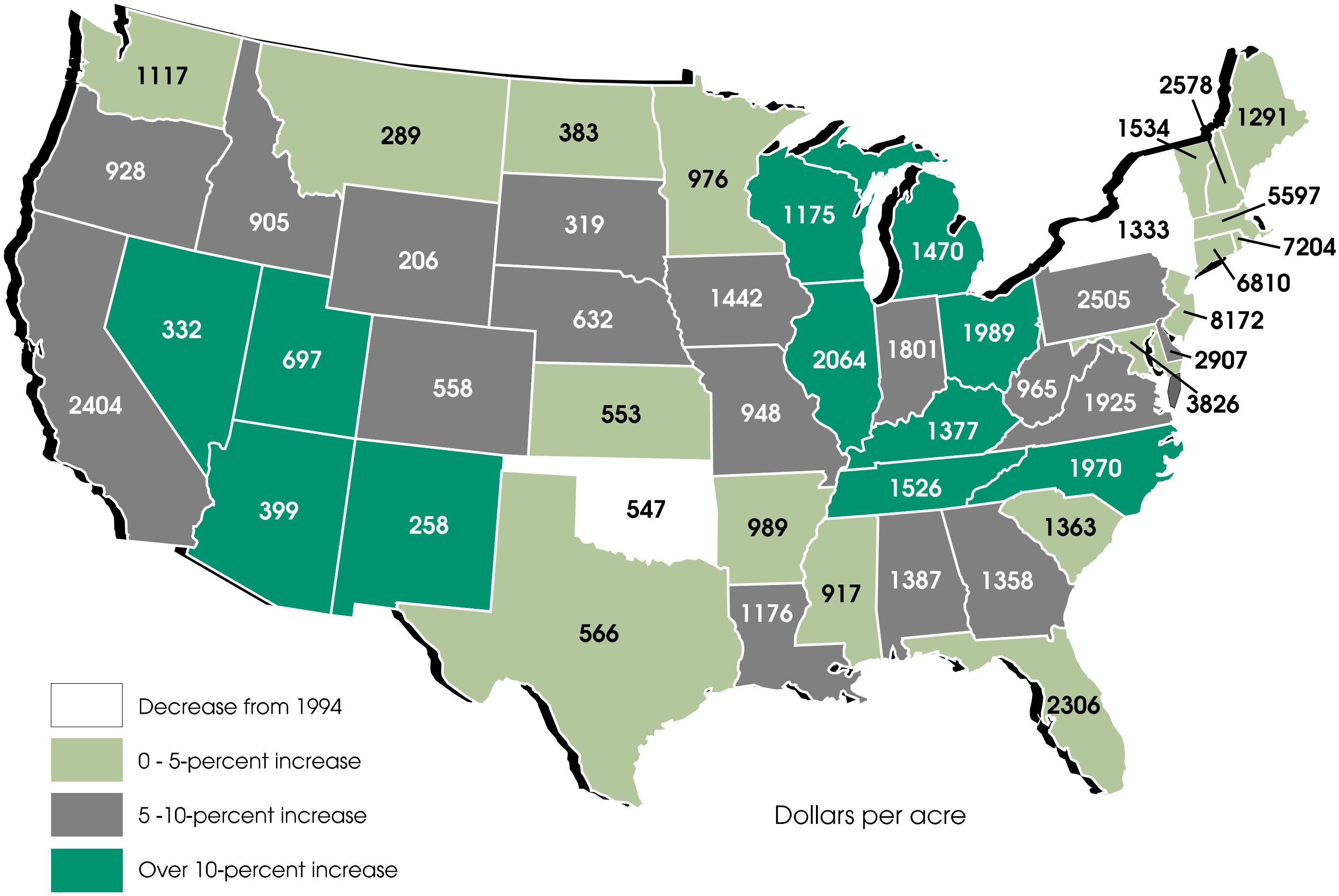
Farm Real Estate Values Edge Higher



Average values as of January 1 for 1990-96; date varies for earlier years.
Includes land and farm buildings.
Economic Research Service, USDA

Resources & Environment

Farmland Values Rose in Most States During 1995



Upward pressure on land values is also likely related to provisions of the new Farm Act, which eliminated most acreage planting restrictions. This development, together with strong commodity prices and low carryover stocks, had some farm operators seeking additional land on which to plant a crop.

In addition, since government payments are now based on historic payment levels rather than current market conditions, many participants received payments in excess of what they would have received under previous law. Thus, 1996 may have been a unique year for the level of returns to agricultural land, with relatively strong commodity prices and strong government payments. Such auspicious conditions for agriculture have contributed to the demand for farmland, and undoubtedly to higher land prices in 1996.

Can Rise in Values Be Sustained?

The widespread gains in farm real estate values across the country have led some to question whether the agricultural land market of the 1990's can sustain such growth without repeating the unfavorable circumstances of the 1970's and early 1980's. But comparison with economic conditions leading up to the fall of farm real estate values in 1981-82 provides evidence that today's farmers are in much better financial condition than the farmers of a decade and a half ago.

The late 1970's were a time of rapid inflation, with prices of real estate and durable goods recording high—sometimes double-digit—annual increases. Growing export demand and strong commodity prices contributed to an expansionary phase in U.S. agriculture.

Farmers were encouraged to expand, often buying land and machinery on credit, in order to take advantage of the unusually high commodity prices and growing export markets, as well as to acquire assets before prices rose further.

Ultimately, domestic commodity prices began to return to lower levels, and at the same time, demand from some export markets declined. The resulting reduction in real cash incomes, combined with changes in monetary policy that sharply raised interest rates to control inflation, left many farmers overextended, with insufficient cash flow to cover their debts.

Since that time, the financial position of farmers who survived the 1980's has improved dramatically. Data from the ERS show that the debt-to-equity ratio of the nation's farmers has fallen from 27.7 percent in 1986 to 18.3 percent in 1995, and the debt-to-assets ratio dropped from 21.7 percent to 15.5 percent. These numbers indicate that farmers are being careful about incurring debt, in order to avoid the debt-induced problems of the early 1980's.

While there are similarities between the farm economy of today and that of 15 years ago, repetition of those earlier problems is less likely. The growth in exports mirrors the growth of two decades ago, but experts expect that today's gains, from freer trade and less government involvement, are likely to be more sustainable. U.S. farm exports have been increasing (from $54.2 billion in 1995 to an estimated $60 billion in 1996, an 11-percent rise), even with keen competition from agricultural producers in foreign markets. Today's strong commodity prices are also reminiscent of the 1970's and 1980's, although it will take several years to determine if the strong price levels are permanent or transitory.

While disagreement persists about the causes of the crash in land values in the early 1980's, an inflation-inspired speculative bubble remains a possible contributor. Inflation today, by comparison, is modest. Growth in values in agricultural land markets today is more reflective of the agricultural returns that can be earned from the land, or of the development demands from urbanizing or recreational areas, than from speculation and attempts to outrun inflation.

Examination of land values in real terms indicates a modest upward trend except for the 1976-81 period, when land values spiked upward. The most recent years have seen a renewal of this modest upward trend. Changes in real values reflect changes in underlying economic relationships between agriculture and other sectors of the economy, as well as fluctuations in farm income. As government support programs are phased out over the next 7 years, for example, it remains to be seen whether land values will continue to make the modest real gains of the last few years.

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