

# Iowa Farmland Market Update: What's Ahead?

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Ag Law Seminar, September 21<sup>st</sup>, 2017

# The new Mike Duffy since Aug 2015



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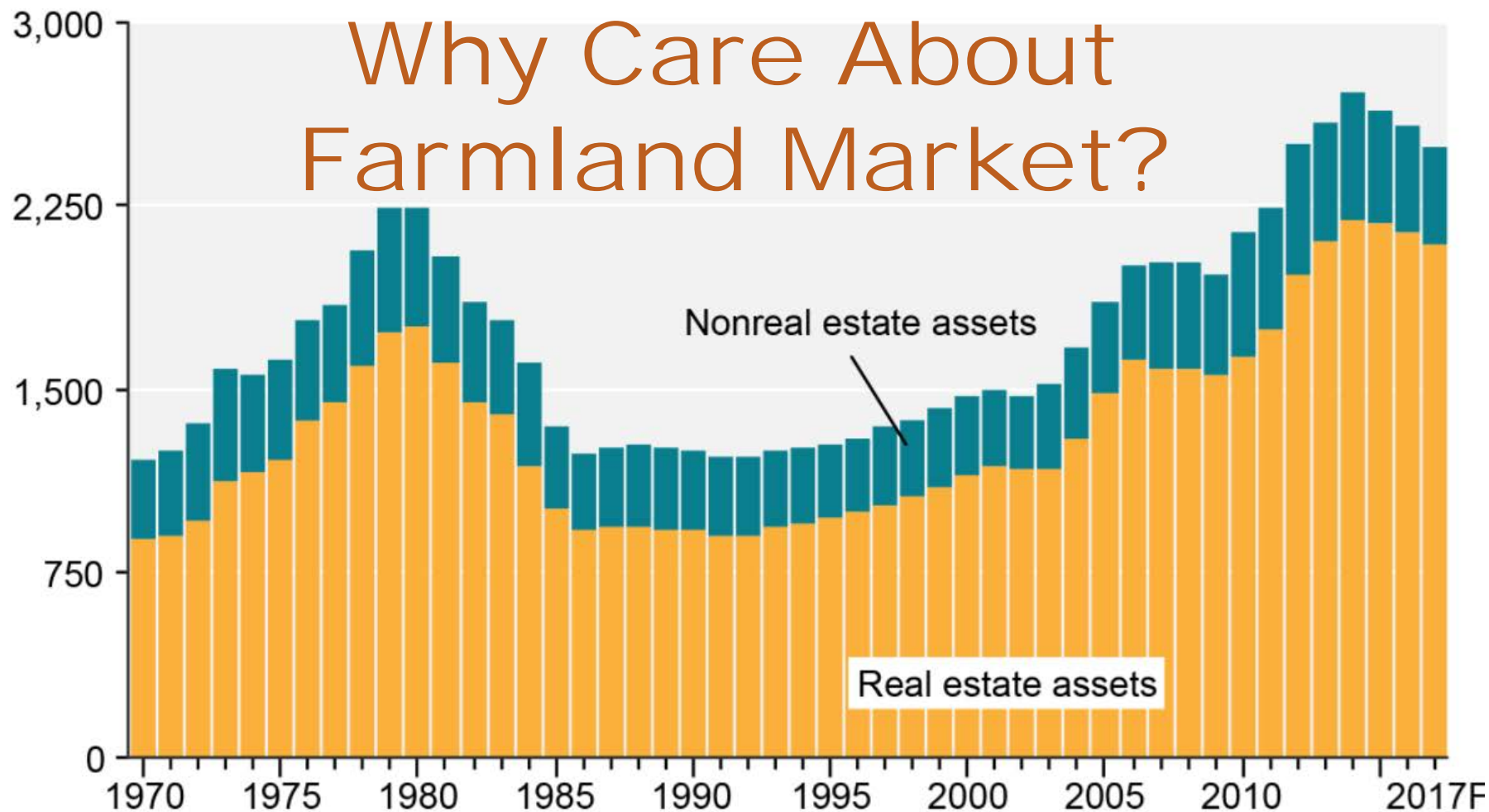
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# Farm sector assets, inflation adjusted, 1970-2017F

\$ billion (2009)

## Why Care About Farmland Market?



Note: F = forecast; data for 2016 and 2017 are forecasts. The GDP chain-type price index is used to convert the nominal (current-dollar) statistics to real (inflation adjusted) amounts (2009=100).

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of February 7, 2017.

# Guiding Framework

Land Value =  
localized net income /  
universal interest  
rate

## Percent change in dollar value of "good" farmland

Top: April 1, 2017 to July 1, 2017

Bottom: July 1, 2016 to July 1, 2017

	April 1, 2017 to July 1, 2017	July 1, 2016 to July 1, 2017
Illinois	0	-3
Indiana	+2	-1
Iowa	+2	+3
Michigan	*	*
Wisconsin	+1	+1
Seventh District	+1	+1

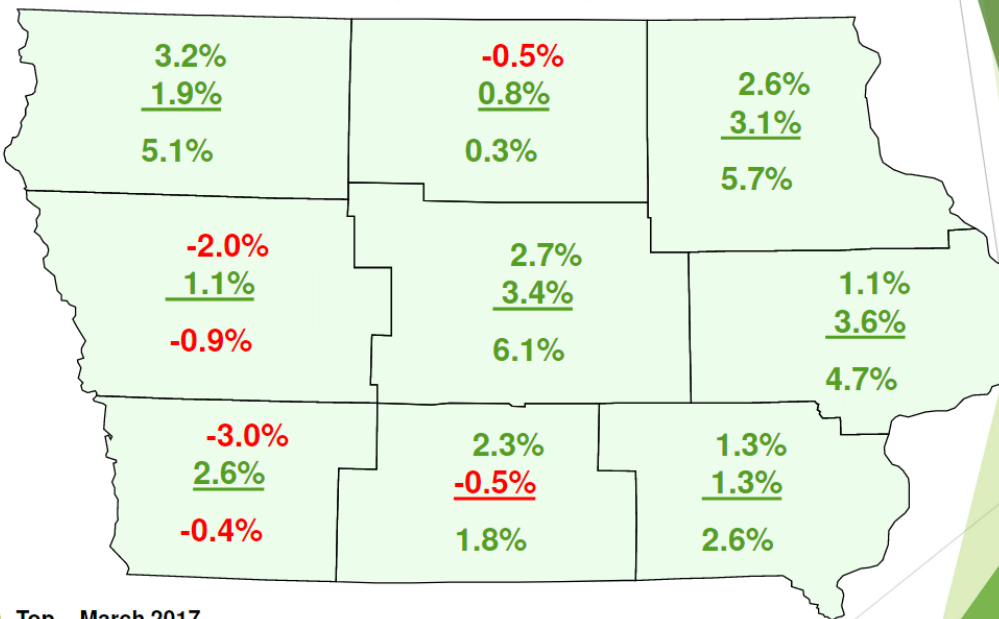


Iowa

0.9%  
2.0%

REALTORS® Land Institute- Iowa Chapter  
September 1, 2017

September 2016– September 2017



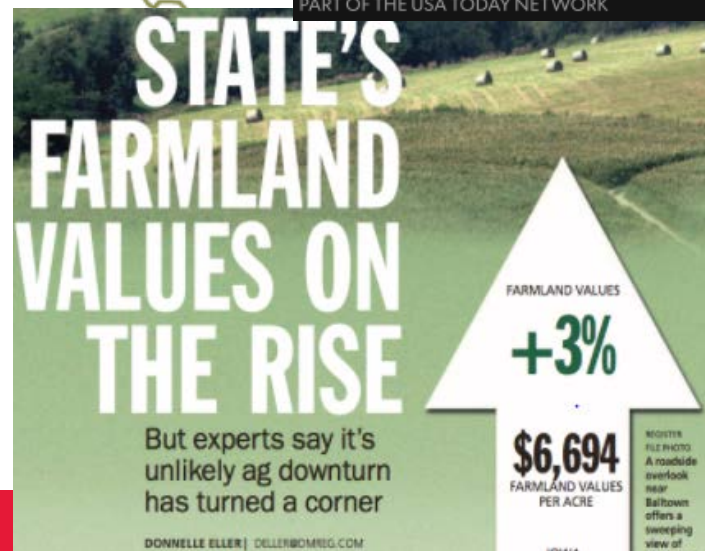
Top – March 2017

Bottom – September 2017

Nine Crop Reporting Districts

ent response.

The Des Moines Register  
PART OF THE USA TODAY NETWORK



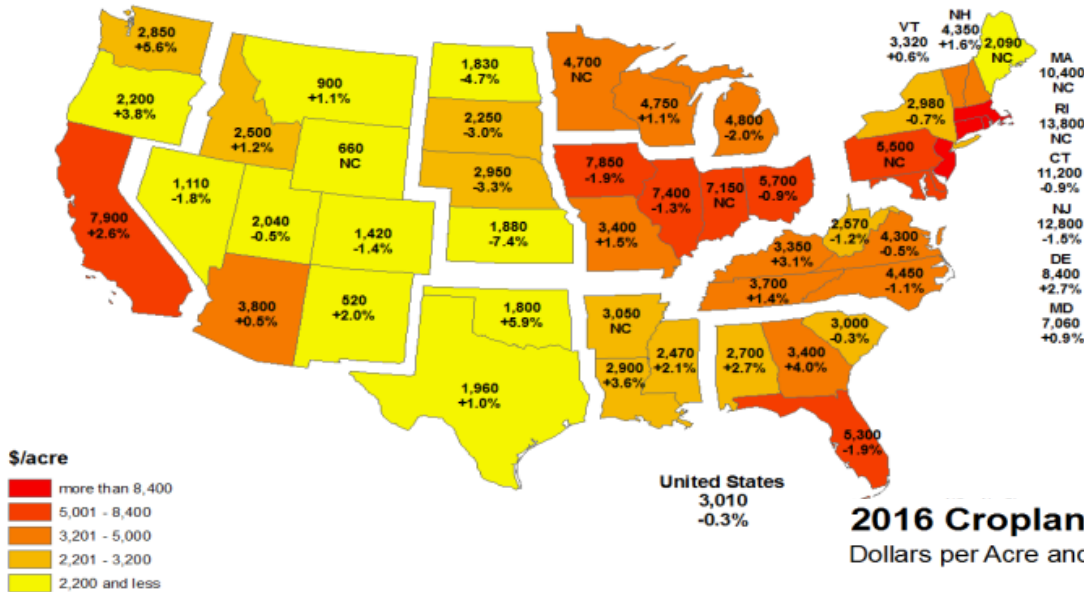
Federal Reserve Bank  
of Chicago, July 2017  
Ag Letter  
Realtor Land Institute

CARD  
Center for Agricultural and Rural Development



## 2016 Farm Real Estate Value by State

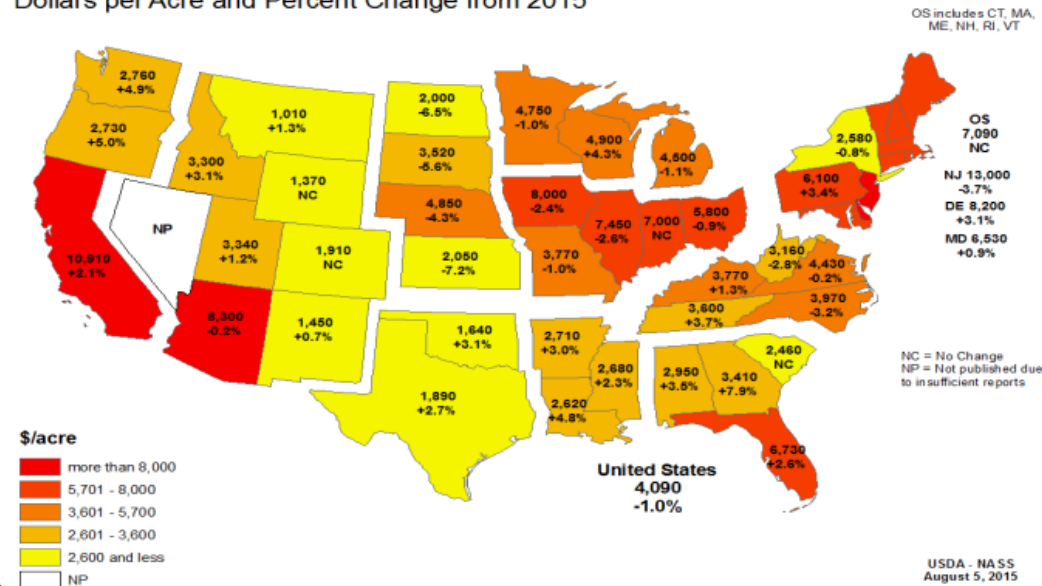
Dollars per Acre and Percent Change from 2015



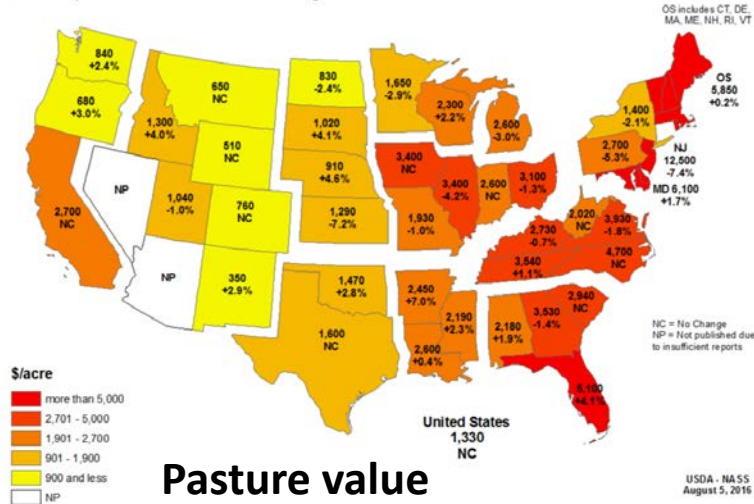
ISU survey  
results echo  
other surveys

## 2016 Cropland Value by State

Dollars per Acre and Percent Change from 2015



Dollars per Acre and Percent Change from 2015



## Pasture value

IOWA STATE UNIVERSITY  
Extension and Outreach

USDA June Area Survey, August 2016

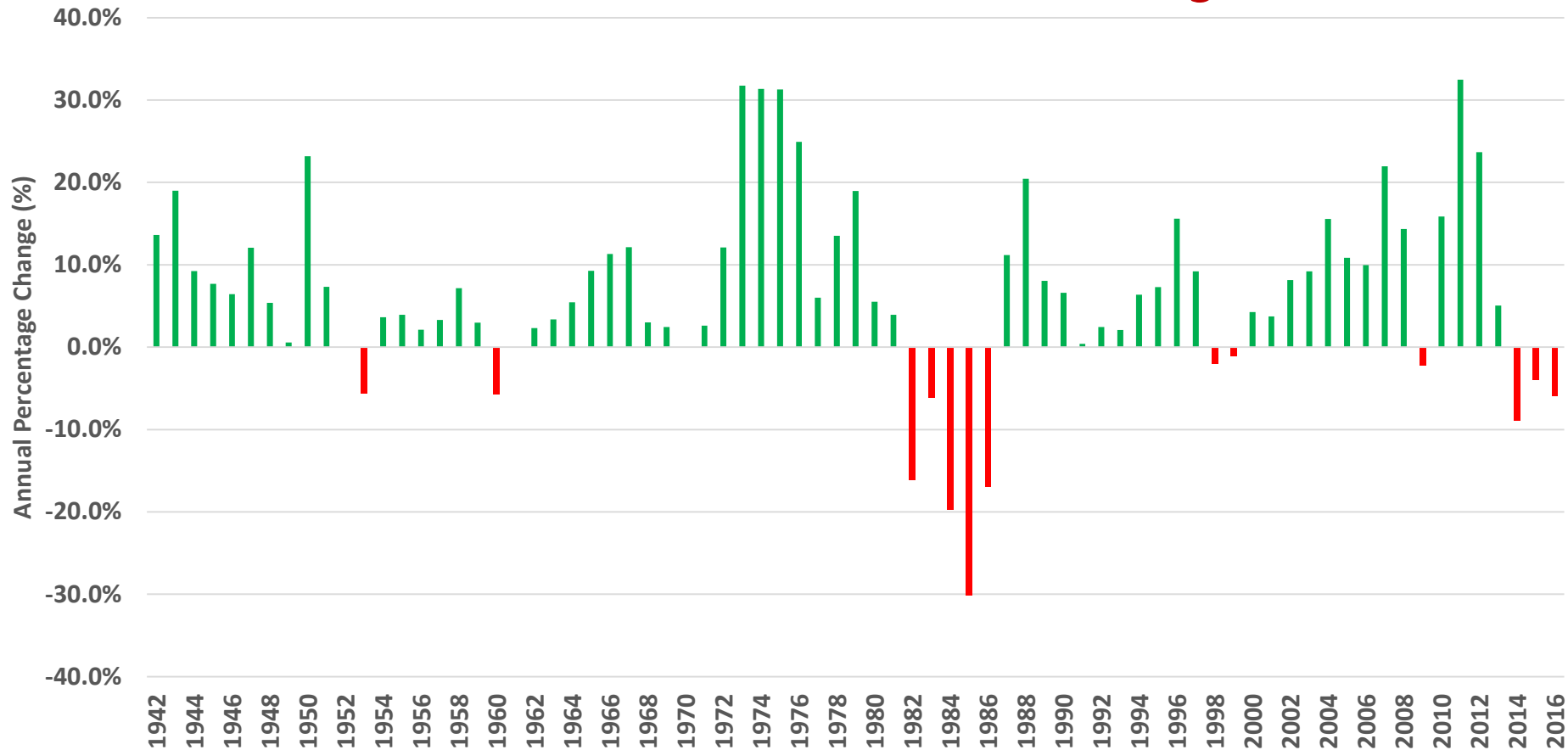


CARD

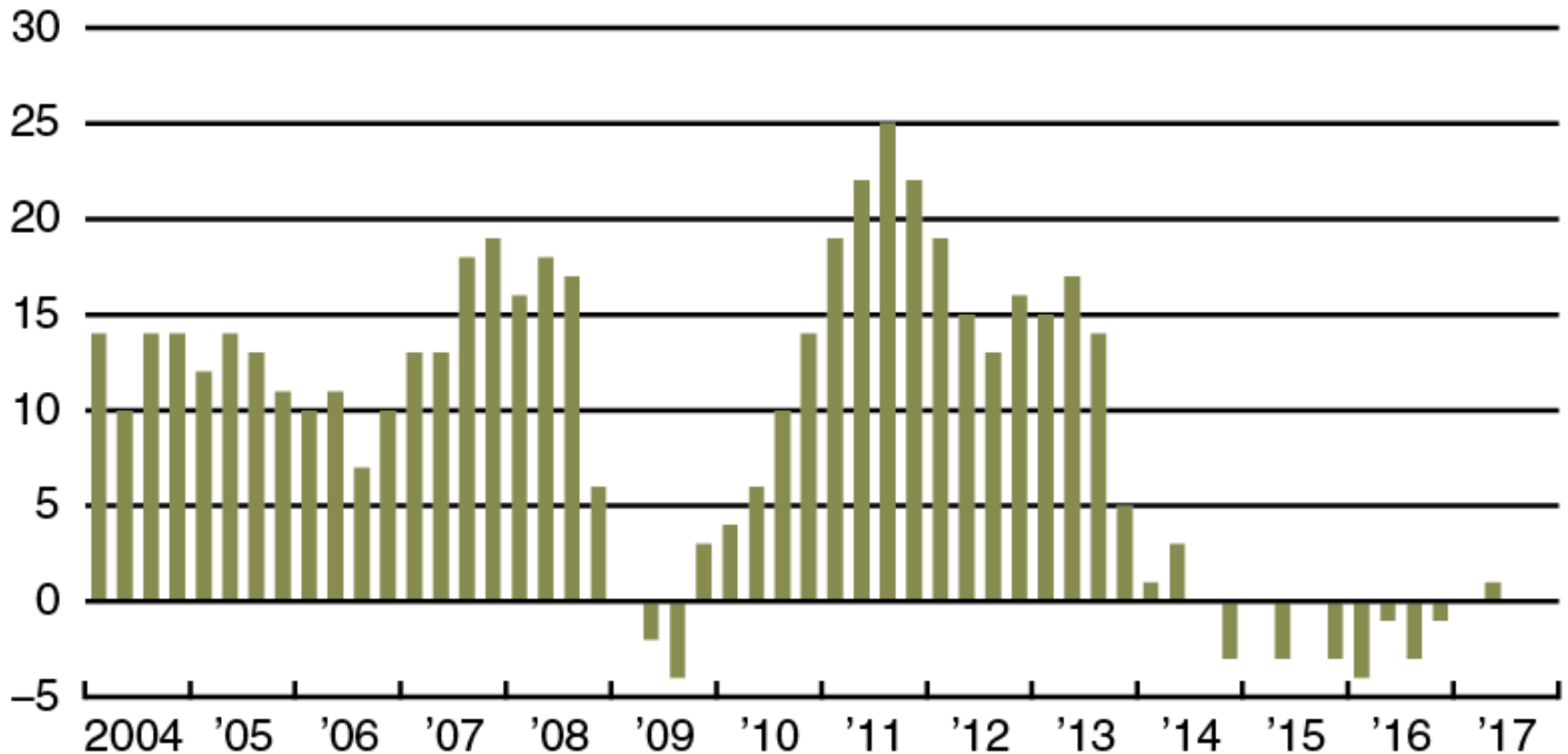
Center for Agricultural and Rural Development

# % Change in Nominal Iowa Farmland Values 1942-2016

## ISU Land Value Survey



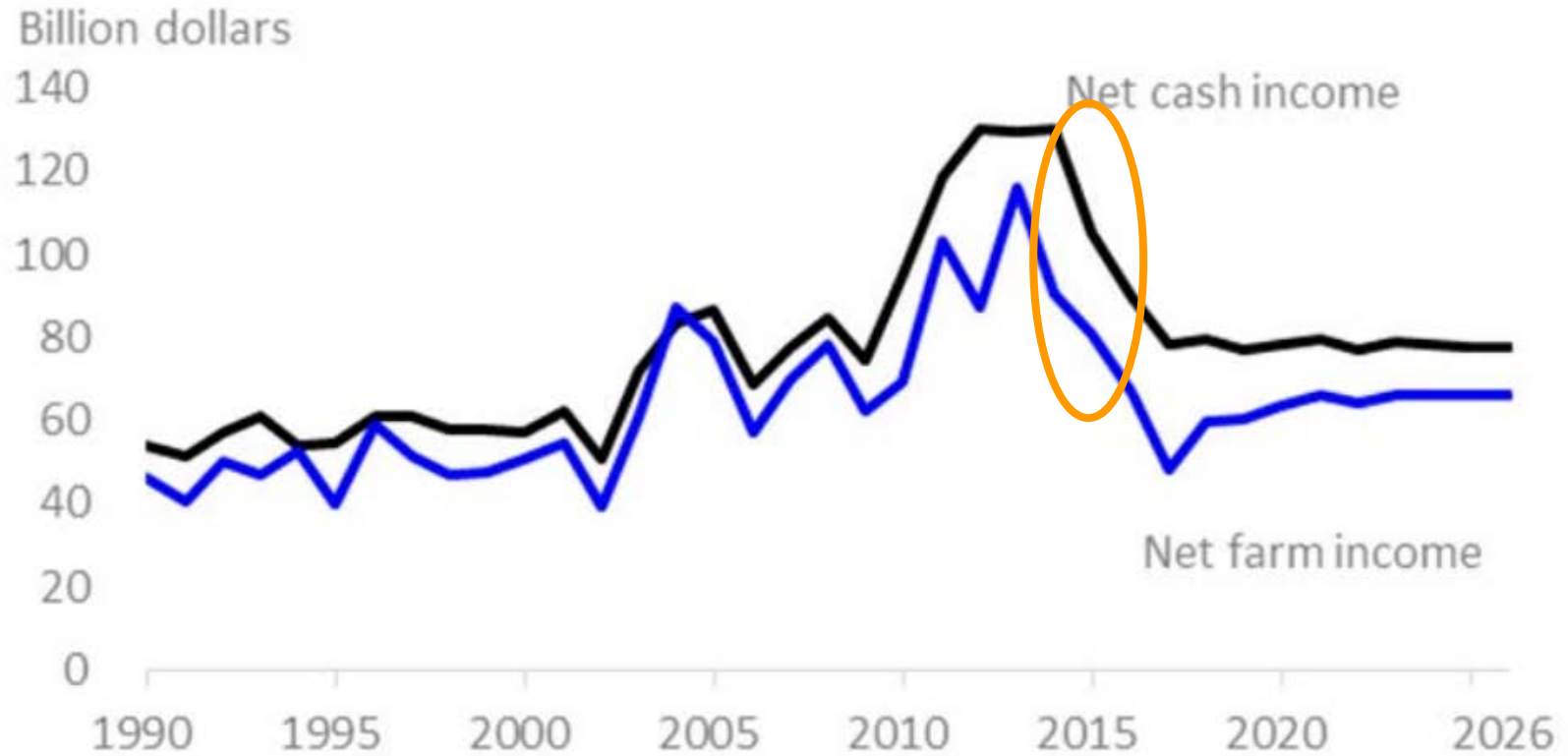
# Quarterly land value change 2004-2017 for 7<sup>th</sup> district





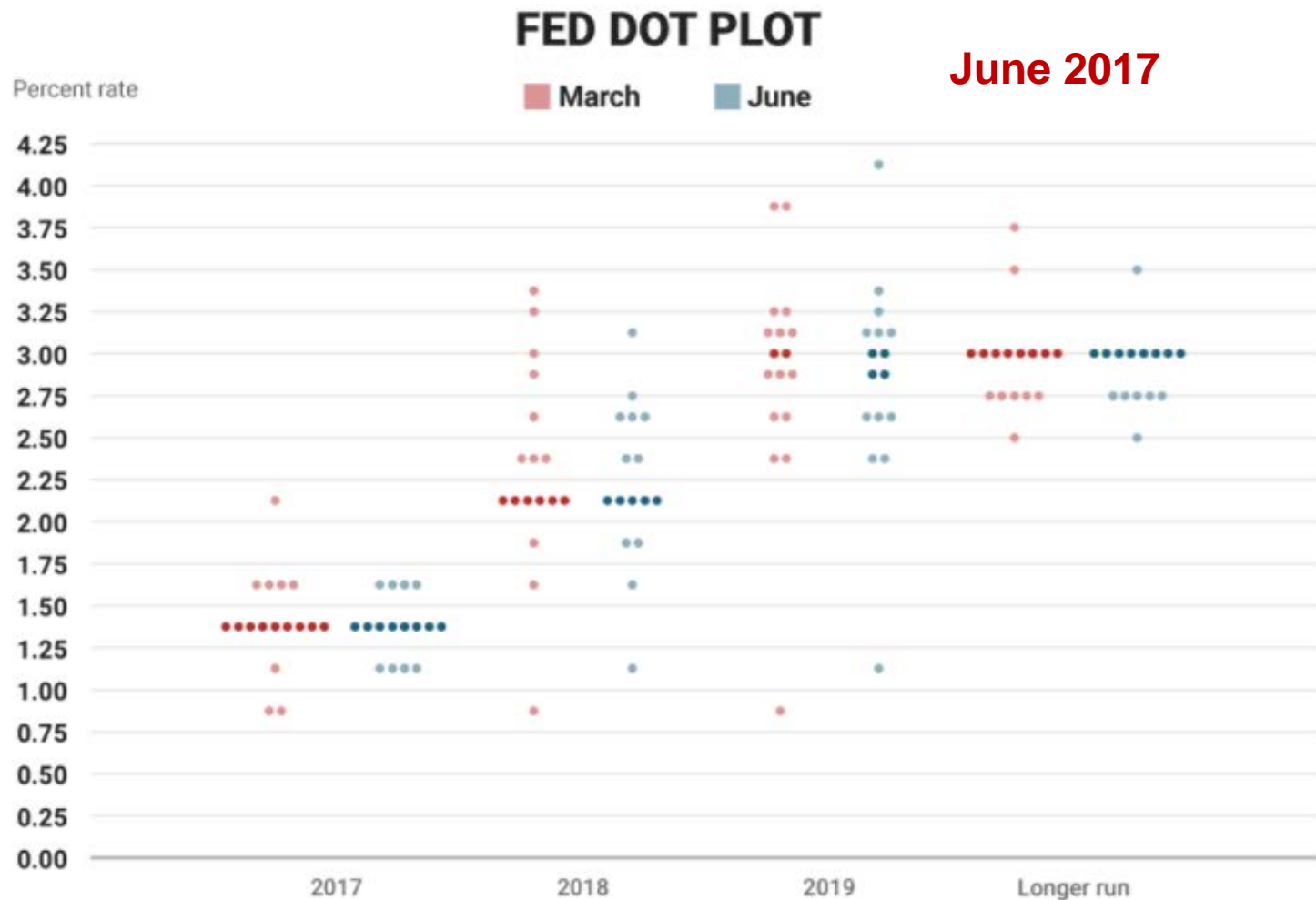
# US Farm Income 1990-2026

## U.S. farm income indicators



# Long-term interest rate expectations

## What the Fed Reserve thinks the interest rate should be



SOURCE: Federal Open Market Committee

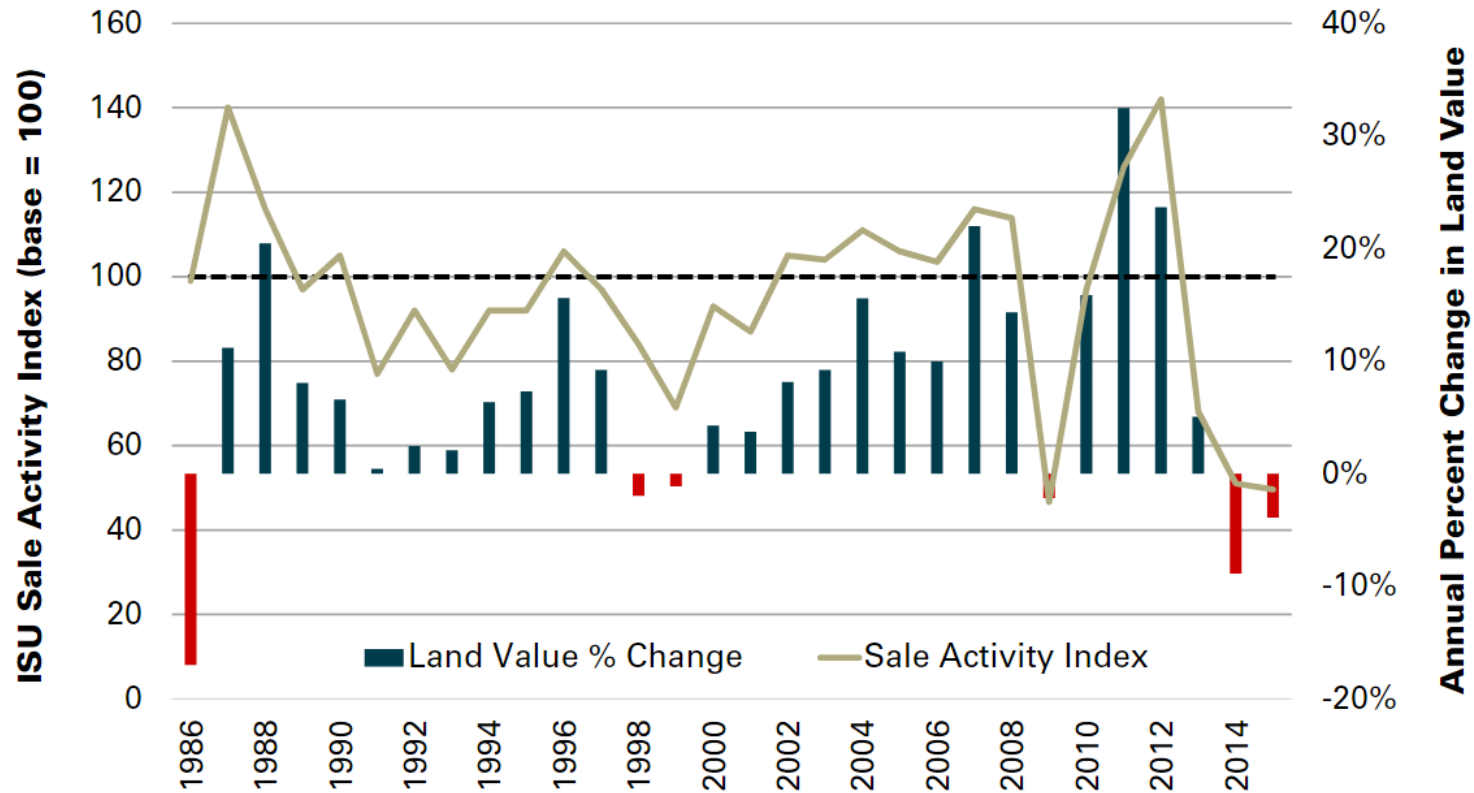
BUSINESS INSIDER

RD

Center for Agricultural and Rural Development

# The “temporary break” in continued declines results from limited land supply

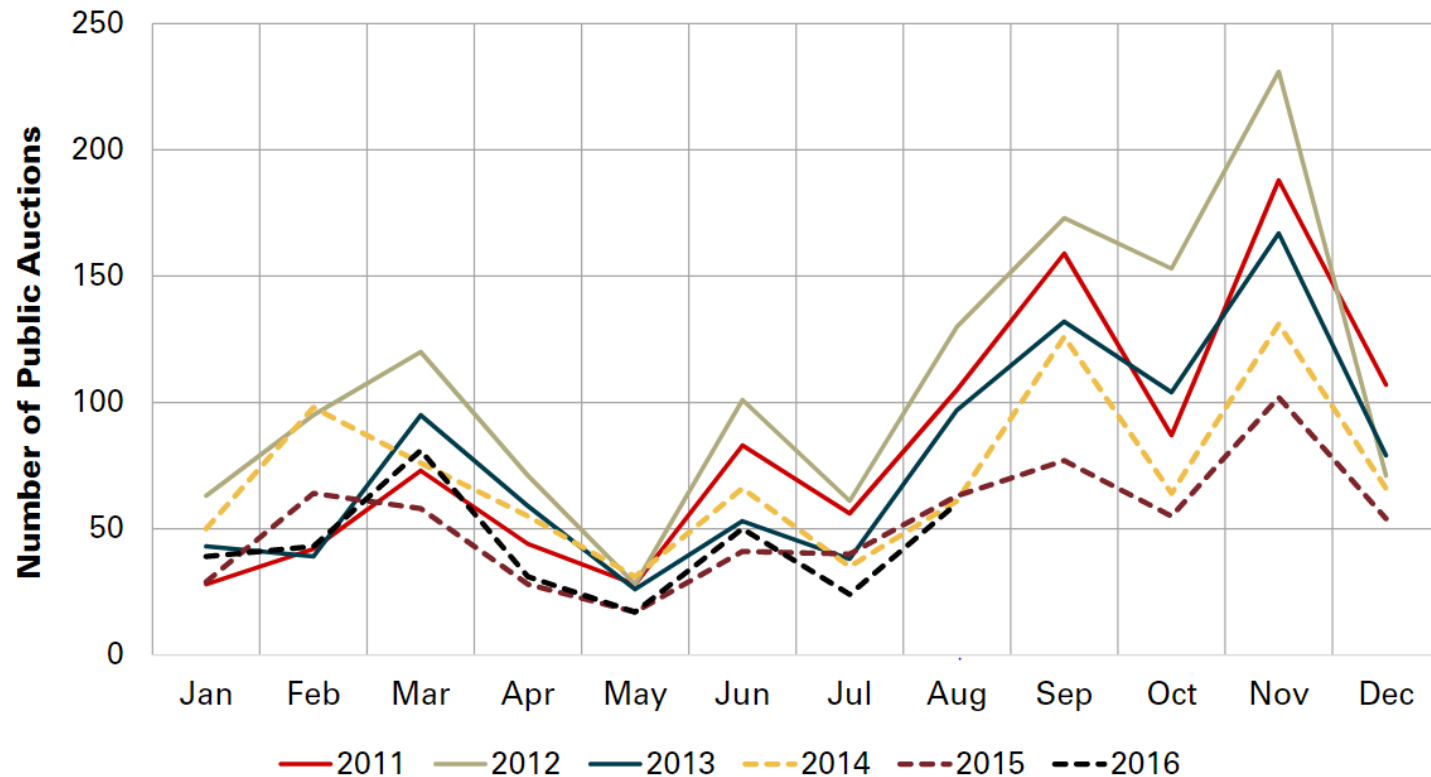
**Figure 1. ISU sale activity index and percentage change in Iowa land value, 1986 – 2015**



Sale activity index = (% Reported More - % Reported Less) \* 100 + 100

# The “temporary break” in continued declines results from limited land supply

**Figure 2. Number of public auctions by month, 2011 – 2016**

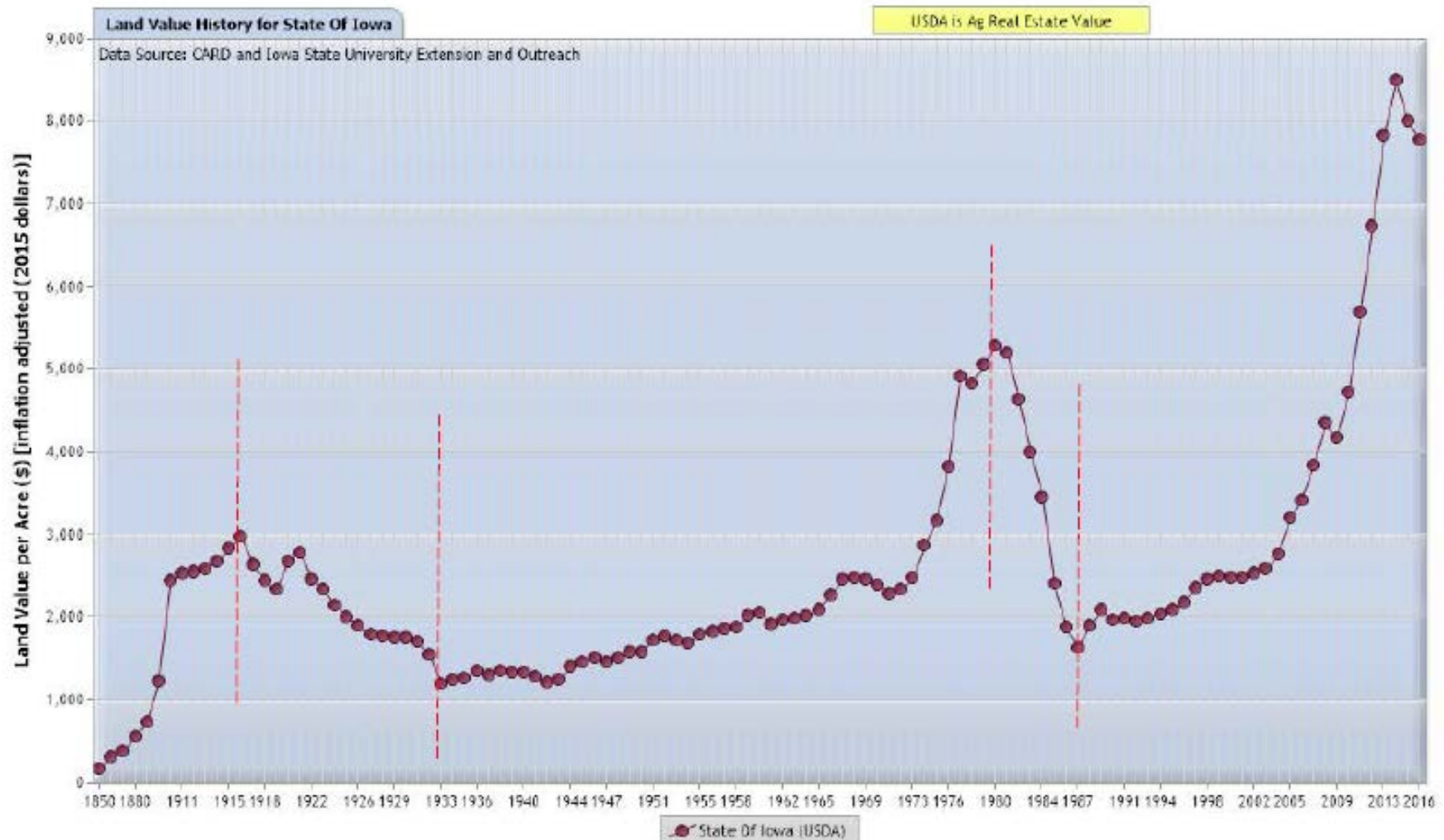


*Data Source: Jim Knuth, Farm Credit Services of America*

# Farm Crises and this downturn

- Positives
  - High income in pre-crisis “golden” eras
  - Low interest rate environment
  - Prudence among ag lenders and bank regulators
- Uncertainty in government support
- Concerns
  - Deteriorating farm income and ag credit
  - High reliance on ag exports, US \$
  - Uncertainty in farmland supply and turnover
- Looking Ahead

# Inflation-adjusted Iowa Ag Real Estate Values 1850-2016





# Positive 1: Real Income Accumulation 2003-2013

Average % change in inflation-adjusted values per year			
Golden Eras			
	<i>Land</i>	<i>Gross Income</i>	<i>Net Income</i>
<i>1910-1920</i>	1.2%	0.8%	0.2%
<i>1973-1981</i>	9.7%	0.9%	-3.2%
<i>2003-2013</i>	11.1%	4.5%	8.1%
Crises and Declines			
	<i>Land</i>	<i>Gross Income</i>	<i>Net Income</i>
<i>1921-1933</i>	-5.8%	-1.9%	-1.0%
<i>1981-1987</i>	-15.0%	-2.5%	2.6%
<i>2013-2017</i>	-4.5%*	-4.5%	-9.8%

Note: The average land value change from 2013 to 2017 is approximate because 2017 land values are unknown. The 1910–1933 gross and net farm income changes are for the whole United States due to limited data at the state level. Land values are based on USDA Census of Agriculture and USDA NASS Land Value and Cash Rent Survey, while the data on farm income is from the USDA Economic Research Service Farm Income and Wealth Statistics database.

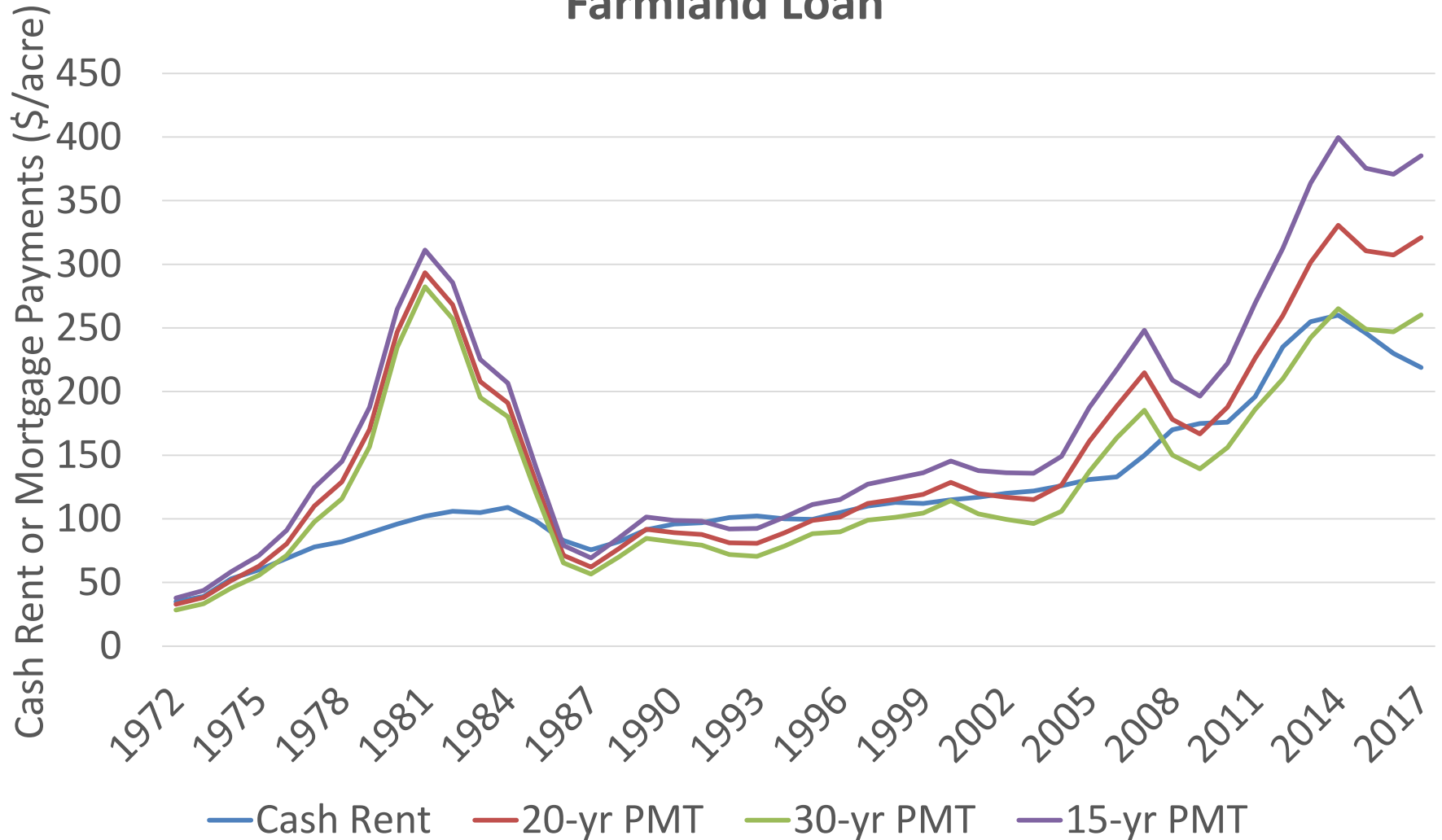
# Positive 2: Historically low interest rates



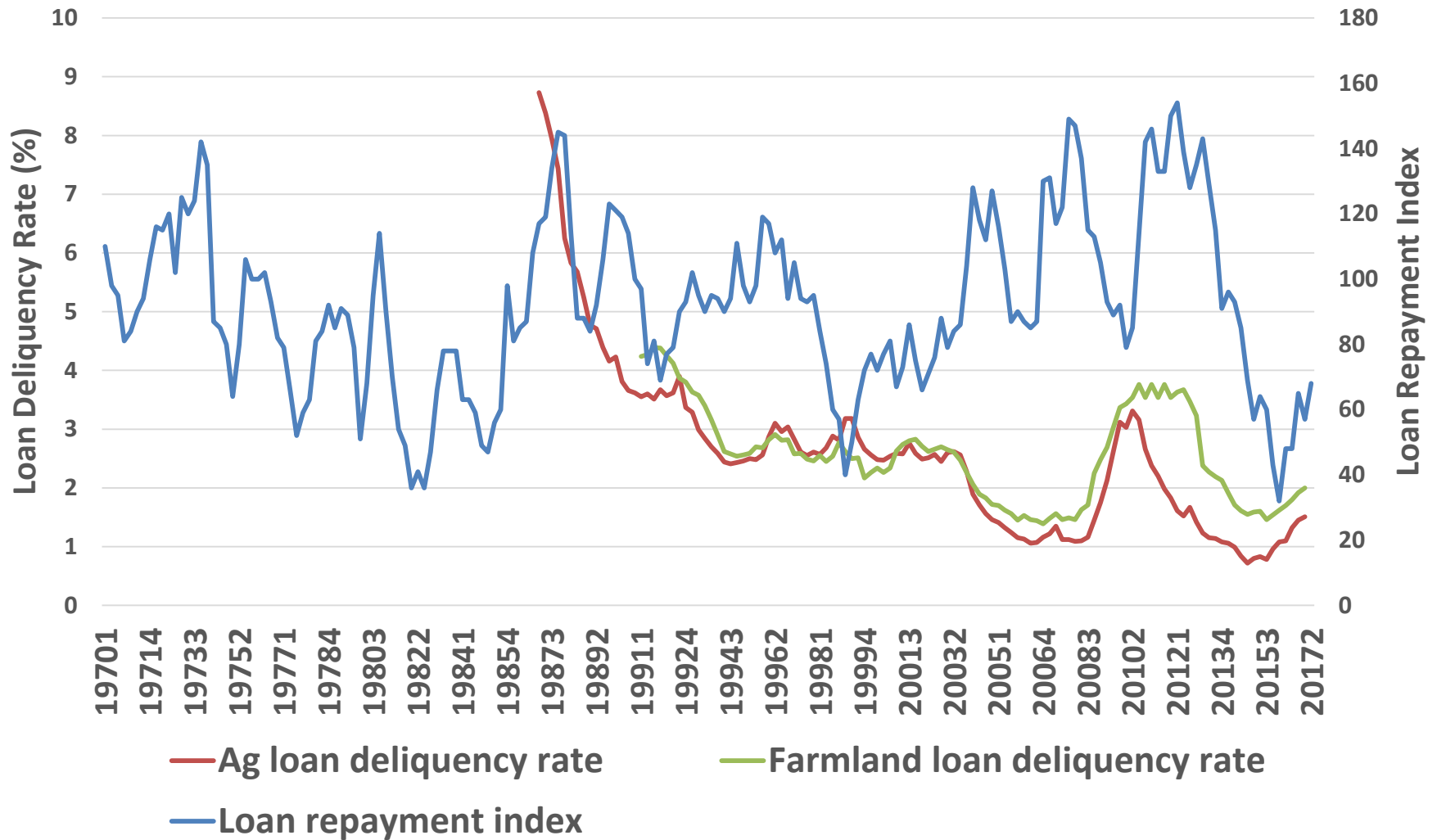
# Positive 3: Prudence in Ag Lenders/Regulators

- Banking Regulations
  - More stringent, frequent stress-test
  - BASEL III, liquidity requirements for banks
  - (Ron Hansen – Iowa Division of Banking Superintendent) walk into this “with eyes wide open”
- Changes in Loan Practices (FCS, Iowa)
  - Before 1987: loan to value ratio is 85%
  - 1987-2008: loan to value ratio is 65%
  - After 2008: use cash-flow method for collateral (\$4 corn, \$10 bean) and 50% of cash flow value

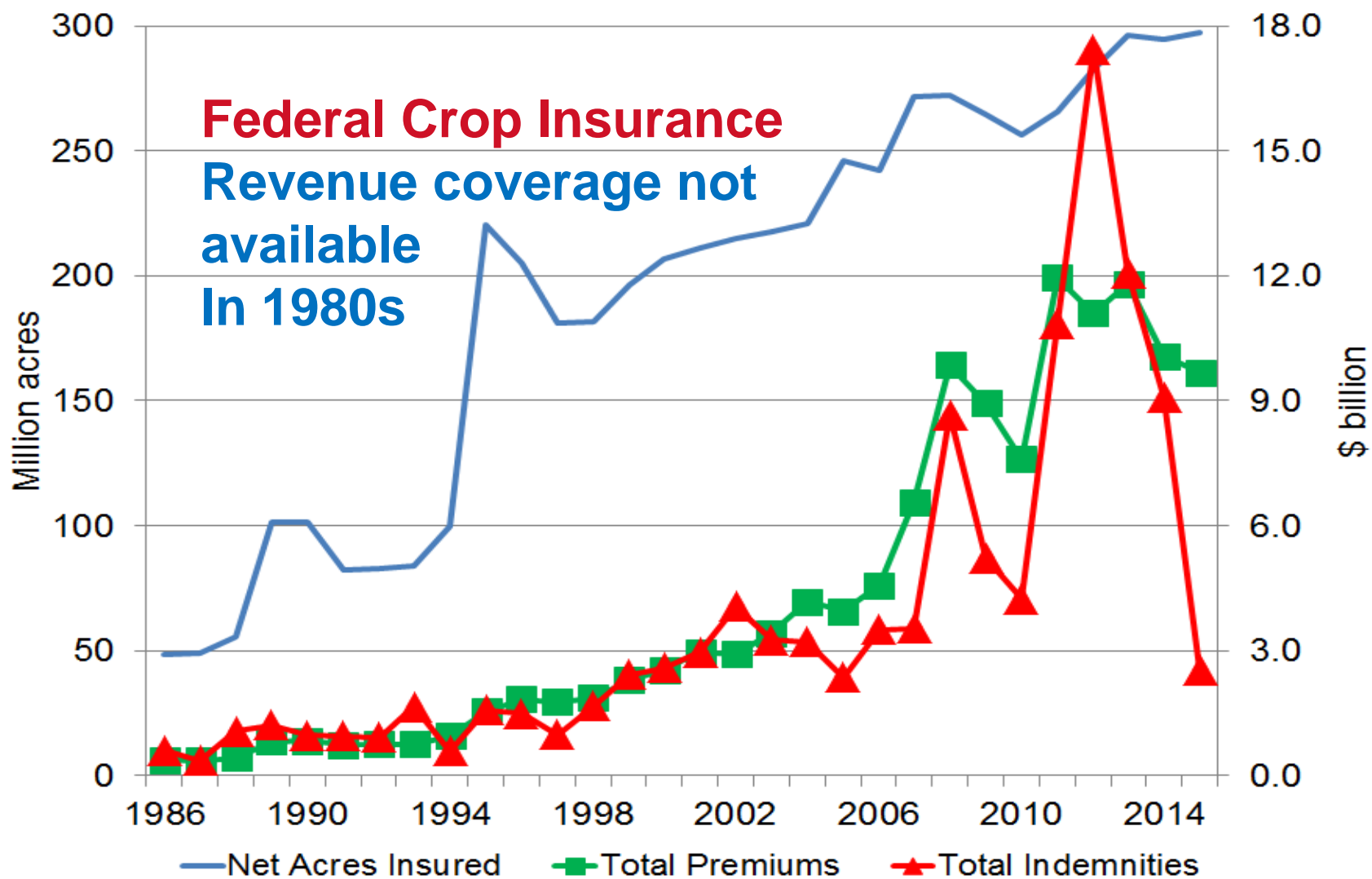
# Annual Mortgage Payments vs. Cash Rents for Iowa Farmland Loan



## Loan Repayment Index and Loan Delinquency Rates 1970-2017



# Gov't Safety Net: Broader Coverage





# Broader Coverage $\neq$ Stronger Income Support

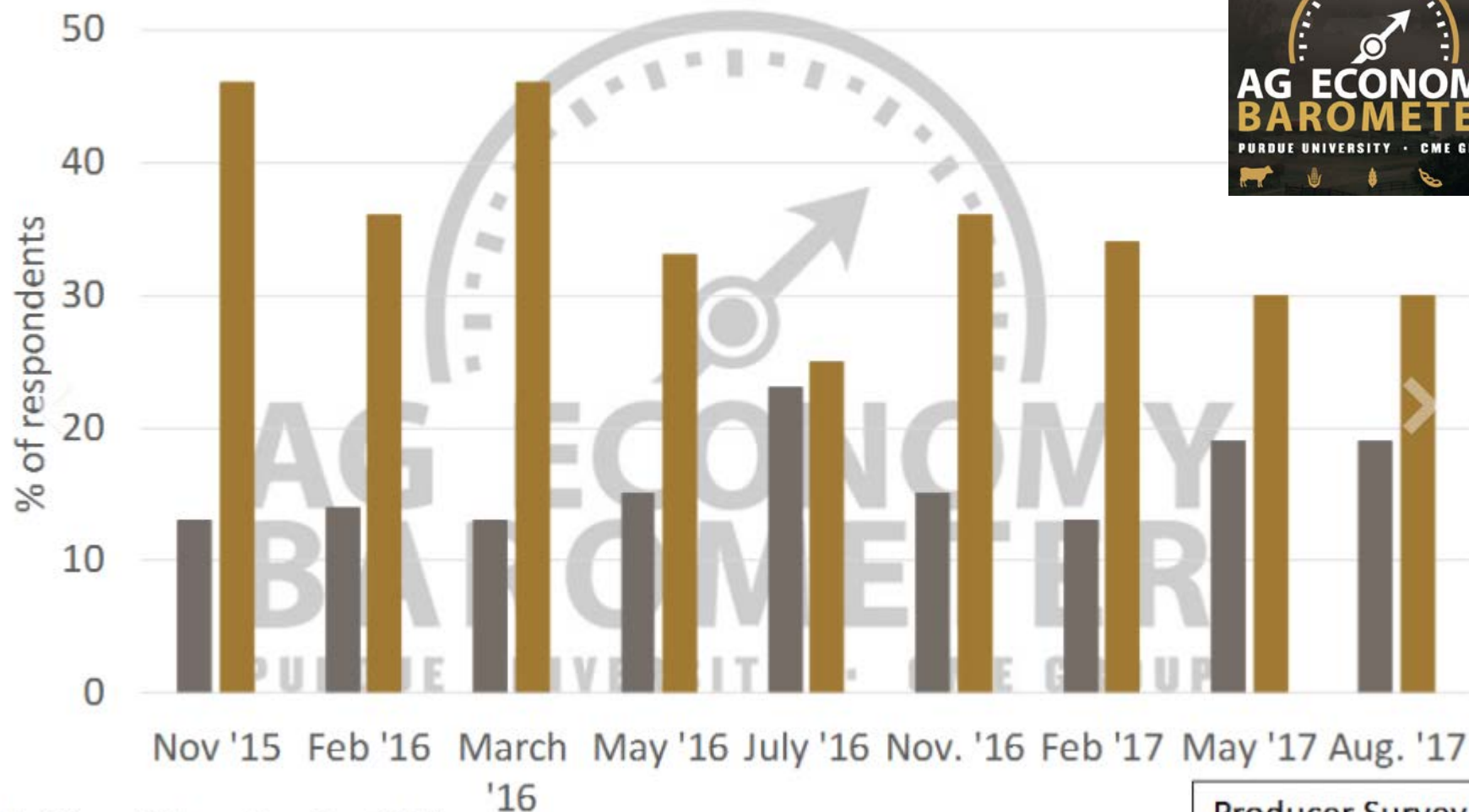
- Dwindling support level from ARC-CO
- Farmers now cannot re-select PLC under current 2014 Farm Bill (\$35/acre in 2016/17)
- CRP reaching acreage cap, cannot serve as supply reduction as it did in the 1980s through set-asides
- Almost all producer already enrolled in crop insurance, so not much room for additional support

# Cash Crop Price Predictions for Nov 2017, 2018, 2020 as of May 2017 - SMLV Conference

	Cash Corn Prices			Cash Soybean Prices		
	2017	2018	2020	2017	2018	2020
<b>Northwest</b>	\$ 3.34	<b>\$ 3.65</b>	\$ 3.98	\$ 9.25	\$ 9.61	<b>\$ 10.32</b>
<b>North Central</b>	\$ 3.42	\$ 3.59	\$ 3.93	\$ 9.16	\$ 9.46	\$ 10.01
<b>Northeast</b>	\$ 3.41	\$ 3.59	\$ 3.95	\$ 9.19	\$ 9.28	\$ 9.76
<b>West Central</b>	\$ 3.34	\$ 3.59	\$ 4.02	\$ 9.12	\$ 9.33	\$ 10.06
<b>Central</b>	\$ 3.36	\$ 3.50	\$ 3.77	\$ 9.17	\$ 9.40	\$ 9.86
<b>East Central</b>	\$ 3.42	\$ 3.58	\$ 3.89	\$ 9.26	\$ 9.51	\$ 10.00
<b>Southwest</b>	\$ 3.31	\$ 3.56	\$ 3.94	\$ 9.15	\$ 9.42	\$ 10.09
<b>South Central</b>	\$ 3.36	\$ 3.59	\$ 3.90	\$ 9.51	<b>\$ 9.76</b>	\$ 10.35
<b>Southeast</b>	<b>\$ 3.50</b>	\$ 3.83	\$ 4.17	\$ 9.49	\$ 9.59	\$ 10.08
<b>STATE</b>	<b>\$ 3.38</b>	<b>\$ 3.60</b>	<b>\$ 3.94</b>	<b>\$ 9.24</b>	<b>\$ 9.48</b>	<b>\$ 10.06</b>

## Farmland Price Expectations, 12 months from now

■ Higher Farmland Prices ■ Lower Farmland Prices

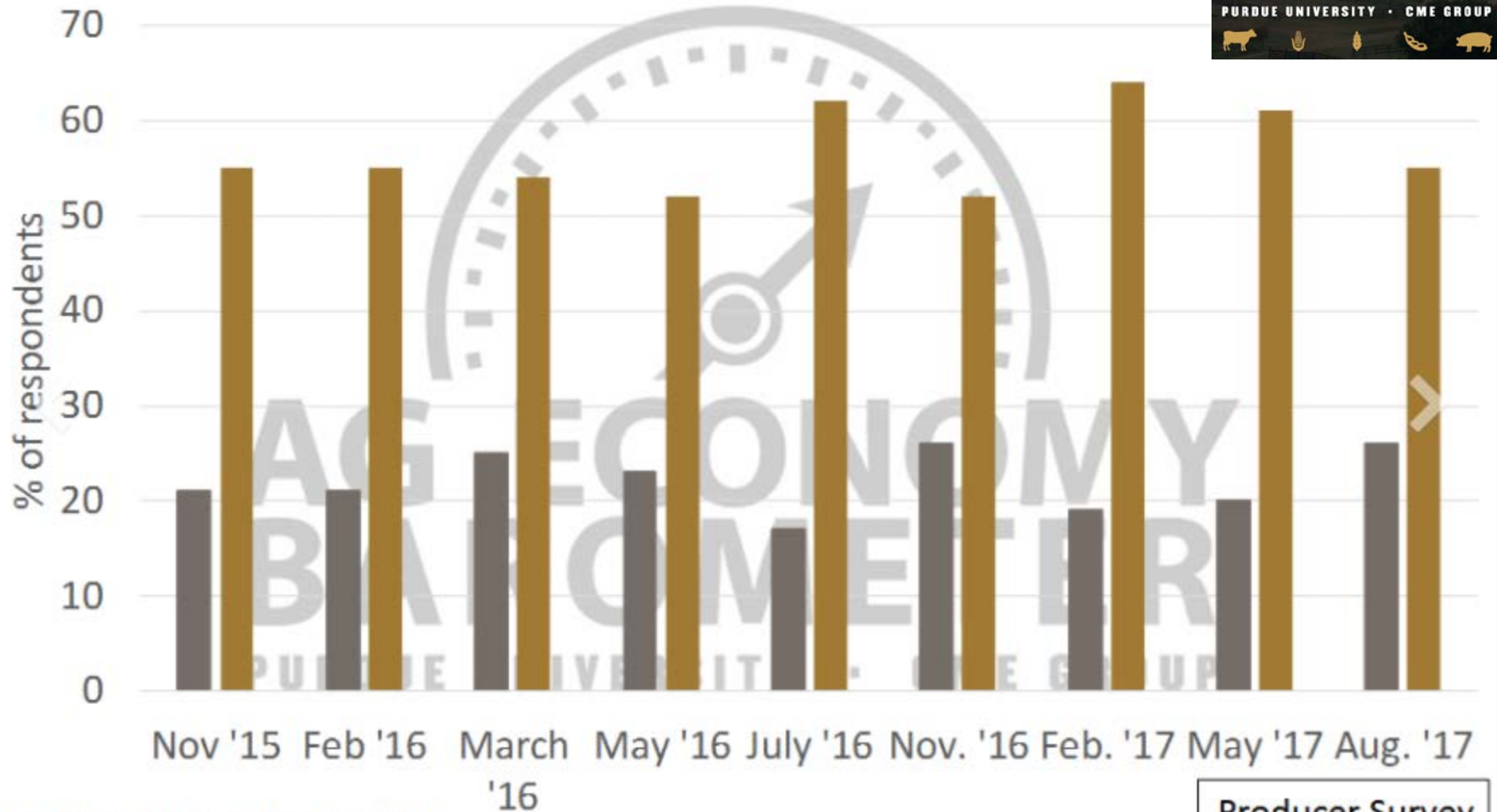


Most Recent Observation: Aug. 2017

Producer Survey

## Rating Farmland as an Investment

■ Poor ■ Good



Most Recent Observation: Aug. 2017

Producer Survey



# Iowa Landowners tend to hold the farmland

Years of ownership	% of Iowa Farmland
Less than 10 years	24%
10-20 Years	21%
20-30 Years	19%
30-40 Years	15%
> 40 Years	20%

<http://card.iastate.edu/farmland>

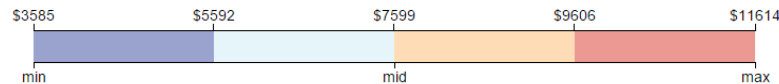
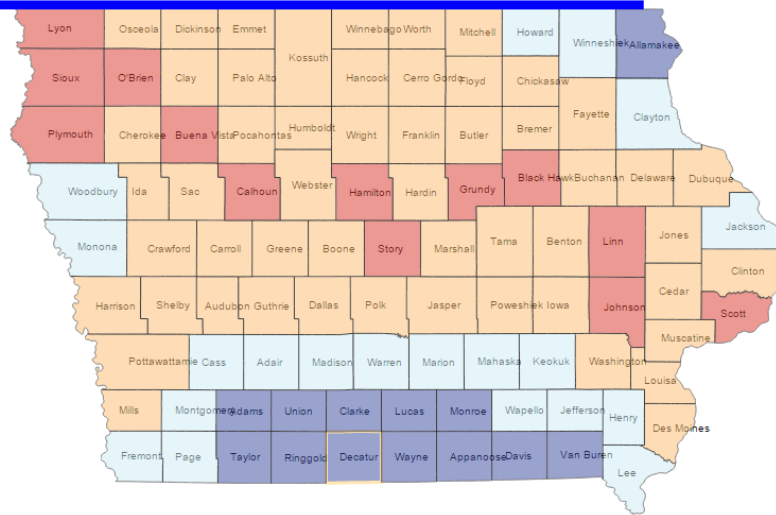
# Iowa Farmland Value Portal

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#ISUland  
value

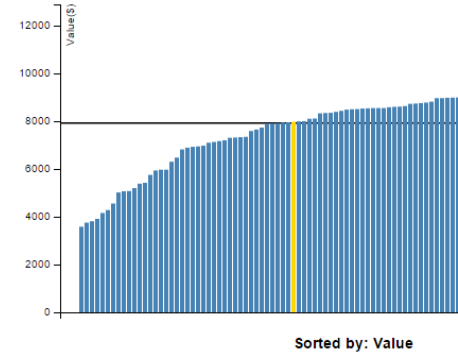
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Year: 2014

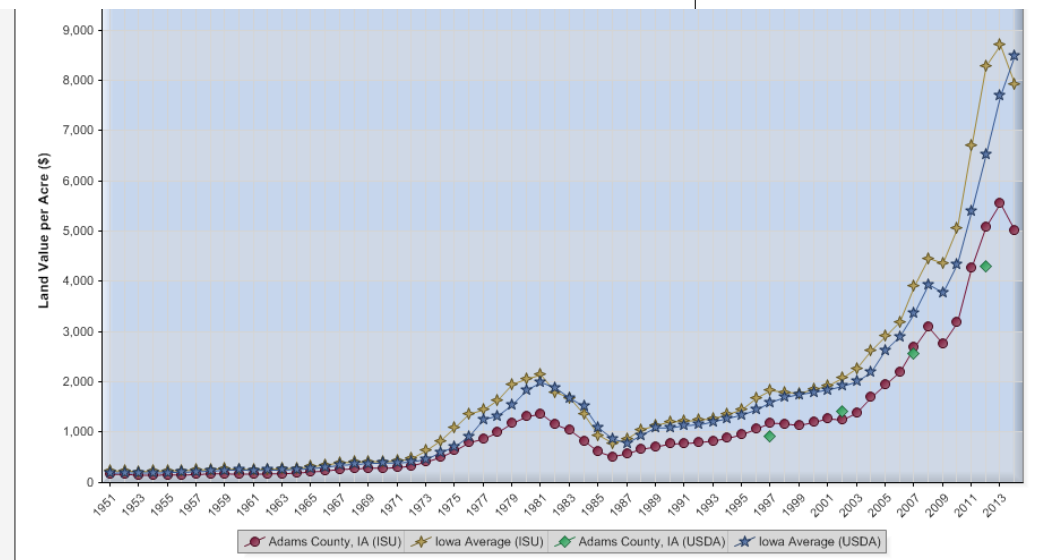
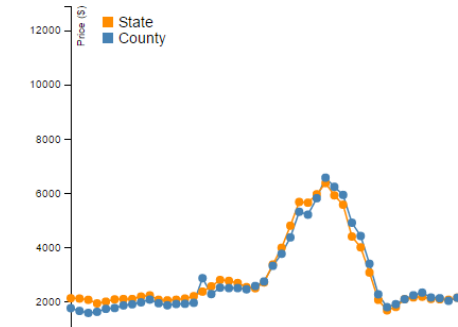
County Search county ...



Iowa County Land Value in 2014



Land Value Trend in County: Dubuque







# Thank You!

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