Falling Grain Prices Cause Land Prices to Level Off

- By Christine Stebbins / Reuters
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CHICAGO — The red-hot rush for U.S. farmland is cooling after years of quickly climbing prices, but prime acreage is still attracting top dollar in the heart of the Corn Belt so far this fall, according to land auctioneers. “On higher quality land, it’s been pretty strong, steady, but on medium and lower quality land we’ve seen some pullback,” said Randy Hertz, CEO of Iowa-based Hertz Farm Management. “There’s a lot of uncertainty out here in terms of what the future holds.”

The key season for U.S. farmland sales is October through December, when Midwest and Plains grain farmers are rolling in harvest cash and planning their taxes. Most economists and bankers say it is too early to tell if land values have peaked. “We’ve peaked for right now unless the grain markets rebound sharply, when it might change things and go the other direction. But right now I think is probably a leveling off period,” said Eric Mueller, an auctioneer and broker at Omaha-based Farmers National, the largest farm management company in the country.

Recent farmland sales from Ohio to Nebraska have ranged from about $3,000 an acre up to $16,000 for top quality ground. The biggest reason for a leveling of land prices is found in the grain markets. Prices for corn, wheat and soybeans have fallen in recent weeks, with the most dramatic drop seen in corn. Corn prices are down 30 percent since last fall, mostly because this fall’s harvest looks to be one of the biggest ever in the U.S. “Interest rates are creeping up a little. But, ultimately, I think the biggest factor is grain. There's still a lot of money out there, but buyers are going to be a little bit less aggressive with the grain markets coming down,” Mueller said. “The sentiment is holding in Nebraska and Iowa.”

But because yields are high, corn revenues should remain strong. “Frankly the last 10 years have been phenomenal. It’s off-the-chart good,” said Brent Gloy, an agricultural economist with Purdue University. “It looks like to me this is the first time we’ve seen some substantial headwinds in the market for a while.”

Chicago Board of Trade December corn on March 1 was $5.57, but closed at $4.57 on Thursday. A year ago, the price was $6.20. “If it becomes obvious that corn prices are going to shake out below $4 in the $3 range, we're at a peak,” Gloy said. “The lower commodity prices are hard to justify the really high land prices we’ve been seeing. If you take high quality farmland in Indiana, if you get much over $10,000 an acre, you've got to have cash rents over $300 an acre, in some cases $400 or $500. If corn prices are below $5, it’s going to be hard to pay those rents.”

Bankers and economists watch farmland prices closely. Land represents 85 percent of farmer assets – and loan collateral. Federal Reserve banker surveys for the quarter ended in June cited lower grain prices. At the same time, bankers cautioned farmers against chasing price dips with borrowed money, dreading another 1980s farm debt crash. “The difference with the 1980s is that 75 percent of land then had mortgages. Today, 25 percent does,” said Jeff Obrecht, an Iowa-based real estate broker with Farmers National. “That makes a big difference. We just don’t have the debt out there that we had. Part of that is lenders are requiring more. If you buy at $10,000 an acre, you’re going to have to put $5,000 down.”

Auctioneers said that, in recent weeks, more “no sales” have been reported at Midwest auctions as buyers think through revenue, cash and borrowing fundamentals. “When I sold a piece of property two years ago for $14,600, we got there in less than five minutes,” said Bruce Huber of Hickory Point Bank in Decatur, Ill. “Some of these auctions are taking longer, fewer bidders. You can just tell the enthusiasm for the higher prices seems to be wanting, yet the prices are still there.” “Farmers buy about 70 percent of the farms in the Midwest,” said Hertz. “They've got cash. There are record amounts of cash. That cash at a bank or short-term deposits doesn’t pay much – essentially, less than 1 percent. Compare that to a farm that can earn 3, 4, 5 percent.”