

Demand for Midwest farmland still strong

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OMAHA—Land prices and demand continue to be strong across a four-state area of the upper Midwest, but the latest data aggregated by Farm Credit Services of America (FCSAmerica) suggest the market for crop production farmland could be leveling off or in some cases softening.

“After years of a steady rise led by lower than average U.S. yields, strong domestic and international demand for commodities, low interest rates and solid profit margins, we’re seeing the rate of price increases leveling off for farmland in some areas we serve,” said Mark Jensen, senior vice president and chief risk officer for farmer-owned FCSAmerica.

Jensen referred to two reports produced this month by the FCSAmerica appraisal team.

The first is a semi-annual update of their Benchmark Land Values study, in which the lender has tracked the values of 65 farms for more than three decades.

The second report is a compilation and analysis of more than 3,500 agricultural real estate sales transactions—both auctions and private sales—in all four states during 2013.

Both the benchmark report and the analysis of sales transactions suggest the market for farmland is leveling off and in some areas softening in FCSAmerica’s four-state region, Jensen said.

“There’s evidence that farmland prices may be on a slight decline from record highs seen at the end of 2012 and for most of 2013,” he noted. “Based on our benchmark study, Iowa land prices were down 2.8 percent in the second half of the year, and our review of real estate transactions showed Iowa land prices down 3.3 percent in the fourth quarter of 2013 compared to the third quarter. Nebraska benchmark farm value increases slowed to the lowest levels in several years,

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up just 0.7 percent.”

Land prices and demand for farmland continue to be strong in the four-state area, Jensen said, but buyer sentiment could be adjusting with decreased commodity prices that will reduce the record profit margins experienced the past few years.

“Even though the number of public land auctions in 2013 was down 25 to 30 percent compared to 2012, auctions were often well-attended with multiple bidders,” Jensen said. “The number of auction ‘no sales’ in Iowa was 6.7 percent in 2013, an increase from 3 percent in 2012. Some sellers may have expected higher prices than the auction high bid. Local farmers continued to make most of the purchases.”

Jensen said FCSAmerica’s data suggest customers are positioned to weather a moderate downturn in land prices.

“Since 2008 FCSAmerica has used a risk management strategy that includes a cap per acre on the amount of money we’ll loan for land purchases,” Jensen said. “We’ve been using a long-term sustainable value approach to projecting repayment and lending levels based on corn prices closer to \$4.50 per bushel versus the prices of \$7 or more that some farmers were receiving in 2012.

“Our customers understand the financial risks and volatility in the agriculture industry. Their balance sheets and working capital levels are generally in a position of strength, and they have put a significant amount of equity into land purchases.”