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Trends in U.S. Farmland Values and Ownership

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Farm real estate (land and structures) is the major asset on the farm sector balance sheet, accounting for 84 percent of the total value of U.S. farm assets in 2009. Because of this, changes in agricultural land values are a critical barometer of farm sector performance and the financial well-being of agricultural producers. These changes also have implications for a wide range of policy issues, including agricultural competitiveness, industry structure, commodity programs, conservation payments, farmland protection, and local property taxes. In addition to being the largest single investment in a typical farmer's portfolio, farm real estate is the principal source of collateral for farm loans, enabling farm operators to purchase additional farmland and equipment or to finance current operating expenses and meet household needs.

What Is the Issue?

Interest in farmland values has grown in recent years due to dramatic increases in these values—more than 10 percent in 2005 and 2006—and the boom-and-bust cycle evident in the residential land market. Questions abound about the extent to which farmland values are affected by macroeconomic factors such as alternative investments, interest rates, and debt servicing capability. In addition to these farm finance considerations, interest also centers around the extent to which parcel-specific factors—such as soil productivity, proximity to delivery points like grain elevators and highways, and the land's development potential—affect farmland values. Changes in farmland markets have also raised questions about tenure patterns, and the extent to which the benefits of farmland ownership are accruing to owners actively engaged in farming or to non-operating farmland owners.

What Did the Study Find?

Many factors that can affect farmland values and ownership, both macroeconomic and parcel-specific, change simultaneously and they interact in complex ways. Though multivariate analysis is needed to provide definitive answers, examining individual factors one at a time through trend and correlation analyses provides a first step in understanding potential relationships.

Trends in farm incomes, cash rents, and interest rates suggest that farmland values were supported by farm earnings in 2009 and 2010, but there have been periods of imbalances in the recent past. Since 2009, though farmland values have been high, the discounted returns from renting farmland have been higher. Also, in the last 2 years, average income from farming has been more than sufficient to service the debt on farm real estate purchases at current mort-

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gage rates. A “speculative bubble” forming in farmland markets cannot be ruled out, but at a national level, farmland values have been supported of late by fundamental farm factors such as farm earnings. However, over 2005-08 and during 1978-85, farming income was insufficient to service debt on farm real estate purchases. Historically low interest rates are likely a significant contributor to farming’s current ability to support higher land values. Increases in interest rates would likely put downward pressure on farmland values.

Strong farm earnings appear to have helped farmland markets withstand the significant downturn in the residential housing market in recent years, though some regions may have experienced modest impacts. In addition to its value in a farming use, farmland near urban areas derives value from its potential to be developed for residential housing and other nonfarm purposes. Significant volatility in urban real estate markets over the last decade has raised questions about the extent to which competing land markets are affecting farmland values. A comparison of rural housing and farmland values during the 2001-06 “boom” years of the housing market reveals that farmland values grew faster than rural housing values in many States. During the housing market downturn (2007-09) that affected all but the Plains and Delta regions, farmland values generally declined more moderately than rural housing values. In 16 States (notably California, Oregon, Washington, and Nevada), farmland values continued to increase even though rural housing values declined. Strong gains in agricultural returns and declining interest rates helped dampen the effects of the housing “bust” on farm real estate values.

Many of the factors that help explain the variation in farmland values across the country are parcel-specific. Farmland with higher soil quality requires fewer production inputs and management time, and land that produces more can enhance expected farming returns and thus farmland values relative to land with poorer soils. In the most rural areas where urban pressures are largely nonexistent, our analysis shows that cropland with better soils is correlated with higher land values. However, a positive correlation between soils and land values is difficult to detect near urban areas because so much of the land’s value derives from potential development uses and not farm factors.

The correlation between government payments and cropland values varies regionally and by payment type. Government agricultural program payments increase income from agricultural production, and when they do so in a consistent way, the expectation of future payments may be capitalized into the value of farmland. Although farmland values generally increase with insurance premium subsidies, land values are inconsistent for land with different levels of direct and countercyclical program (DCP) payments. Also, the ratio of DCP and insurance premium payments to land values varies regionally, a consequence of what crops are—and have historically been—grown and whether they are eligible for program payments.

Non-operating landowners play a significant role in U.S. agriculture. Ownership status affects whether the benefits and risks of owning farmland accrue to active farmers or non-operating landowners. Three of the top four regions in terms of land in agriculture (Northern and Southern Plains and the Corn Belt) have non-operating owners owning more than 30 percent of the land. Non-operators owned 29 percent of all land in farms in 2007, and they owned 77 percent of farmland that is rented. Non-operators tend to be older, less likely to live on the farm, and less likely to participate in conservation programs. Despite recent increases in foreign ownership of forest land, as of February 2009, only 1.7 percent of privately owned land in farms or forest, or 22.8 million acres, was owned by foreigners.

How Was the Study Conducted?

This report uses trend and correlation analyses to identify general relationships between farmland values and both macroeconomic and parcel-specific factors. The analyses use cropland and pastureland value estimates developed by USDA’s National Agricultural Statistics Service (NASS) and data from NASS’ June Area Survey, in conjunction with data on a variety of factors—such as proximity to urban areas, soil quality, and irrigation status—that are likely to affect farmland values. Our analyses on farmland ownership trends largely use data from NASS’ 2007 Census of Agriculture, NASS’ 1999 and 1988 Agricultural Economics and Land Ownership Surveys, and ERS-NASS Agricultural and Resource Management Surveys. Because trends in farmland markets are determined by complex interactions among many potential influences, these trend analyses can help inform the design of detailed statistical analyses that would more definitively identify those factors that are significantly affecting trends in farmland values and ownership.