

Some Facts About Farmland Values

by

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Some people pay casual attention to farm real estate values and overestimate the financial performance of the production agriculture sector. It is easy to misinterpret recent increases in farm real estate values as evidence of strong profitability in the production agriculture sector because “in rural areas, agricultural land values are primarily determined by the income earning potential of the land, as measured by expected returns from crops and livestock” (USDA 2000a p. 30). However, a more detailed assessment of the facts related to farmland values gives a much different outlook.

The fact that average farmland values in the United States have risen for a decade masks the fact that long-run performance of farmland values tells a different story. Also, recent changes in the markets for farm real estate and the implications of those changes are often overlooked. Therefore, to provide a long-run perspective, this article presents farmland value data for the past two decades and a summary of the USDA’s explanation for the recent increases.

To begin, Table 1 presents farm real estate average values per acre for the period of 1980 to 1998, as reported by the USDA. Data are presented for the entire United States, plus separate values for the three states with the highest levels of agricultural revenue: California, Texas and Iowa. The value levels are quite different in the four columns, but in each case the effects of the “farm crisis” of the 1980s is apparent. Values peak in some year during the early/mid-1980s, fall for a few years and then begin a recovery. Farm real estate values had increased steadily prior to the “farm crisis,” but the changes in commodity markets that led to the crisis have fundamentally changed the economics of land markets in the United States. Variation between the aggregate national values and the values in each of the states signals that a detailed assessment is necessary.

For the U.S., the peak of \$823/acre occurred in 1982, the bottom was in 1987, and the recovery was completed in 1995 when values rose above the level of the earlier peak. The recovery was even slower if only

land values are considered instead of real estate values. “Real estate” includes the value of land and buildings. For land, the peak of \$715/acre was reached in 1982 and by 1995 (the last year for which data were reported by the USDA) the value had risen only to \$644. Thus, land and its income-earning potential had not fully recovered by the time that real estate values did, indicating that real estate values are inflated by farmers’ continued investments in buildings and other improvements to land.

Table 1. Farm Real Estate Average Values per Acre, 1980 - 1998

Year	Value of Land and Buildings (\$/acre)			
	United States	California	Texas	Iowa
1980	737	1,424	436	1,840
1981	819	1,732	468	1,999
1982	823	1,900	539	1,889
1983	788	1,918	544	1,684
1984	801	1,981	612	1,518
1985	713	1,841	694	1,091
1986	640	1,730	594	873
1987	599	1,554	546	786
1988	632	1,575	544	947
1989	668	1,742	521	1,095
1990	683	1,884	507	1,090
1991	703	2,077	498	1,139
1992	713	2,157	488	1,153
1993	736	2,213	499	1,212
1994	798	2,210	515	1,280
1995	844	2,220	525	1,350
1996	887	2,400	540	1,450
1997	926	2,500	554	1,600
1998	974	2,610	593	1,700

Sources: “Farm Real Estate Historical Series Data, 1950-92”, USDA Statistical Bulletin No. 855 and “Agricultural Land Values: Final Estimates 1994-98”, USDA NASS Statistical Bulletin, No. 957.

For the three leading agricultural states, very different pictures emerge, indicating that agriculture has not recovered from the farm crisis. California farm real estate peaked later and recovered sooner (in 1984 and 1991, respectively) than did the national average values. However, weakness in agricultural profitability was apparent when California land values fell from their 1993 high in both 1994 and 1995, despite increases in farm real estate values during those years. In Texas and Iowa, farm real estate values and land values are more correlated, but neither state has fully recovered. Texas farm real estate values peaked at \$694 in 1985 and after their 1992 bottom had rebounded only to \$593 by 1998. In Iowa, farm real estate values peaked at \$1,999 in 1981, hit bottom in 1987 and increased only to \$1,700 by 1998. Thus, in 1998 both Texas and Iowa farm real estate was valued at only 85% of its earlier peak value. Finally, these values do not reflect the effects of inflation. Using the Consumer Price Index for 1980 to convert the real estate values for that “pre-crisis” year to real terms (in 1998 dollars) gives \$1,458 for the U.S., \$2,817 for California, \$862 for Texas, and \$3,640 for Iowa. Comparing the real 1980 value to the 1998 value shows that U.S. farm real estate values in 1998 were only 67% of their 1980 value. For California, Texas and Iowa, a similar comparison results in 93%, 69% and 47%, respectively, showing that California has had the strongest recovery of the three states and Iowa the weakest.

Average gross cash rents to cropland reported by the USDA show the same pattern as seen in real estate values. In California, cash rents per acre peaked in 1984, recovered by 1993, but in 1995 they fell again to about their 1984 level. In Texas and Iowa, gross cash rents peaked in 1981 and 1982, respectively, and neither has fully recovered.

If agricultural income has not been strong, as indicated by the falling real cash rents observed over the last two decades, then what has been pushing up farmland values in recent years? One answer was provided by the USDA (2000a p. 30):

“Although average agricultural land values nationally are determined primarily by the income earning potential of the land, nonagricultural factors appear to be playing an important role in many local areas. To some extent, the buoying effect of these nonagricultural factors on agricultural land values could be partially offsetting the effect of lower returns from agricultural production.”

What the USDA report called “urban influence” affects only about 17% of U.S. farm acreage (and almost all of California’s harvested acreage), but has a significant

impact on farmland values. They estimated that during 1994-96 the value of farmland that was not urban-influenced was \$640 per acre, compared to \$1,880 for urban-influenced farmland. Thus, they concluded that 66% of urban-influenced farmland market value was due to nonagricultural factors.

“The market value for undeveloped farmland in these areas often begins to rise above its value based on agricultural returns alone, reflecting anticipation of eventual non-agricultural uses.”

This explains why New Jersey had the nation’s highest average farm real estate value during 1998 at \$7,000 per acre.

These results offer two factors as partial explanations for the differences in farmland values observed for the three leading agricultural states. First is the potential profitability of the crops that can be grown on a parcel of land. Second is the potential for nonagricultural uses of a parcel. For California, the prospects for both factors are better than the prospects for Texas and Iowa, thus farmland values are higher here and have made a stronger recovery relative to values observed before the farm crisis of the 1980s.

What are the national prospects? As of February 2000, the USDA (p. 31) reported that “farmland values at the national level are forecast to be flat for 1999 and 2000” due to declines in the profitability of many crop markets. This is despite a record \$22.7 billion in direct government payments to farmers in 1999 and over \$15 billion approved thus far in 2000 (USDA 2000b). Clearly, agriculture since the farm crisis of the 1980s is different than the industry of earlier decades.

For more information

U.S. Department of Agriculture, “Accumulated Farm Real Estate Value Will Help Farmers and Their Lenders Through Period of Declining Cash Receipts,” **Agricultural Income and Finance: Situation and Outlook**, Economic Research Service AIS-74, February 2000a, pp. 30-3.

U.S. Department of Agriculture, “Lenders Benefit from Government Payments to the Farm Sector,” **Agricultural Income and Finance: Situation and Outlook**, Economic Research Service AIS-74, February 2000b, pp. 5-6.

U.S. Department of Agriculture, “Farm Real Estate Historical Series Data, 1950-92,” **Statistical Bulletin**, No. 855, 1993.

U.S. Department of Agriculture, “Agricultural Land Values: Final Estimates 1994-98,” **NASS Statistical Bulletin**, No. 957, 1999.

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