

Some Thoughts on Iowa Farmland in 2004

Who will farm Iowa's land in 2004?

The start of a new year is a time to reflect, looking at the past year and thinking about what lies ahead. For the past 20 years, I have followed the Iowa farmland market very closely. There have been ups and downs and it has never been dull. Iowa farmland remains the highest value asset in all agriculture and for most farmers it is the main source of their wealth. Farmland and how we use it says a great deal about what kind of state we have. Therefore, what happens to the land is of vital importance to all Iowans, not just farmers.

Here are the results of some land surveys done at Iowa State University (ISU) in 2003. They offer a glimpse of what has happened to Iowa farmland and what the future might hold.

Land Market Values

Iowa's land market remained active during 2003 and farmland values maintained the upward trend of the past four years. The ISU Extension land value survey reported that Iowa land values increased 9.2 percent in 2003, averaging \$2,275 per acre.

The farmland values reported in 2003 were the highest ever recorded in Iowa. The previous peak was in 1981, when the values were \$2,147 per acre. When adjusted for inflation, using the 1982 - 1984 period as a benchmark, the highest recorded value occurred in 1979. The 2003 values, when adjusted for inflation, are close to the values reported in 1973, the first year of the rapid increase in values during the 1970s.

Who is buying Iowa farmland these days? Each year, the ISU survey asks who the respondents think is purchasing farmland. Existing farmers have always made the majority of Iowa farmland purchases. However, over the past few years there has been an increase in purchases by investors. This trend continued in 2003. It was estimated that existing farmers made approximately 60 percent of the purchases, while the investors made 34 percent. In 1990, 81 percent of the purchasers were existing farmers and 16 percent were investors.

There are many reasons for the strong land market and the change in Iowa farmland buyers. The scarcity of listings was a highly influential factor in the land market reported in the 2003 ISU land value survey. In the short run, the most significant factor is the low interest rate. Additional short run factors include poor performance of alternative investment opportunities, and better-than-expected corn yields. In addition, the guaranteed payments from government programs have sustained land values.

In the longer run, there are at least three fundamental shifts that have impacted the Iowa land market. Some of today's land purchases are not for farming, but rather for hunting camps, second homes, or other recreational uses. Closely related to this non-farm purchasing trend is the urban expansion occurring in some areas and the ability and willingness of people to commute longer distances. Another long term factor influencing

the land market is the growth in farming operations. Farmers have been expanding their operations for years, but in today's market it often is not possible for the farmer to directly purchase the land. Producers must rent land, and as the demand for rented land increases so does the rent. Higher rents mean higher returns to the owners which spurs greater investor interest. Finally, the aging population of land owners will influence the Iowa land market for many years to come.

Land values remained strong throughout the entire state in 2003. Every county in Iowa showed an increase in value relative to 2002. Four of the nine crop reporting districts showed a double digit increase in average value for all grades of land relative to 2002.

More information on the land value survey can be found on the ISU Extension web site at <http://www.extension.iastate.edu/>

Land Ownership

Iowa State University also conducted a survey of farmland ownership in early 2003. This was one of a series of such surveys designed to track trends in farmland ownership. Final analysis is not complete, but initial analysis shows that many of the trends are continuing, if not accelerating.

A major change has occurred in Iowa farmland ownership. In 1982, 41 percent of Iowa farmland was under sole ownership. By 2002 that figure was only 28 percent. Two ownership categories showed significant increases. The amount of land held in trusts increased from 1 to 8 percent over the 1982 to 2002 period. The amount of land held as tenants in common also increased from 7 to 12 percent over the same time period.

There are many probable reasons why we are seeing this shift. A major one is the increasing age of farmland owners and the passing of land from the older generation to their children. In many cases, the children choose not to sell the land but hold it for a variety of reasons.

The change in the age of farmland owners very closely matches the change in the age of farmers. In 1982, 29 percent of the farmland was owned by people 65 years of age or older. This percentage increased to 48 percent in 2002. The percent of farmland owned by a person over the age of 74 doubled during the 1982 to 2002 time period, going from 12 to 24 percent.

Further evidence of the changes in farmland ownership is shown by who is operating the land. In 1982, 55 percent of the land was operated by the owner. In 2002, this percentage had dropped to 38 percent. Some of this change is influenced by the amount of land that is owned but not in production due to government programs. However, the amount of land that is leased increased from 42 percent to 53 percent from 1982 to 2002.

Another significant change in Iowa farmland is the method of financing. In 1982, 62 percent of the farmland was held with no debt. By 2002 the percent of land held without

debt increased to 76 percent. Land under a contract sale decreased from 18 percent in 1982 to 1 percent in 2002. Mortgaged land remained relatively constant, going from 20 percent in 1982 to 23 percent in 2002.

There has been a marked change in the amount of land holdings by the current land owners. In 1982, 40 percent of the farmland was owned by people with less than 80 acres. By 2002 this had dropped to 13 percent. For the large land holdings (greater than 600 acres), the percentage of farmland had increased from 5 percent in 1982 to 16 percent in 2002.

A final piece of information from the land ownership survey that highlights the rise in investor purchases of land and the land transfer to the next generation is the shift from Iowa resident to non-resident owners. In 1982, 94 percent of the land was owned by Iowans; this figure dropped to 82 percent in 2002.

A complete summary of the land ownership survey will be available in early 2004 on my web site (<http://www.econ.iastate.edu/people/faculty/duffy>) and on the Leopold Center web page (<http://www.leopold.iastate.edu/>).

Farmland Tenancy

The change in who operates Iowa farmland has been noted already. But, there is another significant shift away from crop share leases toward cash leases. In 1982, 49 percent of the rented land in Iowa was cash rented and in 2002 this figure increased to 70 percent. During the same time period, the percent of leased land under crop shares decreased from 49 to 30 percent.

There are several reasons for this shift towards cash rent:

- Farmers with multiple landlords find it less burdensome to have cash leases,
- Increased investor ownership, and
- The change in generational ownership.

Crop share leases, historically, have been in place for an average for 19 years. On the other hand, the average cash rent arrangement has been in effect for only nine years and approximately 30 percent have been in place less than four years.

The division of costs and yields with the crop share leases has remained relatively constant over time. The 50/50 division remains the most popular method.

More information from the survey on the rental arrangements can be found in Extension publication FM 1811 "Iowa Farm Leasing Practices."

2004 and Beyond

No one knows what the future will bring and the Iowa farmland market is no exception. It is especially difficult to predict what will happen in an election year.

In spite of the uncertainties, there are some trends in the land market that will continue for 2004 and quite likely into the future. The age of the farmland owner in Iowa continues to increase. As noted, 24 percent of the owners are more than 74 years old and almost half (48 percent) of the land is owned by people over the age of 65. This indicates we can expect the shifts in ownership to continue.

How will this land be transferred? How will the land be used by the next generation? Will it be sold? Will it continue to be held in joint ownership or placed in trust? The answers to these questions will lead to changes in ownership, in how the land is used, and also will influence the value of Iowa farmland.

The recent upsurge in investor interest quite likely will continue. I recently estimated that the implied capitalization rate (essentially the rate of return) for land averaged 4.7 percent in 2002 and ranged from 8.5 to 3.2 percent across Iowa counties. If one considers possible future increases in land values, this makes land an attractive investment under most scenarios.

Farm size has increased and likely will continue to do so over the next several years. Higher yields and enhanced technology have allowed farmers to farm more land. However, the margins in farming have narrowed and as a result many farmers look to higher volumes to maintain income. As farmers seek more land, the demand for land increases and so does the price. Will this trend of increasing size continue? No one knows for certain, but more than likely it will persist for the next several years.

Government payments and programs will continue to exert a strong influence on land values. Recently I estimated that, on average, approximately half the land values in Iowa for 2002 could be attributed to the government payments over the past seven years. Government price supports remove much of the income downside risk associated with crop production. The current programs will remain in force for the next several years.

Two factors could influence the continuation of these government payments. One is the federal budgetary pressure that could force a reduction in agricultural spending. Also, there have been major complaints from many other countries regarding the trade-distorting effects of our current policies. How this will play out and the possible impacts remain to be seen.

Another government program that could affect farmland is the new Conservation Security Program. The federal subsidy for this program has not been approved yet but, with funding, this program could generate some changes that would impact land values.

High land values and rents will continue to burden beginning farmers. Many young farmers are not sufficiently capitalized to afford today's farm expenses.

How these trends will impact the move toward a more sustainable agriculture also is uncertain. The change in ownership could encourage the attitude that land is merely an

investment from which the highest short-term return is sought. As more owners are physically removed from the land, will they supply the same level of care and respect?

More frequent use of cash rent also can be viewed in several different ways. Some argue that with cash rental, only the dollars received are important. Others feel that with cash rent, the operators must maintain high yields if they want to receive the highest return.

The removal of land for urban expansion and recreational uses also is a concern to many. How will this impact the way we treat the land? Will there be more protection or further neglect?

Finally, the impact on young farmers is especially noteworthy for those concerned with sustainable agriculture. If it becomes too difficult for young people to enter farming, we will see a continuation and perhaps acceleration of the “disappearing middle” in agriculture.

The future of the land market is unknown but several of the current trends likely will continue. There may be increases in the land market if the demand for and the prices of Iowa agricultural products remain high. Such scenarios are possible with breakthroughs in alternative uses for our commodities, especially in the energy arena. Price hikes also could be possible if major problems occur with our competitors’ production. There also is a downside potential in the land market. Changes in government support programs could have significant impacts on profitability as could fluctuations in the overall economy. The odds are that the land market will remain stable, but the increase in values seen in 2003 will not likely be repeated. Only time will tell.