

## 2006 IOWA LAND VALUE SURVEY: OVERVIEW

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### 1.0 History and Purpose of the Land Value Survey.

1.1 The survey was initiated in 1941 and is sponsored annually by the Iowa Agriculture and Home Economics Experiment Station, Iowa State University. Only the state average and the district averages are based directly on the ISU survey data. The county estimates are derived by using a procedure that combines the ISU survey results with data from the U.S. Census of Agriculture. The survey was conducted by Michael Duffy and Darnell Smith.

1.2 The survey is intended to provide information on general land value trends, geographical land price relationships and factors influencing the Iowa land market. The survey is not intended to provide an estimate for any particular piece of property.

1.3 The survey is based on reports by licensed real estate brokers and selected individuals considered to be knowledgeable of land market conditions. Approximately 1,100 surveys are mailed each year. Normally 500-600 completed surveys are returned.

1.4 Respondents were asked to report on more than one county if they were knowledgeable about the land markets. The 2006 survey is based on 490 usable responses providing estimates on 623 county land values.

1.5 Participants in the survey are asked to estimate the value of high, medium and low grade land in their county. Comparative sales and other factors are taken into account by the respondents in making these value estimates.

### 2.0 Analysis by State.

2.1 The 2006 state average for all grades of land was estimated to be \$3,204 per acre.

2.2 The increase in the state value was \$290 per acre from 2005.

2.3 The percentage increase was 10 percent from 2005.

### 3.0 Analysis by Crop Reporting District.

3.1 The highest land values were reported for Northwest, \$3,783 per acre.

3.2 The lowest land values were estimated for South Central Iowa, \$1,927 per acre.

3.3 The greatest percentage increase was in Southeast Iowa, 14.7 percent.

3.4 The least percentage increase was in South Central Iowa, 7.5 percent.

### 4.0 Analysis by Counties.

4.1 The highest value was estimated for Scott county, \$5,073 per acre.

4.2 The lowest value was in Decatur county, \$1,465 per acre.

4.3 The greatest dollar increase was \$495 in Louisa county.

4.4 The greatest percentage increase was 17.2 percent reported in Audubon county.

### 5.0 Analysis by Quality of Land.

5.1 Low grade land in the state averaged \$2,195 per acre and showed a 11.9 percent increase or \$234 per acre.

5.2 Medium grade land averaged \$3,011 per acre and showed a 10.1 percent increase or \$275 per acre.

5.3 High grade land averaged \$3,835 per acre and showed an increase of 9.2 percent or \$324 per acre.

## 6.0 Major Factors Influencing the Real Estate Market.

Survey respondents listed both positive and negative factors influencing the land market. The respondents listed multiple factors in most cases.

6.1 There were six positive factors listed by more than 10 percent of the respondents.

6.2 Good grain prices was by far the most frequently mentioned positive factor, being mentioned by 42 percent of the respondents.

6.3 Other positive factors were: good yields (18 percent); low interest rates, 1031 tax exchanges and bio-fuel demand (14 percent) and scarcity of listings (13 percent).

6.4 There were 3 negative factors listed by more than 10 percent of the respondents. The up trending interest rates were listed by 22 percent of the respondents. High input, machinery and low profitability in general (12 percent) and land prices too high (11 percent).

## 7.0 Number of Sales Compared to Previous Year.

When asked to compare the number of sales in 2006 relative to 2005, 26 percent reported more, 51 percent the same, and 23 percent reported less.

## 8.0 Land Sales by Buyer Category.

The 2006 survey asked respondents what percent of the land sales were sold to four categories of buyers.

8.1 The majority of farmland sales: 60 percent were to existing farmers. Investors represented 35 percent of the sales. New farmers represented 3 percent of the sales and, other purchases were 2 percent of sales.

8.2 Sales to existing farmers by Crop Reporting Districts ranged from 75 percent in Northwest to 39 percent in South Central.

8.3 Sales to investors were highest in South Central (56 percent). Northwest reported the lowest investor activity (23 percent).

## 9.0 Interpretation of Survey Results.

The 2006 survey marks the fourth straight year that Iowa land values have set a record high. For the first time a county average value was more than \$5,000 per acre. Almost all counties and crop reporting districts showed considerable strength. Nearly half (45 percent) of the counties showed increases of more than 10 percent and 52 percent of the counties showed increases of between 5 and 10 percent. In 2006, seven counties had average values over \$4,000 per acre. This compares to just one county last year. There were 59 counties with values between \$3,000 and \$4,000 per acre, compared to 51 last year.

The results of this year's survey are notable not just for the relative strength and record values reported. There was a wide variation among the respondents with respect to the percent change in land values. Also, the ISU survey showed considerable differences from the other surveys of Iowa land values.

The majority of the increase in value appears to have occurred in just the past few months. Other surveys of Iowa land values indicated the increase in value would have only been about one-half of the value reported in this year's survey if trends had continued. For example, in September of this year the Realtors Land Institute reported an increase of just 2.9 percent from March through September. The Chicago Federal Reserve Board in the November AgLetter reported that their survey, as of Oct. 1, "provided evidence of cooling after two years of double-digit gains in farmland value." They went on to further report that only a fourth of the lenders felt land values would increase in the fourth quarter and that "71 percent forecasted stable values." Part of the difference between the AgLetter report and the ISU survey is due to the different

areas covered. The AgLetter encompasses the entire Seventh Federal Reserve District. The timing of the survey, however, appears to represent a large part of the difference in the two surveys.

The AgLetter reported Iowa land values had only gained an estimated one percent for the third quarter of the year and just five percent for the year from October 2005 to October 2006. It is interesting to note the first half of the ISU survey respondents reported a 9.8 percent whereas the second half of the respondents reported a 12.2 percent increase.

The turnaround in land value increases can be traced to the rapid increases in grain prices. Almost half of the survey respondents identified favorable grain prices as a positive factor and another 14 percent credited the bioeconomy which, at this time, is primarily corn based. The change in corn prices is very clear. The average corn price for Iowa, as reported by the USDA, was \$2.07 per bushel for the period from January to October. Today the cash corn prices are well over \$3.00 and it is possible to forward price corn for the next couple of years for that price. Soybean prices have moved similar to corn over the past few months. The January to October average Iowa price was \$5.34 per bushel and the price today is over \$6.20 per bushel.

The change in the demand for corn is having far reaching impacts on Iowa agriculture. Land values and rents are increasing. We are seeing basis changes. The demand for corn for ethanol is changing the relative county prices for corn. There are impacts and implications for the export market and on the livestock sector. There will be a shift in the rotation followed on many farms.

Another change that occurred is who is buying Iowa farmland. For the past several years the trend has been towards more investor purchases and less farmer purchases. This year's survey shows a reversal of that trend. In this year's survey the percent of land being purchased by existing farmers increased from 56 to 60 percent while the percent being purchased by investors decreased from 39 to 35 percent.

The increases in Iowa land values over the past few years raised the question about whether or not the land market was overheated and "were we setting ourselves up for another fall." The double digit increase for the third year in a row continues to raise those questions although many are saying that the new bioeconomy demand represents a permanent change in demand and that the land values will increase to reflect this new demand and income potential.

A new question being raised is whether or not we are entering a time similar to the early 1970s. There are several important differences to keep in mind when pondering that question. Iowa land values increased over 30 percent per year for 1973, 1974 and 1975. The current increases in values are no where near that level. The boom in the values in the early 1970s followed a period of relative stability in Iowa land values. The increases we are seeing today are coming at a time when Iowa land values have been increasing fairly steadily over the past several years. Since 2000 Iowa land values have increased \$1,347 per acre on average or a 73 percent increase. This is a substantial increase, to be sure, but it is no where near the over 125 percent increase in values from 1972 to 1975. There are other differences such as the level of inflation, the fact that the more land is held without debt and the fact that more land is being held by older people.

Is the increase in prices and income per acre permanent? Will a 3.5 percent capitalization rate be acceptable in the future? How will the livestock sector react to the higher prices and the availability of alternative feeds? How will the export market react, not only to the higher prices but other world events? What does it mean to have corn prices tied to the price of oil? What are the environmental impacts of changing rotations? Finally, what are the impacts of these prices on beginning farmers?

The list of questions could go on and, unfortunately there aren't good answers readily available. This all leads to the high level of uncertainty with respect to what will happen with Iowa land values and where we are headed.

**Table 1. Recent Changes in Iowa Farmland Values**

	<b>Value Per Acre</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
1968	409	12	3.0

1969	419	10	2.5
1970	419	0	0.0
1971	430	11	2.6
1972	482	52	12.0
1973	635	154	31.9
1974	834	199	31.3
1975	1,095	261	31.3
1976	1,368	273	24.9
1977	1,450	82	6.0
1978	1,646	196	13.5
1979	1,958	312	19.0
1980	2,066	108	5.5
1981	2,147	82	3.9
1982	1,801	-346	-16.1
1983	1,691	-110	- 6.1
1984	1,357	-334	-19.8
1985	948	-409	-30.2
1986	787	-161	-17.0
1987	875	88	11.2
1988	1,054	179	20.4
1989	1,139	85	8.1
1990	1,214	75	6.6
1991	1,219	5	.4
1992	1,249	30	2.5
1993	1,275	26	2.1
1994	1,356	81	6.4
1995	1,455	99	7.3
1996	1,682	227	15.6
1997	1,837	155	9.2
1998	1,801	-36	-1.9
1999	1,781	-20	-1.1
2000	1,857	76	4.3
2001	1,926	69	3.7
2002	2,083	157	8.2
2003	2,275	192	9.2
2004	2,629	354	15.6
2005	2,914	285	10.8
2006	3,204	290	10.0

**Table 2. Average Value Per Acre of Iowa Farmland Listed by Crop Reporting Districts and Grades of Land**

Year	State Average	Northwest	North Central	Northeast	West Central	Central	East Central	Southwest	South Central	Southeast
	All Grades									
1981	2147	2562	2721	2227	2056	2538	2530	1586	1184	1790
1986	787	937	912	786	768	930	1000	607	403	705
1987	875	1084	1055	835	871	1044	1053	676	421	782
1995	1455	1755	1724	1330	1528	1766	1676	1102	742	1367
1996	1682	2071	1997	1559	1758	2090	1965	1206	851	1502
1997	1837	2263	2194	1721	1894	2295	2110	1369	957	1580
1998	1801	2174	2119	1757	1820	2192	2123	1373	948	1585

1999	1781	2059	2073	1807	1837	2128	2118	1346	981	1570
2000	1857	2198	2169	1868	1924	2195	2190	1412	992	1655
2001	1926	2240	2240	1950	1969	2246	2324	1511	1039	1705
2002	2083	2434	2367	2149	2101	2392	2547	1632	1211	1808
2003	2275	2683	2514	2347	2329	2652	2715	1774	1354	1979
2004	2629	3118	2913	2665	2728	3101	3054	2088	1547	2286
2005	2914	3393	3222	2963	3048	3415	3396	2350	1793	2483
2006	3204	3783	3478	3187	3410	3716	3725	2580	1927	2849
<b>High Grade</b>										
1981	2759	3035	3209	2885	2576	3061	3293	2050	1880	2726
1986	1048	1131	1094	1048	1000	1154	1343	832	682	1120
1987	1150	1306	1260	1102	1125	1288	1399	912	688	1229
1995	1869	2058	1968	1729	1939	2159	2131	1483	1163	2091
1996	2151	2431	2300	2015	2210	2558	2518	1586	1316	2291
1997	2328	2647	2531	2210	2350	2790	2673	1786	1443	2383
1998	2284	2534	2449	2238	2268	2659	2683	1798	1455	2369
1999	2249	2401	2362	2275	2288	2589	2685	1773	1499	2271
2000	2324	2547	2462	2329	2375	2660	2743	1825	1509	2353
2001	2407	2588	2546	2439	2437	2685	2907	1947	1582	2447
2002	2576	2776	2676	2625	2583	2848	3105	2117	1931	2539
2003	2790	3040	2817	2857	2820	3121	3263	2285	2121	2783
2004	3193	3537	3265	3189	3264	3621	3659	2657	2358	3174
2005	3511	3813	3588	3522	3691	3935	4069	2925	2659	3385
2006	3835	4261	3834	3816	4072	4263	4443	3209	2663	3793
<b>Medium Grade</b>										
1981	1931	2252	2334	2052	1866	2279	2258	1472	1149	1604
1986	699	830	777	709	684	813	866	561	396	622
1987	780	957	903	754	776	928	925	630	413	696
1995	1322	1598	1558	1216	1394	1580	1510	1009	726	1210
1996	1514	1873	1769	1423	1585	1843	1752	1111	829	1321
1997	1668	2033	1945	1577	1742	2050	1910	1280	945	1404
1998	1638	1970	1885	1604	1670	1968	1930	1274	924	1414
1999	1629	1876	1869	1665	1692	1898	1945	1241	949	1433
2000	1701	2001	1972	1728	1772	1956	1996	1320	955	1511
2001	1768	2057	2040	1800	1807	2013	2125	1410	1004	1571
2002	1924	2278	2142	2010	1930	2175	2358	1522	1152	1659
2003	2123	2507	2309	2221	2167	2438	2543	1659	1307	1834
2004	2457	2930	2669	2515	2564	2858	2863	1956	1492	2118
2005	2736	3199	2982	2834	2833	3165	3172	2217	1725	2347
2006	3011	3561	3223	2987	3213	3458	3501	2442	1866	2679
<b>Low Grade</b>										
1981	1157	1460	1517	1220	1125	1336	1366	959	624	752
1986	377	488	468	405	350	475	460	290	176	257
1987	432	571	553	444	419	535	495	341	207	289
1995	792	992	1049	737	812	967	925	614	400	574
1996	936	1213	1207	878	981	1146	1073	688	479	674
1997	1042	1354	1337	992	1083	1279	1186	787	544	730
1998	1030	1299	1286	1059	1021	1258	1205	792	542	739
1999	1045	1216	1314	1110	1040	1296	1188	798	582	790
2000	1117	1370	1387	1167	1126	1299	1288	862	597	875
2001	1170	1388	1423	1208	1202	1416	1404	918	623	871
2002	1322	1571	1568	1448	1332	1516	1628	996	760	997
2003	1463	1808	1682	1512	1500	1707	1811	1130	858	1063
2004	1713	2087	1976	1816	1746	2028	1998	1354	1029	1272
2005	1961	2382	2252	2032	1970	2353	2237	1614	1252	1438
2006	2195	2566	2500	2248	2293	2615	2505	1729	1373	1786

### Level of Sales Activity, 2006

Crop Reporting District	More	Same	Less
	Percent		
Northwest	31	52	17
North Central	38	48	15
Northeast	18	59	23
West Central	21	46	33
Central	38	47	15

East Central	20	51	29
Southwest	13	60	27
South Central	22	41	37
Southeast	29	60	12
<i>State</i>	<b>26</b>	<b>51</b>	<b>23</b>

### Iowa Land Purchases, 2006

	Existing Farmers	Investors	New Farmers	Other
	Percent			
Northwest	75	23	0	2
North Central	57	39	3	1
Northeast	68	25	4	3
West Central	69	27	1	3
Central	51	45	4	0
East Central	61	34	1	4
Southwest	53	44	2	1
South Central	39	56	2	3
Southeast	68	24	5	3
<i>State</i>	<b>60</b>	<b>35</b>	<b>3</b>	<b>2</b>