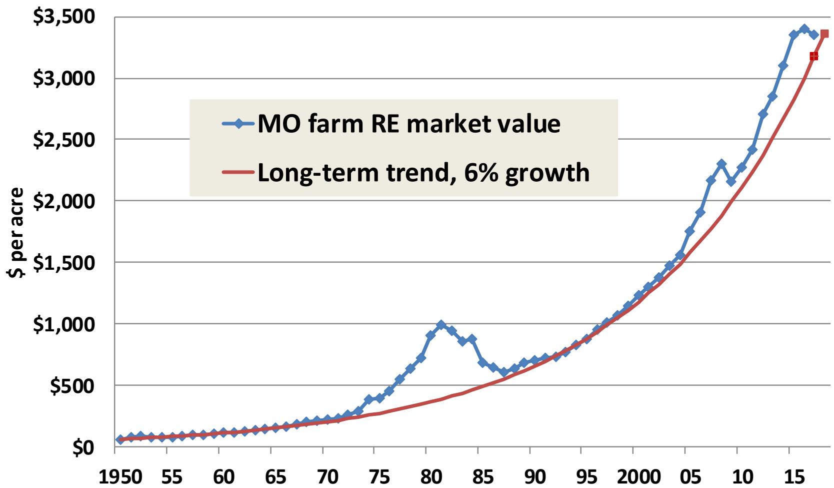
Check Up for Farm Real Estate Values
Brent Carpenter, Aug 2017

Worrying is one thing economists do especially well. For several years, ag economists watched as farm real estate values climbed rapidly and worried about the potential for bad things to happen in the event of a steep decline. Think of the great recession of 2008, largely caused by an artificial bubble in housing markets. As farm income has declined concern has grown about potential negative reactions in farm real estate values. Will there be a hard or soft landing?

One way to get a handle on the situation is to compare market values against the long-term trend. See the chart below that shows USDA survey data of farm real estate market values, released in August of each year.



The top line in the chart shows farm real estate market estimates for Missouri. Real estate includes all types of land, buildings and dwellings on farms. The lower line represents six percent annual appreciation since 1950.

Clearly, there is support for six percent annual growth in farm real estate over the long run. It makes economic sense. The obvious aberration was the boom of the late 1970s that resulted in double-digit annual growth and ultimately a market value that peaked in 1981 at a whopping 2.5 times over the long-term trend. When the bubble burst, land values painfully tumbled for several years until converging with the long-term trend and settling into a more normal growth rate from 1987 to 2004.

From 2005 to 2015 the land market responded to high farm incomes and low interest rates and ran ahead of the trend. However, the largest deviation during this period was 1.2 times the trend level.

The news in the latest report is that here is no news. While it is not a positive sign of expectations, a slight decline was not unexpected. According to the Aug 3rd release, Missouri real estate values declined by 1.5 percent from 2016 to $3350 per acre (last point on the top line). The market appears to have plateaued and be moving in a sideways pattern, allowing time for the trend to catch up without major disruption in asset values. The current market value is above the long-term trend for 2017, but slightly below what the trend would predict for 2018 (last point on the lower curve).

We can hope that when another year rolls around the report will show that the market has again found support from the long-term trend and balance sheets will not be detrimentally impacted. A soft landing is good for just about everybody.