A Review of the 2011 Farmland Market

If there is one word to describe the performance of the Midwestern land market over the past 12 months, "WOW" would probably be most appropriate, as across the Corn Belt farms appreciated 25 - 35% on average. Most of the experts had predicted that farm values would be stronger (primarily due to projected higher commodity prices), but I don't think anyone anticipated the magnitude of what we experienced. I think at some point we'll look back and see that a confluence of three major factors, outlined below, created a "perfect storm" in the marketplace, not just in 2011, but since the land market started its rapid ascent in 2006.

High commodity prices have had the most major impact. (For some historical perspective, on 9/1/06 the average corn price in Central IL was $2.13/bu.; on 9/1/11 the average price was $7.26/bu.). Net farm profitability is at an all time high, which means that farmers have been aggressively bidding for both land to buy and rent (and higher rent allows investors to be more active buyers).

Historically low interest rates have also been quite bullish for land values - decreased borrowing costs mean farmers can bid more for properties, while depressed C.D. rates have encouraged investors to buy land as a way to increase their annual income. (Again, for a historical perspective, the average 6-month C.D. rate in 9/06 was 5.73%; in 9/11 it was .47%)

Finally, the supply of land to buy remains low by historical standards. More tracts were brought to market in 2011 than the previous couple of years as landowners were likely tempted by the record prices being paid. But realistically, demand for land is still far outpacing supply in most areas and will likely do so in the near future.

So what can we expect from the market in 2012? I am quite confident that we will *not* see the same percentage increases that we witnessed in the past 12 months. That said, I do think that prices will remain strong for the first half of the year as a carryover from 2011, but it's the second half of the year that has me concerned (keep in mind that input costs for the 2012 are much higher, while current grain bids for fall delivery are lower). Interest rates are likely to remain low through the election, which should be supportive to land values. But grain prices will continue to be the true catalyst. One really good crop year, with correspondingly lower grain prices could be the brake that slows the seemingly runaway land locomotive, as we saw in the fall of 2008. If you're a landowner that is contemplating a land sale in the near future, 2012 may be the ideal time to take advantage of a still very active market.

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Farmland Market Update