Making Sense of the Current Farmland Market

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August, 2024

As part of my job, I spend hours each month scrutinizing articles, publications, and expert opinions on trends in the farmland market. Many of these are quite detailed with charts, graphs, and other information that help support the case that the author is trying to make. After digesting the most recent news, I am reminded of the old Clint Eastwood movie "The Good, the Bad, and the Ugly" and will try to summarize both the market and my thoughts in this style.

The Good:

1. Interest rates are drifting lower and an additional rate cut is expected in September. That should help reduce the borrowing costs for farmers and make the returns to land more competitive with interest-based alternative assets for investors;
2. 2024 crop yield prospects look promising across most of the Midwest, which means more bushels to sell;
3. The overall financial strength of most farming operations remains quite strong;
4. Recent reports from the USDA, The Chicago Federal Reserve, and a Purdue survey indicate that land values increased over the past 12 months to historic highs; and,
5. Investor interest in farmland, by both individuals and institutions, remains strong.

The Bad:

1. Current crop prices are the lowest they've been in several years;
2. Political issues both at home (the 2024 elections and the new Farm Bill) and abroad (Russia, China, and the Middle East) will add uncertainty to global economic conditions and trade;
3. Major farm equipment companies are slowing (or halting) production due to an anticipated drop in sales. This supports the idea that farmers won't be making as many capital purchases in the near future; and,
4. The vast majority of the increase in land values over the past year took place in the first eight months of that time period. Recent sales indicate a weaker market.

The Ugly:

1. USDA is predicting that 2024 net cash farm income will drop to the lowest level since 2016; and,
2. Short of a major drought somewhere in the world in 2025, grain prices will likely continue to be stagnant.

The Reality:

1. Generally, if farmers aren't making money then they aren't as aggressively bidding on land (or equipment). It's not that they don't have the ability to buy, they're just being more selective;
2. Investors will provide a floor for land prices, but they typically don't pay as much as a farmer would;
3. The supply of available land should remain fairly constant in the near future with most sales being driven by estates, trusts, and retirements… and not by lenders. This should partially offset the decrease in demand and its impact on sale prices;
4. The farmers who aggressively sold grain early in the year, or who will collect on crop revenue insurance, will be more profitable than those who didn't;

5. Though there will be exceptions, land prices on average will drift lower for the remainder of 2024 and into 2025. Lower quality tracts will be impacted the most, though there could be a substantial price difference even between farms with similar productivity. Who the neighbors are will be as important as what the soils are;
6. After a substantial increase in land values the past four years, lower sale prices should simply be viewed as a correction in the market and not a collapse.

Before getting too depressed, remember that we've seen this same scenario before. Thanks to the drought of 2012, grain prices skyrocketed and land prices did as well. This trend continued through 2013 until a record corn crop in 2014 forced commodity prices lower and caused land prices to stagnate and drift lower as well. This trend lasted for nearly seven years but when land prices started to rebound in 2020, they really rebounded. Regardless of how the market trends in the next several months, remember that over time farmland will always be an excellent investment with the good far out-weighing the bad and the ugly.

John Moss has been a licensed real estate broker/auctioneer for over 40 years and writes and speaks about farmland issues on a regular basis. If you have a question about land, John can be reached at: loranda@loranda.com or 800.716.8189.