

# Iowa leaders discuss land prices, conservation's value



Donnelle Eller, [deller@dmreg.com](mailto:deller@dmreg.com) 10:45 a.m. CST January 30, 2015

Donald Trump might have brought the sizzle to Peoples Co.'s annual Land Investment Expo last week, but the steak was the breakout sessions that led to the glitzy New York real estate mogul's conversation with company leaders.

Iowa Agriculture Secretary Bill Northey led a discussion about how conservation adds value to farmland. Jim Knuth, senior vice president of Farm Credit Services of America, discussed farmland values, interest rates and how to navigate challenges ahead. And state leaders Debi Durham and Paul Trombino talked about economic development and Iowa's roads and infrastructure.

Discussions also centered on big data, climate and estate planning. Here are a few of those discussions:

## **Jim Knuth, senior vice president of Farm Credit Services of America**

**Cropland vs. pastureland:** Iowa farmland values fell 6.9 percent over the past year, based on the lender's data. But farmland values fared better in other Midwestern states that have more pastureland and were supported by strong cattle prices. For example, values climbed 0.2 percent in Nebraska; 7.8 percent in South Dakota; and 7 percent in Wyoming over the past year.

"It's no surprise that land prices are softening across the market, and there's a real reduction in cropland values. But ranch and pastureland are seeing some strength."

**It's still farmers:** Who's buying the Iowa land? It's farmers — and by a wide margin: 80 percent vs. local investors at 9 percent vs. out-of-state-investors at 8 percent.

"It's local capital and competition that drives this market. It's not Wall Street. It's not rich guys from Chicago, or East or West Coast money."

"Farmland is being purchased from a position of financial strength. This is not house flipping. The other thing: Buyers are bringing significant equity, cash and collateral. This is not a high-leverage game."

**Lower margins ahead:** More farmers are sharing, leasing or renting farm equipment, instead of buying high-dollar tractors, combines and other iron to reduce costs. Knuth also suggests farmers look for other ways to cut costs. One option might be to refinance debt with higher interest rates, given near-historic lows.

"The tendency in times of tremendous uncertainty is to pause, hesitate, freeze. I would suggest that's the wrong reaction. Even though we're in a time of uncertainty, we should also be in a period of proactive adjustment."

*With Des Moines Water Works threatening a lawsuit against three rural counties over water quality, Iowa farmers are under pressure to look for ways they can better capture nitrogen and phosphorous on their farms. Some conservation practices such as cover crops can help. Northey, Iowa's ag secretary, led a discussion with experts:*

**Sean McMahon, executive director of the Iowa Agriculture Water Alliance**

**Check under the hood:** McMahon suggests that buying farmland under the present rating system, called the corn suitability rating index — or CSR and CSR2 — fails to provide enough information about soil health. It is, he said, like buying a car without knowing how many miles are on it or "looking under the hood."

"CSR and now CSR2 tells us the potential of what farmland is worth. That's basically the picture of what this car looked like 15 years ago. But what about the engine? What about the miles on that car? Has that land been farmed hard? Has it been mined of nutrients? What's the fertility data?"

**Building in soil metrics:** McMahon said what's needed is "a widely accepted soil metric" that would provide farmers and landowners with information about soil health — "about the biological condition of the soil, what's going on in the microbial communities." Some soil labs are beginning to provide indexes.

"These aren't perfect. They're works in progress, but we really need this metric. It could ultimately become as much or even more important as CSR2. Just think about the market signals that would send to producers if soil health equated to value of land. We can create an asset class around soil health."

**Virtuous cycle:** Building soil-health metrics into farmland values could create a "virtuous cycle market" where farmers and landowners are encouraged to add more conservation practices like cover crops or conservation tillage. If adopting "those practices make that piece of ground worth more at auction, what farmer wouldn't want more of those practices?"

"Now you can start a conversation. A landowner could say to a tenant: 'This is where our soil health is today, this is our organic matter, here are the different indicators; if you can get these numbers up, you can farm this land as long as I live. Or if you can raise that soil organic matter a percentage, I'm going to give you a break on your rent, because you're making my ground worth more.' "

**Sarah Carlson, Midwest cover crops research coordinator for Practical Farmers of Iowa**

**Why cover crops?** Carlson said that 50 years ago, Iowa farmers grew corn and soybeans — and oats, wheat, alfalfa, red clover — a mix of "a better balance of cool- and warm-season plants."

"The soil was being fed all the time. If you have cows and you don't feed them in December, January, February, what is going to happen? They're going to die. ... Life doesn't shut down in the winter, even though a lot of us go into hibernation."

**Closing the winter window:** Carlson said cover crops — cereal rye, spring wheat, oats — help close the winter window. The cover crops not only feed the soil, they help hold nutrients in place for the next crop and prevent topsoil from eroding.

Farmers typically have cover crop seeds flown over standing corn or soybeans in the fall, where they start growing while cash crops are harvested. Some cover crops die over winter; others are killed in the spring before a new crop is planted.

"That's where we keep the soil health. That's where we keep the nitrogen in the system. That's where we recycle the nutrients faster. We build a soil that can handle the 4-inch rains, that can handle a little bit of wind erosion. It's structurally different than the soils we see today."

**Soil health drag?** Carlson said strong yields may be due more to ongoing seed genetics improvement than good soil health.

"Genetics have been keeping up. But if you sacrifice your environment too much, genetics will never be able to overcome that reduction in the potential of the environment. ... Our yield over time will go down if our environment, the soils aren't being treated with care."

"We've got maybe 3,000 farmers in the state using cover crops and sticking with. But we've got 90,000 farmers in the state, and we need at least 50,000 to 60,000 to really make an impact on water quality across the whole state."