

## Iowa farmland values drop 15 percent over two years



[Donnelle Eller](#), [deller@dmreg.com](mailto:deller@dmreg.com) 6:41 p.m. CDT March 31, 2015



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After peaking two years ago, Iowa farmland values have tumbled about 15 percent, a new report shows, and are likely to continue dropping, given weakness in corn and soybean prices.

The hit, while mostly on paper, is expected to further dent farmer confidence in spending on tractors, combines and other big-ticket equipment, say experts.

That hurts Iowa's economy and is already rippling through farm-equipment factory floors.

"Farmers get a lot more conservative," said Ed Kordick, commodity services manager at Iowa Farm Bureau Federation. "We're getting back to our thin years."

Corn and soybean prices have contracted 40-50 percent since peaking in 2012. Nationally, farm income is projected to decline 32 percent this year. That's on top of a 16 percent decline in 2014.

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Recent data for Iowa farm income is only available through 2013, when it climbed 20 percent to nearly \$10 billion.

"If you don't have the balance sheet you once had, you're less likely to make commitments that you have to borrow money for," said Mark Kenney, who farms near Nevada.

Farmland values could shrink 5-20 percent more over the next three years depending on the direction of commodity prices, said Kyle Hansen, a member of the Iowa Chapter No. 2 Realtors Land Institute and a broker at Hertz Real Estate Services in Nevada.

The group's report Tuesday shows Iowa's average farmland values fell 11 percent over the past year to \$7,372 an acre.

It's the second year of decline. Last year, values fell 4.6 percent to \$8,286 an acre, according to the group, which releases a snapshot of land values every six months. Tuesday's data provided a look at land values through March.

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Michael Swanson, a Wells Fargo agricultural economist, believes the continued contraction in farmland values in Iowa and elsewhere will be significant.

"When you start using \$3 for a bushel of corn, it's got a different outlook than a \$5 or \$6," said Michael Swanson, a Wells Fargo agricultural economist. "I think there's still a considerable downside.

"I don't think we've worked our way through the lower crop values yet," he said. And farmland sales activity is likely to decline more with higher interest rates.

Hansen said farmland sales activity ranged from up 20 percent to down 50 percent. "Most of the responses showed significantly lower activity," he said, noting that about 77 percent of buyers are Iowa farmers.

"We're going to be in a very volatile market" in the years ahead, he said.

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Hansen, Swanson and Kenney said Iowa farmers should be able to weather financial challenges ahead. Many farmers are struggling to lock in a profit, given lower commodity prices and still high costs for inputs such as seed, fertilizer, rent and other expenses.

Hansen said Iowa farmers have used the past few years of strong returns to help reduce debt.

And lenders have required farmers to provide at least 50 percent of the farmland purchase prices, so declining values shouldn't hurt farmers too much. Swanson said. "I think you'll see more farmer regret that they overpaid for land than insolvency," Swanson said.

Lower farmland values do provide an upside.

"A little correction is never a bad thing," said Kenney, the central Iowa farmer. "Things continuing to increase is never a good thing in the long run."

Kenney said prices climbed as high as \$17,000 an acre in Story County. That prices out a lot of farmers. "When prices double or quadruple, it's hard to compete. There's always someone who has a bigger checkbook."

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And lower farmland values should eventually help pull rent prices for farmland down, said Kenny and Swanson. "Those ultra-high land prices have caused a tremendous run-up in rents," Kenney said.

Even with lower farmland prices, they will likely need to continue to dip to help beginning farmers, said Kordick, the Farm Bureau commodity services manager. "Land values still are a barrier to young farmers," he said.

Hansen said the smallest annual land value decline was 2.5 percent in southeast Iowa, where good yields along with strong cattle production have helped steady land values.

And the largest annual decline was posted in northeast Iowa, tumbling 17.5 percent. Hansen said the area has struggled in recent years with weather that's been too wet or too dry. Central Iowa values fell 9.3 percent, the report showed.

### Average tillable cropland price

DATE	PRICE PER ACRE	CHANGE
March, 2015	\$7,372	-11%
March, 2014	\$8,286	-5%
March, 2013	\$8,690	22%
March 2012	\$7,132	25%
March 2011	\$5,707	34%
March 2010	\$4,268	1%
March 2009	\$4,231	-1%

March 2008	\$4,276	19%
March 2007	\$3,594	17%
March 2006	\$3,070	

*Source: Iowa Chapter REALTORS Land Institute*