AGRIBANK INSIGHTS

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Slower Growth for Farmland Values

AgriBank District Benchmark Survey Finds Wide Range of Changes in Values

AgriThought

AgriBank Farm Credit Bank provides financial solutions to meet the needs of production agriculture in America's heartland. We feature our research and analysis in AgriBank Insights as part of our AgriThought initiative to help inform the financial decisions among those we serve.

The annual change in the value of farmland across the 15-state AgriBank District is showing signs of slowing markedly, while not declining, according to USDA 2015 survey data. What's driving the slowdown? Considerably lower commodity prices that result in lower net farm incomes in the grains and oilseeds sector. This report provides an overview of farmland values across the District, including differences by sector and geographic region. It also reports the latest data on cash rents and looks ahead to how cropland values may fare in the future.

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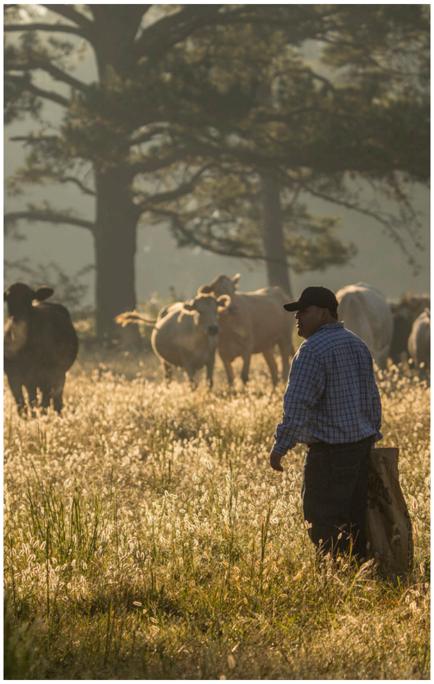
Highlights

- **FARMLAND VALUES MODERATING.** District average cropland and pastureland values slowed in growth, but did not decline, in 2015, driven by considerably lower commodity prices that result in lower net farm incomes in the grains and oilseeds sector.
- **CASH RENTS DOWN FOR CROPLAND, UP FOR PASTURELAND.** District average cash rents for cropland declined for the first time in over 20 years, while District average cash rents for pastureland increased.
- **BENCHMARK CHANGES VARY WIDELY.** District real estate values changed from -10.5 percent to 10.6 percent over the 12-month period ending June 30, 2015, according to the AgriBank District 2015 Benchmark Survey.
- **BAROMETER OF FARMLAND VALUES HOLDS STEADY.** The District's "implied" cropland capitalization rate holds virtually steady above the 10-year Treasury rate over recent years, indicating that the market continues to build in a risk premium that exceeds the expected growth in returns to cropland.



AgriBank District Farmland Values: Slower Growth, But Sectors Vary

The 15-state AgriBank District average cropland and pastureland values slowed in growth, but did not decline, in 2015, according to USDA 2015 survey data. Figure 1 shows the average District farm real estate, cropland and pastureland values per acre for 2015 and the four preceding years, along with the annual year-on-year growth rates. For the District in 2015:

- **FARM REAL ESTATE**—Increased 2.0 percent, compared to the U.S. average growth rate of 2.4 percent
- **CROPLAND VALUES**—Trailed the U.S. average growth rate for the first time in several years, growing at a 0.5 percent rate compared to a 0.7 percent growth rate nationally
- **PASTURELAND**—Exceeded the national growth rate, increasing at a 5.0 percent rate compared to just 2.3 percent for the U.S. average

In August, the USDA released its annual agricultural land value and cash land rent survey data for 2015. The land values and cash rents are derived from an annual nationwide survey the USDA conducts in June and July.

The slower growth in farmland values is due to considerably lower commodity prices that result in lower net farm incomes in the grains and oilseeds sector. The U.S. Department of Agriculture's Economic Research Service (USDA-ERS) projects U.S. aggregate net farm income (NFI) to decline from the revised final estimate of $91.1 billion in 2014 to a forecasted $58.3 billion in 2015. The overall decline in 2015 NFI is driven by lower receipts for both crops and livestock primarily due to lower expected prices, especially for corn, soybeans, and other grains.

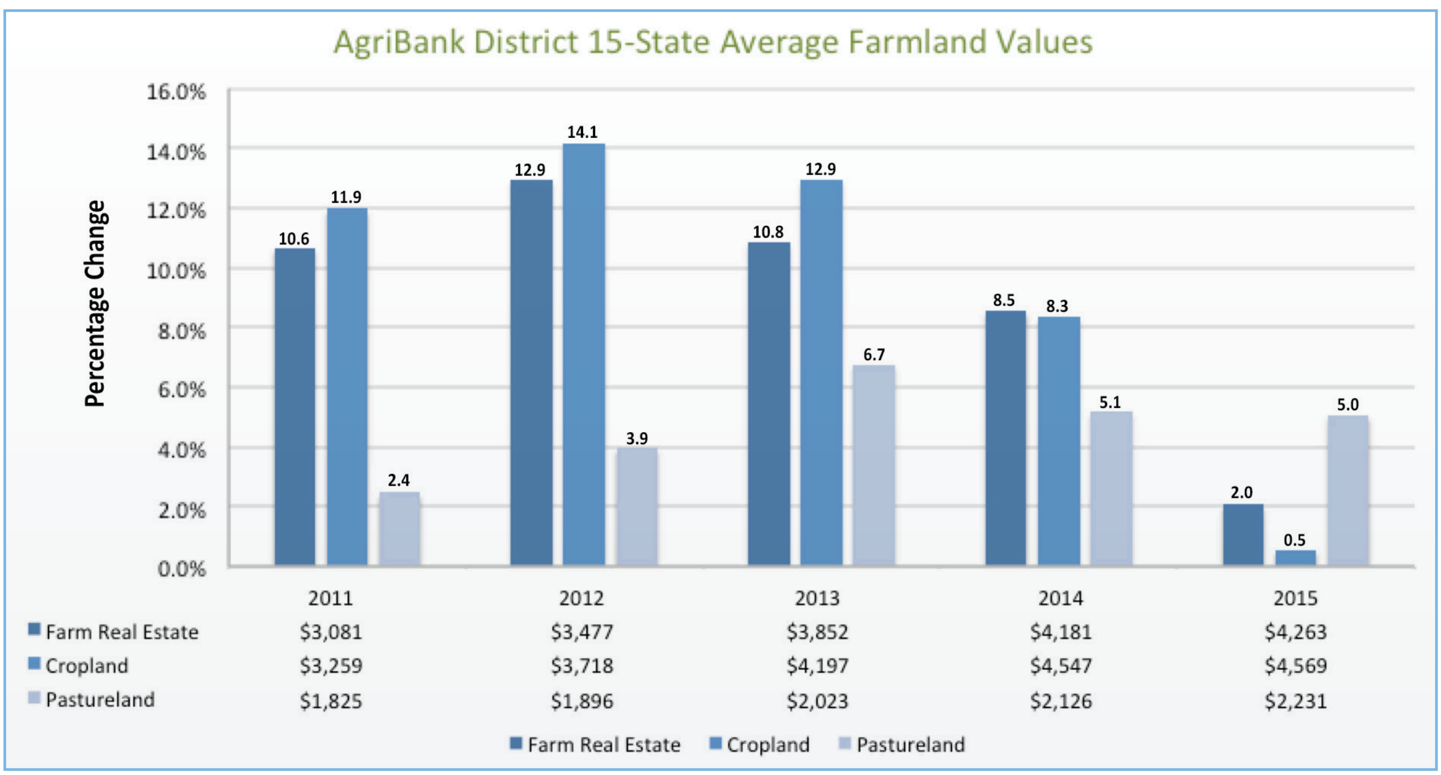


Figure 1

Source: USDA-NASS June Area Survey

Cropland, Pastureland Values Vary by State

The percentage changes in cropland and pastureland values varied widely by individual states in the District, depending on the concentration of commodities. States heavily concentrated in corn and soybean row crop production, such as Iowa and Minnesota, experienced declines in cropland values, as shown in Figure 2. At the same time, states with more diversified cropping patterns, including wheat and rice acreage, continued to show increases in value. It is expected that additional states will join the list of states with average declines when the USDA releases 2016 survey results next summer.

The story for pastureland values in the District is brighter, reflecting the strong dairy economy in key production states and strength in the cow-calf sector. All of the states showed increases in pastureland values in 2015 except Iowa and Nebraska, as shown in Figure 3. The states with the strongest increases (Minnesota and Wisconsin) have significant dairy production and likely benefited from record dairy producer margins in late 2014. States with significant cow-calf presence, such as North Dakota and South Dakota, also rank near the top of the list.

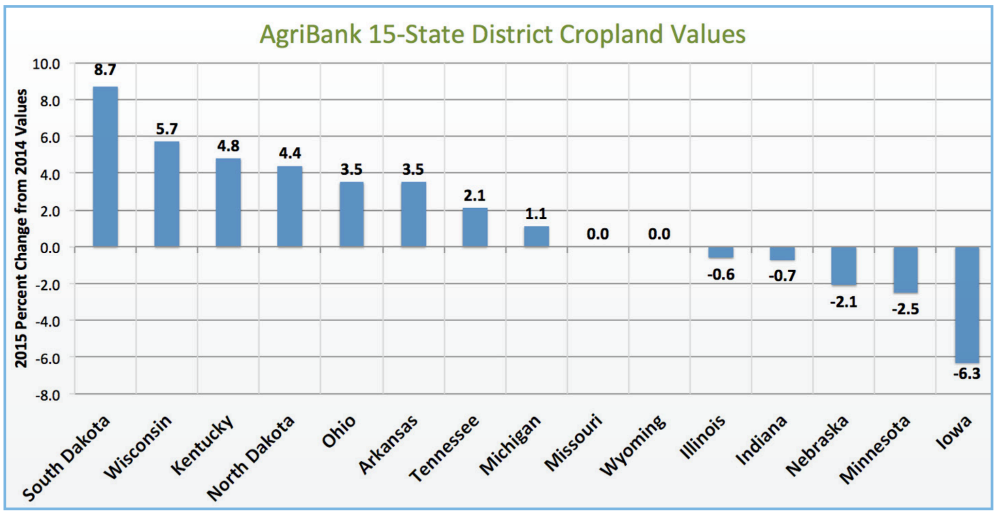


Figure 2 *Source: USDA June 2015 Area Survey*

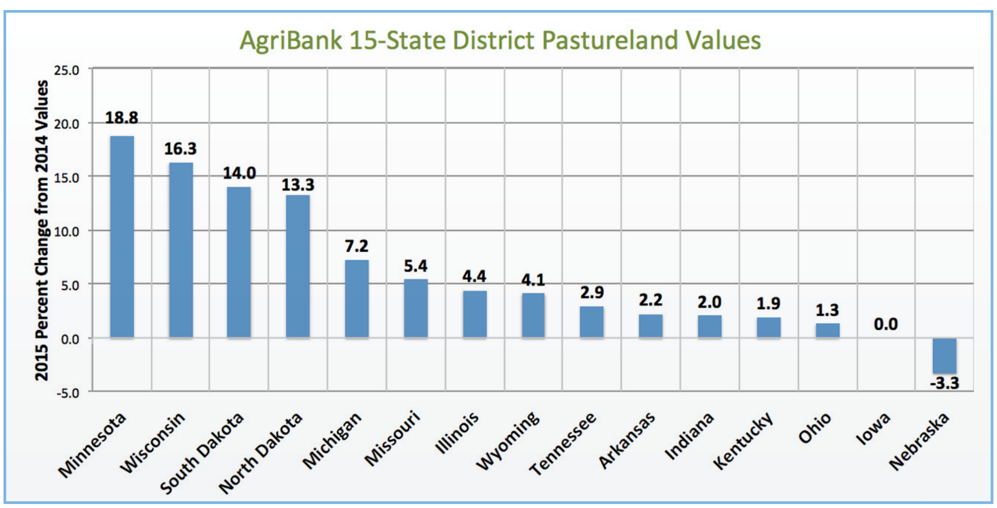


Figure 3 *Source: USDA June 2015 Area Survey*

Land Data Glossary

Different surveys gather and report farmland data differently. Major land categories surveyed may include:

- **CROPLAND** – land used to grow field crops, vegetables, or harvested for hay. Idle cropland and cropland enrolled in government conservation programs is also counted as cropland in the survey.
- **FARM REAL ESTATE** – all land and buildings used for agricultural production, including dwellings
- **PASTURELAND** – any land normally grazed by livestock

The USDA considers any land that switches back and forth between cropland and pastureland to be cropland.

Average Cropland Cash Rents: First Decline in Over 20 Years

Average cropland cash rents in the AgriBank District declined for the first time in over 20 years, according to the USDA survey data. Figure 4 shows the trend in the average cropland cash rent per acre since 1995. The 2015 average cash rent dropped $1 to $153 per acre, which is still $9 above the U.S. average of $144 per acre.

Figure 5 shows the 2014 and 2015 average cropland cash rents for the 15 AgriBank District states. In terms of percentage change, the biggest increases in cash rent were in South Dakota (8.6 percent), Ohio (4.2 percent) and Arkansas (3.9 percent). The biggest declines were in Michigan (-4.1 percent), Iowa (-3.8 percent), Minnesota (-2.7 percent) and Illinois (-2.6 percent).

AgriBank District average pastureland cash rents increased an average of $2 to $29 per acre, which is $15 higher than the U.S. average of $14 per acre. States with the highest rents were Iowa ($50/acre), Illinois ($35/acre), Missouri ($34) and Wisconsin ($34). States with the lowest rents were North Dakota ($18), Arkansas ($18) and Tennessee ($20). The biggest increases were in Nebraska (39 percent), South Dakota (23 percent) and Missouri (17 percent), while Illinois (-8 percent) had the only decrease.

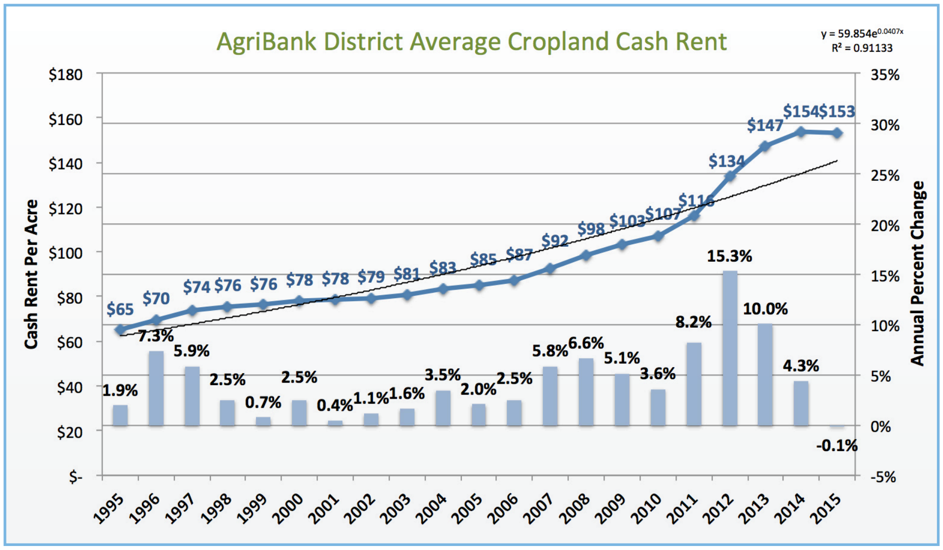
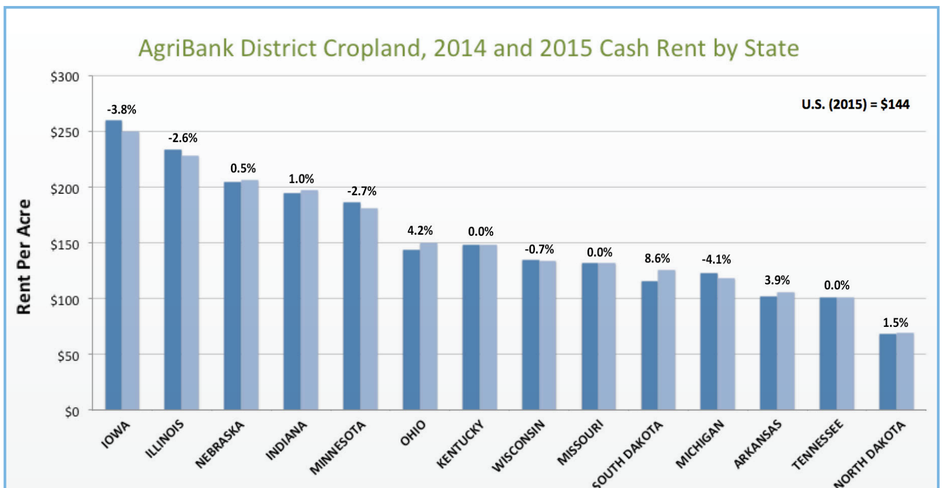
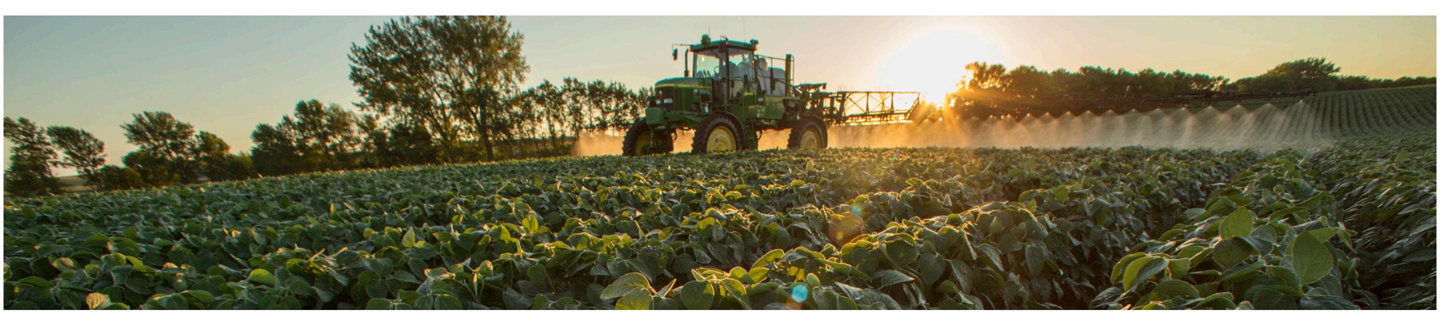


Figure 4 *Source: USDA-NASS*



	IOWA	ILLINOIS	NEBRASKA	INDIANA	MINNESOTA	OHIO	KENTUCKY	WISCONSIN	MISSOURI	SOUTH DAKOTA	MICHIGAN	ARKANSAS	TENNESSEE	NORTH DAKOTA
2014 Rent	$260	$234	$205	$195	$186	$144	$148	$135	$132	$116	$123	$102	$101	$68
2015 Rent	$250	$228	$206	$197	$181	$150	$148	$134	$132	$126	$118	$106	$101	$69

Figure 5 *Source: USDA-NASS*



AgriBank District Benchmark and Fed Surveys: Wide Range in Farmland Values

District real estate values changed from -10.5 percent to 10.6 percent over the 12-month period ending June 30, 2015.

The AgriBank District continues to monitor agricultural land values. We conduct an annual Benchmark Survey, completed by licensed real estate appraisers, of a sample of benchmark farms selected to represent the lending footprint of affiliated Farm Credit Associations throughout the District. The District's most recent real estate market value survey, shown in Figure 6, indicates that District real estate values changed from -10.5 percent to 10.6 percent over the 12-month period ending June 30, 2015. These results match up well on geographic basis with those of the USDA survey.

Note that the USDA procedure differs substantially from the AgriBank District Benchmark Survey. The USDA data is based primarily on producer surveys with statistical validity checks and final revisions based on some benchmarking data from the Census of Agriculture. AgriBank District Benchmark Survey land value estimates are based on actual appraised values of selected benchmark farms that remain mostly constant over the lifetime of the survey.

Qualitative surveys of lending officers compiled by the Federal Reserve Banks of Chicago, Kansas City, and St. Louis as of the end of the second quarter 2015 indicated steady to slightly declining farmland values. The Federal Reserve Banks surveys cited a year-over-year change in the average value of non-irrigated farmland ranging from no change to a 3.0 percent decline. The most recent information available from the Federal Reserve Bank of Minneapolis as of the end of the first quarter 2015 indicated that the average value of non-irrigated cropland in the District fell by almost 4.0 percent from a year earlier.

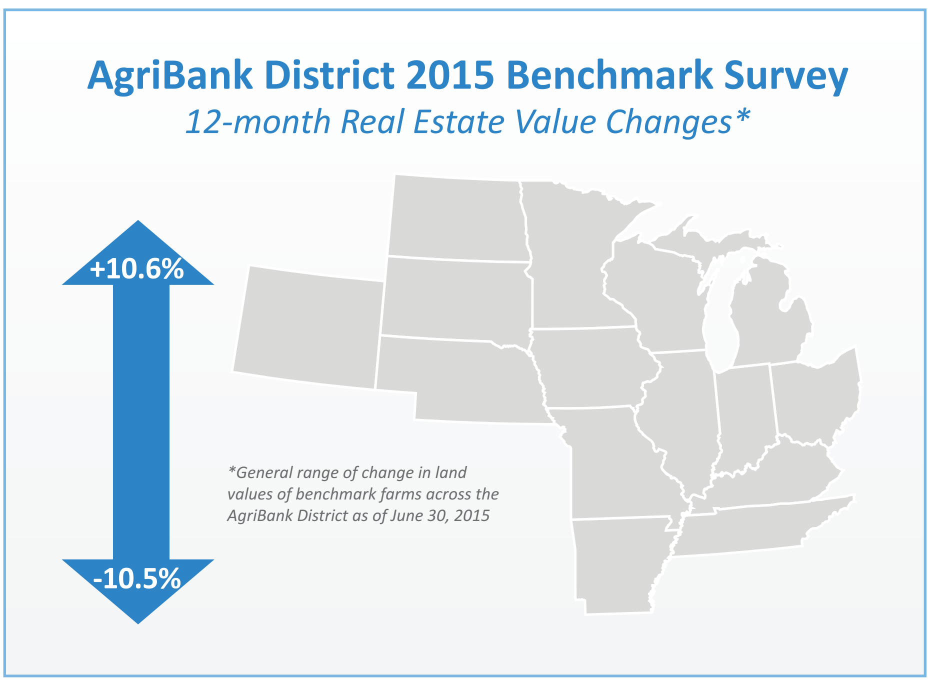


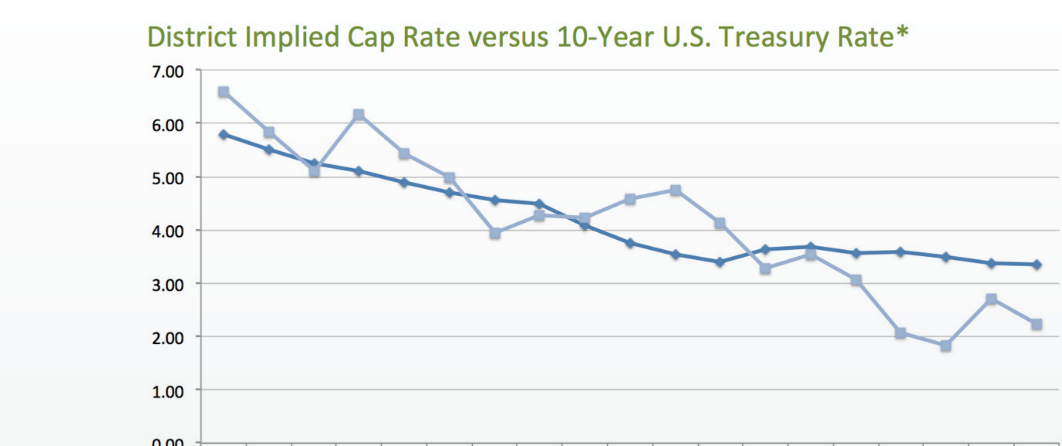
Figure 6

What's Next for District Cropland Values?

The outlook for most crop producers looks challenging for the next five years with most forecasters projecting corn and soybean prices to be at or near break-even levels. Producers may benefit from USDA commodity title programs that, under the 2014 Farm Bill, could be triggered by lower commodity prices. These programs, combined with disciplined risk management practices and the generally strong financial condition of borrowers comprising the District's crop portfolio, are expected to mitigate the initial impact of lower margins.

What does this mean for District cropland values? The answer may lie in the implied cropland capitalization rate, which is calculated by dividing the USDA District average cropland cash rent by the average District cropland value. The District cap rate has held steady in the 3.25 percent to 3.5 percent range every year since 2011 and has not followed the interest rate (measured by the U.S. 10-year Treasury yield) to its record lows, set in early 2013. This indicates the market is building in a risk premium that's larger than the expected growth rate in cash rents.

Figure 7 shows the AgriBank District implied cropland capitalization rate versus the U.S. 10-year Treasury bill rate (average of 12 months preceding the survey) for 1997 through 2015. The cap rate was almost unchanged from 2014 to 2015, declining by three points from 3.38 to 3.35 percent. Meanwhile, the preceding 12-month average 10-year Treasury rate dropped by 48 points, from 2.71 percent to 2.23 percent. In other words, the cap rate continues to hold well above the more volatile 10-year Treasury rate.



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
AgriBank District	5.79	5.51	5.25	5.12	4.90	4.71	4.56	4.49	4.08	3.77	3.53	3.40	3.65	3.68	3.56	3.60	3.51	3.38	3.35
10-Year Treasury Rate	6.60	5.83	5.10	6.17	5.45	4.98	3.95	4.29	4.23	4.59	4.76	4.14	3.29	3.55	3.08	2.08	1.82	2.71	2.23

Figure 7

**The 10-year treasury rate is the 12 month average from July of preceding year through June of current year. Cap rate is equal to the USDA cropland average rental rate ($ per acre) divided by the USDA cropland average price ($ per acre) from annual survey conducted in June of each year.*

Our analysis the past several years has consistently determined that, despite moderating commodity prices that result in lower net farm incomes, the U.S. farm sector remains in the best financial shape in over a generation. Some farming operations may face unique challenges that lead to unique financial difficulties. However, given recent trends and current economic expectations, we continue to anticipate a "soft landing" in the farmland marketplace without a "speculative bubble" that was characteristic of the 1980s farm crisis.

For more Information

Whether farmers, ranchers or other borrowers are looking to expand operations, take advantage of new opportunities or manage day-today operations, Farm Credit can help them access needed financing. Farm Credit offers a wide range of competitive agricultural loans — including operating, equipment, real estate and home mortgage — to help meet their operation's unique needs. Offerings include multiple interest rate options and cash management solutions that can help hold down the cost of borrowing. Find a local Farm Credit Association at www.AgriBank.com.

Find previous AgriBank Insights reports on land values on the [AgriThought pages of www.AgriBank.com:](www.AgriBank.com)

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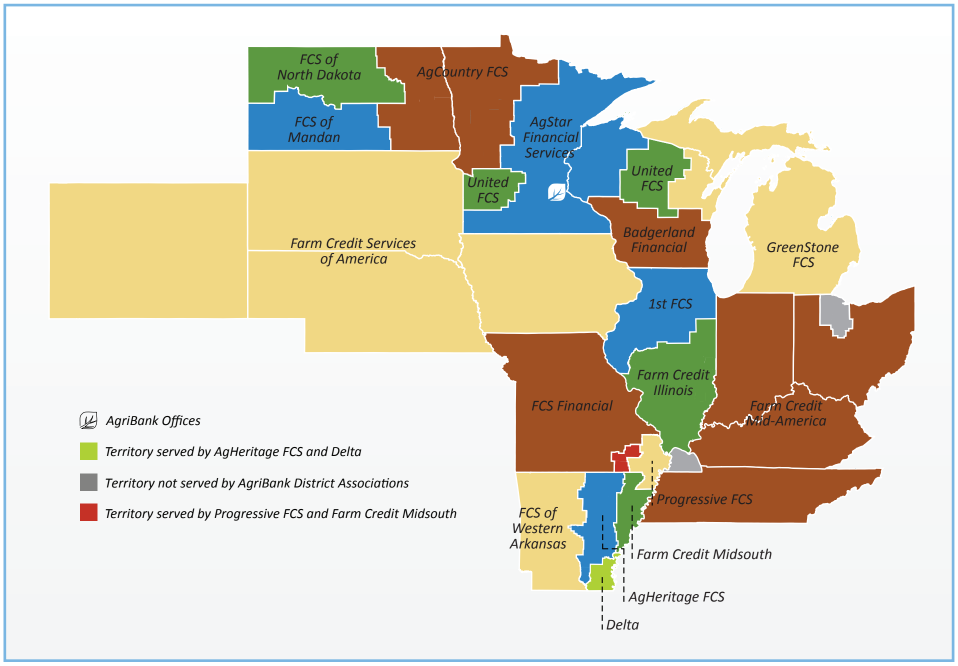
Associations in the AgriBank District



About AgriBank

AgriBank is one of the largest banks within the national Farm Credit System, with more than $95 billion in total assets. Under the Farm Credit System's cooperative structure, AgriBank is primarily owned by 17 affiliated Farm Credit Associations. The AgriBank District covers America's Midwest, a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas. About half of the nation's cropland is located within the AgriBank District, providing the Bank and its Association owners with expertise in production agriculture. For more information, visit [www.AgriBank.com.](www.AgriBank.com)

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