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## Ethanol Fueling Land Market Advances

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# CORNHUSKER ECONOMICS



March 21, 2007

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
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#### University of Nebraska-Lincoln Extension

### **Ethanol Fueling Land Market Advances**

Market Report	Yr Ago	4 Wks Ago	3/16/07
Livestock and Products,			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight Nebraska Feeder Steers.	\$85.49	\$89.91	\$98.68
Med. & Large Frame, 550-600 lb Nebraska Feeder Steers, Calves	135.36	118.35	126.02
Med. & Large Frame 750-800 lb Choice Boxed Beef.	102.94	99.77	109.00
600-750 lb. Carcass	145.11	153.29	165.50
Carcass, Negotiated Feeder Pigs, National Direct	55.33	64.81	58.68
50 lbs, FOB	54.13	67.68	70.38
51-52% Lean	61.46	71.92	67.08
Wooled, South Dakota, Direct	75.00	85.00	84.75
FOB	212.98	244.02	241.94
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu	3.76	4.42	4.43
Corn, No. 2, Yellow Omaha, bu	1.82	3.95	3.75
Soybeans, No. 1, Yellow Omaha, bu	5.32	7.31	7.12
Grain Sorghum, No. 2, Yellow Columbus, cwt Oats, No. 2, Heavy	2.63	6.41	6.13
Minneapolis, MN , bu	1.94	2.55	2.89
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185			
Northeast Nebraska, ton	130.00	*	*
Platte Valley, ton Grass Hay, Large Rounds, Good	65.00	*	*
Northeast Nebraska, ton	55.00	*	*
* No market.			

Nebraska farm real estate market values and cash rents show sizable increases for the year ending February 1, 2007. Preliminary findings from the annual University of Nebraska Farm Real Estate Market Developments Survey indicate the average per-acre value of agricultural land rose 14 percent over the past year (Figure 1 and Table 1). This was the largest annual all-land value increase of the past 19 years (Figure 1 and Table 1). Moreover, the percentage increase follows on three previous years of solid advances, which puts the state's current all-land average value more than 50 percent higher than the 2003 level.

Sharply higher cash corn and soybean prices towards the end of 2006 clearly boosted crop income levels and brought greater market enthusiasm into local land markets across much of the state. To be sure, the demand from rapidly growing ethanol production has triggered the commodity market advances, and in turn worked into the agricultural land market dynamic. Our survey reporters were quick to point this out – particularly in the major corn producing areas of the state.

While advances occurred across the state, the regional differences were dramatic. Preliminary estimates show the Northeast and North regions experiencing value gains 20.7 and 19.1 percent respectively over the twelve-month period – areas that currently have no irrigation moratoriums or water application restrictions. In contrast, the South region, which is experiencing serious water restrictions over much of the area, recorded an overall increase of about 7 percent, with one class of land (cropland with irrigation potential) actually declining in value from a year earlier. The Southwest region also had a recorded value decline for gravity irrigated cropland. Clearly, both current and future water availability issues are being factored into these recent land value patterns and trends.

By class of land, the largest annual percentage gain were for dryland cropland with irrigation potential and



tillable grazing land in the Northeast and North areas. In both of these regions irrigation development continues at a rapid pace. Market participants in these areas are recognizing that the window of opportunity for developing this land for irrigation may be limited by future moratoriums. This, in combination with strong crop commodity prices, has heightened buyer demand in recent months.

Despite the economic disequilibrium that higher feed costs have created for the cattle industry and other livestock sectors, there was still strong upward value movement across the major range areas of the state. Even in the western areas of the state where multi-year drought has been the most pervasive, large percentage increases in non-tillable grazing land and hay land values were recorded. Demand for the forage-based land classes is high given existing cattle inventories in the state.

As for cropland cash rental rate levels, the reported 2007 per-acre rates are up sharply from 2006 levels (Table 2). Higher crop income expectations for 2007 have raised the landowner/tenant bargaining range. Preliminary estimates of 2007 rental rates for dry-land cropland show double-digit percentage increases across much of the state. Likewise, irrigated cropland rates, particularly for center pivot irrigated cropland, have risen substantially in most

areas. There were, however, sizable variations across regions of the state, with some of the more water-limited areas recording smaller percentage increases in cropland rental rates.

According to our preliminary reports, pasture rental rates on a per-acre basis for 2007 are essentially unchanged from 2006 – not too surprising given drought limitations on pasture carrying capacity across much of the state and lower profit margins for feeder cattle producers in 2006. Cow-calf pair monthly rates reported for 2007 were generally similar to, or slightly below 2006 levels.

A final note: The market for agricultural land is extremely "thin," often with an ownership turnover rate of less than three percent per year. Currently the rate of turnover, according to our survey reporters, is even less; making the task of estimating market values increasingly difficult. Only time will tell if these reported values in the early phases of a totally different agricultural economy are representative of a realistic and sustainable market.

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Figure 1. Average Value of Nebraska Farmland, February 1, 2007 and Percent Change from a Year Ago (Preliminary)

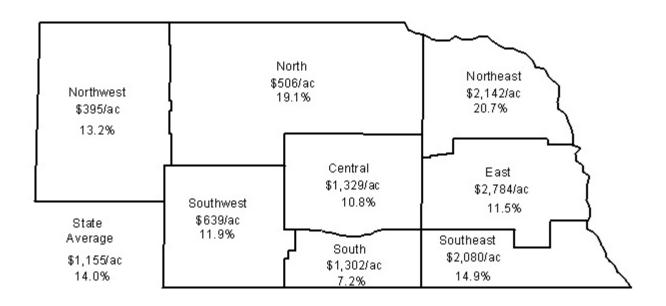


Table 1. Average Reported Value of Nebraska Farmland for Different Types of Land by Agricultural Statistics District, Feb. 1, 2006 - Feb. 1, 2007. (Preliminary)

Type of Land and Year	Agricultural Statistics District									
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast	State <sup>c</sup>	
	Dollars Per Acre									
Dryland Croplan	d (No Irrigatio	n Potential)								
Rptd. in 2007 Rptd. in 2006 % Change	383 348 10.1	558 483 15.5	1,917 1,641 16.8	1,056 933 13.2	2,608 2,276 14.6	559 519 7.7	932 875 6.5	1,845 1,563 18.0	1,249 1,088 14.8	
Dryland Croplan	d (Irrigation P	otential)				-				
Rptd. in 2007 Rptd. in 2006 % Change	490 455 7.7	808 650 24.3	2,407 1,931 24.7	1,561 1,450 7.7	2,870 2,642 8.6	727 623 16.7	1,126 1,229 -8.4	2,150 1,854 16.0	1,767 1,556 13.6	
Grazing Land (T	illable)									
Rptd. in 2007 Rptd. in 2006 % Change	282 251 12.4	475 383 24.0	1,343 1,067 25.9	848 740 14.6	1,493 1,224 22.0	401 349 14.9	684 651 5.1	1,106 962 15.0	546 464 17.7	
Grazing Land (N	ontillable)					-				
Rptd. in 2007 Rptd. in 2006 % Change	250 215 16.3	358 304 17.8	900 800 12.5	668 588 13.6	1,033 907 13.9	313 273 14.7	553 497 11.3	749 688 8.9	402 352 14.2	
Hayland										
Rptd. in 2007 Rptd. in 2006 % Change	500 430 16.3	568 481 18.1	1,005 871 15.4	791 679 16.5	1,255 1,071 17.2	550 449 22.5	717 633 13.3	900 760 18.4	701 598 17.2	
Gravity Irrigated	l Cropland									
Rptd. in 2007 Rptd. in 2006 % Change	1,195 1,036 15.3	1,305 1,199 8.8	2,795 2,310 21.0	2,431 2,295 5.9	3,323 2,953 12.5	1,261 1,340 -5.9	2,199 1,925 14.2	2,719 2,400 13.3	2,443 2,202 10.9	
Center Pivot Irri	gated Cropland	l <sup>b</sup>								
Rptd. in 2007 Rptd. in 2006 % Change	1,112 967 15.0	1,733 1,480 17.1	3,077 2,600 18.3	2,521 2,224 13.4	3,646 3,253 12.1	1,575 1,344 17.2	2,254 2,010 12.1	3,028 2,743 10.4	2,461 2,152 14.4	
All Land Averag	e <sup>c</sup>									
Rptd. in 2007 Rptd. in 2006 % Change	395 349 13.2	506 425 19.1	2,142 1,775 20.7	1,329 1,200 10.8	2,784 2,496 11.5	639 571 11.9	1,302 1,215 7.2	2,080 1,811 14.9	1,155 1,013 14.0	

<sup>&</sup>lt;sup>a</sup> SOURCE: 2006 and 2007 UNL Nebraska Farm Real Estate Market Developments Surveys.

<sup>&</sup>lt;sup>b</sup> Value of pivot not included in per acre value.

<sup>°</sup> Weighted averages.

Table 2. Reported Cash Rental Rates for Various Types of Nebraska Farmland by Agricultural Statistics District for 2007 and Comparison with Year Earlier Levels. (Preliminary)

	Agricultural Statistics District									
Type of Land and Year	Northwest	North	Northeast	Central	East	Southwest	South	Southeast		
	Dollars Per Acre									
Dryland Cropland										
2007 2006 % Change	27 24 12.5	42 38 10.5	109 97 12.4	71 63 12.7	113 102 10.8	34 31 9.7	56 52 7.7	93 83 12.0		
Gravity Irrigated C	Gravity Irrigated Cropland									
2007 2006 % Change	103 97 6.2	115 105 9.5	155 133 16.5	150 135 11.1	158 144 9.7	103 101 2.0	139 130 6.9	153 137 11.7		
Center Pivot Irrigated Cropland										
2007 2006 % Change	118 102 15.7	135 120 12.5	171 147 16.3	156 140 11.4	175 157 11.5	128 120 6.7	155 139 11.5	168 152 10.5		
Pasture										
2007 2006 % Change	9 9 0.0	14 14 0.0	36 36 0.0	25 25 0.0	32 33 -3.0	12 13 -7.7	22 22 0.0	30 29 3.4		
Cow-Calf Pair Rates										
Dollars Per Month										
2007 2006 % Change	25.00 24.00 4.2	29.50 29.60 -0.3	28.80 29.70 -3.0	27.75 28.90 -4.0	b 28.00 b	25.70 26.70 -3.7	25.00 25.60 -2.3	25.20 26.00 -3.1		

<sup>&</sup>lt;sup>a</sup> SOURCE: Reporters' estimated average cash rental rates from the 2006 and 2007 UNL Nebraska Farm Real Estate Market Developments Surveys.

b Insufficient number of reports.