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Ethanol Fueling Land Market Advances

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Ethanol Fueling Land Market Advances

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

<table>
<thead>
<tr>
<th>Type of Land and Year</th>
<th>Agricultural Statistics District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Northwest</td>
</tr>
<tr>
<td></td>
<td>Dollars Per Acre</td>
</tr>
</tbody>
</table>

### Dryland Cropland (No Irrigation Potential)

<table>
<thead>
<tr>
<th></th>
<th>Rptd. in 2007</th>
<th>Rptd. in 2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dryland Cropland (No Irrigation Potential)</td>
<td>383</td>
<td>348</td>
<td>10.1</td>
</tr>
<tr>
<td>Dryland Cropland (Irrigation Potential)</td>
<td>490</td>
<td>455</td>
<td>7.7</td>
</tr>
<tr>
<td>Grazing Land (Tillable)</td>
<td>282</td>
<td>251</td>
<td>12.4</td>
</tr>
<tr>
<td>Grazing Land (Nontillable)</td>
<td>250</td>
<td>215</td>
<td>16.3</td>
</tr>
<tr>
<td>Hayland</td>
<td>500</td>
<td>430</td>
<td>16.3</td>
</tr>
<tr>
<td>Gravity Irrigated Cropland</td>
<td>1,195</td>
<td>1,036</td>
<td>15.3</td>
</tr>
<tr>
<td>Center Pivot Irrigated Cropland</td>
<td>1,112</td>
<td>967</td>
<td>15.0</td>
</tr>
<tr>
<td>All Land Average</td>
<td>395</td>
<td>349</td>
<td>13.2</td>
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</tbody>
</table>

**SOURCE:** 2006 and 2007 UNL Nebraska Farm Real Estate Market Developments Surveys.

* Value of pivot not included in per acre value.
* 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.\textsuperscript{a} (Preliminary)

<table>
<thead>
<tr>
<th>Type of Land and Year</th>
<th>Agricultural Statistics District</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Northwest</td>
</tr>
<tr>
<td></td>
<td>Dollars Per Acre</td>
</tr>
<tr>
<td>Dryland Cropland</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>27</td>
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<tr>
<td>2006</td>
<td>24</td>
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<tr>
<td>% Change</td>
<td>12.5</td>
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<tr>
<td>Gravity Irrigated Cropland</td>
<td></td>
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<tr>
<td>2007</td>
<td>103</td>
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<tr>
<td>2006</td>
<td>97</td>
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<tr>
<td>% Change</td>
<td>6.2</td>
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<tr>
<td>Center Pivot Irrigated Cropland</td>
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<tr>
<td>2007</td>
<td>118</td>
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<tr>
<td>2006</td>
<td>102</td>
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<tr>
<td>% Change</td>
<td>15.7</td>
</tr>
<tr>
<td>Pasture</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>9</td>
</tr>
<tr>
<td>2006</td>
<td>9</td>
</tr>
<tr>
<td>% Change</td>
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<td>Cow-Calf Pair Rates</td>
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<td>2007</td>
<td>25.00</td>
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<tr>
<td>2006</td>
<td>24.00</td>
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<tr>
<td>% Change</td>
<td>4.2</td>
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</tbody>
</table>

\textsuperscript{a} SOURCE: Reporters’ estimated average cash rental rates from the 2006 and 2007 UNL Nebraska Farm Real Estate Market Developments Surveys.

\textsuperscript{b} Insufficient number of reports.