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CORNHUSKER ECONOMICS

UNIVERSITY OF
Nebraska
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University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://www.agecon.unl.edu/Cornhuskereconomics.html>

Nebraska Farmland Values And Cash Rents Rise Sharply

| Market Report | Yr Ago | 4 Wks Ago | 3/14/08 |
|--|-----------|--------------|---------|
| <u>Livestock and Products,</u> | | | |
| <u>Weekly Average</u> | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight..... | \$98.68 | \$90.24 | \$89.78 |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb..... | 126.02 | 126.61 | 121.81 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb..... | 109.00 | * | 102.26 |
| Choice Boxed Beef, 600-750 lb. Carcass..... | 165.50 | 151.14 | 145.69 |
| Western Corn Belt Base Hog Price Carcass, Negotiated..... | 58.68 | 57.85 | 50.41 |
| Feeder Pigs, National Direct 50 lbs, FOB..... | 70.38 | 50.34 | 50.44 |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..... | 67.08 | 62.92 | 57.73 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct..... | 84.75 | 88.12 | 95.38 |
| National Carcass Lamb Cutout, FOB..... | 241.94 | 256.66 | 262.09 |
| <u>Crops,</u> | | | |
| <u>Daily Spot Prices</u> | | | |
| Wheat, No. 1, H.W. Imperial, bu..... | 4.43 | 10.12 | 11.90 |
| Corn, No. 2, Yellow Omaha, bu..... | 3.75 | 4.89 | 5.25 |
| Soybeans, No. 1, Yellow Omaha, bu..... | 7.12 | 12.77 | 12.53 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt..... | 6.13 | 8.75 | 9.09 |
| Oats, No. 2, Heavy Minneapolis, MN, bu..... | 2.89 | 3.57 | 3.81 |
| <u>Hay</u> | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton..... | * | 135.00 | 135.00 |
| Alfalfa, Large Rounds, Good Platte Valley, ton..... | * | 85.00 | 85.00 |
| Grass Hay, Large Rounds, Good Northeast Nebraska, ton..... | * | * | * |
| * No market. | | | |

The average value of Nebraska farmland rose 23 percent over the past 12 months, the steepest annual percentage gain ever recorded in the 30-year history of the University of Nebraska-Lincoln Nebraska Farm Real Estate Market Survey (Figure 1 and Table 1). Preliminary results place the state's all-land average value at \$1,425 per acre as of February 1, 2008. This gain, combined with the gains of the past four years, puts the current all-land average value more than 88 percent higher than the 2003 level. Today's level represents a new historical peak value, not only in nominal terms but also in real (inflation-adjusted) terms — the previous peak in inflation-adjusted dollars was in 1981, just prior to a major asset devaluation during the farm-crisis years of the mid-1980s.

Strong crop commodity prices during 2007, even prior to the recent run-up since the first of the year, sent economic returns to cropland to record levels. That, and market participants' expectation of continued robust earnings, contributed to spirited bidding on land.

The underlying causes of this new plateau are fairly obvious. Corn demand from the rapidly growing ethanol industry in the state (Nebraska ranks #2 in production), fueled prosperous returns across the corn producing areas of the state. This, in combination with rising world demand for essentially all Nebraska-grown commodities, has created a phenomenal income effect across the entire state. And true to economic logic, those income signals get capitalized into agricultural land values relatively quickly.

Preliminary estimates from our 2008 survey show the largest percentage gains in the Northeast Region (28%) followed closely by the Southeast Region (26%). The



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smallest, albeit sizable, of the regional gains was reported in the Northwest (15%), where the impact on land values of commodity price surges have been more recent.

By type of land, value changes clearly reflect the recent income patterns and economic opportunities. For example, nontillable grazing land recorded the smallest state-wide percentage gain for the year (12%), as the cattle economy strains to adjust to higher feed costs. The fact that the state's cattle industry is effectively using the distillers grains by-product from the ethanol industry has partially mitigated the feed cost impact on the fed-cattle component. Still, profits have all but disappeared in the short-run. In the longer run, the economic picture seems brighter. The limited supply of forages, as well as greater substitution of forages for corn in the cattle feeding cycle may be part of the market participants' willingness to bid grazing land values upward.

Similarly, in regions where irrigation water moratoriums on future drilling are already in place, the value advances for the class of dryland cropland with irrigation potential were modest, at best, over the past 12 months. In sharp contrast, this type of land experienced substantial value advances in the North and Northeast Regions of the state, where additional irrigation development still is continuing without restrictions.

The 2008 cash rent levels for cropland have also surged ahead (Table 2). Our preliminary survey estimates for 2008 cash rental rates show increases generally in the 17 to 23 percent range over 2007 levels. And these percentage increases were clearly evident for cropland across the entire state. Just as with values, these cash rent percentage increases were the largest annual increases ever recorded by the UNL annual market survey. Highest cash rent averages were reported for center pivot irrigated cropland in the East and Northeast Regions, where 2008 rents top \$200 per acre.

As for pasture, 2008 rates were also up over previous-year levels — both on a per-acre rate and on a cow-calf pair monthly basis. A relatively tight forage condition seems to be the underlying factor. However, in most areas of the state, the percentage increases for pasture rates were below those recorded for cropland.

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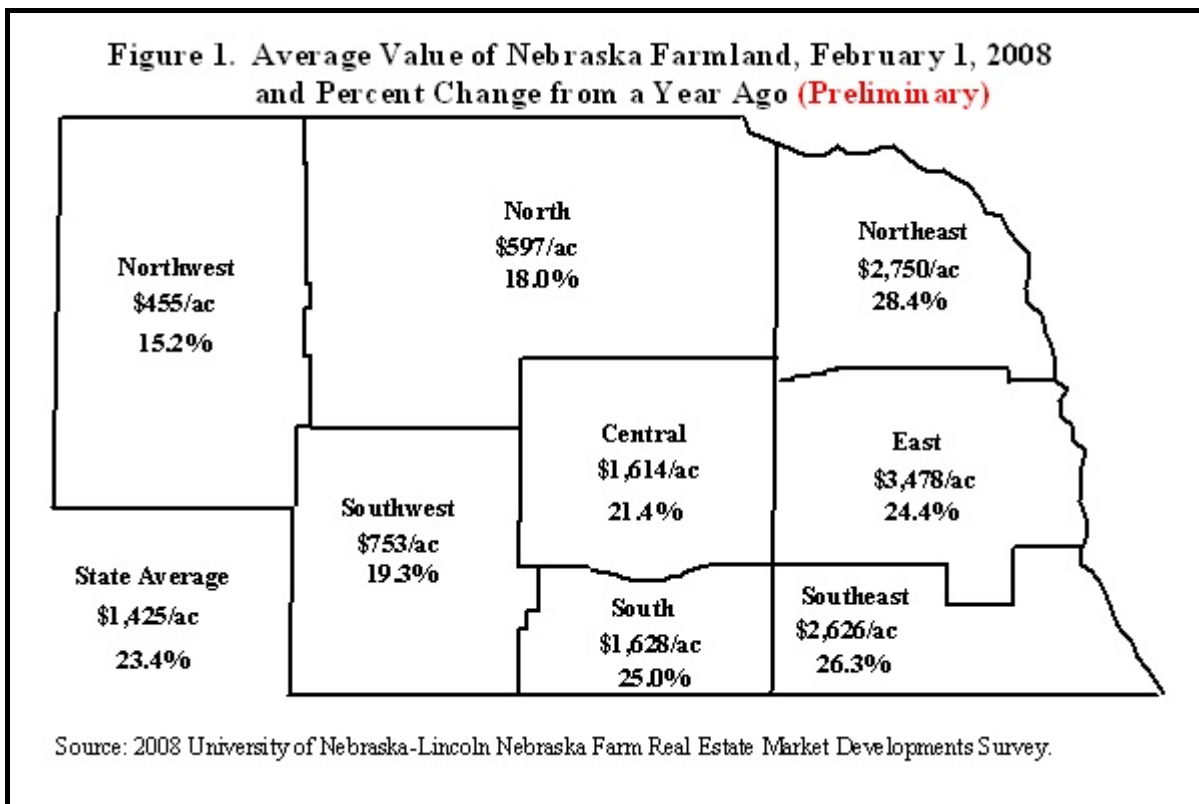


Table 1. Average Reported Value of Nebraska Farmland for Different Types of Land by Agricultural Statistics District, February 1, 2007 - February 1, 2008.^a (Preliminary)

| Type of Land and Year | Agricultural Statistics District | | | | | | | | |
|--|----------------------------------|-------|-----------|---------|------|-----------|-------|-----------|--------------------|
| | Northwest | North | Northeast | Central | East | Southwest | South | Southeast | State ^c |
| ----- Dollars Per Acre ----- | | | | | | | | | |
| Dryland Cropland (No Irrigation Potential) | | | | | | | | | |
| Rptd. in 2008 | 465 | 707 | 2482 | 1347 | 3203 | 693 | 1214 | 2391 | 1583 |
| Rptd. in 2007 | 383 | 558 | 1917 | 1056 | 2608 | 559 | 932 | 1840 | 1249 |
| % Change | 21.4 | 26.7 | 29.5 | 27.6 | 22.8 | 24.0 | 30.3 | 29.9 | 26.7 |
| Dryland Cropland (Irrigation Potential) | | | | | | | | | |
| Rptd. in 2008 | 505 | 1035 | 3147 | 1894 | 3691 | 750 | 1301 | 2700 | 2216 |
| Rptd. in 2007 | 490 | 808 | 2407 | 1561 | 2900 | 702 | 1126 | 2150 | 1771 |
| % Change | 3.1 | 28.1 | 30.7 | 21.3 | 27.3 | 6.8 | 15.5 | 25.6 | 25.1 |
| Grazing Land (Tillable) | | | | | | | | | |
| Rptd. in 2008 | 316 | 567 | 1578 | 1018 | 1927 | 417 | 887 | 1380 | 648 |
| Rptd. in 2007 | 282 | 475 | 1343 | 848 | 1493 | 387 | 684 | 1083 | 542 |
| % Change | 12.1 | 19.4 | 17.5 | 20.0 | 29.1 | 7.8 | 29.7 | 27.4 | 19.6 |
| Grazing Land (Nontillable) | | | | | | | | | |
| Rptd. in 2008 | 287 | 386 | 975 | 765 | 1219 | 344 | 658 | 883 | 449 |
| Rptd. in 2007 | 250 | 358 | 900 | 668 | 1033 | 310 | 553 | 749 | 401 |
| % Change | 14.8 | 7.8 | 8.3 | 14.5 | 18.0 | 11.0 | 19.0 | 17.9 | 12.0 |
| Hayland | | | | | | | | | |
| Rptd. in 2008 | 570 | 688 | 1280 | 998 | 1525 | 660 | 859 | 1006 | 852 |
| Rptd. in 2007 | 500 | 568 | 1005 | 791 | 1255 | 530 | 717 | 875 | 699 |
| % Change | 14.0 | 21.1 | 27.4 | 26.2 | 21.5 | 24.5 | 19.8 | 15.0 | 21.8 |
| Gravity Irrigated Cropland | | | | | | | | | |
| Rptd. in 2008 | 1475 | 1633 | 3550 | 2934 | 4080 | 1550 | 2689 | 3477 | 3007 |
| Rptd. in 2007 | 1195 | 1305 | 2795 | 2431 | 3323 | 1275 | 2199 | 2719 | 2444 |
| % Change | 23.4 | 25.1 | 27.0 | 20.7 | 22.8 | 21.6 | 22.3 | 27.9 | 23.0 |
| Center Pivot Irrigated Cropland^b | | | | | | | | | |
| Rptd. in 2008 | 1400 | 2221 | 3964 | 3082 | 4464 | 2071 | 3034 | 3818 | 3116 |
| Rptd. in 2007 | 1112 | 1733 | 3077 | 2521 | 3646 | 1575 | 2254 | 3055 | 2463 |
| % Change | 25.9 | 28.2 | 28.8 | 22.3 | 22.4 | 31.5 | 34.6 | 25.0 | 26.5 |
| All Land Average^c | | | | | | | | | |
| Rptd. in 2008 | 455 | 597 | 2750 | 1614 | 3478 | 753 | 1628 | 2626 | 1425 |
| Rptd. in 2007 | 395 | 506 | 2142 | 1329 | 2795 | 631 | 1302 | 2079 | 1155 |
| % Change | 15.2 | 18.0 | 28.4 | 21.4 | 24.4 | 19.3 | 25.0 | 26.3 | 23.4 |

^a SOURCE: 2007 and 2008 UNL Nebraska Farm Real Estate Market Developments Surveys.

^b Value of pivot not included in per acre value.

^c Weighted averages

Table 2. Reported Cash Rental Rates for Various Types of Nebraska Farmland by Agricultural Statistics District for 2008 and Comparison with Year Earlier Levels.^a (Preliminary)

| Type of Land and Year | Agricultural Statistics District | | | | | | | |
|---|----------------------------------|-------|-----------|---------|-------|-----------|-------|-----------|
| | Northwest | North | Northeast | Central | East | Southwest | South | Southeast |
| ----- Dollars Per Acre ----- | | | | | | | | |
| Dryland Cropland | | | | | | | | |
| 2008 | 33 | 50 | 134 | 86 | 135 | 40 | 69 | 113 |
| 2007 | 27 | 42 | 109 | 71 | 113 | 34 | 56 | 93 |
| % Change | 22.2 | 19.0 | 22.9 | 21.1 | 19.5 | 17.6 | 23.2 | 21.5 |
| Gravity Irrigated Cropland | | | | | | | | |
| 2008 | 126 | 142 | 188 | 173 | 189 | 116 | 168 | 185 |
| 2007 | 103 | 115 | 155 | 150 | 158 | 103 | 139 | 153 |
| % Change | 22.3 | 23.5 | 21.3 | 15.3 | 19.6 | 12.6 | 20.9 | 20.9 |
| Center Pivot Irrigated Cropland | | | | | | | | |
| 2008 | 140 | 159 | 208 | 185 | 211 | 159 | 183 | 198 |
| 2007 | 118 | 135 | 174 | 156 | 175 | 128 | 155 | 168 |
| % Change | 18.6 | 17.7 | 19.5 | 18.6 | 20.6 | 24.2 | 18.1 | 17.9 |
| Pasture | | | | | | | | |
| 2008 | 10 | 15 | 39 | 30 | 36 | 13 | 27 | 35 |
| 2007 | 9 | 14 | 36 | 25 | 32 | 12 | 22 | 30 |
| % Change | 11.1 | 7.1 | 8.3 | 20.0 | 12.5 | 8.3 | 22.7 | 16.7 |
| Cow-Calf Pair Rates | | | | | | | | |
| -----Dollars Per Month ^b ----- | | | | | | | | |
| 2008 | 26.25 | 33.65 | 31.90 | 33.30 | 31.60 | 31.40 | 27.75 | 29.85 |
| 2007 | 25.00 | 29.50 | 28.80 | 27.75 | b | 25.70 | 25.00 | 25.20 |
| % Change | 5.0 | 14.1 | 10.8 | 20.0 | b | 22.1 | 11.0 | 18.5 |

^a SOURCE: Reporters' estimated average cash rental rates from the 2007 and 2008 UNL Nebraska Farm Real Estate Market Developments Surveys.

^b Insufficient number of reports.