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A Thin Real Estate Market Becomes Even Leaner

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CORNHUSKER ECONOMICS

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Market Report	Yr Ago	4 Wks Ago	9/3/10
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$83.45	\$93.10	\$96.62
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	112.36	134.23	128.65
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	102.85	116.78	116.29
Choice Boxed Beef, 600-750 lb. Carcass.	142.83	150.84	163.12
Western Corn Belt Base Hog Price Carcass, Negotiated.	49.65	80.21	78.13
Feeder Pigs, National Direct 50 lbs, FOB.	32.00	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	55.02	90.87	91.78
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	91.13	132.50	141.75
National Carcass Lamb Cutout, FOB.	251.28	301.68	310.45
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.	3.74	5.40	5.85
Corn, No. 2, Yellow Omaha, bu.	3.03	3.63	4.10
Soybeans, No. 1, Yellow Omaha, bu.	9.25	10.44	10.25
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	4.75	6.34	7.27
Oats, No. 2, Heavy Minneapolis, MN, bu.	1.97	2.79	2.93
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	*	150.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	82.50	77.50	72.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	*	95.00	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	78.00	94.00	115.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	34.00	34.00	37.00
*No Market			

The market for agricultural real estate has historically been what observers call a “thin market,” in that very little is marketed and changes ownership at any given point in time. In fact, even when there is spirited buying interest and willingness to bid aggressively, the supply side of the market for agricultural land tends to be inelastic – in that the percentage change in quantity put on the market is much less than the percentage increase in bid prices.

Of course, this partially explains upward value trends to agricultural real estate over time. If potential buyers realize there is only a limited offering on the market at any given point in time, or that a particular land tract of interest may not be for sale for decades, then they will tend to bid more aggressively when the opportunity arises. Even when the income-earnings potential of agricultural real estate may be less than desirable at the time, buyers may still be willing to compete hard for an agricultural property, knowing that the *window-of-opportunity* to buy it is limited.

But just how thin is the market for agricultural real estate? Over many decades a general rule-of-thumb has been anywhere from three to five percent annual turnover of ownership. And given that a portion of that turnover rate is direct deed transfer and never on the open market, it’s likely that the three percent rate is a fairly realistic long-term average. In other words, a particular parcel of agricultural land may be on the market no more frequently than once every 33 years!

However, in recent years market observers have been telling us in annual surveys that market activity and ownership turnover has been even more limited. In following up on those observations, we accessed the file of all real estate transfers as maintained by the Nebraska Department of Revenue-Property Tax Division. (All transfers are required to file a transfer

statement in public record, so this file represents the entire universe.) From this file we assumed all real estate transactions of 40 acres or larger represented agricultural real estate of some form. We then summed those parcels over the years 2006-2008, by county, and divided the acreage totals by three to get an annual average. These were then divided by the total acreage of agricultural land in the county as measured by the 2007 Census of Agriculture, to arrive at county annual ownership turnover rates.

As clearly evident in Figure 1, the annual rates of ownership turnover have, indeed, been much more limited in recent years. In fact, for the state as a whole, the annual rate of 1.55 percent over this time period is basically **half** of the long-term average. And in many of the counties, the land turnover rate is one percent or less. There are a few counties, particularly in the western part of the state, where the rates of turnover have been higher; but a closer analysis of these counties suggest that was due largely to a few large acreage holdings that happened to change ownership during the 2006-2008 period, and not necessarily because of greater offerings on the market.

So what can we make of this? First, despite Nebraska's agricultural land values generally rising more than 60 percent over the past five years, most land owners have not been tempted to put their land on the market, implying that current owners (1) have preferred to retain ownership, and (2) obviously have the financial means to do so – i.e., there is virtually no evidence of forced sales activity in recent years.

Second, the limited sales activity has certainly created a more difficult situation to understand the market and to track land value trends, be it the private appraiser serving a client or county assessors trying to assign appropriate value for tax purposes. In turn, there is a greater degree of uncertainty for market participants to process. For example, even if a modest increase in agricultural land parcels were to come onto the market in a local area at one time, quite possibly the market dynamic would change rather abruptly in time, with some downward price adjustments occurring.

Finally, there is no doubt that ownership of agricultural land is almost universally seen by market participants in this part of the country as a long-term investment rather than a speculative one. In today's environment of extreme economic uncertainty, the ability to hold assets that have relatively more long-term grounding is considered quite desirable.

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