

# Which Way Will Land Values Go?



by Lloyd Miller

**F**armers, ranchers, investors and lenders in agriculture are cautiously awaiting a change in the direction of land values. During the decade of the '70s, land values increased many times. Then came 1980 with values at peak levels and very little land being offered for sale in many areas.

In late 1981 prices of corn and soybeans started sliding. In 1982 the slide became an avalanche and by the end of 1982, land prices in the Midwest were off as much as 20 to 30 percent from high levels. This was probably the most drastic decline in land values in 50 years. Farmers and lenders alike suffered. Their suffering continues.

Back-to-back drought years in 1982 and 1983 cut farm production. PIK, the federal grain program, cut it more. Farmers in the central Midwest found they were delayed from early spring plantings this year by the cool, wet weather. Estimates of 1984 crop production may be too early to call.

High interest rates have decimated farm profits, along with low market prices. Banks and other lending agencies are pressuring some farmers to liquidate, save as much equity as possible.

"It is hard to be optimistic about agriculture, but at the same time agriculture does not face the worst crisis of its history." This statement was made by Harold J. Breimyner, professor of agricultural economics at the University of Missouri-Columbia and reported in *The Drovers Journal* by Fred Knop.

Breimyner began his professional career during the depression years of the 1930s. In reviewing history he pointed out that the rate of farm liquidation now is not as bad as it was back then and there is not the degree of desperation among farmers which characterized those years.

"There is no doubt we have a very serious economic problem," said Breimyner. "What's happening more than anything else is that two or three years of asset deflation and high interest rates have wedged apart that portion of agriculture that's fairly well funded internally and that part that relies heavily on borrowed funds.

"If I sense it correctly," Breimyner continued, "the first year a part of agriculture was in trouble because of the changing agricultural picture. Everyone hoped it would disappear. The second year was a bit tougher. Now it seems to me 1984 is the year patience is beginning to run out . . . patience on the part of farmers and patience on the part of their lenders."

The well-known economist said it was untrue that the farmers who are in trouble are only the poor farmers. The farmers in trouble are those who are heavily dependent on borrowed capital, he pointed out. Breimyner was not critical of credit financing. "Who's to say borrowed capital is bad since we have

relied on it for 208 years of our existence," he emphasized. Borrowing money was the best way to make money in the 1970s, but he firmly believes that much of the farm problem can be attributed to high interest rates.

The caution light is on for those farmers and ranchers who have stayed in a strong financial position, but have become discouraged because they now feel owning land is not the most attractive place to have their money invested. Times always change and they shouldn't be victimized by the vast array of confusing statistics, uncertain crop reports, conflicting surveys by various agencies, and discouraging forecasts for the future of agriculture.

Land values of the future are going to be influenced by the growing world population and its ever demanding pressure for agricultural production. Somehow or other, as productive as our American farmers have been, their success has not been rewarded. Farm population is declining, and fewer and fewer people are feeding America and a large part of the world. This makes each acre, each farm and each farmer more important and more valuable.

There is quite a broad mix of the people who are among those offering farms and ranches for sale. There are older farmers and ranchers who want to retire. There are other farmers who have become discouraged and want to try something else. There are those who honestly feel it is time to convert their assets into a position of more liquidity.

And there are farmers who feel that operation losses have become too much to cope with. They don't want the hassle and personal stress so common to many connected with agribusiness today. Some of these are being encouraged by banks, federal lenders and private financing to sell as a way to clear up their obligations.

On the other side of the equation are the would-be buyers, those with a growing interest in the land now available. Prospective



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buyers often seem smarter—better informed generally about the economy—and they examine carefully all aspects of land buying opportunities, perhaps some of the best in 50 years.

Among them are the young, ambitious farmers who have their present land holdings pretty much paid for. They have machinery for their basic farm needs and want to expand by buying more land to keep their machinery busy. There also are some middle-aged and older farmers who recognize opportunities to expand at favorable prices. They own their land and are looking for good values.

There are a few large investors such as family trusts, insurance companies and other big money groupings that are looking at farm land as a long-term investment. Limited partnerships that deal mostly in large tracts pulled together by brokerage firms have some interest in agricultural land.

Some investor-type buyers will not take the lead during a turnaround in land buying. Real estate brokers know when farmers begin buying in numbers again, so will investors. That is especially true for major institutional buyers (who are barred from many states anyway). Some professional money managers who buy for institutions will wait until government figures confirm land is appreciating again. They know their clients judge them on short-term performance so they can't stand to live through a losing position very long.

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Land prices almost seem unpredictable in some areas. While economic pressures have pushed land prices downward as much as one-third from peak levels, farm land in some locations still sells about steady. There is a wide variation in productivity of farm land which, of course, affects its value. The land's availability for purchase by neighboring farmers is an important incentive.

Whether land prices have bottomed out depends greatly on the crops that will be produced this year and the prices paid for these crops as well as for livestock. Should farmers and ranchers who are still in a strong financial position decide to acquire some of the great buys in land, then the movement of farms to new owners will pick up momentum. Some land buyers now are starting to anticipate another round of inflation and land appreciation. They are expecting government spending to return the annual inflation rate to five percent or more during the remainder of the 80s.

The U.S. and worldwide recessions appear to be easing. While this does not mean prosperity is just around the corner, it does mean the threat of a deep, protracted depression has diminished. **AJ**