



Holding steady

Have you heard? Farmland values are climbing! Or are they? Are they simply holding steady at what has been for some time an elevated price range?

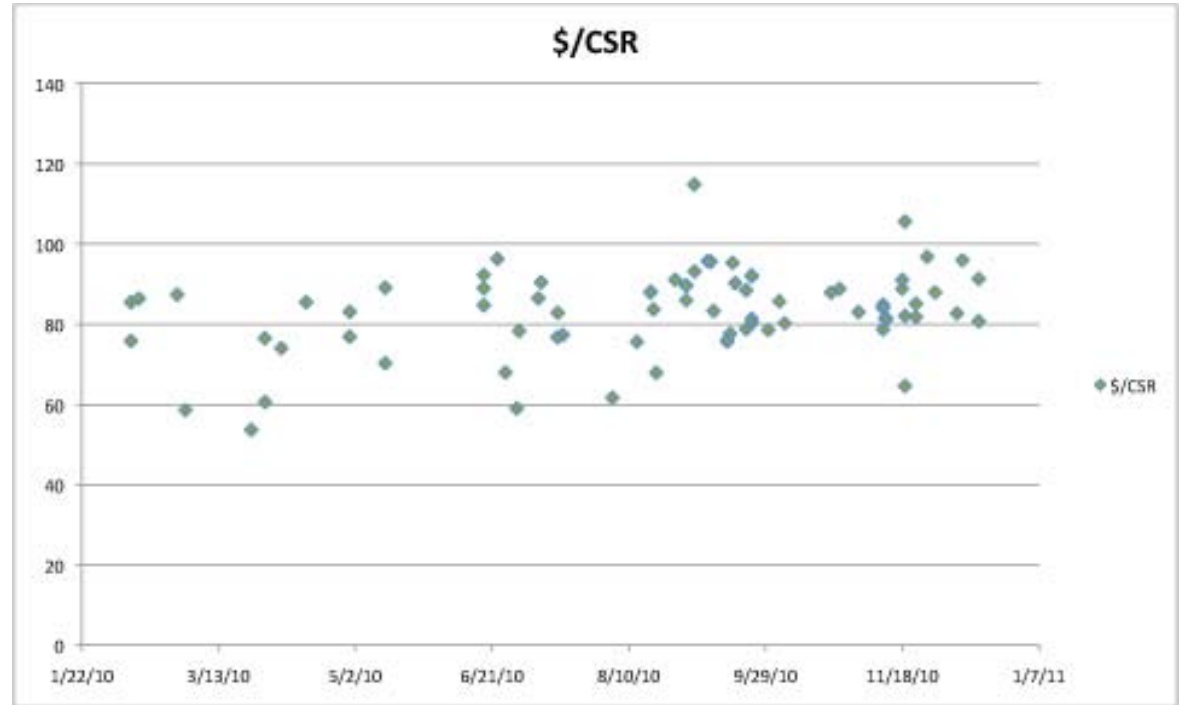
While many surveys over the last year gave the impression that land values started climbing this fall after grain markets ratcheted up, the attached chart, plotting North Iowa farm sales over the last year by the price per CSR rating, clearly shows that most of the increase had already happened by last winter. Turns out the buyers at the first of the year weren't wrong. They were early. Apparently, most of the farmland survey respondents this past year have been just like me. I wanted a whole year of results to convince me these high levels weren't just a flash in the pan.

If you remember this newsletter from December of 2009, you're already aware of my fascination with the parabolic curve. There is little doubt farmland is in a parabolic curve. Iowa's average farmland value has increased an average \$650/acre/year if you throw out the outlier year of 2009.

The debate is not whether we are in a bubble. We are. The debate is how much bigger the bubble will get before it bursts and how long it will take to get there. We're still climbing the "wall of worry" which usually means we aren't at the peak.

Evidence of the "wall of worry" is as follows:

1. The headline in the September 24, 2010 Wall Street Journal read, "Farmland – The Next Boom?" with the subheading – "Is farmland going to be the next gold?"
2. Federal Deposit Insurance Corporation Chairman, Sheila Bair, spoke October 18, 2010 at a meeting of the Risk Management Association about asset price bubbles. She specifically singled out farmland.
3. Tom Hoenig, President of the Federal Reserve Bank of Kansas City, told the North American Agricultural Lenders' Conference in Omaha on November 8th that, while he was



not predicting a farmland "bubble", he thought "conditions are ripe" for such a bubble to occur.

4. On December 5, 2010, the Des Moines Sunday Register had a full page article under the eye catching headline, "Why farmland is Skyrocketing".
5. On December 8, 2010, Iowa Public Radio had a feature titled, "Are we facing a farmland bubble?"

Doesn't sound yet like the scenario where everybody who is anybody knows that the farmland market can only go one direction – up. The shoe shine boys aren't buying into farmland syndicates just yet.

Iowa State University just released its annual farmland survey. According to the survey, the farmland in the North Central Iowa crop reporting district went up 19.0% from November 1, 2009 to November 1, 2010. I had indicated an increase of 15% when I filled out my survey. We usually agree with ISU survey results for the crop reporting district, but not so much when it comes to the county figures.

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County numbers can be deceiving

I have told Mike Duffy at Iowa State a few years ago that I wish they didn't publish the changes broken down by county. I see the county averages misused by ethically challenged buyers or misapplied by uninformed absentee owners.

Every California granddaughter who has inherited an Iowa farm automatically assumes the value of her farm is above average for the county. Grandpa wouldn't have owned a below average farm. Unfortunately, all too often, our job starts by convincing half of these folks that their farm is not above average.

Then, there are those folks who are hoping to buy an above average farm from their out-of-state cousin at the county average price. They are delighted to cite the highly regarded Iowa State University annual farmland survey.

Another item of note from the ISU survey is the results of the spread of investor buyers vs. producer buyers. The ISU survey said 70% of the farmland buyers are farmers and 25% are investors. That is more based on opinion than fact. At least, that isn't the case for North Central Iowa. That might be closer to true if even the transactions that were never really on the market are included, e.g. the sales within families or from the landlord to the tenant.

We've used our actual sales database to scratch a little deeper below the surface. Our records based on confirmed sales of properties that were actually on the open market indicate that almost 50% of the buyers during 2010 were NOT people who will farm the farm themselves.

Tell me what factors are driving the investors' decisions, and I'll tell you what clues to watch to forecast where the land values are going. Increases in mortgage rates won't necessarily hurt the values. If the rates are going up due to inflationary fears, the land values might not change because that means the investors who were motivated to buy hard assets as a hedge against inflation are vindicated.

When the price is high, they want more

I can't close this issue without sharing my two cents worth about the "super sale" in Sioux County. Coincidentally, I've been working near and following the market within a few miles of the \$13,950/acre sale on November 8, 2010. That sale price was equal to \$202/CSR. During the 75 days prior to November 8th,

there had been eleven sales (all auctions but two) within a 15 mile radius that had sold within a range of \$121 - \$156/CSR. Just a few days ago (since the "super sale" happened), there has been another auction that brought \$173 /CSR.

Real estate and stocks are interesting investment vehicles. The reactions to price changes for stocks and real estate are just the opposite of the response to price changes for corn-fed steaks and gas for your car. The typical buyer will buy less gas and fewer steaks when the price goes up. The higher the prices go for stocks and real estate, the more buyers seem to want.

One of my farm loan officer colleagues at a North Iowa bank had a very interesting observation recently. Paying five figure prices for Iowa farmland isn't that much different than buying collectible items, where people have recently paid as much \$37,000+ for Lee Harvey Oswald's coffin or \$2,200,000 for the only flag to survive Custer's Last Stand. If you really want it and you can afford it, who's to say you can't or shouldn't.



Piece of the past?

I recently found this "mortgage calculator" wheel in the back of a desk drawer where it's been hiding for at least 15 years. Note that the lowest interest rate on the wheel is 5%. Apparently, the designer of the gadget didn't remotely anticipate the series of events that have existed for most of the time since Y2K.

*We wish all of you a Wonderful Holiday Season
& Prosperous New Year,
and we thank you for your business!* 