

# Iowa Farmland- Tracking the Pulse

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If one were to try and take the actual “pulse” of the land market right now, an accurate count would be dependent on first defining what that means in light of both the quality of available farms, as well as their location.

It seems those working to take this “pulse” may want to invest in a crystal ball instead of a heart rate monitor as that’s what would likely be required to see where land prices are and be able to consistently estimate a sales price for a parcel of land currently on the market or an upcoming auction.

There are several variables affecting the farmland market right now. Some are bearish; some bullish. At the same time, considering a “teeter-totter” effect, there are strong arguments that the bearish factors would outweigh the bullish right now.

The quantifiable characteristics of farmland include its CSR, proven yield data, drainage, and soil types. The understanding of these characteristics, and how they relate to both short and long-term goals for or use of land, allow for greater consistency in comparing for shopping for a farm.

The non-quantifiable characteristics of farmland are location, available 1031 exchange money, gauging of investor interest and, of course, overall desirability by the local landowners. These can make a difference in terms of performance in either a great, average, or poor sale of a parcel of land.

One example highlighting the difference between these characteristics was the recent sale of a highly productive 70-acre tract of Iowa farmland near the Boone-Story county line. The land, with a Corn Suitability Rating (CSR) of 82.3, sold at a Peoples Company Land Auction.

“We hope the Fire Marshall doesn’t drive by,” someone joked for fear that the auction may be shut down as more than 100 investors, farmers, bankers, real estate professionals and onlookers had managed to squeeze their way into the community center.

[Land Agent Matt Adams](#) said no fire broke out, and the risk of being reprimanded by the Fire Marshall was avoided. The auction concluded with a satisfactory sold price of \$10,900 per acre. “I always get a tad anxious before our auctions because of the uncertainty of how the bidding will go,” Adams said. “We were convinced and had consulted with the seller of the farm to expect a possible sales price between \$8,750 and \$9,500 per acre.”

Another recent auction in Story County near Zearing, Iowa, featured a total of 360 acres for sale and with a respectable CSR in the low 70s. In this example, the auction rang up as a “no sale.” Though these farms are each located in the same county and both have productive soil types, the farm near Slater would be classified as an “A-quality” farm, while the farm near Zearing would be considered a “B-quality” farm. The differences between one being an “A” quality farm and the other being a “B” quality farm could be determined by looking at a farm’s soil types, drainage, and the location; particularly whether it is an area that attracts farmer and investor interest.

The point is that the value of an “A-quality” farm in an “A-quality” area is expected to remain strong with only a slight discount – if any – from the prices they had commanded in the past few years. On the other hand, the value of a “B-quality” farm in an “A-quality” area will suffer and will have less interest from buyers. There are several examples of land sales that show the deviation between farms that may look similar on paper, yet result in very different outcomes.

Many conversations taking place right now in agricultural real estate tend to gravitate toward what land values are doing, where they are going, and the factors that affect them. A spreadsheet isn’t required to conclude that farm profitability will be less in the short term than what it has been during the past several years.

Even with a restorative extension of Section 179 bonus depreciation back to December 31, 2014 – potentially benefiting those who had made capital investments last year – there are fewer dollars flowing into today’s purchases of new equipment, machine shops and buildings, and grain bins.

Unfortunately, the drop in grain farming and forecasted markets has the potential to make a few examples out of farming operations that didn’t have as strong of a balance sheet as others.

It’s hard to believe that – approximately one year ago – debt-to-asset ratios were at or close to an all-time low. Now, with commodity prices dropping, it would be expected that some of that equity gained would be given back.

The ability to purchase the lion’s share of the farms still belongs by and large to the farmers. Though many feel that will continue – especially given that nearly 80 percent of the land in Iowa is owned free and clear without a mortgage – there are also institutional investors and high-net-worth individuals who will continue to play a larger role in the acquisition of farmland.

These buyers have always had an appetite for farmland, but have been more-often-than-not been outbid by the farmer the last few years. The benefit of more investors entering the market is that they can serve as a “checks-and-balance” with the majority requiring a consistent rate of return. The investor-buyer is also more apt to purchase more with their heads and less with their hearts.

That means the investor will rely on the farm or the farm tenant to provide a certain rate of return.

This variation and uncertainty in land values is one of the more difficult tasks – and also one of the greater opportunities – for land brokerage professionals to differentiate themselves. Being able to capitalize on those “A-quality” areas and execute on alternative options to get results in “B-quality” areas a reason why landowners should seek the highest-quality real estate agent.

“When a client is asking you to provide them with a value and marketing plan for their property, they are going to use [the information we give](#) them to make large financial decisions, and it adds a level of sincerity,” Adams said. “The Peoples Company team has always felt as though we can deliver maximum results in any given market, but even more so in a less-aggressive land market.

“In the past few years, it appeared as if anybody with a pulse could have taken advantage of a hot land market to sell farmland. Today, a much more aggressive marketing style and creative approaches, such as sale-leasebacks and IRA purchases, are required to get things sold.”

If you are considering the acquisition, liquidation, or management of your farm or land; [contact Matt Adams](#) with Peoples Company for a confidential consultation. Learn more about the aforementioned aggressive marketing strategy and creative approaches to helping you accomplish your farm and land ownership goals.