

# Predicting Land Prices

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## PREDICTING LAND PRICES

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As a real estate agent, I get asked nearly every day about land prices. The most common question farmers ask is: Why are land prices staying strong when profits in production agriculture have been hard to come by. Even some economists have predicted a much larger correction to the land market than we have seen. It reminds me of the Chinese trade deal. We keep hearing that it's going to happen, but it never seems to materialize. There are several reasons why land prices are staying healthy, and I will explain a few of them.

The first answer is old money. What does that mean? It means that there are farmers in every neighborhood that have cash setting in investment accounts or CDs at the bank. Their land base is paid for, and farming is what they love. Will they buy an average farm five miles down the road? Probably not. They will, however, buy the top-quality farm that borders them even though it doesn't look like a smart financial move. Why would anyone do that? The answer is simple because they can.

The second is urban sprawl. Many of the investors we sell to have well-located properties in the path of development. Their game plan is to sell their existing farms into development situations and then buy land further out and repeat the process. When they sell a farm for \$20,000 an acre and repurchase twice as many acres for \$10,000 an acre using a 1031 exchange, it looks like a deal.

The third is a strong nonfarm economy. When people have extra money, or think they have extra money, they more than likely purchase the items on their dream list. For some, it is building a house in the country with room for horses. For others, it is having a place of their own to hunt, fish, and ride 4-wheelers. Both the acreage market and the recreational market are as strong as they have ever been. What used to be poor pasture ground is now sometimes selling for more than the adjoining crop ground.

The last factor is investors. At present, they seem to have a lot of money on the sidelines waiting for deals. They are not foolish with their money and are only interested in projects that make a good return. Most of the investors we deal with want a 4+ percent return and hope that appreciation will add another 2 to 4 percent when a stronger farm economy returns. Most of the farms selling today have less than 4% return, but these buyers put a floor to the current market as long as rents hold where they currently are.

Predicting land prices is tough these days. You have to know your market, know the neighbors, understand the buyer pool, and understand the acreage and hunting market. A great agent is on top of the marketplace and is worth his weight in gold.

For more information about land prices in your area, feel free to reach out to a [Peoples Company real estate professional](#).