Land Values Still Strong but Early Signs Indicate Possible Slump in Future

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Is COVID-19 impacting land sales and values? That is the question on everyone’s mind. It is always important to remember when we measure the market through an appraisal, it is based upon past land sales. In many ways, it is like driving a car trying to figure out where we are going by looking in the rear-view mirror. The ag market, unlike the residential market, moves at a much slower pace with most sales occurring after harvest and before spring planting.

Despite relatively low commodity prices for most ag products in 2019, many areas indicated a slight increase overall in ag land values in 2019. Recent reports in both Nebraska and Indiana reported upticks overall, with Nebraska up 3% and Indiana up 4.5%.

It is important to remember that the ag land market is made up of different quality layers of land based upon soil productivity, utility, and drainage. The market recognizes different forces and values. This is very much like how lunch meat, hamburger, and steak are all meat, but the market recognizes a different value for each.

Early signs indicate that the land market is being pulled in two different directions. With the retraction of the stock market after a strong ten-year run and continued volatility, many investors who experienced a “haircut” have pulled out of the stock market and are reluctant to return until it settles. They are looking for alternative investments and have turned to investing in top quality cropland, a relatively safe investment yielding 4-5% income return. Increased demand typically drives value, and thus, equity investors are seeing that increased demand and expect the value to remain strong if not modestly increase.

Average or marginal cropland is going in a downward direction for two reasons. First, these markets are based upon local lending from banks and other sources. Due to the lockdown, many offices were closed and lenders were forced to work from home offices. This created a log jam from the application process, to the appraisal, to the dispersion of funding. The lockdown also impacted marketing as realtors and auctioneers were restricted to online advertising and sales. Although the market has trended more to online services, a portion of the market still desires the hands-on approach and have been shut out.

Finally, COVID-19 is not localized but a global phenomenon, as pointed out by Todd H. Kuethe, Purdue associate professor, and the Schrader Endowed Chair in Farmland Economics. “Given the disruptions across the food value chain and deep economic uncertainty, it is difficult to posit what the next year has in store for the Indiana farmland market,” he said. “The COVID-19 pandemic is a global phenomenon that will likely continue to disrupt trade patterns and income flows around the world. Everyone is hoping for a quick economic recovery, but the degree to which COVID-19 will impact land values is yet to be seen.”

With no end of COVID-19 in sight, it is reasonable to expect the current trends to continue through the end of 2020, at which time we can once again look in the mirror and measure the market.

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