

This is Your Grandfather's Land Market

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The best predictor of where the land market is going can be found in the grain market. In the past, I would say that there was a three to six-month lag from a new rally in corn and soybeans to when one would see higher farmland prices. Now the lag is much shorter, but the correlation between the revenue component, and land prices, is stronger.

I used to study and forecast grain prices for a living, first working for a large pet food company, then for a commodity trading group in Chicago. Last fall we witnessed a highest probability grain trade that has triggered a large move in the land market. Due to the unusual events of the Derecho storm coupled with regional drought conditions in the Midwest, like many of you, I did not believe that the USDA Crop Report issued in August reflected the impact of these two events. We all knew enough people that were still cutting up trees that landed on their house, or sickened by the sight of fields flattened by the storm, to know that the corn and soybean balance sheets would tighten in subsequent Crop Reports. The impetus is different each year (1993 it was large scale flooding, in 1995 it was a massive drought in China), but we knew from past studies that if the September, October, and November Crop Reports show consecutive reductions in ending

stocks, commodity prices would continue to rally from September into the next year; and land prices would follow. The highs for those three years landed in January, May, and June of the following years. Now that we are in March of the “following year,” the events of last fall are behind us, and we focus on the current fundamentals. Since ending stocks are very tight in both corn and soybeans, it is unlikely for the markets to move significantly to the downside until we are assured good crops in the U.S.

The impact on the land market is obvious – a strong move in corn and soybean prices will turn the land market in a similar direction. Fortunately, there is some inherent optimism in the land market. Looking at Iowa State’s average farmland price series since 1950, here are a few interesting observations:

1. On average, when land prices turn down, they go down for 2.2 years.
2. When land prices turn higher, they continue to go higher for 8.5 years (2021 is year three of the current trend).
3. The average annual change (including all years) in land values is a positive 5.8% per year.

Individuals at Peoples Company were looking at this grain market last fall, and also historically low interest rates, and concluded early that farmland prices were ready to pop. Their expertise is helping farmers and investors like me to acquire land and take advantage of this unique opportunity. Since the factors of tight stocks, high grain prices, and low interest rates are still very much driving this market, my opinion is that there is still time to capitalize on this trend higher if interested. Those of you who plan to liquidate land expect a ready pool of buyers over the next two to three years. Peoples Company has the tools and buyer network to help you maximize your future land sale.