

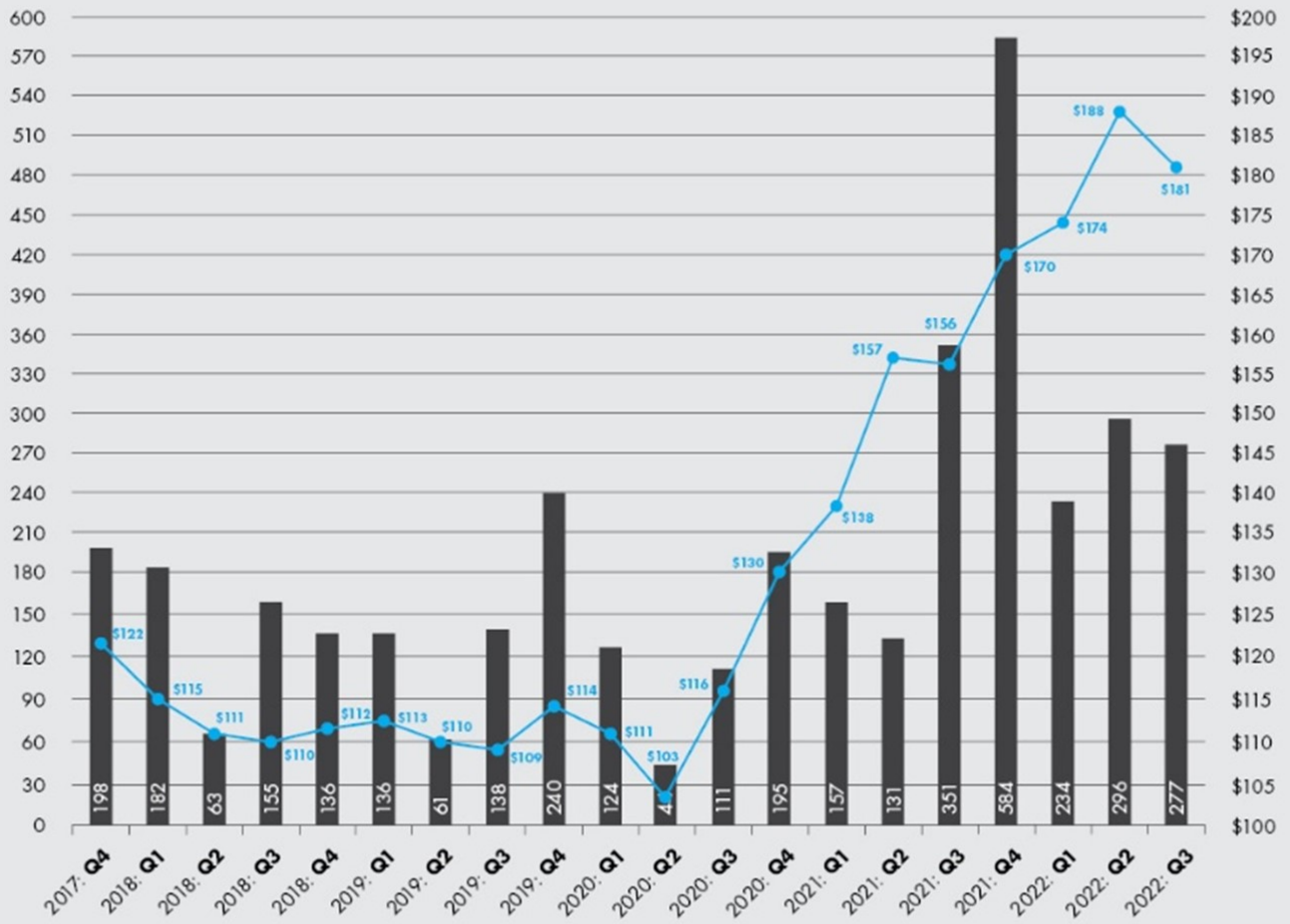
Record High Prices: Do they tell the full story?

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Over the past year, we've seen some historically high auction sales of cropland in Iowa. Multiple farms have brought over \$26,000 per acre, bringing sticker shock to many who have been in the agricultural land market for years. In our latest Quarterly Update, the Appraisal Department at Peoples Company reported that the average dollar per CSR2 point for Quarter 3 2022 was \$181 (see the chart below) – which would mean that a 90-CSR2 farm would have averaged \$16,290/acre in Q3. Five years ago, in Q3 2017, the average dollar per CSR2 was \$120, which would mean that same 90-CSR2 farm would have conceptually brought \$10,800/acre. It can be hard to come to terms with paying those kinds of prices for a farm, especially when the increase has been so drastic.

QUANTITY OF AUCTIONS & AVERAGE DOLLAR (\$) / CSR2



*\$/CSR2 is calculated as follows: Sale Price/Tillable Acres/CSR2 Rating

*This dataset includes tillable farms that sold at public auction and are 85% tillable row crop acres or greater.

■ # OF AUCTIONS
● \$/CSR2

However, it's important to remember that these large spikes in the averages over the past few quarters are just that: averages. High prices are balanced by lower prices. Not all farms we see sell at the auction block are bringing these record-breaking sale prices. Our team tracked over 40 cropland sales with at least 85% tillable land this past quarter that sold under \$10,000/acre (the lowest for the Quarter sold for \$5,600/acre or \$115/CSR2. It was an Adams County cropland farm with a CSR2 of 54.2)

Discrepancies in prices at auction can be due to many factors:

- **Soil Productivity:** Higher CSR2 on a farm tends to bring higher prices than those with lower CSR2.
- **Farming ease:** A flat farm with minimal areas of wasteland or waterways are generally more desirable and can bring a premium compared to a farm with irregularly shaped fields, rolling slopes, terraces and/or large areas of wasteland.
- **Competition:** If two neighboring farmers each want the subject farm so they can take out a fence and expand their own adjoining field, the competition between the two will most often raise the price of the farm. Competition can also happen when an investor is looking to diversify their portfolio or has 1031 exchange money with a deadline they must meet. The investor bidding against a local farmer often increases the price on the farm.
- **Marketing:** How well an auction was marketed affects how many people know about the auction, are able to secure financing in time, and can attend the bidding. Some agricultural auctions are solely marketed in local papers, where an investor from another area may not see it. Other auctions are widely marketed online, on social media, in local papers, etc., and give the potential buyers enough

lead time to put together the best plan to purchase the farm if they so desire.

- **Location:** A farm next to a growing metropolitan area is more likely to attract a variety of different potential buyers, some of which may plan to convert the cropland to commercial or residential areas in the future. This creates a higher demand for the property, increasing the sale price.

Reviewing all these factors and comparing them against the farm you may be looking to sell or purchase can give you a more well-rounded view of what the subject property might sell for. It's also helpful to deepen your market knowledge by following auctions in your area, reviewing data such as the chart above, and talking to a real estate expert such as an agent at Peoples Company.

Remember: Not every farm is going to sell for \$20,000+/acre, and these record-high prices may not last long-term. Anything can happen on sale day, and it's impossible to predict what the farm will sell for until the auction gavel drops. But, by talking to professionals and knowing your market, you'll be more prepared for whatever sale price that farm brings.