Operating with Today’s Land Values

Prepared by:
T. Lemmons & A. Vyhnałeł
Adapted from:
B. Johnson. (2012). Nebraska Farm Real Estate Market Report. UNL Extension

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Outline for today:
 Current trends in land values
 How we got here
 Specifics about land values in each part of the state
 When is this ‘up trend’ over? What to look for……

Audience Response Cards
 Reply is anonymous
 Please don’t take them home!
 Goal is to increase audience participation
Who is in the Audience?
1. Landowner
2. Tenant
3. Landowner (also a tenant)
4. Ag professional

The land that you work with is:
1. Mostly Crops
2. Mostly Pasture
3. Don’t have land, but interested in topic

Our operation works with about:
1. Less than 200 acres
2. 200 – 640 acres
3. 641 to 2000 acres
4. 2001 acres and higher
In your neighborhood land values are?

1. Highest ever and still rising
2. High but now steady
3. High but declining
4. Actually have started to fall
1973-'80 vs. 2006 to now

- Export driven
  - Corn and wheat
- Interest Rates
  - Historic Highs
- Inflation – High
- Financing of land
  - Very little cash used
  - Ended when – exports

- Ethanol driven
  - Corn and soybeans
- Interest rates
  - Historic Lows
- Inflation – low to moderate
- Financing of land
  - High amount of equity
  - Ends when???

Which of these factors is most important (your opinion)

1. Ethanol Driven (higher corn prices)
2. Interest Rates
3. Inflation Rates
4. Financing of Ag Sector

When does the Up trend for land values end?

1. By this summer
2. By end of 2013
3. By mid-2014
4. It never ends
5. When there are losses in corn/beans
2012 Values and Recent Trends by Land Class in Nebraska

<table>
<thead>
<tr>
<th>Land Class</th>
<th>2012 Average</th>
<th>1 year Change</th>
<th>5 year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dryland Cropland</td>
<td>2485</td>
<td>34</td>
<td>72</td>
</tr>
<tr>
<td>Irrigated Potential</td>
<td>4555</td>
<td>36</td>
<td>81</td>
</tr>
<tr>
<td>Grassland Tilled</td>
<td>1010</td>
<td>27</td>
<td>56</td>
</tr>
<tr>
<td>Non-Tilled</td>
<td>385</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>Hayland</td>
<td>1245</td>
<td>27</td>
<td>51</td>
</tr>
<tr>
<td>Irrigated Cropland</td>
<td>5085</td>
<td>32</td>
<td>73</td>
</tr>
<tr>
<td>Cerel Cultiv.</td>
<td>5085</td>
<td>34</td>
<td>77</td>
</tr>
<tr>
<td>All Land</td>
<td>2422</td>
<td>32</td>
<td>69</td>
</tr>
</tbody>
</table>

*Source: Annual, Iowa, Nebraska Farm Real Estate Market Surveys.

*Value of pivot not included in per acre value.
### 2011-2012 Values and Recent Trends

<table>
<thead>
<tr>
<th>Agricultural Statistics District</th>
<th>2011/2012 All-Land Average Value</th>
<th>2010-2011 % Change</th>
<th>2011-2012 % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars/Acre</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northwest</td>
<td>520/642</td>
<td>12.3</td>
<td>23</td>
</tr>
<tr>
<td>North</td>
<td>706/855</td>
<td>18.1</td>
<td>21</td>
</tr>
<tr>
<td>Northeast</td>
<td>3634/4908</td>
<td>25.1</td>
<td>35</td>
</tr>
<tr>
<td>Central</td>
<td>2183/2925</td>
<td>24.9</td>
<td>34</td>
</tr>
<tr>
<td>East</td>
<td>4625/6012</td>
<td>22.9</td>
<td>31</td>
</tr>
<tr>
<td>Southwest</td>
<td>991/1327</td>
<td>13.9</td>
<td>34</td>
</tr>
<tr>
<td>South</td>
<td>2535/3352</td>
<td>24.9</td>
<td>32</td>
</tr>
<tr>
<td>Southeast</td>
<td>3160/4293</td>
<td>21.7</td>
<td>36</td>
</tr>
<tr>
<td>Entire State</td>
<td>1833/2410</td>
<td>22.0</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Annual UNL Nebraska Farm Real Estate Market Surveys, 2011-2012 values

### 2012 Values and Recent Trends by Area of the State

<table>
<thead>
<tr>
<th>Agricultural Statistics District</th>
<th>2012 All-Land Average Value</th>
<th>1 year Change</th>
<th>5 year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars/Acre</td>
<td>Percent Change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northwest</td>
<td>635</td>
<td>22</td>
<td>64</td>
</tr>
<tr>
<td>North</td>
<td>875</td>
<td>24</td>
<td>45</td>
</tr>
<tr>
<td>Northeast</td>
<td>4975</td>
<td>24</td>
<td>45</td>
</tr>
<tr>
<td>Central</td>
<td>9285</td>
<td>35</td>
<td>73</td>
</tr>
<tr>
<td>East</td>
<td>5680</td>
<td>31</td>
<td>73</td>
</tr>
<tr>
<td>Southwest</td>
<td>1325</td>
<td>35</td>
<td>73</td>
</tr>
<tr>
<td>South</td>
<td>2235</td>
<td>32</td>
<td>70</td>
</tr>
<tr>
<td>Southeast</td>
<td>4280</td>
<td>35</td>
<td>71</td>
</tr>
<tr>
<td>Entire State</td>
<td>2425</td>
<td>32</td>
<td>69</td>
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*Source: Annual UNL Nebraska Farm Real Estate Market Surveys. Note 5/6/5 and grass country

University of Nebraska–Lincoln
Perfect storm for land value increase

- Availability of Money – profits from farming
- Low interest rates
- Lack of land for sale
- Declining net annual returns on the value of the land investment (but better than alternatives!)

Corn – Cash Nearby Futures Contract

- $1.82 – Oct. 2005
- $7.46
- $5.67
- $14.74
- $12.96
- $17.87 – Aug 2012
- $5.11 – August 2006
Nebraska Farm Income

<table>
<thead>
<tr>
<th>Key Measures</th>
<th>10 Years ago (2001)</th>
<th>Estimated 2011</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash Receipts from Farm Marketing</td>
<td>10.4 Billion</td>
<td>25.6 Billion</td>
<td>142%</td>
</tr>
<tr>
<td>Total Cash Receipts from Crops</td>
<td>5.5 Billion</td>
<td>12.9 Billion</td>
<td>138%</td>
</tr>
<tr>
<td>Total Cash Receipts from Livestock</td>
<td>5.9 Billion</td>
<td>9.2 Billion</td>
<td>55%</td>
</tr>
<tr>
<td>Net Farm Income</td>
<td>1.9 Billion</td>
<td>7.46 Billion</td>
<td>284%</td>
</tr>
<tr>
<td>Direct Government Payments</td>
<td>1.3 Billion</td>
<td>0.4 Billion</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source - NASS/USDA, 8/2012

Net Farm Income

Source - NASS/USDA, 8/2012
For 2012 – your operation:

1. Highest Net Farm Income ever
2. Second Highest Net Income to 2011
3. In the top ten
4. Not the best year

Annual Percentage of Agricultural Land Sold in Nebraska (1/10/11-6/31/11)

Percent Land Sold by County - 2011
Do you agree that in the past 3-4 years – there has been a lack of land for sale?

1. Yes
2. No
3. I haven’t paid attention

Strength of Ag Sector

2012 Balance Sheet for the U.S. Farming Sector

- Total Farm Assets: $2.47 trillion
- Total Farm Debt: $254.1 billion
- Total Farm Equity: $2.22 trillion
- Debt-to-Equity Ratio: 8.7
- Debt-to-Asset Ratio: 9.7

Source: ERS – USDA 2/2012

Source: Economic Research Service, USDA
The Debt to Equity ratio has improved over the last 5 years on our operation?

1. Yes
2. No
3. I don’t know but will be finding out

Land Values determined by Supply and Demand

- **Demand:**
  - Cash available
  - Perceived lack of Alternative Investment
  - Low Interest Rates
  - Fairly low inflation
  - Low value of dollar – supports exports of ag commodities

- **Supply:**
  - Lower Percentage of land on market vs. history
  - Perception: “They don’t make land anymore”

Land Summary

- State-wide – 51% of land purchases, with cash
- At Historic Highs
- Global demand for food
- Still going up? At Peak? or Declining? Depends on your local market demand
- BE CAUTIOUS!
  - Here are some thoughts……………
Be Cautious - thoughts

- Watch debt structure
  - Cash is king – retain plenty of working capital
  - The tendency is to pay down long-term debt
    - Since LT interest is currently higher than ST interest
- Watch your financial leverage position
- Use accrual accounting

Be Cautious – thoughts – continued...

- Utilize Risk Management
  - Insurance – good
  - Marketing – be careful!!!
- Be a low cost producer
  - Review all expenses
  - Eliminate expenses that are not necessary

Summary

- Land Prices at Historic Highs
- The economics of this ‘high’ is different than 1980
- Land prices ‘soften’ when profit goes from corn and beans
- Be informed and use good management!

Leave Clickers here! Thanks!
Current Land Values & Cash Rental Rates

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