

PURDUE AGRICULTURAL ECONOMICS REPORT

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Indiana Land Values Surge!

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Statewide, values of average Indiana cropland increased by 14.2% in the year ending in June 1996, nearly double the 7.4% increase a year ago. According to the Purdue land values survey, this is the ninth consecutive year of increasing Indiana land values. Increases of around 35% were registered in both the first and last third of this 9 year period. There was a lull in the upward trend during the middle 3 years with only a 7% increase over the period. For the entire 9 years, going back to the low level of 1987, statewide top and average cropland values have gained over 90% and poor land has doubled. Even so, 1996 land values are still about 15% below the record levels of 1981.

The number of farmland transfers in the 6 months ending in June compared to a year earlier was estimated to be up by 34% of the respondents versus 31% last year. More land was thought to be on the market now by 16% of the respondents versus 12% a year ago. Land brokers report difficulty in finding top quality land for sale in some areas.

Statewide Land Prices

For the *six months* ending in June 1996, the value of top and average land was reported to have increased 5.2%, and 4.8% for poor quality land (Table 1). Most respondents (78%) reported that some or all classes of land went up from December 1995 to

June 1996, compared to two-thirds last year. Only 6 responses indicated that some or all classes of land fell during that period.

The statewide *12 month* increase in average cropland from June 1995 to 1996 was 14.2% (Table 2). Top quality land (149 bushel corn yield

Table 1. Average estimated Indiana land value per acre (tillable, bare land) and percentage change by geographic area and land class, selected time periods, Purdue Land Values Survey, July 1996.

Area	Class	Corn bu/A	Dec. 1995 \$	June 1996 \$	Change 12/95-6/96 %	Projected	
						Dec. 1996 \$	Change 6/96-12/96 %
North	Top	149	2154	2250	4.5	2291	1.8
	Average	118	1562	1626	4.1	1659	2.0
	Poor	88	1095	1155	5.5	1180	2.2
Northeast	Top	148	2026	2117	4.5	2138	1.0
	Average	118	1537	1586	3.2	1601	0.9
	Poor	91	1173	1206	2.8	1211	0.4
W. Central	Top	154	2367	2496	5.4	2577	3.2
	Average	127	1867	1993	6.7	2064	3.6
	Poor	98	1383	1457	5.4	1508	3.5
Central	Top	153	2462	2614	6.2	2689	2.9
	Average	128	2036	2155	5.8	2211	2.6
	Poor	102	1601	1679	4.9	1733	3.2
Southwest	Top	156	2098	2216	5.6	2251	1.6
	Average	122	1524	1611	5.7	1647	2.2
	Poor	91	971	1020	5.0	1033	1.3
Southeast	Top	133	1595	1671	4.8	1714	2.6
	Average	110	1302	1366	4.9	1394	2.0
	Poor	86	1029	1081	5.1	1098	1.6
Indiana	Top	149	2161	2274	5.2	2326	2.3
	Average	121	1677	1765	5.2	1807	2.4
	Poor	93	1243	1303	4.8	1332	2.2
	Trans. ¹		4150	4437	6.9	4638	4.5

¹ Land moving out of agriculture

rating) was estimated to have increased by \$245 per acre to \$2274. Average land (121 bushel corn yield rating) was valued at \$1765 while the 93 bushel poor land was estimated to be worth \$1303 per acre, up more than 18% for the year. In spite of this big increase in poor land, it remains 15% below the 1981 peak, the same as top land.

The land value per bushel of corn yield rating also increased substantially. For top quality land, value per bushel of yield was \$15.26, up by 13.5%. Average quality land value was \$14.59 per bushel, while the poor quality value was \$14.01 per bushel (Table 3). The percentage increase of 18.5 on poor land was noticeably higher than on average and top land. These per-bushel figures are \$1.82 higher than last year on top land, \$1.93 higher on average land, and \$2.19 higher on poor land.

The value of transition land moving into non-farm uses increased less than 1% in the 1-year period ending in June to over \$4437 per acre compared to an increase of 10.7% last year (Table 2). Estimates for transition land vary widely from county to county and even within

Table 2. June 1995 and June 1996 average estimated Indiana land value (tillable, bare land) and percentage change by geographic area and land class, Purdue Land Values Survey, July, 1996.

Area	Class	Land Value		
		June 1995 \$	June 1996 \$	Change 6/95-6/96 %
North	Top	2062	2250	9.1
	Average	1484	1626	9.6
	Poor	993	1155	16.3
Northeast	Top	1828	2117	15.8
	Average	1389	1586	14.2
	Poor	1005	1206	20.0
W. Central	Top	2252	2496	10.8
	Average	1723	1993	15.7
	Poor	1249	1457	16.7
Central	Top	2250	2614	16.2
	Average	1856	2155	16.1
	Poor	1395	1679	20.4
Southwest	Top	2018	2216	9.8
	Average	1433	1611	12.4
	Poor	926	1020	10.2
Southeast	Top	1518	1671	10.1
	Average	1139	1366	19.9
	Poor	837	1081	29.2
Indiana	Top	2029	2274	12.1
	Average	1545	1765	14.2
	Poor	1099	1303	18.6
	Trans. ²	4420	4437	0.4

² Land moving out of agriculture

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Figure 1. Estimated Indiana Land Value and Cash Rent, Average Land, 1975-1996, Purdue Land Values Survey

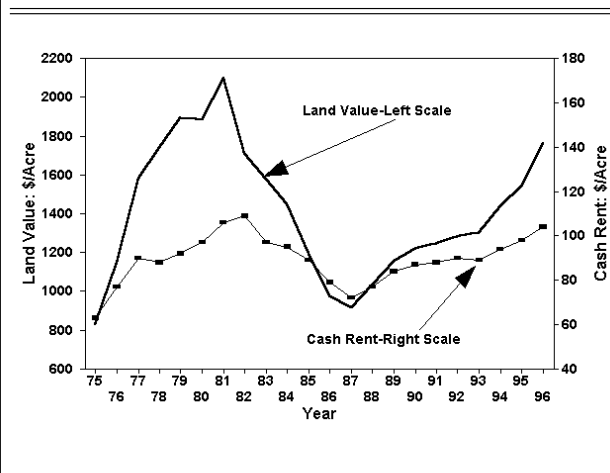


Table 3. Indiana land value per bushel of estimated corn yield, Purdue Land Values Survey, July 1996.

Area	Land Class								
	Top			Average			Poor		
	1995	1996	% Change	1995	1996	% Change	1995	1996	% Change
North	\$13.75	\$15.10	9.8	\$12.47	\$13.78	10.5	\$11.03	\$13.13	19.0
Northeast	12.44	14.30	15.0	11.77	13.44	14.2	11.04	13.25	20.0
W. Central	14.53	16.21	11.6	13.46	15.69	16.6	12.74	14.87	16.7
Central	14.61	17.08	16.9	14.61	16.84	15.3	13.81	16.46	19.2
Southwest	13.10	14.21	8.5	11.84	13.20	11.5	10.40	11.21	7.8
Southeast	10.40	12.56	20.8	10.08	12.42	23.2	9.62	12.57	30.7
Indiana	13.44	15.26	13.5	12.66	14.59	15.2	11.82	14.01	18.5

some counties. The median value of individual homesites up to 5 acres and sites of 10 acres or more suitable for residential sub-divisions was the same - \$4000 per acre, up from \$3500 last year. The percentage increase (14.3%) was about the same as for average tillable land.

Statewide Rents

Cash rents increased statewide from 1995 to 1996 by \$7 per acre on top and poor land, and \$6 per acre on poor land (Table 4).

The estimated cash rent on average land was \$104 per acre, \$129 on top land, and \$80 on poor land. Rent

per bushel of estimated yield was \$.87 on top land and \$.86 on average land and poor land, up six to eight cents from last year. Cash rent on top land in 1995 was about 6% below the record 1981 level but 42% above the recent low in 1987.

Statewide, cash rent as a percentage of estimated land value declined for the fifth consecutive year. These estimates are 5.7% for top land, 5.9% for average land and 6.1% for poor quality land (Table 4). Greater increases in land values than in cash rents (Figure 1) caused these declines, but the percentages are still higher than the 5% levels of 1979-81.

Table 4. Average estimated Indiana cash rents, bare tillable land, 1995 and 1996, Purdue Land Values Survey, July 1996.

Area	Class	Corn bu/A	Rent/Acre		Change '95-'96 %	Rent/bu. of Corn		Rent as a % of June Land Value	
			1995	1996		1995	1996	1995	1996
			\$	\$		\$	\$	%	%
North	Top	149	124	132	6.5	0.83	0.89	6.0	5.9
	Average	118	96	103	7.3	0.81	0.87	6.5	6.3
	Poor	88	70	76	8.6	0.78	0.86	7.0	6.6
Northeast	Top	148	111	118	6.3	0.76	0.80	6.1	5.6
	Average	118	87	95	9.2	0.74	0.81	6.3	6.0
	Poor	91	65	70	7.7	0.71	0.77	6.5	5.8
W. Central	Top	154	139	142	2.2	0.90	0.92	6.2	5.7
	Average	127	114	120	5.3	0.89	0.94	6.6	6.0
	Poor	98	87	94	8.0	0.89	0.96	7.0	6.5
Central	Top	153	132	143	8.3	0.86	0.93	5.9	5.5
	Average	128	110	118	7.3	0.87	0.92	5.9	5.5
	Poor	102	87	94	8.0	0.86	0.92	6.2	5.6
Southwest	Top	156	123	128	4.1	0.80	0.82	6.1	5.8
	Average	122	92	97	5.4	0.76	0.80	6.4	6.0
	Poor	91	66	73	10.6	0.74	0.80	7.1	7.2
Southeast	Top	133	95	98	3.2	0.65	0.74	6.3	5.9
	Average	110	72	77	6.9	0.64	0.70	6.3	5.6
	Poor	86	51	58	13.7	0.59	0.67	6.1	5.4
Indiana	Top	149	122	129	5.7	0.81	0.87	6.0	5.7
	Average	121	98	104	6.1	0.80	0.86	6.3	5.9
	Poor	93	73	80	9.6	0.78	0.86	6.6	6.1

Area Estimates

Increases in the value of farmland by areas (Figure 2) from December 1995 to June 1996 were in the range of 2.8% to 6.7% (Table 1). The only areas that reported greater increases for poor land than for top land were the north and southeast areas.

For the year ending in June 1996 the greatest increase in top or average farmland was in the southeast (19.9% on average land) followed by around 16% increases on top land in the northeast, average in west central Indiana, and top and average in the central areas (Table 2).

Other increases on top and average land ranged from 9.1% to 14.2%. In all areas of the state, poor land value increases were greater than for top quality land. The percentage increase on poor land in the

Respondents' Outlook

This is the fifth year in which respondents have become more optimistic than the year before that farmland values would rise by year-end. Seventy-nine percent expect some or all classes of land to increase, up from 53% last year. Only 7% of the respondents expect a decline in values, the same as last year, and 28% expect no change, down from 37% last year. The average expected increase was small in all areas of the state -mostly under 3.5% (Table 1). These projections in the past have been in the right direction but have not been a good indicator of the magnitude of change.

Most respondents (87%) predicted that land values would increase over the next 5 years. Only 7% expected a decline and 6% expected no change. The modest average increase of 11% for the 5 years is two percentage points higher than last year's projection.

Respondents were asked to estimate annual averages over the next five years for corn and soybean prices, the farm mortgage interest rate, and the rate of inflation. The projections they made since 1984 are shown below:

Year	Prices, \$/bu.		Rates, %/yr.	
	Corn	Beans	Interest	Inflation
1984	\$3.13	\$7.35	13.3	6.5
1985	2.70	6.13	12.3	5.1
1986	2.32	5.43	11.0	4.2
1987	2.16	5.62	10.7	4.5
1988	2.50	6.82	10.9	4.6
1989	2.48	6.55	11.0	4.7
1990	2.61	6.22	11.0	4.6
1991	2.47	6.07	10.4	4.2
1992	2.52	6.04	9.5	3.8
1993	2.35	5.96	8.7	3.8
1994	2.48	6.18	8.9	3.9
1995	2.50	6.02	9.2	3.7
1996	3.01	6.63	9.1	3.7

This is the fifth year that expected farm mortgage interest rates have remained under 10% and inflation under 4%. Large increases occurred in expected prices of corn

and soybeans. This is the first year since 1984 that the expected corn price has been at or above \$3 per bushel. Higher farm earnings expectations no doubt have been a major factor in the current and recent strength in the land market. And to the extent that participants in the land market have 5 year expectations of \$3 corn and over \$6.50 bean

increases in net returns to land rather than on the inflationary expectations of the earlier period. A second reason is that farm land is in much stronger financial hands. As a result, a decline in land values would not result in widespread financial stress severe enough to cause forced land sales and further declines in values.

“The question is being raised as to whether land prices may be headed for unrealistically high levels and then suffer a collapse - a repeat of the late seventies and early eighties.”

prices, further increases in both land values and cash rents likely will occur. Cash rents also will be boosted by substantial government payments in 1997.

Are We Headed for a “Boom and Bust” in Land Values?

Farmland sale prices of \$3000 or more are common in parts of Indiana. The question is being raised as to whether land prices may be headed for unrealistically high levels and then suffer a collapse - a repeat of the late seventies and early eighties. There are major differences between the two periods. Inflation and interest rates are much lower now than in the early eighties, farm debt is lower, some of our farm export countries are better able to maintain purchases from us (less external debt, higher incomes), land rent to value ratios are higher, lenders are more cautious and many land buyers paid cash or borrowed conservatively. These differences offer no guarantee against a decline in land values following a couple of years of 10 or 11 billion bushel corn crops. What they do suggest, if there is a decline from present or somewhat higher land values, is that the decline would not be nearly as great as it was in 1981-87. One reason is that recent increases in values have been based mainly (not entirely) on

This is not a time for pessimism but it is a time to reflect on the lessons that should have been learned 15 to 20 years ago.

The land values survey was made possible by the cooperation of professional farm managers, appraisers, brokers, bankers, county extension educators, and persons representing the Farm Credit System, the Farm Service Agency (FSA) county offices, and insurance companies. Their daily work requires that they stay well-informed about land values and cash rents in Indiana. The authors express sincere thanks to these friends of Purdue and Indiana agriculture. They provided nearly 400 responses representing most of Indiana's counties. We also express appreciation to Sandy Dottle of the Department of Agricultural Economics for her help in conducting the survey and to Professors Chris Hurt and Howard Doster for their review of this report and helpful suggestions.

