CORNHUSKER ECONOMICS

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Don't Forget the Supply Side of Agricultural Land Markets

Market Report	Yr Ago	4 Wks Ago	3/16/12
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$114.21	$129.15	$126.30
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	155.87	189.41	193.36
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	130.89	156.62	157.54
Choice Boxed Beef, 600-750 lb. Carcass	186.88	189.04	191.24
Western Corn Belt Base Hog Price Carcass, Negotiated	79.22	84.18	85.52
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	91.91	86.52	83.53
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	188.00	*	150.00
National Carcass Lamb Cutout, FOB	381.86	384.56	376.90
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	6.89	6.16	6.28
Corn, No. 2, Yellow Omaha, bu.	6.52	*	6.66
Soybeans, No. 1, Yellow Omaha, bu.	13.37	*	13.31
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	10.88	10.95	11.48
Oats, No. 2, Heavy Minneapolis, MN , bu.	3.49	3.48	3.62
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	140.00	137.50	225.00
Alfalfa, Large Rounds, Good Platte Valley, ton	72.50	145.00	145.00
Grass Hay, Large Rounds, Good Nebraska, ton	*	100.00	97.50
Dried Distillers Grains, 10% Moisture, Nebraska Average	191.00	197.50	220.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average	71.00	74.50	76.50

*No Market

In today's bullish agricultural land markets across the nation's heartland, it is easy to attribute the climb in values to strong demand on the part of buyers wanting to invest in land to capture good returns of recent years. While true, that may be only half the story underlying the land market dynamics. Just as *"it takes two to tango,"* it takes the supply side of the market as well as demand to create the *land market dance*.

We have been following the market for many years, observing the amount of land being offered for sale in any given time period. Historically, the agricultural land market has almost always been a "thin market," with no more than three to four percent of the land base sold in any given year. That would suggest that the average probability of any typical agricultural land parcel coming onto the market was about once every 25 to 30+ years.

More recently, however, market observers have indicated that the number of offerings for sale are even lower than these historical rates. Apparently, individuals owning land are not as anxious to sell it given the perceived limited rates of return on alternative investments, and the satisfaction of enhanced wealth in recent years from holding ownership to agricultural land.

Using recorded real estate transfer records from the Nebraska Department of Revenue-Property Tax Division, we were able to get an accurate assessment of arms-length agricultural land sales (parcels of at least 40 acres) for each county in the state. Using the volume of acres sold from January 1, 2010 through June 30, 2011, we determined the average monthly sales rate and converted it to an annual average. When divided by total acres in farms for each county (from the most recent 2007 Census of Agriculture) the result is an annual percentage rate of sales turnover (Figure 1 on next page).

The results are rather surprising. The recent rate of agricultural sales activity for the state is 1.24 percent, far less than half the historical average. And in some counties, particularly some eastern counties where the land value climbs have been the most extreme, the turnover rates fall

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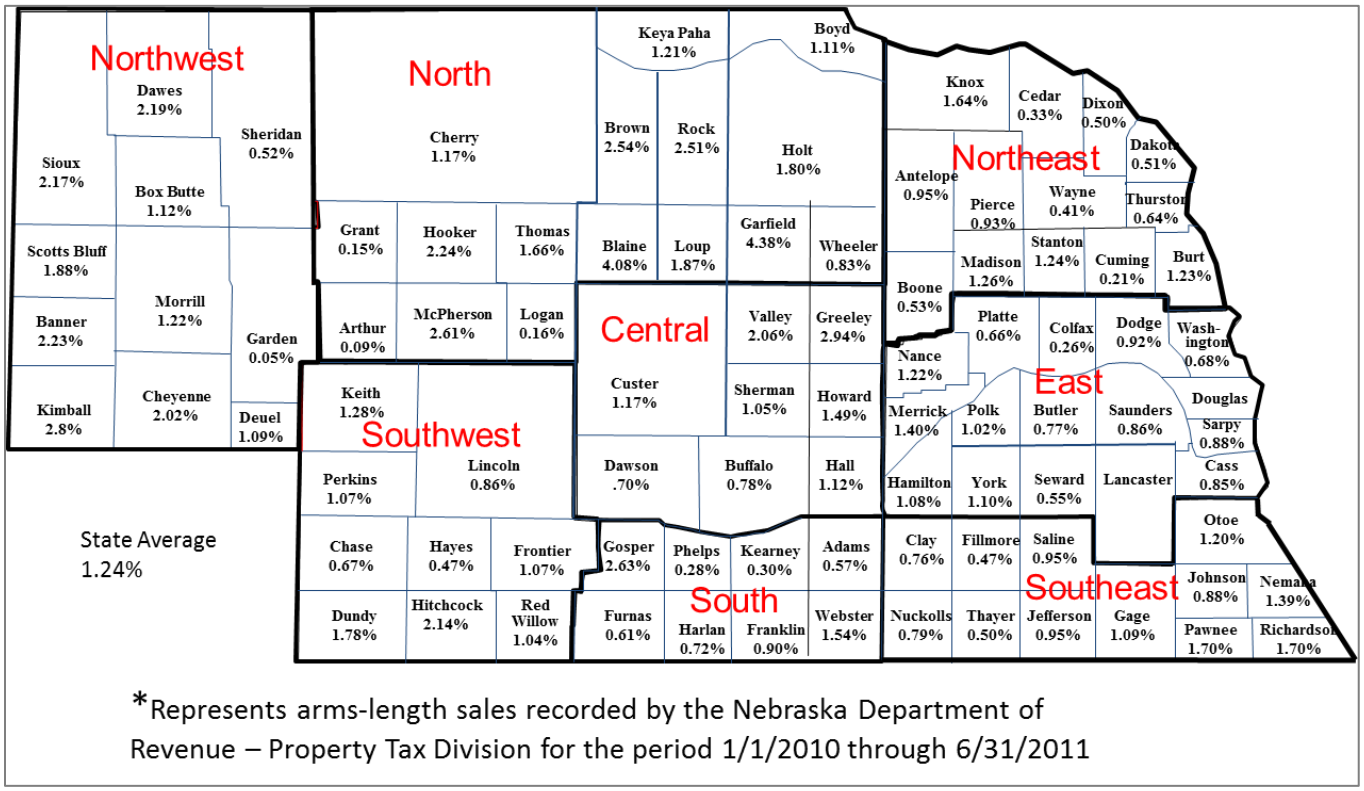
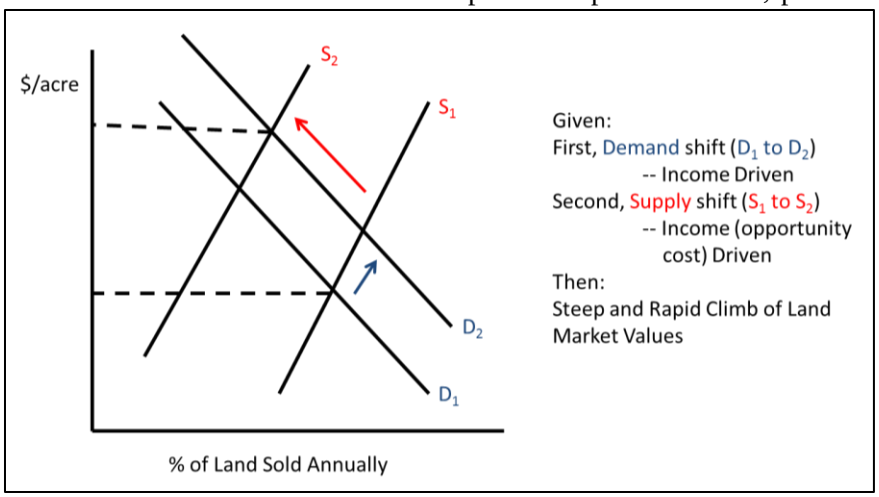
Figure 1: Annual Percentage of Agricultural Land Sold in Nebraska



well below 1% per year. This means that the probability of a particular land parcel being offered for sale now is more like once in a hundred years!

Much of what we are observing in agricultural land markets as of late is essentially a **scarcity-driven market** (Figure 2). Market forces are pushing the demand curve for agricultural land outward. But at the same time, those same forces are causing existing land owners to forgo selling land, which, in turn, shifts the supply curve backward. The result is steep climbs in land prices when sales take place.



There are a couple of interesting implications to this pattern. First, potential buyers tend to operate differently in a market with few opportunities for purchase. Even when financial conditions may not seem the best or the bid levels start exceeding the person's comfort zone, those buyers may still play their opportunity-to-buy card, knowing that they may not get another chance for some time. It's not unlike our memories of playing Monopoly and buying Park Place or Boardwalk when we happened to land on them. It tends to be a long-run risk management strategy even though it may be somewhat stressful in the short run.

Secondly, as soon as owners of agricultural real estate begin to see better alternative investment options and start selling more land, the land market dynamic could change rather quickly—potential buyers would see more offerings available and bid less aggressively on any one particular parcel. In turn, potential sellers, seeing lower sales prices, might even speed up their plans to sell. Since it takes only a relatively small increase in number of tracts offered in any given local real estate market, the reset from previous price highs could be swift and fairly substantial.

But for now, the dance continues. And until the market forces behind rising demand for agricultural land subside and/or the opportunities of economic returns for current owners of land rise, don't look for much change in this market dynamic—it will remain a tight dance.

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