

Going, going, gone

Written by Elizabeth Barrett
Friday, 18 January 2013 14:47 -



Farmland values continue to soar

Sales near Gothenburg more than \$10,000 an acre.

Drive past a property south of Lexington and you'll see a sign advertising irrigated farm ground for \$18,000 an acre.

Closer to home, irrigated portions of three agricultural properties near Gothenburg recently sold for more than \$10,000 an acre.

One farm and ranch land broker described the first asking price as incomprehensible and the second transactions as unbelievable.

John Childears, president of Agri Affiliates, Inc. of North Platte, a company that sells farm and ranch properties, was quick to point out that the prices are extreme.

Rising farmland values for irrigated, non irrigated and rangeland are still surprising.

"Never in my life have prices been like they have the last three years," he said.

Land values up 32%

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Agricultural land values shot up 32% from February 2011 to 2012, according to Nebraska Farm Real Estate Market Highlights 2011-12, which represents the largest annual increase over the 34-year history of the Nebraska land market.

Although land values began inching up in 2002, Childears said increases were much higher than normal in 2010, 2011 and 2012.

Dawson County assessor John Moore agreed.

“The sky’s the new limit,” Moore said, noting that buyers get much better return investing in land than in the stock market.

Childears said sellers not wanting to pay a higher percentage in capital gains tax is one reason sales surged in the past several months, particularly at the end of 2012.

Moore said the number of sales could’ve been a reaction to the fiscal cliff.

Low interest rates dissuade investors

With low interest rates on investments, Childears said many folks choose to put their money in real estate.

“They’re not comfortable with the political or the national economic situation,” he explained. “Real estate is a safe haven.”

Because of that feeling of security, the broker said people might spend more per acre but gain a 3% to 4% return a year plus an opportunity for the land to appreciate if they keep it for a few years.

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Moore quipped that land values are high because “they’re not making any more land.”

“It’s a good investment compared to everything else because if you’ve got money sitting there, there’s no decent return.”

Buyers of ag land even two years ago will make a tidy profit by selling, Moore said.

In addition, irrigated crops did well this season thanks to record-high grain prices.

“Irrigation costs were higher but grain prices were good so there was money to invest,” Childears said.

Buyers of land mostly local

More than 80% of the buyers involved with Agri Affiliates have been farmers or ranchers within a 20- to 30-mile radius of the property, Childears said.

“There’s hasn’t been the influence of investors coming in like maybe we’ve seen in the central Corn Belt,” he said.

Moore and Childears said most of buyers are local or area farmers who want to add to or complete sections they already own.

Childears likened farming and sales to running a factory; farmers are buying more acres to increase the production capacity of their operations.

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According to a Nebraska Farm Real Estate Market Developments Survey, buyers of agricultural real estate in 2011 fit the following categories for a central area of the state (including Dawson, Custer, Buffalo, Hall, Sherman, Howard, Greeley and Valley counties.)

Seventy-six were active farmer/ranchers, 10 were local non-farmers, 12 were non-local state residents and only two listed as out-of-state buyers.

Of agricultural land in the county, Moore said about 50% is range and non-irrigated acres and 50% is irrigated.

However with 80% of the value, the farm sector pays 45% of the county's tax bill.

Such high prices in the farm sector have caused a shift in taxation to where the value is, he said, which means those involved in farming and ranching will pay a higher tax bill.

At some point, both Moore and Childears expect prices to level off.

But when is questionable.

Childears pointed to conditions in the 1980s when too much money was loaned and borrowed. Interest rates ranged from 18% to 22% and, within a 12-month period, farm and ranch land experienced a devaluation of 65%.

Situation different than in 1980s

Today is a different scenario.

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“Lenders are more cautious and borrowers have more cash so there’s little or no financing on a lot transactions,” he explained, noting that only about 25% to 30% of the purchase price is borrowed compared to 65% to 75% in the 1980s.

As a result, Childears said he expects a 5% to 15% adjustment in land values when the market changes.

“I don’t conceive a drop because it’s a different scenario,” he said.

Moore said he thought the drought would negatively affect grass prices in 2012 but it didn’t happen.

The irony, according to Childears, is that range and dry land appreciated at an unbelievable rate in addition to irrigated property.

“It was dramatic for non-irrigated and dry land in spite of the drought,” he said.

Childears, who owns cattle, pointed out that the bull’s eye of the drought in the nation’s mid-section is in Nebraska.

“I’m scared to death of how 2013 will play out in precipitation relative to range and dry land,” he said.

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