

# Mississippi Agricultural Land Values, Cash Rents, and Lending Conditions: *Spring 2015*

This report is intended to be an informational guide for producers, landowners, and those working in the agricultural real estate and finance sectors. The report is based on a survey conducted by the Department of Agricultural Economics for the Mississippi State University Extension Service. The survey was conducted within the state of Mississippi from April through May of 2015 (IRB# 15-156). The participants in the survey were lenders, appraisers, agricultural real estate brokers, and farm management service providers.

The responses were broken down into the four regions shown in **Figure 1**. The Northwest represents the Delta region of Mississippi. The report contains the most current information available on land values for dryland and irrigated cropland, pastureland, and timberland. The report also contains information on cash rental rates and current interest rates on various loan lengths and types.

Sixty-five surveys were sent out to lenders, appraisers, real estate brokers, farm managers, and representatives of other agricultural operations in Mississippi. Forty-two surveys were completed and returned. **Row crop, pasture, and timberland sales values are for tracts where the highest and best use has not changed from agriculture.** In other words, the values reported do not include agricultural land that has been sold with the intent of being developed for a different purpose. **Table 1** shows the percentage of total responses by occupation and by region.

## Land Values

Respondents reported the highest cropland sales values occurring within the Mississippi Delta region, where irrigated cropland was as high as \$4,800 per acre (average of \$4,339 per acre) (**Table 2**). Non-irrigated Delta cropland was reported as selling as high as \$4,300 per acre (average of \$3,163 per acre). Despite being the highest in the state, these values are markedly lower than in other states such as Illinois, which reported a sales value of \$7,700 per acre<sup>1</sup> for quality cropland just last year, or Iowa, which reported a cropland value in 2014 of \$7,393 per acre<sup>2</sup>. Farmland val-

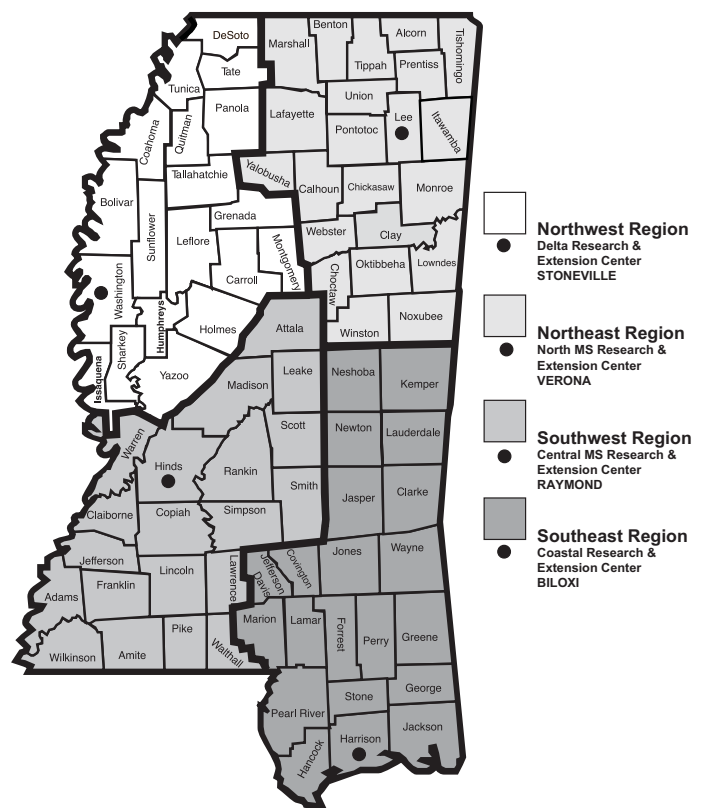


Figure 1. Mississippi State University Extension Service regional map with respective regional main office locations.

ues not in the Delta averaged 22 percent and 29.5 percent lower for non-irrigated and irrigated cropland, respectively, than Delta cropland.

Timberland sales values were reported for both mature hardwood and mature pine timberland that is ready to be harvested. According to the surveys, mature hardwood timberland was selling for an average of \$245 per acre higher than mature pine, with a maximum value of \$4,000 per acre and an average of \$2,545 per acre (**Table 2**). The reported sales values for timberlands are up slightly from their actual sales values in 2013. According to sales data

<sup>1</sup>University of Illinois at Urbana-Champaign "farmdocdaily." Schnitkey, Gary, Bruce Sherrick, and Todd Kuethe. Aug 2014. Online at: <http://farmdocdaily.illinois.edu/2014/08/farmland-price-outlook-2014-beyond.html>

<sup>2</sup>2014 Iowa Farmland Value Survey, Iowa State University. Online at: <https://www.extension.iastate.edu/agdm/wholefarm/html/c2-70.html>

**Table 1. Percentage of respondents by regional location and occupation.**

By Occupation	Percent
Loans and lending	55
Agricultural real estate	10
Appraisal	16
Farm management services	6
Other	13
By Location	Percent
Southwest	13
Southeast	19
Northwest	55
Northeast	13

Percentages are based upon completed and returned surveys.

**Table 2. Fair market sales agricultural land sales values in dollars per acre.**

	Average	Minimum	Maximum
Delta dry cropland	\$ 3,163	\$ 1,800	\$ 4,300
Delta irrigated cropland	\$ 4,339	\$ 3,500	\$ 4,800
Non-Delta dry cropland	\$ 2,457	\$ 1,500	\$ 3,200
Non-Delta irrigated cropland	\$ 3,061	\$ 2,500	\$ 4,000
Pastureland	\$ 2,455	\$ 1,500	\$ 3,500
Mature hardwood	\$ 2,545	\$ 1,200	\$ 4,000
Mature pine	\$ 2,300	\$ 1,000	\$ 3,500

from 2012 and 2013, average per-acre hardwood land has remained steady, whereas mature hardwood land was selling for \$2,200 to \$2,500 per acre during those years. Similarly, mature pine has remained steady over the last 3 years, with mature pine selling for \$2,100 to \$2,300 per acre in 2012 and 2013.

Respondents reported an average sales price of cleared pastureland of \$2,455 across the state. This price equates to \$4,092 per animal unit (AU) for grazing land in Mississippi<sup>3</sup>. The reported per-acre value in Mississippi is nearly double the national average for 2014 of \$1,300 per acre<sup>4</sup> for pastureland. However, stocking rates across the nation vary widely such that the dollars per acre sales values do not necessarily explain the true investment in land for grazing livestock. Areas in the Plains states, such as Kansas and Nebraska, have seen pastureland sales approaching \$1,000 per acre with a stocking rate of 15 acres per 1.2 AU. That price and stocking rate implies a valuation of \$12,500 per AU. Therefore, grazing land in Mississippi on a per-AU basis remains relatively inexpensive compared to other large cattle-producing states.

Surveyed respondents were asked to indicate the direction they believed, based on current conditions, land values were expected to move in the next 12 months. Their choices included “increase from the current value,” “decrease from the current value,” or “no change.” The majority of respondents expected all agricultural land classes across Mississippi to either decrease or not change from their current value levels. The land class most respondents were optimistic about was pastureland, with 29 percent of respondents believing that its value will increase over the next 12 months. Respondents felt most pessimistic about Delta cropland values—54 percent believe Delta dry cropland will decrease over the next 12 months, and 42 percent believe Delta irrigated cropland will decrease. However, a majority of respondents in all categories except Delta dry cropland expect land values to remain flat over the course of the next year (Table 3).

**Table 3. Expectations for land value movement over the next 12 months.**

	Increase (%)	Decrease (%)	No Change (%)
Delta dry cropland	8	54	38
Delta irrigated cropland	8	42	50
Non-Delta dry cropland	15	35	50
Non-Delta irrigated cropland	11	31	58
Pastureland	29	8	63

## Agricultural Land Cash Rental Rates

Cash rental rates were reported the highest for cropland across Mississippi in the Delta region, with average irrigated cropland rents around \$191 per acre. Table 4 shows Delta dryland crop rents averaged \$145 per acre, which was lower than irrigated cropland off the Delta. Though the Delta irrigated cash rental rate was highest on average, it is nearly \$17 per acre lower than the national average irrigated cash rent, which is \$208 per acre<sup>5</sup>. Corn

**Table 4. Irrigated, non-irrigated, and pastureland cash rental rates for the Delta and non-Delta regions of Mississippi (dollars per acre).**

	Average	Minimum	Maximum
Delta dry cropland	\$124	\$75	\$150
Delta irrigated cropland	\$191	\$150	\$250
Non-Delta dry cropland	\$105	\$50	\$150
Non-Delta irrigated cropland	\$145	\$120	\$175
Pastureland	\$34	\$15	\$100

<sup>3</sup>1 AU = 1 Animal Unit (1000 lb). Mississippi State Extension forage specialists recommend a stocking rate of 1.2 AU per 2 acres, or 1.67 acres per AU, where 1.2 AU = 1 cow/calf pair.

<sup>4</sup>USDA National Agricultural Statistics Service. Online at: [http://www.nass.usda.gov/Statistics\\_by\\_Subject/](http://www.nass.usda.gov/Statistics_by_Subject/)

<sup>5</sup>National and state rental rates for other states from USDA NASS: <http://quickstats.nass.usda.gov/results/58B27A06-F574-315B-A854-9BF568F17652#7878272B-A9F3-3BC2-960D-5F03B7DF4826>

Belt states have reported rents from 2014 nearing \$400 per acre or higher.

Pastureland rental rates were reported between \$15 and \$100 per acre, with an average of \$34 per acre. Given a stocking rate of 1.2 AU on 2 acres, Mississippi pasture rental rates are \$53.33 per AU, or \$64 per cow/calf pair. This is an increase from historical averages given by lenders and appraisers across the state, where pastureland rental rates have typically averaged \$20–25 per acre. However, national pastureland sales values and rental rates also have been climbing over the last 12 months.

Table 5 reveals that most survey respondents believe rental rates will either decrease or hold steady over the next 12 months. In fact, at least half of all respondents expect cropland rental rates to fall for both irrigated and non-irrigated cropland. A large majority believes dry cropland will command lower rental rates in the coming months. However, 75 percent of respondents think that pastureland will at least command the same rental rate that it has previously, with 10 percent believing it will increase over the next year.

**Table 5. Expectations for agricultural land cash rental rates over the next 12 months.**

	Increase (%)	Decrease (%)	No Change (%)
Delta dry cropland	0	73	27
Delta irrigated cropland	5	50	45
Non-Delta dry cropland	0	67	33
Non-Delta irrigated cropland	0	59	41
Pastureland	10	15	75

### Interest Rates, Lending Practices, and Farm Incomes for Mississippi Agriculture

Survey respondents were asked to give the current fixed and variable interest rates being offered to prime borrowers for loans of different lengths, and for different purposes. Table 6 shows the average variable interest rate is 4.1 percent and does not change regardless of term. However, fixed interest rates on average progressively get higher because the risk of future higher interest rates grows with the term of the loan. For short-term operating loans and intermediate loans, the average fixed interest rate is near the variable rate at 4.6 percent and 4.7 percent, respectively. For long-term agricultural loans such as land purchases, the average fixed interest rate being offered is a full percentage point higher than the variable rate at 5.1 percent.

The loan-to-value ratio on certain agricultural loans was requested because it is an indicator of expected income or price movement potential of the asset being financed. A higher loan-to-value indicates lenders are willing to finance a larger portion of the asset, with the borrower paying the remainder. Over the last decade, for instance, land has trended sharply upward, and lenders were willing to finance large portions of purchases with the belief that, in

**Table 6. Current fixed and variable interest rates offered for short-, intermediate-, and long-term loans.**

	Average (%)	Minimum (%)	Maximum (%)
Variable Interest Rates			
Operating loans	4.1	3.0	5.0
Intermediate loans	4.1	3.5	5.0
Long-term and real estate	4.1	3.3	5.3
Fixed Interest Rates			
Operating loans	4.6	3.5	5.0
Intermediate loans	4.7	4.0	7.0
Long-term and real estate	5.1	4.0	6.0

the near future, that asset would be worth more than the financed amount.

Those surveyed were asked to give the current loan-to-value ratios observed across the state for land purchases, machinery or equipment purchases, and replacement cattle purchases (Table 7). Cattle were included because of the fall 2014 increase in cattle prices, when many sales outlets reported replacement heifers and steers selling for more than \$3 per pound.

The survey asked respondents to indicate the movement of interest rates (Table 8) and farm incomes over the next 12 months. A majority (80 percent) of respondents believe interest rates will increase for prime borrowers in each loan term category. No respondents expect a decrease in interest rates for agricultural loans over the next 12 months. Similarly, more than 80 percent of those surveyed believe farm incomes will be down over the course of the

**Table 7. Loan to value ratios for land, machinery, and cattle purchases.**

	Average	Minimum	Maximum
Land or real estate	78.0	60.0	85.0
Machinery or equipment	75.6	50.0	100.0
Cattle purchases	66.8	50.0	75.0

\*The loan-to-value is the percentage of the purchase financed by the lender.

**Table 8. Expectations for interest rate movements on prime borrowers over the next 12 months.**

	Increase (%)	Decrease (%)	No Change (%)
Operating loans	80	0	20
Intermediate loans	83	0	17
Long-term and real estate	88	0	12
Farm incomes	0	81	19

next year; no respondents expect farmers to see higher profits than 2014.

## Conclusions and Outlook

Agricultural land values are driven primarily by two factors. The first, and most obvious, is commodity prices. The substantial drop in the price of corn, soybeans, and cotton over the last year has substantially stunted the growth of both land values and rental rates. The outlook for commodity prices for row crops into 2015 is discouraging as well, with many experts projecting prices to stay low or go even lower as the U.S. moves into the fall harvest season with ending stocks high. With respect to agricultural land sales values, in some states a decline has already begun. Iowa agricultural land prices fell nearly 9 percent in 2014. In other states, including Mississippi, there has not yet been much of a decline; however, the steep upward trajectory in sales values has stopped.

Average cash rental rates for cropland have declined slightly as farmers look at current high input costs and low commodity prices. Some of those who renegotiated rates for 2015 appear to have contracted ground at a lower rate than previous years. Others who may be locked into multi-year agreements, however, are still paying rates near record highs of a year ago. In areas where rents exceeded \$400 per acre, reports have surfaced of producers walking out on contracts due to commodity prices that do not support such rates<sup>6</sup>. However, should commodity prices remain lower over the course of the next year or two, average cash rental rates should continue to fall as longer-term rental agreements go up for renegotiation.

The other driver of land values in agriculture is the available funding for new purchases. Historically low interest rates have made financing relatively inexpensive for potential borrowers, which has contributed to the

rapid run-up in land values over the last several years. An increase in interest rates, which most respondents of this survey expect, means that the principle amount of any future loan must decline to keep payments manageable for potential borrowers. Also, as farm incomes were high, lenders were willing to lend up to 90 or 95 percent of the value of purchased farm ground under the assumption that the land's value would continue to increase. This survey shows lenders are less willing to lend such a high loan-to-value ratio on land, requiring potential buyers to put more equity into new purchases to protect lenders from a drop in value.

However, not all agricultural land prices have flattened or declined. Pastureland values and rental rates have increased over the last year. The low prices for feed grains and a relatively small U.S. herd size improved margins for beef producers, especially cow/calf operators who are enjoying record high prices for weaned calves. Thus, the returns to pasture ground have increased dramatically, causing pastureland values and rents to move upward. The upward trajectory of pastureland sales values and rents is expected to remain strong as long as cattle prices hold most of their previous gains.

The 2014 Harvest of Forest Products Report<sup>7</sup> details a recent modest improvement in demand for pine saw timber and little to no movement in demand for hardwood timber. The current demand for the two respective timber commodities has been reflected in price (pine saw timber has slightly increased, while prices for hardwood timber products has remained unchanged over the last year). However, despite the modest increase in pine saw timber product demand and prices, the outlook for both hardwood and pine timberland is that their values will remain mostly unchanged from the previous year.

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<sup>6</sup>Winterbottom, Jo, and P.J. Huffstutter. "Rent Walkouts Point to Strains in U.S. Farm Economy." 23 Feb 2015. Online at: <http://www.reuters.com/article/2015/02/23/us-usa-grains-rents-insight-idUSKBN0LR0EX20150223>

<sup>7</sup>Henderson, J.E. 2015. 2014 Harvest of Forest Products. Forest Resources Market Notes, Cooperative Extension Service, Mississippi State University, Mississippi State, MS.



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