Higher Interest Costs Could Dampen Demand for Farmland

by: Ty Kreitman

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Sources: USDA, Federal Reserve Bank of Kansas City, and author's calculations.

In 2023, interest costs on new farmland loans (blue line) surpassed the recent average annual appreciation in land values (green line) for the first time since 2001. From 2002 to 2022, growth in agricultural real estate values was well above the cost of financing, supporting demand for farmland. With interest costs now above average land value appreciation, farm operating profits will determine the magnitude of returns for financed land. Although growth in farmland values held firm in 2023, higher interest rates and a moderation in agricultural commodity prices have cut potential returns and could dampen demand for farmland—and thus farmland values—going forward.
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https://www.kansascityfed.org/research/charting-the-economy-archive/higher-interest-costs-could-dampen-demand-for-farmland/
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Ty Kreitman is an associate economist in the Regional Affairs Department at the Omaha Branch of the Federal Reserve Bank of Kansas City. In this role, he primarily supports the Federal Reserve Bank of Kansas City and the Federal Reserve System efforts surrounding agricultural economics research, analysis and outreach. His responsibilities include co-authoring the Tenth District Survey of Agricultural Credit Conditions and Agricultural Finance Updates. Ty joined the Bank in 2015 as an assistant bank examiner in the Examinations & Inspections Department at the Omaha Branch and transferred to his current position in 2018. He holds a B.A. degree in Economics and Finance from the University of Nebraska-Lincoln and a M.A. degree in Financial Economics from Youngstown State University.