

News Release

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MAIN STREET ECONOMIST ARTICLE EXPLORES RISKS IN TODAY'S FARMLAND MARKET

Farmland is a bellwether to the financial health of the U.S. farm sector, accounting for 85 percent of U.S. farm assets. Sparked by surging grain prices, U.S. farmland values soared to record highs at the end of 2010. The double-digit gains in cropland values outpaced the rise in cash rents, leading to questions about the sustainability of such high land values.

In the *Main Street Economist* article, “What are the Risks in Today’s Farmland Market?” Omaha Branch Executive Jason Henderson and Brian Briggeman, economist, consider whether other factors, such as low interest rates, are driving current farmland values. The article explores the risks in today’s farm real estate market and analyzes whether the recent surge in farmland values is sustainable.

Farmland value is typically based on the expected revenues from agricultural production. Henderson and Briggeman explain that farmland values often rise with persistently low interest rates. Low interest rates lift farmland values by increasing the capitalized values of income earned from land ownership. Conversely, in higher interest rate environments, farm incomes tend to fall and capitalization rates rise.

The article finds that if interest rates rise to more-normal levels and crop prices swoon, land values could fall, suggesting that farmers could experience a deterioration in their balance sheets.

The complete article is available at www.kansascityfed.org/publications/research/mse.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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