



Marcia Zarley Taylor DTN Executive Editor

Bubbles Rare for Farm Real Estate

Yale economist Robert J. Shiller co-developed the nation's most widely quoted monitor of the housing industry's boom and bust, S&P/Case-Shiller Home Price Indices. So it was particularly entertaining to read his guest column in yesterday's New York Times arguing that America's housing bubbles are few and far between, and farmland bubbles even rarer.

Shiller's latest price index documents the depth of the current housing price bubble and hints the nation could be headed for a "double dip" in many over-built housing markets. National home prices are back around their December 2003 levels, the survey said in late January, based on November 2010 prices. In other words, no gain for someone who purchased a house 7 years ago, but stiff losses for someone who bought at the peak back in June 2006. In the 20 major metropolitan areas covered in the survey, prices have fallen an average of 30 percent from their peak—and even more for cities like Las Vegas (-57 percent), Phoenix (-54 percent) and Miami (-49 percent). My seat mate on a flight to San Antonio last week—a manager for a Fortune 500 company-- reported he had just bought a 2,200-sq. ft. condo in a white-collar Detroit suburb for \$48,000. The buyer who bought it six years ago paid over \$150,000. It wasn't the only deal in town.

Shiller's New York Times column recounted how land bubbles formed in the 1800s. In the 1830s, the farm community was under the delusion that land prices never fell (of course that was before President Lincoln authorized land grants, and before much of the country's best prairie soils put rocky Connecticut and New England out of the granary business). "Whoever heard for a man buying and selling a farm at the same or lessened price," a farm publication called the Cultivator said in 1836. Then a bank panic hit in 1837 and the country experienced its first great depression.

Still, in the last 110 years the country experienced only one farmland bubble of national significance—the 1970s, Shiller writes. "Its causes were complex, but it seems to have been accompanied by a newly common belief that the human population would soon become excessive," Shiller adds, referring to a 1972 Club of Rome report predicting global famines. The Federal Reserve's war on inflation put an end to that notion in the 1980s.

States like Indiana have yet to recover their peak 1981 values in inflation adjusted dollars and Purdue economists like Mike Boehlje still lecture farmers "not to drink the Kool-Aid" that land values are guaranteed to keep appreciating just because we need to double food production by 2050.

So little farmland is on the market that it's very difficult to tell what true values are today, he told a group of farmers meeting in Texas over the weekend. During the same month late last year, two 80-acre parcels of nearly identical land sold for \$3,260 and \$13,950 per acre in Sioux County, Iowa, Boehlje says. Both had Corn Suitability Ratings of 70+. "The market is so thin, you can pick your results to say which way the market is heading," Boehlje says.

Still, "land manias have been rather infrequent, many decades apart," Yale's Shiller concludes. "They suggest that the recent housing bubble is a similarly rare event, not to be repeated for many decades." Maybe it's time to buy your vacation condo instead of those 80 acres of prime farmland, though.

For the latest Case-Shiller index www.homeprice.standardandpoors.com

Read Shiller's column in The New York Times at [http://www.nytimes.com/...](http://www.nytimes.com/)

I can be found on Twitter at [MarciaZTaylor](https://twitter.com/MarciaZTaylor)

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Posted at 5:09PM CST 02/07/11 by Marcia Zarley Taylor

Comments (3)

Good journalism Marcia. Here in Ohio the "housing value" is just about totally out of farmland. However, the values continue to rise solely based on farm returns. I have purchased eight farms over the last nine years and can tell you as a fact that land is compounding at an average of 8 percent annually over that period. It is amazing how the land has appreciated even with practically no potential for a housing development "pop."

Posted by tom vogel at 10:54PM CST 02/07/11

Not to be a pessimist but as we all know the cure for high prices is high prices. How can land sustain such gains in value if corn falls back to \$4. We saw it in 2008-2009 and it will happen again. We as farmers will over produce as the market is requesting and we will see the market correct itself and I would say when corn corrects itself it will bring other markets with it. Lets not foreget the value of land is based on what we can produce off of it. And if we are paying \$10,000/ac then to simply pay the interest we need to net \$600 an acre (6%) interest. We have to ask ourselves can we do that on a regular basis. If not then it is time to put that extra money to work else where. Looking at some stocks that pay dividends that are earning a person 6% on there money. Energy is driving much of this inflation and everyday we are putting new methods to use of producing energy. One day the market will wake up and say, we dont need as much energy as we thought we did, or something new will come along that will significantly change the energy landscape and then we are back to food for food and not food for energy.

Posted by Jonathan Campbell at 11:20AM CST 02/09/11

It depends on what one defines as a bubble. Entree's on our abstract(s), indicate a huge bubble in the mid 1920's with a bust prior to the crash. Wheat was the driver. Also there was a bubble in the early 50's (I understand corn was in the \$1.50 area), as well as the huge bubble of the 70's. The best predictor of the future is history.

Posted by Bonnie Dukowitz at 6:06PM CST 02/09/11