



The 2001 Kentucky Land Value Situation and Outlook*

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United States Land Values

Farm real estate values, including land and buildings, across the United States continued to increase during 2000. As of January 1, 2001, the average value of all farm real estate across the nation was \$1,130 per acre. This is an increase of \$50 per acre or 4.6% in total value since January 1, 2000. This increase in agricultural land values continues an increasing trend that began in 1987, following the end of the Farm Financial Crisis. This 4.6% increase is considerably greater than the 2.9% increase that occurred during 1999.

Regionally, agricultural land values increased from 1.4% to 8.2% during 2000. The Southeast and Appalachian regions demonstrated the largest increases of 8.2% and 8.0%, respectively. All regions continued to experience increases with record high values being observed in all but the Southern and Northern Plains areas. Urban influences in the Northeast Region helped to push land values to the highest average regional value of \$2,640 per acre. The Mountain region continues to have the lowest average land value of \$486 per acre followed closely by the Northern and Southern Plains with average values of \$547 and \$640 per acre, a result of the influence of extensive pasture and rangeland characteristic of the regions.

Kentucky Agricultural Land Values

During 2000 Kentucky farm real estate values, including land and buildings, increased from \$1,600 to \$1,770 per acre. This is an annual increase of 10.6% which is more than twice the 4.6% increase for the United States. Only Wisconsin, North Carolina, and Georgia experienced gains greater than those occurring in Kentucky with increases of 17.6%, 12.0% and 11.7%, respectively.

Kentucky farm real estate values have steadily increased for the past 14 years. Since reaching a low of \$878 per acre in 1987 they have steadily increased to the current level of \$1,770 per acre. This represents an increase of more than 102% since the most recent low was established in 1987.

As indicated in Table 1, the change in Kentucky land values is the greatest in the region including the seven states that surround it. Only Missouri, with an increase of 10.4%, demonstrated an increase comparable to that experienced in the Commonwealth. Most of the other surrounding states demonstrated more moderate increases ranging from 2.9% in Illinois to 6.1% in West Virginia. No surrounding states experienced a decrease in agricultural land values as did Illinois, Indiana, and

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West Virginia during 1999. These changes in farm land values seem inconsistent with current agricultural economic conditions which are characterized by relatively low commodity prices. Undoubtedly, it is a reflection of the urban or non-farm demand for land for metropolitan expansion and recreational uses.

Table 1. Average Per Acre Value of Farm Real Estate, Kentucky, Surrounding States, and 48 States, 1994-2001.¹

State	1994	1995	1996	1997	1998	1999	2000	2001	Change 00-01 Percent
Kentucky	1,140	1,250	1,300	1,350	1,450	1,530	1,600	1,770	10.6
Illinois	1,670	1,820	1,900	1,980	2,130	2,250	2,380	2,450	2.9
Indiana	1,500	1,620	1,740	1,870	2,060	2,220	2,350	2,450	4.3
Missouri	825	880	950	1,010	1,070	1,130	1,250	1,380	10.4
Ohio	1,560	1,750	1,820	1,890	2,040	2,220	2,300	2,400	4.3
Tennessee	1,250	1,340	1,530	1,650	1,810	1,950	2,150	2,240	4.2
Virginia	1,590	1,720	1,840	1,880	1,920	2,040	2,200	2,300	4.5
West Virginia	869	920	980	1,050	1,090	1,070	1,150	1,220	6.1
48 States	798	844	887	926	974	1,020	1,080	1,130	4.6

¹ Value of farmland and buildings as of January 1. Source: National Agricultural Statistics Service, USDA, Washington, D.C.

It may also be a reflection of the current situation in the general economy which has been characterized by low interest rates and a stock market that has been performing poorly. These factors may be influencing investors to consider farm land investment as an alternative to the stock market. In addition, current government farm programs and emergency aid may be providing farm business managers with sufficient liquidity to encourage land purchase for expansion purposes.

To augment the Kentucky real estate value data provided by the National Agricultural Statistics Service (NASS), a survey of Kentucky County Extension Agents was conducted as part of the Economic Subject Matter training meetings during October, 2000. The statewide survey involved all Agents participating in five training sessions and resulted in 59 useable responses. For reporting purposes, the state was divided into three regions, East (counties east of I-75) with 21 counties reporting, Central (counties between the Green River Parkway and I-75) with 21 counties reporting, West (counties west of the Green River Parkway) with 17 counties reporting. The results of this survey are presented in Table 2.

A comparison of the estimates provided by the NASS and the Kentucky survey indicates that the Agent Survey estimate of farm real estate values are considerably higher than those provided by the NASS. In making such comparisons one must realize that the Agent Survey is not scientific in

nature, as is the NASS estimate. However, the survey results do provide a regional breakdown to make them somewhat more useable at the local level.

Table 2. Average Price of Kentucky Agricultural Land and Expected Rate of Price Change Over Next 12 Months, October, 2000.¹

	State	East Kentucky	Central Kentucky	West Kentucky
Average Price of Ag. Land and Buildings	\$2,266	\$2,524	\$2,086	\$2,169
Expected Change in Next Year	3.1%	3.5%	5.4%	-0.3%
Average Price of Crop Land (bare land)	\$1,903	\$2,124	\$1,824	\$1,729
Expected Change in Next Year	2.8%	3.8%	4.2%	-0.2%
Average Price of Pasture Land	\$1,439	\$1,721	\$1,524	\$985
Expected Change in Next Year	5.3%	4.3%	6.1%	5.7%

¹ *Source: Survey of participants in Economic Subject Matter Training Meetings, October, 2000.*

The Kentucky Survey estimated the average value of farm real estate, including land and buildings, to be \$2,266 per acre whereas the NASS estimate was \$1,770 per acre. However, when you compare the average value of crop land at \$1,903 per acre or pasture land at \$1,439 per acre, the values become more comparable. Further, when you look at a regional breakdown of the survey data, the values reported in the West Kentucky region are quite comparable to the values reported by the NASS. Across all types of land, West Kentucky has considerably lower land values than do the other areas of the state.

The regional breakdown of land values certainly suggests that there is a large urban influence on agricultural real estate values in the Commonwealth since the urban centers of Northern Kentucky, Louisville, and Lexington are located in the Central and Eastern areas of the state. Another reflection of the non-farm influence on agricultural land values is indicated by Agents expectations about future changes in land values. West Kentucky Agents indicated an expectation that both the value of Agricultural and Crop Land would decrease in the coming year, reflecting the low grain prices that have been prevalent for the last few years. Only Pasture Land was expected to increase in value reflecting the relatively good beef prices that have been enjoyed by beef producers recently.

Kentucky Land Rental Rates

Land ownership is not the only method by which producers can acquire control of this important input to the agricultural production process. Another important method of getting use of land is by leasing or renting. Both land owners and tenants are interested in current developments that have taken place in the land rental market.

Crop land cash rental rates for Kentucky and surrounding states are presented in Table 3. Kentucky crop land cash rents decreased \$2.00 per acre during 2000, going from \$74.00 to \$72.00 per acre. Rental rates were unchanged in most of the states surrounding the Commonwealth. Only Missouri and Ohio experienced increased land rental rates while Tennessee demonstrated a slight decrease.

Table 3. Crop Land Cash Rental Rates, Kentucky and Surrounding States, 1997-2001.¹

State	Cash Rent (\$ per acre)					Rent to Value (in %)				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
Kentucky	70.00	65.00	70.00	74.00	72.00	4.8	4.2	4.3	4.9	4.1
Illinois	109.00	111.00	111.00	119.00	119.00	4.9	4.7	5.1	5.3	4.9
Indiana	97.30	98.00	99.00	100.00	100.00	4.9	4.5	4.7	4.5	4.1
Missouri	56.00	57.00	59.00	62.00	65.00	5.5	5.3	5.4	5.0	4.7
Ohio	72.50	73.20	73.70	74.00	76.00	3.4	3.2	3.5	3.3	3.2
Tennessee	56.50	57.00	62.00	60.00	59.50	3.4	3.2	3.3	2.9	2.7
Virginia	36.50	35.00	35.70	36.50	36.50	1.8	1.7	1.8	1.7	1.6
West Virginia	32.00	29.00	28.00	26.00	26.00	3.2	2.7	2.5	2.5	2.1

¹ Source: National Agricultural Statistics Service, USDA, Washington, D.C.

Table 3 also presents the calculated rent-to-value ratios for the eight states. This ratio or percentage is often used to compare land cash rental rates to real estate values across regions. All eight states in the region experienced reduced rent-to-value ratios during 2000. These lower ratios across the region are undoubtedly a reflection of current low grain prices and expectations that they will continue in the near future. These changes are much more consistent with existing and expected agricultural economic conditions than are the observed changes in agricultural land values.

Table 4 reports results of the Agent's Survey concerning cash rental rates for agricultural land. As with the comparison to NASS estimates of real estate values mentioned earlier, the reported values differ to some extent. However, the difference was not great. The Agents Survey estimated a crop land cash rental rate of \$66.63 per acre whereas the NASS estimate was \$72.00 per acre. A comparison of the rental rates by region indicates that West Kentucky has by far the highest crop land cash rental rate of \$81.25 per acre while Central Kentucky's rate was \$65.24, and East Kentucky's rate was \$55.84 per acre. The higher rate in West Kentucky reflects the greater agricultural productivity of land in this part of the Commonwealth.

Table 4. Typical Kentucky Crop and Pasture Land Cash Rental Rates, Rent as Percent of Value, and Expected Change in Rental Rates Over Next 12 Months, October, 2000.¹

	State	East Kentucky	Central Kentucky	West Kentucky
Typical Crop Land Cash Rental Rate per Acre	\$66.63	\$55.84	\$65.24	\$81.25
Rent as Percent of Value	4.1%	3.9%	3.8%	4.7%
Expected Change Over Next Year (in Percent)	1.5%	0.4%	1.4%	3.0%
Typical Pasture Land Cash Rental Rate per Acre	\$30.04	\$28.75	\$29.60	\$32.33
Rent as Percent of Value	2.6%	2.7%	2.0%	3.2%
Expected Change Over Next Year (in Percent)	3.0%	2.6%	2.9%	3.6%

¹ Source: Survey of participants in Economic Subject Matter Training Meetings, October, 2000.

Table 4 also reports the expected change in rental rates for the next year. The Agents in all areas expected crop land cash rental rates to increase. However, the Agents in West Kentucky expected a much larger increase of 3.0% than did Agents in the Central (at 1.4%) and Eastern Kentucky (at 0.4%). These differences in expectations may simply be a reflection of the difference in the type of farming operations characteristic of the regions of the state.

Table 4 also reports Agents' estimates of pasture land cash rental rates which NASS no longer reports for Kentucky. These values are quite similar across the Commonwealth at about the estimate for the whole Commonwealth of \$30.04 per acre. The results concerning expected changes in the future are also quite similar. But, the expected increase in pasture land rental rates in Central and Eastern Kentucky are considerably greater than are those for crop land. These expectations undoubtedly reflect the improved price situation the beef industry has been experiencing.

Crop share rental arrangements are also a common method of obtaining control of crop land in Kentucky. Table 5 presents results of the Agents Survey which indicate that 33% of the land rented in Kentucky is rented on a crop share basis while 67% is rented on a cash basis. This breakdown shows a small increase in the use of cash rental agreements from 1998 and 1999 when cash rent was prevalent in 56% of rental agreements. However, the breakdown by regions of the state has changed markedly. Agents in West Kentucky estimated that only 38% of land was cash rented in 1998, by 1999 this had increased to 58%. In 2000 the use of cash rental agreements had decreased to 54% in West Kentucky. But, it had increased markedly in East Kentucky, going from 48% in 1999 to 67% in 2000. A similar change had occurred in Central Kentucky where the use of cash rent increased from 63% in 1999 to 76% in 2000.

Table 5. Commonly Used Kentucky Crop Land Rental Arrangements, October, 2000.¹

	State	East Kentucky	Central Kentucky	West Kentucky
Cash Rental	67%	67%	76%	54%
Crop Share Agreement	33%	33%	24%	46%
Most Common Crop Sharing Arrangements:				
50/50	47%	86%	42%	6%
40/60	17%	14%	29%	6%
33/67	12%	0%	0%	41%
25/75	24%	0%	29%	47%

¹ *Source: Survey of participants in Economic Subject Matter Training Meetings, October, 2000.*

Table 5 also presents a breakdown of the most commonly used type of crop sharing arrangements across the Commonwealth. The 50/50 crop sharing agreement is by far the most common. However, there is a vast difference between regions of the state. The Central and Eastern regions of the state use the 50/50 agreement to a much greater extent than it is used in West Kentucky. The 25/75 and 33/67 agreements seem to be in much greater use in West Kentucky than is the 50/50 arrangement.

Kentucky Agent Survey Results for 1996-2000

The annual survey of Agents described earlier has been going on since 1996. We have been able to collect annual estimates from Agents over five years. The results of the five years are reported in Tables 6 and 7. Table 6 reports the average value of Kentucky agricultural land over the five years (1996-2000) on both a statewide and regional basis. There were a few unexpected results reported over the five years.

First among these unexpected results is the apparent decline in the average price of Agricultural Land and Buildings from 1999 to 2000. This decline was consistent in both East and Central Kentucky. The only region reporting an increase was West Kentucky, which had reported a decrease in values from 1998 to 1999. These differences may be a result of the greater influence of the agricultural economics situation in West Kentucky and the greater urban influence in the other two regions. A further influence that may be reflected here might be the greater liquidity of farmers resulting from government programs providing emergency aid. A major surprise might involve the Agent Survey report concerning the change in the value of pasture land from 1999 to 2000. All estimates of pasture land values declined except for a slight increase in Central Kentucky. This seems inconsistent with the relatively good economic conditions being enjoyed by the beef industry with good product prices and low feed prices.

Table 6. Average Price of Kentucky Agricultural Land, 1996-2000.¹

	Average Price of Ag Land & Buildings	Average Price of Crop Land	Average Price of Pasture Land
State of Kentucky:			
1996	\$1,651	\$1,608	\$1,014
1997	\$1,699	\$1,753	\$1,025
1998	\$2,022	\$1,971	\$1,212
1999	\$2,389	\$2,162	\$1,609
2000	\$2,266	\$1,903	\$1,439
East Kentucky:			
1996	\$1,300	\$1,358	\$684
1997	\$1,586	\$1,621	\$879
1998	\$2,044	\$1,714	\$1,168
1999	\$2,885	\$2,508	\$1,976
2000	\$2,524	\$2,124	\$1,721
Central Kentucky:			
1996	\$2,032	\$1,875	\$1,382
1997	\$1,883	\$1,804	\$1,363
1998	\$2,183	\$2,505	\$1,415
1999	\$2,203	\$1,969	\$1,500
2000	\$2,086	\$1,824	\$1,524
West Kentucky:			
1996	\$1,544	\$1,606	\$838
1997	\$1,677	\$1,923	\$871
1998	\$1,739	\$1,743	\$992
1999	\$1,687	\$1,801	\$1,034
2000	\$2,169	\$1,729	\$985

¹ Source: Survey of participants in Economic Subject Matter Training Meetings, October, 1996-2000.

Table 7 reports Kentucky crop and pasture land cash rental rates for 1996-2000. This table shows much greater variability in cash rental rates than one typically sees in results on a statewide basis. Looking at the results on a statewide basis, the cash land rental rates for both crop and pasture land appears to alternate between increases and decreases from year-to-year. These results seem to be at odds with the results reported by NASS over the period (see Table 3). However, this difference is most likely a result of differences in the timing of the estimates rather than actual differences in results. The one result in Table 7 that is consistent with economic expectations is the reported decline in cash rental rates for crop land in West Kentucky from \$90.54 per acre in 1997 to \$81.25 per acre in 2000. This downward trend seems to reflect the ongoing period of depressed crop prices during this period.

Kentucky Farm Real Estate Outlook

The outlook for farm real estate values in Kentucky seems clear, just as it has for the past few years. Most agricultural commodity prices, except beef, are relatively low across the board and have been for a number of years. This would suggest that agricultural real estate values should not increase. But, this has seemingly been the situation for a number of years and Kentucky farm real estate values have been increasing for 14 years. The increase of 10.6% experienced during 2000 was quite large! It has become obvious that economic conditions in Agriculture are not the major driving force behind increasing farm land values. It is a combination of factors; including low interest rates, non-farm demand for land for housing and recreational uses, as well as government emergency and

disaster aid programs that provide farm business liquidity, as well as farmer demand for land for expansion. Combining all these factors seem to point to an ever increasing value of agricultural real estate. The booming non-farm economy with low unemployment seems to have provided strong support for agricultural land values as traditionally non-farm folks start looking to enjoy the benefits of land ownership. However, the recent cooling of the general economy combined with the results of the terrorist related disasters that took place on September 11, 2001 may bring the booming economy to a drastic halt. Should that happen, much of the non-farm demand for agricultural land may evaporate. Further, major changes in the economy may result in different farm policies which do not include the same disaster and emergency aid programs that have been in place for the past few years. Should these changes take place, Kentucky farm real estate values will not continue to increase as they have in the very recent past.

Table 7. Typical Kentucky Crop and Pasture Land Cash Rental Rates, 1996-2000.¹

	Crop Land	P a s t u r e Land
State of Kentucky:		
1996	\$62.65	\$24.44
1997	\$60.24	\$23.88
1998	\$66.40	\$36.15
1999	\$57.54	\$25.11
2000	\$66.63	\$30.04
East Kentucky:		
1996	\$47.11	\$18.97
1997	\$40.75	\$19.43
1998	\$55.96	\$31.94
1999	\$53.33	\$24.54
2000	\$55.84	\$28.75
Central Kentucky:		
1996	\$51.82	\$23.66
1997	\$60.00	\$24.88
1998	\$64.41	\$35.88
1999	\$50.00	\$25.38
2000	\$65.24	\$29.60
West Kentucky:		
1996	\$84.25	\$27.41
1997	\$90.54	\$30.91
1998	\$88.21	\$44.62
1999	\$83.18	\$25.83
2000	\$81.25	\$32.33

¹ Source: Survey of participants in Economic Subject Matter Training Meetings, October, 1996-2000.

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