

# Why Farms Are Fetching Record Prices

Sales and Prices of Rural Land Are Surging

[David Matthews](#)



Land brokers are telling LoopNet that business has never been better for farm sales. (Brown Land + Plantation Advisors)

Mike Lashley has been selling farms and ranches in Nebraska for 45 years, and business has never been better. What used to be highly leveraged deals back in the 1980s have become 80% cash purchases in recent years, Lashley said, and more and more of his farmland buyers don't have the first clue how to drive a tractor or plow a field.

"I had a doctor from Las Vegas who bought a \$4.5 million farm and didn't even look at it," Lashley said. That deal closed last December, and land prices have only gone up since.

Land brokers across the country are reporting record sales figures as several factors drive interest in farmland, ranches and recreational hunting grounds. Sales of land reached nearly \$100 billion in 2021, up from less than \$60 billion in 2020. And land prices are rising faster than any other commercial real estate asset class, according to CoStar data. [CoStar's U.S. Land Index](#), which tracks sale prices, rose 12.6% in the 12 months ending in June, reaching its highest point in the index's 24-year history.

While that data tracks sales of land for all types of uses, including for residential and industrial development, many signs are pointing to boosted demand for farmland specifically. Not the least of which is stubbornly high inflation, last reported at 8.5% in July, which has pushed more investors this year out of a weak stock market and into land banking that can also yield modest cash returns as a bonus.

"They aren't buying this to get a return. A ranch will return you 1.5% to 2%, a farm will give you a net return of 3%," said Lashley, of North Platte, Nebraska-based Lashley Land & Recreational Brokers. "[But] the land, [the price] just continually goes up."

Still, an investor interested in farmland needs to expect upfront costs, volatile returns from crops and cattle, and a need for knowledgeable hired help. LoopNet talked to land brokers across the country to seek their guidance for first-time investors looking to beat 40-year-high inflation with a life on the farm.

## **Finding a Farm**

Like all real estate, farmland is local. What makes a property attractive in Nebraska may not work or isn't available in Wyoming or Colorado. Knowing what you want and finding not only a knowledgeable land broker, but an operator who knows the terrain, is essential when scouting farmland acquisitions.

“Everything changes [from one location to the next]: rainfall, types of grass, types of farmland, water availability,” Lashley said. “You need to find someone who is competent in the area that you're looking for.”

For this reason, the most common type of farmland purchases are sale-leasebacks, where an investor buys the property and leases it back to the farmer(s) tending to the property. But the length of these leases can vary widely, based on interviews conducted by LoopNet.

Lashley said his clients typically enter into shorter-term, year-by-year leases with rents that go up and down with the often-volatile prices of corn, soybeans and other agricultural commodities.

Bruce Steffens, a land broker who has been in business for 46 years in Colorado and New Mexico, said his deals typically involve much longer-term leases that can last up to 30 years. The motivation for these deals is largely driven by a desire to lock down water rights in increasingly dry western states, Steffens said.

“If you have an investor buying a farm or ranch, understand that water is gold. The water is more important than the farm,” said Steffens, of South Fork, Colorado-based Steffens & Co. Realty. “If they don't have water they're in big trouble in Colorado.”

Steffens said [capitalization rates](#) for farms and ranches in his terrain usually range from 5% to 8%.

## **Finding a Farmer**

The other two options for buying a farm or ranch are seeking new operators, in hopes of delivering a higher return, or converting rural land to farm or ranch use. The latter instance is rare due to the upfront costs required.

As for finding hired help, the land brokers who help investors navigate

farmland purchases also can help connect them with operators in the area to manage the land. This is vital to a novice farm investor who doesn't have the knowledge or expertise to rotate crops or make sure their pastures aren't over- or under-grazed.

Equipment is another barrier to entry. A decent tractor alone can cost \$300,000 to \$500,000.

For the upfront costs to start a farm, Steffens said, "You better have \$1 million in your pocket."

## **Is Now the Time To Buy?**

The recent surge in land investments has been fueled by the pandemic, which inspired real estate investors of all stripes to seek more space, sources said. One beneficiary is C.J. Brown, a land broker who specializes in "plantation properties" including recreational hunting and fishing grounds, as well as timberlands, crops and livestock in the South Carolina Lowcountry.

"Land is steadily appreciating. It doesn't seem to be affected by what's going on in the world," said Brown, of Brown Land + Plantation Advisors. "The investors keep getting younger and younger."

But many of those same market forces driving farmland purchases may also be signaling that this is a good time to sell. The overarching dynamic, Brown said, is that "demand is high; supply is low."

One investor looking to cash out, at least on one property, is Dylan Rexing, who has listed a [2,000-acre farm in northeast Texas](#) for \$9 million. Rexing, who's based in Evansville, Indiana, first bought the Texas farm 10 years ago because he couldn't find a contiguous tract that big in Indiana. He's now refocusing on assets closer to his home.

"In southwest Indiana you can't find 1,000 acres connected, it doesn't exist,"

he said.

The experts LoopNet spoke with agree that buying land as a long-term investment is reasonable. The challenge for most investors will be finding ways to generate cash flow from their purchases. But based on surging land prices, high inflation and an uncertain stock market, it's clear that more real estate investors are willing to make that bet.