

## MARKET SNAPSHOT Land Value

September 30, 2023

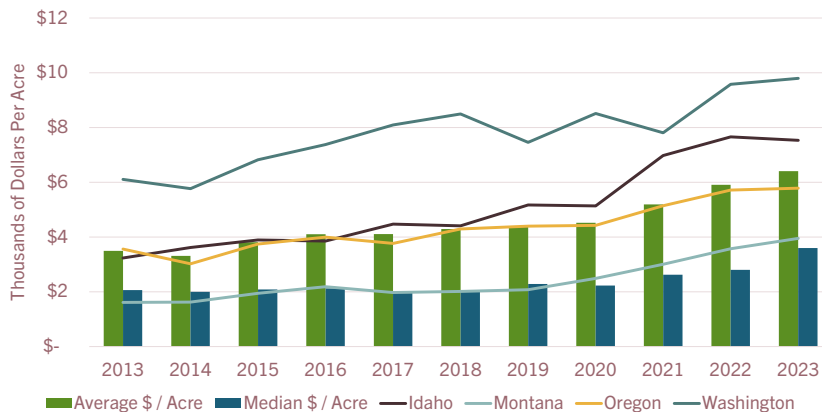
### Executive summary

Strong demand from operators and investors coupled with low inventory levels continue to elevate agricultural land prices. Persistently high interest rates have decreased affordability and increased the use of creative financing options, such as owner-carry (previous owner of the property carries the note rather than a bank). Investors from out of the area or those with 1031 Exchange funds (tax-exempt funds for real estate investments) are competing for land when available. Limited supply may be distorting land values and/or delaying any changes in the market.

### Sales value and volumes

The volume of agricultural land sales in the Northwest continues to fall year over year, largely due to limited supply. The relatively limited volume of verified land sales indicates stable to increasing values. Land values in Oregon and Idaho are flattening due to a greater share of low-quality properties available than high-quality properties.

### Average Land Values Per Acre, Northwest



Source: AgWest's proprietary sales database. Industrial site sales excluded. Data collection lags about six months and is subject to change.

### Land value considerations

**Interest Rates** – Higher interest rates are one of the most frequently reported deterrents to land acquisition coupled with low inventory. See our [Quarterly Economic Update](#) for a more in-depth analysis.

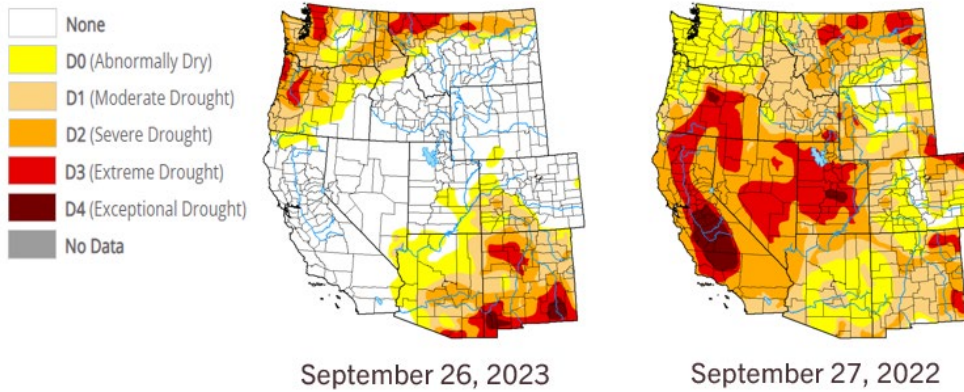
**Residential** – The housing market in most areas has cooled, largely due to high interest rates. A cooling market may lead to fewer developments and alleviate upward pressure on agricultural lands, particularly those surrounding population centers; however, that impact has yet to be seen as agricultural lands remain in high demand.

**Availability** – Inventories of agricultural land are low throughout the region, which continues to bolster values despite elevated interest rates.

**Farm Income/Commodity Prices** – After reaching record highs in 2022, USDA forecasts farm-sector income will decline by 25.4% in 2023. While this may disincentivize prospective buyers, the correlation between land values and commodity prices in recent years has been weak as many perceive land as a stable, long-term investment. The 2023 outlook for commodities in the Northwest is mixed, but no negative impact on land values has been seen. Visit our [Industry Insights Webpage](#) for more information and market updates.

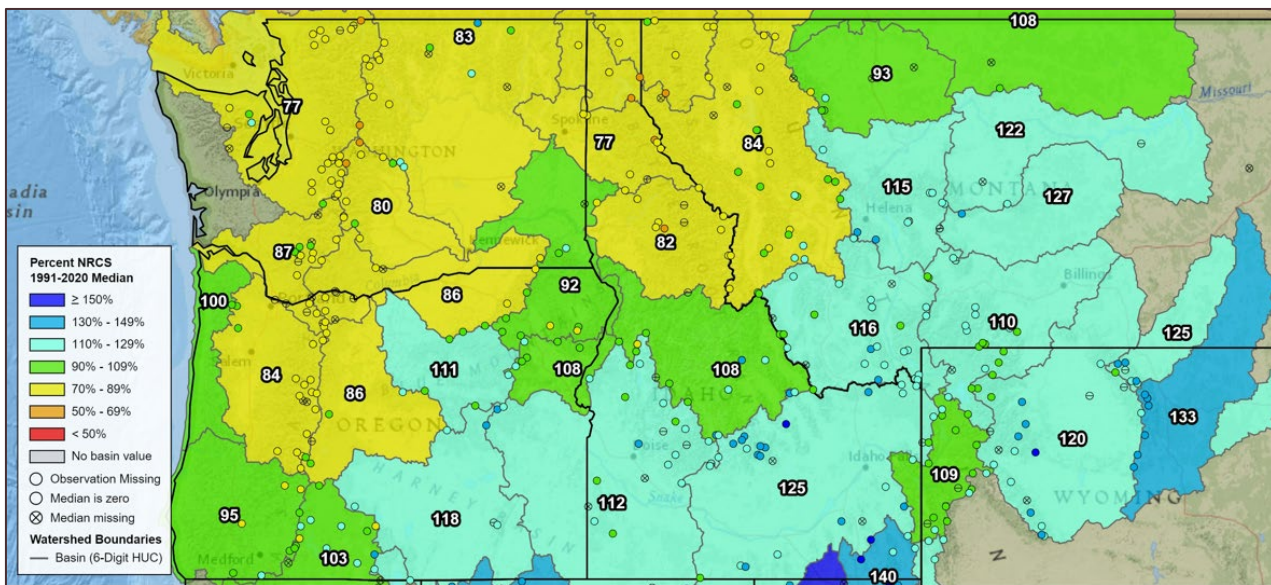
**Drought** – Good snowpack last winter and spring rains brought relief to drought-stricken areas throughout the West. Year-to-date precipitation levels throughout the Northwest range from 77% to 140% (see map below). Storage water and irrigation conditions were generally favorable through the 2023 growing season; however, approximately half of the Northwest territory saw drought conditions in late summer and into fall. There are significantly fewer areas under severe, extreme or exceptional drought than in September 2022 (see maps below).

**Drought Classifications, Western States**



Source: University of Nebraska, U.S. Drought Monitor.

**Year to Date Precipitation, Northwestern States**



Source: NRCS National Water and Climate Center. Data as of September 27, 2023.

**Current considerations for agricultural land by state**

**Washington**

- Agricultural land remains in strong demand, with few transactions taking place due to low inventory available. When sales occur, they indicate stable to increasing prices.
- The Columbia Basin Irrigation Project appears to be gaining nationwide attention, attracting out-of-area buyers looking for investment quality farm ground with reliable water availability and a diversity of crop options.
- Although conditions improved year over year, dryland areas were hit with continued drought stress, reducing yields. Irrigated areas had sufficient water through the growing season.
- In areas where a recreational market exists, few sales have occurred and listing prices have seen reductions. Extended listing times are common.

- The rural residential market has slowed significantly due to increasing interest rates; however, demand still exists for good-quality rural residential properties outside of larger communities, holding upward pressure on farmland surrounding population centers.

## Oregon

- Water availability was adequate during the growing season throughout most of the state, a welcome change from previous years. The western part of the state started to see drier conditions through late summer and fall.
- Demand for agricultural properties continues to outpace supply, with properties often selling at the top of the market. Institutional investors are prevalent in the market, often bidding up prices to historic highs.
- The recreational market has leveled off from previous years as evidenced by longer listing times and decreases in listing prices. The market for recreational properties has remained untested in recent months, and not enough data is available to determine if land values in this market segment have decreased.
- Demand for rural residential properties has been declining in light of high interest rates. Longer listing times and price reductions are being seen in this market segment.

## Montana

- Growing conditions through the majority of 2023 were favorable with good moisture conditions. Towards the end of summer, some areas began to see drought conditions return. Some pastures experienced grasshopper pressures.
- Demand continues to be strong for recreational ranch properties, particularly those with high amenities (recreational streams and ponds, good habitat for wildlife, access to public land, etc.). The size of recreational ranches does not seem to hinder investment because legacy-minded buyers are not reliant on traditional financing and have other sources of capital to make purchases.
- Ranches that have fewer recreational amenities and are more production oriented are seeing longer listing times (up from historical lows) despite continued demand. This may reflect a market in transition.
- Other good-quality agricultural real estate outside of ranching properties continues to be in high demand. Demand for lower-quality agricultural properties appears to be softening.
- Demand in the rural residential market is mixed depending on location. In some areas, the market has cooled off from previous highs, while demand in other areas continues to outpace supply. In northwestern Montana, for example, it is not uncommon for agricultural properties to be split into 20-acre or smaller properties and sold off for rural residential use.

## Idaho

- The Idaho Department of Water Resources issued a Methodology Order to determine the impact caused by junior groundwater users pumping from the Eastern Snake Plain Aquifer. Approximately 900 groundwater rights (junior to December 30, 1953) that are not protected by an approved mitigation plan, could be subject to curtailment. Discussions and final decisions around this order are ongoing.
- Demand for agricultural properties remains strong with some properties selling above historic highs. Inventory levels remain limited and competitive throughout the state.
- Good snowpack and timely rains provided a good water supply in most areas. Although untimely rains during the growing season damaged some crops.
- The recreational market has slowed but remains active. The purchasing power of market participants has decreased due to higher interest rates. Recreational properties are seeing longer listing times.
- Across most of the state, the rural residential market has slowed significantly due to high interest rates. Out-of-state buyers are still present in the marketplace, particularly in the Treasure Valley, and often have stronger purchasing power than local residents due to their ability to sell assets (often homes) in other sales.

Share your feedback! [Click here](#) to complete a two-minute survey about this Snapshot.

## About AgWest Farm Credit Appraisal Services

AgWest appraisers provide appraisal services on rural properties throughout the Northwest. The Appraisal Services team continually researches sales and tracks market data throughout Idaho, Montana, Oregon and Washington. They compile the market data and analyze it using a central database.

This report provides a high-level look at trends and market characteristics and does not provide details for specific areas or land types. The report should not be used to identify a value for a specific property. This information is limited only to an analysis of trends in identified land values within the geographic area served by AgWest Farm Credit.

## **Learn More**

For more information or to share your thoughts and opinions, contact the Business Management Center at 866.552.9193 or [bmc@AgWestFC.com](mailto:bmc@AgWestFC.com).

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