

MARKET SNAPSHOT

Land Values

Dec. 31, 2022

Executive summary

Interest rates, input costs, commodity prices and ongoing drought conditions are top risk factors for land values moving into 2023. While agriculture real estate demand remains strong, inventories are generally low and affordability is declining due to higher financing costs. Demand for rural residential and recreational properties has slowed from recent boom levels. Verified sales data does not show a fall in agricultural land values despite producers' caution around economic uncertainties. Sentiment among market participants (local operators, investors and rural residential buyers) is land values will fall in 2023 in light of increasing interest rates.

Northwest region trend

Sales value and volume

Most areas report sustained, but varied demand based on market segment and inventory levels. Sales between landlords and tenants are common and investor interest remains present. Farmland values continued to rise dramatically in 2022 (see chart below) while the number of transactions leveled off (there is a six-month lag in the data). As of Dec. 22, 2022, staff collected 932 land sales with an average value of \$5,881 per acre in the Northwest.

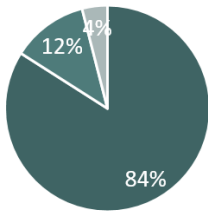
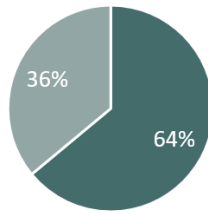
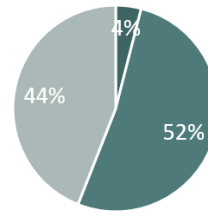
Average and Median Land Values and Number of Sale



Source: AgWest's proprietary sales database.
 Only transactions over 40 acres are included.

Appraiser sentiment

A recent survey of AgWest Farm Credit appraisal staff suggests inventories across the Northwest are low, land values are stable to increasing and listing times are stable to increasing (see charts below). Survey respondents indicated that the rural residential market has slowed significantly as it is more sensitive to interest rates than agricultural markets.

Land Inventory**Value Trends****Listing Times**

■ Low ■ Adequate ■ High

■ Stable ■ Increasing

■ Shorter ■ Stable ■ Longer

Source: Sentiment Survey Completed by staff in December 2022.

Land value considerations

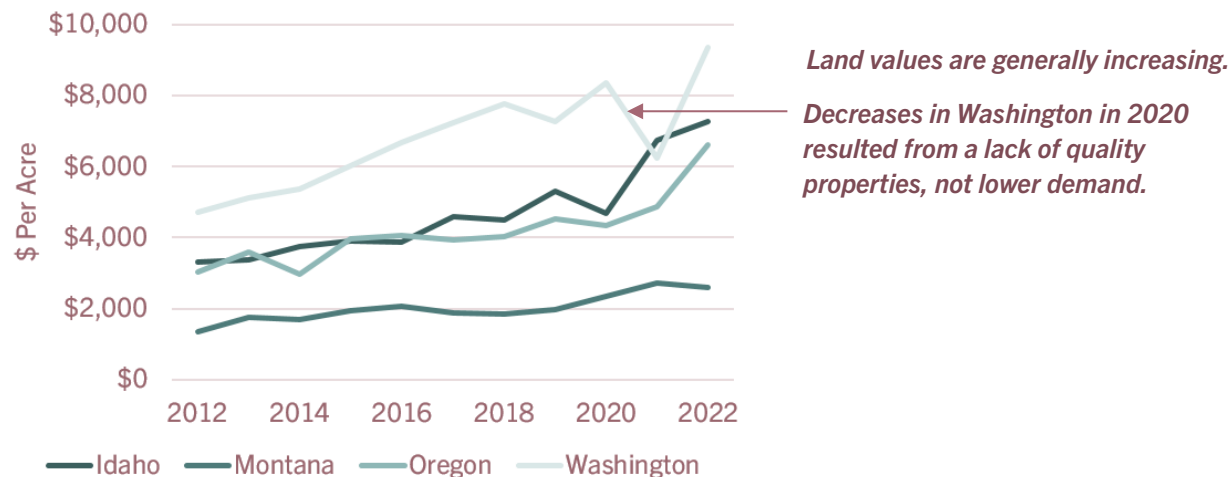
Interest Rates – The Federal Reserve raised the federal funds rate again in December to the highest level in 15 years and expectations are for additional increases through mid-2023. Despite strong interest from potential real estate buyers, rising financing costs are leading to increased listing times and fewer transactions. These trends are indicative of a slowing market.

Affordability – Home prices have started to decline; however, there continues to be a lack of affordable housing in some areas. A cooling market may lead to lower new developments and alleviate some upward pressure on agricultural lands. Agricultural land values are holding steady.

Commodity Prices – Commodity prices are generally positive, but many have decreased from their 2022 summer highs. Uncertainty about the future is causing some operators to delay expansions.

Drought – While most areas throughout the Northwest continue to experience some level of drought, conditions have improved with fewer areas under “extreme” or “exceptional” classifications as compared to a year ago. Precipitation levels in much of Idaho, eastern Montana and eastern Oregon are around or above 100% of normal as of December 2022, while most of Washington, western Oregon, and western Montana are hovering around 70% to 80%. Most areas in the Northwest had a strong start to the winter and are reporting snow water equivalent levels of over 100% of normal.

Average Land Values Per Acre, by State



Source: AgWest's propriety sales database.
Only transactions over 40 acres are included.

Current considerations for agricultural land by state

Washington

- Agricultural investment firms continue to seek high quality orchard tracts; however, aggregate demand for orchard tracts has decreased. Supply and demand conditions remain stable as there are fewer listings available.
- Dryland values are generally stable to increasing. Rising competition between long-time landowners and out-of-area investors is an important driver.

- There's limited supply of irrigated agricultural real estate. Market participants are cautious because in many cases, commodity prices have not kept pace with rising interest rates and input costs.
- Increasing interest rates have dampened demand for rural residential lots and small part-time farming tracts. Values are declining slightly within this market segment.
- Western Washington continues to see a limited supply of good quality agricultural land for sale.

Oregon

- Rising financing, input and transportation costs are contributing to a sense of caution among buyers. Consequently, marketing times are getting longer.
- While demand for land (including existing and prospective vineyards) and rural residential properties is slightly down from last year, it continues to exceed supply and support elevated values.
- Buyers are especially cautious in higher priced areas; however, institutional and private investment demand exists, particularly for larger opportunities.

Montana

- Small acreage, residential and recreational real estate sales volume increased through mid-2022. Available inventory offered on the open market is currently tight.
- In the second half of 2022, aggressively priced properties started to see some pullback and/or stay on the market for longer. Along with anecdotal reports from industry professionals, this may indicate a slowing market.
- Sales activity on high-profile ranches decreased in 2022; however, interest in high quality production ranches remains strong.
- The influx of out-of-state buyers from urban population centers is slowing.
- Over the last six months, market activity in eastern Montana appears to have slowed. Buyers are primarily interested in high quality properties, of which there is a limited supply at reasonable prices.
- Sales between landlords and tenants remain prominent, often resulting in lower prices (largely due to working relationships) in relation to comparable market data.
- Most of the state experienced very dry conditions through mid-2022, particularly eastern Montana, but subsequent rain relieved much of the drought stress. While western Montana remained dry through the summer, fall moisture and winter snow helped improve conditions. Drought remains a concern in all parts of the state heading into 2023.

Idaho

- Idaho is expected to see continued population growth over the next ten years, especially in the Boise Metropolitan Area, putting upward pressure on land values and increasing development of farmlands.
- Rising interest rates have slowed home purchases. Some developers have reported they plan to slow construction given the increase in listing times.
- While listing times for agricultural land have increased due to slightly lower demand, values remain stable to increasing given the limited supply. High quality properties remain particularly in demand.
- Drought continues throughout much of Idaho, but conditions have improved in most areas year over year. Year-to-date precipitation is hovering around or above 100% of normal. Current snow-water-equivalent levels across the state are between 120%-140% of normal, creating a positive outlook for irrigation in 2023.
- After four years of positive recharge, aquifer levels have decreased the last two years due to ongoing drought conditions. It is uncertain which, if any, water mitigation steps will be put in place to bolster recharge efforts.

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