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'I'm bidding for my kids and my grandkids'

This Business of Farming

My trip to the auction: High cash grain prices and hefty bank accounts add up to some dizzying land sales prices.

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High cash grain prices, low interest rates, and hefty farmer bank accounts are adding up to some dizzying land sales figures: \$10,000, \$13,000, even \$16,000 per acre for top-producing land.

Add in competitive human nature, few alternative investment options and the urge to build a land base for the next generation, and you have a situation ripe for record prices.

I got to see one of those sales last week when five tracts totaling 302 acres (290 tillable) were auctioned off in Logan County, Ill. Soils included Ipava, Sable silty clay loam and tama silt loam. Tracts were broken up by 35-, 70, 115, 35- and 47-acre tracts, closely located to Lincoln, a small town of 14,000.

Let me set the scene for you: About 90 people show up at the American Legion hall in Lincoln, Ill., 30 of whom are registered bidders, checkbook in hand. According to [Murray Wise](#), the Champaign, Ill.-based realtor in charge, most are farmers; MetLife, realtors, bankers, Farm Credit System and other institutional investors are here as well.

You might think selling five tracts of land would be a short and simple process. But bidders bid on individual tracts, any combination, or all five tracts at once. Sales associates use a big erasable board to jot down numbers as the bids come in. "We've had as many as 90 different combinations in past sales," says Arden Schrader, the auctioneer in charge. "In those cases, we use a computer for backup."

Bidding for individual tracts start at rock bottom prices – just over \$4,000 per tillable acre. Turns out those bids are just a tease. Soon enough a local, well-known large-scale farmer puts in a bid for all five tracts: \$1,870,000, or \$6,192 per acre. Now things are getting interesting.

After a half hour, the bidding wars settle down to individual bidders pushing to win the single tracts, vs. the local farmer who wants all five tracts. If a bidder wants one tract, he was not only bidding against other individuals, but also against the 'all-in' bidder.

This goes on for about an hour. Bidding wars break out, followed by a lull. A bid for all tracts comes in for \$2 million, followed by individual bids that push the five amounts over \$2 million.

Everyone is punching calculators and furiously scratching down figures. Schrader keeps the crowd focused. "If you've got the cash in the bank, you might as well have it out there making you money," he tells the group.

Just when it looks like the auction is over, a new bid - \$2,660,000 for all tracts, or \$8,900 per tillable acre – comes in. The auctioneer starts a two-minute warning and, like clockwork, more individual bids start flowing in to try to top the overall bid. I ask one of the sales associates if it's always like this. "It's unusual, but it shows there is still strength in the room," he says.

At the 1 hour 15 minute mark, individual bidders push the total to \$2,675,000. The auctioneer gives another two-minute warning. Wise looks to the group bidder; he has had enough. The auctioneer declares the sale over and applause breaks the tension in the room.



Final tally: \$9,100 per tillable acre. Not the eye-popping numbers of \$13,000 or even \$16,000 per acre we've heard around Illinois and Iowa the last few months, but certainly strong enough.

Four of the five winning bids went to farmers, says Kati Przybylski, a senior associate at Murray Wise Associates. She says it's all due to simple math: pent up demand and fewer acres for sale. "A lot of farmers are willing to go a little higher than the bankers," says Kati, pictured left marking the tote board. "They've been waiting for this land to open up and they want to stretch their operations a bit."

Later, the farmers who bid – both winners and losers – tell me they are in a much better financial position to take a hit if demand or prices go south. The farmer whose winning bid for the largest tract (115 acres) says he's happy to talk off the record.

"It's pretty simple: corn went from \$3.65 to \$6.50 and if you generate good yields, as a general statement we invest back into farmland," he says. "With \$6 corn and 180 bu. per acre that's \$1,080 gross per acre. We've generated a lot of dollars in the last few years and we choose to put that back into land."

"It's different than the 1980s," he adds. "Back then people got aggressive and were highly leveraged. Today for the most part we have the financial reserves to weather a storm."

This farmer has purchased several farms since 1970 when he first started farming. This was the first time he paid as much as \$9,100 per acre, but he believes over time that price, like the prices paid for earlier purchases, will pan out. "I might have paid too much back when I bought those farms long ago, but today, none of those were bad decisions," he says. "Part of this is driven by the need to help expand land base for the next generation."

John Agee, defeated in his bid for all five tracts, tells a similar story. "I'm not bidding for today – I'm in it for tomorrow," says Agee, who farms near New Holland, Ill. "I'm bidding for my kids and my grandkids who may be farming 40 to 50 years from now."

Agee (left in bottom photo) knows land prices can fall just as quickly as they can go up. "I'm a very cautious person. Buying high and selling low probably won't pan out," he laughs. Even so, land still pencils out at \$9,100 per acre, he adds.



"Good grain prices and low interest rates are why prices are high," he says. "Most of us have enough money in the bank to survive a 30% drop in land values. But the returns for farmland are better now than anywhere else, and that's why land prices are where they are today."

No Bubble Here

Murray Wise is all smiles after the auction, but he cautions me on using the word "bubble" in relation to farmland prices.

"Fifteen years ago we were selling \$4,000 land with \$160 per acre cash rents; today

the top land is \$10,000 and some rents are \$400 per acre, so it's the same ratio," Wise tells me.

"I travel worldwide and the demand is just skyrocketing. The U.S. farmer is in a long-term profitable situation with a very bright future."

"Three-quarters of Iowa farmland has no note or mortgage associated with it," he adds. "Name one other industry that has that kind of sustainability in its debt-to-asset ratios. It's unbelievable."

And what about today's sellers? "They're ecstatic," Wise says. "Two-thirds of the way through the auction they all went to the bar to get cocktails."