With High Net Farm Incomes, Kansas Leads U.S. in Land Value Spike

Kansas has seen greater increases in agricultural land values over the past several years than any other state. Kansas cropland prices, on average, rose 16.6% from 2022 to 2023, four times more than the annualized inflation rate. Largely, this is owed to historically high levels of net farm income (NFI) in Kansas over the past several years.

NFI is one of the best indicators of agricultural land values. Land is one of the most important investments a farmer can make to grow his operation, and high NFI makes those investments much more manageable. High NFI also attracts interest in agricultural land from outside investors because it suggests that farm ground can be a profitable venture in one’s investment portfolio. When demand for agricultural land rises, land prices rise with it.

However, all has not been sunshine and roses in the farming world recently. North-central Kansas has suffered through three years of La Nina and drought, leaving subsurface soil parched and incapable of delivering historically proven yields. Fertilizer, seed, and chemical prices have risen dramatically. Average yields declined continuously from 2020-2022 for the region’s major row crops. Nevertheless, NFI remained elevated these past few years. What’s the story?

Until recently, crop prices have been at historic highs. Only in the last several months have prices slid to what one might consider “typical”. Even so, 2023’s September/October harvest lows pale in comparison to the bottoms hit during the coronavirus pandemic, when global supply chains were effectively shut down, and $3.00/bu. corn was regular. Most row crop commodities are still trading close to 40% higher than just three years ago.

Furthermore, many local row-crop farmers also have cattle enterprises. Drought has forced extra culls, national herd size has trended cyclically lower, and demand has remained steady, so those who have retained optimal herd size have been earning respectable profits. Often, crops grown alongside cattle enterprises are incorporated into feed rations, so lower grain prices can be absorbed into higher cattle margins by limit-feeding corn.

The other side of the story is government payments and crop insurance. Livestock prices may one day fall off, but government involvement in NFI is here to stay. In fact, government payments and crop insurance have an inverse effect on NFI compared to farms’ actual agricultural productivity. When drought or disaster strikes, or when yields are low, government payments and crop insurance pay well, and in bumper crop seasons, insurance premiums often outweigh indemnities.

In 2022, for example, the Kansas Farm Management Association, North Central (KFMA-NC) reported an average NFI among its clients of $146,000. Of that, $62,000 was crop insurance payments, $10,000 was government crop payments, and $2,000 was livestock government payments. Subtracting out the average crop insurance expense of $20,000, nearly $55,000 of net farm income did not come from farms’ actual productivity. That means that of the average $146,000 NFI, 37% was attributable to government payments or crop insurance, while only 63% was attributable to what farms actually produced.
According to KFMA-NC, in 2021, conversely, crop insurance premiums far outweighed indemnities on average in North-central Kansas, $15,000 to $4,000. However, average government payments were up at $65,000, well above $12,000 in 2022. NFI attributable to government payments and crop insurance likewise came out to almost $55,000, or 20% of total NFI. In 2020, net government payments and crop insurance indemnities totaled almost $90,000, over 50% of the average total NFI in north-central Kansas.

Whether farm production was higher or lower, NFI was boosted by government payments and crop insurance these past several years. However, this discrepancy is not necessarily considered when it comes to land values because land purchasers will participate in government and insurance payouts on that new land. Nevertheless, land value is not purely reflective of its expected productivity, but of what buyers are willing and able to pay for it, which is inflated by government involvement.

One could argue that much of the large government payments seen in 2020-2021, were emergency measures enacted to mitigate the economic effects of pandemic-related issues. Still, there are downstream consequences to saturating NFI with government payments: higher land prices. The hardship this poses to farmers is more than just stifling future land investments: it is realized through larger tax liabilities on land reappraised for sale.

Going forward, it is important to note that just because NFI may decrease, land prices may not decline with it. Government payments will likely be lower going forward than in 2020-2021, higher interest rates may frustrate land demand, and crop insurance payments may be lower this year than before among select row crops. But, if inflation is high, interest in agricultural land is strong, and farming proves a profitable endeavor in the short-to-medium term, land values will continue to rise, albeit at slower rates than the cumulative 15-20% increases observed recently.

If you would like to learn more about how you can monitor agricultural land markets, manage your farm assets, or invest in your operation’s future, please reach out to Luke Byers, your River Valley Extension District Agriculture & Natural Resources Agent, at (785) 632-5335 or by email at lsbyers@ksu.edu.

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