Staff Report

Louisiana Land Market Report

Land Market Indicators in Louisiana

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Summary

This publication reports on the first Louisiana Ag Lenders and Land Appraiser's survey. The survey is designed to give an update on land values and cash rents for three agricultural land uses, cropland, pasture and forestry, across the state of Louisiana. The survey was also designed to provide a general outlook on expectations of farmland price and rent, interest rate movements and expectations for farm solvency across the state. Responses to the survey are from the perspective of agricultural lenders and rural appraisers across Louisiana. Respondents were divided according to one of the five (5) AgCenter regions they primarily serve: the Northwest (region 1), Northeast (region 2), Central (region 3), Southwest (region 4) and Southeast (region 5). It is our hope that the results from this survey will be useful to all concerned stakeholders in Louisiana's agricultural industry.

In general, survey participants expect values of both irrigated and non-irrigated cropland (~$3870/acre and ~$3240/acre respectively) to remain largely unchanged to slightly increasing in the Northern regions, while in other regions values of both irrigated and non-irrigated cropland are expected to remain generally unchanged. Cropland cash rents on the other hand are expected to have much more variation in movements with cash rents on non-irrigated land (average of ~$123/acre across the state) expected to decrease slightly in three of five regions and slightly increasing in one (Southeast). Cash rents on irrigated land (average of ~ $132/acre across the state) are expected to see increases in the Northwest and Southeast regions with other areas seeing mostly no change to some expectations of a cash rent decrease (Southwest region).

Survey respondents expect that both the values (average of ~$2750/acre for the state) and cash rents (average of ~$29/acre) on pastureland will see some increases in the Northwest region and decrease in the Southwest. Survey respondents expect the Southeast region to see increases in pastureland values and decreases in cash rents. Pastureland in other regions are expected to remain mostly unchanged. Mature hardwood and mature pineland values averaged ~$2910/acre and ~$3220/acre respectively at the state level.

On the behavior of farm financial indicators, the survey respondents expect no significant change in Chapter 12 bankruptcy filings in most regions in Louisiana. The exception being the Northeast region where a slight increase in Chapter 12 filings is expected. **Interest rates** on short term (operating) loans are generally expected to remain unchanged to decreasing except in the

Northwest region where short term interest rates may increase. Short term loan **volume** is expected to decrease except in the Central region where expectation is for operating loan volume in this region to increase. Survey respondents expect intermediate loan **interest rates** to generally decrease across the state and for intermediate loan **volumes** to increase in the Northeast and Central regions bucking the trend in the other three regions. Long term (real estate) loan **interest rates** are expected to decrease in most regions, while the **volume** of long term loans is expected to generally decrease. Long term loan **volumes** are expected to increase in the Northeast. The Northeast also had the highest agreement among survey respondents for long term loans being expected to decrease.

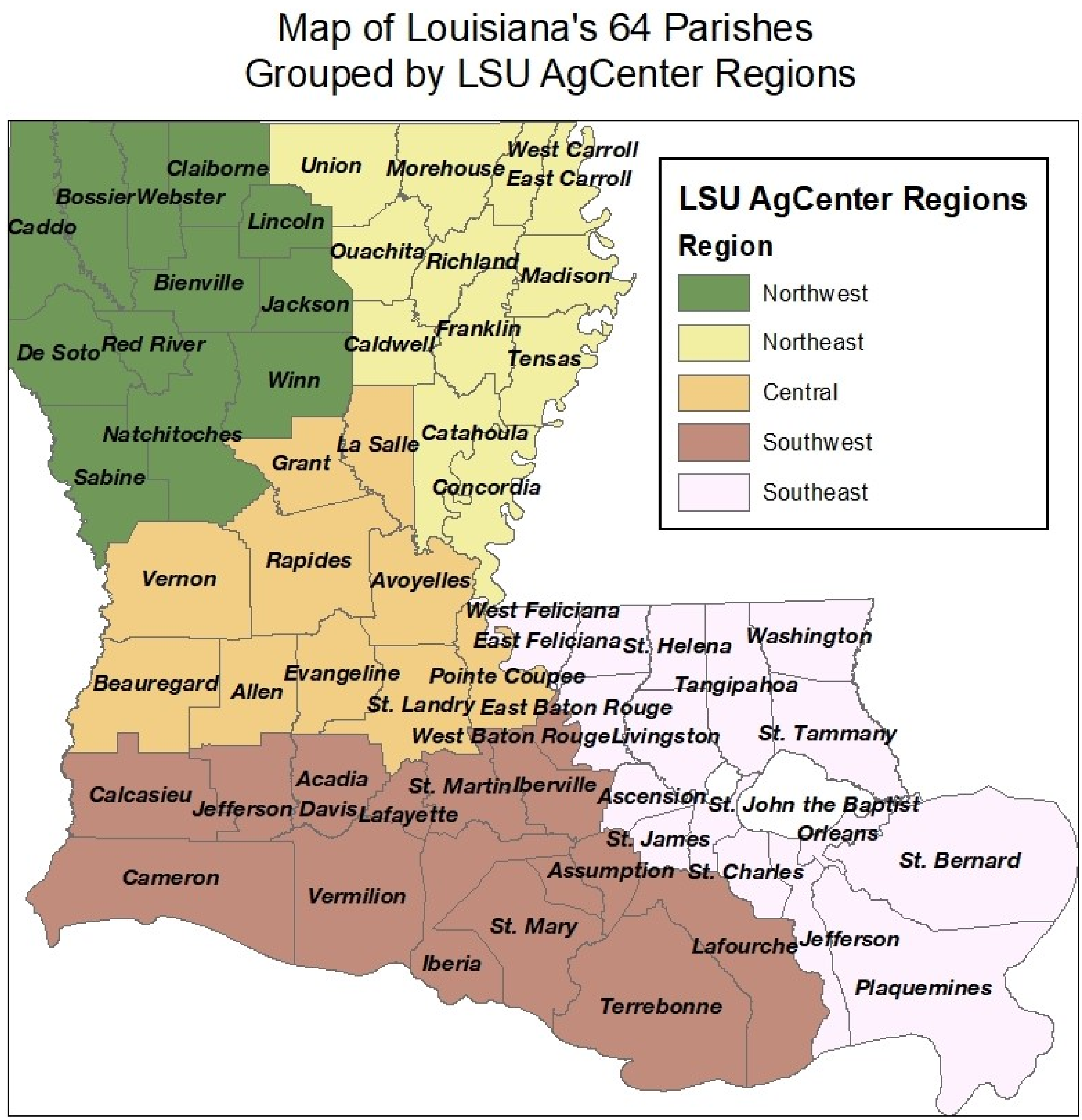

Figure 1: Map of the five (5) LSU AgCenter Regions

1. Behavior of Local Interest Rates

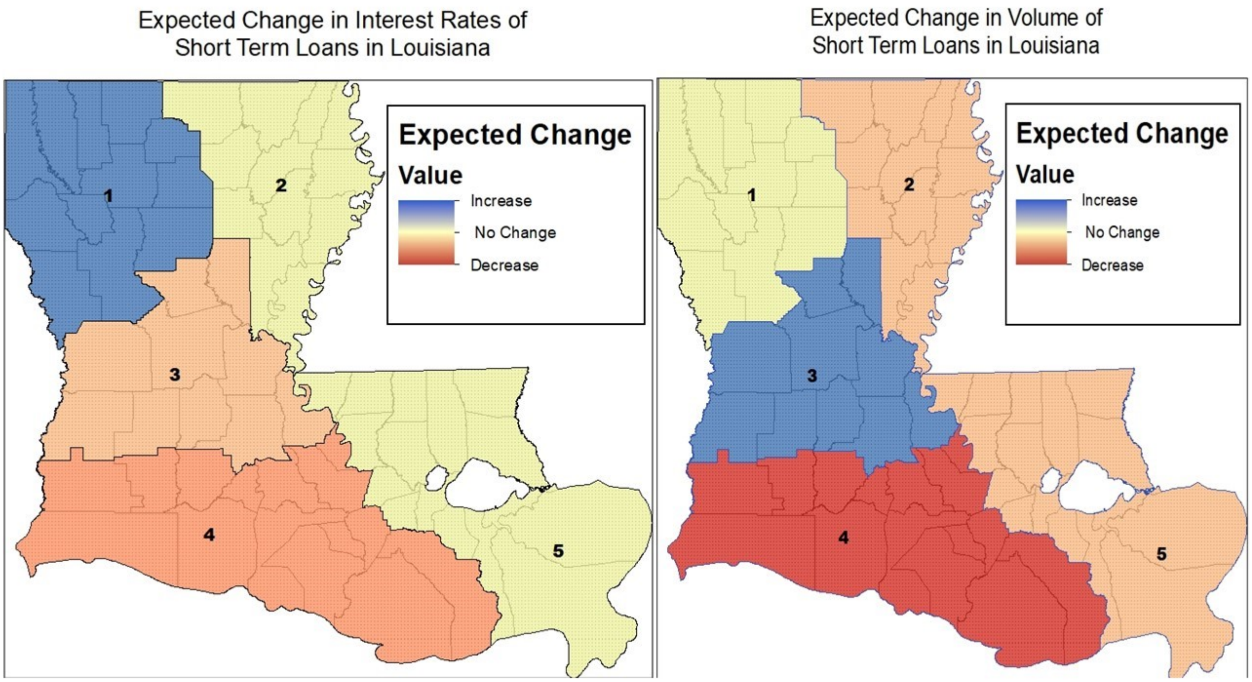

Figure 2: Expected Changes in Interest Rate Values and Volumes on Short Term Loans

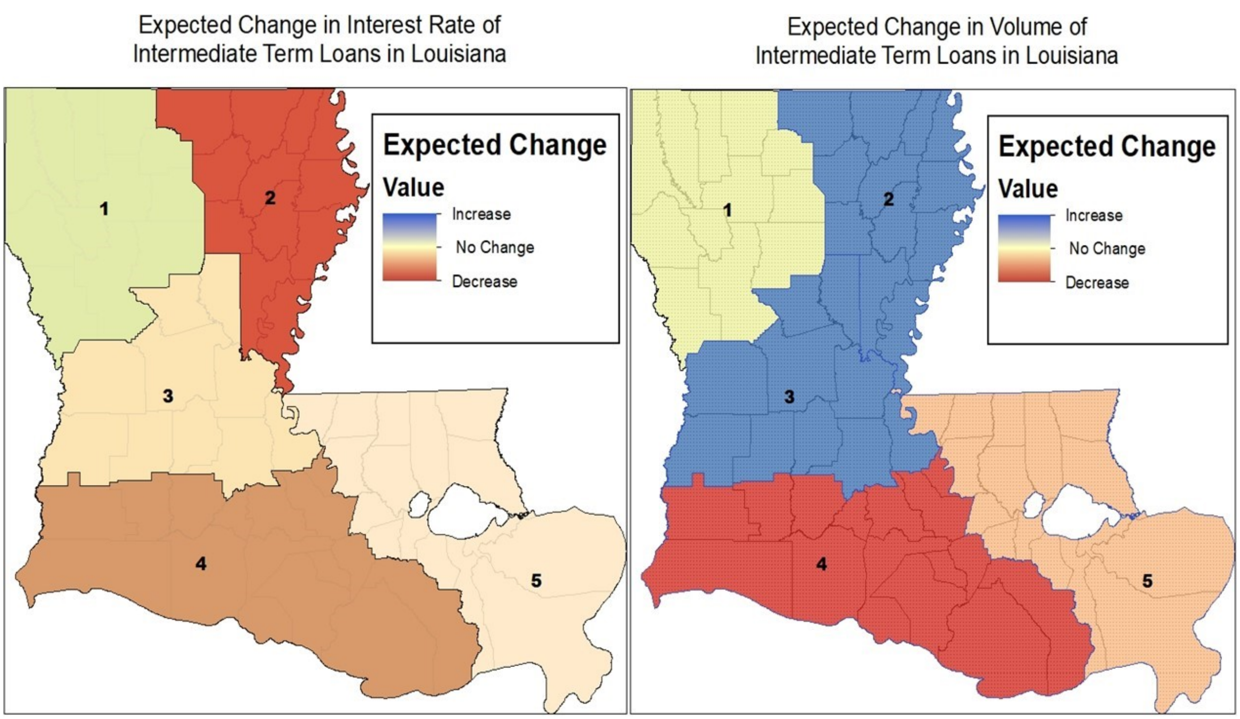

Figure 3: Expected Changes in Interest Rates and Volume for Intermediate Term Loans

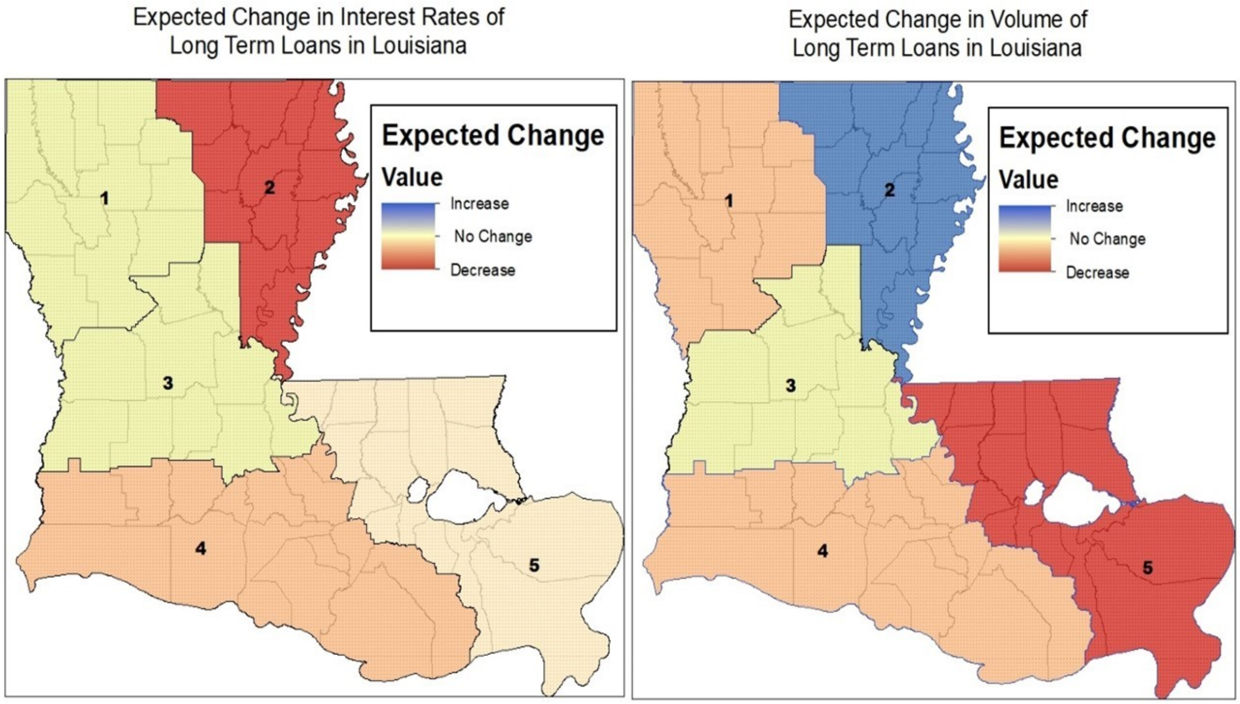

Figure 4: Expected Changes in Interest Rates and Volumes of Long Term Loans

Figure 2 shows how regional ag lenders and appraisers expect interest rates and volumes on short term loans to change. The expectation on loan rates for short term loans is predominantly for no change with a moderate proportion of respondents expecting a decrease in short term interest rates in the Central and Southwest regions. Greater than half of the survey respondents in the Northwest region expect to see an increase in the rates on short term loans. For the next 12 months, respondents expect loan volumes to slow in four of five regions. The exception being the Central region where the majority of respondents expect the volume of short term loans to increase.

Like the case with interest rates on short term loans, **Figure 3** shows that survey respondents do not expect significant upward pressure on intermediate loans. Comparing **Figure 2** and **Figure 3** shows that unlike the case with interest rates on short term loans, there was no majority consensus for interest rates to increase in any region for interest rates on intermediate loans. One pattern that emerges is that the majority of respondents expect that interest rates on both short term and intermediate loans to decline in the Southwest region over the next 12 months. At the same time weaker consensus exists on the direction of change for interest rates on both short and intermediate loans in the Central region though a weak majority expect those prices to decline. For interest rates in Region 5 (Southeast), near consensus exists for short and intermediate interest rates where most respondents expect near neutral changes on those rates.

Stark contrasts exist in the Northeast and Northwest regions between short and intermediate loans according to **Figure 2** and **Figure 3**. While interest rates on short term loans are expected to increase in the Northwest region, interest rates on intermediate loans in the Northwest are expected to remain largely unchanged. On a bit of a reversal, interest rates on short term loans are expected unchanged but expected to decrease on intermediate loans in the Northeast region in the next 12 months. Much more consistency exists on expectations for volume of loans. Volume is expected to increase on both loans types in the Central region and decrease in the Southwest region. Expectations on loan volumes for both short and intermediate term loans in the Northwest and Southeast have near consensus for them to remain unchanged. The sole deviation happens in the Northeast where the slight majority of expectation is for loan volumes on short term loans to decrease while expectations are much more in favor of an increase in loan volume for intermediate loans. Shrinking demand for such loans seem to be dictating the direction that interest rates are moving on both loans types in most regions.

Figure 4 shows that expectations for changes in interest rates and volume of long term loans over the next 12 months mirrored the expected changes for interest rates on intermediate loans. The singular exception is the Central region where marginally greater expectations exist for a decrease in rates and an increase in loan volume, while the consensus expectation is for rates and loan volumes to remain unchanged on long term loans. While the Southwest and Southeast had similar expectations for a decrease in both loan rates and loan volumes between intermediate and long term rates, the strength of consensus is reversed. Stronger consensus for decreased intermediate loan volumes in the Southeast while the stronger consensus for decreased long term loan volume occurs in the Southwest.

Table 1: Average Fixed Interest Rate Estimates

Region	Short Term Loans	Intermediate Term Loans	Long Term Loans
Northwest	6.3%	6.0%	5.9%
Northeast	6.2%	6.2%	5.8%
Central	5.9%	5.6%	5.6%
Southwest	5.7%	5.9%	5.4%
Southeast	6.0%	6.0%	5.6%

Table 2: Average Variable Interest Rates Estimates

Region	Short Term Loans	Intermediate Term Loans	Long Term Loans
Northwest	6.0%	5.8%	5.5%
Northeast	6.2%	6.3%	5.8%
Central	5.1%	5.0%	5.3%
Southwest	6.0%	5.5%	5.3%
Southeast	5.9%	5.9%	5.4%

Table 1 shows the expectations for average **fixed interest rates** in Louisiana. Overall, the **Southwest** consistently had at or near the **lowest** expectations for **fixed interest rates** while the **Northwest** had the **highest** expected short and long term interest rates across all regions. The **Northeast** ranked highest for intermediate term fixed interest rates at 6.2%. The lowest expectations for short and long term fixed interest rates occurred in the **Southwest** at 5.4% on long term loans and 5.7% on short loans. Intermediate term fixed interest rates were expected to be **lowest** in the Central region at 5.6%.

Table 2 shows expectations for average **variable interest rates** across the 5 AgCenter regions. The **Northeast** had the **highest** expectations for **variable interest rates** across all three interest rate durations. The **Central** region had the **lowest** average expectations for interest rates across all three interest rate durations. The **Central** region came in tied with the **Southwest** for **lowest** variable rates on long term loans at 5.3%.

2. Loan Risk

Despite some concern about potential increases in bankruptcy filings nationally, respondents in four of the five regions in Louisiana saw no increase in bankruptcy filings. Respondents in the Northeast where soybeans and to a lesser extent, corn are the primary revenue earners, a small fraction of respondents expect to see a slight increase in the number of bankruptcy filings. The national picture on farm bankruptcy filings (as measured by chapter 12 filings) is similar. Though some concerns have existed for severe strain on the farm economy, the performance of some farm financial indicators such as Chapter 12 filings have left some room for optimism.

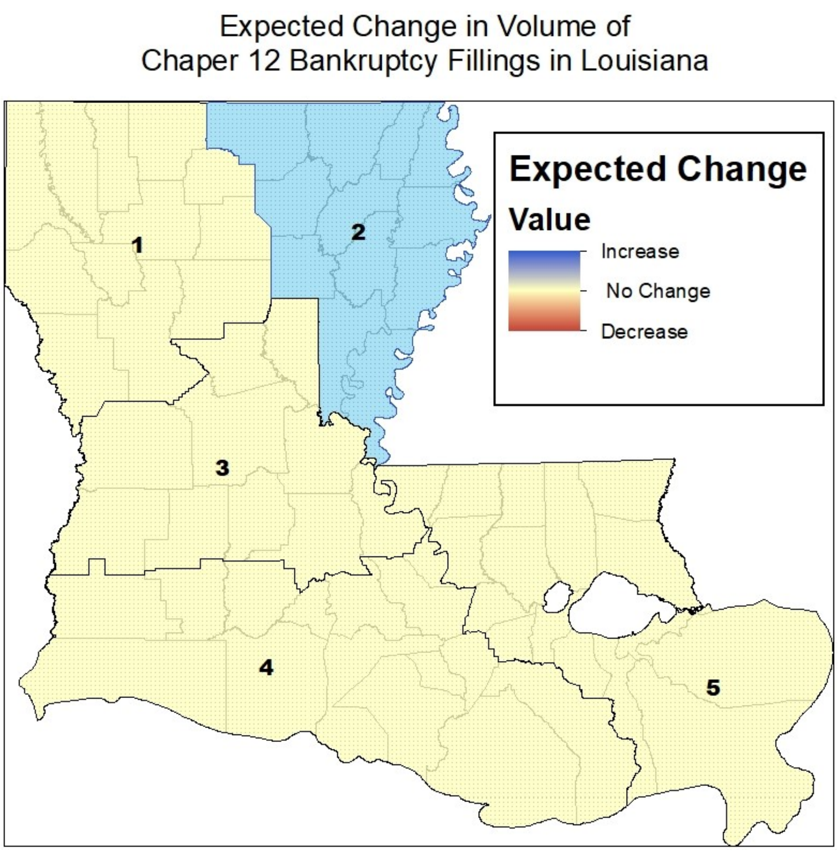

Figure 5: Changes in Chapter 12 Bankruptcy Filing

Table 3 shows the number of chapter 12 filings reported by the fourth quarter of 2018 and 2019 in the five AgCenter regions. Over the last year, the expected pattern of chapter 12 filings has largely been borne out. The Central, Southwest and Southeast regions have not seen a change in the rate of filings between 2018 and 2019. However, only the Southeast region recorded no chapter 12 filings at all. While two chapter 12 filings were recorded in the Northwest in 2018, in 2019 the region recorded no filings. According to US Courts records, the Northeast reported an increase in filings in 2019 largely confirming the reports of survey respondents.

Table 3: US Courts Records of Chapter 12 Filings by AgCenter Region

Region	December 31st, 2018	December 31st, 2019	Change in number of filings
Northwest	2	0	-2
Northeast	6	11	5
Central	2	2	0
Southwest	1	1	0
Southeast	0	0	0

Table 4: Average Loan to Value Ratio Estimates

Region	Land/Real Estate Loans	Machinery/Equipment Loans	Cattle Purchases
Northwest	81.7%	87.5%	87.5%
Northeast	75.1%	73.8%	59.6%
Central	82.5%	80.0%	75.0%
Southwest	61.5%	53.4%	50.3%
Southeast	85.0%	80.0%	80.0%

Table 5: Average Delinquency Rate Estimates

Region	Short Term Loans	Intermediate Term Loans	Long Term Loans
Northwest	0.0%	0.0%	0.0%
Northeast	5.4%	4.4%	2.0%
Central	0.0%	0.0%	0.0%
Southwest	2.5%	1.3%	1.3%
Southeast	No Data	No Data	No Data

The **loan to value ratio** (LTV ratio) in **Table 4** gives some signal on loan risk, with loan risk increasing as the loan to value ratio increases. The Northwest had the highest estimated loan to value ratio having loan to value ratios between 81.5% on land and real estate loans and 87.5% on machinery as well as cattle purchases loans. The Southeast and the Central regions followed behind. The Southwest region had the lowest loan to value ratios where they valued as 61.5% on land and real estate loans to as low as 50.3% on cattle purchases.

Despite the higher loan to value ratios in the Northwest and the Central regions, the reported delinquency rates in these areas were among the lowest of the 5 regions as shown in **Table 5**. There was insufficient data collected in the Southeast region to tell if loan delinquencies in that area would have also followed the pattern of being low despite high loan to value ratios. Notably though, **Table 3** reported that the Southeast region had the lowest average bankruptcy filings for the area between 2018 and 2019 with no cases reported. This likely has much to do with there being much fewer farm enterprises in this region than in the other 4 regions. The highest delinquency rates were reported in the Northeast region which has Louisiana's highest concentration of soybean acres.

From a state perspective, the values reported here are somewhat encouraging, particularly when compared to conditions that existed through the farm crisis of the 1980's. Our farms in Louisiana are much more resilient today. Some good news on the horizon for 2020 include the Phase I and potentially a Phase II trade deal with China that can continue to add strength to commodity crops. It is important to note however, that these survey results were collected well before significant factors such as the COVID-19 pandemic rose to prominence. The 2020 version of this survey will help us to add some perspective on the near-term direction of the farm economy heading into 2021.

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