Strong demand coupled with limited inventory of quality properties created price pressure across most market segments throughout the broader region in 2018.

The market in Southwestern Montana for larger properties (640 acres and greater) was no exception and remained vibrant throughout 2018.

“The number of transactions occurring in 2018 neared the previous peak experienced in 2005.”
Sales activity in the Western Montana market area for properties 640 acres in size and greater nearly doubled when compared to 2017. The number of transactions occurring in 2018 neared the peak experienced in 2005.

The increase in number of transactions occurring in the Western Montana market area was reflected by a nearly 80 percent increase in the number of deeded acres sold. While a notable overall increase, the number of deeded acres sold in 2018 falls well short of the peak of roughly 324,000 acres occurring in 2005.

“Today’s market has, in many cases, seen a reversal in those trends experienced in 2005, with market participants often assembling smaller parcels creating larger properties.”
As shown in the following graph, sales activity fell off significantly subsequent to 2005. While there are similarities in trends in market activity during 2014 to 2018 and 2001 to 2005, the market in 2005 was influenced by speculative development often accommodated through highly leveraged positions. Today’s market has, in many cases, seen a reversal in the trends experienced in 2005, with market participants often creating larger properties utilizing cash.
As shown above, sales activity prior to 2018 was generally flat seeing only moderate fluctuations. The overall trend in sales activity is reminiscent to what was experienced during the run-up in values prior to the economic contraction beginning in 2008.

The increase in sales activity was mirrored by an increase in the total dollar sale volume which increased 95 percent from 2017, exceeding $422 million. Similar to the number of sales, the dollar volume reached in 2018 neared the peak of roughly $459-million reported in 2005.

“With sales volume nearing highs, the average dollar per acre land values in 2018 surpassed the peak values reached in 2007.”
With sales volume nearing highs, the average dollar per acre land values in 2018 surpassed the peak values reached in 2007. Average dollar per acre land value in 2018 was $2,083, up from roughly $1,800 reported in 2017. While representing nearly a 16 percent increase, average dollar per acre increased at roughly half the rate experienced in 2017.

The five-year period from 2014 through 2018 has been characterized by an increasing value trend. While at a somewhat slower rate, current trends are similar to those experienced during time-period spanning 2003 through 2007.

“….current trends are similar to those experienced during the time-period spanning 2003 through 2007.”
Subsequent to 2007 values weakened, ultimately receding to pre - 2003 levels as a result of the broader economic troubles. Characterized by limited sales activity the market remained somewhat anemic prior to 2013 when strong commodity prices and a healthy agricultural economy helped revive land values and reverse the negative trends. With the economy strengthening the recreational investor reemerged becoming more active beginning in 2016. The market shift away from agriculture sales to higher amenity properties further elevated values into 2018.

“Facing limited substitution buyers may begin to broaden their geographic search and pressure values for more remote properties with limited amenities.”

As mentioned previously, the increase in market activity in 2018 is reminiscent to that experienced in 2005. The limited inventory of larger properties following 2005 was met by increasing demand driving land values higher in subsequent years with values of lower tier properties benefiting from supply constraints.
With the current market participants often assembling smaller parcels and hold times of larger properties historically spanning two-decades, inventory of quality properties in the coming year is forecasted to remain low. Albeit at a lower rate, land values of quality properties are anticipated to increase in 2019.

Facing limited alternatives, buyers may begin to broaden their geographic search and pressure values for more remote properties with limited amenities.

Average dollar per acre (ULV) together with number of transaction occurring from 2003 through 2018 in Western Montana - 640 acres in size and larger (NC Wheeler and Associates, 2019).
Ranch properties are large and diverse, each with unique physical features and characteristics. Many factors driving today’s ranch market are not easily quantified. Successfully navigating a market where factors of value are highly subjective and difficult to quantify requires in-depth analysis.

Finding a professional who not only understands the numbers but also the differences in value from one area to another is a critical part of making an informed decision. Staying abreast of ancillary market influences in ever-changing economic conditions requires a broad professional network to tap into. Being part of the team at Norman C. Wheeler and Associates provides that critical network of real estate professionals.

With increased interest in western ranch properties, we at Norman C. Wheeler and Associates have provided consultation to new and existing clients ranging from acquisitions to strategic planning. Our unique position within the market allows us to go beyond valuation providing clients with unbiased insight into an often large and complex investment decision.

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