



Land Facts

THE LORANDA GROUP, INC.

DECEMBER 2008

The Current Land Market...Losing Some Steam?

By John D. Moss, President

If someone fell asleep on July 1st, and just woke up today, do you think they would believe what's happened the past few months? Of note—the U.S. has just elected their first African-American president; crude oil prices are under \$55 per barrel; the stock market has lost nearly 30% of its value; Congress has authorized a \$700 billion federal bailout to help avoid a collapse in the financial and insurance industries; Grain prices have fallen dramatically (corn more than \$3.00 per bushel and soybeans more than \$7.00); and finally, the farmland market may actually be cooling off. It's enough to make you want to go back to sleep! Unfortunately, we don't have the luxury of taking an extended nap and we have to deal/work/live in the here and now. And, with that said, we wanted to send out this year-end land market update so you know how all these recent major events may be affecting your farmland asset.

Since the first of October, we have had the opportunity to auction or broker numerous properties across the Midwest, and we have heard the results of several other sales. Unfortunately, some of the news has not been very encouraging. In many regions (though certainly not all), land values seem to be 5 – 10% below levels of earlier this summer and/or below seller's expectations. From the farmer perspective, enthusiasm to bid on that adjoining 160 acres has been noticeably lacking in many neighborhoods—a result of some of the factors listed above, along with a harvest that took much longer than usual to complete. The drop in commodity prices has created the biggest black cloud, and when combined with significantly higher 2009 crop inputs, their hesitancy is understandable. And while farmers are still bidding on land (though in fewer numbers), they are being much more selective with their purchases (see accompanying article by Doug Hensley). Part of our current problems may simply be a function of timing—crop prices often are lowest in the fall, and input prices for 2009 have not yet pulled back in response to lower oil prices. So things can still recover next year if certain factors improve.

From the investor perspective, the reaction has been mixed. Some have been affected by the problems in the general economy and are not in a buying mode. Some are fleeing to farmland as they value the security of a hard asset over a paper one (see Lehman Brothers). Finally, many are simply watching this market, versus participating in it, to see where and when the next best buying opportunity may be. They understand that farmland is a long term investment with normal price fluctuations over time. And they certainly aren't ready to exit the asset class simply because the market may have plateaued.

Moving forward, let me offer a few thoughts for land owners...

1. Watch grain prices carefully as this will signal if the land market may continue to cool, or if it will establish firmer footing in 2009;
2. Remember that farmland prices (as well as all real estate prices) are local in nature. A high sale price that you hear in Hancock County, IL may not be reflective of what your property is worth in Macoupin County, IL or White County, IN; and,
3. Manage your price expectations carefully. There are fewer land buyers today, and they're more discriminating. Aggressive bidding continues for the quality properties that have excellent soils and are efficient to farm, but more distinct discounts are emerging for the below-average tracts.

In sum, let's just hope that the volatility and uncertainty we've seen the past 5 months does not extend well into 2009!



Corporate Offices:

3180 Adloff Lane
Suite 109
Springfield, IL 62703

800 716 8189

Offices throughout
the Midwest

THE LORANDA GROUP, INC.



AGRICULTURAL REAL ESTATE
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email: loranda@loranda.com
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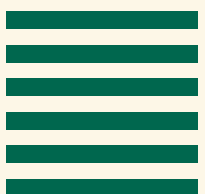
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Land Market Update!

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Farming Efficiency—A Growing Influence in Farmland Values

By Douglas L. Hensley

You may have heard a farmer describe a parcel before as “flat, black, and easy to farm.” These adjectives may not mean much to some, especially the “easy to farm” part. However, this factor is now one of the most important issues for today’s larger farmers. Not convinced? Consider the results from two recent sales that we conducted...

- The first auction contained over 300 acres. Approximately half of the farm had excellent quality soils with few field obstructions, and featured long rows that made it quite easy to operate. The other half had very good soils as well, but included a large series of grass waterways, which unfortunately, made it much more difficult to farm (e.g., shorter rows, lots of turning, “point rows”, etc). At the auction, the larger farmers and investor buyers chose not to aggressively pursue the “waterway” parcels because “that’s not the kind of land I want to farm” (even though they admitted that the yields might be comparable). The dollar difference? The high bids on the good tracts were approximately \$6600/acre while the top bids on the “waterway” parcels were at \$4500/acre.
- The second auction contained over 120 acres, but the land was cut into several odd-shaped tracts by roads and other obstructions. In talking with several, normally active bidders in attendance (who didn’t participate in the sale), we discovered that their disinterest was fueled simply by the fact that these small hard-to-farm parcels were too difficult and inefficient to operate with today’s larger farm equipment.

These two sales clearly illustrate that good soils with big, open, unobstructed fields will command a premium. It also shows that operating efficiency is paramount in today’s agriculture. In 2008, this issue was exacerbated even more because of the wet spring and late fall that we experienced. Timing has always been critical in row-crop farming, and as we’ve learned, land buyers are now placing a bigger value on this efficiency factor.

Recreational Land—Challenging Times Ahead

By Eric L. Sarff

Over the past decade, one of the hottest segments of the real estate market was recreational land. The sharp appreciation in value was caused by many factors, including cheap and easily-accessible loans, and a large pool of buyers in metropolitan areas who wanted their own private place in the country for hunting or other recreational activities.

Unfortunately, with the slowdown in the overall economy, many people simply don’t have the extra income that they once had. On that same note, many lenders have become more cautious in lending for assets that produce little to no income. In fact, some lenders have even quit lending money for recreational properties all together. The result - prices for non-tillable or timber tracts in most areas have pulled back considerably and demand is soft.

Fortunately, there are still buyers looking for that ideal parcel to call their own, but they are being much more selective with their purchase. Sellers should realize that the prices that we saw just a few months ago have dropped, in some cases considerably. The underlying factors that helped drive and support this niche market are not nearly as stable, which has led to a decrease in demand and a resulting decrease in value. And until the general economy recovers, this segment of the rural real estate market will probably continue to languish as well.



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