Land Facts

THE LORANDA GROUP, INC.

Winter 2001

In this edition...

AGRICULTURAL REAL ESTATE BROKERAGE, AUCTIONS, ACQUISITIONS, AND CONSULTING

The Loranda Group, Inc. is a diversified agricultural services firm headquartered in Springfield, Illinois. The company offers personalized, professional services in agricultural real estate brokerage, auctions, acquisitions, and consulting. Land Facts *is published periodically. We welcome your comments and questions, or give us a call if you would like to discuss the farmland market in your particular area.*

THE LORANDA GROUP, INC.
40 Adloff Lane, Suite 5
Springfield, IL 62703
Tel: 217/544-4200 Fax: 217/544-4213

2440 Executive Drive, Suite 110
St. Charles, MO 63303
Tel: 636/946-9994 Fax: 636/946-9987

4778 Canterbury Circle
Delaware, OH 43015
Tel: 740.881.5530 Fax: 740.881.9617

Web site: www.loranda.com
E-mail: loranda@loranda.com

Market Outlook

2001—Maintaining the Course in the Countryside?

by John D. Moss, President

As we look back on the year 2000, there are several things that farmers and landowners could consider as negatives. These include low commodity prices, higher costs for inputs like fuel and nitrogen, and the negative publicity emanating from the biotechnology controversy. However, we would be remiss in not remembering the positives as well, including the widely predicted drought that never materialized, the willingness of the U.S. government to allocate continued support to farmers in this period of low grain prices, and the relative stability in land values and other farm asset values given the uncertainty of the current marketplace.

So should we expect any major changes in 2001? For most of the issues mentioned above, the best answer is probably no. Given the current surplus of grain in the countryside and in the absence of a major drought, we will not likely see any significant movement in commodity prices. Input costs that are directly or indirectly produced from oil or natural gas will trend higher. The debate over GMO's will continue in both national and global forums. However, profitability in the new year is still conceivable for most farming operations if the government continues its commitment of assisting farmers as it has over the past two years. Even with a new Congress and Presidential administration, I don't see Washington altering its approach toward subsidies in the remaining few months of the current program. And as long as politicians remain committed, economic stability in the countryside is possible.

Assuming that farm incomes remain steady in 2001, land values in general will remain reasonably firm. As has been the case the past few years, certain micro markets will exhibit either unique weakness or strength. My opinion is based upon the numerous sales in which we have either been directly involved or have observed in the months since harvest. Throughout most of the Midwest, there are at least one or two farmers in most neighborhoods who have both the financial capability and motivation to purchase additional land. With added competition from an occasional outside

continued on page 4

U.S. AGRICULTURE
A Look Forward

by Douglas L. Hensley, Real Estate Specialist

The past four years in American agriculture have been some of the most *exciting* and *exhausting* in history. From record high corn and soybean prices to the current state of LDP strategies—from conventional corn and soybean production to specialty grain production and segregation—and from business as usual on Midwestern family farms to newfound pressure placed on these families by operations seeking grand economies of scale. In sum, farmers and landowners have weathered a great deal of change. And over the past four years, the United States Government has played a key role in maintaining stability throughout the countryside. U.S. government farm programs, many of which came into effect with the passage of the 1996 *Federal Agricultural Improvement and Reform Act (FAIR* or *Freedom to Farm)*, have helped to create artificial cash flow stability for U.S. agriculture in the face of low market prices. Direct program enrollment payments, coupled with Loan Deficiency Payments (LDP's) and emergency payment appropriations, have helped create a firmer economic foundation in the countryside than many of us in agriculture realize or care to admit. In the coming months, farm policy debate is going to become a hot topic in Congress, and although farm policy was not an overly publicized issue in this year's Presidential election, the debate is looming. Additionally, in the ever-changing worldwide agricultural products market, change will continue to stretch the limits for those who participate in its arena. For producers and landowners to successfully respond to farm policy changes and the resulting market reaction(s), we must first understand the fundamentals of the current policies and the market dynamics surrounding U.S agriculture.

The Numbers…

To give you a little perspective, following are several key facts and figures that need to be digested. This information was gathered from several recent farm publications.

- U.S. Government payments to farmers for fiscal year 2000 are estimated to total $32.3 billion—budgeted *Freedom to Farm* payments tally just $5.05 billion of this total.
- 2000-crop year LDPs are estimated by one source to contribute at least $6.5 billion to the $32.3 billion total—another report estimated these funds to total nearly$8 billion.
- 40% of 2000 net farm income is estimated to come from the government—a record.
- 38% of 1999 net farm income was estimated to have come from the government.
- 1999 government to producer payment limits were doubled from $75K to $150K. 2000 payment limits reverted back to the $75K level, but the U.S. Government improvised to create a program in issuing generic commodity certificates instead of cash for those producers bumping the payment limit. The two programs effectively created the same safety net.
- Crop insurance reform during the summer months of 2000 has drastically enhanced the benefit(s) of Crop Revenue Coverage (CRC), making the coverage more cost effective. For example, an 80/100 yield-to-price election percentage was previously subsidized 17% under the old law—the new law raises that subsidy to 48%.
- 2000 farm debt levels of $176.4 billion were down slightly from 1999.

The facts mentioned above are simply stated in an effort to ensure we all know the impact of government aid. Over the long-term, government support cannot continue to engineer artificial success in the U.S. agricultural marketplace. And as producers and landowners, we must question how long debt levels can or will remain in check without government aid. All things considered, true success can only be captured when we thoroughly understand the possibilities for the future, both in terms of governmental and free market activity.

What Can We Expect in the Countryside…

Soybean Digest® recently published an article outlining the potential outcomes for many agricultural issues. Based on that article, and others like it, many people wonder if producers and landowners can expect the same level of U.S. gov't support in the next decade as they enjoyed during the 1990's. In looking at the possibilities, there are three primary issues that I believe to be of particular interest to on-farm producers and absentee landowners—specifically, these issues are of importance as they relate to land values across the Midwest.

▪ **Upcoming changes from the 1996 farm bill.** Just about everyone involved in the farm policy arena understands that changes are forthcoming. In a recent address to the Ag Communicator's Congress, Secretary of Agriculture Dan Glickman made some notable comments about the future direction of farm policy. One point, in particular, gave way to the partisans of politics and highlighted the actual issue—farmers in general like the flexibility of the 1996 farm bill and are opposed to the supply management tactics of previous policies. In my discussions with producers and landowners across the State of Illinois, this point has been reinforced based on simple economic understanding. Time after time, I have heard opposition to the supply management programs of the 1970's and 1980's, based on the argument that in the current *world* market, we cannot pull acres out of production. If we do, our agricultural competitors abroad will likely boost production on the heels of U.S. decreases. Essentially we would give away some level of our competitiveness, even under poor market conditions.

That being said, I have heard discussions on a new farm policy skeleton that keeps production control in the hands of producers, but lends support in the environment of low farm *incomes*, rather than low *prices*. This new measure has been dubbed "counter-cyclical income" support, versus the counter-cyclical price support programs (LDPs) of today. However, for producers and landowners to be truly efficient and protected, they must prepare for the event of minimal to no government direct support by using the risk management/hedging tools that are already in existence, i.e., futures, options, CRC, etc.

■ **Consumer Focused Products / Consumer Education.** The late 1990's debate and division over Genetically Modified Organisms (GMOs) really comes to mind on this point. Coming from a farm family, as well as participating in many informal GMO debates/ discussions, I clearly understand both the producer and consumer arguments grounded in this issue. To add value in the marketplace, producers *must* create products that the consumer desires—if producers don't, the market will find another product that satisfies that particular level of demand—and the overall farm economy in the U.S will suffer. Agriculturists cannot ignore the demand signals—there are simply too many purchasing alternatives for the global consumer in today's market. Alternatively, should products like GMOs be scientifically proven as safe and effective, then as a market participant, U.S. agriculture must make the hard sell by educating our global customers of the benefits and safety in products like Bt corn, for example. As a major component of U.S agriculture, producers and landowners must be *proactive* and not *reactive* in the process.

Imagine the impact on land values when an acre of corn or soybeans produced is used primarily as a medical treatment and secondarily as a foodstuff!

Even in the wake of the Starlink corn confusion, I see consumer criticism quieting against GMOs in the long run. Consider genetic modification in this way—think about when researchers will be able to create a genetically modified corn or soybean plant that effectively treats cancer patients, for example, or some other major medical opponent. Imagine the impact on land values when an acre of corn or soybeans produced is used primarily as a medical treatment and secondarily as a foodstuff! The impact would be tremendous for land values, farm profitability, and humanity in general. But until U.S. agriculture develops a line of genetically modified products that not only benefits producers, but directly benefits the global consumer, we will continue to be criticized and mocked. Looking back, I see the GMO debate as perhaps the best example of the merit in consumer education—and we must educate both sides of the transaction to derive all of the potential value.

■ **Expanding Markets.** The single most important issue for U.S agriculture, in my mind, is the continued expansion of our markets,

continued on page 4

2001, continued from page 1

investor, the prices paid for productive farmland are similar, or perhaps slightly lower, than those paid a year ago. In areas with a substantial number of acres for sale, land prices are definitely weaker in that there simply is not the depth of willing buyers to support the market. Properties with negative market characteristics such as poor drainage, title problems, or lack of access continue to demonstrate limited market appeal.

In short, 2001 will be no different from most—both farmers and landowners will face numerous challenges. If we can focus on the positive aspects of agriculture, focus on long term strategies for success, and work hard at improving those things within our control, then continued profitability is well within reach. ■

New Location

To better serve its clients in the eastern Cornbelt, The Loranda Group has opened an office in Ohio. Situated in Delaware (just north of Columbus), the new office complements the services provided by the firm's Springfield, IL and St. Charles, MO locations. It will accommodate landowners and others interested in Loranda real estate auction, brokerage, acquisition, or consulting services throughout Ohio.

The Loranda Group, Inc.
4778 Canterbury Circle
Delaware, OH 43015
Telephone: 740.881.5530
Facsimile: 740.881.9617

Be sure to check out the "Properties for Sale" link on our web site for current real estate listings and upcoming auctions:

www.loranda.com

A Look Forward, continued from page 3

both in terms of scale and scope. This area of focus closely ties in with producing products that consumer's demand and the educational process demanded of such products. For U.S. agriculture to continue to be the world leader in the marketplace, we must continue to innovate. And innovation must come in the form of new products, new consumers, and creative marketing efforts to those countries on the economic bubble. Currently, farm exports for 2000 are forecast at $49.5 billion—U.S. agriculture must continue to push this figure higher.

During the summer months of 2000, the U.S. House of Representatives made progress towards a market expansion. The U.S. Congress passed historic legislation granting China Permanent Normal Trade Relations (PNTR) status, a stark change from the former trade review that U.S. legislators required on an annual basis. Although the Chinese government has yet to find *true* approval in the world market (World Trade Organization entry), many market watchers sense real progress in the near future for China. The potential for U.S. market expansion in China is exactly the type of market development that the U.S. needs to endorse—especially as it relates to the benefits for U.S. agriculture. To give some perspective, U.S. expectations from China's increased business (as a result of PNTR and World Trade Organization (WTO) membership) are an additional $1.5-2.0 billion in ag exports by 2005. Today, U.S. ag exports to China total $1.1 billion, thus the increased business could potentially double our current ag export market! And, in a country with the largest population on the globe, U.S. products currently make up only 2-3% of total food inventories—what a potential market for U.S. agriculture!

In addition to China's potential, opportunities abound across the world

Imagine what we could accomplish if we were not afraid.

for U.S. agricultural products—increasing ethanol demand as a replacement for MTBE; specialty grain demand; identity preserved grain-marketing opportunities; organic foods—and the list goes on. However, for success to materialize, producers and landowners must be willing to change, and change at a faster pace than previously required. To capture increased profit potential and niche marketing opportunities, the production community cannot continue producing only #2 yellow corn because the consumer is simply no longer as content as it once was in consuming #2 yellow corn. As these things relate to the land markets, increased profit potential will likely create increased value in the land marketplace.

U.S. Agriculture—In Our Hands…

I had a conversation recently where the topic centered on one thing—imagine what we could accomplish if we were not afraid. At the time I heard those words, I thought of them as another cliché used to motivate people. The more I thought, however, the more I realized the relevance of those words to U.S. agriculture. We are the guides to our own successes and failures, and as risk laden business people, we cannot sit back and continue to let governmental supports sustain our livelihoods. We must go out and jump at opportunities and create additional successes. In doing so, we will create more value in our operations, our communities, and our land holdings. And as agricultural participants we can only effect change when we truly understand the issues surrounding the worldwide industry and its people. ■