



Land Facts

THE LORANDA GROUP, INC.

Fall 2014

Predicting Farmland Prices

Back to the Basics

By: John D. Moss, President

I've been in the farm real estate business for over 30 years and regularly follow what the experts in the industry are saying about future price trends. Admittedly, there have been times when I didn't exactly agree with what I've read or heard, but it's always interesting to see how the professionals use the information they've gathered from the marketplace to formulate an opinion. The potential size of the 2014 crop is a good example of this phenomenon. Most farmers and commodity traders I've spoken with believe that the yields this year will be quite good, and consequently we've seen a dramatic drop in grain prices. Yet, one land specialist I've talked to recently interprets this information as a sign that we are soon to see a 20 – 30% pullback in land prices, while a second believes that the extra bushels to be sold, along with crop revenue insurance proceeds, will more than offset lower corn and soybean prices and that the land market will remain steady. So who's right?

I agree that the price of grain is normally the biggest driver of land values, but in a global marketplace there are dozens of variables beyond the size of the U.S. crop that can impact commodity values – from crop conditions in South America to livestock numbers in the U.S.; from fighting in the Ukraine to currency devaluation in China. And then we must also factor in interest rates, government policies (e.g., the farm program, environmental regulations, ethanol mandates, taxes, etc.), the limited supply of land on the market, and the increased demand of land for development or conservation use into the land equation. Confused yet?

As you might imagine, trying to interpret all this data can be mind-numbing, and I think the Internet has added to the complexity as all the pertinent news relating to the above factors is available anytime day or night. Recently I've begun to wonder if we aren't spending too much time analyzing the minutiae while overlooking one of the most basic tenets in the pricing of farm real estate, i.e., location.

Over the past few months, we've seen a broad spectrum of land sale results, from near record prices to no-sales. The main variable that separated the successes from the failures was the financial strength of the adjoining landowners. In the

neighborhoods where farmers had money saved, they were still aggressively bidding on land (even with lower grain prices). In other neighborhoods, which may have only been a few miles away, bidders were much more passive. Land quality has also influenced the decision making process but I've seen farms with poorer quality soils sell for a good price, and top quality farms sell for less than expected. In each scenario, the financial strength of the nearby landowners ultimately determined the outcome. Perhaps this is just a reflection of the one characteristic that all farmers share - they want to buy land. If they can afford it, they are going to do everything they can to buy it.

Before you start thinking, "Gee John, that's nothing new", I'll acknowledge that you are correct... which in turn proves my point. I think we may currently be overthinking the farmland market and treating it like the stock market by simply focusing on what's coming across the newswire. Farmland is a long-term investment – prices will go up and they'll go down, and sometimes they'll do both at the same time as we're seeing now. Yet, relative pricing is often just a reflection of who owns land nearby and whether they are in a position to buy more. Yes, sometimes it can be difficult to gauge the wealth in a community, but often you can learn a lot with a simple phone call to an agri-lender or agri-businessman. The answer to the question "are farmers looking to buy land in Smith Township?" can tell you what you need to know.



The Real Estate Corner

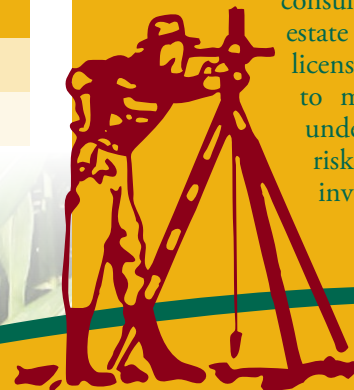
- where Loranda addresses the concerns of Midwestern landowners.

Q - I'm ready to buy my first farm – should I request a survey?

A - A survey can help pinpoint specific problems with a parcel of land that you might not be able to detect with the naked eye. The most common concerns when buying a farm property, and what a survey can help confirm and determine are: A. The boundary lines of the parcel (and whether there are any encroachments that might lead to a dispute with a neighbor); B. The number of acres in the tract (remember that a quarter section of land does not always contain exactly 160 acres); and, C. The legal description of the property (many older deeds used vague language to describe the property boundaries). Surveys can also show the location of any improvements or easements, or the farm's elevation, if so desired.

If you include a survey request in an offer, then you should also include language that states who is to pay the cost and what is to happen if a problem is detected, e.g. will the final purchase price be adjusted if the surveyed acres are found to be more or less than advertised, etc.?

Many farms today are sold without a survey as the boundaries are well defined, as is the legal description. But each property is different and in many cases a survey is warranted. Before proceeding with an offer, consult with a real estate attorney or a licensed surveyor to make sure you understand all the risks and costs involved.



Cash Rents as Percentages of Crop Revenue

Dr. Gary Schnitkey, a professor and farm management specialist at the University of Illinois, recently published the results of a study that compared the income that cash rent landlords have been receiving since 2000, to the gross crop revenues that the land has been generating. It's interesting to note that the percentage was much greater before crop prices moved sharply higher in 2006 than it has been the past eight years. Many landlords use this calculation as a benchmark for negotiating cash rents and some believe that this ratio will start moving higher, if grain prices remain low.

Region of Illinois				
	North	Central -High	Central -Low	South
Expected 2014 Yields				
Bushels per Acre				
Corn	194	199	184	165
Soybeans	61	59	55	46
Cash Rent as a Percent of Corn Crop Revenue ¹				
2000-2005	37%	37%	36%	29%
2006-2013	23%	26%	24%	20%
Cash Rent as a Percent of Soybean Crop Revenue				
2000-2005	51%	50%	48%	37%
2006-2013	32%	35%	33%	24%

Source: Illinois Farm Business Farm Management

¹ Given for 2000-2005 and 2006-2013 time periods.





The Challenges of Marketing a “Combination” Farm

By: Eric L. Sarff, Vice President

A property that has a high percentage of both tillable and wooded acres, often referred to as a combination farm, can present some unique marketing challenges relative to a tract that has a singular use. The extra complexity stems from the fact that most farmers only place value on acres that can produce income (the tillable), while discounting the acres that don't (the timber). Conversely, most hunters or other outdoorsmen focus entirely on the woodlands, while devaluing the tillable (primarily because they don't have the financial resources to offer a fair price on what can be farmed). This often results in a property that either sells at a below market price, or lingers on the market for months without a reasonable offer.

Sometimes the solution to this problem can be simple, depending on how the two land types are situated on the property. For example, we brokered and sold 160 acres last winter in southeastern Illinois. The farm contained 76 tillable acres with the balance in timber. Another firm had tried to auction the parcel in the summer of 2013 as a single 160 acre unit, but it did not meet the seller's reserve price. We knew that we had to be more creative when selling this property or that we would fail. Ultimately, we looked at the farm as two separate units and offered it for sale with separate prices on the tillable land tract and the timber tract (this same division could have been used at an auction, but we didn't want to conduct a second sale so soon after the first). The result was that a local investor bought the tillable ground and a local hunter bought the wooded acres. Both tracts were under contract within 5 weeks of being placed on the market and the combined price was nearly 20% higher than the top bid at the earlier auction. In this case, it was fortuitous that the timber was located together so it was easy to divide the property into separate tracts.

Farms that have the timber intertwined with the tillable acres can be more difficult. Earlier this summer we sold 318 acres in western Illinois that had this kind of configuration. The boundary between the farmed acres and the wooded acres was so irregularly shaped that there was no practical way to divide the property into separate parcels. At that point, we advised our clients to broker the farm instead of taking it to auction because we knew the pool of buyers who could afford a million dollar farm that was only 30% income producing would be limited. We also advised the clients that it would likely take longer to procure a reasonable offer since it would take time to find that unique buyer who wanted that size of acreage with the majority being non-income producing. Our intent was not to disparage the property, but to educate the owners as to what they could reasonably expect in the marketing of their farm. They appreciated the realistic assessment and ultimately we were fortunate to find a buyer that offered a fair price within a reasonable time frame.

Current grain prices have also exacerbated the challenges with selling a combination farm. Farmers have fewer dollars to spend and are being more selective in their land purchases (preferring the all tillable tracts to the partially tillable ones). In the next few months it won't be impossible to sell a combination farm, but it will take patience and some creative marketing efforts to consummate the transaction.



Now Playing on the Loranda YouTube Channel

If you've never attended a land auction, then you may want to watch a Loranda sale on our YouTube channel. These condensed videos provide a glimpse of the actual bidding, along with an overview of the marketing steps used to promote the property, and an analysis of the final purchase price.

www.youtube.com/LorandaGroup



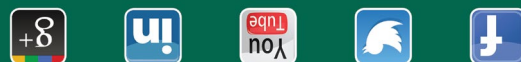
Office Locations: Bloomington, IL ♦ Lafayette, IN ♦ Channahon, IL

Go Green and Have Your *Land Facts* E-mailed!

If you would like to receive future editions of *Land Facts* via email, please contact us at loranda@loranda.com and we will add you to our electronic mailing list.



**Farmland
Market
Report!**



800.716.8189
www.loranda.com
loranda@loranda.com

HAVE A QUESTION REGARDING YOUR FARM?
CONTACT US!

Return Service Requested

THE LORANDA GROUP, INC.
211 S. Prospect Road, Suite 2
Bloomington, IL 61704



Presorted Std.
U.S. Postage
PAID
Champaign, IL
Permit No. 52