



# Land Facts

THE LORANDA GROUP, INC.

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## Scarcity And Its Impact On The Farmland Market

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Mark Twain once said, "Buy land, they're not making it anymore." While I don't think that Twain was specifically referring to Midwestern farmland, to me in a subtle way his comment helps explain the final bid prices at some recent auctions. As we've learned the past 6 months, you can't look just at commodity prices or interest rates as the main predictors of which direction farmland values may be heading. You also need to consider the number of acres that have actually been available to *buy* of late. Twain's humorous quote might be considered an economic lesson in supply management, that is the price of most items of value will remain relatively firm even in tough times, *if* the amount that can be purchased is limited.

Before I delve further into the impact of land scarcity, I would like to provide a brief recap of the land market since last fall. Survey results of farmland professionals and lenders across the Midwest indicate that the average price of land has fallen anywhere from 1 - 10 %. This seems to mirror the outcome of many of the auctions that Loranda has conducted the past several months, as reflected in a table elsewhere in this letter. But when you consider how far grain prices have dropped, and that net income in 2015 is projected to be the lowest in years, many are wondering why land prices haven't fallen *more*. Yes, the record crop yields in 2014 helped support sales last winter, but I've heard some reports of farms selling for as much as \$11,000 - \$13,000 per acre just in the past month... at a time when the fall price for corn is at \$3.50 per bushel.

Though 2015 may not be as lucrative as past years, it's important to mention that grain farming in the Midwest has been quite profitable since 2007. Many farmers have very strong financial statements and have built a considerable amount of equity in the land that they own. Yet the ones I've talked to recently are also becoming nervous about the future and psychologically they have turned quite conservative in their capital purchases (as John Deere and other equipment manufacturers can attest). Conservative that is, until a good quality farm in their immediate area comes for sale, which is where Mr. Twain's musings becomes relevant. In many townships across the Midwest, very little land has sold the past few years. Recent studies have shown that in Illinois less than 1% of all farmland comes on the market annually, which is less than half of what it was 20 years ago. This low turnover rate has created the mindset in many of "If I don't buy this farm now, I may never have the opportunity to do so again in the future." Realize that this attitude is most prevalent with the best

quality farms and doesn't necessarily extend across all land classes. Farmers will extend themselves even in tough times in order to buy a good tract (i.e., one with "A" soils, that's all tillable, etc.), but will *not* do the same for less attractive parcels..

The most important element of this whole discussion may be *why* landowners aren't selling. For many, the idea of "keeping the farm in the family" has always been the driving force. Then, after the 2008 economic meltdown, a greater number began to appreciate the financial safety and security that land offers. And once the annual returns from their farms began to significantly exceed the interest that they could receive from bonds or C.D.'s, the decision to hold versus sell became much easier.

I personally believe that this scarcity will continue for the next few years, especially if interest rates remain low and the perceived risk of alternative investments remains high. This should add some stability to land prices, but commodity prices will also ultimately have a big impact. If profitability remains elusive, then land prices will probably continue drifting lower but likely not as low as one would think. Remember that in the 80's when commodity prices were low, many farmers did not have the financial cushion that they do today. This resulted in numerous foreclosures, which significantly increased the supply of land on the market and in turn forced prices lower than they probably would have otherwise gone.

In summary, the current scarcity of available land may bode well if you have a farm that you want to sell. However, you need to realize that land prices are lower today than they were two years ago, and the interest in your farm will be directly correlated with both its quality *and* the number of other farms that have sold recently in your specific area.







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## The Loranda Video Library

Three years ago when we created our YouTube channel, we considered it simply as a way to share footage from past Loranda auctions. However, over time it has grown into a valuable educational tool for anyone interested in farmland. We've recently uploaded our 50th video and now offer a wide variety of productions. In addition to the condensed action of recent sales, we've worked hard to expand our Informational/Instructional playlist. In this category we offer an assortment of videos for both sellers and buyers so that they can broaden their knowledge in a variety of areas. Some of the topics we've covered include: *Marketing Alternatives for Selling Land*, where we compare and contrast the most common ways to sell a property; *How to Bid at a Farmland Auction*, which most first time land buyers find quite helpful; and *Creating a Farmland Owner's Manual*, a must view for anyone that is responsible for overseeing an agricultural property. In our final category, viewers can watch the promotional videos that we have created for every farm that we sell. In these offerings we include detailed information to buyers about the actual property, along with an explanation of the sale process. We interlace this material with aerial footage, pictures, maps, etc. to help showcase the farm and all of its features. Our video library is constantly expanding so visit our YouTube channel ([youtube.com/lorandagroup](http://youtube.com/lorandagroup)) often and subscribe to our page to follow along!



## Selected Loranda Fall/Winter Sales

County, State	Total Acres	Tillable Acres	Price Per Acre	Soil Class	Notes
Montgomery, IL	401±	397±	\$11,995	A-/B+	Large fields w/ straight sides; Waterways cut farm; Included grain storage, older home, & barns
McLean, IL	277±	274±	\$10,830	A	Waterways and electric transmission lines cut farm; Included 5 acres in CRP; Good yields
Marshall, IL	155±	155±	\$10,387	A-/B+	Contiguous; Two tracts; Very strong yields in recent years
Iroquois, IL	491±	460±	\$8,627	B-/B-	Irregularly shaped fields & ditches; Included 9 acres in CRP; Non-tillable acres comprised of timber and grass
Sangamon, IL	40±	16±	\$8,000	A/C	Timber/Pasture mixture; Odd-shaped fields; Close to other residential development; Sealed Bid Sale
McDonough, IL	155±	145±	\$7,550	A/B-	Odd-shaped; Waterway cut farm; Most recently used to pasture cattle
Macoupin, IL	238±	177±	\$5,735	B/C	Odd-shaped; Ditches cut farm; Non-tillable acres comprised of timber suitable for hunting
Fayette, IL	365±	354±	\$6,250	B-/C	Multiple parcels in 2 townships; Abundant road frontage; Brokered
Macoupin, IL	80±	48±	\$4,200	B-/C	Timber/Tillable mixture; Non-tillable acres comprised of timber suitable for hunting
Fulton, IL	318±	125±	\$3,500	C	Timber/Tillable mixture; Primary use was hunting; Odd-shaped; Minimal road frontage; Brokered

The Loranda Group, Inc. is a diversified farm real estate company that offers auction, brokerage, appraisal, and consulting services. The corporate headquarters is located in Bloomington, Illinois and our agents are licensed to sell farmland in Illinois, Indiana, Iowa, Wisconsin, and Missouri.