



# Land Facts

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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.



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### Market Outlook

## Agriculture in 2002, a Renewed Optimism?

by John D. Moss, President

In the summer 2001 issue of *Land Facts*, I stated that land values should remain fairly firm for the next few months, barring any major unforeseen events around the world. As it happened, the events on September 11 were certainly major and unforeseen. Despite the new uncertainty in this country and the world, four months after these catastrophes the demand for midwestern farmland appears to be higher than it was one year ago. Is there more optimism in the countryside than we are led to believe from the farm magazines and farm groups? In my opinion, yes! Is this cautious optimism? Probably, but the old phrase "your actions are speaking so

*continued on page 2*

## What Does It Mean To You?

by Douglas L. Hensley

What does "modern agriculture" mean to you? Is modern agriculture the use of hybrid seed corn? Is it a new John Deere tractor or combine—perhaps strip till farming is modern agriculture—possibly enterprise and peer analysis bookkeeping—or maybe modern agriculture is e-mail capability between the farmer and input supplier? Now ask yourself, what should modern agriculture be or mean? Is there really any one *right* answer? I do not believe so.

In my opinion, the age-old "different strokes for different folks" argument holds here. But now ask yourself, is the modern agriculture that you employ in your farm benefiting your profitability? Are you thinking beyond the fencerow, or do you feel like you are missing the boat?

Can't get big enough, fast enough? If getting bigger is the only strategy that you recognize as a survival tactic, I think you may have already missed the

*continued on page 3*



*Agriculture in 2002, a Renewed Optimism? continued from page 1*

loudly that I can't hear what you're saying" could describe many of the farmers that I've been visiting with recently.

While many businesses and industries throughout the country have been reeling recently from both the fear of terrorism and the economic recession, the bottom line for most corn-soybean farmers actually looks better. Fertilizer and fuel prices are lower than last year, as are interest rates. The income protection offered by the proposed farm bill(s) in Congress looks promising. And some additional income tax relief may be forthcoming as well. These facts aren't included in most doom and gloom articles we've read recently, or mentioned in the conversations at the local grain elevators. However, what farmers have been doing lately in terms of land rental, equipment purchases, and land purchases seem to confirm that they believe there are opportunities for profit out there.



Let me cite some examples of this farmer confidence. In terms of land rents, I know of a 1000-acre farm in Central Illinois that came up for cash rent this past fall. The soil types were predominately Class "A" and the topography was nearly level. The lease was for a three year term and the chosen operator was to provide fertilizer invoices each year to ensure that the fertility was being maintained.

Finally, let's analyze land sales that have taken place over the past four months. In most areas prices are steady to higher than they were last spring. Throughout most of the Midwest, there continues to be a shortage of quality farmland tracts that are reasonably priced. In the absence of a major capital gains tax reduction, this trend will probably continue in the short term. Most landowners, espe-

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After running four ads in local newspapers, over 60 farmers called to request information about the rental opportunity. Eventually, 22 bids were received for the acreage with six bids exceeding \$170 per acre. The aggressiveness of these bids indicates to me that some farmers must believe there's a potential for profit at present price levels.

Regarding equipment purchases, I know of several farmers who have "traded up" since harvest, and several machinery dealers have indicated that their sales are up 5 to 10% over last year. Undoubtedly, a lot of these sales have been motivated by attractive interest rate programs and income tax savings. However, a lot of the equipment that has been traded-in is not so old or worn out that it couldn't be used for a few more seasons. Farmers must be optimistic about their near term prospects or they wouldn't be spending the additional money for capital purchases.

cially retired farmers, are simply not willing to pay the tax on the capital gain that would be due upon sale. Plus, with the low rates presently being paid on bank C.D.'s, farmland is providing a better annual income anyway. Investors continue to show an interest in purchasing land. But farmers have been very aggressive buyers as well, which supports my belief that there is more confidence in the countryside than you might think. Do all farmers share in this optimism? Absolutely not! But those who are succeeding today have recognized that midwestern agriculture has changed. They have adopted modern business thinking (please see the following article by Doug Hensley) that allows them to successfully compete and expand their operations in these challenging times. The actions of these forward thinking farmers tells me that there is money being made in agriculture, in one form or another, and that the future remains bright.

*What Does It Mean To You? continued from page 1*

boat. I firmly believe that there are opportunities out in the agricultural marketplace. Are those opportunities exactly the same as they were ten years ago—no. Is the market constantly challenging us to keep up—yes. Are some farmers going to fail—yes. Are just as many going to succeed—you bet. The beauty of modern agriculture is that we can make it what we want.

To illustrate my point, many years ago I had the opportunity to participate in the FFA. During my time with this group, the organization dropped the name “Future Farmers of America,” in favor of FFA. This change reflected the more diverse face that agriculture’s students were taking. No longer was agriculture just farming, and the FFA recognized that farming was no longer just corn and soybeans. Currently, the FFA has more members than at any time in its history, and its successes are far greater than in the past. The FFA organization changed, and in turn it has accelerated success. Has the modern agriculture that you participate in reflected the same changes throughout its systems? Perhaps what we have been doing for the past 15 years is not the way we need to do it in the future. As Americans participating in modern agriculture, I believe we have to go back to what we have shown the world we were best at time and time again—the constant creation of opportunity. We do it every day in other markets, and agriculture should be no different. But can we climb out of the oft-mentioned rut that many in modern agriculture believe that they are in?

### ***The Hard Truth***

Go into any rural coffee shop—what is the hottest topic? Typically, I have found that the conversation surrounds how tough things are within cash-grain farming. Truth be known, USDA’s Economic Research Service says that by combining income from farm and off-

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farm sources, agricultural operators averaged \$64,300 in total household income in 1999. That figure is roughly 17 percent higher than the \$54,800 average for all U.S. households. Imagine where agricultural income would be if we had a strong corn and soybean market! The point is that agricultural operators are not too bad off, relative to the average American. And if as much time was spent developing business improvement ideas, would there be a need to talk about low commodity prices at the coffee shop?

There are three important points to consider: 1) on the individual level, it is a choice that each farmer makes to farm, and it is not necessarily an individual right that each farmer has to farm, 2) I deeply admire, respect, and value farming and those who participate in its success, and 3) consumers will always need farmers, just as farmers will always need consumers—it is a simple interdependency. But how pliable is the interdependency? None of us likes or requires people who consistently complain about things they can change. And I believe that those farmers that are not changing, or those who engage in consistent complaining, are not capturing the opportunities in front of them. In not doing so, these farmers are raising their odds of failure in the long run. On the other hand, U.S. agriculture has some of the brightest

- 1. Buying groups**
- 2. Alliance farming**
- 3. Try new practices, open new markets**
- 4. Engage experts**
- 5. Research the possibilities**

and most forward thinking people in the world. It also has some of the best-intentioned people. But none of us wants to be in the good-intentioned poor house. So, if we all know that forward thinking in the hands of good intentions can produce remarkable results, how can we turn innovation and good intentions into dollars?

### ***Change***

One of the most frightening words in the English language is change. Whether we like it or not, we all must get to know it well. To be successful in any business, we must understand the realities of that business, and one of the most important is being able to adjust. The need for change is most easily identified when the hard questions are asked. Would you be in business if the Federal Government did not dole out billions of dollars in support? If not, can you create a system that can survive without the Federal Government? I believe that many already have. Others who have not, likely have time to adjust.

### ***Changing Alternatives***

We live in a society where we have so much freedom—freedom to operate

*continued on page 4*



### What Does It Mean To You? continued from page 3

within the law in virtually any way that we choose. You can raise popcorn or pumpkins—hydroponics vegetables or wind energy. That type of freedom is what makes our system the most copied in the world. It also makes our system the most competitive. And in competition, those who want that dollar just as badly as you do constantly challenge your profitability. In simple economics, to compete profitably you can either raise revenue or lower costs. So how can you increase your bottom line?

Be creative! And be patient—meaningful, and profitable, change is never accomplished overnight. And just as importantly, we must focus our eyes on the drawing boards of our own offices, and not on Washington policy-makers. Below are some ideas for how *you* can create change in your current business of growing cash grains and beyond.

**1. Buying groups:** Cooperation with your neighbor(s), not competition, is the idea here. You or your tenant may be buying certain inputs for production on your farm. Guess what—your neighbor and his landlord are buying inputs as well. Why not team up and buy inputs together? For that matter, why not start a local group of farmers who agree to purchase production inputs in bulk. While there may be some organization and cooperation required to make this work, the decrease in per unit cost could more than offset any setup needs for the group.

**2. Alliance farming:** Another idea that is finding favor in some areas is that of alliance farming. Alliance farming simply takes the buying group concept one step further. Three moderate farmers, operating 1500 acres each, can farm 4500 acres

together. In doing so, they may be able to dramatically increase their efficiencies by sharing equipment, labor, and management skills. While this would require detailed delegation of financial and operational responsibility, the benefits could far outweigh the costs. In essence, cheaper inputs through volume, cheaper machinery costs through operational efficiencies, and expertise-driven work sharing can dramatically improve operational effectiveness.

**3. Try new practices, open new markets:** When is the last time that you tried something completely new on your farm? How many new markets have you been able to capture value from in the past three years? While Central-Illinois is known for cash-grain row crops like corn and soybeans, who is to say that this same area will not be or cannot be the strawberry capital of the world? After all, according to a recent midwestern farm magazine article, Illinois already leads the nation in pumpkin and horseradish production. Or, maybe the market desires your own brand of a product? Regardless of the product or practice, as more of our population becomes urban-oriented, agriculture must meet the challenge in producing products that the public desires.

**4. Engage experts:** We teach our kids to “look, listen, and feel” in the event of a fire—this technique allows them to understand the situation that they are in, and often can save lives. As businesspeople in a competitive market, farmers and landowners must do the same with their business, in order to stay alive and thrive. But instead of feeling how hot the door is, experts in different fields of agribusiness can serve as your gauge for making decisions. Are you thinking about trying something new? Talk with

those who know whatever market it is that interests you. Or if you aim to create a new market, describe your idea to someone who has big-picture knowledge about business, and who you trust with sensitive information.

**5. Research the possibilities:** Many innovations have simply happened by accident. But more have been the result of an idea that someone poured the time and effort into developing. Take the time to understand if an idea is practical, viable, and economically feasible. Get help if you need it. And understand that if *you* are not getting better, someone else *is*—often at your expense.

While none of the above are guarantees of profitable success, thinking about new or expansive business ideas can never hurt your bottom line in the long run. As one of my agribusiness colleagues always suggests—mental gymnastics can sometimes be the best exercise a person can get. And having fun with what you are doing can almost always double the pleasure and real return. You never know—in adopting a new idea, you may become a leader in its development on a larger scale.

In conclusion, we all must recognize that things within “modern agriculture” are changing. Those who can create change or understand how market-based changes impact them, and then can adjust accordingly, will be those who are successful. Modern agriculture is, and must continue to be, a system full of doers—people who make a difference because they recognize that they can either change their individual operation or the market in which they participate. Not only is it a matter of knowing that change is coming or needed—it is a matter of executing.