



# Land Facts

THE LORANDA GROUP, INC.

S U M M E R 2 0 0 9

## The Farmland Market – In the Short-Term

*By John D. Moss, President*

I've been fortunate to buy and sell farmland for over 25 years. During this time, I've watched as prices trended higher, trended lower, and even sideways. However, I don't think I ever remember a period when it appeared that the market was moving several different directions *at the same time*. I know this sounds impossible. But current conditions are simply reflecting the old adage that real estate prices and market trends are local in nature. Thus, any statistics that you may have recently read that reported price trends on a macro level (state, region, etc.) may have no bearing on what is actually taking place in your local neighborhood.

I personally foresee this variability in land prices continuing in the short term. Based on actual market evidence since the first of the year, we've determined that today's stable and stronger market areas are likely to have certain characteristics, including:

- A. Financially secure farmers who can buy land without adding risk to the operations;
- B. A limited supply of land available for sale; and
- C. Active investors (both individual and institutional) buying land to hedge their asset risk.

Today's distressed areas are generally characterized by:

- A. An abundance of farm operators who have tried to expand too rapidly by paying exorbitant cash rents (thus taking capital out of the overall local land market);
- B. Poor crop yields that are the result of irregular weather patterns; and
- C. A prevalence of farmers who purchased very expen-

sive crop inputs or did not take advantage of selling their production at profitable price levels in a market where prices are swinging widely.

Before buying or selling land in the next few months, be sure to know what the conditions are in your area. Recent localized comparable sale data is your best guide, and this information can be found in most county courthouses. If you don't have time to do the research yourself, hire a valuation professional who can. It's important to align your expectations with the realities of the *local* marketplace, whether good or bad, so you won't be disappointed later.

## The Farmland Market – In the Intermediate Term

Though I'm fairly confident about the stability of the overall land market over the next few months – good crops and good prices can cure a lot of ills – I see the potential for a much darker cloud forming farther out on the horizon over both our overall economy and the land market. And it's a cloud we've seen before – first in the farm crisis of the early 1980's, and more recently in the home mortgage crisis. Call it the curse of excessive debt and unbridled spending. This time, however, it isn't farmers or home owners that are driving this emerging disaster. It's our elected government officials at the federal, state, and local levels who seem to think that they can continue spending money and piling up debt without any

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ramifications. In the short term they may be right, but in the long term something will give.

Our government has unique powers at its disposal to combat debt situations. In the short to intermediate term, they issue bonds to fund their spending sprees. And for decades, the world has seen the U.S. as a safe place to invest their capital through the purchase of treasury and municipal bonds. But, the massive amount of new debt that the U.S. government has taken on the past 6 months has caused many foreign investors to pause and wonder if America is as financially safe as it once was. And if not, how much higher should the interest rate be on these bonds to offset the increase in risk? Sadly, any required increase in interest rates hurts both individuals and businesses, even though it's the government creating the problems. As it relates to farmland, the potential for higher interest rates is a bearish issue for land values. It not only hurts those who borrow money to operate land, but also those who seek to finance a land transaction. Further, it can make alternative investments to land more attractive to the investor buyer.

The other major power that our government possesses to combat debt problems is to raise taxes. As we've all witnessed in the past, the quickest and easiest solution for many politicians in a debt quandary is to simply raise taxes. Often cloaked under the guise of "making the system more fair", tax increases again affect all of us, either directly or

indirectly. Money that is taken out of the economy to pay taxes is money not spent on items like clothes, furniture, and cars – industries that employ thousands of people. In addition, raising taxes when the country is in the midst of the worst recession in decades and where many people are struggling to pay their bills is counter-intuitive. And higher taxes can also have a bearish impact on the land market as input costs will continue to move higher, crop margins will be squeezed, and the overall amount of available capital for new land purchases will be limited.

In the interest of fairness, I should mention that the government has at least one other method of handling large deficits – reducing the amount they spend. Personally, I don't think that there are enough backbones in Washington or in most state capitols to make the cuts necessary to produce a dent in the mountain of new debt that they are now accumulating.

## The Farmland Market – In the Long-Term

Though this may seem contradictory to my previous thoughts, in the long term I am optimistic about the future of farmland, even at current price levels. My optimism is tainted somewhat by nervousness concerning the issues mentioned earlier, but when you add in the impact of the 600 pound gorilla in the room – inflation – there may be some very good reason to own farmland.

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## WEBSITE ENHANCEMENTS

If you haven't visited the Loranda Website recently, please go to [www.loranda.com](http://www.loranda.com) and take a tour. In addition to our normal fare of current listings, sales history, etc. we have added a section where we will be providing a weekly commentary on recent activities affecting the land market. From the home page, click on the "Industry Insights" tab and then "Loranda Market Update". To assist those who will be selling land

in the near future, we have also included a section that describes how *The Loranda Group* markets property. Under the "What We Do" tab on the home page, click on "Loranda Land Sales Process" and discover how many steps are required to successfully sell land in today's uncertain market environment.



Increasing the money supply, a.k.a. printing more money, is an alternative that many governments implement in order to pay debt. Unfortunately, this solution has been tried time and again with the same end result – higher inflation. If you aren't sure what inflation would do to the U.S. economy or your individual pocket book, get on the Internet and type "effects of inflation" into any search engine. Inflation hurts nearly everyone, but especially the poor and those on fixed incomes.

So how does all this affect farmland? Numerous studies have shown that over time, hard assets, such as gold and farmland, have fared the best during periods of high inflation. Farmland trumps most other hard assets as it generates an annual income stream in addition to protecting the capital investment. At this point I will admit that my comments may seem eerily familiar to what was being written in the early 1980's. However, I attribute much of the collapse in land prices 25 years ago to too much debt and a poorly thought out political decision to place an embargo on grain sales to the former Soviet Union. I have confidence in the U.S. farmer to not take on too much debt again, and I have the *audacity to hope* that our federal government will be too busy running the automobile, insurance, and financial industries to meddle in agricultural trade.



As we've often stated, the farmland asset should be considered a long-term investment. There will be good times, bad times, and ugly times, but historically it still is considered one of the safest assets you can own during changing economic conditions.

## We've Moved!



We are pleased to announce that *The Loranda Group, Inc.* has moved its corporate headquarters to Bloomington, IL. We greatly enjoyed the 15 years that we spent in Springfield, but our continued business growth required a need for more space and a more centralized location within the state. Our toll-free number (800-716-8189), our Website ([www.loranda.com](http://www.loranda.com)), and our main e-mail contact ([loranda@loranda.com](mailto:loranda@loranda.com)) have not changed, but please detach the business card portion of the enclosed reply card and update your records with our new mailing address. We appreciate the continued support of our clients and look forward to serving you from our new location.







# ETHANOL:

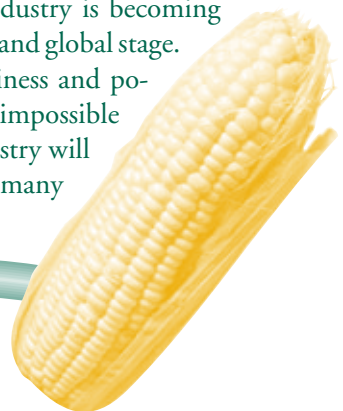
## An Industry in Transition

By: Douglas L. Hensley, Vice President

Nearly every agricultural publication the past three years has reported on the ethanol market – mainly, how it's become another major source of demand that has helped lift and support the price of both corn (directly) and soybeans (indirectly). According to a recent *Congressional Budget Office* report, nearly one-quarter of all corn grown in the United States is now used to produce ethanol, totaling roughly 3 billion bushels in 2008. But in recent months, a major re-evaluation of the economics of ethanol has started and a shake-up in the industry has begun.

The turbulence in the ethanol business hasn't discriminated. Single farmer-owned facilities, initially organized and designed to produce ethanol supplied by locally grown corn, have faced bankruptcy because of financial shortfalls and production delays (e.g., Canton, IL based *Central Illinois Energy*). Financial problems also forced one of the largest ethanol producers in the United States into Chapter 11 bankruptcy late last fall even after they had announced new plant openings as recently as early September. In fact, according to a recent *Iowa State University* update on the ethanol industry, nearly 20% of all existing ethanol plants now sit idle – an abrupt change from just 12 months previous. Ethanol proponents attribute the struggles in the business to normal growing pains, made worse by the lack of funding and the general economic meltdown in the fall of 2008. Opponents argue that an industry created by government is bound to fail -- that ethanol wouldn't be viable without mandated fuel blends, the 57¢ per gallon tax credit that refiners receive in its production, or the 54¢ import tariff applied to ethanol produced elsewhere. In fact, both sides are probably at least partially correct.

No matter your view, the ethanol business is changing quickly. Last summer's run-up in commodity prices stoked the loudest ever calls for an end to ethanol subsidies, as it was argued that using corn for ethanol increases food prices in an era when consumers can't afford it. In addition, reports have disputed the claim that ethanol use significantly reduces greenhouse gas emissions when compared to regular gasoline. Alternatively, the *American Farm Bureau Federation* recently called on the federal government to increase the ethanol blend in gasoline to 15%, up from its current 10%, contending that home-grown ethanol production creates jobs, increases the overall fuel supply, and lessens our dependence on foreign oil. And even agricultural producers have stark disagreements about ethanol. Livestock farmers want cheap corn to feed animals and generally oppose ethanol, while corn growers naturally support it and see ethanol as an important end-use of their crop. In the end, it seems clear that the ethanol industry is transitioning from a "grassroots" effort to support regional Midwestern row-crop agriculture to one that is becoming increasingly wide-reaching and complex. The players are generally getting bigger (even major oil companies such as Marathon, Sunoco, and Valero are now buying ethanol plants) and the overall industry is becoming extremely politicized on a national and global stage. Unfortunately, under current business and political conditions, it is nearly impossible to predict how and when the industry will stabilize. Let's just hope that too many more aren't hurt in the fall-out.



### AGRICULTURAL REAL ESTATE BROKERAGE, AUCTIONS, ACQUISITIONS, AND CONSULTING

*The Loranda Group, Inc. is a diversified agricultural services firm headquartered in Bloomington, Illinois and licensed throughout the Midwest. 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.*