



# Land Facts

THE LORANDA GROUP, INC.

AUGUST 2012

## The Impact of the 2012 Drought on Farmland Values

By: John D. Moss, President

At the beginning of this year, I was not confident that the strong demand for farmland, and the correspondingly high sale prices, could continue through the end of 2012. My rationale at the time was simple – higher input costs plus lower commodity prices would lead to reduced farm profits for the year. All of this assumed, of course, that we would have normal weather during the growing season. Needless to say, that's one assumption that I would change as the past 4 months have been anything but normal.

Information about the drought is everywhere - pictures of wilting corn and soybean fields have been commonplace in newspapers, on television, and across the Internet all summer. Many of the stories being written seem to imply that farmers will be losing incredible sums of money this year. While that may be the case in some situations, most grain farmers have crop insurance to protect themselves in case of a disaster. Though it is not possible to buy coverage that would cover 100% of normal yields, it is possible to buy insurance that will cover up to 85% of an average crop. When you also consider that commodity prices have increased dramatically the past few months, then you realize that things may not be quite as bleak in the countryside as some of the stories would lead you to believe. In fact, several farmers I've talked to recently believe that they will actually make more money in 2012 with the significantly reduced yields than they would have made under normal growing conditions.

So how will the drought affect farmland prices over the next few months? If some of our recent stronger than expected sale results are an indication, then I am optimistic in the near term. Based upon information from the transactions we've closed, and numerous

conversations with those currently active in the land market, I see four main factors underpinning the market at the present:

- ❏ Most farmers and landowners have enough crop insurance coverage that they aren't worried about 2012 profits (especially after factoring in current crop prices), despite the condition of the growing crops;
- ❏ Farmers still have carryover profits from 2010 and 2011. They know that if they don't pursue available land offerings now, then they may not have anything to choose from later;
- ❏ Crop prices for 2013 have moved high enough that farmers are optimistic about making money next year; and,
- ❏ Record low interest rates continue to make borrowing costs affordable for land buyers. In addition, farmland continues to attract the conservative investor seeking a better annual return than what C.D.s can deliver.

This is not to say that some farmers won't be impacted by the drought. Livestock producers are already feeling the pain as high feed prices have created negative margins. Farmers that have pre-sold grain for fall may be delivering \$8.00 corn while only receiving a \$5.00 contract price. And finally, those grain farmers (or landlords) who did not take out the maximum coverage on their growing crops will be hurt financially.

Predicting what land prices may do several months out is more difficult. If corn and soybean prices stay too high for too long, then the end users will respond by buying less grain. In addition, the U.S. is now getting pressure from several sources to reduce or suspend their ethanol mandate. Regardless, if you combine reduced demand for grain with one good growing season then there may be a period where grain farming is unprofitable. The supply and demand of grain must get rebalanced so that commodity prices can stabilize at a point where both producers and consumers can survive.

I also sense more land coming on the market before the end of the year. Some absentee owners will likely be cashing out while land prices are high, and others will be motivated to sell before the scheduled capital gains tax rate increases on January 1.

Attitudes and the demand for land may change as the combines (or disks) are moving across the fields this fall. Right now, however, I think the land market in the near term will fare better than the corn and soybean crops that have withered away in the fields this summer.







## How to Make Changes to Your Farm Lease

*By Eric L. Sarff, Vice President*

Due to the 2012 drought, many landowners and farmers will want to reevaluate and revise their farm lease terms for 2013. In order to do this, the current year lease must be properly terminated. This is a legal requirement, regardless of whether the landowner wants to sell their farm, or simply change some provisions within the lease document.

Each state has its own set of rules on how to address this issue, and if termination is not handled correctly, it's like it was never done at all. Fortunately, the process is not that difficult. Below is an overview of the steps necessary to ensure that you do comply with the law:

- ❏ Determine if you need to send a termination notice. Some leases automatically expire at the end of the crop year and if so, this language is written into the agreement. If you don't see this provision, or if you only have an oral lease, then you will have to send a proper written notice.
- ❏ Determine what the notification procedures are in your state. One of the quickest ways to learn about lease terminations is by "Googling" it. Simply type in the name of your state followed by "farm lease termination". You will quickly have several sites to choose from that not only will give you the regulations, but also an example of how the notice is to be worded. A second way of learning more is by contacting your attorney.
- ❏ Prepare and send the notice exactly how your state law dictates. This step is the most important, but often the most overlooked. Simply calling or sending a handwritten note to your tenant is not sufficient. The timing, wording, and delivery requirements for the notice must be strictly followed. If not, accept the fact that the terms for your 2013 lease will likely be the same as those you followed in 2012.

As modern farming has evolved, driven most recently by high grain prices, the need to review the farm lease on a regular basis has become important. Whether you are looking to sell your property, or simply needing to evaluate the lease terms for fairness, a landowner should know the laws that govern when and how changes can be made.

## Stay Connected with Loranda

If you haven't visited [loranda.com](http://loranda.com) recently, check us out the next time you are online. We have recently revamped our website to be a one-stop shop for delivering information to landowners. As with our old site, you will still be able to quickly and easily browse our current farmland offerings and download detailed brochures. You can also find the results of many of our past sales, in case you are curious about what we have sold previously in your area.

What we now offer is a launching pad to constantly updated information from around the world that pertains to agriculture and the farm real estate market. On our *News & Resources* page, you will find information from sites such as [FarmlandInvestor.com](http://FarmlandInvestor.com) and [AgWeb.com](http://AgWeb.com), links so you can follow the commodity markets, and up-to-date weather information. Also included on this page is access to our weekly *Market Update* blog and our newsletter, *Land Facts*, where we look at the big-picture factors affecting the land market.

Finally, we have continued to grow our social media presence on the new site. Want to watch some action from one of our previous auctions? Click the *YouTube* link found at the bottom of every page. In the same place you will also find links to our other social media sites, including *Twitter*, where we update our followers with links to topical articles, blog posts relating to the land market, sales results from around the Midwest, and much more.

If you are looking for a website that focuses on the important issues affecting farmland, and gives honest and direct opinions on where the market is headed, we think you will find that [loranda.com](http://loranda.com) is a great place to visit.





On August 4th, the USDA released their 2012 Summary of Land Values. The estimates in this report are based primarily on the June Area Survey, conducted during the first two weeks of June, on a state-by-state basis. As could be expected, values all across the Midwest increased the past year. For an historical perspective, below is a table that reflects changes in Illinois farmland values since 1970. Keep in mind that the values are an average across the entire state and may not be indicative of values in any specific region. For the complete report, simply Google “*USDA Land Values 2012 Summary*”.

# Illinois Farm Real Estate Values 1970-2012

Year	Value per acre	% Change	Year	Value per acre	% Change	Year	Value per acre	% Change	Year	Value per acre	% Change	Year	Value per acre	% Change
1970	\$490	n/a	1980	\$2,041	9.8%	1990	\$1,405	1.0%	2000	\$2,260	1.8%	2010	4,900	8.2%
1971	491	0.2%	1981	2,188	7.2%	1991	1,459	3.8%	2001	2,290	1.3%	2011	5,700	16.3%
1972	527	7.3%	1982	2,023	-7.5%	1992	1,536	5.3%	2002	2,350	2.6%	2012	6,700	17.5%
1973	590	12.0%	1983	1,837	-9.2%	1993	1,548	0.8%	2003	2,430	3.4%			
1974	788	33.6%	1984	1,845	0.4%	1994	1,670	7.9%	2004	2,560	5.3%			
1975	846	7.4%	1985	1,381	-25.1%	1995	1,820	9.0%	2005	3,210	25.4%			
1976	1,062	25.5%	1986	1,232	-10.8%	1996	1,900	4.4%	2006	3,590	11.8%			
1977	1,458	37.3%	1987	1,149	-6.7%	1997	1,980	4.2%	2007	4,020	12.0%			
1978	1,625	11.5%	1988	1,262	9.8%	1998	2,130	7.6%	2008	4,550	13.2%			
1979	1,858	14.3%	1989	1,391	10.2%	1999	2,220	4.2%	2009	4,530	-0.4%			

Source:  
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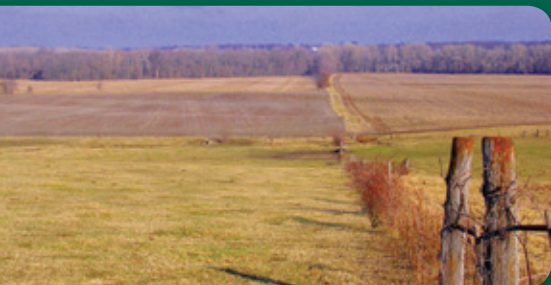
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**Summer 2012  
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