Land Facts

THE LORANDA GROUP, INC.

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The Current Land Market…Losing Some Steam?

By John D. Moss, President

If someone fell asleep on July 1st, and just woke up today, do you think they would believe what's happened the past few months? Of note—the U.S. has just elected their first African-American president; crude oil prices are under $55 per barrel; the stock market has lost nearly 30% of its value; Congress has authorized a $700 billion federal bailout to help avoid a collapse in the financial and insurance industries; Grain prices have fallen dramatically (corn more than $3.00 per bushel and soybeans more than $7.00); and finally, the farmland market may actually be cooling off. It's enough to make you want to go back to sleep! Unfortunately, we don't have the luxury of taking an extended nap and we have to deal/work/live in the here and now. And, with that said, we wanted to send out this year-end land market update so you know how all these recent major events may be affecting your farmland asset.

Since the first of October, we have had the opportunity to auction or broker numerous properties across the Midwest, and we have heard the results of several other sales. Unfortunately, some of the news has not been very encouraging. In many regions (though certainly not all), land values seem to be 5 – 10% below levels of earlier this summer and/or below seller's expectations. From the farmer perspective, enthusiasm to bid on that adjoining 160 acres has been noticeably lacking in many neighborhoods—a result of some of the factors listed above, along with a harvest that took much longer than usual to complete. The drop in commodity prices has created the biggest black cloud, and when combined with significantly higher 2009 crop inputs, their hesitancy is understandable. And while farmers are still bidding on land (though in fewer numbers), they are being much more selective with their purchases (see accompanying article by Doug Hensley). Part of our current problems may simply be a function of timing—crop prices often are lowest in the fall, and input prices for 2009 have not yet pulled back in response to lower oil prices. So things can still recover next year if certain factors improve.

From the investor perspective, the reaction has been mixed. Some have been affected by the problems in the general economy and are not in a buying mode. Some are fleeing to farmland as they value the security of a hard asset over a paper one (see Lehman Brothers). Finally, many are simply watching this market, versus participating in it, to see where and when the next best buying opportunity may be. They understand that farmland is a long term investment with normal price fluctuations over time. And they certainly aren't ready to exit the asset class simply because the market may have plateaued.

Moving forward, let me offer a few thoughts for land owners…

1. Watch grain prices carefully as this will signal if the land market may continue to cool, or if it will establish firmer footing in 2009;
2. Remember that farmland prices (as well as all real estate prices) are local in nature. A high sale price that you hear in Hancock County, IL may not be reflective of what your property is worth in Macoupin County, IL or White County, IN; and,
3. Manage your price expectations carefully. There are fewer land buyers today, and they're more discriminating. Aggressive bidding continues for the quality properties that have excellent soils and are efficient to farm, but more distinct discounts are emerging for the below-average tracts.

In sum, let's just hope that the volatility and uncertainty we've seen the past 5 months does not extend well into 2009!