



Land Facts

THE LORANDA GROUP, INC.

FALL 2008

Which Way from Here?

By: John Moss, President

One part of my business that I really enjoy is talking with farm operators, farm investors, and farm reporters about the land market. I find it fascinating that so many different people can analyze the same information, yet come up with drastically different interpretations. Admittedly, 2008 has been a bit different. I think I can say with great confidence that agriculture has been anything but boring this year. Headlines like...

- “Record Floods Destroy Millions of Acres of Corn and Soybeans”;
- “Fertilizer and Fuel Prices Reaching Uncharted Territory”;
- “Farm Income and Land Values at Record Levels”;
- and, “Corn and Soybean Prices In The Stratosphere”

have been screaming in newspapers, magazines, and on the Internet on a daily basis. Even as I write this article, I know that some are reading these headlines and are ready to buy more land. They only see opportunity - opportunity to expand their land base and increase their wealth. Yet others view the current agricultural landscape as daunting, almost frighteningly so, and are ready to bail out.

All of the recent stories point to the real fundamental change in our industry - risk, and its *unknown* rewards, has ratcheted up to a point where being involved in agriculture is not for the faint of heart. Even buying and selling farmland can be challenging, especially when you add the dynamics of potential changes in government policy and tax law that we may see in 2009.

I truly believe in the next few years that more money will be made and lost than at any time in U.S. agri-



cultural history. As a farmland owner, are current headlines leaving you optimistic about the future or giving you heartburn?

Recently, I've been asking more pointed questions to determine what strategy (buy, hold, or sell) people are following with their land investments, in an effort to learn what factors are truly driving their decisions. It's particularly interesting to me that many are motivated entirely by non-economic issues, reinforcing the point that it isn't always about return on investment or dollars per acre. Following is a brief summary of what I've learned about the mindset of these land market players.

I'm Ready to Sell!

Capital Appreciation: I think prices may have peaked, and/or the downside risk is far greater than any upside return.

Income: I don't think that commodity prices and cash rents can stay at these high levels, thus my annual cash flows and return on investment will be falling.

Tax Issues: Regardless of who gets elected in November, tax policies in Washington are soon going to change and I know that the capital gains tax rate will never be lower than it is right now.

Other: I need/want money for other purposes - medical expenses, college education, a second home, etc.

I'm Still Holding On!

Capital Appreciation: I think land prices should remain firm or continue higher.

Income: Commodity prices and cash rents should stay high enough to keep returns in the 4% range, making land competitive with alternative investments.

Tax Issues: As an agreed upon family plan, I'm waiting for "Grandma" (the true property owner), to die in order to get a step-up in basis for estate

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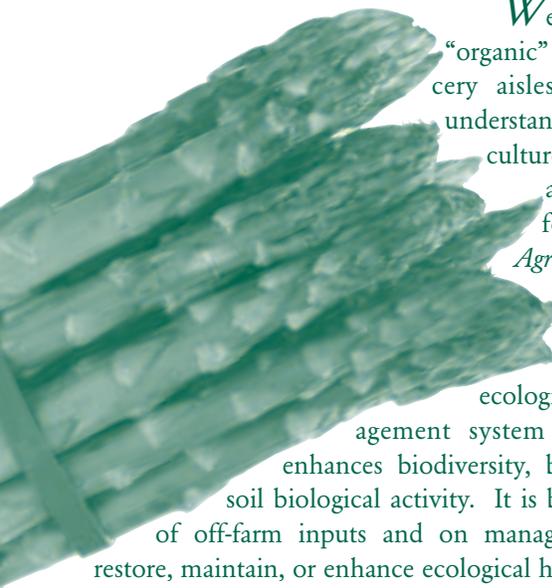
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Understanding Organic Agriculture

By: Douglas L. Hensley

I grew up on a conventional corn, soybean, and cattle farm in western Illinois, and my culinary tastes lean toward meat and potatoes. In the interest of full disclosure, I've never knowingly purchased an organic product to this point of my life. I'm not opposed to organic food – however, I never saw the value in return for the additional cost. But in recent months, I've been contacted by several potential land buyers who have become interested in locating a *certified organic farm* to add to their portfolio of land holdings. These investors want to pursue a certified parcel in an effort toward further asset diversification (a business reason), coupled with the desire to promote “healthier living” (a personal or lifestyle preference). As a result, I've recently attended organic meetings, researched the industry, met organic producers, and started the process of educating myself about this segment of agriculture. Why now? It's clear to me that the organic segment is continuing to grow – but perhaps more importantly, I struggle to think of anything in agriculture that is more misunderstood than organic farming.



We've all seen the word “organic” used in today's grocery aisles, but do we really understand what organic agriculture is, or what it means as it relates to our food? *Organic Agriculture*, as defined by the USDA National Organic Standards Board (NOSB), is “an ecological production management system that promotes and enhances biodiversity, biological cycles, and soil biological activity. It is based on minimal use of off-farm inputs and on management practices that restore, maintain, or enhance ecological harmony. The primary goal of organic agriculture is to optimize the health and productivity of interdependent communities of soil life, plants, animals and people.” We all think of *no chemicals used* as defining organic food – but the lack of pesticides in crops, and antibiotics or hormones in livestock production, is only a component of the organic production process. And after visiting a certified organic farm in central Illinois, I have a new appreciation for the total management system that's employed by organic farmers.

Who regulates this management system? Similar to most regulation and standard-setting in American agriculture, the USDA plays a crucial role in the organic business. In 2002, when the

USDA adopted national standards, organic operators and practices became regulated, both formally and uniformly. The resulting body of rules stipulates that producers must meet the established certified operating guidelines for their resulting crops or livestock to become certified organic. The initial 36-month process is typically monitored through a third party organic certifying agent who is accredited by the USDA. The certifier will make on-farm visits, inspect farm maps, record-keeping, and any other relevant farm plans to determine that the operation has met the national standards. Those who comply with the required practices are granted status as *USDA certified organic*. This status allows the resulting crops or meat to be advertised as certified organic, and likewise allows the use of the official USDA organic seal on packaging, which is what consumers now commonly see (and look for) in the grocery aisle.



How big is the organic industry? While much U.S. organic market information is sketchy because of the relative small size and the de-centralized nature of organic markets, the USDA considers organic farming one of the fastest growing market segments of U.S. agriculture. For a frame of reference concerning production scope, according to the USDA, the number of certified organic acres doubled between 1990 and 2002, and doubled again from 2002 to 2005. There are more than 1.7 million acres of certified organic cropland in the U.S., while certified pasture and rangeland represent another 2.3 million acres. For cropland acres, California led the way in 2005 with more than 223,000 acres; Wisconsin had more than 91,000 acres; Iowa more than 64,000 acres; Illinois nearly 25,000 acres; and Indiana came in with just over 4,000 acres. And while 4+ million total certified organic acres seems quite significant, it still represents less than 0.5 percent of all U.S. farmland.

As organic products have become more mainstream in recent years, commercialized outlets featuring the products have thrived. *Whole Foods Market* is a well-recognized example of this trend. Since its initial store opening in 1980, the company has grown beyond its single Austin, Texas store roots to include more than 270 locations and 54,000 employees on 2 continents, primarily in larger urban areas. To fill the void in finding local and organic products in smaller urban areas, community-based “farmer's markets” across the country are creating opportunities for consumers to get a taste of organic products. Grocery shoppers will find even more of this type of produce in another familiar spot – Wal-Mart. According to a recent Associated Press article, Wal-Mart Stores, Inc. plans to substantially increase the amount of fresh, locally grown produce available in their stores in the near future – and you can bet that a por-

Changing Lease Terms in 2009?

If you think that you might sell your farm between now and spring planting, or if you want to update the terms in your lease, it is imperative that you *correctly* terminate your existing lease arrangement, regardless of whether it is an oral or written lease agreement. Unfortunately, most owners don't realize that each state has its own specific laws that govern this issue.

If a termination is not made in strict adherence with state regulations, then it's as if it wasn't made at all - the lease renews with the same terms for the following crop year. This could potentially cost a landowner thousands of dollars in reduced rent for the following year - or worse yet, a discounted sale price if the farm must be sold subject to an existing lease. As a general rule, the deadline for terminating the lease is no later than September 1, and the tenant must be terminated *in writing*. For more information, review the Fall 2007 edition of *Land Facts* on the Loranda Web site (www.loranda.com) or consult your real estate attorney.

tion will be certified organic. Obviously they have recognized the demand for straight-from-the-farm and organic products, and sourcing them "locally" helps not only their bottom line, but the bottom line of organic producers as well.

Why would a farmer and/or landowner in the Midwest desire to grow organic crops on their acreage, regardless of their size? For some, the concept of growing organic is a lifestyle decision - they believe the benefits to their health and the health of others (including Mother Earth) far outweigh any costs. For others, it's purely another diversified enterprise in their existing overall farming business, offering the chance to sell \$10 per bushel corn and \$25 per bushel soybeans. Finally, for a young person who wants to enter production agriculture, but doesn't have the financial resources and/or land base to compete with established farmers growing commercial corn and soybeans, the ability to produce organic may offer the opportunity to simply *begin farming*.

In the end, many factors are in-play with organic production. As I mentioned earlier, I've never been a user of organic products. But as time moves on, I'm increasingly convinced that the organic

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tax purposes; and then I'll probably sell soon thereafter.

Other: I want to keep the farm in the family for future generations.

I'm Ready to Buy!

Capital Appreciation: I think land prices should continue to increase from 5 - 10% annually for the foreseeable future.

Income: Commodity prices and cash rents should stay high enough to keep returns in the 4% range, making land competitive with alternative investments.

Tax Issues: I'm completing a Section 1031 tax-deferred exchange to delay paying taxes. (Note - though much fewer in number, these buyers are still active in the marketplace.)

Other: I want to diversify my total investment portfolio by adding a hard asset like real estate.

So which group do you belong to at the present, and how are you interpreting the headlines? Realistically, there is no right answer on what you should do, and often you won't know if your decision is correct until years down the road. Each individual should take into account all of the variables, both financial and personal, that might cause them to act. As I often tell people, just choose the alternative that allows you to sleep best at night and you'll probably be right.



market has long-term "legs". And as any smart capitalist understands, supplying the market with the products it demands, *regardless of whether I personally demand them*, is just good business.

TO LEARN MORE, VISIT ANY OF THE FOLLOWING WEB SITES:

www.ams.usda.gov

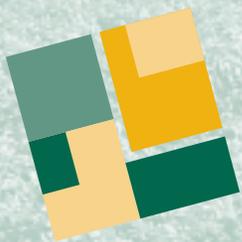
www.attra.ncat.org/organic.html

www.illinoisfarmdirect.org

www.wholefoodsmarket.com

www.walmart.com/locallygrown





Harvesting the Wind

By: Douglas L. Hensley

With crude oil prices over \$135 per barrel, the U.S. government and capitalists alike are now closely analyzing the economic feasibility of alternative energy sources. T. Boone Pickens, the famed Texas oilman, has been promoting the idea of using energy from natural gas and wind farms to replace much of the oil we're currently importing. Across the Midwest, numerous wind farm developments have been built the past few years, and there's the potential for even more. If you are not familiar with some of the basics of wind farms, here is information gathered at a recent wind energy conference:

Q: How large is a typical wind farm?

A: An average Midwestern wind farm will consist of 75 to 100 turbines and will produce about 100 megawatts of power, or enough to supply 30,000 homes. The "footprint" of the project may cover up to 20,000 acres.

Q: How much land will a wind turbine take up on my farm?

A: Each turbine site itself will take up from roughly 1/3 to 1/2 of an acre, however, roads used to access the turbine may increase the land required to 2 or 3 acres.

Q: With a wind farm development, who owns the land and who owns the turbine?

A: The wind farm company leases the land from the farm owner and owns the wind turbine.

Q: How much can I expect to be paid if a wind turbine is erected on my farm?

A: In the Midwest, most wind companies pay approximately \$3,000 per megawatt of capacity. For example, a 1.5 megawatt turbine may generate a fixed annual payment of \$4,500.

Q: Who pays the real estate taxes on the turbine?

A: The wind farm company, not the landowner, is generally responsible for paying the real estate taxes.

Q: How long does an average wind turbine lease last?

A: While terms can vary, wind farm leases typically run from 30 to 50 years in length.

Q: Will the wind turbine remain on my farm at the end of the lease?

A: The wind farm company is often contractually obligated to remove the turbine and its related infrastructure.

Q: How much noise does a wind turbine make?

A: The predominant sound from a wind turbine is the "swishing" sound coming from the blades. At a distance of 750 feet, the noise would compare to the sound of a refrigerator.

Q: Will a wind turbine harm birds and wildlife?

A: Technology has made wind farms much safer – slower running blades, fewer places to nest, and enclosed wires have combined to significantly reduce the dangers.



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The Loranda Group, Inc. is a diversified agricultural services firm headquartered in Springfield, 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.