



# Land Facts

THE LORANDA GROUP, INC.

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## The Impact of Grain Marketing on Farmland Prices

*By: John D. Moss, President/Managing Broker*

**T**hirty years ago, I worked for a small farm management company in Indiana. Back then, most of our managed properties were leased on a crop share basis, which required me to market the landlord's share of the grain. I still remember the angst when it came time to sell the crops – not only did my clients occasionally question my decisions, I often second-guessed them myself.

Today, the shift toward cash rent leases have placed more of the burden (and risk) of grain marketing on the farmer. Some operators that I know truly enjoy the challenge and understand how to use options, futures contracts, weather forecasts, and historical basis information to boost their average sale price. Others approach marketing with the same dread that I did 30 years ago, and may end up with the same less than desired result.

I think this year, the importance of marketing grain when there was a good opportunity to do so has been amplified. Let's use the December 2016 corn futures contract as an example. On April 9th, when planting was just getting started, the price was \$3.70 per bushel. On June 17th, due to the possibility of dry summer weather, it rose to \$4.48 per bushel. Shortly thereafter the rains came and the closing price on August 4th was \$3.31. Yes, yield

prospects look quite promising so farmers will have more bushels to sell and there should be extra revenue from crop insurance and the government. But farmers get discouraged when commodity prices are depressed and a big crop will not only impact crop prices this year but also next.

Unfortunately, I don't think that enough of this year's crop was priced when corn was in the \$4.25 to \$4.50 range, so

I would anticipate that there will be fewer bidders for land this fall, and that prices will continue to drift lower. That doesn't mean there won't be any buyers, as those who did aggressively price grain in mid-June should have enough money to spend on a capital purchase. But the buyer pool will likely be more shallow and farmers will continue to be more selective in the tracts they pursue.



In past issues, I've discussed other variables that can impact land prices – scarcity, interest rates, adjoining neighbors, etc., and they will continue to influence what a buyer is willing to pay for a farm. But for the next several months, I think the biggest factor in determining how aggressive a farmer will be pursuing a tract of land is whether they were aggressive enough (or lucky enough) to price a good percentage of their grain six weeks ago. Those that did sell look pretty smart at the present, and those that didn't probably look and feel like I did many years ago.

## Real Estate Corner

**Q. My family wants to sell our 160-acre farm this fall. Should we hire an auctioneer, or list it with a broker?**

**A.** From 2007 to 2015, the auction method of sale was normally the best alternative. Farm net income was at record levels and farmers were aggressively looking for opportunities to expand their land base. The auction, where there is no pre-set upper limit on price (i.e. a list price), worked perfectly in this environment as there were numerous bidders for all types of land. Recently, the income dynamics have changed and farmers are much more selective in what they are bidding on, or in many cases are not bidding at all.

In my opinion, there are two major questions to ask when choosing how to sell your land. First, are you working under a specific time frame where you need your proceeds quickly? If so, then an auction is still the best choice as the seller can control when the property is to close and other important terms of sale. Second, do you have a high quality tract that will be in great demand, or is it mostly non-tillable with drainage issues, or perhaps it's encumbered with a long-term lease? If it is high quality, then you will likely still do well with an auction despite lower commodity prices. If not, then you might want to strongly consider a brokerage arrangement. Think of it from this perspective – at an auction you need two strong bidders in order to achieve a

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## The War Over Water

For years, most people in this country have taken our water for granted. We get up every morning, turn on the tap, and out runs clean, fresh H<sub>2</sub>O. It's been relatively cheap, abundant, and with few exceptions, considered safe. However, we may look back to this current era as the time when the cavalier attitude toward both the quality and quantity of water will have changed, for the individual consumer and those involved in agriculture.

In 2016 alone, several articles in a variety of publications have been written regarding agriculture's use of, and impact on, the nation's water supply. Following is a brief overview of some of the biggest stories, and you can learn more about each of these situations by searching the Internet.

**The Toxic Algae Bloom in Florida.** This phenomenon is not unique to Florida. It's also been an ongoing dilemma in Lake Erie and the Chesapeake Bay for years, and agricultural run-off has been named as the biggest contributor to this problem.

**The Des Moines Water Works Lawsuit.** This case involves excessive nitrates in the Raccoon River, the principal source of water for most of the city. The water department has been spending millions of dollars a year to remove these nitrates, and they believe that much of it is coming from agricultural drainage districts that outlet into the river.

**The Ogallala Aquifer and Colorado River Basin Drawdown.** Though the Ogallala problem has been discussed for years, National Geographic published a lengthy exposé in its July 2016 issue that discussed how rapidly the water table has been dropping, and the impact it will have on farming and local communities in the future. In addition, in August the Discovery Channel aired a special called "Killing the Colorado", which examined how the water shortage out west could be attributed to both over-population and over-use of this natural resource by agriculture.

It's important to note that not all water crises can be blamed on the ag sector, as we saw with the disaster in Flint, Michigan. But, current farming practices have contributed to a lot of these problems and farmers and landowners alike need to understand the potential liability involved. In the future, regulations that dictate when, how, and how much fertilizer can be applied will be commonplace, cover crops may be the norm, and filter strips along open water will likely be mandatory and not voluntary. Some won't like the government intrusion, but when public water supplies are being contaminated (as in the Des Moines Water Works case), or depleted (as we're seeing out west), then the government will step in to protect what they deem as the public good.

### Real Estate Corner *(continued from other side)*

top price, but with a listing you only need one. Also keep in mind that the auction method can be an attractive option for many landowners because the process is reasonably simple – there is no back-and-forth negotiating on price and terms of the transaction. This can be especially important for properties with multiple owners who want to ensure that every possible buyer has been given the opportunity to bid in an open and public forum.

In my opinion, if you want to minimize the potential downside risk when selling your acreage, then you need to talk to a farmland professional who:

1. Understands the financial strength of the local marketplace;
2. Can determine how aggressive prospective buyers will be for your type of farm; and,
3. Offers both auction and brokerage services so you get an unbiased recommendation as to which option should be most effective.

In summary, the decision on how to sell isn't as clear-cut as it used to be, so make sure you do some research and ask a lot of questions before finalizing your decision.

