



Land Facts

THE LORANDA GROUP, INC.

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The 2018 Farmland Market - Making Sense Of The News

By: John D. Moss, President

I subscribe to a newsfeed that regularly distributes stories and commentary regarding the farmland market. For the past few months, it's been a challenge to reconcile information found in one article, with what you might read in another. For example, below are just a few of the headlines that I've seen recently:

- Farmland Prices Moving Higher (Iowa)
- Land Prices Continue Drifting Lower (Nebraska)
- The Farmland Market Is Acting Completely Rationale
- Higher Than Expected Auction Prices Hard to Explain

Could all of these stories be considered credible, if taken in the appropriate context? In my opinion, the answer is a resounding "YES" and they confirm what we need to remember about farm real estate – it's not just a single market where prices always move in the same direction driven by macro-economic conditions. Instead, it's thousands of micro-markets where trends can vary not just from state to state, but also from section to section!

Though landowners are normally most interested in market conditions near their property, an understanding of the macro-economic issues is also important. Knowing that, following is a brief overview of some of the more significant variables that are likely to impact values in the next few months:

Grain Prices: *Corn* - Prices were higher earlier this summer, but it might surprise some to know that corn prices as of August 15th were actually higher than they were a year ago on this date. If recent history holds true, then there should be several opportunities to price the 2018 crop at more profitable levels. *Soybeans* – The soybean market has been in disarray since the government enacted trade tariffs earlier this summer. Though prices dropped sharply in a

short period of time, a renegotiated trade agreement with China could undo most of the damage just as quickly.

Interest Rates: The cost of borrowing money has continued to rise the past several months with more increases expected in the future. Fortunately, the hikes have been slow and gradual, but higher interest costs will put a dent in the cash flow of those carrying much debt.

Limited Supply: The turnover rate of farms remains at historically low levels and this trend is likely to continue for the foreseeable future.

Government Policies: The decline in soybean prices caused by the trade tariffs will soon be partially offset by government aid to those farmers who are bearing the brunt of these policies. The details of the program are not yet known but payments are supposed to be disbursed later this fall.

Investor Demand: There continues to be strong interest in land by non-farmers, which is helping to support prices. This demand will likely continue in the near future as farmland is still considered an excellent asset to own by the investment community.

In summary, I would anticipate that average land values across most of the Midwest will remain somewhat firm through 2019, though we will likely see a greater variability in prices from area to area. Don't become confused by the conflicting stories that you may hear about the general market, instead focus specifically on what's taking place in your neighborhood so you can make any rental or sales decision based upon accurate and relevant information.





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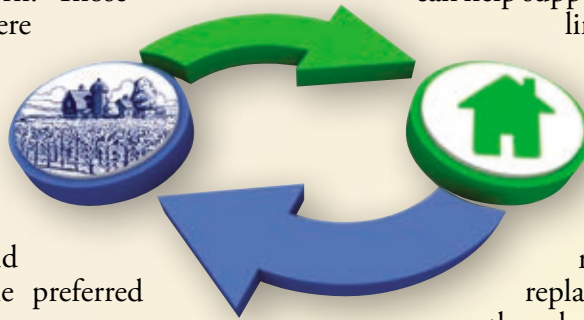


Land Market Update!

The Return of the 1031 Investor

When real estate development was at its peak in the early part of this century, there were thousands of acres of land across the country being converted from an agricultural use to residential or commercial. Developers were paying huge premiums to buy well-located farm properties as it was more profitable for these tracts to grow houses or strip-malls than corn. Those selling the raw land at the time were faced with either paying a large capital gains tax on the sale or deferring their tax liability by completing an IRS 1031 tax-deferred exchange. This involved the purchase of other income producing real estate, and across most of the Midwest the preferred investment was farmland.

With the onset of the “Great Recession” in 2008, development slowed considerably and the 1031 investor virtually disappeared. In many areas, construction remained stagnant until 2015 when new real estate



projects slowly began to emerge. Today, development has picked up significantly and once again we see the 1031 investor becoming an active buyer of farmland. Why is this noteworthy? At a time when commodity prices are depressed and fewer farmers are capable of bidding for land, having this type of buyer reenter the market place can help support values. The exchange buyer has a limited window to identify and close on their replacement properties, so time is of the essence. They occasionally pay above market prices for the tracts they buy as the potential tax liability far exceeds the premium they might have to pay to acquire their replacement property. Typically, they then lease this acreage to a local farmer versus operating it themselves. Though there isn't necessarily a big pool of 1031 buyers, this group is bringing new money into a restless marketplace. And for that, we say “welcome back”.

Farming In The Digital Age

If you're an absentee landowner who isn't familiar with businesses such as “Granular”, “Climate Corporation”, “Farmers Business Network”, or “AgriData”, now may be the time to learn more about how these types of firms are shaping the future of the agriculture industry. Most experts agree that these data/technology companies are helping usher in a new era of agriculture by utilizing data obtained from a wide variety of sources. The old business adage – “if you can't measure it, you can't manage it” is especially true in farming. Digital agriculture aims to put powerful data analytics tools into the hands of farmers and others in the industry in order to increase profitability and efficiency within their operations.

Following, you will find a brief overview of what services the four companies mentioned above currently provide*. More information on each firm can be found by typing the business name in a search engine...

■ The **Granular** platform includes a suite of farm management software (Granular Business and Granular Agronomy by Encirca), the leading farmland real estate analysis tool (AcreValue), and precision agronomy software for ag retailers (AgStudio).

■ The **Climate Corporation** is dedicated to creating technologies that transform field data into meaningful insights that help farmers sustainably enhance yield potential, improve efficiency and manage their risk.

■ **Farmers Business Network (FBN)** is an independent and trusted farmer-to-farmer network. By connecting farmers and their farm information, the FBN network provides powerful agronomic and financial insights. FBN is on a mission to create a future of farming that puts farmers first by democratizing information, providing unbiased analytics and creating competition for farmers' business.

■ **AgriData's** mission is to provide customizable mapping technologies for the benefit of their clients. They look to help businesses become productive, accurate, informed, organized and flexible in their mapping duties and abilities.

** Descriptions taken from company websites.*

It may appear that the benefits derived from these data tools will accrue mostly to the farmers, but landlords can profit as well. The ability to detect unforeseen problems on a farm (e.g., pest infestations, wet areas, fertility imbalances) and then address them in a timely manner, will ultimately enhance the value of the landowner's property.