

Land Facts

THE LORANDA GROUP, INC.

Summer 2019

The 2019-2020 Farmland Market - What the Buyers and Sellers May Be Telling Us

By: John D. Moss, President

In December, Loranda will celebrate 25 years in the farm real estate business. During this time, we've had the opportunity to work with a variety of clients, each with a unique situation, yet all connected by this country's greatest resource – farmland. We've witnessed some of the very best times in agriculture, and some of the most challenging, but I have to admit that I've never seen a year quite like 2019. From highly unpredictable spring weather which has left millions of acres unplanted, to highly contentious trade negotiations where agriculture has become collateral damage in a war with China. Yet despite all the chaos, according to recent surveys average farmland prices have stayed reasonably firm the past few months. Can we expect this sideways trend to continue in the near future, especially with so much uncertainty about how this year's crop will turn out? Perhaps we can answer this question if we analyze the issue from the perspective of the buyers and sellers who, traditionally, have been the most active in the marketplace.

The Farmer:

This class may be the most affected this year, primarily because some counties in the Midwest will end up with good yields, while several areas never got planted. Crop insurance and the prevented planting program will help pay bills, but unfortunately there won't be enough income for many of those in the hardest hit areas to make a land purchase. Many larger farmers, and those who are carrying little debt regardless of size, still have enough equity in other tracts they own to afford a purchase, and they will be interested in buying if the tract has quality soils and if it's located near other parcels they currently own or rent. These buyers have been and will continue to be selective with their acquisitions, but they won't let an opportunity pass them by.

For many mid-sized farmers, the past 24 months have been challenging. These are the operations that have a debt load above what they can cash flow, given today's commodity prices. Many in this group also bought land at the wrong time a few years ago... back when the "experts" told us that \$5.00 corn would be the new norm. Will these individuals have an impact on land prices in the next few months? Probably not as these farmers haven't

been in a buying mode recently anyway, and most are not to the point where lenders will start forcing them to sell land.

The Traditional Investor:

The demand for farmland from individual and institutional investors continues to be strong. These buyers are almost exclusively driven by the asset's return and they won't overpay for a parcel like a farmer might. Investor purchases the past 24 months have helped support prices for the better-quality tracts; and, this group believes in buying and holding for the long term, which helps stabilize the amount of land on the market at any one time. I believe that this class will continue to be active buyers of both "A" and "B" quality tracts. They believe that farmland is still one of the best long-term investments that they can buy and they're committed to the asset class.



The Non-Traditional Investor:

Finally, we must not overlook those landowners who have either retired from farming and kept their properties, or those who have inherited ground. Fifteen years ago, these individuals would have sold their holdings and reinvested in a different asset (e.g., equities, C.D.s,

etc.), but with stocks near all-time highs and interest rates at near record lows, they seem content to hold on to what they have. Will this trend continue? I can't think of a reason why it wouldn't, especially when you consider the risks and returns of many alternative investments today. This group is not motivated to sell and that has helped to keep the overall supply of land low and prices stable.

To summarize, while some ag economists are convinced that farmland values could drop significantly in the next few months, the behavior of buyers and sellers could likely prove this prediction wrong. Demand for lower quality tracts (especially those that are difficult to farm due to field obstructions) will likely remain stagnant, and it may take longer to sell a farm than what we're used to, but average prices in most areas should continue to be reasonably stable for the near future.





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Land Market Update!

What Do We Really Know About the U.S. Farmer?

I often start my day by browsing the Internet for articles about farming and production agriculture. Beyond the information that I glean from these stories, I've also learned a lot recently by perusing the "comments" section to see how well those outside of agriculture understand the challenges that Midwest farmers face on a regular basis. To my surprise, many of the comments are not only misguided, but also factually incorrect (see any message board that discusses trade tariffs and ag trade tariff payments). The predominant opinion of the public seems to be that farmers are either "rich, fat cats" or huge corporations who are being subsidized by the government. While those terms are likely used simply to draw attention or incite other readers, sadly it still shows a real ignorance about the people who are actually growing the feed and food in this country.



Fortunately, the USDA recently published a pamphlet (America's Diverse Family Farms: 2018 Edition) that hopefully farmers and others in the industry can use to educate those that think they know about modern agriculture. Let's start with some basic information from this report - "USDA defines a farm as any place that produced and sold—or normally would have produced and sold—at least \$1,000 of agricultural

products during a given year". Here's another tidbit - "Family farms of various types together accounted for 98 percent of farms and 87 percent of production in 2017. And, finally - "In 2017, net farm income for small farmers declined almost 40 percent from its peak in 2013 as lower commodity prices worsened the Operating Profit Margin of many midsize, large, and very large farms, especially those that produced field crops (e.g., corn, soybeans, wheat) or dairy".

It's important to note that some farm operations are quite profitable and will continue to be so in the foreseeable future. These businesses are typically both well capitalized and well managed, the keys for success in any industry. They shouldn't be ashamed of their achievements nor should they be chastised for it.

I think it's imperative for anyone in agriculture to challenge the false statements being made about farmers on social media or other websites. We should use information from the USDA publication mentioned previously to present the facts on family farmers. It's apparent that the general public needs to be educated and if we don't do it, then who will?

John Moss, ALC, Receives Realtors® Land Institute 2018 APEX Award



Earlier this year, John Moss received the Realtors® Land Institute (RLI) APEX Awards Program's 2018 APEX Largest ALC-to-ALC Referral. This award recognizes the largest referral made between two or

more RLI members that hold the elite Accredited Land Consultant (ALC) Designation and is based on qualifying production volume. The transaction, involving over 3,458 acres in Central Illinois, was closed in May of 2018 for a total price of \$37,750,000.

The Loranda Group has recently moved to a more convenient location and our new mailing address is:

**2105 Eastland Drive, Suite 9
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The toll free number remains the same (800-716-8189) as does the company email (loranda@loranda.com) and website address (www.loranda.com)