



# Land Facts

THE LORANDA GROUP, INC.

Fall 2005

## Land Market Update

by John D. Moss, President

We are entering that strategic time of year when most farmland is bought and sold. Even if you aren't necessarily interested in purchasing a farm or marketing part of your land holdings at this time, it is still important to understand current market conditions and to recognize what they suggest for the future. In short, I see two key factors for the short-term: (i) underlying land market fundamentals are *bullish*, and (ii) micro-market differences may be amplified.

Let's start with a summary of market movement over the past 12 months. Nearly every farmland market survey that has been published reflects a continued uptrend in prices throughout the Midwest. These surveys include those published by:

- The Federal Reserve Bank of Chicago—Up 12% year-over-year through June 2005
- The United States Department of Agriculture—Up 11% nationwide from January 1, 2004 through January 1, 2005
- Midwestern Universities and Professional Organizations:
  - Purdue University—Indiana land market up 11% from February 2004 to February 2005
  - Iowa Chapter of Realtors Land Institute—Iowa land value averages up 6.5% from September 2004 through March 2005

- Illinois Society of Professional Farm Managers & Rural Appraisers—up 5% since the beginning of 2005 (Midyear survey)

Most of these studies cite the same bullish factors:

- Continued commercial, industrial, and residential development resulting in a large number of Section 1031 tax-deferred exchange buyers
- Low interest rates
- A limited supply of land on the market available for purchase, and
- Record farm profits in 2004 in nearly all areas, combined with at least average prospects in 2005 in many locales

However, keep in mind that the overall averages published in these reports mask a variety of differences among locales. For example, a 10% overall increase in farmland values over a multi-county area likely incorporates a 4% increase in one part of the district with a 15% increase in another. These variances can be attributed to location, a difference in grain price basis, or a multitude of other factors. Perhaps better stated, it is important to understand that the farmland market is comprised of a series of *micro-markets*—what may be happening to

*continued on back*

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values on one side of a county, district, or state may be entirely different than what's happening on the other side.

During the next 6 to 9 months, I believe that we'll really begin to see these micro-market differences become more amplified, as certain parts of the Midwest are again looking at record (or near-record) yield prospects while farmers in other locations have already begun to disk under the remnants of a total crop failure. Producers can survive crop shortfalls if they have adequate crop insurance and if grain prices have moved correspondingly higher. Unfortunately, grain prices have not moved higher at this stage, possibly foretelling a retreat in land prices in some areas in the near future—fewer dollars for farmers mean fewer capital purchases, especially for land—at a time when average land prices may still be moving higher.

Now, if you are in fact interested in participating in the land market in the upcoming land season, how do you prepare? If you're a...

**1 • Farmer**—Be creative and flexible. With at least average yields (and a good lender), you may still be able to purchase land this fall. However, remember that the best "buys" may be two townships over—so don't just look in your immediate neighborhood. If you don't have good yields and are facing a cash crunch, consider a sale-leaseback of some of your current land holdings. This popular form of "financing" has allowed hundreds of farmers to survive short term economic setbacks.

**2 • Non-Farmer Land Buyer**—Look outside your normal geographic regions, especially in places where crop yields are below normal. When these distressed locales have recovered in a couple of years, you can always trade back into your desired areas. Be willing to work closely with farmers to create a "win-win" leaseback scenario—you may be able to buy a good farm, while they pay down debt and stay in business. Look at more properties and in more counties than normal, and you'll likely be rewarded.

**3 • Non-Farmer Land Seller**—Thoroughly understand local market conditions before deciding how, when, and for what price to sell. For example, selling via public auction in a distressed area may

be disastrous. In contrast, holding a public auction in a strong area may result in record prices. Be patient—you can't force bidders to buy your farm if they have no money today so it may take longer to receive acceptable offers. And remember that investors as well as farmers buy land, so make sure your property is marketed to both groups of buyers—especially if you have a large tract with quality soils.

In summary, in the next few months the Midwestern farmland market will be both exciting and unpredictable, presenting opportunities for both buyers and sellers. Be sure to prepare yourself, and be ready to act before these opportunities evaporate.



## We're Moving!

We are pleased to announce that The Loranda Group, Inc. is moving its Springfield headquarters to a new location, effective October 1, 2005. This change is necessitated by our continued business growth and need for more space. Our new offices are located on the first floor of the *Illinois Association of Realtors* building, just south of our present location. Our current telephone numbers and email addresses will remain the same, but our physical address will change. Please detach the business card below and update your records with our new mailing address. We appreciate the continued support of our clients and look forward to serving you in our new location.

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