



Land Facts

THE LORANDA GROUP, INC.

FALL 2007

Land Values - Can Current Price Increases Continue Long Term?

By: John Moss, President

What a difference a year can make. It was only 12 months ago that many in the agricultural real estate industry were wondering if the land market could sustain the price increases that had driven values to record levels. As had been well reported at the time, much of the 1031 tax-deferred exchange monies from residential transactions had disappeared, commodity prices were languishing, and there was general uncertainty in the countryside. Fast forward to today and there's little question as to which way land prices are headed in the next 12 months (▲). Why? Crop yields throughout most of the Midwest should be at or above average, and crop prices are 50 to 100% higher than a year or two ago, thanks to ethanol. In short, there will be a record amount of cash in farm country the next few months and a large part of it will be spent on farmland purchases, farmland rents, and farm equipment, thus driving the cost of these assets higher.

To me, the only issue open to debate at the present is how high land prices will ultimately go. If you listen to the numerous land value experts, the opinions vary substantially. Some say that land will increase in value (as a percentage) as much in the

next decade as it has in the past decade. If that's true, then a prime McLean County, Illinois farm will be selling for nearly \$17,000 per acre by 2017. In contrast, the other side has fomented that there's no way we can maintain these price levels, because land won't cash flow – but has it ever? Realistically, I believe that the truth is probably somewhere in the middle.

Those on the bullish side of the land value discussion cite several compelling arguments for their position:

1. The demand for corn for use in the production of ethanol should keep commodity prices high for the next several years;
2. There are fewer and fewer "prime" acres available for corn, wheat, and soybean production due to development, the green movement, and other influences;
3. The amount of water available for crop use in many western states is being reduced each year, thus placing a cap on crop production;
4. World demand for agricultural com-

modities is continually increasing; and

5. The "big money", a.k.a. institutional investors, are once again becoming active buyers.

Of these 5 factors, I find the institutional investor interest to be the most intriguing. Over the past 6 months, I have personally spoken with numerous Wall Street money managers who are seriously interested in buying land. Most are admittedly naïve regarding the nuances of the investment, but they are very optimistic about the long term future of agriculture – and they are convinced that they need to be a part of it.

Those on the bearish side of the land value discussion have their arguments as well:

1. Ethanol produced from corn is not an efficient use of resources, and other crops will ultimately be used to make this fuel;
2. Breakthroughs in agronomic research will significantly increase crop yields around the world, thus forcing down crop prices;
3. High commodity prices will make it economically feasible to bring new land into production around the world, e.g., northern Brazil;

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HOW TO STAY **CONNECTED** V

By: Eric L. Sarff, Recreational Land Specialist

With the Internet, our ability to obtain instantaneous information pertaining to almost any topic is virtually limitless. Want to book a vacation package? Or see what movie is playing? Or sell an antique desk? Yes, you can do it all online. This enormous pool of information is available to help farm owners with their land investment as well. Unfortunately, many landowners either just don't know where to look on the web or don't use it to its full advantage.

Surprisingly, we receive calls every day from absentee landowners who seem to know very little about the operation of their farms. In most cases, the tenant is the **only** information source that landowners use beyond the old monthly standby (and often untimely) farm magazines and periodicals. Not that tenants are dishonest, but is it really their responsibility to tell the land owner when rents and land prices are increasing? Moreover, it may to their advantage **not** to do so !

Remember that knowledge is power. And the Internet now provides landowners, especially absentee landowners, with the power to properly manage their farm in order to maximize its return. The purpose of this article is to help landowners unleash this power of the Internet so that they can stay connected with their agricultural investment.

Weather

If a landowner has a crop share lease or custom farming arrangement, then weather will play a crucial role in their year-to-year profitability. There are many websites that allow landowners to access weather forecasts, maps, and precipitation information for any area in the U.S. Some of the more popular and precise weather sites include The National Weather Service (www.crh.noaa.gov), Intellicast.com (www.intellicast.com), and AccuWeather.com (www.accuweather.com). How could you use these sites? Let's assume you live in California and own a farm in Champaign County, Illinois. To find current weather conditions, you can simply access the AccuWeather website, type in the zip code for Champaign (61821), and see whether it's sunny, raining, or some combination thereof. Further, if you want to know how much precipitation has fallen in the area during the past 30 to 60 days, click on "forecast", then "historical weather", then "past month". Keep in mind that the precipitation information provided is taken from the local weather station and may vary somewhat from your farm.

Commodity Markets

The Internet also makes it easier to stay on top of commodity markets. Here in Illinois, the Illinois Corn Growers Association website (www.ilcorn.org) provides excellent daily market coverage. From this site, landowners can access such information as futures and local cash prices, numerous charts and graphs, and market commentary for the various commodities being traded. So, if you wanted to know what you could receive for your 2007 corn crop, simply log on to the Corn Growers Website, then click on "weather/markets/news", then "local cash grain bids", then type in your zip code and you'll get bids from local elevators. Another helpful "market" site is AgWeb.com (www.agweb.com). AgWeb provides many of the same features as the ICGA site, but also includes a message forum where visitors can chat about everything from the weather to machinery, futures markets, and even the politics of agricultural policy.

The Farmland Market

Whether you are considering a sale, or are just curious about current trends, there are websites available to assist landowners in staying abreast of the farmland market. The Federal Reserve Bank of Chicago (www.chicagofed.org; Economic Research & Data Tab) is a great resource for Midwestern landowners. The Fed's quarterly publication, *AgLetter*, reports on farmland markets and trends throughout the Midwest. Another excellent website that follows the trends in the farmland market is FarmlandInvestorLetter.com. Keep in mind that these websites often discuss "big picture" issues affecting the market, not necessarily the issues in your specific area. If you need information such as values, rents, etc. for your local area, feel free to log on to our website (www.loranda.com) or email us at loranda@loranda.com and we will gladly do the necessary research for you so you can have the most accurate information.

Government Programs

Many landowners are unaware of government programs available to them through the local USDA office serving their property. By going to the main pages for the Farm Service Agency (www.fsa.usda.gov) and the Natural Resources Conservation Service (www.nrcs.usda.gov), landowners can research applicable commodity programs, and/or other income producing programs such as the Conservation Reserve Program (CRP), the Wetlands



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Reserve Program (WRP), the Conservation Reserve Enhancement Program (CREP), and more.

Other Helpful Tools

There are many other useful websites that do not necessarily fit into any of the above categories. Farmdoc (www.farmdoc.uiuc.edu) is a site hosted by the University of Illinois that provides many helpful software tools and other documents for landowner use, including the "Tenant Termination" form discussed earlier in this newsletter. Another website, Agriculture.com (www.agriculture.com), allows users to stay current on daily news and other happenings in the world of agriculture, and similar to AgWeb.com, it has a well established discussion forum. Two final sites worth mentioning relate to aerial maps. Terraserver (www.terraserver.microsoft.com) is a free site that allows users to download and print black and white aerial photography, in addition to topographical maps. The second website is Live Search (www.maps.live.com). Live Search is similar to Terraserver in that you can download, save, and print aerials of your farm, but the difference is that it also provides

color maps for most areas.

In summary, the days of absentee landowners being uneducated and largely out of touch with their farms are over. With an Internet connection and a few clicks of the mouse, a landowner living thousands of miles away from his or her farm can stay connected with the weather, commodity markets, and the farmland market in the area of their property. And the more knowledgeable a landowner can be when it comes to their property, the more able they will be to maximize their annual income, manage their relationship with their tenant, and enhance the overall value of their farm.

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Land Values

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- 4. Changes in government policies can turn prosperity into poverty at any time; and
- 5. Input costs will continue to increase every year, thus limiting farm profitability.

Obviously, no one can predict the future. But to an extent, regardless of whether you're a buyer or a seller of land, you need to take a side in the land value discussion and react accordingly. If you're a potential farmland buyer who's bullish on the future of agriculture, then you had better start buying now before prices move even higher. Conversely, if you're a buyer who isn't convinced that commodity prices will stay high, then perhaps you should wait for a market correction before making a purchase. If you're a potential farmland seller and you believe

the optimists, then perhaps holding on for a few more years before you sell is warranted. Conversely, if you're a seller who doesn't believe the hype, then now may be the ideal to market your land while the buying frenzy is going on. Remember that sellers also need to factor in a possible change in the capital gains tax rate that could affect their net sale proceeds (we're currently at a very low rate), as well as their need to convert their land asset into cash for an alternative need.

In summary, 12 months ago the land market was bracing for a possible correction after the 1031 buyer (the recent "market

maker") had largely exited. Grain prices soon thereafter shot higher, as did profit potential and optimism throughout the countryside. As a result, recent sales have been robust, and the demand for land in the next few months should continue to be quite strong. The bigger question is whether this demand will continue well into the future. While the arguments for each side are compelling, the true answer is yet to be determined.

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The Necessity of Terminating a Farm Lease

By: Douglas L. Hensley, Vice President

We have talked with many landowners over the past nine months that are considering either the sale of their farm in order to capitalize on record high land prices, or a change in their lease terms to adjust for higher commodity prices. In either case, before a sale can take place or a lease adjustment can be made, the existing lease agreement must be properly terminated. Unfortunately, most owners don't realize that each state has its own specific laws that govern this issue. And if the termination is not made in strict adherence with state regulations, then it's as if it wasn't made at all, in which case the lease essentially renews with the same terms for the following crop year.

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 agreement. Why? In the case of a farm sale, terminating the lease ensures that all potential buyers, especially neighboring farmers, will be interested bidders. Because of higher grain prices, farmers have been aggressively buying land in the past

few months. And they want to actually farm the land they buy — they don't want to be a landlord for another farmer. If there is a lease in place on a property, they will either discount their price or have no interest at all. This could ultimately lower the sale price by 10 – 15%. In the case of a desire to modify your current lease, if you do not terminate the existing agreement, then your tenant is under no obligation to agree to a change in terms for next year. Once again, the financial damage could be significant if you are constrained by an existing lease where the income to the landlord is significantly below the market.

The mechanics of properly terminating a lease vary from state to state. Generally, the notice does have to be in writing and must contain specific language. These guidelines need to be followed carefully, regardless of whether your current agreement is written or oral. The following table provides an overview of the important facts to know in order to properly terminate a lease. If you have additional questions, we suggest that you contact your attorney.

Important Lease Termination Facts

State	Notice ¹	Type	Delivery
IL	120 Days Web Resource: http://www.farmdoc.uiuc.edu/pubs/Legal.asp?Subsect=Acquiring&Subclass=Notice	Written	Certified Mail with Return Receipt
IN	90 Days Web Resource: http://www.ces.purdue.edu/extmedia/EC/EC-713.pdf	Written	Certified Mail with Return Receipt
IA	September 1 Web Resource: http://www.econ.iastate.edu/research/publications/viewabstract.asp?pid=10653	Written	Certified Mail with Return Receipt
MO	60 Days Web Resource: http://www.extension.missouri.edu/explore/agguides/agecon/g00520.htm	Written	Certified Mail with Return Receipt
OH	90 Days Web Resource: http://www.ohioline.osu.edu/fr-fact/0001.html	Written	Certified Mail with Return Receipt
WI	90 Days Web Resource: http://www.legalexplorer.com/legal/legal-QA.asp?PositionPoint=1&Sid=1&Qid=5#quest	Written	Certified Mail with Return Receipt

¹ When notice must be sent prior/relative to date of lease. Note that the expiration date of a lease can vary. Historically, the lease period ended on February 28th. However, many modern leases expire December 31. Make sure you know this date in order to forward the notice in time.

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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.