



Land Facts

THE LORANDA GROUP, INC.

SPRING 2008

Milestones

By: John Moss, President

*I*t was 25 years ago this spring that I took my first plunge into the farmland market – a purchase, along with my brothers, of 175 acres in central Indiana. At the time, I never really thought that the business of farmland would be my life's vocation. For that matter, I never really thought much about how we were going to pay for the property. I simply thought that it must be a good buying opportunity because we had paid \$1,880 per acre for a tract that two years prior would probably have cost us \$2,500. (Three years later the same farm was worth \$900 per acre, but that story is for another day!) In retrospect, I consider this purchase the first significant milestone in my farmland career.

*S*ince then, I've been fortunate to add more highlights to my list – the first farm I sold (\$987 per acre in eastern Indiana), the first farm I sold in central Illinois for \$2,000 per acre, then \$3,000 per acre, and now \$8,000 per acre). Perhaps most surprising is how quickly some of these milestones have been passed recently – the \$6,000, \$7,000, and \$8,000 barriers have all been broken within the past 5 months. And in my mind, these new landmarks are the best way to describe the current state of affairs across much of the Midwestern farmscape.

*N*ow, the fun and challenging part is predicting when the next milestone will be reached. Based strictly on CBOT futures prices for the next three crop years (the December 2010 corn price is trading above \$5.00 per bushel, with soybean futures above \$12.75 per bushel), the next significant high water mark may be sooner versus later. If these prices hold, and assuming normal yields, net farm income for the next few years could be staggering. And as has been well documented in the past, this income will eventually be cap-

italized into higher rents and higher land values. The next 18 to 24 months in agriculture are bound to be both exciting and risky (a topic that Doug Hensley discusses in an accompanying article). Whether you're a land buyer or a seller, have you developed a plan of action to react to these unique and volatile market conditions?

*B*ased upon my 25 years of experience in the business, I might offer the following suggestions:

If you plan on selling land in the next few months (because of retirement, a life change, or to settle an estate), the public auction method of sale is likely to net you the most amount of money. It's pretty simple economics – if you have strong demand for an asset that's in limited supply, you benefit from creating an atmosphere where bidders are competing against each other. I'm not discounting the services that a broker can provide (our company offers both brokerage and auction services), however I have just seen what an experienced, professional real estate auction company can do in this type of marketplace.

If you plan on buying land in the next few months, remember to use debt wisely. The farm foreclosures of the 1980's were a direct result of unmanageable debt levels. Don't get obsessed with your equity position – focus on the cash flow necessary to make the land payment. And secondly, buy the most productive tract that you can afford. Over time, both the tangible and intangible returns to a quality farm will be greater.

A lot has happened in agriculture since my first land purchase. These are undoubtedly the most exciting times I've ever witnessed and they are potentially the most rewarding. Just be prepared for the inherent risks.

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Agriculture's Land Value Boom

What's Your Risk Tolerance?

By: Douglas L. Hensley

If you are like me, you watch the commodity markets closely and probably receive an opening call directly to your PC every morning when you start your day. After reading a recent one that proclaimed, "Grains, soybeans to open strong", I continued reading and casually wondered whether we are becoming desensitized to the wild swings in the market. For the longest time, we considered nickel moves in the corn or soybean pits to be significant. However, 20¢ and 50¢ moves in corn and soybeans, respectively, have become more common in the past 12 months. This price action has



me thinking about how risk has ratcheted up in the world of agriculture, especially for those on the production side and those who own or rent its most basic input – land. Yes the profit potential is greater today, perhaps greater than anytime in history. But many long-term decisions regarding land purchases/sales and land rents are currently based upon short-term commodity price trends.

Are you being aggressive with your current land strategies, or is your risk tolerance so low that you're more nervous today than you were with \$2.50 corn?

So why does it seem so much riskier today? One of the biggest reasons is the amount of capital needed to operate even a modestly sized farming operation. The increase in input costs has been well documented. But have you really thought about how many more dollars are required, and what's at stake, with the land component of the business? Consider the purchase of 160 acres in Central Illinois. In many counties, land prices have increased at least \$2,000 per acre in a mere 18 months. That's an extra \$320,000 that will either need to be borrowed or taken out of current equity. Land rents have increased significantly as well – in many cases from \$75 to \$150 per acre. These extra dollars have to come from somewhere, either a lender or from current operating capital. Though the profit potential is still greater today, the investment required to operate on an annual basis has gone up as much as 50%, creating some sleepless nights for farmers and lenders alike.

There is another risk variable to consider. With high commodity prices, farmers will likely drive rents much higher,

thus transferring to their landlords a considerable portion of the increased farm income. In many areas of the Midwest, this is already taking place with reported rents of \$300 to \$400 per acre. This means that per acre margins may be driven down to levels lower than expected, making grain marketing as important with corn at \$5.00 per bushel as it was at \$2.50 per bushel. It's easy to think that any corn sale above \$4.00 per bushel is a good one. In some cases it is, while in others it may simply be a breakeven sale given the additional expenses in the operation. And further, the large fluctuations in daily commodity prices can cause farm profitability to increase or evaporate within a given 24 hour time period.

So how does this increased risk affect buyers and sellers of land?

Let's first assume land values continue to increase:

If you're a potential buyer – If you don't buy today then you will miss out on potential price appreciation that could add significantly to your net worth. If you do buy today, then you'll be making payments but building a land base for your operation.

If you're a potential seller – If you don't sell today then your asset will continue to appreciate, thus adding to your net worth. If you do sell today, then you've likely received a record price for your property and you can invest the proceeds in other assets, perhaps more liquid ones to better fit your lifestyle.

Now let's assume land values start to fall in the near future:

If you're a potential buyer – If you don't buy today then you aren't making payments on an asset that is depreciating in value. If you do buy today, then your land payments might become so cumbersome that it affects your entire farm operation.

If you're a potential seller – If you don't sell today then your asset will be worth less, and may be more difficult to liquidate on your time schedule. If you do sell today, then you've likely received a record price for your property and potentially captured the top of the market.

The Future of Government Farm Policy?

By: Eric L. Sarff

With grain prices at current levels, many farmers and landowners are much less concerned with the federal government's involvement in agriculture policy. But, as we've seen so often in the past, the prospects for farm profitability can change quickly, thus triggering more government intervention. Since this is a presidential election year, I thought it might be interesting to look at the leading candidate's positions on agricultural issues. Following is a brief summary of what could be gleaned from the frontrunners' websites as of February 20, 2008.

JOHN MCCAIN

McCain opposes nearly all subsidies, from agricultural subsidies to tax breaks for oil companies "ill-advised government subsidies that serve in the end to restrict competition, stifle technological advancement and restrain Americans' natural entrepreneurial drive. I trust Americans, I trust markets and I oppose subsidies."

"I intend to lead a government that secures access to world markets for our farmers, our entrepreneurs, their workers, and the next generation. I am committed to helping every farmer in this way, not just the big guys who have figured out how to game the subsidy process."

BARACK OBAMA

"Obama will fight for farm programs that provide family farmers with stability and predictability. Obama will implement a \$250,000 payment limitation so that we help family farmers – not large corporate agribusiness. Obama will close the loopholes that allow mega farms to get around the limits by subdividing their operations into multiple paper corporations."

"Obama will help organic farmers afford to certify their crops and reform crop insurance to not penalize organic farmers. He also will promote regional food systems."

"Obama will establish a new program to identify and train the next generation of farmers. He will also provide tax incentives to make it easier for new farmers to afford their first farm."

"Obama will increase incentives for farmers and private landowners to conduct sustainable agriculture and protect wetlands, grasslands, and forests."

"Obama will provide capital for farmers to create value-added enterprises, like cooperative marketing initiatives and farmer-owned processing plants. He also will establish a

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→ The landowner (whether a farmer or investor) needs to decide if they believe that it's more likely for corn and soybean prices to return to \$2.50 and \$7.00, stay at current high levels, or move higher. The answer to this question should tell you whether you should be a buying or selling land. Of course, we all know that there's more to being a buyer or seller of land than basic economics. And it's often that the practical issues that drive our decisions – issues like having the cash to make a down payment or not seeing the farm next door sell to someone else when it's available for the first time in 2 generations. But with the tremendous crop yields, record grain prices, extremely low interest rates, and remarkable demand for land that we've experienced in the past 12 to 18 months, where's the

biggest risk you face? For some potential sellers, the biggest risk might be not taking advantage of the current market. After all, anyone who has been involved in the farmland market for the past several decades knows that what goes up can come down.



"Though the profit potential is still greater today, the investment required to operate on an annual basis has gone up as much as 50%, creating some sleepless nights for farmers and lenders alike."



Future...

small business and micro-enterprise initiative for rural America.”

“Obama will ensure that our rural areas continue their leadership in the renewable fuels movement. This will transform the economy, especially in rural America, which is poised to produce and refine more American biofuels and provide more wind power than ever before, and create millions of new jobs across the country.”

“In 2006, Obama supported legislation that would have reversed \$2 billion in cuts for U.S. Department of Agriculture programs including conservation, rural development, nutrition, and forestry programs that are vitally important to our rural communities. In addition, he supported legislation providing full funding for agricultural programs that were authorized by Congress in the 2002 Farm Bill.”

HILLARY CLINTON

“Create a Strategic Energy Fund that would inject \$50 billion into research, development and deployment of renewable energy, energy efficiency, ethanol, and other homegrown biofuels.”

“Target our commodity payment programs so that family farms – not corporate farms – are the key beneficiaries. Hillary favors closing loopholes that disproportionately benefit wealthy corporate farmers and those who do not directly take part in the operations or management of their farms.”

Hillary also supports establishing a permanent disaster program to assure producers aid will be there when they need it most.”

“Work to expand market opportunities for farmers through innovative, direct-to-consumer marketing and niche markets to provide U.S. farmers with more options for selling their products. Hillary will work to expand farmers’ markets, provide value-added marketing grants, and create food distribution opportunities for farmers from across the country to earn more for their hard labor.”

“Fight vertical integration, which has crippled American agriculture, by establishing mandatory Country of Origin Labeling for all U.S. products; pushing for a ban on packer ownership of livestock; having her Justice Department investigate agriculture consolidations; and ensure that the small- and medium-sized producers compete on level playing field with corporate agribusiness.”

“Expand access to capital and strategic advice for rural entrepreneurs and small businesses and bring together businesses, community colleges, and four-year universities to ensure workers have the training needed to compete in the global economy.”

FOR MORE INFORMATION, VISIT:

JOHN MCCAIN

<http://www.johnmccain.com/Informing/News/Speeches/05b932cd-b2e4-4863-a22f-6b84c893121a.htm>

BARACK OBAMA

<http://www.barackobama.com/issues/rural/>

HILLARY CLINTON

<http://www.hillaryclinton.com/issues/rural/>

RECENT LORANDA GROUP AUCTION RESULTS

Location	Acres	Price/Acre	Soils
Webster Co., IA	222.8	\$6,036.80	“A” Quality Soils
Sangamon Co., IL	191.5	\$8,041.77	“A” Quality Soils
Newton Co., IN	71.6	\$5,100.14	“A-” Quality Soils
LaSalle Co., IL	125.8	\$8,024.78	“A-” Quality Soils
Adams Co., IL	80.0	\$7,125.00	“A” Quality Soils
Randolph Co., IL	271.8	\$3,911.44	“C” Quality Soils

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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.