



## Current Land Values— A Report from the Field

by Douglas L. Hensley, Managing Broker

The fall 2005 land selling season is now officially over and the analysis of current price trends has begun. We have noticed a couple of changes from a year ago when prices for nearly all types of land were moving higher. As we discussed in the last issue of LandFacts, the land market is comprised of a series of micro markets, each affected by factors that may be unique to the area such as soil types or weather patterns. The agricultural reporting agencies have a tendency to lump all of the micro markets together when reporting price movements. And while this may make for good statistical analysis, we're not sure that this tells the whole story.

The accompanying table provides a summary of some interesting trends that we have observed in the past few months. Though these may be indicative of what's happening in your neighborhood, keep in mind that no two areas are exactly alike.

So what can we expect for 2006? There is nothing to suggest that land values will recede dramatically from their current

Soil Quality or Land Type	Size	Typical Buyer	Price Trend	Key Drivers
A	Over 160 Acres	Investor	Steady to higher	Tax-deferred exchange investors prefer quality & size
A	Under 160 Acres	Farmer	Steady	Higher input costs for 2006 is slowing demand
B - C	Over 160 Acres	Investor	Steady to weaker	Too big for most farmers, too poor quality for investors
B - C	Under 160 Acres	Farmer	Steady	More affordable than "A" quality
Recreational	All sizes	Investor	Higher	Strong general economy creates funds for hobbies
Development	All sizes	Developer	Higher	Continued low interest rates

levels in the near term. Interest rates remain historically low, urban development and home sales continued throughout 2005 at a brisk pace (a big influence on the 1031 exchange market), and farm profitability for the past 2 to 3 years has been reasonably strong. However, as reflected in the table above, attitudes surrounding certain segments of the land market have become "cautious" in the past 90 days. It appears that high input costs for the 2006 crop have overtaken the exuberance of last fall's better-than-expected harvest. And at current price levels, it probably makes better economic sense for farmers to pay strong

cash rents than it does to buy \$5,000 per acre land.

We also sense one other factor that has the potential to influence future trends—land fatigue. Loosely defined, this phenomenon is what sets in after hearing, year after year, that you must buy farmland now before it's too late. At some point, buyers simply get tired of the hyped asset and want to move on to something else. We know of more than one tax-deferred exchange investor who recently decided to pay the capital gains tax rather than paying a huge

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# Hunting for More Income

by Eric L. Sarff, Recreational Land Specialist

The most common question I receive from recreational landowners is “How can I generate more income from my land?” If the property has tillable fields with quality soils, then it’s usually fairly simple to find a local farmer to rent this acreage. Generating cash flow from the non-tillable land can also be easy—simply lease the hunting rights to other parties. (However, this may conflict with an owner’s desire to keep the property for him/herself during hunting season). Maximizing income from the poor quality tillable land is often the challenge. A local farmer may rent the acreage but will probably do so at a discount since the land is likely to be highly-erodible or flood prone. A second, and often overlooked, option is to utilize government funds that are available to promote conservation and wildlife. If an owner is willing to do some research and be open-minded regarding improvements for their land, then there are many state and federal programs at their disposal. Keep in mind that the requirements to enroll in these programs, as well as the dollars



received, can vary widely. Let’s discuss four popular alternatives for recreational landowners to consider that involve direct government payments:

## 1 ■ Conservation Reserve Program (CRP)

The CRP is offered through the U.S.D.A.’s Farm Service Agency (FSA). Landowners enter into a contract with their local FSA to plant agricultural land to conserving-use crops that both protects highly-erodible soils and promotes wildlife, in exchange for annual payments. The contract length varies from 10 to 15 years and the per acre payment amounts are determined primarily by soil types within the county.

## 2 ■ Conservation Reserve Enhancement Program (CREP)

The CREP is a variation of the CRP offered through the FSA and Natural Resources Conservation Service (NRCS) and deals with land that is often prone to flooding. The contract length for CREP easements can be 15 years, 35 years, or permanent. As with the CRP, the per acre payment amounts are determined by soil types. Enrollees can also receive federal and state sign-up bonuses and/or funds for implementing filter strips, trees, shrubs, and other practices that help stop water runoff and soil erosion. In addition, certain enhancements, such as filter strips, may also qualify landowners for a reduction in property taxes. These extra enhancements ultimately provide excellent cover for wildlife.

## 3 ■ Wetlands Reserve Program (WRP)

The goal of the WRP is the restoration of wetlands. This program (offered through NRCS) targets properties that were wetlands at one point, but over time were drained and placed into agricultural production. Contract duration for WRP easements can be 10 years, 30 years, or permanent. Permanent easement enrollees receive a lump sum payment based on many factors including the appraised value of the property. Enrollees with 10-year and 30-year easements will receive annual payments (at a lesser rate than the permanent easement) and will be required to pay a percentage of the restoration costs, a fee which permanent easement enrollees are not required to pay. Despite the monies received, landowners are able to retain the rights to pursue hunting, fishing, and other recreational activities on the property.

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# A Recreational Land Auction Case Study

Recently, The Loranda Group had the pleasure of auctioning the Long Farm consisting of 227 acres located in Cass County, Illinois. The property bordered the *Jim Edgar Panther Creek State Fish & Wildlife Area* and was a stunning mix of heavy timber, manmade lakes, and rolling tillable land. Building improvements included storage sheds, a small home, and a lake-side cottage. This unique tract had lots of natural beauty and many potential uses such as fishing, hiking, hunting and horseback riding. However, like many recreational properties across the Midwest, it generated very little annual income.

After completing the requisite due diligence for the property, analyzing the local marketplace, and meeting with the owner to determine his selling objectives, we believed that offering the property in 12 tracts at public auction would maximize the sale proceeds. Our unique multi-parcel auction system would create competition between

our targeted buyer groups—outdoor enthusiasts including equestrians, hunters, and fishermen; home builders and developers; home and home-site buyers; and nature preservationists. Ultimately this would allow us to un-lock the value hidden in the different components of the property and to do so in a timely, cohesive manner.

After nearly two hours of active bidding, the 227 acres sold to a single buyer for \$1.2 million, or nearly 60% above pre-sale estimates—and a record for recreational property in the area! Six smaller tract bidders, each wanting their own part of the



property, provide active competition for the larger unit bidder. And while the runner-up bidders did not leave as successful buyers, they were happy with the experience and the opportunity that they had to bid on the particular tract(s) that interested them the most.

The Long auction confirmed two thoughts that we have regarding the current land market: (1) A multi-parcel auction that utilizes a comprehensive marketing program will generate maximum value for properties with multiple features and uses; and (2) Demand for recreational property remains quite strong. The end result, as we saw with the Long Auction, is record prices and *very* happy sellers and buyers



## Articles in Coming Issues:

**Farmland Assessments—Are they fair and how do they affect your real estate taxes?**

**The Farmland Asset—How do current returns to land compare with alternative investments?**

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premium to reinvest in a farm at record price levels. In a nutshell, these market participants believe that the upside returns from alternative investments are higher than with farmland—even after paying the tax. Unfortunately, land fatigue can be exacerbated by sellers (and brokers) with unrealistic price expectations. Open the popular farm newspapers and you'll see dozens of farms for sale at prices that are just absurd. Investors have always been attracted to real estate because of the opportunity for bargains. But when bargains cease to exist, this capital will go elsewhere. Keep in mind that demand for land is affected by the variables (and others) summarized in the table, so make sure you understand the characteristics and market appeal of the asset you own or hope to buy.

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#### 4 ■ Environmental Quality Incentives Program (EQIP)

Offered through the NRCS, the EQIP involves implementing practices that will enhance agricultural and livestock production while conserving the environment at the same time. The EQIP differs from other programs in that it is not a long-term easement, but rather a means to financially assist landowners who wish to improve the synergy between cropland and/or livestock operations and sound environmental practices. Contracts can last for as little as one year and enrollees can qualify for up to 75% cost-sharing to assist in implementing conservation practices. Many common practices used under the EQIP include grass waterways, fencing systems, terraces,

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and animal waste management. Enrollees may also be eligible to receive incentive payments to maintain the management practices.

These are just a few of the many conservation programs that are available to landowners. I would encourage anyone who has interest in learning more about these or other programs to talk with your local FSA and NRCS offices, or visit their national websites: [www.fsa.usda.gov](http://www.fsa.usda.gov) and [www.nrcs.usda.gov](http://www.nrcs.usda.gov). The programs that they offer are an excellent way to enjoy alternative income streams while at the same time improving conservation practices that create a great hunting environment.

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