



# What's Driving Farmland Values?

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**This Power Point presentation is available to everyone on our website at [www.ispfmra.org](http://www.ispfmra.org).**



## **Our Mission:**

To report on annual land values and lease trend changes across the great state of Illinois



# **Thank You to RLI, NICAR and ISPFMRA**

Realtors Land Institute

The Northern Illinois Commercial Association of Realtors  
Illinois Society of Professional Farm Managers & Rural Appraisers

*Together, we are the real estate professionals*



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**Thank You!!**



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**Thank You!!**



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## 2004 Land Value Trends

<u>Area</u>	<u>Prime Farmland</u>	<u>Good Farmland</u>	<u>Average Farmland</u>	<u>Recreational Land</u>
Northern Region (1 & 2)	+18%	+26%	+17%	N/A
Central Region (3, 4, 5, 6, & 7)	+20%	+20%	+14%	N/A
Southern Region (8, 9, & 10)	+10%	+15%	+12%	11%



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## What's Driving Farmland Values?

- Absentee Ownership
- Supply and Demand
- Tax-free Exchanges
- USDA Farm Programs
- Inflation
- Farmland Returns
- Size and Quality
- Interest Rates
- Alternate Investments



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## What's Driving Farmland Values?

All types of Illinois farmland exploded to the upside - - with an **18-20% increase** statewide on the top quality farmland!

**Absentee Ownership** – 55% of the land in the United states is owned by people who do not farm it. Agriculture needs outside capital and welcomes these investors.

**Supply and Demand** – Throughout year 2004 - - buyers outnumbered sellers creating an active land market across the state.



# ISPFMRA

## What's Driving Farmland Values?

**Tax-free Exchanges** – Section 1031 of the Internal Revenue Code allows the exchange of a like kind income producing real estate. There is an *ever increasing volume* of people desiring to exchange into farmland from outside sources. This includes developers, landowners and active residential and commercial areas, and other farmland sellers.

**USDA Farm Program** – The 2002 Farm Bill is an excellent safety net and is recognized as that. The stable income allows buyers to safely purchase farmland and expect a reasonable income stream.

**Inflation** – The CRB Index of all commodities is poised to surpass the all-time high set in 1980 - - suggesting that we may have a bout of inflation in our future.



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## What's Driving Farmland Values?

**Farmland Returns** – Farm income levels remained stable in spite of high yields and lower grain prices. The percentage return to farmland values dropped - - but was still higher than alternate investments.

**Size and Quality** – Our Illinois farmland market reflects a significant premium for larger tracts of high quality farmland which are available to purchase. Premiums can range upward of 10%.

**Interest Rates** – Agriculture has enjoyed a long period of low interest rates to finance operations and acquisitions. Rates are rising slowly.



# ISPFMRA

## What's Driving Farmland Values?

**Alternate Investments** – Stocks, bonds, money markets, and other investments have not offered as good of opportunities in either growth or earnings as farmland - - making farmland attractive.

**A Paradigm Shift** – People bringing in money to Central Illinois are willing to accept a lesser return because their alternative investments are producing substandard returns. We are enjoying those money flows into Illinois farmland.



# Central Illinois Prime Farmland Values

<u>Region</u>	<u>Date</u>	<u>County</u>	<u>Acres</u>	<u>Productivity Index</u>	<u>Price Per Acre</u>
1	02/04	DeKalb	77.66	143	\$6,825
	09/04	LaSalle	79.93	143	\$6,700
2	05/05	Lee	205.60	137	\$4,150
	12/04	Henry	80.00	136	\$4,100
3	11/04	Knox	85.99	140	\$4,650
	12/04	Hancock	84.00	128	\$5,250
4	03/04	McLean	213.83	140	\$4,750
	12/04	Tazwell	162.00	142	\$4,660
5	12/04	Douglas	157.00	144	\$4,800
	12/04	Champaign	80.00	144	\$5,200
	10/04	Vermillion	120.00	141	\$4,167

**Look at the consistency and high quality!**



# Central Illinois Prime Farmland Values

<u>Region</u>	<u>Date</u>	<u>County</u>	<u>Acres</u>	<u>Productivity Index</u>	<u>Price Per Acre</u>
6	01/04	Piatt	172.70	143	\$3,700
	07/04	Macon	320.00	140	\$4,586
	12/04	Moultrie	91.00	144	\$4,599
7	01/04	Macoupin	156.00	138	\$3,700
	10/04	Sangamon	120.00	135	\$4,050
	10/04	Montgomery		135	\$4,000
8	09/04	Bond	91.60	115	\$2,811
	04/04	Clinton	95.60	125	\$3,794
9	05/04	Clark	189.80	115	\$2,345
	06/04	Richland	83.00	110	\$2,210
10	12/04	Celine	40.00	147	\$3,340
	07/04	Gallitin	60.00	131	\$3,190

**Look at the consistency and high quality!**



# Across Illinois Recreational Tracts of Land

<u>Region</u>	<u>Date</u>	<u>County</u>	<u>Acres</u>	<u>% Tillable</u>	<u>Price Per Acre</u>
2	12/04	Whiteside	283.6	42%	\$2,830
3	12/04	Hancock	94.0	0%	\$2,250
4	01/04	Marshall	145.6	20%	\$1,900
5	04/04	Coles	84.5	0%	\$1,988
6	07/04	Christian	41.0	0%	\$2,073
8	04/04	Madison	48.0	0%	\$1,770
9	05/04	Clark	40.0	0%	\$1,500
10	03/04	Hamilton	140.0	44%	\$1,300



# ISPFMRA A Summary Look At Illinois

Illinois is both agriculture and geographically diverse - - offering a wide variety of crops, soil productivity, transportation, and land uses.

Land values rose 20% in 2004 - - **one of the highest average increases in our history!** People are looking for a safe investment with low volatility and a reasonable return that is hedging against inflation - - *(not to mention avoiding capital gains taxes).*



# ISPFMRA

## A Summary Look At Illinois

**Region 1 (Northeast Illinois)** - Pressure for tax deferred exchange property caused an 18% increase in excellent quality farmland (*primarily in DeKalb and LaSalle Counties*). 16,658 residential building permits were issued during the first half of 2004 pointing towards an increase over previous years. Local buyers are attempting to compete in this market where buyers outnumber sellers and land prices have gone over \$7,000 per acre in several areas. There is a noticeable split in value between realtor handled transactions and private treaty transactions by owner - - up to 20% price differentials occur on tracts that are more well publicized.



# ISPFMRA

## A Summary Look At Illinois

**Region 2 (Northwest Illinois)** - Land values across the board are up between 15-20% from a year ago. Demand for all types of farmland was driven by farmers, 1031 Tax Deferred Exchange buyers, and local investors. The supply of excellent productivity tracts was limited throughout the year.

**Region 3 (Western Illinois)** - Farmland values have increased between 22% and 29% from a year earlier. Local farmers have been successful buyers as they expand their operations. Auction sales dominate broker and private treaties making up the rest of the market. The recreational market continues to be very strong. The coal strip mines spoils have excellent hunting and great fishing.



# ISPFMRA A Summary Look At Illinois

**Region 4 (North Central Illinois)** - The volume of farmland for sale increased in 2004, however buyer interest was strong which led to higher overall values (*up 15-16%*). Auctions and professionally negotiated private sales appeared to command high prices. Many of the private treaty sales (*by owner*) resulted in discounted prices. Large tracts of high quality land continued to bring a premium. Cash rents were generally higher for the 2004 crop year. 1031 exchange buyers had a strong influence on cash rent prices paid.



# ISPFMRA A Summary Look At Illinois

**Region 5 (Eastern Illinois)** - Excellent quality farmland rose 25% during the past year. Investors showed significant interest in the productive farmland and recreational tracts. Most of the sales in the region were conducted by private treaty with auctions gaining in popularity in some areas. Farmland buyers had high amounts of cash versus debt. Crop yields were excellent in most of the region in 2004. As a result, farmers competed actively to bid up cash rents on newly purchased land.



# ISPFMRA

## A Summary Look At Illinois

**Region 6 (Central Illinois)** - Farmland prices rose 20% - - one of the highest average annual increases in the area's history. It follows an 8% increase in 2003. Approximately 72% of the land in Macon County is absentee owned - - one of the highest in the state. Net farm income was stable (*farmland values rose significantly*) resulting in a reduced rate of return. This region had a slightly larger volume of land for sale in 2004 with a majority of land changing hands through real estate professionals and by private treaty. There was a noticeable volatility on the prices received at auction sales. There is a definite premium (*of 10-25%*) for larger tracts of land. The new buyers of farmland seem to have additional funding for drainage and grain storage facilities - - contractors did a robust business.



# ISPFMRA

## A Summary Look At Illinois

**Region 7 (West Central Illinois)** - Land values varied widely in 2004 across the west central area. Five counties had sales exceeding \$4,000 per acre. Sangamon and Morgan Counties had sales exceeding \$5,000 per acre. Factors that contributed to the strength of the land market included excellent crop yields, low interest rates, and a significant number of tax deferred exchange buyers.

**Region 8 (Southwest Illinois)** - This area of Southwest Illinois is highly influenced by the St. Louis Metropolitan area. Land owners of non-development land became more reluctant to sell in 2004. 50% of the buyers were investors, 40% local farmers, and 10% were 1031 exchange buyers. Cash rents rose 5-10% from one-year-ago.



# ISPFMRA

## A Summary Look At Illinois

**Region 9 (Southeast Illinois)** - Land values are up 10-15% across the region and cash rents are stable to up 5%. Development of rural home sites have continued in demand remains strong for recreational tracts. Most of the farmland buyers were farmers - - there has been an absence of outside activity from investors or exchange buyers. Most of the sales were private transactions. The volume of farmland for sale was steady.

**Region 10 (Southern Illinois)** - Land values were observed to be up from 5-25% throughout the region this year. Record or near-record crop yields throughout the region have fueled strong farmland values during the last quarter of 2004. Crop share leases continue to be the predominate cropland rental method. Recreational land purchasers increasing across the area and have pushed the CRP land higher.



# ISPFMRA

## Focusing on Farmland

Here are two quotes to focus your thoughts:

**Farmland is what it earns**

**Farmland is a growth stock**





# Farmland is what it earns!

- Landowners are buying the rights to a future income stream
- Annual gross farm revenues are stable-to-slightly-rising
- Farm operating expenses are predictable and rising quickly
- Leases are very important to earnings
- Historical examples:

	<u>1972</u>	<u>1999</u>	<u>2003</u>	<u>2004</u>
<b>Land Value:</b>	<b>\$800 per acre</b>	<b>\$3,000 per acre</b>	<b>\$3,600 per acre</b>	<b>\$4,500 per acre</b>
<b>Net Income</b>	<b>\$30 per acre</b>	<b>\$120 per acre</b>	<b>\$140 per acre</b>	<b>\$140 per acre</b>
<b>Rate of Return</b>	<b>4%</b>	<b>4%</b>	<b>3.8%</b>	<b>3.1%</b>



# Farmland is a Growth Stock

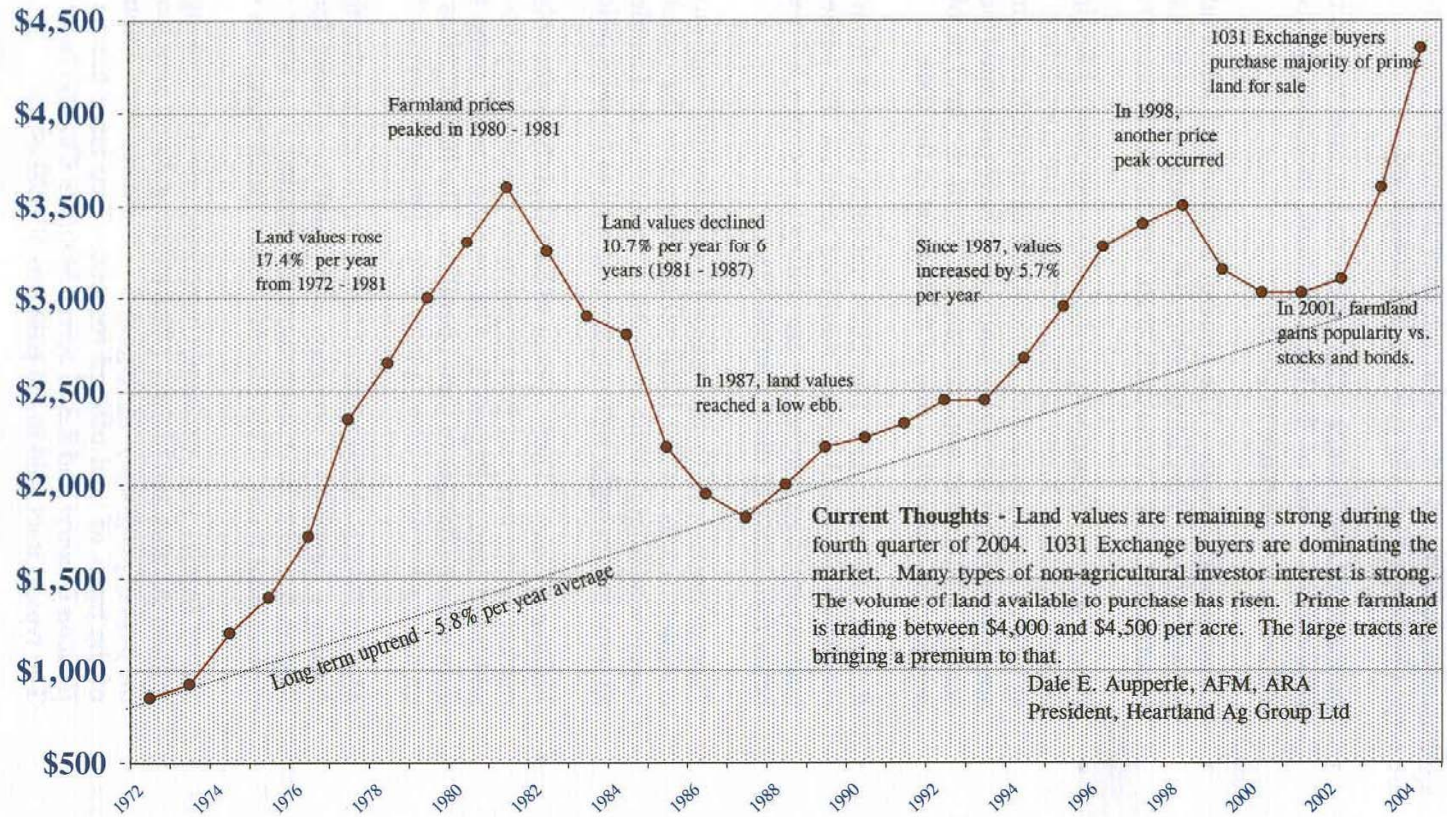
- A balanced combination of earnings and appreciation over decades
- 3-6% cash on cash return
- 4-6% annual appreciation in value
- Combined return over many years of 10% (*or more*)
- **2003 Total Return - - 10-15%**
- **2004 Total Return - - 20-25%**



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## Prime Farmland Values in Central Illinois Year End 2004

Heartland Ag Group Ltd. maintains a detailed database of farm real estate transactions throughout Central Illinois. Each sale is an important part of the dynamic farmland market we operate in. Note the historical changes (since 1972) and trends shown below. The long term uptrend line since the 1970's is intact!



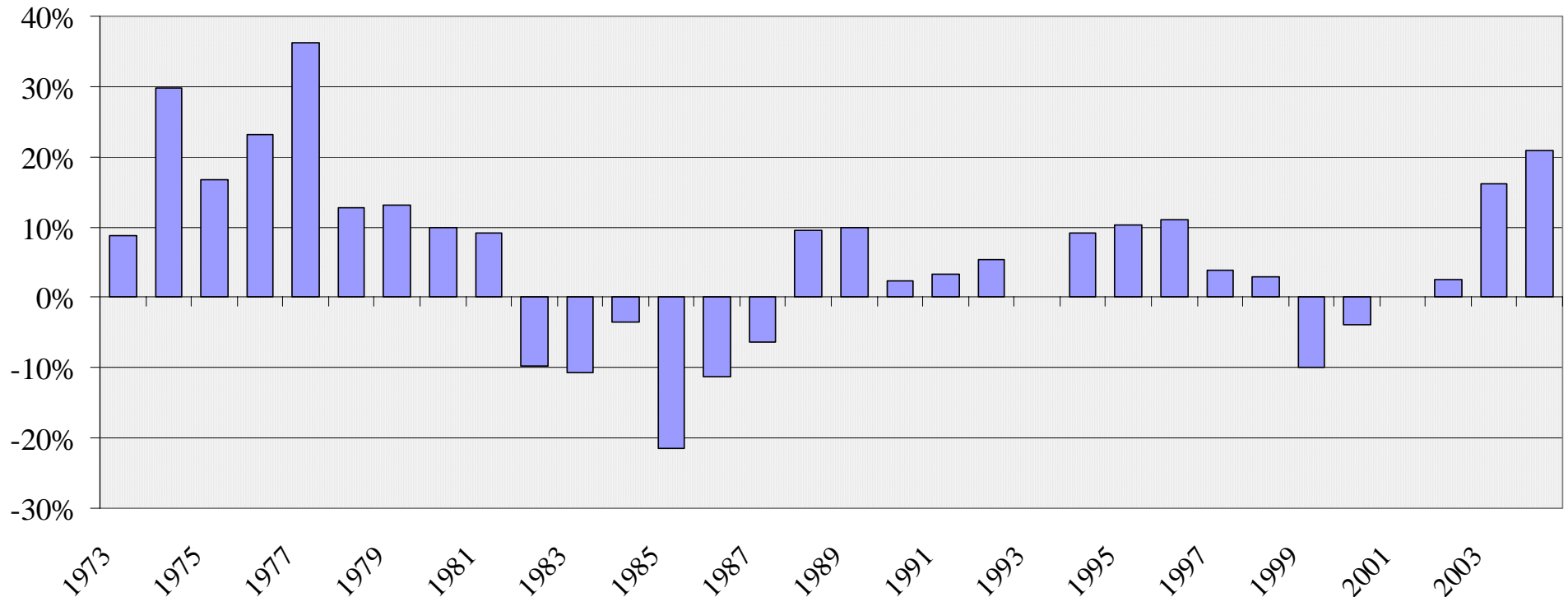


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## Central Illinois

# Farmland Price Volatility

Thru Year End 2004



Agricultural investors like stability - - a safe, generally upward trend in the value of their investment. Most do not like sharp swings in prices up or down. Our graph of farmland price volatility shows the relatively stable movement of farmland values (*generally upward*) over the last 30 years. Prime farmland in Central Illinois rose 21% in 2004 - - the largest percentage change since the early 1980s. The wider swings in volatility came during the inflation days of the 1970s and the sharp deflation of the mid 1980s. In the past 20 years we have only had 7 years (33%) that showed a decrease in land values. Yes - - farmland is on the upswing due to low interest rates, rising global demand for corn and soybeans, farmland as an alternate to other investments, and interest from non-farm investors such as tax-free exchange buyers. Agricultural investors like stability - - and a safe, generally upward trend in the value of their investment.



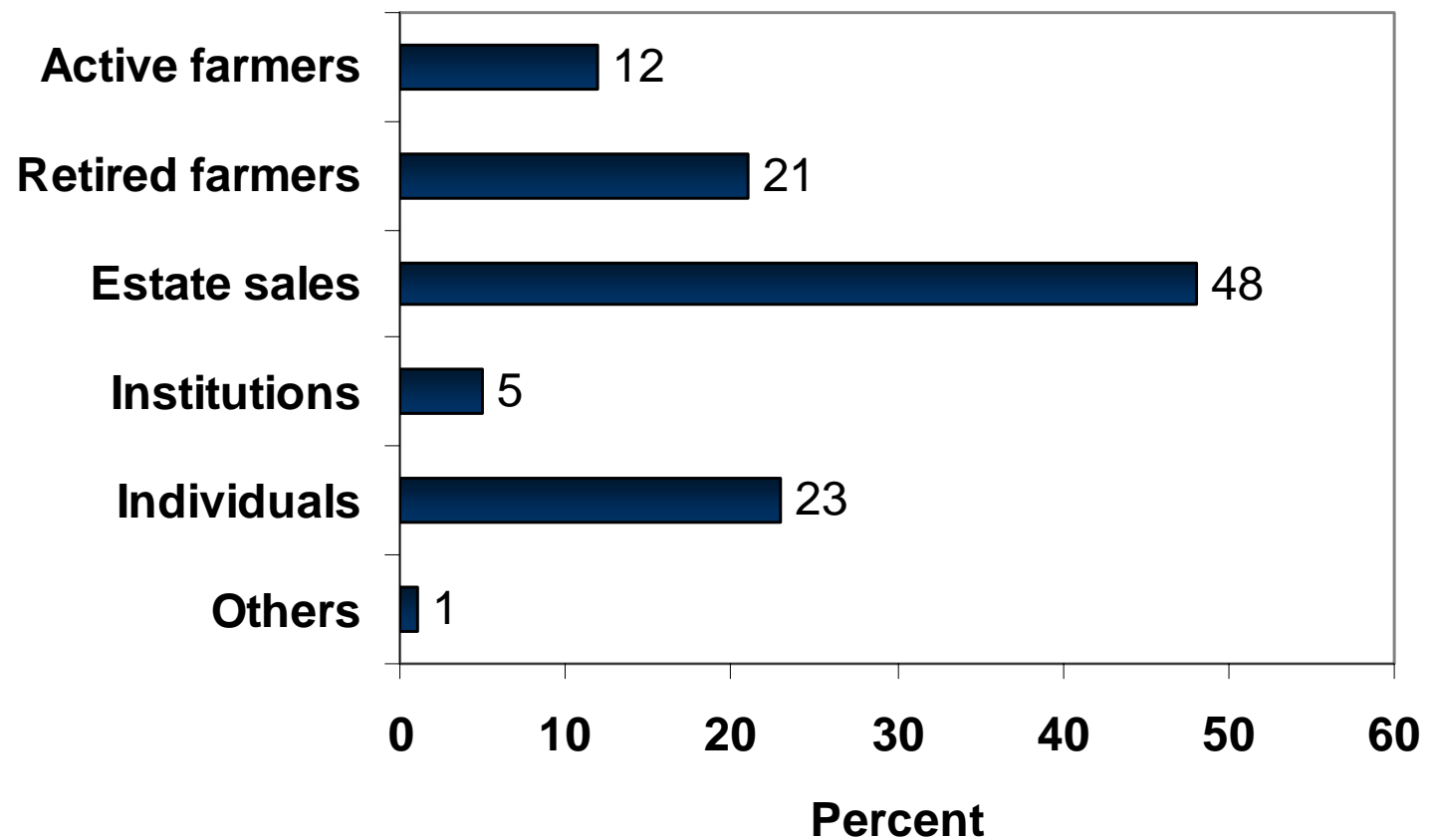
# Land and Lease Survey

- **Surveyed membership on**
  - **Buyers and sellers of farmland**
  - **Lease trends**
- **Results from the survey are:**



# Estate Sales Dominate Sellers

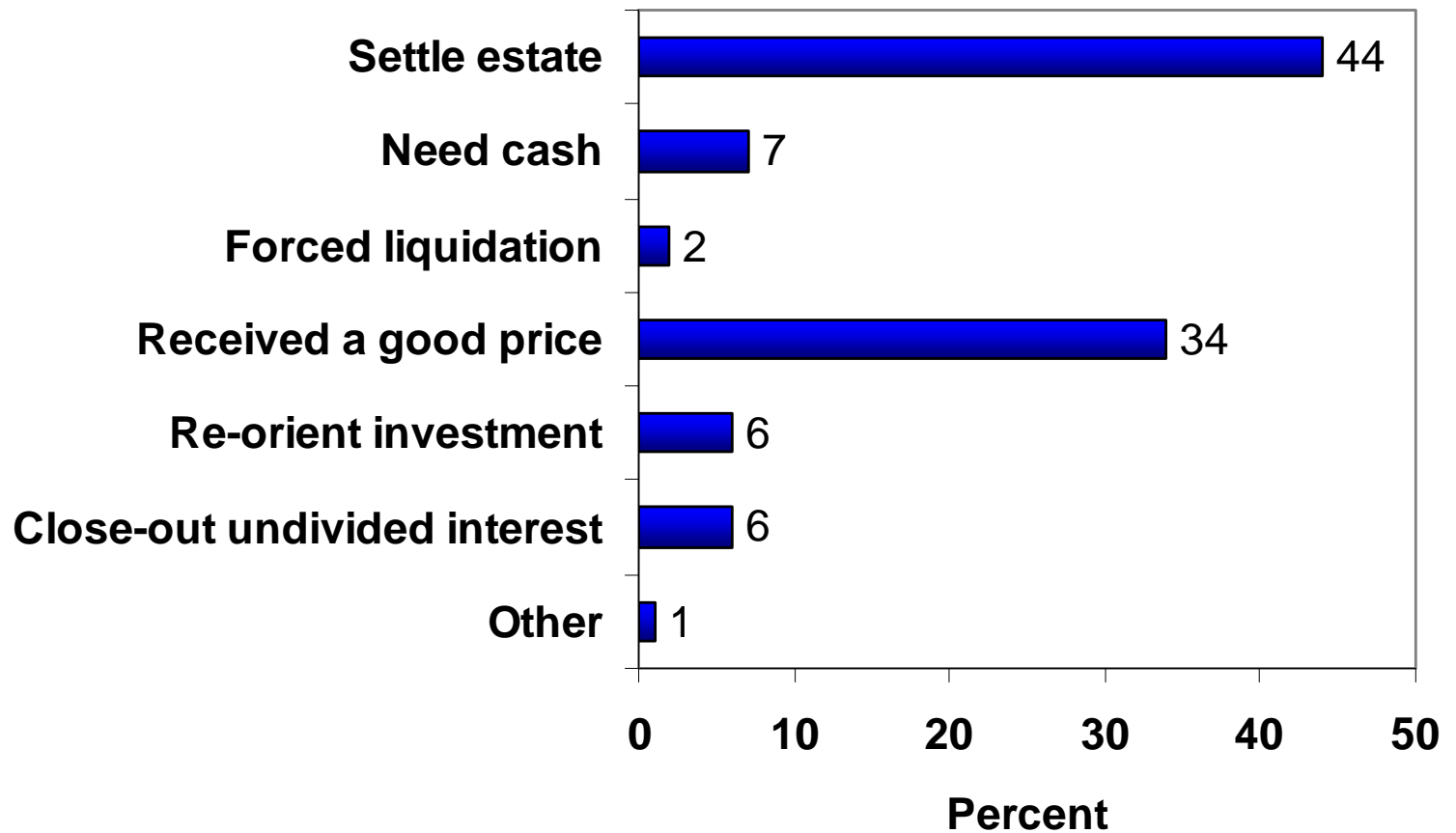
Sellers of farmland, Illinois, 2004.





# Financial Re-orientation

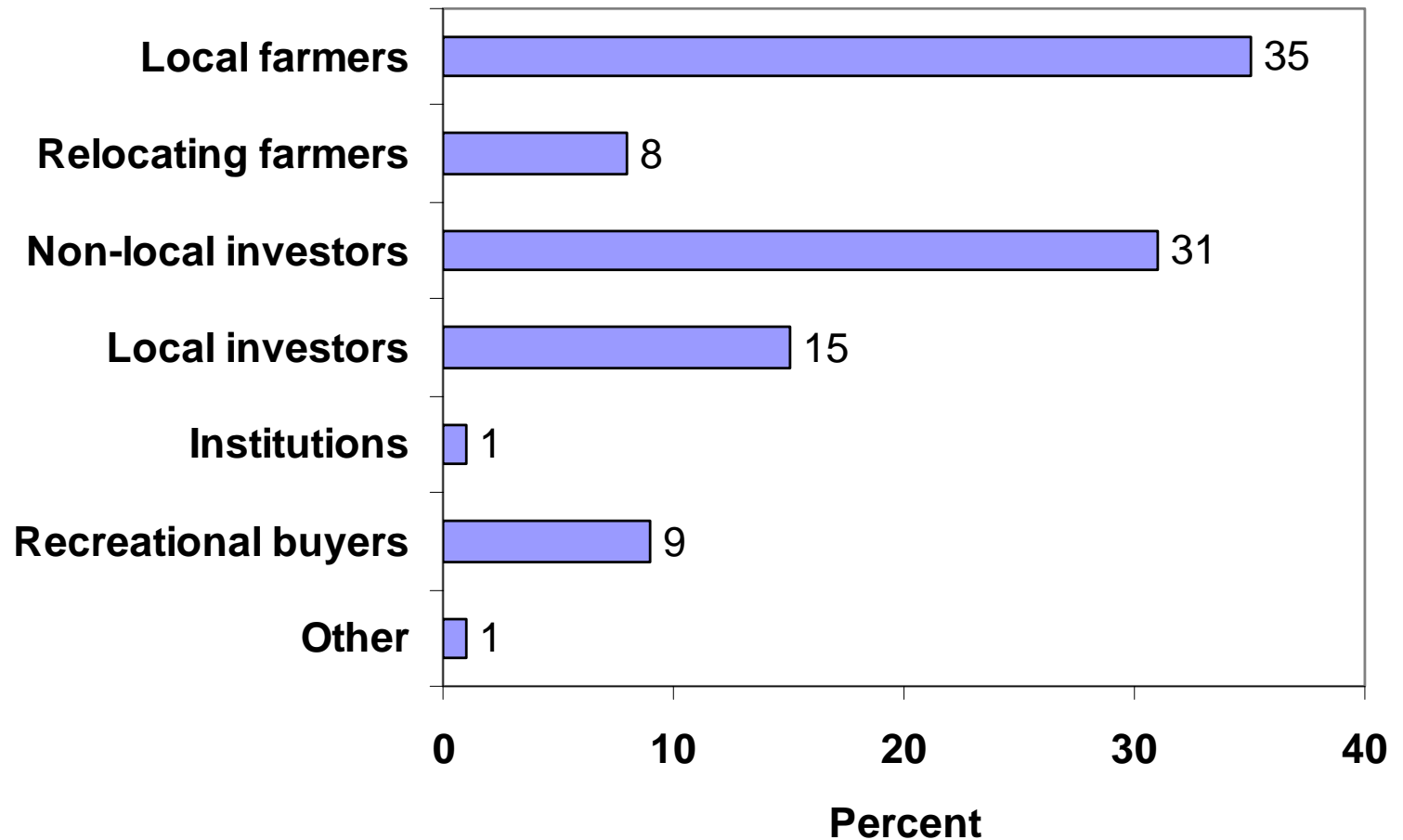
Reasons for Selling Farmland, Illinois, 2004.





# Buyers are individuals

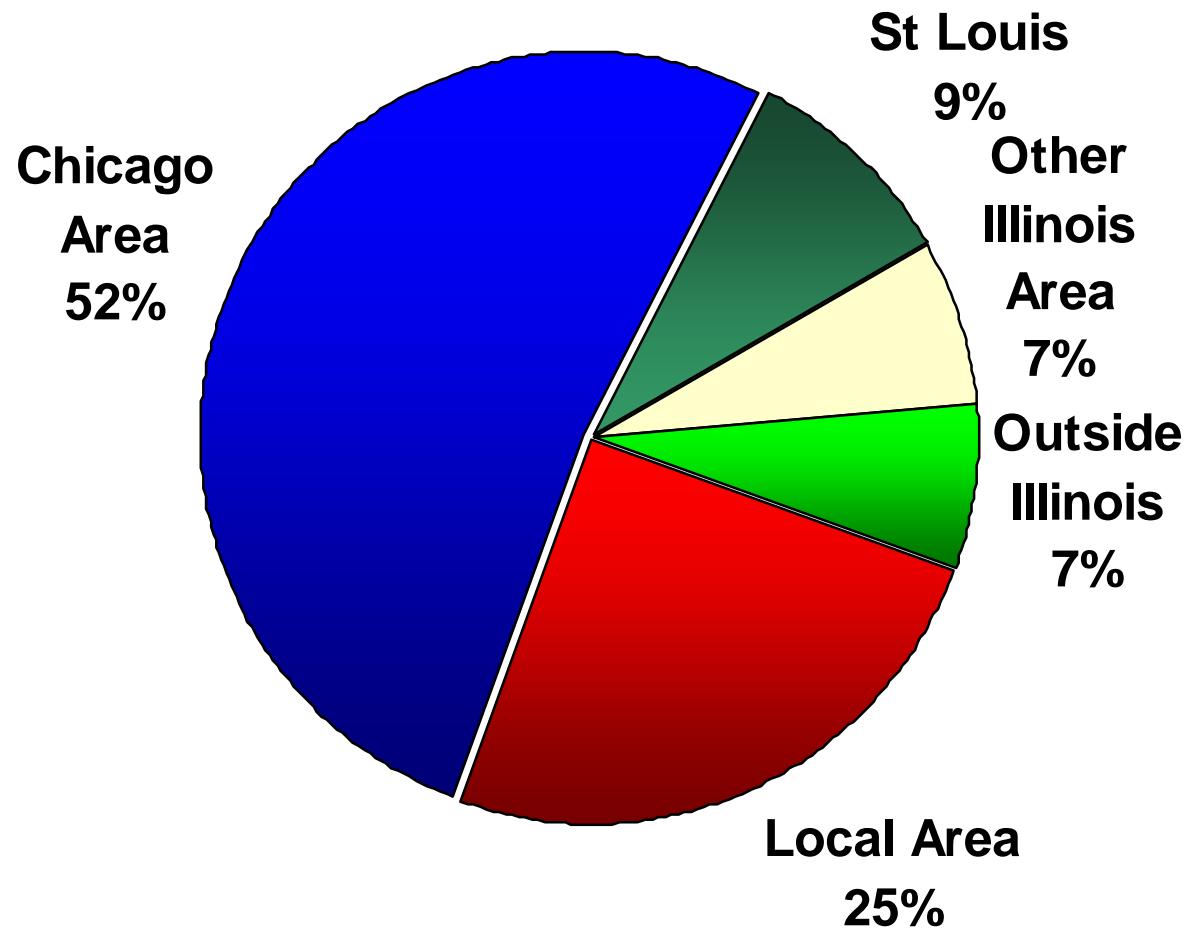
Type of Farmland Buyers, Illinois, 2004.





# 1031s Have Large Influence

Figure 4. Location of 1031 Buyers.





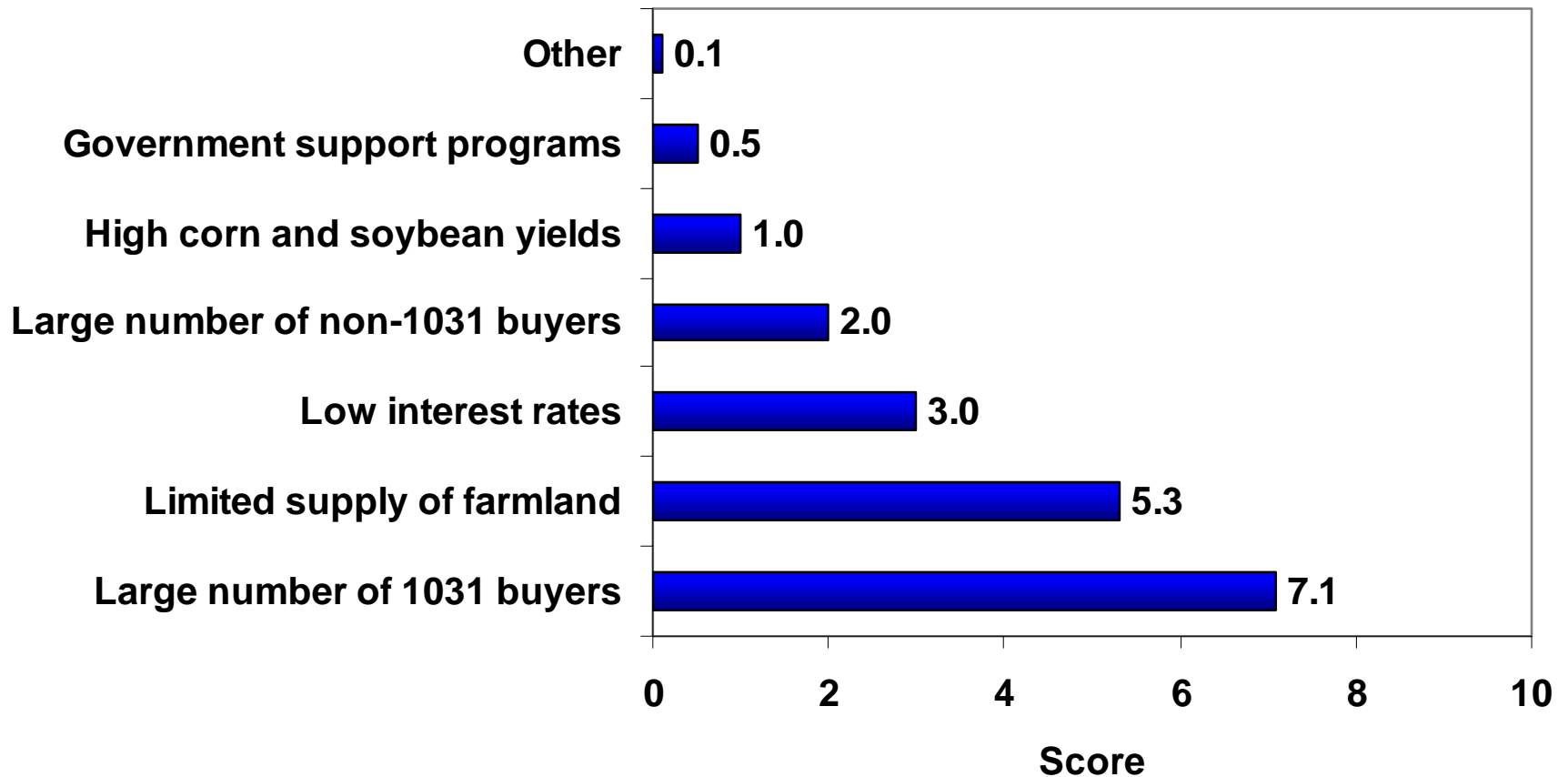
# Buyers:

- 48% use 1031 Exchanges
- 40% use debt-financing
- Use cash rent leases (78% cash rent, 16% share rent, 5% custom farming)



# 1031 Buyers the Reason for Increases

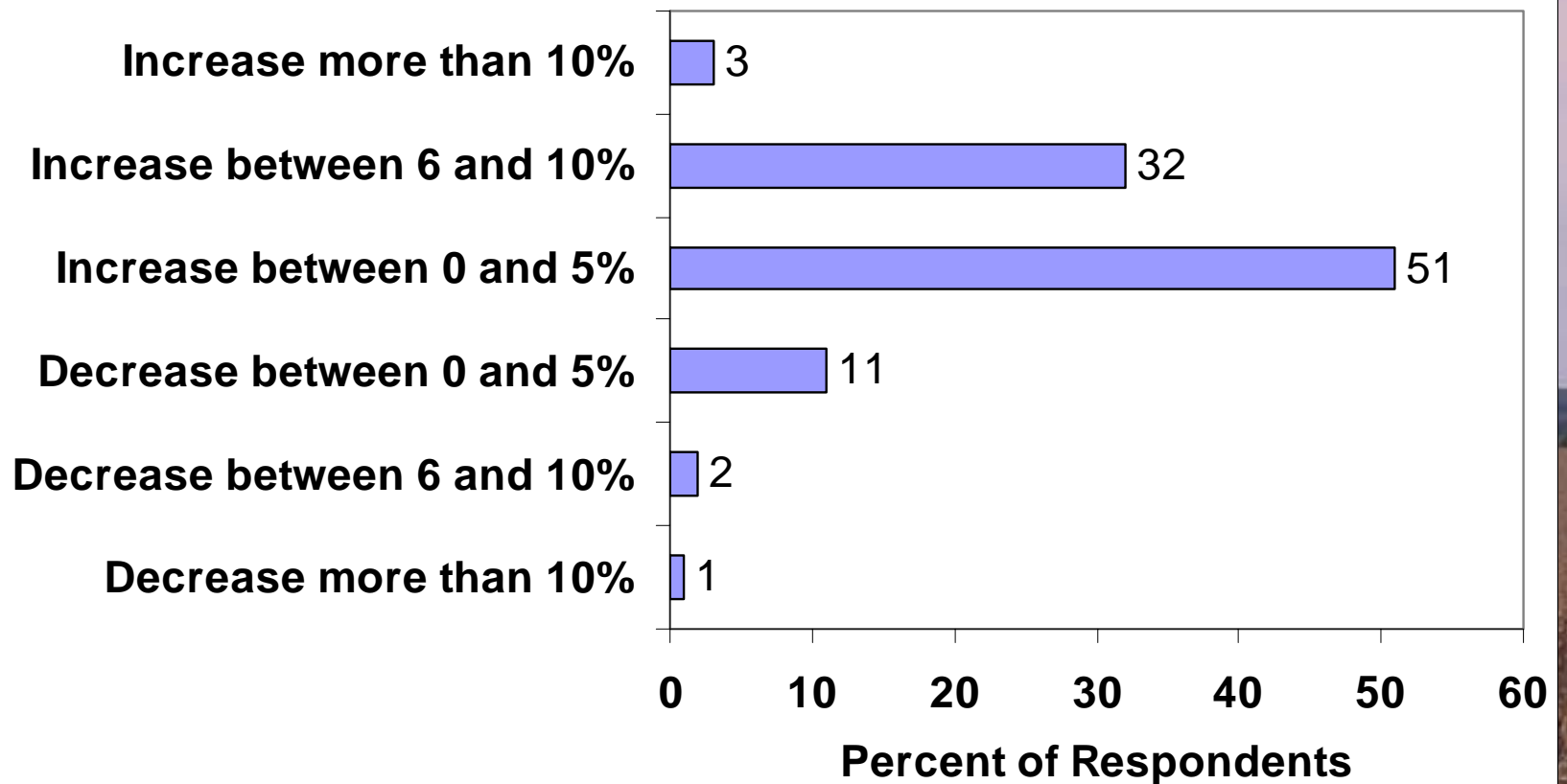
## Reasons for 2004 Farmland Price Increase, Illinois.





# Farmland Prices Expected to Increase

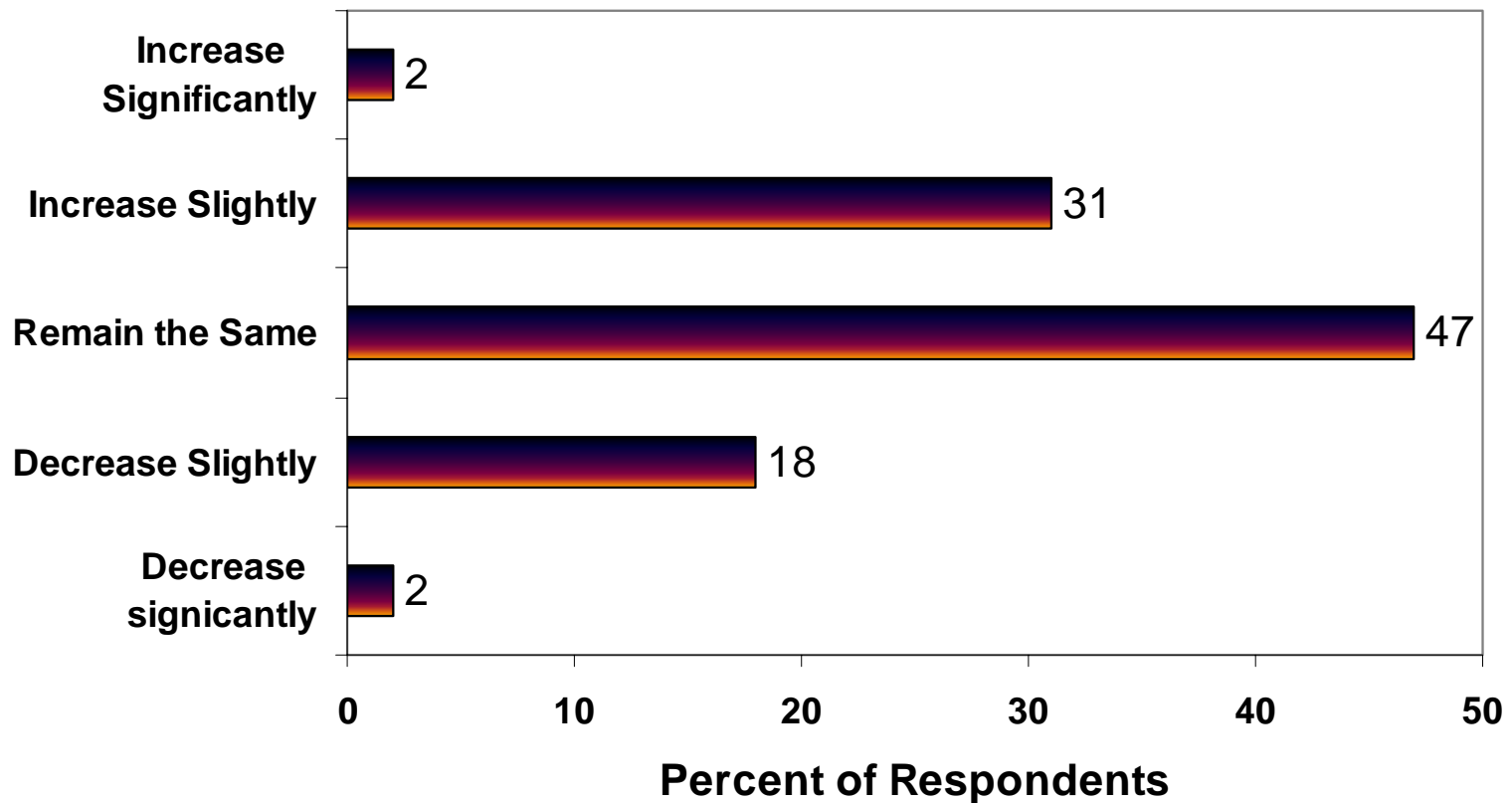
**Expected Change in Farmland Price During 2005, Illinois.**





# Volume Remain the Same

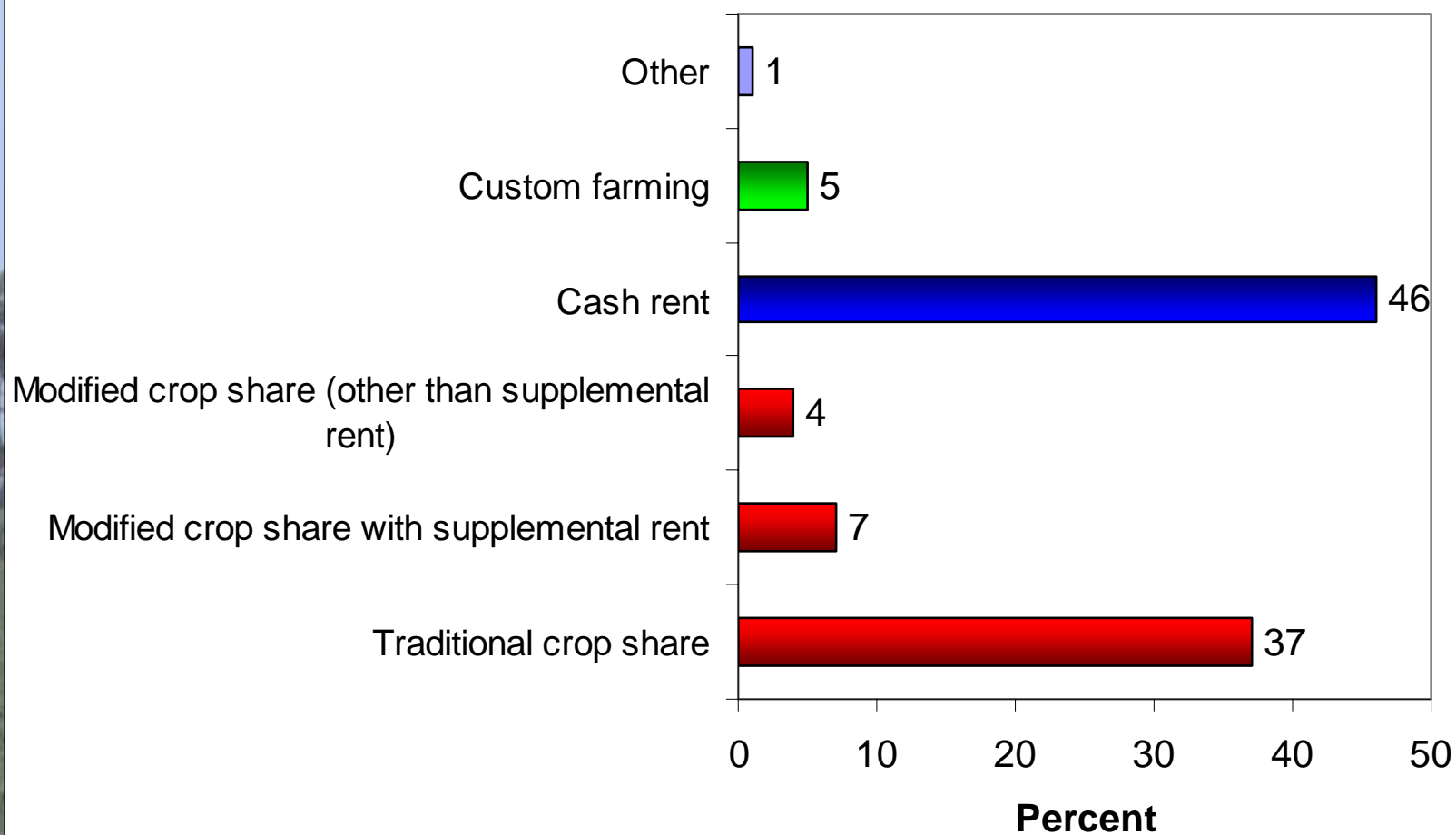
**Expectations on Volume of Farmland Sales in 2005 Compared to 2004.**



# Share Rents Highest Proportion



## Types of Leases in 2004.





# Cash Rents, Custom Farming Higher Returns

**Per Acre Farm Incomes that Landlords Receive  
for Different Lease Types and Land Qualities, 2004.**

Lease type	Land Quality			
	Excellent	Good	Average	Fair
	----- \$ per acre -----			
Traditional crop	133	114	103	88
Cash rent	157	136	119	101
Custom farming	173	152	131	109



# Variability in Cash Rents

**Per Acre Cash Rents for Top 1/3, Mid 1/3, and Low 1/3  
Cash Rent Leases by Land Quality, 2004.**

Lease type	Land Quality			
	Excellent	Good	Average	Fair
	----- \$ per acre -----			
Low 1/3	192	165	144	120
Mid 1/3	164	147	127	107
High 1/3	144	129	113	92



# More return to landlords

**Table 4. Leasing Trends in Illinois**

<b>Change</b>	<b>Score</b>
<b>Increase rents on cash rent arrangements</b>	<b>3.4</b>
<b>Modify terms of share rent to give more return to landlords</b>	<b>3.1</b>
<b>Move from share rent to cash rent</b>	<b>2.3</b>
<b>Move to custom farming arrangement</b>	<b>0.7</b>
<b>Modify terms of share rent to give more return to farmers</b>	<b>0.3</b>
<b>Other</b>	<b>0.1</b>
<b>Move from cash rent to share rent</b>	<b>0.1</b>
<b>Decrease rents on cash rent arrangements</b>	<b>0.0</b>



Be sure to contact the members of the ISPFMRA and RLI to participate in the Illinois farmland market in the years ahead.

Thank you!