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Farmland Prices Flatten in First Half of 2006

(August 30, 2006 -- Amana, IA) -- The upward spiral of prices being paid for Illinois farmland has apparently reached a plateau with little or no increase during the first half of 2006. This is according to a Mid-Year Land Value Survey conducted by the Illinois Society of Professional Farm Managers and Rural Appraisers and announced today at the Farm Progress Show being held here.

“Society members indicated that farmland values in July 2006 were relatively unchanged from January 2006 levels,” says Gary Schnitkey, Ph. D., University of Illinois, who assisted in the survey. “Some areas and land value classes had slight increases while others areas had slight decreases. Overall, land values have not changed much during the first six months of 2006.”

Schnitkey notes that land values across the state increased by 20 percent between 2004 and 2005 and by 10 percent between 2005 and 2006. He cites urban development around Chicago and other metropolitan areas reasons for the jumps. “Sellers of land for urban development used proceeds from the land sales to buy farmland in more rural areas. If the sellers of urban land completed a purchase in a timely manner, financial gains on the sold farmland could be tax-deferred under provisions of the IRS code related to ‘1031 exchanges.’”

Schnitkey says Illinois Society members responding to the survey indicate a slight decrease in the number of purchases made by 1031 exchange buyers from 56 percent in 2005 down to 50 percent in the first half of 2006. “Moreover, the number of potential 1031 exchange buyers has decreased,” the university professor states. “Sixty percent of the members indicated that the number of potential 1031 exchange buyers decreased during the first half of 2006.”

“Our members tell us they expect this trend to stay flat,” says Dale Aupperle, AFM, ARA, Heartland Agricultural Group, Ltd., Decatur, IL. He notes that 41 percent expect farmland values to remain at the same level in 2007 as compared to 2006. “These expectations suggest growth rates in farmland values slightly less than long-run average growth rates of around 6 percent,” he explains. The survey indicated that about 35 percent of the Society members responding expect farmland prices to increase in 2007 as compared to 2006.

Forty-nine percent of Society members indicated that the volume of farmland sold during the first half of 2006 decreased from year-earlier levels. “The survey indicates that they see this trend continuing, with nearly half (48 percent) telling us they see no change in the volume of farmland being put up for sale during the balance of the year while less than a third (31 percent) expect increases.

The Expansion of Illinois Ethanol Plants

In a side question, members were asked if the increase in demand for corn for ethanol plants would have an impact on farmland prices. Seventy-six percent said there could be a slight positive impact while 22 percent said there would be no impact and only 2 percent felt there would be a large positive impact.

Ethanol plants will increase the competitive demand for cash corn that results in a slight boost in farm income according to Bob Swires, AFM, Swires Land and Management Co., Danville, IL and Illinois Society president. This will in turn translate subtly into rising farmland values. As a result, Swires sees a few more farmers being interested buyers of farmland in their local communities for the month ahead.

Higher farming costs will play into the equation as producers experience increasing fertilizer, seed, chemical and fuel costs, all which are tied to rising energy costs. According to Swires, the profit margins are squeezed unless crop yields continue to escalate as they have in the past few years as a result of biotechnology. “Once again agriculture is doing what it does best, providing a steady, reliable, safe supply of grain for all types of uses each year.

Alternative Investments now Compete

Farmland returns compete financially with all other forms of alternative investments in the marketplace such as mutual

funds, stocks, bonds, and CDs. Returns on CDs are approaching 5 percent as interest rates have risen over the past few years, producing a very competitive cash on cash return. Farmland produces a 3 percent to 7 percent overall return and has enjoyed the competitive advantage over the past several years. That now seems to be diminishing.

Large Tracts Bring a Premium

David E. Klein, AFM, Soy Capital Ag Services in Bloomington, IL reports on one of the highest prices for farmland west of Bloomington with a 825.94-acre tract which brought a record \$6,000 per acre in March. Size, location, and quality of soils were very important to the buyer who was completing a 1031 Tax-free Exchange. Klein notes the number of exchange buyers has diminished, but that many of the remaining ones are still looking for top quality, large tracts of land to satisfy their needs.

In general, the volume of land being brought to sale by public auction will be similar to the fall of 2005. Fifty-nine percent of Society members expect no change in the volume of auction sales that will occur in 2007. Western Illinois is the exception according to Terry L. Kestner, ARA, 1st Farm Credit Services, Macomb, IL. He notes that a record number of public auction sales of farmland are scheduled for September and October and are pushing land prices higher in that region.

Recreational/hunting land is in strong demand across the entire state according to Aupperle. He cites prices being stable-to-slightly rising during the first six months of 2006. "Buyers are looking for tracts ranging from 40 to 200 acres. These parcels appear to be selling at a range from \$1,500 to \$3,500 per acre depending on wildlife, location to large cities, water, and other factors. In many areas, the recreational/hunting land will rival prices paid for productive cropland."

"The future of continuing the land value uptrend may depend on farmers and local investors picking up the slack from a lower number of exchange buyers," he continues. "Farmland is truly what it earns, and we need rising profitability to drive the land value engine at this point. Interest from farmers and local investors is generally unchanged except where pockets of anticipated 2006 yields will be above average. Renewed buying has surfaced in those areas.

Information on obtaining a copy of the entire report is available at www.ispfmra.org.

This is the second year that the Illinois Society has conducted a mid-year 'snapshot' survey on land values among its members. The organization surveys its members on farmland prices and leases trends on an annual basis with a very comprehensive survey completed each January. The results of this larger survey will be released at the 2007 Illinois Land Values Conference scheduled for March 14-15, 2007, in Morris, IL.

The ISPFMRA is one of 37 chapters of the American Society of Farm Managers and Rural Appraisers. The Chapter, founded in 1928, is the oldest and largest state organization of its kind in the United States. Members are professional persons devoted to the management and appraisal of rural property and agricultural consulting.