

Farmland

IN PERSPECTIVE

Spring 2007

Volume 28, No. 1

GOODWIN

Goodwin & Associates Real Estate, L.L.C.



Mark Goodwin
Real Estate Broker

131 Airport Dr. • Unit H
Joliet, IL 60431
(815) 741-2226

U.S. Market for Ethanol Expands

America's consumption of gasoline continued to expand during 2006, according to the American Petroleum Institute (API). During 2006, it reached 9.2 million barrels a day or 386 million gallons. The entire increase was met by ethanol blends, according to API.

According to its December 2006 monthly statistics report, "This year's higher volume of gasoline deliveries was, in effect, met entirely by a substantial jump in the blending of ethanol into gasoline. Ethanol use in gasoline rose by more than 1 billion gallons, or nearly 35%, to an estimated 5.4 billion gallons in 2006."

The nation's 111 ethanol plants currently have the capacity to produce more than 5.4 billion gallons annually. Another 78 ethanol plants are under construction; eight plants are being expanded.

To Buy or Not to Buy? That is the Question.

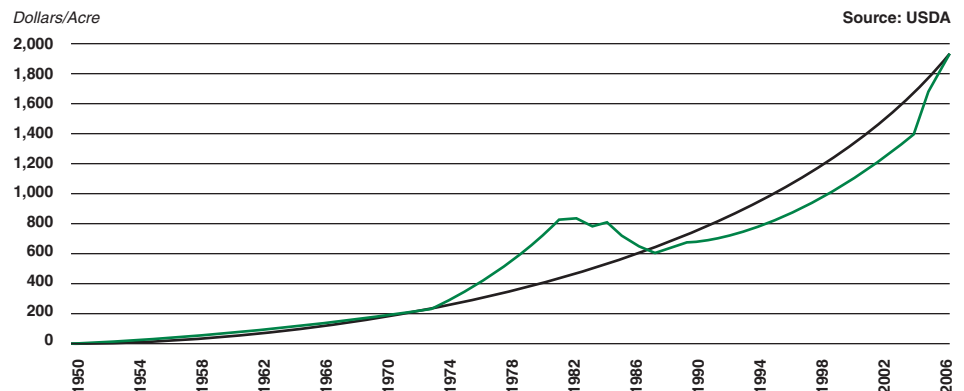
by Charles E. Gilliland, Ph.D.

The value of rural land in the United States traditionally has been determined by the return on investment to farming and ranching. As American society has matured, however, farmers and ranchers have found themselves facing a new set of competitors in land markets. An influx of investment-driven buyers as well as the emergence of recreation-focused demand is roiling markets even in traditionally agricultural areas. Prices have risen beyond purely income-driven levels.

Some geographic areas, however, recently registered sluggish demand with a pullback from market highs; other locales continue to rise. These developments have prompted observers to question how long a land boom can continue. The following analysis explores that question in the context of historical land market developments.

The chart Farm Real Estate Values 1950-2006 illustrates the history of farm real estate prices in the United States as estimated by the USDA. The estimated per acre value of farm real estate appears as the green line and reflects an estimate of the value of land used for farming or ranching. The black line represents a long-term trend line fitted to the indicated prices. During unusual times, prices could be expected to rise above or fall below the long-term trend. However, in the long run, prices might be expected to return to the trend line.

Farm Real Estate Values 1950-2006



Continued on page 2

Beginning in 1950 at \$65 per acre, farm real estate prices have soared to \$1,900 per acre in 2006. Values in the early years closely approximated the long-term trend, growing gradually until about 1973. At that time, social and political developments created economic pressures that induced a steep rise in prices. Following the Russian wheat purchases and energy crisis in the early 1970s, inflation accelerated and land prices shot above the long-term trend line. The resulting bubble expanded until prices stalled in the early 1980s. By 1985, with inflation tamed, land prices quickly dropped back in line with the long-term trend. Since that rapid price decline in the 1983-87 era, land prices lagged below the long-term trend until now.

Regarding the rapid run up in land prices since 2003, many potential buyers and current owners have experienced a sense of foreboding. Pointing to the acceleration in prices, they reason that such growth cannot persist indefinitely. In the end, they wonder if markets will moderate or collapse like those in the 1980s.

Further, they fret about the possibility of locking their funds in an illiquid investment at the peak of a bull market. These worries could signal an extended slowdown as they prompt many to question the wisdom of acquiring land in current markets.

Current price levels, however, simply have returned to the long-term trend line, as the figure shows. Moving forward, markets can anticipate growing populations. Further, there currently is a dearth of competing investments that should persist into the foreseeable future and suggests that values may be just resting before shifting into a high gear. Legions of buyers with cash continue to seek investments. This group includes institutional buyers seeking to return real estate to their portfolios for the first time since the 1980s. They are reportedly seeking farmland, ranches, and timber holdings. In addition, the recent decline in the dollar has inspired interest from offshore investors.

Taken together, all of these factors point to markets where uncertainty about future trends has grown. For many investors and owners, these developments signal a need for

caution ahead. For other investors, these factors signal an opportunity for investment gain by purchasing in today's markets. Only the passage of time will validate one or the other of these views. Meanwhile, risk-averse observers can understand that current buyers need not have abandoned good sense to continue buying rural land.

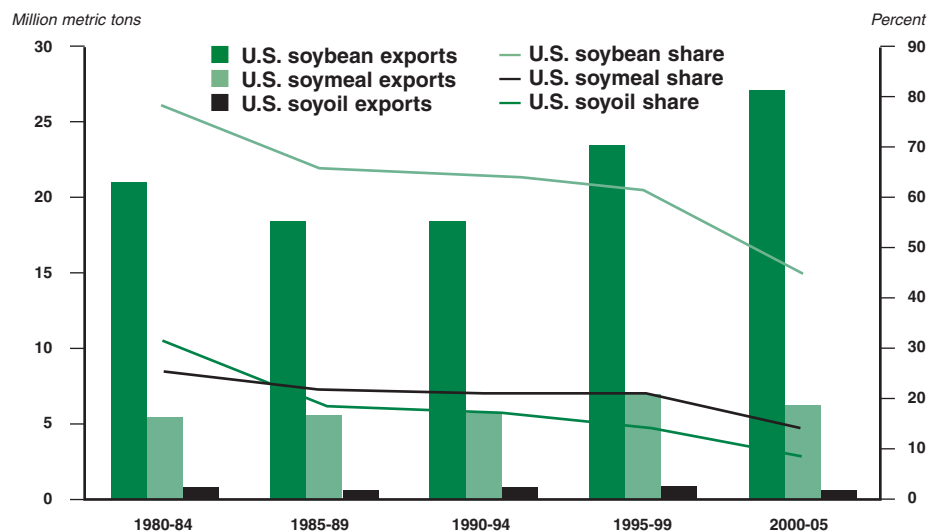
Charles E. Gilliland, Ph.D., is a Research Economist with the Real Estate Center at the Mays Business School at Texas A&M University. His research focuses on issues related to appraisals, development, property rights, rural land markets and property taxation. He also provides expert testimony to the United States Senate, Texas Senate and Texas House of Representatives. Dr. Gilliland has an extensive publication record and has provided consulting services for various law firms, corporations, and trade associations.



Soybean Sector Being Reshaped by International Trade, Biofuel Initiatives

U.S. soybean production is being pulled steadily upward by increased domestic and global demand. During the past decade, rising demand has prompted producers to shift acres from wheat to soybeans, capitalizing on the additional planting flexibility provided since the 1996 Farm Act. Expanding use of corn and soybeans for domestic biofuel production and global market trends are likely to influence the future direction of the soybean sector.

U.S. export volumes for soybeans and soybean products edge higher, but market shares decline



Source: USDA, Foreign Agricultural Service, Production, Supply and Distribution database.

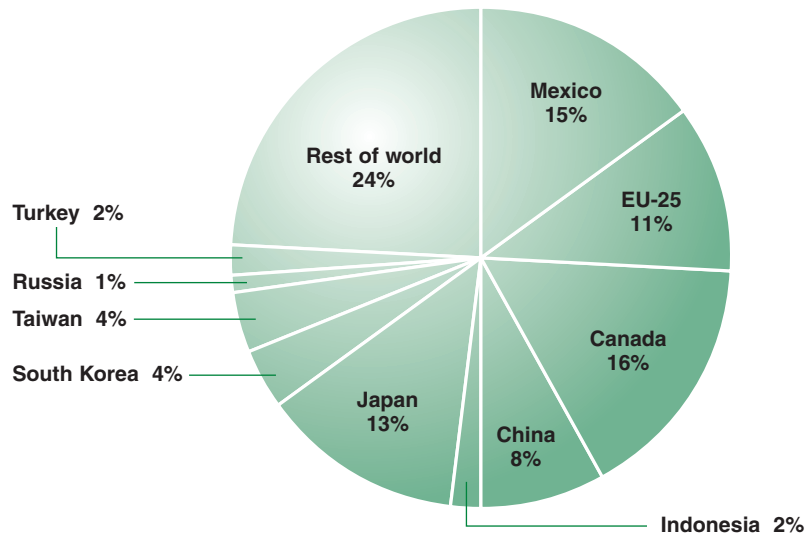
How Eating Right Could Change U.S. Agriculture

If Americans brought their diets fully in line with the recommendations of the *2005 Dietary Guidelines for Americans* and the supporting MyPyramid Food Guidance System, major shifts would occur in the mix and quantity of foods produced in the United States.

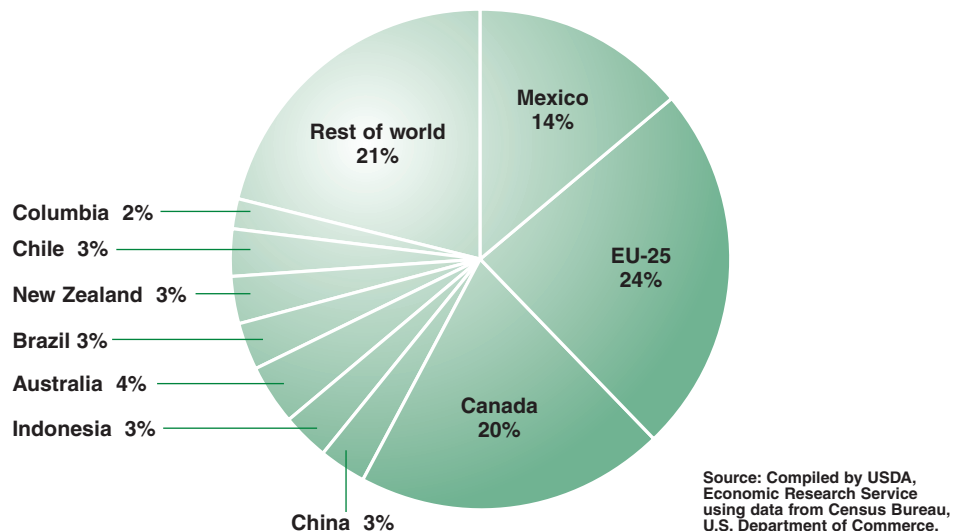
- Daily fruit consumption would increase 132%. Harvested fruit acreage would more than double to 7.6 million acres.
- Daily vegetable consumption would rise by approximately 31%. The mix of vegetables would change. Legume consumption would increase by 431%. Consumption of starchy vegetables would decline by 35%. The area harvested for vegetables would increase by approximately 137% to 15.3 million acres.
- Dairy products consumption – including fat-free or low-fat milks and equivalent milk products such as nonfat yogurt – would increase by 66% and require an additional 111 billion pounds of milk per year. Domestic production could account for 108 billion pounds by expanding dairy cow inventories, an action counter to long-term trends.
- Daily consumption of whole grains would increase by an estimated 248%. Yet, total grain consumption would decrease by approximately 27%. The production of whole grain products requires less raw wheat than production of similar refined-grain products. Due to the decline in total-grain intake, the overall drop in demand could reduce harvested wheat acres by about 5.6 million per year.

Three trading partners accounted for 44 percent of U.S. agricultural exports and 58 percent of imports in fiscal year 2005.

Export destinations



Import sources



Source: Compiled by USDA, Economic Research Service using data from Census Bureau, U.S. Department of Commerce.

Corn Dominates Other Feed Grains

Corn is the most widely produced feed grain in the United States, accounting for more than 90% of total value and production of feed grains. Approximately 80 million acres of land are planted to corn, with the majority of the crop grown in the Heartland region. Most of the crop is used as the main energy ingredient in livestock feed. Corn also is processed into a multitude of food and industrial products including starch, sweeteners, corn oil, beverage and industrial alcohol, and fuel ethanol. The United States is a major player in the world corn trade market, with approximately 20% of the corn crop exported to other countries.

Farmland

IN PERSPECTIVE

Mark Goodwin & Associates Real Estate LLC
131 Airport Drive • Unit H
Joliet, IL 60431

ADDRESS SERVICE REQUESTED

Prsrt. Std.
U.S. Postage
PAID
Chicago, IL
Permit No. 1705



Mark
Goodwin
ALC

5 Great Reasons to Call Me With Your Real Estate Questions.

1. Specialist in all types of vacant land sales — farm, commercial, residential and industrial properties
2. Experienced, with a proven track record and a reputation for outstanding service
3. Impeccable credentials:
 - One of 26 Realtors in Illinois designated an Accredited Land Consultant
 - President, Illinois Chapter, Realtors' Land Institute
 - Member Will County Farm Bureau
4. Expertise in 1031 Exchanges
5. Extensive marketing through membership in Multiple Listing Service of Northern Illinois (MLSNI) and listings on the Internet

GOODWIN

Goodwin & Associates Real Estate, L.L.C.

131 Airport Drive • Unit H • Joliet, IL 60431

(815) 741-2226 • fax (815) 741-2807 • e-mail: mgoodwin@bigfarms.com • website: www.bigfarms.com

