

# Farmland

## IN PERSPECTIVE

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# GOODWIN

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## Farmland Values Soften

Farm real estate values, a measurement of the value of all land and buildings on farms, averaged \$2,100 per acre on January 1, 2009, down 3.2% from 2008. The 3.2% decrease from 2008 is the first decline in farm real estate value since 1987. Regional changes in the average value of farm real estate ranged from virtually no change in the Northern and Southern Plains regions to an 11% decline in the Mountain region. The highest farm real estate values remained in the Northeast region at \$4,830 per acre. The Mountain region had the lowest farm real estate value, \$922 per acre.

Both cropland and pasture values are down from the previous year. Cropland values declined by \$110 per acre (3.9%) to \$2,650 per acre. In the Cornbelt region, the average cropland value decreased 4.0% from the previous year, to \$3,870 per acre. However, in the Northern Plains and Delta regions, cropland values rose 1.6% and 0.6%, respectively. Pasture value declined by \$20 per acre (1.8%) from 2008 to \$1,070 per acre. The Mountain region had the largest percentage decrease in pasture value, 16% below 2008.

*Continued on page 3*

## The 14 Mistakes Your Farmland Broker and Realtor® Can Help You Avoid

Sometimes a buyer or seller is tempted to act without the expert advice of a professional farmland broker or Realtor®. This might be for any of a number of reasons. They may believe they know and can fully trust the other party. If they are dealing with an individual who has greater knowledge of the market and the process involved, however, they may be at a disadvantage. The seller may want to avoid paying a contracted commission, but may not realize that it may cost more to sell a farm for a price below market value. Buyers or sellers often feel they can handle the transaction on their own, yet they don't realize how complicated the process may be.

When a buyer or seller acts on their own, they may realize unexpected and unwanted costs. The farmland transaction for an individual acting on their own can cost more than a contracted commission would have cost. Many times the process doesn't work as well as the individual thought it would. Problems can crop up before, during or after the closing. Some can be serious, time consuming, and/or very costly. Or, the transaction may go through without the individual realizing that they over paid or sold low.

Professional farmland Realtors with insights from years of experience and a thorough understanding of the farmland market can help individuals avoid deals that are not as sweet as they initially appear. These specialists know how to properly research a piece of land, market it, negotiate a price and successfully close the deal.

From the sidelines, these farmland Realtors most often see the following 14 mistakes, — mistakes that buyers and sellers can avoid by working with a professional farmland broker or Realtor.

### Sellers

**1. Over valuing the farm.** When a potential seller hears of a high-priced sale or auction, they may want to believe their farm is worth the same. Yet, the factors that enabled one farm to sell above market price may not apply. Many factors contribute to the value of a property, such as quality of soils, percentage tillable, drainage problems, topography, and/or location, to mention a few. Even though two farms may be located across the road from each other, very different individual factors can create different market values.

*Continued on page 2*

**2. Not knowing current market values.** Even one year can make a significant difference in land values. A substantial mistake in pricing the farmland can easily occur without current knowledge of market values. Properties that are overpriced will stay on the market and not sell. Properties that are priced too low will obviously cause the farm to sell for less than its current market value.

**3. Experiencing tax surprises.** Before accepting a contract, sellers are well advised to calculate the taxes on the sale. Thinking only in terms of the total dollars received (gross dollars), not the net dollars (gross minus expenses) can set the seller up for a nasty surprise. If property is held in a corporation, for instance, taxes on the dollars received can increase significantly. Knowing the status of the land and consulting with a knowledgeable accountant helps avoid unwanted surprises.

**4. Foregoing a survey.** The survey establishes the number of acres being sold and the property's boundaries. Most land sells on a price per acre, not a whole-farm price. Imagine a buyer's surprise when they discover the farm is bigger or smaller than what they thought they had purchased.

This can happen, for instance, when the property line can move as with a river or creek. Should the property line move over time, the seller would be surprised to learn the total acres or tillable acres has changed, a neighbor is mistakenly farming into the land, or that part of the farm now is on the other side of a waterway. In one extreme instance, a river moved over time and cut off approximately 100 acres. These acres formed an island across the county line. Because the land had been in the family for so long, neither county tax office showed the island as part of their county.

**5. Not confirming tillable acres.** The county Farm Service Agency (FSA) can map the tillable acres.

## Your Realtor's Competitive Edge

An individual who is selling or purchasing farmland benefits in three key ways by working with a professional farmland broker or Realtor®. *These include the:*

1. Knowledge to create transactions that close... and close smoothly in a timely fashion. The professional farmland broker's knowledge of the market and sales skills related to it can help anticipate potential problems and reduce difficulties in the transaction as a result.
2. Resources related to their specialization in farmland sales and purchases. These include specialized marketing tools and materials, knowledge of the market, and sales skills. *Internet applications include:*
  - Online brochure(s) on the Realtor's web site
  - Digital, aerial property maps
  - Use of specialized web sites such as sites for investors, hunters, outdoor recreation, etc.
  - Listings on property indexes. These may include land for field crops, hunting, recreational, equine farms, farmettes, etc.
  - Email
3. Insights to evaluate a farmland purchase or sale, identify opportunities and options; knowledge of how to defer taxes from the sale of land; and more.

The knowledgeable, professional farmland broker or Realtor works for the best offer with the most favorable price and terms for their client.

The map will show if a timber line, for instance, has grown into the tillable acreage. While this is not precise or exact, it can direct a seller or buyer to survey a property to confirm the boundary lines.

**6. Not preparing the land for sale.** Farms that show well typically sell for the best price. Good management adds "curb appeal." This includes activities such as repairing drainage tiles, cleaning small trees and brush from ditches and waterways, etc. Many things can be done to enhance the curb appeal of buildings and farm structures which should be considered to make the farm more appealing.

**7. Not fully knowing and understanding lease terms.** Lease terms can affect selling prices. If you are considering selling farmland, carefully think through the potential consequences of signing a long-term lease. Investment buyers will likely want to negotiate their own leases with the tenant, even if the tenant remains the same. Local farmers most often want the farm lease free as they often want to farm it themselves. Farmland professionals can advise you about

lease termination dates and when a current tenant should be terminated in order to accomplish this.

**8. Not working with a professional farmland broker or Realtor.** You need a professional who understands the land market and knows how to market land. A professional land broker will have the necessary contracts, current technology, sales tools and techniques to draw the most buyers and present your farm in the best possible light. They also have fuller, more in-depth knowledge, and training for agricultural properties than someone who specializes in residential or commercial property.

### Buyers

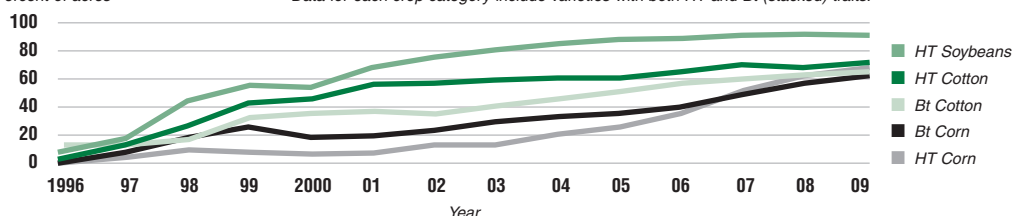
**1. Being too focused on price/acre while ignoring other considerations.** Certainly the price per acre is very important. Equally important is the underlying reasons for that price: location, productivity, soil types, drainage, tillable acres, etc. Buyers who focus on price without understanding why it is what it is may be in for an unwelcome surprise.

## Genetically engineered corn and soybeans see rapid

### Rapid growth in adoption of genetically engineered crops continues in the U.S.

Percent of acres

Data for each crop category include varieties with both HT and Bt (stacked) traits.



US farmers have adopted genetically engineered (GE) crops widely since their introduction in 1996, according to the National Agricultural Statistics Service of the U.S. Department of Agriculture, notwithstanding uncertainty about

HT – Herbicide tolerant • Bt – A form of insect resistance

**2. Not clearly defining their wants upfront.** Knowing what you want helps narrow the search and the effort involved. Carefully think about and list what is most important: the quality of land, its location, getting the best return, equity appreciation, etc. A land professional may be able to point out issues that you haven't considered.

**3. Not knowing the current land market and the forces at play.** This alone is worth getting the help of a professional.

**4. Not understanding the farm's lease.** Understanding the dynamics of farm leases and other specifics about the farm works to your advantage when negotiating the sale. Professional farmland Realtors can readily analyze a lease, explain the ins and outs, and determine how beneficial the lease is — or isn't. Lease trends are rapidly changing. Professionals know and keep current on what is happening in the market where your farm is located.

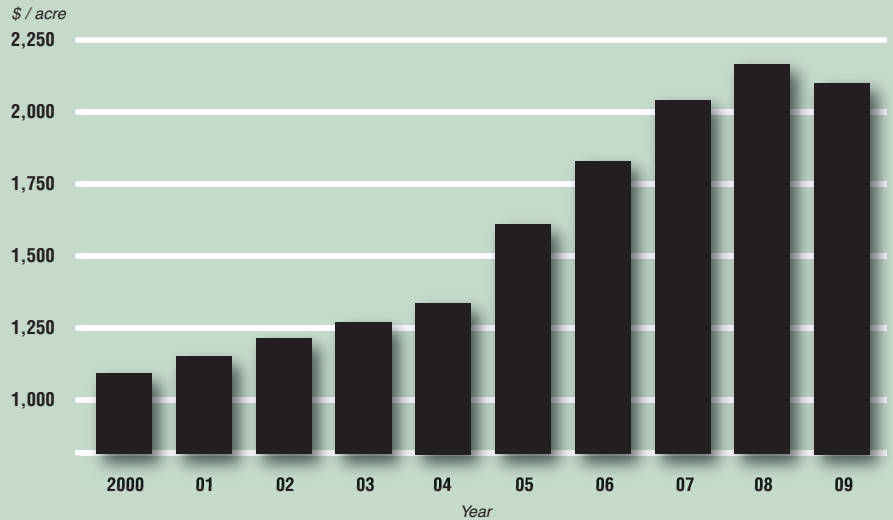
**5. Not having a truly well written sales contract.** Make sure everything is in writing in your contract. Don't leave anything to chance. Professional farmland brokers have the necessary contract forms to cover all aspects of farmland transactions. Pertinent matters will be addressed such as mineral rights, leases, etc. Farm program information and government payments such as the Conservation Reserve Program (CRP) and the Average Crop Revenue Election (ACRE) program among other matters that can make a significant difference should be in the contract. Having all the terms in writing prevents confusion and problems down the road.

**6. Not using the services of a professional farmland broker or Realtor to help you through the process.** A local farmland broker has the best resources, can provide up-to-date information and answer pertinent questions.

The softening of land values is due to several factors. The contraction in the overall economy has caused less commercial and residential development in many regions. Livestock and crop commodity prices have declined from a year earlier, thus producers and investors are less optimistic than a year ago. In addition, demand for recreational land has decreased.

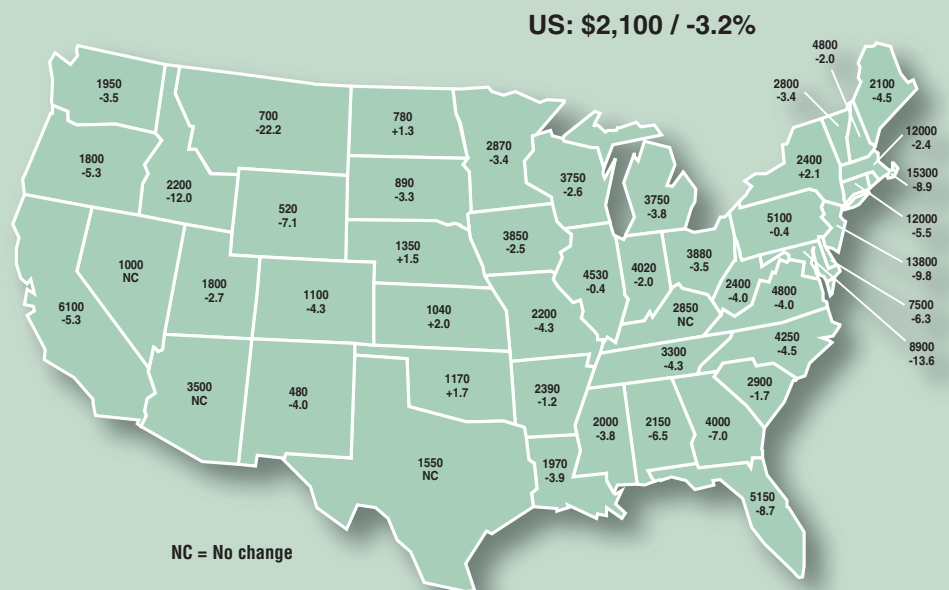
## U.S. Average Farm Real Estate Value

Dollars per acre 2000 – 2009



## 2009 Farm Real Estate Value by State

Dollars per acre and percent change from 2008



Agricultural Statistics Board NASS, USDA

## ly expanding use

consumer acceptance and economic and environmental impacts.

Soybeans and cotton genetically engineered with herbicide-tolerant traits have been the most widely and rapidly adopted GE crops in the US, followed by insect-resistant cotton and corn.

# Farmland

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## Many farmland buyers live outside the neighborhood.

*That's why our marketing program has a long outreach.*

- Goodwin & Associates has a proven long-term track record with the most complex 1031 Exchanges. We supply references.
- We are one of only 26 Realtors in Illinois designated as Accredited Land Consultant.
- We participate in Multiple Listing Services (MLS) of Northern Illinois (plus Internet sites), giving us information on hundreds of rural properties.
- Goodwin works hard! Our buy or sell orders are promoted in print media, Internet websites, phone, e-mail database — plus personal contact.



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