

Farmland

IN PERSPECTIVE

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



Mark Goodwin
Real Estate Broker

21036 S. States Lane
Shorewood, IL 60404
(815) 741-2226

Non-operating landlords own 31% of U.S. farmland

Of the 911 million acres of land in farms in the continental U.S., 31%, 283 million acres, is owned by non-operating landlords, or landlord entities that are not currently farmer operators. Another 61%, 566 million acres, is operated by the landowner, according to the 2014 Tenure Ownership and Transition of Agricultural Land (TOTAL) survey of the Economic Research Service (ERS) of U.S. Department of Agriculture (USDA). Another 8% (70 million acres) of land in farms is rented from other farm operators.

The majority of acres owned by these non-operating landlords is held by individuals or in partnerships (191 million acres or 21% of land in farms). Corporations, trusts, or other ownership arrangements also rent out 92 million acres (about 10% of land in farms) to operators.

Even though some agricultural land is owned by non-operating landlords, many of these landlords have prior farming experience. Of the 191 million acres owned in non-operator individual or partnership arrangements, nearly half were held by a retired farmer or

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What's happening with land values?

by Mike Duffy • Economics Professor Emeritus

In some states, land values have been under considerable pressure; in others, land values have enjoyed modest increases. What is happening with land values depends on two factors: Your location and the time period being considered.

The National Agricultural Statistic Service (NASS) of the U.S. Department of Agriculture (USDA) released their estimates for land values on August 5, 2015. They showed a mixed bag with respect to cropland values. For example, Corn Belt cropland values were estimated to be down 2.3% from a year earlier. Ohio was up 3.5%, while Iowa was down 6.3% during the same time period. Illinois and Indiana were essentially unchanged, down less than 1%. The Northern Plains showed a similar range. Overall cropland values were up 1.2% from 2014 to 2015, but in Nebraska they were down 2.1%. Yet South Dakota was up 8.7%. In the Delta, land was up 3.6% which was almost the same for Arkansas, up 3.5%. Across the United States, cropland was up slightly at 0.7% from 2014 to 2015. Texas had the highest percentage increase at 9.5%, while Iowa had the largest decrease at 6.3%.

A review of the agricultural credit condition reports from the various Federal Reserve Banks shows bankers also perceive the mixed conditions. For example, in the Chicago Federal Reserve district land values were projected up 2% in Indiana for the second quarter of 2015. Land values were projected down 2% for Illinois and even for Iowa over the second quarter. In the August 2015 Economic Condition Report from the Federal Reserve Board, it was noted "... conditions deteriorated in the St. Louis and Kansas City districts and were mixed in the Chicago district."

One area where the districts agreed was a concern over potential problems coming in the next few quarters. The Kansas City report noted, "Although loan repayment problems were reported to be only minor thus far, and few loan applications were denied, weaker cash flow could continue to intensify financial stress for some producers as the fall harvest approaches."

I think this summarizes the general feeling: Not much trouble yet, but with continued drops in income, more farmers will experience financial difficulties. It won't be a significant number, but will be an increase nonetheless.

The primary reason for the drop or slowdown in land values is the drop in net farm income. In August, the USDA forecasted net farm income to be down 26% for 2013-2014 and down another 36% for 2014-2015. The forecast net farm income for 2015 would be the lowest since 2006.

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Farm land values are directly related to net farm income. Iowa studies suggest that land values will move about half of what net farm income moves. In other words, a 10% drop in net farm income will produce a 5% drop in land values. This doesn't mean there is an instantaneous change, but a strong correlation exists.

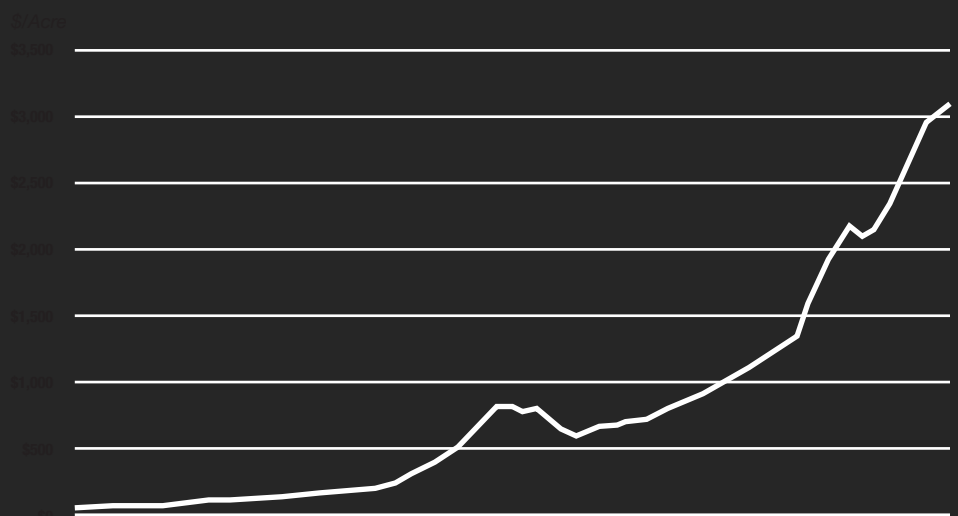
The land market and farmers reacted to a drop in net farm income. Farmers have been trying to reduce their costs through a variety of means. The biggest expense is land rent, and those with cash rents are trying to get lower rates for the coming year.

Figure 1 shows U.S. farm real estate values since 1940. The boom of the 1970s and the bust of the 1980s are clearly evident. The recent boom is also evident. What is coming in the next few years is the big unknown. Will it be like the 1980s? Will we see a slight correction before land values resume their rise? Or will we simply see the market move in a sideways manner?

The land market seems to be drifting sideways to slightly lower. The uncertainty over income and interest rates, though, has made people cautious. As a consequence, the number of sales is down and prices are softer. There is fairly strong sentiment that the land market will drop even further in the months ahead. The debate is over how large the drop will be.

The magnitude of the drop depends on the location. Areas relying heavily on the main commodities, such as corn and soybeans

Figure 1: Average U.S. farm real estate values



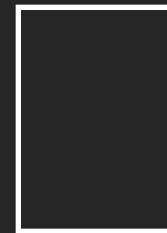
— where there has been a robust land market — will see a larger decrease.

It appears most farmers will be able to weather the storm, as the market prices find a new equilibrium. Farmers and landowners who bet on high-priced commodities rising and who aggressively expanded or borrowed heavily will face significant problems in the months ahead.

All farmers and landowners will see the impact of lower income in the months ahead. Land values will be lower but, as shown in Figure 1, the rapid increases in land values were the anomaly. During the past 100 years, land values have risen 79 times, dropped 19 times, and remained unchanged seven times.

That is an increase 73% of the time, a decrease 15%, and unchanged 7% of the time. A little

more correction in land values could be expected, but in all likelihood the return to land could assume a more normal pattern in the not-too-distant future.



Dr. Mike Duffy is a Professor Emeritus in the Department of Economics. Duffy is currently a private consultant for land values and real land investments. He has published farm operations and other aspects of rural life. While at Iowa State, Duffy was responsible for the annual land value survey and farmland ownership survey, and part of crop production estimates. He was an assistant professor and served as the Director of the Economic Impact Study and as Director of the Extension Program in Sustainable Agriculture.

Non-operating landlords

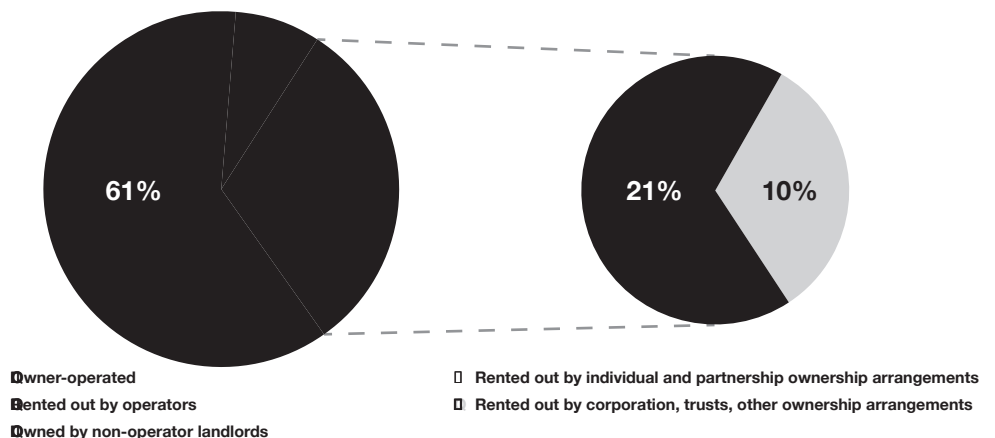
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rancher in 2014. About 6% of the acres owned in individual and partnership arrangements by non-operating landlord entities had a principal landlord that reported spending greater than 50% of their work time in farm or ranch work, but not as a farm operator.

Note: Data exclude Alaska and Hawaii.

Source: USDA, Economic Research Service using data from the 2014 Tenure Ownership and Transition of Agricultural Land (TOTAL) survey.

Acres owned by farm operators, operating landlords, and non-operating landlords, 2014

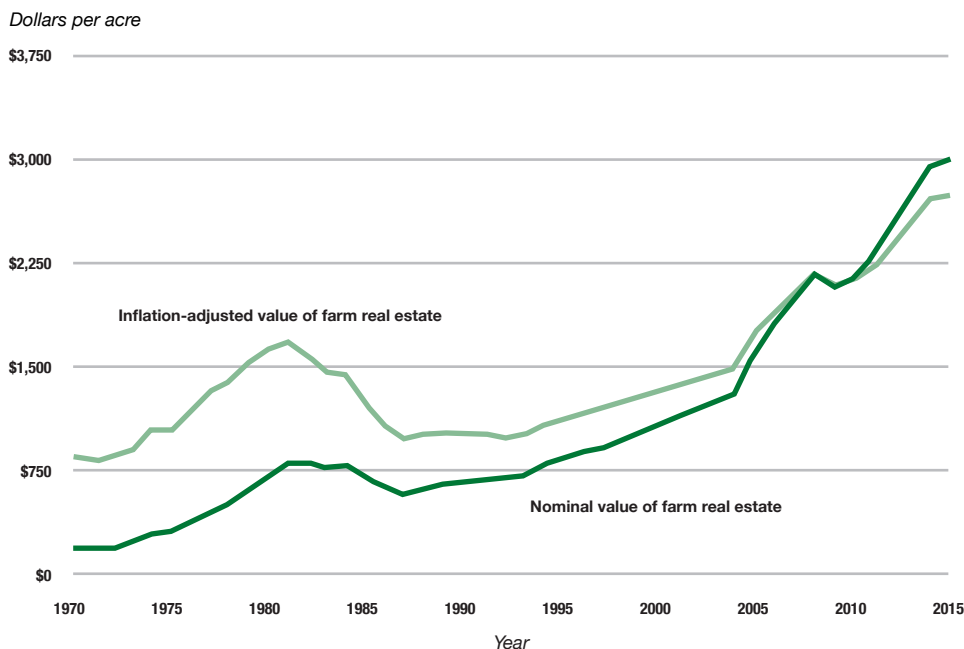


Growth in average U.S. farm real estate value slows

With a value of \$2.38 trillion, farm real estate – land and structures – accounted for 81% of the total value of U.S. farm sector assets in 2014. Because it comprises such a significant portion of the U.S. farm sector's asset base, change in the value of farm real estate is a critical barometer of the farm sector's financial performance. On average, U.S. – excluding Alaska and Hawaii – farm real estate values increased 2.4%, in nominal terms, to \$3,020 per acre during the 12 months ending June 1, 2015. Growth in average values has slowed substantially relative to the previous three year mid-year to mid-year periods, when nominal farm real estate values increased over 8% annually.

National averages mask wide regional variation. Based on nominal values, farm real estate in the Southern Plains and Pacific regions experienced the highest rates of appreciation of 6.1% and 5.8% – to average values of \$1,900 and \$4,780 per acre – respectively, during the 12 months ending June 1, 2015. In contrast, farm real estate in the Corn Belt declined 0.3% to an average value of \$6,350 per acre.

Average U.S. farm real estate value, nominal and real (inflation adjusted), 1970-2015



Note: Farm real estate includes land and buildings. Data reflect values as of June 1 of each year. Excludes Alaska and Hawaii. The GDP chain-type price index is used to convert NASS current-dollar statistics to 2009=100 equivalents (Bureau of Economic Analysis, Department of Commerce).

Source: USDA, Economic Research Service and National Agricultural Statistics Service.

The U.S.-Cuba trade relationship in perspective

Since December 2014, when the U.S. and Cuba announced the intention to restore diplomatic ties for the first time in more than half a century, the U.S. has taken steps to ease restrictions on trade, remittances, and travel to Cuba. A recent report by the Economic Research Service (ERS) of the U.S. Department of Agriculture considers the potential impact of more normal commercial ties between the two countries on bilateral agricultural trade.

Before the Cuban Revolution, U.S.-Cuba trade was quite substantial. From 1956-58, Cuba was the ninth leading destination for U.S. agricultural exports and the second leading supplier of U.S. agricultural imports. U.S. agricultural exports to Cuba were dominated by rice, lard, pork, and wheat flour. U.S. imports included cane sugar, molasses, tobacco, and coffee. Following the Cuban revolution, the U.S. imposed an extensive economic embargo on

Cuba and completely suspended trade and other commercial relations with Cuba.

In 2000, the U.S. embargo underwent a major modification under the Trade Sanctions Reform and Export Enhancement Act (TSRA). The act authorized sales of certain food products and medical supplies to a number of countries, including Cuba. As a result, the U.S. quickly regained its position as one of Cuba's leading suppliers of agricultural products. During 2012-14, U.S. agricultural exports to Cuba averaged about \$365 million a year, mainly chicken meat, corn, and soybean meal. But the TSRA did not provide for resumption of U.S. imports from Cuba, which would be a key to restoring normal economic relations.

According to the report of the ERS, a more normal trade relationship would lead to an increase in U.S. agricultural exports to Cuba through several channels. First,

U.S. exporters would be allowed to extend credit to their Cuban buyers, enhancing U.S. competitiveness. Second, the U.S. would export a broader range of agricultural products, products currently supplied by other countries. Third, to the extent that relaxation of economic restrictions on Cuba spurs economic growth there, demand for U.S. agricultural products is likely to grow, including demand for higher-value commodities such as meat and dairy products, and for commodities traded during the 2000s but not recently, such as dry milk, wheat, rice, and dried beans.

Over the long term, fostering growth in U.S.-Cuba agricultural trade hinges on building a two-way relationship that provides opportunities for trade and investment. It also hinges on whether the Cuban government pursues more open trade and investment policies to benefit from those opportunities.

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Mark Goodwin & Associates Real Estate LLC
21036 S. States Ln.
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21036 S. States Lane • Shorewood, IL 60404 • Tel: (815) 741-2226
Email: mgoodwin@bigfarms.com • Web: www.bigfarms.com

Mark Goodwin, ALC

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