For Release on March 22, 2012

For Information, contact:
Carroll Merry
262-253-6902
ispfmra@countryside-marketing.com

Illinois Farmland Values/Rents Continue Upward Spiral

(Bloomington, IL, March 22, 2012) The prices being paid for farmland across Illinois continue their upward spiral with the tops being in the $10,000 to $13,000 per acre range across the state. This is according to the 2012 Farmland Values and Lease Trends Report released today by the Illinois Society of Professional Farm Managers and Rural Appraisers at its annual Land Values Conference held here.

The top price of $13,000 per acre was for a November 2011 sale of 37.7 acres in Christian County. The property was listed as having Excellent quality land. Sales in the $10,000 per acre range were common across a number of regions in the state.

“A good part of this tremendous move in Illinois crop land values is based on increasing farm income returns, and expectations of strong income into the future,” says Don McCabe, AFM, general chairman of the Land Values Survey and Conference. McCabe, with Soy Capital Ag Services, is also licensed as a Real Estate Broker in Illinois and Indiana.

Respondents indicated that farmland values increased between 20 and 21 percent across land classes during 2011, says Gary Schnitkey, Ph.D., Department of Agriculture and Consumer Economics, University of Illinois. “Prices of excellent productivity farmland was estimated at $8,690 per acre price on January 1 and $10,460 per acre price on December 31st, an increase of 20 percent during the year. Good quality farmland price was estimated at $7,490 at the beginning of the year and $8,980 at the end of the year, an increase of 20 percent. Average farmland’s price was $6,080 per acre at the beginning of 2010 and $7,330 at the end of year, an increase of 21 percent. Fair productivity farmland’s price was $4,880 at the beginning of the year and $5,900 at the end of the year, indicating a price increase of 21 percent.”

Land price increases in 2011 were large compared to averages. Average yearly increases in land prices have average 6.7 percent across all of Illinois between 1970 and 2011. Yearly increases have averaged 12 percent from 2005 to 2011.

Rents Rising As Well

“Given the variability of land quality and regions, and the aggregation of data over many sale and rent observations, the traditional relationship of the market to price land at levels where income results in a “cap rate” of 3 percent to 5 percent continues to hold. Rents drive the rate of return in relation to land values; land prices do not trigger or cause rental returns,” McCabe explains.

According to survey results, traditional fixed cash rent leases increased for 2012 to 32 percent of all farm operating arrangements. All other types, totaling 68 percent, include a variety of crop share and variable cash rent leases, and custom farming contracts. This 68 percent majority of farm operating agreements include features where the landowner shares, in some way, in the farm’s crop production and/or price risk, and is rewarded when yields and prices are good.

Cash rents increased a great deal between 2011 and 2012, Schnitkey explains. “For excellent quality farmland, rents increased $60 per acre from $319 per acre in 2011 to $379 per acre in 2012. Increases were $60 per acre for good quality farmland, $50 per acre for average quality farmland, and $35 per acre for fair quality farmland.

Following are selected examples and overview…

1. Both Land Values and Lease Trends continue higher into 2012, and are expected to stay strong as long as crop income levels hold or increase.

2. Price and rent levels both increased steadily through 2011, and consistently among different productivity classes of land and regions of the state.

3. Land values maintain support from investment capital seeking alternatives to other financial assets. Among major issues are interest rates, U.S. and foreign sovereign debt, stock market performance, the dollar value relative to other currencies, and growth of consumer economies around the world.

4. Long leasehold interests, extended Conservation Reserve Program (CRP) contracts, deed restrictions, etc. that negatively impact ownership control penalize land prices.

5. As supplies of land tightened buyers were less concerned about one year leases, and receiving partial interests in current year crop or leases in progress, looking beyond a few months toward long term investment value.

6. The annually renewable USDA Farm Program appears to have very little effect on land values in 2011, eclipsed by other more dominant factors.

7. Current crop genetics increase yields while reducing year-to-year variability, which improves earning potential for lower classes of land.

8. Recreational tracts and transitional development land have been hardest hit because of struggling non-agricultural economies.

9. Some areas or counties carry name or reputation prestige, showing stronger prices than land with similar productivity and attributes in nearby areas or counties. However, undiscovered "pockets of prosperity" where land can be typically purchased at lower prices relative to its productivity are fewer and further between.

10. Regardless of the means of sale – public or sealed bid auction, broker listing, private transactions – excellent and good productivity tracts needed minimal marketing time, with a generally shorter period from exposure-to-market through sale to closing.

11. Not only are farmers the majority of buyers, but adjoining/nearby landowners and current tenants often lead the way.

12. Areas with higher concentrations of livestock – dairy, hogs, poultry – had generally more favorable markets for their production in 2011.

13. Pasture rents have not moved significantly over several years, and can vary widely from $5/ac to more than $60/acre depending on quality or carrying capacity, water source, and contribution to upkeep and maintenance of the land and fences.

14. Variable cash rent leases grow in popularity and pay landowners competitively higher returns in 2011 due to higher average prices and excellent soybean yields.

15. Wind farm activity, where already planned or under construction, continued to impact land values and add to total return in 2011. However changes in tax, policy, and funding have slowed the progress of many wind tower projects.

16. In some areas larger percentage increases for lower productivity land were noted, based on expectations of improving crop returns, and absolute increases on lower values resulting in larger percentage growth.

17. Continuing fixed cash rent rates generally showed a tendency to lag other lease and operating contracts as income returns and commodity markets have been in a general up trend over several successive crop years.

18. By year end 2011 price paid per productivity index (PI) point per acre was running in the upper $60s to mid $70s. One central Illinois region's data calculated excellent soils averaging $73/PI, good soils $64/PI, and average and fair soils at $60/PI.

19. In many areas of the state it was a challenging crop production year in 2011, with wide variations in conditions from too much rain at times in some locations, to very hot and dry conditions in some areas later in the summer.

20. Calhoun County peaches are seasonally very popular and exceptionally good. (Region 7 slipped in some product-placement advertising.)

21. The generally wet spring throughout the state accentuated the importance of good drainage and much drainage tile and waterway improvement work was done throughout the year. Well-drained or pattern-tiled land will sell for a premium, especially if there are well-documented and accurate maps of drainage improvements.

22. Land value for crop production continues to gain on values for development land, as cropland increases and development land declines or holds steady.

23. The number of tracts and amount of acres transacted was generally more than previous years, as higher prices pulled supply onto the market.

24. In some local instances proposals for underground gas storage, recent discovery of production volumes of oil, and continuing coal mining has sensitized the market to the value of mineral interests and rights.

25. Irrigated land returned proportionately higher income due to higher commodity prices and improved yield from irrigation.

26. Farm operators continued and expanded the trend of bringing current landlords and other absentee investors to the farmland market.

27. In 2011 there have been several notable expansions or new construction of high capacity grain rail-loading facilities, mostly destined to move Illinois grain to cattle, hog, and poultry operations out of state.

28. Some areas benefit with strong grain prices from grain market outlets on navigable rivers, rail terminals, local area end-users and specialty food product processors.

29. Another year in 2011 where corn following soybeans, rather than one or more years of corn, performed significantly better.

30. Almost every county in the state had instances of a record new high price per acre for farmland.

Copies of the complete report can be ordered from the Society at www.ispfmra.org.

(Note for Editors: Please feel free to contact any of the following for more specific information.

Don McCabe, AFM
Soy Capital Ag Services
815-936-8979
dmmcabe@soybank.com

Gary Schnitkey, Ph.D.
University of Illinois
217-244-9595
schnitke@illinois.edu

Contact information for any of the 10 regional chairs can be found by accessing the Membership Directory section on the ISPFMRA Web site at http://www.ispfmra.org/Directory2012/index.html