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ISPFMRA President's Message

Welcome! Members of the Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA) are the expert professionals in Illinois farmland — its value and its leasing and operation. Our more than 300 members statewide manage and consult on an estimated 4.2 million acres (over 18 percent) of Illinois' farmland. We annually appraise about a million acres of land, valued last year at over $2 billion.

This is the tenth year we have published our survey of Illinois farmland values and lease trends. We know from past experience that this publication contains value, and is annually sought out as one of the most authoritative sources of current and relevant information of its type regarding Illinois farmland. We are pleased to again bring this information to you.

Whether you are a real estate professional, a first-time buyer, an investor wanting to balance your portfolio with a tangible asset, an exchange trader, or just interested in adding value to your current farmland holdings, this Farmland Value and Lease Trends publication is available for you. Information on how to order your personal copy (or price-discounted multiple copies) is available on our Website at www.ispfmra.org.

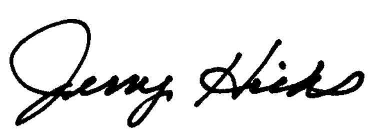
Over half of all farmland in Illinois is owned by non-farmers. This structure of farmland ownership is important to understanding the financial strength and risk-bearing ability of Illinois agriculture. It also has implications for marketing farmland, and understanding the trends in land values and farm leasing reported in this book.

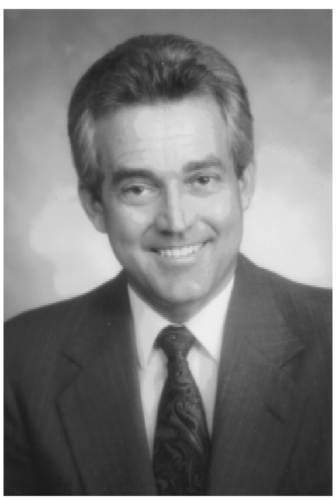
Farmland as an investment has given owners competitive long-term returns. It is a stable, tangible asset, and recognized globally and throughout history as a secure investment. Returns balance attractively with alternative financial investments, and income and capital appreciation, both important components of farmland returns, can provide investment diversity. That is there is low correlation with commercial real estate and even less correlation with financial investments. Illinois farmland has a virtual 100 percent occupancy rate.

A sincere thank you to our many Illinois Society member professionals who serve on committees, provide land value and farm lease data, and answer survey questions from their local markets, so that this unique look at Illinois farmland can be compiled for you. A special thanks also to the individuals and companies who support our projects and this publication by advertising.

This Farmland Values and Lease Trends publication is filled with important information for anyone with an interest in Illinois real estate. It is brought to you by the professionals in the business of farmland and real estate in Illinois. Thank you for your interest. Enjoy the material and stay in touch.

Best wishes to you.





Jerry Hicks, AFM
President
Illinois Society of Professional Farm Managers and Rural Appraisers

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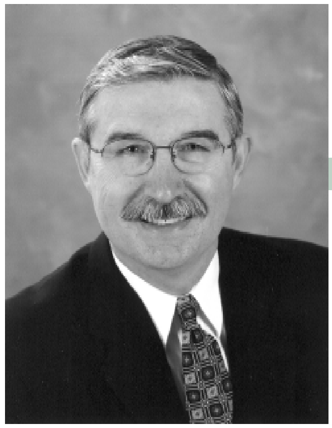

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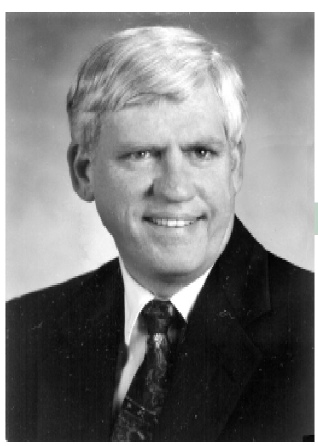

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About the Illinois Society

In 1928, sixteen men met at the University of Illinois and officially organized the first professional farm management organization in the United States. Following that meeting, members agreed that this organization would benefit from broader objectives and territory – a national organization. In 1929, the American Society of Farm Managers was founded to instill professional ideals and standards in farm management. In 1936, the organization was expanded to include rural appraisers who specialized in determining the value of farms and other rural properties.

The ISPFMRA is the largest of the 37 chapters of the American Society of Farm Managers and Rural Appraisers (ASFMRA). The Society is the premiere organization for professionals who provide management, consultation, and valuation services on rural and agricultural assets. The ASFMRA has grown to include nearly 2,500 members with membership and chapters throughout the United States, Mexico, and Canada.

The common thread that unites the National membership and individuals in the Illinois Chapter is the respect of, and service to, agriculture in rural North America. Collectively, ASFMRA members:

- manage more that 25 million acres of farm and ranch land for absentee owners, banks, and trusts;
- complete more than 175,000 appraisals a year on more than 30 million acres of land.

Profitable agricultural production requires an intimate understanding of farmland, the single most valuable input of most agricultural enterprises. Understanding the complexities of agricultural production and marketing to meet the challenges of the twenty-first century is a job for specialists. Members of the Illinois Society of Professional Farm Mangers and Rural Appraisers (ISPFMRA) are specialists who dedicate their efforts to acquiring and enriching their knowledge and skills in order to provide the highest quality agricultural management, appraisal, and consulting services.

Accreditation – The Professional Pinnacle

ISPFMRA accredited members lead today's agribusiness by meeting the complex needs of agriculture's changing environment. Our professionals offer expertise in biotechnology, environmental issues, changing technology, land, property, and business valuation, market trends, and governmental involvement and regulations. Understanding and treating the land with respect is more than our job; it's our passion. Those who have earned their professional designation proudly display a high level of competence and ethical fitness for the appraisal, consulting, and management professions.

Attaining a designation from the ASFMRA recognizes dedication to professional and personal growth. The accredited membership is a growing network of achievers. This network of professionals is called on for advice and the exchange of information. Individuals in this network are also called upon when a client needs an ethical, highly qualified professional to do the job.

AAC – Accredited Agricultural Consultant

Consulting is the fastest growing field in agriculture. The role of agricultural consultants is becoming more and more critical as agriculture enters the fast paced era of consolidation, technology, specialization, mergers, and reformation. Accredited Agricultural Consultants (AAC) trained in the delivery of their consulting expertise to the market and in the management of their consulting business have set themselves apart from the competition by earning an AAC (Accredited Agricultural Consultant) designation.

AACs provide the highest quality management consulting service to rural America. The agricultural consultant advises clients on business decisions about the current operation of, and future opportunities for, the client's enterprise.

With technology changing so rapidly, consultants provide specialized knowledge to business operators, enabling them to keep up with changes and developments needed to adapt and remain profitable.

The consultant values honesty and fair dealing in a manner that promotes the interest of his/her client, employees, and shareholders. The AAC designation ensures that service is delivered with the highest standards, integrity and quality.

AFM – Accredited Farm Manager

Management of agricultural enterprises and rural properties demands a qualified expert who understands the complexity and intricacy of today's environment. The AFM understands the need for efficient production and profitable marketing, and is focused on procedures, analysis, critical thinking, and innovation.

An AFM possesses the skills, experience, and education to provide land investment analysis and management of day-to-day operations for ag enterprises. The AFM designation is available only through the ASFMRA and is awarded to those individuals who demonstrate experience and complete a rigorous education program to enhance professional skills and knowledge of land management and production agriculture.

The AFM:

- Has specialized expertise to keep an operation profitable and sustainable
- Practices sound business to manage production inputs to improve margins
- Has an understanding of environmental issues for compliance with governmental regulations
- Has the knowledge of governmental activities that effect agriculture including taxation, regulations, legislation, and subsidies

ARA – Accredited Rural Appraiser

Appraisals of agricultural enterprises and rural properties demand qualified experts who understand the complexity and intricacy of modern agriculture and today's rural environment.

The comprehensive appraisal service you receive from an ARA is your assurance of a superior valuation for your agricultural enterprises or rural properties. While many ARAs are state-certified, the experience and education required to become an ARA are significantly more stringent than that required for state certification, which makes an ARA the expert in the valuation of rural properties.

The ARA:

- Has Expertise in the appraisal of rural and agricultural property
- Is educated and experienced in the exploration of soil, water quality and availability, crop potential and improvements to estimate value of land
- Adheres to the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP)
- Has a network of agribusiness professionals to share information and practices with

RPRA – Real Property Review Appraiser

The complexity of today's financial and legal environments demand expertise for appraisal review services. The RPRA (Real Property Review Appraiser) is uniquely educated, understands the changing face of the appraisal industry, and can ensure that an appraisal is in compliance with regulations and requirements. The RPRA's appraisal review provides a superior evaluation for all types of enterprises and properties.

The RPRA signifies the highest level of expertise in the review appraisal process. The RPRAs advanced expertise ensures accuracy for clients needing appraisal reviews of complex properties or situations. An RPRA adheres to the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) and has additional expertise exceeding state certification and licensing requirements.

The RPRA:

- Provides focus and knowledge in appraisal review
- Is educated and trained to provide an expert opinion of appraisals
- Can determine if appraisals comply with government regulations and requirements
- Networks with colleagues for assistance when unusual or special circumstances arise

A Summary Look at Illinois

by: Dale Aupperle, AFM, ARA
General Chairman, 2005 Illinois Land Values and Lease Trends

The great state of Illinois is both agriculturally and geographically diverse – offering a wide variety of crops, soil productivities, transportation, and land uses. Our Illinois Society of Professional Farm Managers and Rural Appraiser members are scattered throughout the state and are happy to bring you a detailed report on each of the ten regions in 2004. Turn to each individual region for specifics.

Wow – what a year! Illinois farmland values in general rose 20 percent last year – one of the highest average increases in our history. That increase is a result of intense demand to purchase land by people who are looking for a safe investment with low volatility and a reasonable return that is also a hedge against inflation – *(not to mention avoiding capital gains taxes).*

Region 1 (Northeast Illinois)

Pressure for tax-deferred exchange property caused an 18 percent increase in excellent quality farmland *(primarily in DeKalb and LaSalle Counties)*. 16,658 residential building permits were issued during the first half of 2004 pointing towards an increase over previous years. Local buyers are attempting to compete in this market where buyers outnumber sellers and land prices have gone over $7,000 per acre in several areas. There is a noticeable split in value between realtor-handled transactions and private treaty transactions by owner – up to 20 percent price differentials occur on tracts that are well publicized.

Region 2 (Northwest Illinois)

Land values across the board are up between 15-20 percent from a year ago. Demand for all types of farmland was driven by farmers, 1031 Tax-Deferred Exchange buyers, and local investors. The supply of excellent productivity tracts was limited throughout the year.

Region 3 (Western Illinois)

Farmland values have increased between 22 percent and 29 percent from a year earlier. Local farmers have been successful buyers as they expand their operations. Auction sales dominate with broker and private treaties making up the rest of the market. The recreational market continues to be very strong. The coal strip mines spoils have excellent hunting and great fishing.

Region 4 (North Central Illinois)

The volume of farmland for sale increased in 2004, however buyer interest was strong which led to higher overall values *(up 15-16 percent)*. Auctions and professionally negotiated private sales appeared to command high prices. Many of the private treaty sales *(by owner)* resulted in discounted prices. Large tracts of high quality land continued to bring a premium. Cash rents were generally higher for the 2004 crop year. 1031 exchange buyers had a strong influence on cash rent prices paid.

Region 5 (Eastern Illinois)

Excellent quality farmland rose 25 percent during the past year. Investors showed significant interest in the productive farmland and recreational tracts. Most of the sales in the region were conducted by private treaty with auctions gaining in popularity in some areas. Farmland buyers had high amounts of cash versus debt. Crop yields were excellent in most of the region in 2004. As a result, farmers competed actively to bid up cash rents on newly purchased land.

Region 6 (Central Illinois)

Farmland prices rose 20 percent – one of the highest average annual increases in the area's history. It follows an eight percent increase in 2003. Approximately 72 percent of the land in Macon County is absentee owned – one of the highest in the state. Net farm income was stable *(farmland values rose significantly)* resulting in a reduced rate of return. This region had a slightly larger volume of land for sale in 2004 with a majority of land changing hands through real estate professionals and by private treaty. There was noticeable volatility on the prices received at auction sales. There is a definite premium *(of 10-25 percent)* for larger tracts of land. The new buyers of farmland seem to have additional funding for drainage and grain storage facilities – contractors did a robust business.

Region 7 (West Central Illinois)

Land values varied widely in 2004 across the west central area. Five counties had sales exceeding $4,000 per acre. Sangamon and Morgan Counties had sales exceeding $5,000 per acre. Factors that contributed to the strength of the land market included excellent crop yields, low interest rates, and a significant number of tax-deferred exchange buyers.

Region 8 (Southwest Illinois)

This area of Southwest Illinois is highly influenced by the St. Louis Metropolitan area. Land owners of non-development land became more reluctant to sell in 2004. Fifty percent of the buyers were investors, 40 percent local farmers, and 10 percent were 1031 exchange buyers. Cash rents rose 5-10 percent from one-year-ago.

Region 9 (Southeast Illinois)

Land values are up 10-15 percent across the region and cash rents are stable to up 5 percent. Development of rural home sites have continued in demand remains strong for recreational tracts. Most of the farmland buyers were farmers - - there has been an absence of outside activity from investors or exchange buyers. Most of the sales were private transactions. The volume of farmland for sale was steady.

Region 10 (Southern Illinois)

Land values were observed to be up from 5-25 percent throughout the region this year. Record or near-record crop yields throughout the region have fueled strong farmland values during the last quarter of 2004. Crop share leases continue to be the predominate cropland rental method. Recreational land purchasers are increasing across the area and have pushed the CRP land higher.

In summary - Welcome to the wonderful diversity of Illinois. As an investor, you can find nearly any kind of farmland and soil for sale within our borders. Illinois has a wide-ranging agricultural economy which is one of the dominate industries in our state. In 2004, interest in owning Illinois farmland rose. Tax-free exchanges have dominated the marketplace. Many transactions were made using cash. Every area in the state reported increased land values during the past twelve months.

Please check out the individual regions if you have a detailed interest. Feel free to call any of the member of the Illinois Society if you have any questions. Visit our website at www.isfmra.org. Good luck to everyone.

Farm Property Classifications & Definitions

To standardize our data collection, the following definitions were used in developing the various categories.

• **Excellent Productivity Tract** – productive durable soils with a significant amount of those soils with productivity indexes of 133 and above; well maintained; located in desirable community with excellent access to transportation and markets.

• **Good Productivity Tract** – productive soils with a significant amount of those soils holding productivity indexes of 117 to 132; located in desirable community with good transportation and market access.

• **Average Productivity Tract** – average-to-good soils with a significant amount of those soils with productivity indexes of 100 to 116; located in a community with adequate services available; fair transportation and market access; soils may show evidence of erosion, fertility loss, improper drainage or noxious weed infestations.

• **Fair Productivity Tract** – below average-to-fair soils with a significant amount of those soils with productivity indexes below 100; located in fair community with fair-to-poor transportation and market access; topography may be adverse with serious hazards (flooding, erosion, etc.).

• **Recreational Tracts** – tracts are normally high in non-tillable acres with soils that may be subject to erosion and/or flooding. Tracts are typically purchased by nonresident owners for hunting, fishing and other recreational pursuits. Transitional Tracts – tracts that are well located and have good potential for development uses within a few years. Tracts may be used for commercial or residential uses.

Note: Productivity indexes based on Bulletin 811 are used in developing these profiles..

Region 1 - Northeast

Mark E. Akers, ARA – Chairman
1st Farm Credit Services – Sycamore, IL

Lowell E. Akers, AFM, ARA
Capital Agricultural Services – Sycamore, IL

Les Molander
1st Farm Credit Services – Rockford, IL

Charles E. Knudson, ARA, RPRA
1st Farm Credit Services – Normal, IL

Dale J. Vogl, AFM
1st Farm Credit Services – Normal, IL

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acre from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003	Ave. Cash Rent/Ac on recently negotiated leases
Excellent Productivity	$6,500	Up 18%	Up 10%	$170	0	$170
Good Productivity	$5,500	Up 34%	Up 20%	$150	0	$150
Average Productivity	$3,800	Up 15%	Up 15%	$135	0	$135
Transitional Tracts	$45,000	Up 80%	Steady			

There is continued pressure for tax-deferred ex change property. This type of demand centers on the higher quality farms and is most evident in the northeastern portion of our region. The largest increase in value among high quality farms was found on our DeKalb and LaSalle County benchmark farms. These farms are located near the Chicago Collar Counties and are most effected by pressure from tax-deferred exchange buyers.

The primary economic factor effecting agricultural properties in this region has been the demand for residential land in the Chicago Collar Counties and the subsequent demand for tax-deferred (reinvestment) land purchases with the proceeds from the development land sales. In 2001 there were 28,002 residential building permits issued in the Chicago Collar Counties. In 2002 and 2003 there were slightly over 30,000 permits issued in each year. In the first half of 2004 there have been 16,658 permits issued indicating that we will see more than 30,000 permits again this year.

An estimate that the average building permit represents approximately .25 acre. This results in a demand for residential land of approximately 7500 acres. These types of tracts sell at an estimated average of $45,000 per acre, resulting in approximately $337,500,000 that could be in the market for reinvestment. If 50 percent of this is invested in farmland, or $168,750,000, this represents a demand for 37,500 acres at $4500 per acre.

This is an estimate used as an example only. You can plug in different numbers and you will still see that Chicago area development is driving the land market in Region 1 and in most of Illinois.

Excellent Productivity Tracts

These sales from DeKalb and LaSalle Counties reflect the market for excellent productivity farms throughout Region 1. There are similar sales in all of the counties. Excellent farms are the primary focus of tax-deferred buyers who are looking to invest proceeds from transitional property sales. The tax deferred buyers are competing with local buyers to purchase these tracts. The purchasers have remained split between local farmer buyers and tax deferred buyers. The demand for this type of property is very high.

There is a definite split in sale prices between private treaty transactions and those that are listed with real estate professionals. In many cases the sellers of Excellent Productivity farms that have sold through private treaty transactions have given away 20 percent of the potential value when compared to farms sold with Realtors or well publicized auctions.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
DeKalb	Feb	77.66	96	143	$6,825
LaSalle	Feb	75.00	99	137	$6,300
LaSalle	Jun	63.02	99	139	$4,400
LaSalle	Sep	79.93	99	143	$6,700
DeKalb	Mar	117.27	98	143	$6,300

Good Productivity Tracts

There is a very strong market for Good Productivity Tracts. This class of farm is receiving attention from tax deferred buyers who are having trouble finding the Excellent Productivity farms they have traditionally sought. This creates competition with local farmers, who have been the traditional buyers of these farms.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
DeKalb	Feb	75.51	98	120	$6,000
McHenry	Aug	216.99	92	127	$6,000
Boone	Jun	110.00	97	131	$4,500
LaSalle	Apr	165.00	97	129	$5,700
Kankakee	Aug	76.57	97	128	$5,472

Average Productivity Tracts

Average Quality farms are showing a very strong value increase. The demand for these farms is coming from a combination of tax-deferred and local buyers who are unwilling to pay the higher price being paid for the high quality farms. Additional demand for these farms come from recreational buyers who are interested in some of these tracts with woods and non-cropland. These recreational buyers are able receive income from farmland to offset the expense of the recreational land.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
LaSalle	Feb	238.00	92	114	$3,100
Kankakee	Apr	77.21	96	112	$3,700
Kankakee	Jun	73.26	98	109	$3,800
Grundy	Oct	76.20	95	110	$6,625
McHenry	Mar	159.91	98	115	$6,125

Transitional Tracts

The Transitional property sales reflected here are sales of farmland that is transitioning to residential development. The upper end sales are properties with zoning and utilities in place that will develop in the near future. At the lower end of the range are properties that are purchased in hopes of future development. The sales at the lower end of the range may be held as farmland for up to five years.

This market continues to be strong. Although we have seen an increase in interest rates overall, home mortgage rates have continued to be low, encouraging home buyers to purchase and build new homes. This is the fuel that drives the developers to purchase land and continue the rapid housing development in the northeastern part of Illinois.

County	Sale Date	Total Acres	Total Price/Ac
Will	Apr	82.28	$55,000
McHenry	Feb	3710	$54,034
McHenry	Aug	76.00	$60,526
Kendall	Jun	73.59	$16,001
Kane	Oct	80.00	$22,500

Of Special Interest

Over the last year sales of excellent quality farms in DeKalb County and Northern LaSalle County have exceeded $7,000 per acre in many cases. There has been a trend by some investors and tax-deferred buyers to look beyond this traditional reinvestment area to farms in down state Illinois, and in some cases to Iowa, for land to purchase.

With the short supply of excellent quality farms available on the market, many investors have are showing a willingness to purchase good and average quality farms. This has created upward price pressure on these farms, as tax-deferred exchange buyers compete in a market that has previously been primarily local farmers.

Region 2 - Northwest

R. Edward Kiefer, AFM, ARA – Chairman
Hertz Farm Management, Inc. – Geneseo, IL

Keith Zoeller, AFM
Zoeller Ag Services, Inc. – Rock Falls, IL

Demand for excellent producing farmland in 2004 resulted in prices rising 15 percent to as high as 30 percent in certain communities in Northwest Illinois. Demand was driven by farmers, 1031 tax-deferred exchange buyers, and local investors. The supply of Excellent productivity tracts was limited as was the situation in 2003.

Land Value and Cash Rent Trends Overall Summary

Farm Classification	*Total Value/Acre*	*% Change in $/Acre from 2003*	*Ave. Cash Rent Per Acre*
Excellent Productivity	$3,800 / $5,000	Up 15 / 20%	$180 / $210
Good Productivity	$3,300 / $3,800	Up 15 / 20%	$160 / $180
Average Productivity	$2,600 / $3,300	Up 15 / 20%	$140 / $160
Fair Productivity	$2,000 - $2,600	Up 15 / 20%	$110 / $140

Cash Rent Trends

Cash rents were stable to higher for 2004. Region 2 had excellent corn and soybean yields on all types of productivity tracts. The lower productivity tracts produced high yields because we experienced ideal weather during the growing season. Cash rent leases continue to grow in popularity with owners and operators. Hunting leases continue to grow as public demand for deer, turkey, and waterfowl hunting remains popular in Region 2.

Excellent Productivity Tracts

Purchasing activity for Excellent and Good Productivity tracts was strong with prices higher than 2003. Farmers and non-farming investors aggressively bid on land in these two classes. We saw more 1031 tax-deferred exchange buyers in Region 2 in 2004 than 2003, as the 1031 buyers expanded their search for quality land outside the collar counties surrounding the Chicago area. Excellent crop yields in 2004, low interest rates, commodity subsidies, and a lack of high yield alternative investments contributed to the increasing interest in investing in farmland.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Ogle	Feb	73.40	99	135	$3,800
Lee	May	205.60	97	137	$4,150
Henry	Mar	200.00	100	138	$4,000
Henry	Jan	140.00	100	137	$3,850
Henry	Feb	117.00	98	141	$3,700
Henry	Dec	80.00	100	136	$4,100
Bureau	Sept	316.51	97	137	$5,033

Good Productivity Tracts

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Henry	June	120.00	97	129	$3,450
Bureau	Mar	80.00	98	136	$3,500
Ogle	Feb	51.50	99	130	$3,831
Whiteside	July	38.50	99	126	$3,818
Whiteside	July	131.00	96	118	$3,500
Henry	June	225.70	93	121	$3,850
Henry	June	77.80	98	133	$3,856
Henry	Mar	208.72	96	132	$3,458
Henry	Mar	76.23	96	130	$3,195

Average Productivity Tracts

Average & Fair Productivity tracts sold at higher prices in 2004 than 2003. Yields on these tracts were also excellent in 2004, with weather during the growing season considered ideal. Farmers and investors viewed the annual cash return on these tracts especially attractive with the lower prices per acre, versus higher prices paid per acre for the excellent & good productivity tracts.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Whiteside	May	142.50	86	110	$1,950

Recreation Tracts

Recreation tracts, tracts with marketable timber, tracts with low value timber and brush, and tracts with creeks and streams were in demand. These tracts are generally purchased for hunting, hiking, bird watching, hobbies, weekend activities, and home construction. The demand by the public for these tracts exceeded the supply on the market in Region 2. Recreation tracts within a two-hour drive of the Chicago area generally command a location premium in Region 2.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Whiteside	May	53.20	53	112	$3,195
Henry	Dec	283.56	42	133	$2,830

Herb Meyer, ARA – Chairman
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Norm Bjorling, AFM
Soy Capital Ag Services – Peoria, IL

Charles Cooley, AFM
Cooley II – Knoxville, IL

Region 3 - Western

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Farmers National Company, Dahinda, IL

Robert Young, MAI, ARA
R.A. Young and Associates – Monmouth, IL

Farmland values are strong in the fall of 2004 compared to a year earlier. The increase appears to be far outpacing the increases during 2003. Productive farmland values had increased in 2003 values by about 15 percent over 2002.

Auction buyers in the fall of 2004 have been farmers wanting to expand their operations. The 1031 investors looking to defer taxes on profits from income producing investments have not been buying in this region at the auctions. There were several investors who bought thousands of acres of farmland in this region through brokers during the early part of 2004. Investors and farmers are also looking for a fairly safe investment that will give them a return greater than that available from the time deposits or CDs.

The auctions lead the market with broker and private sales making up the rest of the market. Many of the private sales are based upon the prior year's market values and thus appear to demonstrate an undertow in the market prices. Some of the local farmers continue to express frustration with the inability to buy land at auctions during the fall of 2004.

The recreational market continues to be very strong. This market is influencing the prices of the Fair and Average Productivity categories as well. There are farms in the Fair and Average classifications that sell for less than some recreational land. This shift in the land market dynamics is caused by several factors.
• There is a strong residential market and many people just want some space to live.
• The residential demand is flush with disposable cash.
• Many of the same people are part of the recreational demand in the land market.
• West Central Illinois has a claim to BIG deer and turkey hunting. The coal strip mine spoils have goose and duck hunting along with great fishing.

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/AC	% Change in $/Acre from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003
Excellent Productivity	$4,800	Up 22%	Steady	$175 - $225	Up 8%
Good Productivity	$4,000	Up 29%	Steady	$160 - $190	Up 12%
Average Productivity	$3,000	Up 10%	Steady	$120 - $150	Up 11%
Fair Productivity			Steady	$80 - $100	Up 5%
Recreational Land	$2,200	Up 23%	Steady		
Transitional Tracts			Steady		
River Bottoms	$3,200	Up 5%	Steady	$120 - $200	

Excellent Productivity Tracts

These properties get most of the attention with the highest prices in the market. New highs have been set during the fall of 2004. The late fall sales increased the rate of increase in the upward market noted in the spring and early fall sales. The 2003 range was quoted as $3,100 to $3,600 per acre. The fall of 2004 range is $4,200 to $5,250. This indicates an increase of approximately 37 percent in about one and one-half years. The December 2004 sales look to be showing increasing strength.

Some of the extreme upper end sales have occurred in Fulton, Warren, Knox, and Henderson Counties. These sales involved neighboring landowners getting into a bidding war at a public auction.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Warren	Dec	160.00	98	142	$4,500
Warren	Dec	31.28	93	137	$4,200
Knox	Nov	85.99	98	140	$4,650
Warren	Nov	167.61	96	143	$4,600
Fulton	Nov	80.00	94	141	$5,050
Hancock	Dec	84.00	100	128	$5,250
Hancock	Dec	84.00	100	128	$5,050

Good Productivity Tracts

These properties typically have good soils but will have some blemishes in waterways, poor drainage and rolling topographies. These farms show at least as strong an increase in prices as the Excellent class of farms. These properties typically have better return on investment because the small differences in cash rents are less than the difference in land prices. The 2003 range in prices was quoted as $2,400 to $3,200 per acre. The fall of 2004 range is $3,250 to $4,600 per acre. The average for the sales used in this report is $4,000.

Average Productivity Tracts

The sale prices for the properties in this category range from $1,750 to $4,500 per acre. There are two sales in this category that went over $4,000 this fall. This is up from the 2003 typical range in prices of $1,600 to $2,400 per acre. These properties typically are more susceptible to adverse weather conditions. This is reflected in the sale prices. These farms are lighter colored soils with level-to-rolling topographies. These properties are less attractive to the investors and typically sell to local farmers. The farms in this category are usually in the 60 percent to 100 percent tillable range.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Hancock	Dec	151.00	78	114	$1,725
Hancock	Dec	102.00	78	112	$1,675
Hancock	Sept	160.00	59	110	$1,800
McDonough	Oct	50.00	80	110	$3,800
McDonough	Aug	81.50	93	115	$3,600
McDonough	Oct	153.70	98	122	$4,100
Knox	Dec	170.00	94	113	$3,225
Fulton	Dec	69.00	99	113	$4,500
Knox	Nov	80.00	93	113	$3,600

Fair Productivity Tracts

This category of sales typically is rolling land but have more tillable land than the recreational buyers prefer. There were sales of farms that should fit this definition during 2004. They are included in the Recreational land class. The 2003 range has been $1,400 to $2,100 with higher sales in the grid. These properties many times have a significant amount of the tillable land enrolled in the Conservation Reserve Program (CRP), Conservation Reserve Enhancement Program (CREP) or have creek bottoms that are susceptible to overflow. The buyers of these properties are local farmers and investors with recreational interest and still looking for some return on investment.

Recreation Tracts

The demand for these properties continues to be strong and the prices are reflecting this strong demand. The return on investment is not a motivating factor in these properties. The 2003 typical range for these farms was $1,200 to $2,000 per acre. The typical 2004 range was

$1,600 to $2,500. There are several sales above $2,250 when the properties include good goose hunting habitat. This is a very wide range but the quality of hunting is reflected in the range. These properties are typically bought by non-farmers and paid for with nonfarm income. The higher priced land in this category tends to have at least enough tillable land to provide food plots and seldom include more than 50 percent tillable farms.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Hancock	Dec	94.00			$2,250
Hancock	Aug	47.30	51		$1,600
McDonough	Oct	55.70	25		$2,650
McDonough	Nov	81.00	15		$1,800
Warren	Oct	36.00	14	115	$2,500
Fulton	Nov	78.00	27	89	$2,243
Schuyler	Aug	604.34	39	115	$1,990

River Bottom Tracts

This market has limited sales with most buyers being local farmers. There are numerous factors that influence these markets besides the productivity of the soils. Some of these additional factors include drainage, elevation, and quality of the levees that protect the area and the quality of the management of the drainage district. The range for this land in 2003 was from $2,300 to $3,700 per acre. The 2004 range was $2,100 to $3,500.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Pike	Jan	301.00	96	121	$3,500
Pike	Jan	86.00	99	120	$3,500
Pike	Feb	32.00	61	117	$3,125
Pike	Feb	555.50	97	109	$2,965
Pike	Mar	160.00	99	121	$3,380
Peoria	Jul	158.00	75	117	$2,061
Fulton	Apr	244.00	89	129	$2,254
Fulton	Sep	80.00	98	118	$3,187

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Van Bitner, ARA
Bitner Real Estate Service, Mason City, IL

Region 4 - North Central

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1st Farm Credit Services – Normal, IL

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Lee Realty Group, Inc. – Bloomington, IL

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Randy S. McKee Appraisal Service – Normal, IL

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Farmland values showed strength in Region 4 throughout 2004. Buyers continued to include a significant portion of 1031 tax-deferred exchange individuals as well as local farmers and investors. The volume of farmland for sale increased. However, buyer interest was strong, which led to higher values. Auctions and professionally negotiated private sales both appeared to command high prices. Many of the private sales are less-than-arms-length transactions where a broker is not involved, and this has led to discounted prices for some sales.

In some areas, local farmers are beginning to become frustrated with the inability to purchase farmland. Without outside investor participation, some auctions produced less than expected results in November, 2004, but sellers were typically able to negotiate acceptable values for the land after the sale. Large tracts of high quality farmland continue to bring a premium in this region of the state. Overall, the region experienced an average appreciation in farmland value of 11 percent to 16 percent during 2004 dependent upon location, size and soil quality.

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acre from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003	Ave. Cash Rent/Ac on recently negotiated leases
Excellent Productivity	$4,600	Up 15% ($600)	Up 5%	$160	Up 3%	$175
Good Productivity	$3,950	Up 16% ($550)	Up 7%	$140	Up 3%	$145
Average Productivity	$3,100	Up 11% ($300)	Up 7%	$110	Up 3%	$120
Transitional Tracts	$5,500	Up 15% ($825)	Up 5%			

Cash rents in the North-Central Region were generally higher as landowners, farm managers and farm operators negotiated leases for the 2004 crop year. The cash rent market continues to be strong as many farmers compete for land through rental rates rather than ownership at this time. Strong influences on the cash rent levels include 1031 buyers purchasing farmland and looking for a competitive cash return, strong commodity prices in 2004, near record yields on many farms in 2004 for both corn and soybeans, and continued government farm program payment support. As landowners and farmers discuss higher interest rate and input costs along with lower commodity prices, it will be interesting to see if this trend continues after 2005. We find cash rents to be flat to six percent higher as we head into 2005.

Excellent Productivity Tracts

Excellent Productivity farms continue to lead the way to higher sale prices. As 2004 moved along an occasional $5,000 per acre sale would occur in this region for Excellent Productivity land, but were not a typical sale price. The highest values occurred mainly in McLean and Tazewell Counties. Most Excellent Productivity farmland sold between $4,200 and $4,700 per acre in 2004. Auction sales remained strong for this land class.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Woodford	Feb	319.4	97%	140	$4,300
McLean	Mar	213.83	99%	140	$4,750
Livingston	Sept	240	96%	135	$4,900
Tazewell	Nov	78.8	99%	142	$4,835
Tazewell	Dec	162	96%	142	$4,600

Good Productivity Tracts

A large percentage of the region falls into the Good Productivity category. The land in this class typically responds very well to high management, but may have more slope, less topsoil or fewer tillable acres. As a result, a wide range of values exist for this category. Most Good Productivity farmland sold between $3,500 and $4,400 per acre in 2004. Top end sales for this category were achieved at an auction in December in Livingston County where local farmers and 1031 exchange buyers pushed values as high as $4,850 per acre. This land class also experienced success with privately negotiated sales in 2004.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
McLean	Feb	160.00	98%	133	$3,800
Marshall	Mar	60.20	98%	131	$3,548
Woodford	April	236.70	98%	128	$4,000
Woodford	July	120.00	97%	136	$4,010
Livingston	Dec	78.36	99%	128	$4,750

Average Productivity Tracts

Average Productivity farmland values improved throughout 2004. The majority of these soils are found in the northeastern and southwestern portions of Region 4. As a result, location plays a significant factor in the value of the sales for this land class. Livingston County is located closer to the Chicago area influence of the 1031 tax-deferred exchange buyers. Values are reaching over $3,000 per acre in this area. Mason and Tazewell Counties also contain significant acres of farmland in this soil classification. The non-irrigated, sandier soils with this range of productivity in that part of the region can still be purchased for under $3,000 per acre.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Tazewell	Jan	157.00	97%	104	$3,125
Livingston	Mar	120.00	89%	109	$2,172
Mason	April	180.00	91%	117	$2,500
Livingston	April	156.50	94%	116	$2,650
Livingston	Sept	423.78	97%	117	$3,291

Recreation Tracts

Our committee selected five sales for the recreational category that show a wide spread in use and value. The tract sizes range from 27 to 145.6 acres. These tracts consist mainly of timber and pasture, ranging from $1,185 to $6,942 per acre. Although the demand and market price for recreational tracts appears to be increasing, the number of sales are limited.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Mason	Feb	27.00			$1,185
Mason	Aug	72.17			$1,300
Marshall	Jan	145.60	20%	113	$1,900
Woodford	Sept	80.00	61%	115	$4,100
Woodford	April	29.53			$6,942

Transitional Tracts

Transitional farmland continues to bring higher values in this region. This is particularly true in the East Peoria/ Morton/Washington area of Tazewell County and the Bloomington/Normal area of McLean County. In the past we primarily reported sales very near urban expansion. The 2005 sales are all a distance of more than one mile from development. The most interesting sale was an auction at Towanda, Illinois, three miles northeast of Normal where 145.149 acres sold for $6,700 per acre.

County	Sale Date	Total Acres	Total Price/Ac
Tazewell	Jan	91.00	$ 9,000
Tazewell	Sept	33.20	$10,000
Tazewell	Sept	64.80	$7,000
McLean	Nov	145.15	$6,700
McLean	Nov	16.54	$ 6,900

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Region 5 - Eastern

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Investors showed significant interest in Excellent to Average Productivity land in this region in 2004, as well as in recreation tracts. Record high land prices were reached in these categories. Resales of individual parcels from the beginning of the year to the end of the year showed significant gains in land values, most in the 25 percent range. Most sales in the region were conducted by private treaty, although auctions played a more significant part this year in the marketing of properties in the area. The influence of higher land prices for the most productive tracts was seen in the higher prices paid for the lesser quality tracts. There were very few sales of farms in the Fair Productivity category in the eastern region other than recreation or transitional tracts. Thus, this category does not have importance in Region 5. A significant amount of activity in the land market was a result of investors looking for replacement properties in order to complete 1031 exchanges. The relatively high amounts of cash that these purchasers had to reinvest drove prices to

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acre from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003	Ave. Cash Rent/Ac on recently negotiated leases
Excellent Productivity	$4,800	Up 25%	Steady	$175	Up 3%	$185
Good Productivity	$3,600	Up 9%	Steady	$165	Up 10%	$170
Average Productivity	$2,500	Up 11%	Steady	$135	Up 8%	$140
Recreational Land	$1,800	Up 20%	Up 10%			
Transitional Tracts	$7,500+	Up 36%	Steady			

all-time highs in many areas in the region. Numerous investors sought large tracts of Excellent Productivity quality and regular boundaries, and those types of tracts brought a premium in the marketplace. Many of those purchasers looked to renegotiate leases to cash rental arrangements, rather than work with historically traditional crop share leases in this region. Crop yields were excellent in most of the region in 2004. Partly as a result of the last couple of years of good income, farmers competitively bid up cash rents on new leasing situations.

Excellent Productivity Tracts

Sales prices for these types of properties were generally in the $4,200 to $5,000 per acre price range, although some scattered sales were outside of that range. Sales in Champaign and parts of Douglas County were generally toward the middle and upper end of that range, while sales recorded in Coles, Edgar, Ford, and Vermilion Counties were generally in the middle to lower end of that range. Lesser amounts of excellent-quality land can be found in Ford and Iroquois Counties. At this time the market trend appears to be stable-to-stronger in all of this region. A larger than usual supply of Excellent Productivity land buyers, with a high demand for replacement properties for tax-deferred exchanges, moved most sales dramatically upward this year. In some instances, select parcels were competitively bid up to record high prices during the last half of the year. Land in this category is most popular with tax-deferred exchange buyers who will pay premiums in order to acquire land of this quality. However, farmers are still active buyers in more isolated cases. Because investors continue to look at the amount and non-variability of their income streams on investments, most sought cash rent leases for their properties purchased.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Champaign	Sept	76.45	96.8	144	$5,000
Champaign	Oct	315.50	98.6	143	$5,261
Champaign	Dec	80.00	98.6	144	$5,200
Douglas	Nov	93.07	96.6	142	$4,750
Douglas	Dec	157.00	98.9	144	$4,800
Douglas	Oct	400.00	95.7	141	$4,500
Coles	Nov	93.30	99.0	155	$4,375
Edgar	Oct	158.10	98.3	144	$4,000
Vermilion	Aug	555.00	97.3	143	$4,900
Vermilion	Oct	120.00	98.3	141	$4,167
Ford	July	101.45	98.0	144	$5,244

Good Productivity Tracts

Properties rated as Good Productivity generally sold in the $3,300 to $4,400 per acre price range, although this quality of land sales showed a greater diversity of prices paid than the Excellent category. Investors find these types of properties attractive because of the anticipation for higher cash return and perhaps, the larger number of acres that can be acquired with investment dollars as compared to Excellent Productivity properties. Many investors and tax-deferred exchange buyers looked at this productivity level because of the more limited supply of farms in the Excellent Productivity category in 2004. Sales continued to increase throughout the year, similar to the Excellent quality category.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Champaign	Sept	80.00	98.8	129	$4,475
Champaign	April	100.00	98.0	133	$3,475
Douglas	Oct	35.89	96.9	133	$4,000
Douglas	July	80.00	98.4	130	$3,450
Douglas	July	92.50	79.7	121	$3,100
Coles	Oct	62.30	95.0	135	$4,125
Coles	Au	80.00	98.0	130	$3,400
Edgar	Mar	73.10	100.0	135	$3,300
Vermilion	Dec	120.00	95.8	126	$3,157
Vermilion	Mar	136.66	99.5	125	$2,822
Ford	Feb	95.48	96.0	126	$2,750
Iroquois	Nov	125.00	96.8	121	$3,300
Iroquois	July	68.67	99.0	121	$3,412

Average Productivity Tracts

Sales prices for farms rated as Average Productivity generally ranged from $2,500 to $3,200 per acre. Most of these sales occurred in the outlying areas of the region. A major group of buyers for these properties were local farmers and investors who were willing to accept lower productivity classes of land in order to increase the sizes of their operations. Because of the accelerating prices of higher quality land parcels, this group of buyers remained active in this category. As the value of top-quality properties continues to accelerate, the activity in all of the lesser-quality land categories continues to increase as well.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Edgar	April	160.00	71.6	113	$1,625
Coles	Jan	123.50	78.4	100	$2,015
Coles	Feb	53.70	95.0	105	$2,500
Iroquois	Jan	179.00	97.7	101	$2,307
Iroquois	June	31.60	94.9	108	$2,500

Recreation Tracts

Recreation properties (woodland, ponds, creeks/rivers rolling topography, etc.) continued to have strong demand in 2004. The supply of this type of property is low in this region. Generally, these tracts are found in the more remote areas, especially near rivers or creeks. It is difficult to accurately analyze the market for these types of properties. Prices can vary greatly, depending on the motivations and knowledge of both buyers and sellers. Often a buyer's financial position, coupled with emotional influences rather than strictly financial reasons, created the varied prices shown in the marketplace. Disposable income of investors have allowed them to purchase more properties for hunting and recreational use. As a result, demand for these properties has continued to remain strong, with select properties reaching new highs in the market. Because this type of property is not plentiful in this region, the competition for available properties is strong. Prices have generally ranged from a minimum of $1,200 per acre to sales of over $2,000 per acre, with prices seen in the higher ranges for unique properties and special situations. When factors such as location, scenic features, utilities available and good access come into play, these prices can increase dramatically.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Douglas	May	16.58	59.7	139	$1,206
Douglas	May	18.75			$2,667
Coles	Feb	40	8	105	$1,700
Coles	April	84.47			$1,988
Vermilion	April	40	47.5		$3,000

Transitional Tracts

Demand and prices for Transitional land continued to increase in 2004. The term “transitional land” is used to describe land that is located in an area that could have development potential in the next five to fifteen years. Most of this land category is located in the outlying areas of major cities, such as Champaign-Urbana, or in a narrow radius around some of the cities in the region. This type of land will sell for a premium over the general farmland market. Prices ranged well above the $5,200 per acre price level, which is the top of the range of the excellent-quality purely agricultural land sales in the region. Sales prices varied within Region 5 depending on demand, location, availability of utilities, and use, as well as the purchaser's anticipated appreciation.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Douglas	May	22.16	100.00	144	$7,502
Douglas	May	30.02	97.60	144	$7,894
Coles	Mar	9.50		N/A	$9,442

Other Tracts

Two properties that sold in 2004 for special uses included the Iron Horse Golf Course in Tuscola (Douglas County) and the Heartland Pork Industries near Kansas in Edgar County. The Iron Horse Golf Course was a 160-acre property with club house that sold in December for $1,890,000. Heartland Pork Enterprises sold in May for $18,861,445. It consisted of 756.71 highly improved acres for a complete farrow-to-finish hog facility.

Of Special Interest

Demand was significantly higher for land of all qualities in 2004. Record highs were reached in several categories, but especially for excellent-quality tracts and recreation parcels. Competition for leased ground remains very high among operators, and many actively seek land for their landowners in order to increase their own farming operations.

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Heartland Ag Group, LTD – Forsyth, IL

Brent Bidner, AFM
Hertz Farm Management – Monticello, IL

Region 6 - Central

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Soy Capital Ag Services – Decatur, IL

Duane Stock, AFM
DR Stock, Inc. – Taylorville, IL

Rob Nord
Clinton, IL

John Hartman
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Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acres from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Ac	% Change from 2003
Excellent	$4,200-$4,500	Up 20%	Stable	180.00	Up 3%
Good	$3,200-$3,500	Up 26%	Stable	166.00	Up 7%
Average	$2,000-$2,600	Up 17%	Stable	120.00	
Recreational	$1,000-$2,000	Down 26%	Stable		
Transitional	$7,500-$12,000	Up 7%	Stable		

Region 6, the Central Illinois region contains seven counties. The majority of the soils in this region are primarily from two soil associations. One consisting of Drummer, Flanagan and Catlin and the other consisting of Tama, Ipava and Sable. Title to the land in this area of the state is very tightly held and when it does become available there is an excellent demand. In general, the soil in this area of the state is well managed with subsurface drainage, soil conservation practices and good well balanced fertility programs. There are very strong markets in the area due to good access to ADM, Staley, Cargill, Illinois Cereal Mills and other handlers. These markets help to provide improved prices for this part of Central Illinois. This, in turn, is reflected in higher income potential and higher land values. The table shown above summarizes the land values and cash rents in the central region of Illinois. The values for all categories of farmland were up during 2004. Cash rents paid by farmers also appear to be stable-to-up. Although we entered the year with very strong corn and bean prices, commodity prices dropped a great deal as we moved through harvest. The area did, however, report record high soybean and corn production. This year, as in the past few years, the number of sales in the region was very high and numbered in the hundreds.

Excellent Productivity Tracts

Fifteen sales are listed in the Excellent Productivity category. The sale prices ranged from $3,700.00 per acre

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to $4,800.00 per acre with an average price paid of $4,163.00 per acre. This compares to an average price in the Excellent category of $3,463.00 per acre in 2003, which converts to an increase of 20.2 percent during the last year. Sales selected were all over 95 percent tillable and the productivity indexes ranged from 139 to 144. According to University of Illinois Circular 811 the acreage size of the tracts reported ranged from 49 acres to 936.86 acres. These were representative tracts which would typically sell in the seven county area.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Piatt	Jan	172.70	98.0	143	$3,700
Macon	Jan	120.00	99.0	144	$3,700
Logan	Mar	110.00	96.0	142	$3,600
Macon	Oct	367.00	97.2	143	$4,800
Christian	April	80.00	96.0	143	$3,700
Macon	Aug	240.00	97.9	142	$4,150
DeWitt	Sept	155.90	98.1	139	$4,003
DeWitt	Oct	189.80	97.0	139	$4,688
Macon	Jul	320.00	97.5	140	$4,586
DeWitt	Dec	49.00	99.0	142	$4,183
DeWitt	Dec	139.50	95.0	142	$4,244
Piatt	April	936.86	94.0	141	$4,372
Moultrie	Dec	91.00	102.0	144	$4,599
Moultrie	Mar	235.00	98.0	142	$4,219
Christian	May	80.00	99.0	141	$3,900

Good Productivity Tracts

Six sales were selected as representative of the sales in the Good Productivity category. Prices ranged from $2,986.00 per acre to $3,625.00 per acre. The size of these sales selected range from 62.1 acres to 160.0 acres. The percent tillable on the selected sales ranged from 95 percent to 98 percent. The sales in the Good Productivity category tend to have somewhat more sloping land with some erosion and drainage issues and a smaller percentage of tillable land than found in general in the excellent category. The soil types found in this category do, however, generally respond very well to good management, but require more intense management to produce optimum yields. The average price reflected in this category was $3,340.00 per acre as compared to $2,604.00 per acre in 2003. This would indicate over a 28.3 percent increase in the past year.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Shelby	Dec	160.00	94.60	127	$3,200
Christian	Mar	62.10	98.00	134	$3,494
Macon	April	130.00	95.00	129	$3,335
Macon	May	69.67	95.00	135	$2,986
Shelby	Jun	111.20	98.00	129	$3,400
Piatt	Jun	80.00	98.00	135	$3,200

Average Productivity Soils

Three sales were selected to reflect the market for the average productivity tracts in area six. The average price was $2,300.00 per acre while the range in prices was $2,050.00 to $2,600.00 per acre. The productivity indexes ranged from 104 to 119 per tillable acre. The average price for this category was $1,972.00 in 2003. This would indicate a 16.6 percent increase. It should be kept in mind, however, that very few sales were sited in 2003 or 2004 and that no big conclusions could be drawn. This is, however, an indication of a large increase in the value for this category.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Shelby	Apr	80.00	99.00	119	$2,250
Shelby	Jun	80.00	91.00	115	$2,050
Moultrie	Sep	125.00	42.00	104	$2,600

Recreational Category

Our committee is reporting four sales in the Recreational category, ranging from 32.5 to 88 acres in size. The prices ranged from $1,035.00 to $2,073.00 per acre, or an average of $1,528.00 per acre. This would be slightly below the $2,060.00 average reported last year. Although the demand and market price for recreational tracts would appear to be stable to increasing, and the committee feels that the trend is up, the data for 2003 and 2004 is not sufficient to permit reliable measurement. The sales chosen would actually indicate a decrease in value.

County	Sale Date	Total Acres	Total Price/Ac
Christian	Jul	41.00	$2,073
Christian	Aug	86.00	$1,620
Christian	Nov	32.50	$1,385
Macon	Apr	54.15	$1,034

Transitional Category

Our committee is citing four sales in the transitional category. In this area of the state, as well as in most areas, there is land being farmed near cities, towns or villages where it is highest and best use is changing to development for other purposes such as: residential, industrial, or commercial. Transitional tracts can often be very productive soils with a high percentage tillable. This is not generally a factor in the sale price. The sales cited ranged from $6,751.00 per acre to $12,381.00 per acre. Although the sales in this category have been relatively stable for the past few years, there does appear to be a slight movement upward. Our sales would indicate a 6.7 percent increase from 2003.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Christian	Jul	18.70	64.00	119	$8,009
Macon	Jun	141.00	50.00	130	$6,751
Macon	Nov	105.00	76.00	138	$12,381
Macon	Apr	240.00	98.00	143	$8,500

Summary

Region 6 (with Decatur at the center) contains seven counties with excellent soils, a large agribusiness support network, and a high level of interest from nonagricultural sectors. Here are some observations on the year we just completed.

• **Increasing Land Values** – Our report details land values increases which are in the 20 percent range - one of the highest annual increases in history for our area. (That follows an 8 percent increase in 2003.)

• **Development Activity** – The general Decatur and surrounding area is not in a major growth pattern. Very little residential, commercial or industrial development activity occurred in 2004. As a result, there was not local pressure on the farmland market.

• **Type of Buyers** – A majority of the money purchasing Region 6 farmland comes from outside our area. Many of these investors are completing 1031 tax-deferred exchanges as well as simply investing in farmland as an alternative investment. Local farmers are frustrated that the higher land values have prevented them from buying additional acreage. Note that approximately 72 percent of the land in Macon County is absentee owned (non-farmer) – one of the highest in the state.

• **Returns to Farmland** – The 2004 net farm income from farming was stable. The escalating farmland prices therefore reduced the percentage return to the new landowners. The purchasers are willing to accept a 3-4 percent annual return which is still better than many of their alternatives.

• **1031 Exchanges** – Although it's our committee's opinion that the market for farmland is still affected in a positive manner by lower interest rates and the return on investment for farmland is compared to other options, the driving force in the market is from investors attempting to complete their 1031 exchanges.

• **Increasing Demand for Good Category** – The market would seem to indicate that buyers are beginning to realize the difference in the potential rate of return for Good quality land as compared to the Excellent category. This report would indicate that values for Good quality land have increased over 28.3 percent, lessening the gap between the Good and Excellent categories. (The 2003 report reflected only a 2 percent increase in the Good category.)

• **Type of Sales** – With the majority of potential land buyers needing flexibility to complete trades, local sellers recognize that need and negotiated privately versus scheduling public auctions. There was a noticeable volatility in auction sales at some higher highs were reported as well as no sales or lower prices than expected.

• **Volumes of Sales** – There appears to be a slightly larger volume of land for sale in the market during this past year as potential investors expressed their desires to acquire additional land in Region 6. The demand caused some landowners to look ahead anticipating changes in their operation. The higher prices encouraged them to put it on the market now versus a later date. The land market shook loose the land.

• **Market Timing** – Most tracts of land were not exposed to the market very long before finding a buyer, which became a common complaint from those looking to purchase land in Region 6. The 1031 exchanges are limited to a short 45-day period to identify replacement tracts. This process causes quick purchases of farmland.

• **Size of Tracts** – 1031 exchange buyers are typically looking for blocks of land over $1 million in value and higher. (Representing 40- to 80-acre parcels that they have sold in the path of progress.) In Region 6 there has been a noticeable increase in the size of the tracts of land and offered for sale. Two large blocks consisting of 1,150 acres (Macon County) and 2,300 acres (Moultrie County) have both sold in the past year. The typical tract sold in the past was 80 to 120 acres. Although difficult to measure, there is a definite premium in the market for larger tracts. This premium can often be 10 percent to 25 percent above smaller tracts.

• **Increased Capital Improvements** – The new buyers of farmland seem to have additional funding for drainage and grain storage facilities. Those contractors did a robust business in 2004.

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Region 7 - West Central

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Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acre from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003	Ave. Cash Rent/Ac on recently negotiated leases
Excellent Productivity	$4000 - $4500	20%	Steady	185	Steady	185
Good Productivity	$3500 - $4000	20%	Steady	175	Steady	175
Average Productivity	$2500 - $3000	20%	Up 5%	160	Steady	160
Fair Productivity	$2500	5%	Up 5%	140	Steady	140
Recreational Land	$2000	5%	Up 10%			
Transitional Tracts	$7000+	Even	Steady			

Region 7 is a very diverse area of farmland in Illinois. There are significant changes in soils from north to south by virtue of ancient glacier movements and from east to west due, in large part, to the influences of the Illinois, Mississippi and Sangamon Rivers.

The broad, mostly level prairies are primarily Tama, Ipava and Sables soils north of the Moraine line and Virden, Herrick and Harrison soils south of that line.

The rolling areas formed under upland hardwood timber are mostly Fayette, Rozetta and Keomah soils. Adjacent to the rivers and streams are bottomlands frequently including Sawmill, Wakeland and Beaucoup soils. The most steep, usually timbered hillsides are frequently Hickory and Fishhook soils.

There are several areas of sand outcroppings, particularly in northern Menard and Cass Counties adjacent to the Sangamon River.

Calhoun County, which lies farthest southwest of the Region 7 counties, is located between the Illinois and Mississippi Rivers. These rivers influence weather patterns sufficiently to allow peach, plum and apricot orchards.

Sale prices varied widely in 2004 in the West Central area. Sangamon, Macoupin, Montgomery and Morgan Counties saw significant appreciation in values. These counties, plus Jersey County, all have one or more sales exceeding $4,000 per acre for agricultural usage. Sangamon and Morgan Counties saw sales exceed $5,000 per acre. Land for sale for development in these counties would frequently sell at double the farmland value and more.

Overall in the 10-county, West Central Region, land prices were steady-to-higher and even extremely higher in 2004. The demand for Class 1 land remained extremely strong as did the demand for Recreational use lands. Factors that contributed to the strength of the market included:

- Extremely good crop yields.
- Low interest rates.
- A significant number of tax-deferred exchange buyers.
- Significant interest in purchase of recreational use properties, particularly the areas with whitetail deer populations and those with turkey populations.

Values from auctions and private sales were strong. In most cases, demand is greater than supply.

Excellent Productivity

This land, generally described as flat, black and square, is in great demand. Particularly in Sangamon, Morgan, Montgomery, Macoupin and Jersey Counties

Many persons seeking tax-deferred exchanges wanted land of this quality and bid aggressively for it.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Greene	Oct	40.00	99	139	$3,750
Macoupin	Jan	156.00	99	138	$3,700
Macoupin	July	169.00	96	138	$3,650
Montgomery	Oct	304.00	97	135	$3,948
Montgomery	Oct	120.00	97	134	$4,000
Morgan	Jan	92.00	99	140	$3,576
Morgan	Jan	83.00	99	142	$3,739
Sangamon	Mar	120.00	100	135	$4,050
Sangamon	Mar	320.00	100	135	$4,350
Sangamon	June	300.00	99	133	$4,152

Good Productivity

Properties in this category generally sold at $400-$600 less than the Class I farms. Generally speaking, this class of land will sell between $2,500 and $3,200 per acre. This class usually has one or more hazards. Those hazards may include: lesser productive soils, unusual shape, varying topography, lack of road frontage, ditches or ponds, cut by roads or railroads or other public utilities, or neighborhood history. Since the demand is greater than the availability of Class I land, more buyers seem willing to look at and negotiate purchases of lesser classes of farmland.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Calhoun	April	179.00	90	128	$2,856
Cass	Jan	350.00	99	137	$2,972
Greene	April	366.00	97	132	$2,918
Jersey	May	70.00	100	133	$3,200
Macoupin	Jan	330.00	97	140	$3,421
Macoupin	Aug	180.00	80	94	$2,573
Menard	Mar	121.00	98	129	$3,272
Menard	April	103.00	98	106	$2,500
Montgomery	Feb	305.00	98	127	$3,409
Montgomery	Nov	155.00	95	124	$3,000
Morgan	Feb	120.00	99	136	$3,000
Sangamon	April	101.00	97	140	$3,874
Sangamon	June	172.00	99	137	$3,043
Scott	April	103.00	96	136	$2,949
Scott	Feb	458.00	94	112	$2,640

Average Productivity

This classification of farmland included significant variation of farms across the region. Most of the sales of Average Productivity varied in sale prices from a low of about $1,000 per acre to as much as $2,500 per acre. Higher prices generally are nearer to metropolitan centers.

Recreational Property

There is a significant demand for this type land across the entire area. By and large, the higher prices are paid for lands nearer the larger cities. Some competition by the 'Equine Set', particularly near the larger cities, namely Springfield and Jacksonville, also influenced this market.

Values become particularly attractive to investors when consideration is given to CRP or CREP programs offered by the USDA, but not limiting recreational uses. This combination often times creates markets as high as $1500-$1800 per acre.

To good managers, returns of perhaps $120-$150 per acre from Federal Programs can be achieved plus sale of hunting rights at rates in the area of $500-$1,000 per hunter per week.

Special Use Properties

Calhoun County represents one of the unusual counties in this area. Several farms with permanent plantings sold in the $5,000 to $5,500 per acre range. In other areas, there are beginning to be small acreages devoted to small fruits, vegetables and vineyards.

Livestock facilities are becoming fewer, but those that meet a niche market do thrive and often times grow.

Prairie Farms Dairy at Carlinville in Macoupin County pulls raw milk from a broad area to meet an ever-increasing demand. Slaughter facilities at Beardstown attract area hogs.

Rents

A significant amount of farmland in Region 7 is owned by persons who neither live on nor farm their land. Therefore, there are a substantial number of farms leased to tenant-operators.

Most of the leases are one of three types, those being crop share, crop share with supplemental cash rent and cash rents.

Crop share is as it sounds—owner and operator share both income and expenses, taking equal risk of production. In several west central counties, a supplemental cash rent of from $15 per acre to $35 per acre is added to the tenant operator's share to equalize income.

Cash rents have stayed strong, primarily because all risk is shifted from owner to operator. Competition between aggressive farm operators has led to rents in the area of $1.10 per Production Index point average to a high of $1.25 per P.I.

Examples would be:

Ipava Soil - P.I. of 160 x $1.10 = $175 per acre
Fayette Soil - P.I. of 130 x $1.10 = $143 per acre

Ipava Soil - P.I. of 160 x $1.25 = $200 per acre
Fayette Soil - P.I. of 130 x $1.25 = $162 per acre

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Region 8 - Southwest

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acres from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003
Good Productivity	$5,000-$6,000	Up 10%	Down 10%	$120 -150	Up 10%
Average Productivity	$2,700-$4,000	Up 10%	Down 10%	$90 -100	Up 5%
Fair Productivity	$2,100-$2,600	Up 10%	Down 10%	$70 - 80	Up 7%
Recreational Land	$1,500-$3000	Up 7%	Down 20%	$0 - 50	steady
Transitional Tracts	$5,500-$7,500	Up 15%			

Mortgage interest rates reached their lows during the summer of 2003. Since that time the cost of borrowing has risen slowly but steadily and appears to be poised to continue that trend into the near future. Landowners of nondevelopment land became more reluctant to sell in 2004. They appear to think that if they sell now they will miss out on future increases in years to come. Using the number of transaction; 50 percent of the buyers were investors, 40 percent were local farmers and 10 percent were buyers doing 1031 exchanges. Most of the large acreage sales of over 160 acres, were to buyers using 1031 exchanges. Many times, recreational land will have a negative income, as the result of paying to plant the cropland to food plots.

Average and Good Productivity Tracts

Our market no longer distinguishes a difference between Average (Class C) and Good (Class B) soils. In 2004, there were no sales of the "Good" land along Hwy. 4 in Madison and St. Clair Counties. The western half of Clinton County had the most sales activities, and public auctions are the marketing method for the majority of sales in the area. The first buyer was an investor, the next four farmers and the last two buyers investors, with the last sale being a 1031 purchase. This year the sales of Good Mississippi Bottom-land were long term tenants buying from their landlords at below market values.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
St. Clair	July	96.81	68%	126	$4,131
Bond	Sept	91.60	100%	115	$2,811
Bond	May	40.00	93%	115	$2,700
Bond	Jan	50.00	72%	112	$2,400
Clinton	Mar	70.01	100%	120	$3,999
Clinton	April	95.60	98%	125	$3,974
Clinton	May	50.00	96%	125	$4,600
Randolph	Feb	46.70	94%	108	$2,654
Randolph	Nov	167.00	79%	106	$2,640

Fair Productivity Tract

The first sale is creek bottom land that is subjected to occasional spring and late fall flooding. Its access was a 20 foot wide road 3/4 miles long and it was bought by a local farmer. The second sale is in the southeast corner of Madison County near the Clinton county line. It is a mix of upland and creek bottom land with wooded creek bottom. Most of the sales that would be classified as Fair will have non-tillable land, i.e. wooded or pasture. Fair land with water available and near towns will then be valued as rural residential land.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Madison	Mar	152.20	76%	115	$2,126
Madison	April	101.00	80%	110	$2,970

Recreation Tracts

We saw limited sales of recreational tracts has the result of unwilling sellers. The Bond County sale is upland and the buyer placed the cropland in CRP. The Randolph County sale is all wood and rolling upland bought by an adjoining neighbor as a buffer to his recreation retreat. The third sale sold at public auction and is all in the floodplain of Silver Creek west of Lebanon. It is grass and brush covered with a small oxbow and offers some duck and deer hunting. The two Madison County sales are six miles to the north of the St. Clair sale and are also in the Silver Creek flood plain. The 53-acre sale has an electric pump for flooding a 15-acre pond and it had one blind. The 48-acre tract adjoins the 53 acres and is diked so that the entire tract can be flooded for duck hunting, it had no pump. The same buyer bought the two tracts at public auction.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Bond	July	50.00	66%	100	$1,700
Randolph	April	19.00			$2,645
St. Clair	Oct	56.30			$1,596
Madison	April	53.00	90%	110	$3,207
Madison	April	48.00			$1,770

Transitional Tracts

The 34-acre tract was bought at the same auction as the two Madison County recreational sales. It is rolling pasture land with 7 acres of wooded flood plain. The 141.67 acres sold at auction and is one mile south of Highland. It had poor access for development purposes. The buyer had arranged for better access through an adjoining tract prior to the sale.

The 68 acres was bought through private treaty by the adjoining neighbor. The Clinton County sale was at auction and the property adjoins the north side of the town of Trenton, population 2,610. The two adjoining 40-acre tracts to the north with 50-foot access strips sold for $4,500 to $6,600 per acre. The 21-acre sale is on the northwest side of Waterloo, population 7,615, and will be single family housing. The 49-acre tract is on the west side of Waterloo and will be the site of a new school. The 119.6 acres is between O'Fallon and Fairview Heights and it will be developed for single-family housing.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Madison	April	34.00	80%	105	$7,058
Madison	Sept	141.67	75%	110	$6,300
St. Clair	Dec	68.00	95%	125	$7,352
Clinton	April	40.00	100%	110	$12,400
Monroe	May	21.10	!00%	112	$19,981
Monroe	June	49.57	100%	115	$16,000
St. Clair	July	119.60	85%	125	$23,000

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Region 9 - Southeast

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	*Total Value/Acre*	*% Change in $/Acres from 2003*	*Change in rate of land turnover (up, steady, down) and %*	*Ave. Cash Rent Per Acre*	*% Change from 2003*	*Ave. Cash Rent/Ac on recently negotiated leases*
Good Productivity	$3,400	Up 12%	Steady	$140	Up 5%	$135
Average Productivity	$2,700	Up 10%	Steady	$115	Up 5%	$120
Fair Productivity	$1,700	Up 10%	Steady	$ 90	Up 5%	$ 95
Recreational Land	$1,700	Up 12%	Up 5%			
Transitional Tracts	$6,000	None	Down 10%			

Sales activity in 2004 was less in the northwest part of Region 9, but increased in the remaining counties. Cash rents are becoming more common in Region 9 and rates are up around 5 percent for the 2004 year. Current rates range from $1.00 to $1.10 of the productivity index of the property. Productivity indexes typically have less influence on value for the lower classes of cropland. Buyers in this market tend to give more weight to the production history of the land and since many tracts are mixed land, field shape becomes important.

Good Productivity Tracts

Most of these tracts are in the Loess soils along the Wabash River or small areas of Shiloh and Ebbert soils in the prairie uplands. There are few sales of Good Productivity tracts for this area as most soils are below 115 PI. Sales prices for these tracts ranged from approximately $22.00 to $28.00 per Productivity Index point in 2004.

County	Sale Date	Total Acre	% Tillable	P / I on Tillable Ac	Total Price/Ac
Effingham	Dec	88.40	100%	121	$2,829
Edwards	Nov	40.00	100%	130	$3,610
Wabash	Jan	102.65	99%	130	$2,900
Wayne	Sep	40.00	95%	120	$2,000
Clark	May	286.00	98%	125	$3,322

Average Productivity Tracts

Average Productivity farms make up the largest number of sales in Region 9. These farms are typically open tracts of relatively level soils developed from prairie or timber vegetation. The value of a unit of productivity varies from $16.00 in Wayne County to a high of $30.00 in Jasper County.

When sold, larger land tracts are typically separated from any farmstead and sold by publicly-advertised auctions or sealed bids. Pricing varies depending on the financial strength and demand of neighboring landowners. Farm operators, faced with high cash rents and offered low-interest loans, regard buying land as a better choice than renting. Share rents, once the norm, are being replaced with cash rents that place greater risk on the farm operator.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Clark	May	189.80	95%	115	$2,345
Cumberland	Feb	38.00	96%	110	$2,325
Clay	Aug	80.00	100%	110	$1,500
Richland	Jun	83.00	89%	110	$2,210
Fayette	Jan	84.00	98%	110	$2,500
Marion	Oct	95.00	97%	90	$2,251

Fair Productivity Tracts

Many of these farms tend to be found in the southern part of the region; however, all counties have areas of fair productivity land. Expanding farmers and investors have tended to shy away from this type of farm due to the high risk of drought or erosion. In addition to having lower productivity, these farms typically have wooded ravines and are only partially tillable. The resulting irregular and smaller fields with brush borders are not desirable for use by large farm equipment. These tracts are attractive to buyers who want to move to the country and operate a hobby farm. Values may be strongly influenced if a desirable building site in located on the property. The value of a unit of productivity varies from $20.00 to $26.00.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Fayette	Apr	74.00	90%	85	$1,750
Marion	May	27.30	70%	85	$1,750
Effingham	Mar	59.00	57%	70	$ 2,000
Richland	May	177.00	99%	95	$ 2,264
Marion	Apr	30.20	84%	80	$ 1,589

Recreational Tracts

Demand for recreational land has been strong in this area. Many buyers are hunters and prefer a mixture of crop and woodland. Surrounding land use can also influence the value of these tracts.

Government programs, such as the CRP and WRP, have provided a source of income from small fields and bottom woodland that might be unusable to farmers. Bottomland prices have been strengthened as a result of these payments. Wildlife habitat is essential to the top values. Multiple owners, making size a less important factor of value, often share tracts. Often buyers are not farmers and tend not to be local; this is one class of land that typically sells through brokers rather than directly by the owner.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Clark	May	40.00			$1,500
Fayette	Oct	20.00			$1,100
Fayette	Oct	80.00			$1,075
Clark	Jan	35.00	34%	105	$1,528
Clay	Dec	234.64	56%	95	$1,750

Transitional Tracts

Sales activity for Transitional land was somewhat less in 2004. Public water availability has increased in rural areas of the past few years. Demand for rural residential sites has increased in areas were public water is available. Buyers typically look for 5- to 10-acre tracts and recent sales have ranged from $4,000 to $10,000 per acre. Location and the topography of the land are the major factors that influence value.

Developers tend to purchase land as it becomes available and the development of the site may not begin for several years. Location near a growing community and the availability of good utilities are major influences in Transitional land values. Developers of residential sites now tend to favor wooded or rolling land were small lakes may be developed.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Effingham	May	21.10	85%	110	$7,139
Effingham	Jan	119.50	61%	110	$4,184
Fayette	Feb	120.00	98%	115	$10,000

Of Special Interest

Many tracts in this market are sold to settle estates. Most sellers will divide building sites from the cropland as land buyers favor unimproved properties. Corn and soybeans are the major crops in this area. Hog production is still common in this area. The number of small producers is decreasing with most of the production concentrated in larger livestock facilities.

Effingham is the largest city in Region 9 and a center for employment opportunities. A recent plant closing has increased the unemployment rate to around 8 percent for Effingham County, but little effect has been seen in the real estate market. There is a new ethanol plant that will soon be completed in the Robinson area.

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Region 10 - Southern

Land Value and Cash Rent Trends
Overall Summary

Farm Classification	Total Value/Acre	% Change in $/Acre from 2003	Change in rate of land turnover (up, steady, down) and %	Ave. Cash Rent Per Acre	% Change from 2003
Good Productivity	$3,100	Up 25%	Steady to down	$120- $150	Up 10%
Average Productivity	$1,464	Up 5%	Steady	$70-$90	Flat
Fair Productivity	$1,190	Up 9%	Down	$50-$65	Flat
Recreational Land	$1,412	Up 22%	Steady		

Observed land values have increased for all levels of productivity throughout the region during the year. The noted exception is for average productivity farms from the stronger farming and sales "pockets" which is most likely attributable to increases in the number of sales in those areas and an increase in the perception of the size of those "pockets". Record or near record crop yields through the region during the past year has lead to strong sales values during the last quarter of 2004.

Crop share leases continue to be the predominant cropland rental method. We are not aware of an increase in the number of farms being cash rented nor newly negotiated cash rentals through the region.

Recreational land purchases are increasing across the area and are believed to have contributed to at least a portion of the increase in values for fair quality tracts as well as increases in values and occurrences in sales of CRP land.

Good Productivity Tracts

The sales of this type of farms are predominantly by private treaty. Most of this quality of land is located in Northern and Eastern White County and Northern Gallatin and Saline Counties. This quality of land rarely sells and sales are primarily due to deaths or retirements. The majority of the buyers of this quality of land are local farmers purchasing for expansions, but there are a few investor purchases though none observed during this year. In 2003, the average values were in the range of $2,500 per acre. In 2004 the average values were in the range of $3,100 which is approximately an increase of 25 percent from 2003 observed values. Due to the low volume of sales activity, this is likely a uptrend over more than just the past year. There were no known sales in this land category for 1031 exchanges.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Saline	Dec	40.00	99	147	$3,340
Gallatin	April	19.70	98	145	$3,046
Gallatin	April	20.70	94	139	$2,900
Gallatin	July	60.00	100	131	$3,190

Average Productivity Tracts

A variety of sales methods are used for this type of farm in the area. This is by far the most common quality of farms found in the Southern Region. The majority of the buyers of these farms are area farmers purchasing land to expand their current farming operations. The sellers are mostly estates and their beneficiaries and retiring farmers. This quality of farm sells in a wide range from $1,319 to $2,650 per acre, but tended to group into two separate ranges of $1,319 to $1,674 and $1,850 to $2,650 per acre. Farms selling in the $1,319 to $1,674 per acre range are those most representative for this quality in the Southern Region. The simple average of the most representative sampling of 12 sales of this quality is $1,464 per acre which is up 5 percent from an average of $1,400 per acre for the sampling from a year ago. Sales in the $1,850 to $2,650 per acre range are from stronger farming and sales "pockets" which are scattered through the Southern Region. The simple average of a sampling of 13 sales which are the most representative of this group is $2,216 per acre which is down from $2,500 per acre a year ago. This is not considered to be due to weakness in the market but rather is due to a larger number of sales in those pockets and to a degree due to a widening in the perception of those areas. The most representative group sold at fairly consistent values per productivity index (PI). In the 13 sales of that group, values per PI ranged from $13.37 to $16.89 with a simple average of $15.12. Below is a sampling of sales from the most representative group discussed.

The three largest sales in acreage of this quality of land were 1031 exchanges, two were investor purchases and the third was by farmer from central Indiana who plans to operate the farm himself. Overall these three sales fit within prevailing market values though they were toward the upper end of the sales range.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Pulaski	Mar	40.00	91	105	$1,500
Saline	Jan	107.50	98	104	$1,674
White	April	38.40	99	110	$1,510
Franklin	May	577.00	78	104	$1,319
Hamilton	Oct	33.00	99	105	$1,400

Fair Productivity Tracts

The Fair Productivity farms sell primarily by private treaty. Most buyers are local farmers who are expanding their farming operations while the sellers are mostly retired farmers and estates. These farms typically have sloping topography and weak soil types. They have typically had a lower percentage of tillable land than do the good and average productivity farms in the area. The fair productivity sales indicate values per PI ranging from $12.04 to 14.71 with an average $13.62. The average price of the above 6 sales is $1,190 per acre compared to an average of $1,084 per acre for the 2003 study. This represents an increase of 9 percent from the 2003 study.

County	Sale Date	Total Acres	% Tillable	P / I on Tillable Ac	Total Price/Ac
Saline	Jan	45.00	100	99	$1,450
Gallatin	Feb	80.00	100	92	$1,250
Franklin	Jan	80.00	96	94	$1,188
Hamilton	May	100.00	76	96	$1,060
Franklin	Oct	40.00	88	95	$1,000

Recreation Tracts

Many of the recreational tracts sell through realtors. The primary recreational use for these properties is for deer hunting. Many of the buyers are from larger area towns and from larger urban areas in the Midwest. In past years, these farms were purchased by farmers for agricultural purposes. Agriculturally, these properties are low quality open land (cropland, pasture, other open land). The average value per acre of the above 4 sales is $1,412 per acre as compared to the $1,157 per acre average from the 2003 study.

County	Sale Date	Total Acres	% Tillable Ac	P / I on Tillable Ac	Total Price/Ac
Johnson	Mar	280.00	49		$1,250
Hamilton	Mar	140.00	44		$1,300
Jackson	April	35.00	43		$1,500
Jackson	April	40.00	28		$1,600

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The Farmland Market in 2004: Results of a Land Characteristics Survey

by Gary Schnitkey, Ph.D.

The Illinois Society of Professional Farm Managers and Rural Appraisers conducts an annual survey in which it asks knowledgeable individuals to describe aspects of the farmland market. The goal when conducting the survey is to gain a better understanding of the factors impacting the farmland market. This year the survey focused on 1) characteristics of sellers of farmland, 2) characteristics of buyers of farmland, 3) reasons why farmland prices increased in 2004, 4) price premiums for large size tracts, and 3) projections for 2005. The following sections report results.

Sellers of Farmland

Survey respondents were asked to divide sellers of farmland into six categories: active farmers, retired farmers, estate sales, institutions, individual investors, and others. Estate sales accounted for 48 percent of the sales and were, by far, the largest category of sellers. Estate sales were followed by farmers, with 21 percent of those farmers being retired and 12 percent being active farmers. Individual investors accounted for 13 percent of the sellers, followed by institutions (5 percent) and others (1 percent).

Survey respondents were asked to identify reasons why farmland was sold. The major reason for selling farmland was to settle estates, accounting for 44 percent of the farmland sales. "Receiving a good price for farmland" was the next highest reason with 34 percent of the sales. Remaining reasons were need for cash (7 percent), close-out undivided interest (6 percent), re-orient portfolio (6 percent), and forced liquidation (2 percent). Other reasons accounted for 1 percent of the sales. Overall, most sales occurred to free up funds for other uses and were not the result of financial stress.

Most sellers did not expect to replace sold farmland with farmland in another area. Only 29 percent of sellers were expected to buy farmland in some other area. Overall, most sellers can be characterized into two categories: 1) estates sales and 2) individuals who are selling farmland to use funds from the sale for other uses.

Methods used for selling farmland included private treaty (50 percent of sales), public auction (33 percent), multi-parcel auction (10 percent), and sealed bid (7 percent). Individuals facilitating sales included real estate brokers (42 percent of sales), auctioneers (34 percent), lawyers (12 percent), bankers (4 percent), and others (8 percent).

Buyers of Farmland

Survey respondents were asked to classify buyers into categories. Farmers accounted for 43 percent of the purchasers, with 35 percent being local farmers and 8 percent being relocating farmers. Individual investors who would not farm the land were the next largest group. Non-local investors accounted for 31 percent of the buyers and local investors accounted for 15 percent. Individuals who were purchasing farmland for recreational reasons accounted for 9 percent of the purchasers. Institutions represent 1 percent of purchasers. Overall, most buyers were individuals, accounting for close to 99 percent of farmland buyers.

Survey respondents indicated that 48 percent of the buyers used 1031 tax deferred exchange funds to buy farmland. Chicago area 1031 exchange buyers predominated across all regions across the state, accounting for 52 percent of 1031 buyers (see Figure 4). Following Chicago, location of 1031 buyers were the local area (25 percent of purchases), St. Louis (9 percent), other Illinois areas (7 percent), and outside Illinois (7 percent).

Cash rent leases were the most common lease arrangement used by buyers (78 percent of the leases). Share rent leases accounted for 16 percent of the leases followed by custom farming arrangements (5 percent of the leases). Survey respondents indicated that buyers desired roughly an equal split between current returns and capital appreciation. On average, buyers desired a 4.4 percent yearly current returns and 5.4 percent yearly capital gain. These desired returns are above the average historical returns from farmland.

Overall, buyers of farmland were financially sound. Respondents indicated that 48 percent of buyers required debt financing, meaning that 52 percent had sufficient equity to purchase all of the farmland. Of the buyers using debt financing, respondents indicated that 50 percent obtained funds from Farm Credit Services, 37 percent from banks, 11 percent from banks, and 1 percent from other sources.

Factors Contributing to Farmland Price Increases

Farmland prices increased dramatically during 2004. To understand why prices increased, survey respondents were asked to choose the three most important factors for farmland price increases among seven factors. Responses were quantified on a ten point scale. A score of 10 means that this factor was ranked as the most important factor by all respondents. A score of 0 means that this factor was not ranked as the top three reasons by any respondent. A large number of 1031 buyers received the highest score of 7.1, indicating that respondents believed this factor was the most important factor contributing to farmland price increases. A limited supply of farmland had a score of 5.3 and was the factor receiving the second highest score. Taken together, these two factors indicate that survey respondents believe that demand created by 1031 buyers coupled with a limited supply of farmland were the most important force causing farmland price increases.

Factors receiving lower scores were low interest rates (3.0), large number of non-1031 buyers (2.0), high corn and soybean prices (1.0), and government support programs (.5). During 2004, returns to farmland were at record high levels. One could reasonably posit that high agricultural returns would positively impact prices. Respondents, however, downplayed these factors, as indicated by the low scores for high corn and soybean prices and government programs. Respondents believe that 1031 buyers have had more of an impact on farmland prices than have recent agricultural returns.

Survey respondents were asked to indicate “How much have 1031 exchanges impacted farmland prices?” in dollars per acre. The average response was $854 per acre. There was some range in indicated responses: 25 percent of the respondents believed that the impact was less than $500 per acre while another 25 percent indicates that the impact was greater than $1,000 per acre. Overall, respondents believed that 1031 exchanges have had large impacts on farmland prices.

Price Premiums for Large Size Tracts

There is reason to believe that large size tracts may have a premium over smaller tracts. Often, 1031 exchange buyers have a large amount of cash that they wish to place in a limited number of properties. Therefore, these buyers have a desire for larger-sized tracts.

Survey respondents were asked “how much more (or less) would you expect 640 acres of bare farmland to sell compared to 80 acres". The average of all respondents was $230 per acre. A considerable range in responses existed: 25 percent of respondents indicated that the premium was less than $15 per acre while 25 percent indicated that it was more than $500 per acre. Nine percent of the respondents indicated that the premium was negative.

Expectations for 2005

Survey respondents were asked to indicate whether they expected farmland prices to increase during 2005. Overall, respondents were bullish on farmland prices during 2005. Eighty-six percent of survey respondents believed that farmland prices will increase during 2005, with 35 percent of the respondent believing that prices would increase by over 6 percent. A minority of respondents believe that farmland prices will decrease, with 11 percent believing that the decrease will be between 0 and 5 percent, 2 percent believing the decrease will be between 6 and 10 percent, and 1 percent believing the decrease will be greater than 10 percent.

Respondents where asked what they expected to happen to the quantity of farmland sold in 2005 as compared to 2004. Just under half (47 percent) believed that the volume of farmland sold will remain the same in 2005. Many believed that there would be slight changes in volume, with 31 percent stating that volume will increase and 18 percent stating it will decrease. Only 4 percent of the respondents believe that large changes in volume will occur, with this 4 percent evenly divided between those that believe it will increase and those that believe it will decrease.

Summary

Results from this survey paint a picture of a robust farmland market. Roughly half of the buyers of farmland are using funds from 1031 exchanges and are financing purchases mainly with equity capital. Survey respondents indicated that these buyers are the most important factor contributing to farmland price increases. These buyers compete for a relatively fixed supply of farmland. This supply is put on the market as estates are settled or farmers retire, indicating that there are not likely to be large changes in the supply of farmland overtime.

Overall, survey respondents believed that the farmland market will increase in 2005. This is a reasonable forecast as the forces leading to a large number of 1031 exchange buyers – development around Chicago and other metropolitan areas – will not likely abate in 2005. If development would ever slow, a prospect that most individuals are not forecasting at this point, growth in farmland prices could slow or become negative.

Buyers of farmland appear to desire high returns from farmland. Survey respondents indicated that buyers desire a total return around 9 percent, well above the average return to farmland. These expectations may not be met in the future. Moderation in farmland market may occur if buyers of farmland look to other investments to obtain higher returns.

Even given these influences, the farmland market appears to be robust for the next several years. Exchange buyers are likely to exist and supply of farmland will be limited. Interest rates are likely to rise, but will still be at historically low levels

Incomes and Trends in Illinois Farmland Leasing

by Gary Schnitkey, Ph.D.

The Illinois Society of Professional Farm Managers and Rural Appraisers conducts an annual survey concerning farmland leasing in Illinois. From the survey, average incomes from alternative lease types were calculated. These incomes, along with cash rents and custom farming payment terms, are reported in the next section. The second section contains results detailing changes in leasing in Illinois.

Average incomes, cash rents, and custom farming payment terms

Survey respondents were asked to estimate average incomes landlords received from alternative leases in 2004. Average incomes equaled gross revenue less all expenses, including a deduction for property tax. Alternative leases are:

1. share rent leases – landlord and farmer share in crop revenues and crop expenses,
2. cash rent leases – farmer pay the landlord a fee for the farmland. The farmer receives all crop revenue and pays all crop expenses.
3. custom farming arrangements – landlord pays the farmer for performing field operations. The landlord receives all crop revenue and pays all crop expenses.

Table 1. Per Acre Farm Incomes that Landlords Receive for Different Lease Types and Land Qualities, 2004

	Land Quality			
Lease type	**Excellent**	**Good**	**Average**	**Fair**
	$ per acre			
Traditional crop share	133	114	103	88
Cash rent	157	136	119	101
Custom farming	173	152	131	109

Net incomes for 2004 are reported in Table 1 for four different land qualities: excellent, good, average, and fair. More detail on land qualities is provided in the "Farm Property Classification & Definitions" section in the front of this booklet. Across all land qualities, cash rent leases had higher net incomes than traditional crop share leases. For excellent quality farmland, for example, net income averaged $157 per acre for cash rent compared to $133 for crop share, a difference of $24 per acre. Differences between cash rent and crop share across all land qualities were over $10 per acre: $22 for good quality farmland ($136 cash rent - $114 crop share), $16 for average quality farmland, and $13 for fair quality farmland.

Net incomes from custom farming were above incomes from cash rental arrangements. For excellent quality farmland, custom farming averaged $173 per acre, $16 higher than the $157 cash rent income (see Table 1). Custom farming averaged $16 higher on good quality farmland, $12 higher on average quality farmland, and $8 higher on fair quality farmland

Table 1 reports average per acre net incomes. There is much variability in returns across leasing situations. To gain a feel for this variability, the survey contained questions on cash rents. These questions asked survey respondents to give the average cash rent for the high 1/3, mid 1/3, and low 1/3 of cash leases. Results are presented in Table 2.

The average cash rent for the mid 1/3 group on excellent quality farmland was $164 per acre (see Table 2). Considerable variability exists in cash rents. The high 1/3 of

Table 2. Per Acre Cash Rents for Top 1/3, Mid 1/3 & Low 1/3 Cash Rent Leases by Land Quality, 2004

	Land Quality			
Lease type	**Excellent**	**Good**	**Average**	**Fair**
	$ per acre			
Low 1/3	192	165	144	120
Mid 1/3	164	147	127	107
High 1/3	144	129	113	92

leases averaged $192 per acre – $29 higher than the mid 1/3 group – while the low 1/3 group averaged $144 per acre – $20 lower than the mid 1/3 group. Similar ranges exist across good ($36 from the high 1/3 to low 1/3 averages), average ($31 per acre), and low ($28 per acre) quality farmland classes.

Terms across other leasing types also vary. The survey contained questions asking payment terms on custom farming arrangements. The most common payments method was a flat rate per tillage operations with yield incentive, accounting for 52 percent of the custom farming leases (see Table 3). With 24 percent of the leases, a flat rate per tillage operation was the next most popular lease. Flat rate per acre (16 percent) and flat rate per acre plus yield incentive (6 percent) followed in popularity.

Table 3. Custom Farming Payment Terms

Payment basis	**Percent of Leases**
Flat rate per tillage operation	24 %
Flat rate per tillage operation plus yield incentive	52 %
Flat rate per acre	16 %
Flat rate per acre plus yield incentive	6 %
Other	2 %
	100 %

Leasing Trends

Society members indicated the percentage of leases falling under different lease type (see Figure 1). Crop share leases accounted for 48 percent of the leases, with traditional crop share leases accounting for 37 percent of leases, traditional crop share leases with a supplement rent accounting for 7 percent, and modified crop share accounting for 4 percent of leases. Cash rent accounted for 46 percent of all leases. Custom farming represented 5 percent of the leases.

The survey contained questions asking how leasing terms were changing. Many survey respondents indicated that increasing cash rents was the most pronounced trend (see Table 4). This trend was followed by modifying shares on cash rent arrangements to give more returns to landlords. The third most significant trend was moving from share to cash rents. These three trends indicated decrease returns to farmers while increasing returns to landlords. The remaining trends received few votes from survey respondents.

Table 4. Leasing Trends in Illinois

Change	*Score
Increase rents on cash rent arrangements	3.4
Modify terms of share rent to give more return to landlords	3.1
Move from share rent to cash rent	2.3
Move to custom farming arrangement	0.7
Modify terms of share rent to give more return to farmers	0.3
Other	0.1
Move from cash rent to share rent	0.1
Decrease rents on cash rent arrangements	0.0

** Scores range from 0 to 10*
Score of 10 means all respondents indicated this factor is most important. Score of 0 means no respondent picked this factor.

More detail was asked concerning crop share lease changes. The most common change was to include a supplemental rent (see Table 5). Following second was reducing landlords' share of herbicide costs. Other responses included increasing landlords' shares of revenue and costs, reducing landlords' share of seed costs, and having farmers pay property tax.

Table 5. Changes to Crop Share Leases

Change	*Percent
Include a supplemental rent	70%
Reduce landlords' share of herbicide costs	56%
Increase landlords' shares of revenue and costs	30%
Reduce landlords' share of seed costs	17%
Have farmers pay property tax	12%
Other	10%

* % *of survey respondents indicating this change was occurring*

Summary

Results from the annual leasing survey of the Illinois Society of Professional Farm Managers and Rural Appraisers indicate that the most prevalent lease type was the crop share lease. This was followed by cash rent and custom farming arrangements. In 2003, cash rent and custom farming arrangements had higher net incomes to the landlord than did share rent arrangements. There was, however, considerable variability in returns across leasing situations.

There were a number of significant leasing trends occurring in Illinois. Most of these trends resulted in the landlord receiving more of the return from farmland and the tenant receiving less of the return. Significant trends included a move from share rent to cash rent arrangement, increasing rents on cash rent leases, and modifying the terms of share rent leases to give more return to landlords.

Strategies to Lower Interest Costs

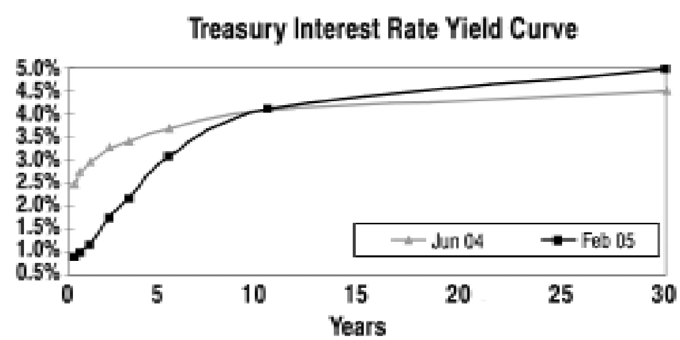
by: Jim Garvin

A lot of movement in interest rates has occurred during 2004, and this situation is not likely to change anytime soon in 2005. However, by keeping an eye on the changes in the Federal Reserve Bank fed funds rate, the U.S. gross domestic product (GDP), the U.S. unemployment rate, and the U.S. inflation rate, producers can figure out how to take advantage of low variable interest rates yet capture the security that long-term fixed real estate interest rates offer. (See sidebar for details about what to watch for.)

When considering an interest rate for a real estate loan, producers can choose a short-term variable interest rate, a midterm adjustable interest rate that will reprice in a given number of years, or a long-term interest rate that will remain fixed for the life of the loan. Split-loan pricing and loan prepayment flexibility are options producers can use to manage their interest expense.

Variable Rate Loans

Short-term variable interest rate loans have the benefit of delivering the lowest interest expense available in the marketplace at that time. However, producers must speculate on the potential risk that interest rates may rise and negate the savings currently enjoyed. If a producer believes he can pay off this real estate mortgage in a relatively short number of years, the variable interest rate loan may be the best choice.



However, if a producer believes a good portion of his real estate loan debt will be outstanding for a term of five years or longer, then the interest rate risk with the variable rate loan may not be warranted. A producer cannot lock in a longer-term interest rate that has passed once interest rates begin to rise.

Note that from 1995 until mid 2004, variable interest rates fell. In June 2004, the Federal Reserve Bank reversed this trend by increasing the fed funds target rate. Consequently, real estate variable interest rates increased in late 2004 and likely will continue to rise in 2005. While producers used to be rewarded for pricing their loans on variable interest rates, this strategy may not bear the lowest interest expense in this rising interest rate environment.

Adjustable Rate Loans

To cover the risk of rising interest rates, many producers utilize loans with midterm adjustable rates. In this situation, producers will not bear the risk that the interest rate will change monthly, but instead they will enjoy a reasonably low interest rate for a one-, three- or five-year period depending on the loan they select. In fact, these types of loans are the most popular at 1st Farm Credit Services, a cooperatively owned agricultural financial services organization based in Normal, Ill.

Adjustable rate loans offer a simple way for large and small producers to keep their interest rates manageable and prevent paying a higher interest rate premium in exchange for long-term protection. However, this approach still places producers at risk in a rising interest rate environment. If interest rates increase, rate protection lasts only for the number of years that the adjustable term was priced. Producers are subject to the current market interest rates when they reprice.

Fixed Rate Loans

Some producers opt to play it safe and lock in a long-term fixed rate loan. With this approach, producers remove the risk that their interest expense will increase in future years. However, they pay a premium to remove this risk. If interest rates rise, these producers will be happy with their choice of a long-term interest rate. On the other hand, if interest rates stay relatively flat in the coming years, this approach buys producers more interest rate protection than they need.

Split Loan Pricing

Top producers have found that a unique interest rate strategy called split-rate pricing affords them a combination of lower interest expense like variable interest rates provide, avoidance of the risk of rising rates at a reasonable price, and security of long-term interest rates for rising marketing rates.

Split pricing, offered by 1st Farm Credit Services, allows a producer to partition his real estate mortgage into pieces and choose separate pricing terms for each part. For example, a producer might elect to price half of his $300,000 mortgage on the variable interest rate and the other half on a long-term fixed interest rate.

Using this approach, producers benefit from a lower weighted average interest rate on the total debt amount, while locking in a long-term interest rate on a portion of their debt. Under the split-pricing program, producers choose a combination of different loans, thus creating an interest rate hedge on their loan.

Producers can blend variable, adjustable and fixed rate loan pricing to achieve their optimal level of interest rate hedging. For example, a producer who is willing to take high interest rate risk and expects to repay his loan much quicker than the maturity of the note could combine a variable rate with a midterm adjustable loan. This would yield a very low interest rate today and afford some protection against rising interest rates during the next few years.

Conversely, a producer who wants to avoid much risk due to rising interest rates and expects to repay the loan over a longer period may combine an adjustable rate loan with a fixed rate loan. The combination of the two offers a producer an interest rate that is lower than a fixed rate but provides substantial security against rising interest rates.

Loan Prepayments

Many producers repay their loans more quickly than required by making extra principal payments beyond their scheduled principal payments. When setting up a split-pricing strategy, producers can select loans that are freely prepayable or loans that have prepayment restrictions.

In either event, producers can use split pricing to their advantage. When a producer has freely prepayable loans, he can choose to repay extra principal payments on either loan segment. If interest rates are rising, a producer can apply all of his extra principal payments to the loan segment that has the most risk to rising interest rates.

By doing so, a producer leverages the other loan segment that is locked into a longer-term interest rate. The converse works as well. If interest rates remain flat or fall, a producer can apply his extra principal repayments to the higher interest rate, allowing the other loan segment to reprice gradually to a better interest rate.

All producers want to save on interest expense, and they have a tendency to select the shorter-term loan simply because of price. But by considering the impact rising interest rates may have on their future profitability, repositioning some of their debt to longer-term interest rates could be the best choice.

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Key Economic Indicators

Changes in the U.S. gross domestic product (GDP), the U.S. inflation rate and the U.S. unemployment rate generally drive the Federal Reserve and financial markets to change interest rates. The primary mission of the Federal Reserve Open Market Committee (FOMC) is to protect the U.S. economy from inappropriate inflation. As a result, the FOMC is constantly monitoring economic data as a guide to its actions.

In a similar fashion, the financial markets at large remain uniquely aware of not only the same economic data but also the FOMC's response to market conditions. Consider that during the past 12 months, the FOMC has increased the fed funds rate six times to the current rate of 2.5 percent. As of this writing, fed funds futures markets point to a fed funds rate of 3.25 percent by the summer of 2005, and many economists are suggesting this rate will flatten off to 3.5 percent by the end of 2005. Oddly enough, during the last half of 2004, longer-term treasury rates (10-year to 30-year) have decreased, while shorter treasury rates (three-month to five-year) have increased, rotating around the ten-year point.

Producers and their advisors can stay abreast of potential changes in interest rates by watching several key economic indicators and monitoring the change in the treasury interest rate yield curve.

The first place to look to determine how the economy is faring is the U.S. gross domestic product (GDP) rate. During the fourth quarter of 2004, GDP was 3.5 percent, down from 4 percent in the third quarter. U.S. GDP growth during 2005 is expected to be slightly less than in 2004 because of slower growth, less tax stimulus and a growing trade deficit.

Another driver to watch is the rate of inflation. The increase in the Consumer Price Index (CPI) during the last 12 months was 3.3 percent—the largest increase since 2000. When the impact of food and energy are excluded, the 2004 inflation rate was only 1.6 percent. This is quite small. However, to the extent inflation grows, the FOMC will be proactive and raise short-term interest rates more than they already are.

Consumers primarily drive the U.S. economy. Roughly two-thirds of the nation's economy is driven by consumer purchases. Therefore, when consumers have more disposable income, there is a risk of rising inflation. As a result, another key indicator to watch is the unemployment rate. As this rate falls, employers must pay higher wages to attract and retain employees. These wages increase disposable income, giving rise to inflation and short-term interest rates.

One way for producers and their advisors to stay abreast of this economic data and the treasury interest rate curve is to monitor several websites. The following websites may help:
http://www.bloomberg.com/markets/index.html
http://money.cnn.com/markets/data/index.html
http://www.stockcharts.com/charts/YieldCurve.html
http://federalreserve.gov

From Birth to Maturity –
Professional Farm Management and Rural Appraising, 1929-2004

by Harold D. Guither, PhD, AAC

Research and education provided the building blocks that led to professional farm management and rural appraising in the United States. The scientific base for professional farm management and rural appraising evolved after Congress authorized a federal department of agriculture and land grant universities. The field of farm management emerged among forward looking state agricultural colleges. The first farm management organizations included progressive farmers and farm managers overseeing land for absentee owners.

In September 1928, 16 farm managers met on the University of Illinois campus to discuss mutual problems and make plans for setting up an organization. These men had already established reputations as professional farm managers, some as managers of large estates, others employed by banks to manage farms for clients and others. Some were university farm management specialists and educators.

And the Illinois Society of Professional Farm Managers and Rural Appraisers came to be.

Following the 1928 meeting some members thought the organization should have broader objectives and territory. In addition to the state organization, the Illinois members, joined by representatives from other states, organized a national society in January 1929 to handle problems that could not be handled by state or regional groups working alone.

The group recognized that they would be asked to serve a wide variety of clients. Three general topics laid the groundwork for the organization: ethics, definitions, and methods. At a special meeting in May 1929 they discussed qualifications of a farm manager. This was the beginning of establishing a code of ethics. They proposed that a professional farm manager should possess:

- A desire to render a real social service.
- The ability to get along with people.
- Well-balanced ideas of good farm organization and management.
- Good judgment in the use of new capital.
- Knowledge of marketing conditions including economic outlook.
- Attention to details including a good annual report to owner and a farm work calendar to avoid overlooking important details on the farm.
- A background of practical farm experience.

Thus was born the American Society of Farm Managers and Rural Appraisers.

The Great Depression stimulated the need for professional management and more accurate appraisals of foreclosed properties. The early leaders developed a code of ethics and professional standards that have survived for 75 years.

The War Years, A Profession in Transition

The outbreak of World War II in 1939 and American involvement after December 1941 brought a significantly changed environment for American agriculture and the growing farm management and rural appraisal professions. American Society leaders recognized the changed environment, encouraged their members to support the war effort and continue to serve their clients despite gas rationing, shortages of equipment and supplies, and loss of some members to the armed services.

Leadership, Growth and Management

The post World War II years brought growth in membership which presented a number of new challenges:

- A need for recruiting full time professional staff;
- Difficult decisions about a national office location;
- New policies for membership requirements with affiliated state organizations;
- Awards for the most dedicated members, and;
- Continued professional development through schools, seminars and advanced courses in farm management and rural appraisal, and cooperation with related groups in the land management and evaluation professions.

Over its 75-year history, the American Society has provided many opportunities for its members to advance their professional capabilities through continuing education. Members pursuing the professions of farm management, appraisal of rural property, and agricultural consulting have taken the time and made the effort to gain experience, continue their education with courses and seminars, attain a professional Society designation, and practice with high ethical standards. Professional advancement and continuing education have set members apart from others offering services to the public.

A New Farm Crisis, 1980-95

A new crisis in American agriculture emerged in the 1980s as land values fell and many farm operators and lending institutions faced financial difficulties. Farm managers and rural appraisers responded to calls for help and adapted to the changed economic environment.

Government Relations

Like any business or profession, rural appraisers and farm managers have faced government regulations, programs, and laws that affect their business

Through the years, members have taken positions on public policy issues and conveyed them to lawmakers and federal government officials. They have expressed their views through:

- Written communications;
- Trips to Washington D. C. to confer with members of Congress and other government officials;
- Hiring consultants to interpret specific legislative positions, and;
- Employing a lobbyist to continuously monitor those issues in which members have special concerns.

Pioneers for Change and New Technology

Professional farm managers and rural appraisers have continuously recognized change and pioneered the use of new technology in farming and ranching operations. Many changes in agricultural practices and technology have evolved in the past 75 years. Although not part of their required code of ethics or standards of professional practice, professional farm managers and rural appraisers have often led in the adoption of new practices and proven technology to enhance the best interests of their clients and the efficiency of their own professional office and field operations.

Opportunities for Women

The door is open for women to pursue careers in the fields of professional farm management, rural appraisal, and agricultural consulting, but only a few have ventured through. Moreover, many seem unaware the door exists.

The farm management and rural appraising professions offer satisfying career opportunities for women who have the background, education, and a willingness to work hard to provide the services that clients expect. Women members of the American Society have earned accreditation designations, served on Society committees and as district vice presidents.

Providing Services Outside the United States

The sound reputation earned by dedicated professional farm managers and rural appraisers in this country has led to requests for their services in other countries. Members who have worked in foreign countries have provided consultation on new agricultural practices, marketing farm products, land valuation, and farm management.

Future Roles and Opportunities

Over the past 75 years, the American Society of Farm Managers and Rural Appraisers has built a profession based upon sound ethics, continuing education for its members, and needed land management, valuation, and consultation services. More than 300 members in Illinois and around 2300 nationwide are serving farm land owners and prospective owners, agricultural businesses, federal, state and local governments, and education and credit institutions in this country and abroad.

With the changing structure of agriculture, lending institutions, and government regulations, the farm management and rural appraisal professions will prosper in the future only if they can maintain and expand needed services, keep their overhead costs in line with revenues, and expand their education programs for their members and others.

Performance of Illinois Farmland Investments

by Bruce J. Sherrick

Introduction:
I often begin one of my classes by asking the students, "*Is it a good thing to have a net income of a million dollars a year ….*" and after the positive wave of responses in obvious agreement dies down a bit I finish, "*…..if you are Citigroup and had over $16 billion in net income the previous year?*"

The point of course is to try to impress that measures of performance are best interpreted in a relative context – that a million dollars to Citigroup represents a rate of return of just slightly over zero while a small profit on a minuscule investment may be a much better performance – especially if easily repeatable and easily levered.

We then spend much of a semester asking questions such as: "How should we measure returns? How variable are the returns? How does an investment's return relate to its competitors? How does it fit with the other assets you own? What else should be considered in evaluating this potential investment?"

The purpose of this article is to provide a similar context for understanding the performance of Illinois farmland investments relative to a wide variety of other financial assets that may compete for investors' attention.

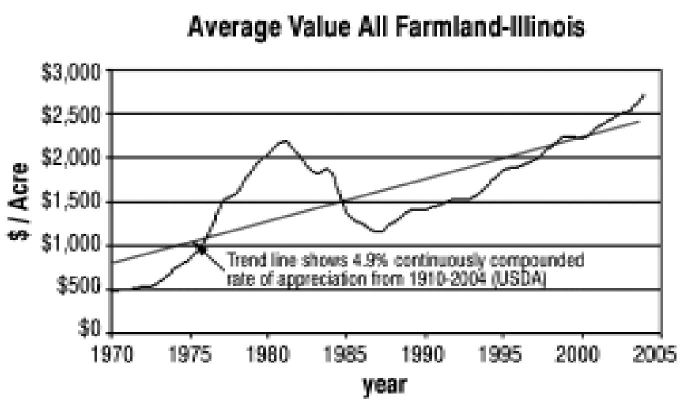
To provide a broad context about the returns to Illinois farmland investments, historic returns data were first compiled for alternative real estate investments, traditional equity investments, corporate bond and fixed income alternatives, and default-risk free Treasury investments. Data came from the National Association of Real Estate Investment Trusts (NAREIT) on all publicly traded real estate investment trusts (REITs), as well as mortgage REITs to provide alternative real estate benchmarks. For equity markets, returns data were collected on both the Dow Jones Industrial index and the broader S&P 500 index. Returns on corporate bonds rated Aaa to Baa, as well as commercial paper rates were collected to provide representative corporate debt investments.

Various Treasury series were compiled including yields on 3-month, 1-year and 10-year constant maturity series published by the Federal Reserve. Inflation indicators of the Consumer Price Index (CPI) and Producer Price Index (PPI) were taken from the Bureau of Labor Statistics to measure inflation hedging potential and the correlation of returns with items representing constant purchasing power.[1]

For farmland returns, this article takes the perspective of an Illinois farmland owner whose returns are in the form of cash rent and capital gains, less property taxes. Data from 1970-2004 were collected on cropland rental rates, cropland values, and the total value of farmland per acre.[2]

To construct the returns measure, state-level data from ERS on the ratio of cropland rental rates to crop land values were used to create the current income series, and the capital gains rate was calculated from changes in the base land values. Property taxes were subtracted from the sum of current income and capital gains. The returns are expressed in geometric form to allow series of returns to be compared across different time intervals, and so that "total" and "average" rates can be reconciled. (To illustrate the problem with simple arithmetic returns, consider another quip from my class: "*What is 100 less 10 percent? {Typical answer 90}. What is 90 plus 10 percent? {typical answer is 99} Then the average rate of return of a minus 10 percent and a plus 10 percent is zero, yet you've lost $1 or we used the wrong measure of returns*"

Using geometric rates of return avoids these problems as then the rates of return for any two numbers x and y are such that the rate of return from x to y is always the negative of the rate of return from y to x).



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[1] Data on the equity indexes were obtained from MSCI, REIT returns data from the NAREIT data warehouse, Treasury data from the Federal Reserve h.15 release, and corporate debt rates from Moody's Investor Services.

[1] Data from ERS on cropland values from 1970-1996 were spliced with data from NASS from 1995-2004. The splice was done using base values from the later data set to avoid any irregularities from the switch in data sources. In addition to Illinois data, similar series were created for 42 other states. However, property tax rates are not available for all states examined in all years. As rates are relatively smooth through time, average values of the years on either side of a missing value, or three year averages at the end of the data period were used to approximate any missing property tax rates. The results are qualitatively very similar across the remainder of the Midwest region, and the other major crop producing regions of the U.S. as well.

Table 1. Asset Return Characteristics

Asset/Index	1970-2004			1990-2004		
Illinois Farmland	9.59%	10.1%	1.06	8.94%	2.2%	0.24
S&P 500	5.84%	14.3%	2.44	7.48%	15.7%	2.09
Dow Jones Index	5.85%	13.7%	2.35	8.42%	13.1%	1.55
Commercial paper	6.71%	3.2%	0.47	4.48%	2.0%	0.44
Baa Corp. Bonds	9.81%	2.4%	0.25	8.14%	1.0%	0.13
Aaa Corp. Bonds	8.72%	2.1%	0.24	7.31%	1.0%	0.14
All REITS	6.97%	19.0%	2.73	10.45%	16.1%	1.54
10-yr Treasuries	7.76%	2.4%	0.31	6.04%	1.3%	0.21
1-yr Treasuries	6.73%	3.0%	0.44	4.55%	1.8%	0.41
3-mo. Treasuries	6.08%	2.8%	0.46	4.11%	1.8%	0.44
CPI	4.19%	2.8%	0.67	2.34%	0.9%	0.40
PPI	3.24%	4.7%	1.44	1.08%	3.7%	3.41

Figure 1 provides a historic view of the price pattern through time and the average rate of capital appreciation from 1970 to the present. As can be seen, the capital gains have averaged almost five percent per year with a long and relatively stable pattern with only one period during the 1980s that had declining farmland prices.

Table 1 provides summary statistics for returns by asset class for farmland and the competing asset classes considered for the complete period 1970-2004 and for a period covering the past 15 years (providing both a more recent perspective, and eliminating the only period of decline in farmland values from the mid 1980s). All returns are calculated ignoring any transactions cost (which are likely higher for farmland investments); ignoring capital gains taxes (which are likely easier to avoid with real estate investments); ignoring income taxes (which have roughly equal effects on all classes); and assuming an unlevered, or zero debt position in all investments. Another important caveat – Illinois farmland markets are fairly thin, and may present a challenge to adjusting holdings in this particular investment.

The annual average return provides the most commonly reported feature of returns while the standard deviation represents the amount of uncertainty about that average – or the riskiness of the returns. The message provided by the table is clear – that as financial wisdom posits, more risk is generally required to gain more return. To summarize the risk per unit of return, financial analysts often calculate the coefficient of variation (CV) or the standard deviation divided by the average. Higher values of the CV are associated with relatively more risky investments. From the information in this table, Illinois farmland has performed very well relative to most equity categories and fixed income alternatives, whether we use the average return to rank, the standard deviation, or the CV; and regardless of which sub-period is examined.

But what about the 1980s?

Farmland's returns seem to display strong serial correlation – that is, positive returns tend to follow positive returns, and the negative returns seem to be associated in time with other negative returns, while other assets have returns that appear more randomly distributed through time.

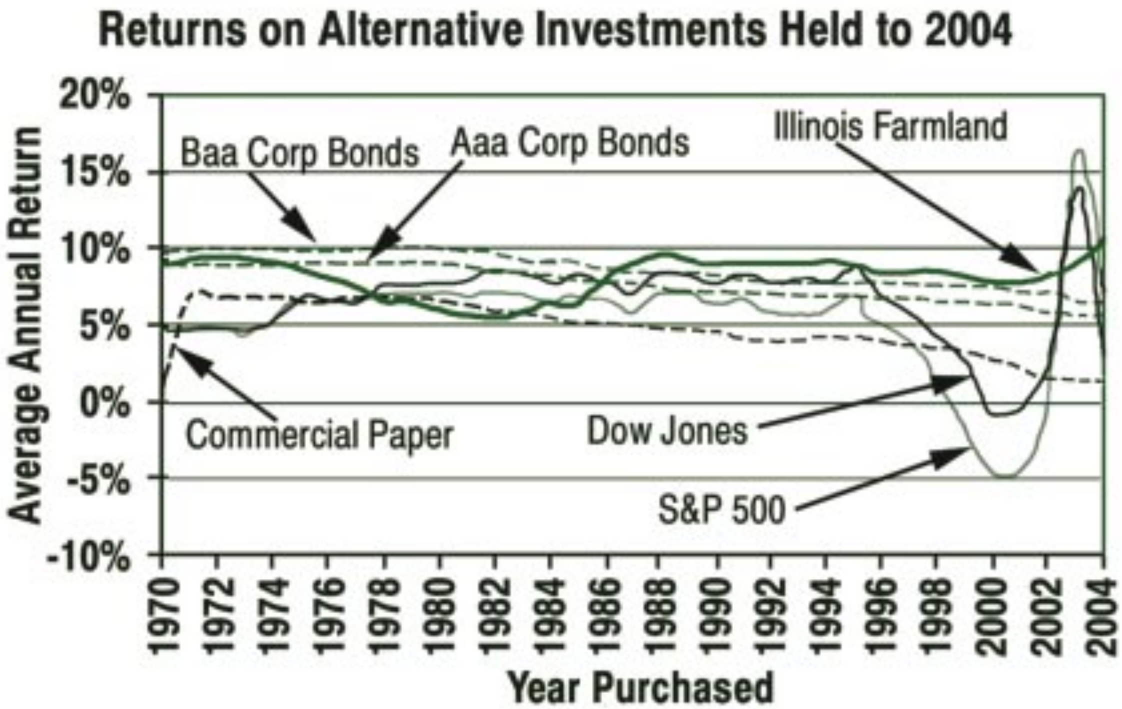
To give a sense of the potential importance of this issue, the total holding period returns for each asset class were calculated under alternative holding period definitions as though the investment had been made in each year from 1970 on, and held until present. Figure 2 provides a graphical summary of the results showing the average holding period rate of return for a selected set of investments assumed. Most remarkable is that farmland again looks very good for virtually the entire final 20 years of the sample period with far less variability than the equity indexes in particular. Ex post, it is easy to find the time period during which it would not have been as attractive to have initiated an investment – in each of the asset classes, not just with farmland in the 1980s.

Portfolio Considerations

When evaluating the investment performance of an asset, it is important to not only assess its own performance in isolation, but to also understand its role in the diversification of a portfolio, and its relationship to inflation and other factors that affect future purchasing power. Measures of correlation provide a summary means to describe the degree to which returns move together, and hence the degree of diversification benefit is attainable from holding them together.

The measure of correlation ranges from positive one where the returns move in lock-step together, to negative one where the returns move in exactly opposite fashions. A zero correlation implies no systematic relationship. Negative correlations in investment returns are desirable because they allow for the reduction in portfolio risk by holding assets whose movements in returns tend to offset each other — and smooth out the total portfolio return series. Positive correlation with inflation is likewise desirable as it provides a greater hedge against the erosion of purchasing power.

Figure 3 shows what is perhaps the most astounding feature of Illinois farmland returns. The time period chosen does of course affect the magnitude of the results, but the general story is the same that farmland has shown low or negative correlation with traditional equity investments while maintaining a positive correlation with inflation and the PPI. For comparison, the Dow and the S&P series



have about a .95 correlation with each other and approximately -.35 with inflation as measured by the CPI.

Summary:

This information about farmland investments is consistent with much of the past academic research which also shows that farmland returns have displayed low systematic risk, high inflation hedging potential, and good diversification benefits. The past couple of years have witnessed rates of capital gain that are relatively high by historical standards, and as a result, have generated equally high interest in farmland investments by non-operator investors, institutional investors, and by owner-operators seeking to expand. In virtually all cases, the evidence suggests that the investment class has performed well whether viewed in isolation, or as a complement to other investment holdings and should be considered when evaluating any mixed-asset investment set.

Returning to the opening questions, the returns from capital gains and current income less current property taxes provides one measure of the investment performance that is somewhat comparable to an equity investment that pays dividends and also experiences capital gains/losses. Farmland has done well in this regard. The variability of returns to farmland investments shows basic financial tenets that higher return is associated with higher risk, but has also displayed good “risk efficiency” with reasonably low risk per unit of return. The correlations of returns are low or negative with most other investments that might accompany farmland in a portfolio, and perhaps most importantly, farmland returns have shown positive correlation with inflation measures.

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