
Illinois Farmland Markets: Recent Performance and Future Trends

Bruce J. Sherrick and Gary D. Schnitkey
Department of Agricultural and Consumer Economics
University of Illinois

The Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA) conducts an annual survey to assess farmland values (from actual sales data) and trends in lease rates by land type and use in Illinois (www.ispfmra.org). USDA publishes data about changes in ag real estates values and rental rates by state, and aggregated into production regions. The Chicago Federal Reserve publishes estimates of ag-land value changes within the 7th District. And, the National Council of Real Estate Investment Fiduciaries (NCREIF) publishes audited returns from institutionally-owned and managed agricultural real estate investment properties. Importantly, all these sources agree that farmland has continued to post impressive returns, especially in the context of a broader universe of alternative investments.

Using USDA sources, annual returns comprised of capital gains plus current income less property taxes for Illinois farmland have been 15.6%, 17.8% 11.9%, and 10.8% on 1,3,7, and 15 year annualized bases. For context, similar annualized holding period returns to an investment in stocks in the Dow Jones Industrial index would have generated 13.9%, 5.4%, less than 1%, and 9.1% over the corresponding intervals. Investments in all REITS (a good proxy for commercial real estate) would have averaged 29%, 21%, 19.8 and 13.7%, and but with approximately four times the risk. NCREIF data tell a similar story over a broader set of property and crop types with 19.5%, 23.6%, 13.7% and 10.7% returns for 1, 3, 7 and 15-year holding periods.

What forces have contributed to these returns and what are the prospects for the future? Among the contributing factors are relatively low recent interest rates, relatively high farm incomes, and often-cited pressures from 1031 exchange buyers in a thin market. A more recent entrant on most “top forces to watch” lists is the impact of ethanol on commodity prices and potential premiums for proximity to new terminal markets. Commodity prices bolstered by ethanol production have no doubt “fueled” cash rent markets although the full impact will probably be more apparent next fall when many leases are renegotiated. This year, many counties had crop revenue insurance available that could actually be used to lock in fairly high profits rather than simply mitigate large disasters – a circumstance not found in many past periods, and one that no doubt also increased pressure on cash rents. The ISPFMRA also documented the increasing importance of demand from recreational use land and increasingly common instances where such acreage sold for more than agriculturally productive land. Other trends shown are the continued movement away from traditional share rents toward cash rent, adjustable cash rents, and other hybrid lease types.
What does the future hold? Clearly there is still strong pressure on cash rents and for movements away from share rental arrangements. The pace of acceleration in values has slowed but most indications and expectations are that the trend will still continue upward for the foreseeable future. The greatest sources of uncertainty relate to commodity prices and the sustainability of the increased demand for corn for ethanol production, but on balance, the sentiment of the market clearly remains bullish for farmland investments.