FARMLAND MARKETS IN ILLINOIS: HISTORIC CONTEXT AND CONTEMPORARY ISSUES

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Executive Summary

I. Farmland Value updates:
   a. Long term trend averages approximately 5% per year
   b. USDA estimate of increase in Illinois for 2004 equals 7.4%
   c. ISPFMRA Survey shows sharply higher values in Northern regions and stronger than USDA projections throughout state
   d. Survey indicates roughly 49% of sales influenced by 1031 exchange provisions (up from 22% two years ago)
   e. Increase in farmland turnover rate

II. Farmland viewed as a financial asset or investment class
   a. Low systematic risk
   b. Capital gains component greater than current income
   c. Low correlation with other assets (good inflation hedge, good diversification asset)
   d. Portfolio models favor inclusion of farmland in holdings typical of pension funds, retirement accounts
   e. Strong within-class risk response (higher risk – higher return, and share of expected return paid as rent inversely related to riskiness)
   f. Spatial components beginning to dominate ag-income effect -
distance to Chicago and other cities, size of tract, SPR, ruralness, population density, disposable income

III. Lease Markets
   a. Low turnover rates, increased importance of rental markets
   b. Increased reliance on cash rent
   c. (live demo of FAST Farm Rent Evaluator)

IV. Government Program Payments
   a. Approx 24% of farm income from government payments
   b. 2002 Farm Bill more attractive in Illinois
   c. Increase in value of farmland
   d. Study examining impact of removal of government program payments
   e. Substantial impact on risk as well as on level of income

V. Property Tax Changes in Illinois – updated information on SPR and yields

VI. Live demonstration/use of FAST Real Estate Purchase Analysis program