

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

