

Rising prices for farmland not out of line with returns

Is the rise in farmland prices in line with farmland returns? Probably, suggests a recent report by University of Illinois Extension and the Illinois Society of Professional Farm Managers and Rural Appraisers.

"It does not appear that higher farmland prices are out of line with farmland returns in east-central Illinois," according to Gary Schnitkey, U of I Extension farm financial management specialist. "However, price and return relationship will vary across Illinois and may diverge in some regions, particularly those close to urban areas.

"A return to historical average returns could cause a divergence between farmland returns and prices, potentially leading to downward farmland price adjustments," he adds.

The report links increasing farmland prices to rising ethanol demands, which have led to higher commodity prices and higher farmland returns.

Illinois' average increase in farmland values was roughly 5% in 2006, following some double-digit increases in recent years.

"Farmland prices increased over 50% in many areas of Illinois between 2002 and 2006," Schnitkey says. "Development pressures caused much of the increase between 2002 through 2005. During this period, farmland near Chicago and other metropolitan areas

Key Points

- Report shows central Illinois land prices are in line with farm returns.
- Higher 2006 farmland prices are linked to rising ethanol demands.
- Higher grain prices lead to larger expected farmland returns.

was sold for urban development, with sellers often receiving high prices. Some of these sellers reinvested their proceeds for farmland further away from urban areas, sometimes being able to buy multiple acres for each acre sold."

Many sellers of farmland were able to defer their taxable gains by using 1031 exchanges to buy other land.

"In 2006, demand to develop farmland around urban areas declined," Schnitkey says. "As a result, the number of buyers who were reinvesting farmland sales monies in farmland purchases declined.

"Because development pressures softened, some suspected that farmland prices would not increase during 2006. While that appeared to be the case in the first half of the year, the situation changed in the second half.

"Due to increased demand for corn for ethanol production, corn and soybean prices began to rise. Currently, it is reasonable to expect commodity prices



GARY SCHNITKEY

to be above historical averages for the next several years. Above-average commodity prices lead to higher expected farmland returns. These higher actual and anticipated returns then likely led to farmland price increases during the second half of 2006."

■ To read Schnitkey's complete report, "Farmland price increases continue: Are they in line with farmland returns?" go to www.farmdoc.uiuc.edu.

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Contact us:

Editor: Cherry Brieser Stout
cstout@farmprogress.com
 1301 E. Mound Rd., Decatur, IL 62526
 Phone: 217-877-9070, Fax: 217-877-9695
Field Editor: Holly Spangler

Contributing Editors: Tom J. Bechman, Alan Newport, Fran O'Leary, John Otte, Arlan Suderman, Rod Swoboda, John Vogel
Executive Editor: Frank Holdmeyer

Corporate Editorial Director: Willie Vogt

Sales: Jeff Smith, 217-877-1662

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University announces upcoming field days

You can learn about current problems in crop production and pest management, ask questions, and gain new perspectives at one or more of the 2007 University of Illinois field days. Check the schedule for locations, dates and contact numbers for more information.

2007 schedule			
Location	Date	Food?	Contact
Ewing ¹	June 14 9:00 a.m.	No	Dennis Epplin 618-242-9310
Urbana - Weeds	June 27 8:00 a.m.	Breakfast/ Lunch	Doug Maxwell 217-265-0344
Macomb - WIU ²	June 28 1:00 p.m.	No	Gordon Roskamp 309-298-1569
Belleville - SIU ³	July 12 9:00 a.m.	Lunch	Ron Krausz 618-566-4761
DeKalb	July 17 4:00 p.m.	Dinner	Lyle Paul 815-824-2029
Brownstown	July 26 9:00 a.m.	Lunch	Robert Bellm 618-692-9434
Dixon Springs	Aug. 2 8:00 a.m.	Lunch	Steve Ebelhar 618-695-2790
Urbana	Aug. 16 7:00 a.m.	Lunch	Sharon Conaster 217-333-4256
Orr Center	Aug. 20 4:00 p.m.	Dinner	Mike Vose 217-236-4911
Monmouth	Aug. 21 8:00 a.m.	Snack	Eric Adee 309-734-7459
Ewing ¹	Sept. 6 9:00 a.m.	No	Dennis Epplin 618-242-9310

¹ Ewing Field is operated by University of Illinois Extension in southern Illinois.

² Western Illinois University conducts this field day at its research farm at Macomb.

³ Belleville is a research center operated by Southern Illinois University-Carbondale.

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