

# Farmland

## IN PERSPECTIVE

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### GLAUB FARM MANAGEMENT

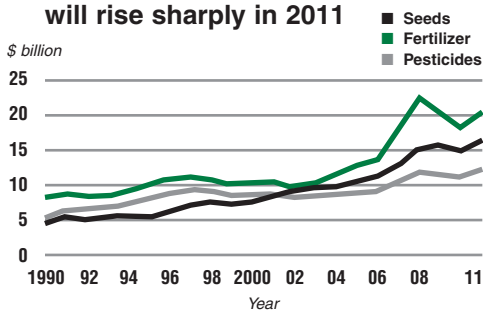
MANAGEMENT • REAL ESTATE • CONSULTING  
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## Crop Production Costs Climb

Total agricultural production expenses were forecast to rise sharply in 2011, due to changes in both price paid for inputs and the quantity of inputs used. Prices for all crop-related inputs were expected to rise in 2011, while acres planted to principal crops were forecast to rise to 326 million acres, a 3% increase over 2010.

Expenses for several crop-related inputs were expected to show some of the sharpest changes this year. After steady increases between 2002 and 2008, fertilizer expenses dropped roughly 10% in both 2009 and 2010. In 2011, fertilizer expenses were forecast to resume their climb, going up 14%. After stalling in 2010, the upward movement in seed and pesticide expenses was also forecast to resume. Seed expenses were expected to rise over 5% in 2011 after dropping by 2% in 2010. Pesticide expenses were forecast to rise around 7% after falling about 5% in 2009-10.

### After declining for two years, crop-related expenses will rise sharply in 2011



Source: Economic Research Service, USDA.

## Practical insights for successful farmland sales

Successful farmland sales close with both the buyers and sellers being satisfied. Typically the listing and sales processes are straightforward. Sometimes, though, concerns raised in transactions can be a bit involved. Consider the following four scenarios.

1. As a couple in the Midwest plan for their retirement, they convert Midwestern farmland into a rental house in a new subdivision in Florida through an Internal Revenue Service (IRS) tax-deferred, like-kind exchange. The subdivision's developer rents the house as a model home for a few years until the couple retires to Florida at which time the house converts from rental to residential. It becomes their retirement home. The couple was able to complete this "exchange" without capital gains taxes being recognized for the sale of their farmland.
2. In a second scenario, just 60 days from closing, siblings learned that title work had not been ordered because their names did not appear on the title. In the will, the siblings were named as heirs to the land. However, changes to legal title don't always automatically get completed in courthouse records when heirs are going through the death of a loved one.
3. Consider this: One brother (A) let another (B) build a house at no charge on land the family had owned since the 1800s. When brother B moved, the land was to be returned to brother A. The wife of brother B, however, willed the house and land to the couple's children. The wife's will was in the house when the house burned. Now the children want to sell the land the house stood on. If these individuals had sought the help of a professional beforehand, their problems would most likely have been averted.
4. In another case, one family owned a farm for generations. Over time, the river that ran through the land created an oxbow, cutting off 90 acres. The river served as the county line so now the 90 acres sits in another county. Family members want to sell the land, but learned that they don't have title to it. Situations, such as this, need to be addressed early so they don't pose a problem when sale decisions are being made.

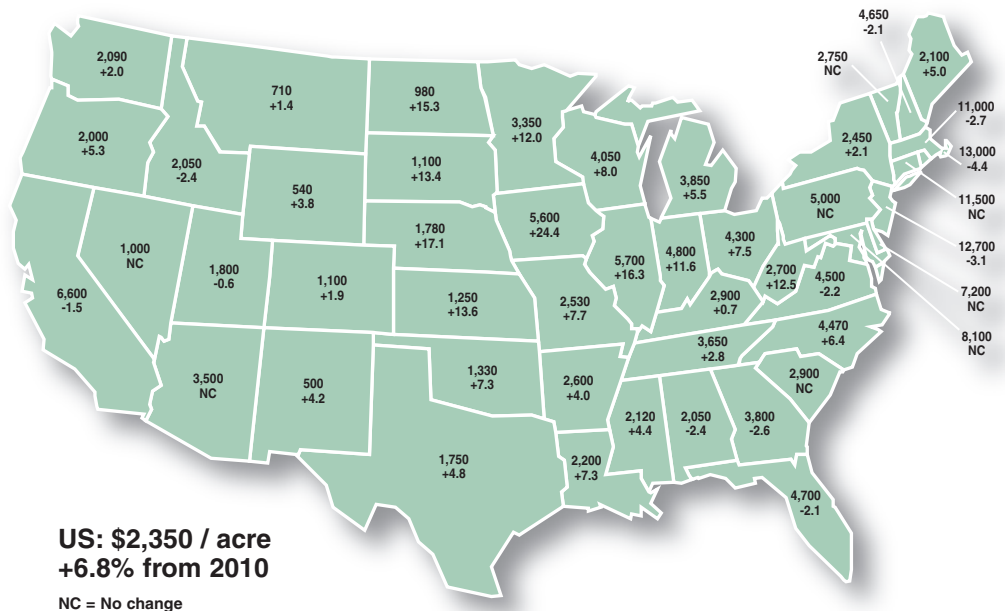
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# U.S. farm real estate values increase

The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged \$2,350 per acre for 2011, up 6.8% from 2010. Regional changes in the average value of farm real estate ranged from a 15.9% increase in the Corn Belt region to a 2% decline in the Southeast region.

Source: Land Values 2011 Summary (August 2011)  
USDA, National Agricultural Statistics Service

## 2011 Farm Real Estate Value by State Dollars per Acre and Percent Change from 2010



### Practical insights cont. from page 1

#### First Steps

The seller typically initiates the selling process and is well advised to plan ahead to assure a smooth, well-orchestrated transaction. For many sellers, this means a visit to a farmland real estate professional who is familiar with the area to discuss their goals, current land values, factors that affect land valuation, a calculation of their basis in the land and estimation of their potential tax liability, means of deferring taxes, etc. Often visits with their accountant and attorney follow in the planning process.

Information gathering is essential. Some information may be readily available to the landowner; other information may require the assistance of the owner's farmland professional, accountant and/or attorney.

1. Terms of ownership
2. Tenancy and possession
3. Owner's base price
4. Current sales prices for nearby land with similar features
5. Physical characteristics of the land
6. Potential other uses of the land, if any.

#### Ownership

Being able to confirm how the land is owned is fundamental, along with confirming the number of individuals with ownership interest. Land can be

owned outright, through a trust, partnership, or corporation, for example. Some individuals hold a life estate in the land. A life estate enables an individual to live on the land the remainder of his/her life only, with no rights beyond the individual's death.

Time of acquisition of one's ownership interest is required to determine an individual's basis in the land. Basis is important because it affects the amount of capital gains tax to be paid on the transaction and can, therefore, impact land sales decisions. Simply put, basis is the difference between the value of the land when the owner took possession through a purchase or inheritance, and the land's current value.

An owner might be more likely to consider an Internal Revenue Service (IRS) 1031 tax-deferred, like-kind exchange when the basis on their land is low and its current value is significantly higher. The 1031 exchange defers capital gains. The capital gains are traded into another "like kind" property. Like-kind property might be farmland or other real property investments such as an apartment complex(es), rental property(ies), etc. Because strict rules govern the transactions, legal and tax specialists typically are hired who ensure that all formalities are followed.

During the sales process, the absentee owner will want to ask for an "open" title search commitment from a title company in the county

where the property is located as a way to establish ownership. The "open" title search typically is conducted for a reasonable fee. The search ensures no surprises in ownership prior to sales information on the farmland being shared.

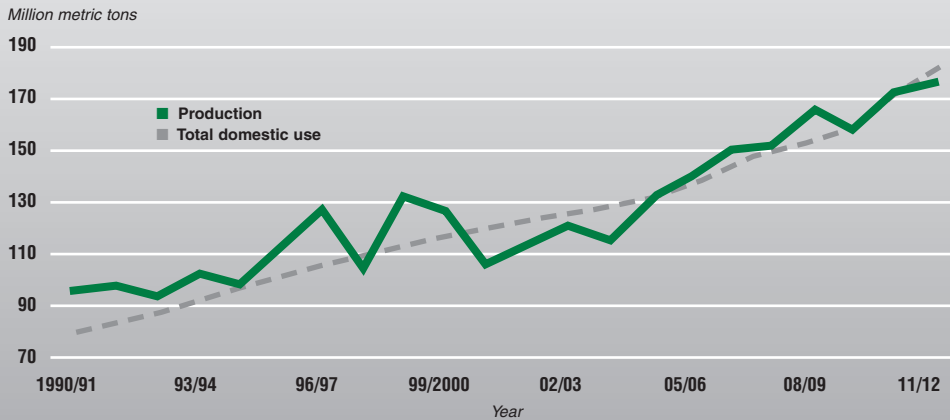
#### Leases

The owner or his/her advisors will want to confirm the terms and conditions of the existing farmland lease, whether oral or written, which is preferable. Typically leases are either crop share or cash rent, or some variation of each. Leases with terms of more than one year may impact the land's value and marketability. That's because new owners generally prefer to negotiate their own lease provisions with their tenants. Leases longer than one year do not allow lease provisions to change over time as farming practices and economics evolve.

A review of the written lease helps the owner determine when to give notice to the present tenant that the land is being sold and the tenant might lose his farming rights. With oral leases, the state's common law term and notice provisions apply. Illinois, for example, requires that written notices must be given four months prior to the end of the lease term on a year-to-year farmland lease. If notice is not given in a timely fashion, the tenant maintains the right to farm the property for the next year.

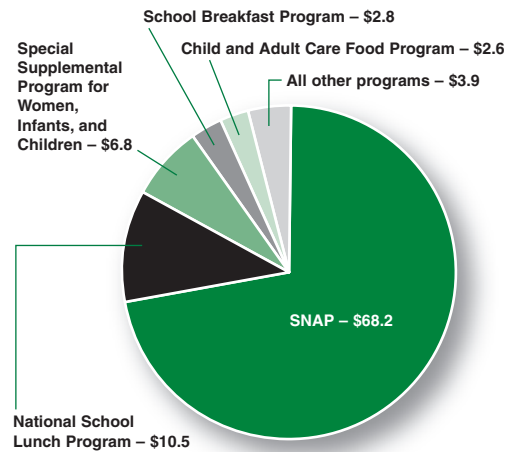
## China corn production and use increase

Corn production in China for 2011/12 was estimated, by mid year, to be up 6.0 million tons to 178.0 million on an increase in planted area, according to China's National Bureau of Statistics (NBS).



Source: USDA, World Agricultural Outlook Board, WASDE.

**The Supplemental Nutrition Assistance Program (SNAP) accounted for 72% of USDA's domestic food assistance in FY 2010 (billions) and some 68% of the total USDA farm program budget**



Source: USDA, Economic Research Service using data from USDA's Food and Nutrition Service.

### Real Estate Taxes

Any potential buyer will want to have the property's tax identification numbers, acres taxed, and amount of the most recent taxes. With this information, buyers can calculate tax costs on a per acre basis. The acres taxed should equal the total acres in the property, not just the tillable acres. If the acres taxed do not appear to include the property's total acreage, a survey of the property may be necessary.

### Physical Properties

A comprehensive understanding of the land's physical properties benefits both buyer and seller. The physical properties include a breakdown of the number of acres of land, both tillable and non-tillable, such as pasture, woods, ponds, etc., and all improvements, such as houses and outbuildings – grain bins, machine sheds, etc. Quite often, a home site with or without buildings can be marketed separately to raise the total dollars received from the property sale. Remember, however, selling the house and buildings separately constitutes a second sale and increases survey and closing costs.

Other physical properties include wells, irrigation systems, mineral rights, marketable timber, growing crops, easements and encroachments. Each could affect the land's marketability and sale. Potential owners may want to know the land's

fire protection and school district, especially if they are interested in living on the land.

Additional properties consist of the land's drainage system, including tile maps and drainage tax assessments. Environmental hazards should be specified, such as old or abandoned refuse piles and underground storage tanks. The owner will quite likely be asked to disclose known environmental hazards prior to the land's sale.

### Additional Information

Additional information to assemble includes the land's site location from the county platbook and a recent soil map. Platbooks often are available from the county Farm Bureau; soil surveys from the Natural Resources Conservation Service (NRCS) or online sources. The NRCS is a joint effort of the U.S. Department of Agriculture and other federal and state agencies.

From the assessor's office, information regarding the percentage of soil types on the land is available. The soil type percentages nicely complement soil productivity information from circulars available through the local land grant university or related extension service.

The local Farm Service Agency may provide additional information including aerial photographs, contract acres, crop acres and farm program enrollment. This private information can only be obtained

by the landowner or someone with his/her written permission.

The current tenant can detail the yield history, fertility program and fertility levels, results of recent soil tests, drainage, and if there are environmental factors that may materially affect the farm.

The local farmland sales professional or land management professional will have insights on the factors that affect the land's value and may be able to provide a market analysis for the land. You might be referred to a licensed land appraiser. Be sure to ask about potential leases for hunting and/or recreational uses, potential development as residential or commercial property, and possible development of mineral rights or wind farms. All potential sources of additional value should be considered when pricing and selling the land. Remember, though, when land values are changing quickly, even sales values from a few months ago may be less relevant.

When the goals of the owner(s) are set and the required information has been gathered, the owner(s) should remain in contact not only with the farmland sales professional, but also with other professional team members, such as the accountant and attorney. Doing due diligence and doing your "homework," can simplify the sales process, avoid surprises, and make for smooth, successful transactions.

# Farmland IN PERSPECTIVE

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