

Farmland

IN PERSPECTIVE

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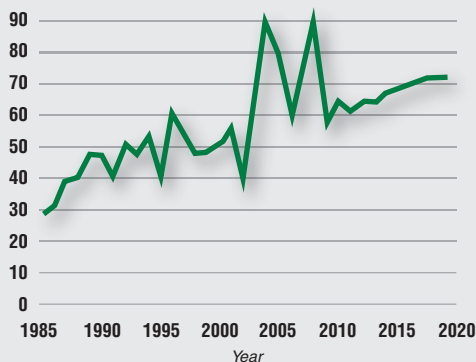
Projections for U.S. Agriculture

As the economies of the world recover from the world recession, steady domestic and international economic growth will support gains in the U.S. agricultural sector during the next decade, according to the Economic Research Service (ERS) of the U.S. Department of Agriculture in recently released agricultural baseline projections for 2010-2019.

The world recession was the major underlying factor contributing to a decline in global agricultural demand, trade, and prices, according to the ERS, which reduced farm income and the value of U.S. agricultural exports in 2009.

Projected U.S. net farm income

Billion dollars



Source: USDA Agricultural Projections to 2019, Feb. 2010. USDA, Economic Research Service.

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What to expect from an appraisal of your farm

By Andy Brosen

During the past decade, farmland prices have been trending up with periods of dramatic price increases and occasional decreases. The current slowdown in sales activity results from several factors, key ones being fewer IRS 1031 Tax-deferred Exchanges (an exchange used to re-invest funds from a real estate sale into farmland) and the current general economic downturn.

While economic uncertainty has created a lull in market activity, farmland sales are strong with prices remaining relatively stable in the Midwest and Mid-South through early 2010. Prices for “speculative” transitional-use land have declined in many markets, but not as dramatically as in the 1980s.

Farmland appraisals that present a professional opinion and explanation of the land’s value remain in demand. Appraisals serve several needs including preparation for the sale or purchase of property, estate planning or settlement, formation or resolution of a partnership or corporation, pending eminent domain proceedings, and others.

The Appraiser

When selecting a rural appraiser, ask candidates to discuss their market experience with you including their knowledge of marketing timeframes, current market activity and general price trends. Knowledge of the market is essential for keeping up with trends. As some markets have little activity, the appraiser should discuss this and how they discount dated market data. The appraiser should also discuss the type of property they are qualified to appraise.

Experience and knowledge are keys to competency and contribute to accurate appraisals. As appraisals are opinions of value, a reliable appraisal should be supported with accurate information.

A number of professional appraisal organizations exist, but few focus on rural property. The most qualified rural appraiser will likely be involved with the American Society of Farm Managers and Rural Appraisers (ASFMRA) which is the largest rural appraiser organization and/or with the Realtors Land Institute. Membership does not necessarily qualify anyone as a professional appraiser, but it does signify that the person is a member of an organization that promotes ethics, competency and professionalism.

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Appraisal of your farm *cont. from page 1*

There are a number of designations within the real estate industry. What these designations represent can be confusing. Review your appraiser's designation(s) with him or her. The time you spend qualifying potential appraisers will benefit you in the long run.

The Appraisal

Developing an opinion or appraisal about the value of farmland requires a wide variety of skills and knowledge. Farmland is a generic term that describes the use of the land, but certainly not its quality and utility. Appraising farmland requires a thorough knowledge of the land being appraised. While many farm operators can readily identify a farm's best and poorest land, they may lack other information that is important for an accurate opinion of the land's value.

A professional appraiser acquires the appropriate knowledge, experience and objectivity to develop and adequately support an opinion of value. The professional appraiser's opinion **must** be objective and unbiased, and the appraiser cannot be an advocate for their client.

All states have licensing laws for appraisers involved in mortgage finance appraising. In addition, more than half of the states mandate licensing for appraisers as well.

Appraising complex property, such as farmland, requires a certified general license in many states. The appraiser is required to have a specific level of experience, successful completion of appraisal-oriented education, and the ability to pass a state licensing examination. Following licensure, continuing education is required during each license renewal period. While the license does not guarantee an ethical appraiser, it does mean the appraiser is held to a high level of competency. A certified general appraisal license covers all aspects of commercial real estate, including farmland. However, it does not necessarily indicate expertise in appraising rural property.

Appraisal Input

Developing a reliable rural appraisal requires the appraiser to have general and specific information, making communication between the client and the appraiser critical. Before developing an opinion of value, the appraiser needs to know the purpose of the valuation and the intended use (function), and users of the report.

Early on, the appraiser must know "the appraisal question" or "purpose of the appraisal." This might be to form a market value opinion, an insurable value opinion, an estate valuation opinion, or to provide advice.

Another primary question is "What is the property to be appraised?"

This includes not only the physical description of the property, but the property rights to be valued. An adequate physical description should be supported with documentation, such as a recent survey, title policies, recorded deeds, or pending transactions. The appraiser generally will assume the property rights to be appraised are the full or "fee simple" ownership rights. If a partnership, corporation, or partial interest property rights are involved, the appraiser will need to know which rights are being considered as part of the appraisal question.

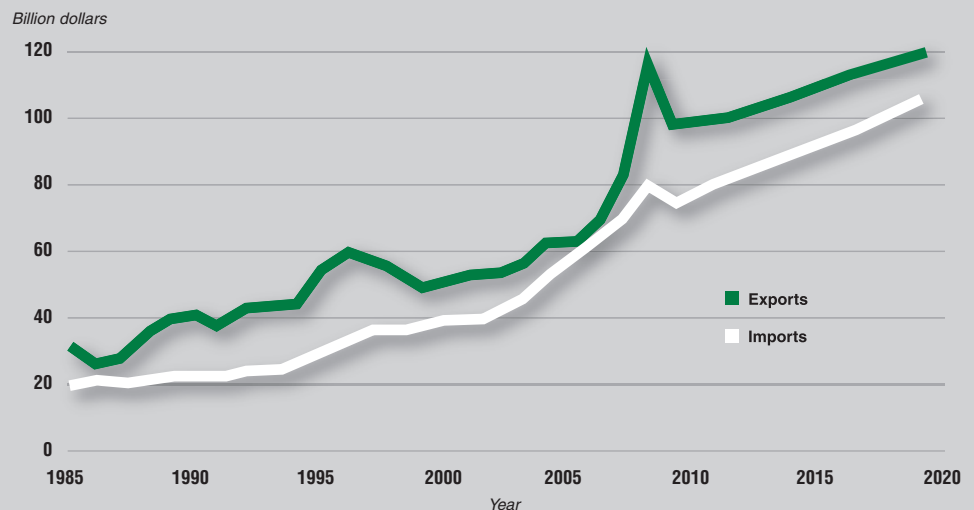
The intended use helps the appraiser focus on specific needs of the client. For example, if the intended use is to assist the client in making potential sale or purchase decisions, the appraiser can focus on competitive market properties that are for sale or have sold recently, plus market trends. If the intended use is to assist the client in making rental decisions, the appraiser can focus on the income producing capabilities of the property being appraised and comparable rental properties. Finally, if the intended use is to assist the client in making decisions concerning the addition of improvements, the appraiser can focus on the cost of construction of proposed improvements.

Knowing the intended user of the appraisal assists the appraiser in

Projections *cont. from page 1*

In addition, long-run developments reflect continued demand for agricultural commodities for the production of biofuels. Thus, after declining in 2009, cash receipts to farmers and the value of U.S. agricultural trade grow through the 2010-19 projection period. Net farm income declines in the near term from the high levels of 2007 and 2008, but then grows moderately during the next decade and exceeds the average of the previous 10 years by the middle of the projection period.

Projected U.S. agricultural trade value



Source: USDA Agricultural Projections to 2019, Feb. 2010. • USDA, Economic Research Service.

reporting the appraisal results. If the intended user is the owner, a detailed property description may be unnecessary. If the intended user is unfamiliar with the property, a detailed description of the physical, economic, social and governmental influences may be critical.

The effective date will also be requested. The effective date is typically a current date such as the date of the initial observation of the property by the appraiser. However, it could be a historical (retrospective) date for an estate settlement decision, or a future (prospective) date for judging the value upon completion of improvements to the property.

Appraisal process

After the identification of the problem as discussed above, pertinent data related to the appraisal assignment is collected and analyzed. This includes general market data, such as area and neighborhood influences, and specific market data: subject property data, plus comparable costs, rentals, sales and listings.

The relevant data is organized for use in the applicable valuation methods. With farmland, the general data may include the size of the competitive market area. This may be a broad area, such as a state or region, or even a more specific local level.

The data collected for land valuation includes a study of comparable

properties by land use, soil quality, utility, drainage, topography, access, distance to support communities, government influences and available amenities. Specific subject property data includes the same considerations, plus any additional facts supplied by the client or obtained from public sources.

Appropriate valuation methods are applied after all data is collected. The three classic valuation methods are cost summation, income capitalization, and sales comparison approaches. The cost approach applies if sufficient building and/or land improvements contribute to the overall property value. The income capitalization approach applies when the property would typically be purchased for investment purposes and has apparent income producing capabilities. The sales comparison approach is typically the most applicable method of valuing farmland. It theoretically represents the actions of the buyers and sellers in the market.

After all applicable valuation methods have been developed, the indications from each approach are reconciled. The strengths and weaknesses of each approach are reviewed, and the most apparent indication is selected as the final value opinion. A thorough appraisal process by a competent rural appraiser results in a sound opinion of the farmland's value at the stated time.



Andy Brorsen is president and co-owner of Brorsen Appraisal Service, P.C., an independent real estate appraisal and consulting firm in Kankakee, Illinois. He has completed appraisal assignments on a variety of agriculture, commercial, industrial, residential and special purpose properties.

Brorsen has active professional designations from the American Society of Professional Farm Managers and Rural Appraisers (ASFMRA) and the Appraisal Institute (AI) and is licensed as a Certified General Real Estate Appraiser and Real Estate Broker in the state of Illinois.

Brorsen is a past president (2007) of the Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA); co-developer of *The Appraisal of Rural Property, 2nd Edition*; past president of the Illinois Land Appraisal Board – Real Estate Division of the Office of Professional Regulation; has served on the Board of Regents – Center for Advanced Property Economics (CAPE); Board of Directors – Illinois Coalition of Appraiser Professionals (ICAP); the ASFMRA Accrediting, Education and Textbook Committees; ISPFMRA Education and Appraisal Divergency Committees; is past president (1994) of the Chicago Chapter of the Appraisal Institute (CCAI); and an author and developer of various courses, seminars and examinations for the ASFMRA and AI.

An instructor for several organizations, Brorsen is qualified as an expert witness in local, state and federal courts involving litigation for eminent domain, highest and best use, feasibility, marketability and partition of property rights.

Boom in organic sales continues

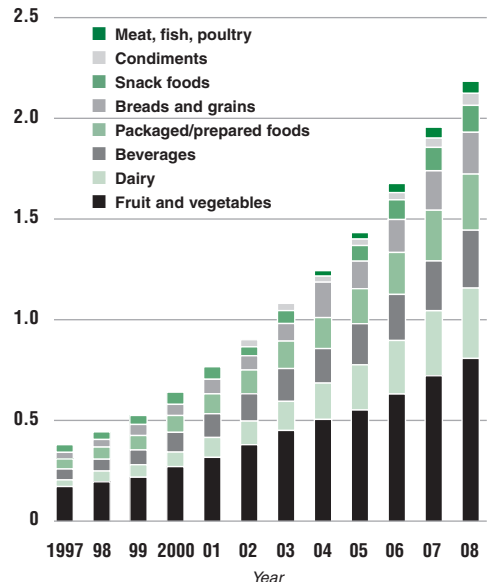
Sales of organic foods have been booming with only one segment of the industry not keeping pace: organic farms have struggled at times to produce sufficient supply to keep up with the rapid growth in demand, leading to periodic shortages of organic products.

Organic foods occupy prominent shelf space in the produce and dairy aisles of most mainstream U.S. food retailers, according to the Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA). The marketing boom has pushed retail sales of organic foods up to \$21.1 billion in 2008 from \$3.6 billion in 1997, a 486% increase in 10 years.

The growth of the U.S. organic industry is evident in an expanding number of retailers selling a wider variety of foods, the development of private-label product lines by many supermarkets, and the widespread introduction of new products. Non-produce items, such as dairy, beverages, packaged and prepared foods, snack foods, and bread and grains, accounted for 63% of consumer spending for organic food products by 2008, up from 54% in 1997. Almost every large conventional supermarket now sells private label organic products, many of which were introduced after the 2002 enactment of organic standards. The introductions of organic private label products expanded from 35 in 2003 to 540 in 2007.

Consumers purchase a wide variety of organic products

Billions of dollars



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