

Farmland

IN PERSPECTIVE

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U.S. Ag Exports Set New Record

U.S. agricultural exports reached a record \$62.2 billion in fiscal 2004, boosted in part by a declining U.S. dollar, according to the Economic Research Service of the U.S. Department of Agriculture.

Modest economic recovery throughout the world boosted demand for U.S. agricultural products. Several factors, including a weaker U.S. dollar relative to currencies of Organization for Economic Co-operation and Development (OECD) countries, contributed to the increased competitiveness of U.S. agricultural exports.

U.S. Agricultural Exports, by leading states FY 2004

State	Million Dollars
California	9,197.3
Iowa	3,676.3
Illinois	3,654.4
Texas	3,363.4
Nebraska	3,015.0
Kansas	2,928.0
Minnesota	2,891.2
Arkansas	1,900.1
North Dakota	1,891.9
Washington	1,886.7
Total	62,297.3

Source: ERS / USDA

Who's Taking Care of Your Farm?

The Benefits of Professional Farm Management

By Harold D. Guither

Contributions by Dennis Gehrt, AFM

Nearly 40 percent of all U.S. farms and ranches are owned by individuals whose chief occupation is not farming. As a stable, tangible asset, farmland is recognized as a secure investment. Over time, productive land has provided competitive long-term returns, but favorable returns depend upon successful management.

Management Services

Professional farm management emerged in the 1920s as progressive farmers and farm managers oversaw land in the large farm estates for absentee owners. Today's professional farm manager provides a variety of services on behalf of landowners. *These services may include:*

Production choices. The professional farm manager knows which enterprises are best suited for the location and types of soil on the farm and will help prepare crop and livestock operating plans. In recent years, managers have helped some landowners lease their property for recreational uses.

Operators. The manager will advertise for and select an operator whose education and experience will offer the best prospects for a successful operation.

Leases. Through consultation with the owner and prospective tenant operator, farm managers negotiate an appropriate lease for that farm and that location. For example, the Illinois Society of Professional Farm Managers and Rural Appraisers 2004 survey showed 46 percent of members use cash leases; 37 percent, traditional crop share leases; 11 percent, modified crop share leases; 5 percent, custom farming; and 1 percent, other types.

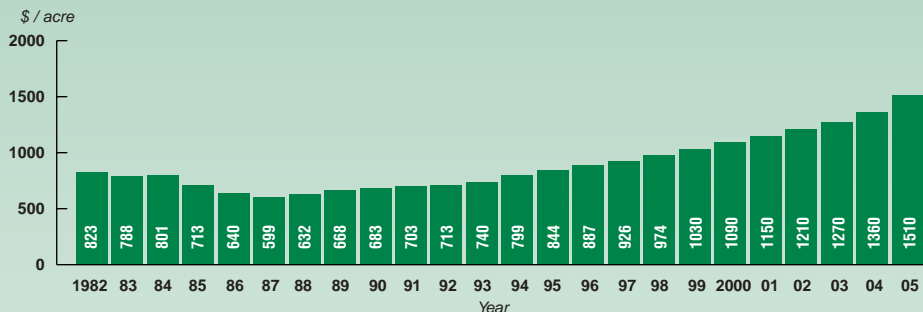
Cash leases may offer less risk for the owner, but can increase risk for the operator. They are most often used by owners who require a specific income from their investment. The landowner still has the option of working with the tenant to specify the crops grown under this cash-rent lease. In many cases, the cash-rent lease provides the best return available for the landowner.

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Farm Real Estate Values Enjoy Largest Percentage Increase Since 1981

Farm real estate values, a measurement of the value of all land and buildings on farms, averaged \$1,510 per acre on January 1, 2005, up 11% from 2004. This is the largest percentage increase since 1981, when farm real estate values rose 11.1% from the previous year. The previous record was 1980, when values climbed \$109 per acre above the 1979 value.

U.S. Average Farm Real Estate Value — Dollars per Acre, 1982–2005



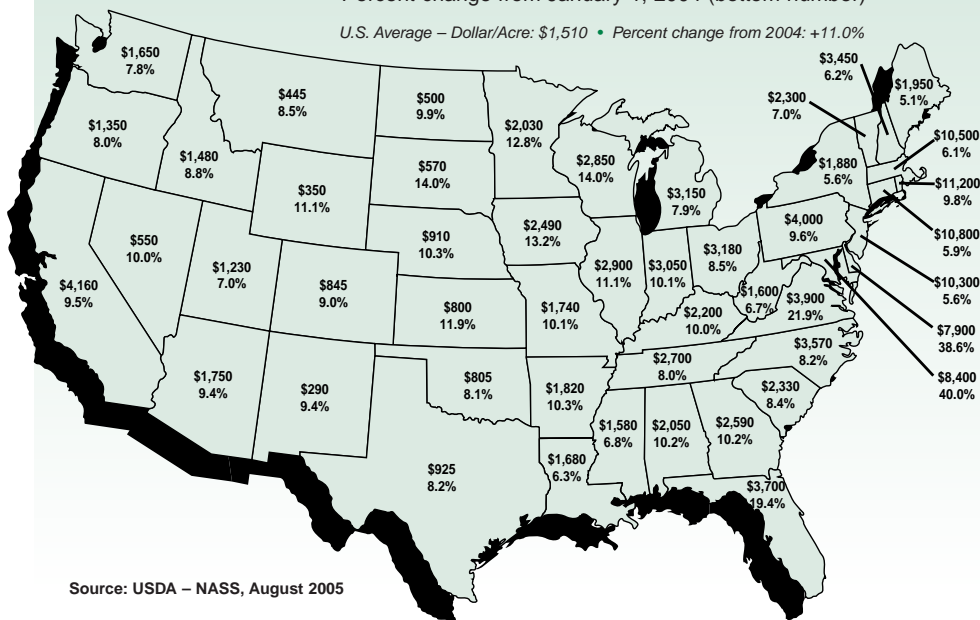
Source: USDA – NASS, August 2005

2005 Farm Real Estate Value by State — Dollars per Acre & Percent Change from 2004

Per acre value of farmland

USDA average as of January 1, 2005 (top number)
Percent change from January 1, 2004 (bottom number)

U.S. Average – Dollar/Acre: \$1,510 • Percent change from 2004: +11.0%



Source: USDA – NASS, August 2005

Who's Taking Care of Your Farm? cont. from page 1

A crop-share lease may give the manager, acting on behalf of the owner, more input in the choice of crops grown and farming practices used. In order to give landowners the opportunity to increase their returns in good years, modifications can be made to crop-share leases. Here is where the experienced professional manager will know what options are appropriate to increase the income for the landowner. Some common options are supplemental rent, a reduction in the landowner's share of herbicide and/or seed costs, or having the operator pay part of the property tax.

Custom farming is used less frequently than cash or crop-share leases. The landowner pays the farmer so much per tillage operation or per acre for performing all the field operations. Sometimes an incentive for higher yields may be added. For the absentee landowner who wants to increase his or her returns, but also accept some additional risk, custom farming offers another option. Unless the landowner has recent experience in managing farm property, a professional farm manager becomes very important to contract for the field planting, growing, and harvesting operations. The owner pays all the expenses and receives all the returns. Without professional management assistance, custom farming carries higher risks which can lead to lower returns. When done properly, custom farming can offer increased financial opportunities.

Production supplies. Under the traditional crop-share lease, the manager works with the farm operator to arrange for the purchase of appropriate seed, fertilizer and pesticides.

Production Shifting to Very Large Family Farms

U.S. farm production is shifting to larger operations. Small family farms (annual sales of less than \$250,000) account for most of the nation's farms, but their share of the value of U.S. agricultural production fell by nearly a third between 1993 and 2003, according to the Economic Research Service of the U.S. Department of Agriculture. (Sales and production are adjusted for price changes and are reported in 2003 dollars.)

Between 1993 and 2003, the major production shift is attributed to very large family farms, which have at least \$500,000 in annual sales. The number of very large family farms rose by nearly half to 66,000 over the period, while their share of production grew from 33 to 44 percent, according to the ERS. Production of livestock and fruits and vegetables has long been concentrated among very large family farms; substantial shares of field crop production are shifting to those operations as well.

Marketing. Managers will make sales and arrange deliveries to maximize returns.

Record keeping and tax accounting. Managers keep records of production expenses and the sale of crops and livestock. They can set up farm bank accounts for the owner, pay real estate taxes, and provide profits and loss information for filing state and federal income taxes.

Building construction, repair and farm maintenance. Managers can determine repairs, drainage, building and other needed maintenance, get bids for the work and arrange for getting the work done.

Insurance. Farm managers contract for insurance coverage to protect the crop and reduce risk from weather and low prices. Liability, fire and windstorm insurance also may be needed.

Government programs. Government programs offer price and income support for certain program crops, cost sharing for specified conservation practices, and longer term payments for placing land in the Conservation Reserve Program. Some programs vary from year to year. Managers may represent the owner and sign up for applicable programs.

Related Services

Farm appraisals & real estate sales. Many farm managers are licensed real estate salespeople and some are rural appraisers who are state certified and licensed to appraise farmland. Some hold the Accredited Rural Appraiser (ARA) designation awarded by the American Society of Farm Managers and Rural Appraisers (ASFMRA). This designa-

tion is earned through extensive study and years of experience. When an owner or an estate executor decides to sell, qualified appraisers can assist in determining a current market value.

Some farm managers are also licensed salespeople or brokers and can assist with farm real estate sales and purchases. Many transfers involve shifts of land into nonfarm uses. Some farm managers, licensed to handle real estate sales, have developed special skills to market farm real estate for various sellers and potential buyers. As a result, farm managers working in real estate transactions have helped achieve higher sale prices than the seller might have expected or helped buyers acquire needed types of land at the going market rate.

Consulting and investment planning. In recent years, landowners and farm operators have consulted with professional farm managers on specific farming questions including farmland investments. Professional farm managers provide the same ethical services for consulting as for management and appraisal services. The client's goals, specific tasks to be accomplished, time frame to complete the assignment and the basis of payment are written out before the work begins.

Successful business executives and other professionals who want to diversify their investments frequently consider farmland. Professional farm managers who often network with other professionals can help locate the type of farm or ranch property and location desired, and arrange for a competent appraisal of current market value.

Professional Standards

The ASFMRA established professional standards for its members in the 1930s that still apply today. These include: a code of business and professional ethics to establish public confidence, written contracts with clients, a written plan for the work to be done, frequent visits to the farm or property involved, frequent reports to keep the client fully informed, and written leases with the farm tenants. Many managers who have achieved a high level of education, training, and experience have earned the Accredited Farm Manager (AFM) designation awarded by ASFMRA. The AFM designation provides an indication of the farm manager's professional management expertise.

From the specific focus on managing farmland for absentee owners during the early years of the profession, professional farm managers and appraisers today offer a broad range of services for the benefit of absentee owners. Professional farm managers are available for those owners who take pride in their ownership, but need help in achieving good returns on their investment and being good stewards of their land for current and future generations.



Harold D. Guither has retired as a professor of agricultural economics with 39 years of service at the University of Illinois at Urbana-Champaign. He has since become an Accredited Agricultural Consultant through the

American Society of Farm Managers and Rural Appraisers and has engaged in various consulting activities.

100 years of structural change in U.S. agriculture

	1900	1930	1945	1970	2000/02
Number of farms (millions)	5.7	6.3	5.9	2.9	2.1
Average farm size (acres)	146	151	195	376	441
Average number of commodities produced per farm	5.1	4.5	4.6	2.7	1.3
Farm share of population (percent)	39	25	17	5	1
Rural share of population (percent)	60	44	36 (1950)	26	21
Off-farm labor*	na	100 days	27	54	93

*1930, average number of days worked off-farm; 1945, percent of farmers working off-farm; 1970 and 2000/02, percent of households with off-farm income. na = not available.

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Winnie Stortzum
ARA, ALC, GRI

Distinguished Service Award Winner

Winnie Stortzum, ALC, GRI, ARA, REALTOR® and appraiser at Boyd Real Estate, Inc. of Arcola was recently honored by the Illinois Association of REALTORS® (IAR) as one of three recipients of the 2005 Distinguished Service Award. Stortzum was selected from a field of 55,000+ members of IAR.

This prestigious award honors individuals who have provided outstanding contributions and service to REALTOR® Associations, as well as leadership and service in civic and community causes. "Winnie Stortzum is one of our country's leading professionals in the farm real estate field and she has given generously of her time and talent to advance the land REALTOR® niche. Her commitment to excellence and high ethics have made her an asset to the national and state REALTOR® family as well as her local business community of Arcola," said John Veneris, president of IAR.

Licensed since 1978 in real estate sales, Stortzum has previously been recognized as the 2004 Land REALTOR® of America by the national REALTORS® Land Institute (RLI), 1994 Illinois Farm and Land Broker of the Year of the Illinois RLI Chapter; the 1992 Associate-REALTOR® of the Year from IAR, and the 1991 REALTOR® of the Year by the East Central Illinois Board of REALTORS®.

Stortzum has a B.S. in Education with Honors from Eastern Illinois University and a M.A. in Teaching from the University of Illinois. She is also an Accredited Rural Appraiser (ARA) and an Illinois Certified General Appraiser. Please give her a call or return the postage-paid card for further information or help. *Thank You!*



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