SEASONS

SPRING 2016 NEWSLETTER FROM WORRELL LAND SERVICES, LLC

MAKING TIME FOR GROWTH

by Luke Worrell

Like many professions, I am presented with numerous opportunities to attend conferences, seminars and other ag-related events. It can be difficult to make the commitment to take myself out of the office for periods of time. I am tempted to give into the lingering thought that I "don't have time." Thankfully, for my own professional development and the benefit of our clients, I've made it a priority to fight off those feelings and instead choose to pursue growth.

Just in the last six weeks, I have been able to take part in the Illinois Association of Farm Managers and Rural Appraisers Annual Meeting, the Illinois Farmland Values and Lease Trends Conference and the REALTORS® Land Institute's National Land Conference. The invaluable experience of these professional travels makes the daunting pile of work that awaits me completely worth it.

Luke Worrell accepting the REALTORS® Land Institute's Outstanding Chapter Award on behalf of the Illinois Farm & Land Chapter. Luke is the Illinois Chapter's president-elect for 2017.

There are a lot of different types of people reading this – some of you entrust Worrell Land Services to manage land that has been in your family for decades, some of you partner with us to buy or sell land, while some of you simply observe Worrell Land Services at arm's length until you find the right time and opportunity to work together. Regardless, all of us are connected in some way to the ag sector. My dad and I don't take lightly the fact that many of you look to us to be knowledgeable voices that ultimately help you achieve your goals.

That's why, when given the opportunity to hear from the esteemed Dr. Barry Flinchbaugh about agricultural policy or Dr. Mark Dotzour on macro-economic indicators that impact agriculture, I eagerly jumped on the plane to Dallas, even if that meant I had to play catch-up for a week. In the last few weeks, I've heard from lobbyists and national leaders regarding possible tax reform and initiatives being done in Washington ranging from water quality to regulating drone usage. I've gathered with colleagues and ag economics professors regarding trends in farmland values and cash rent leases. In those conversations, I've heard everyone in the industry echo a similarly cautious 2016 outlook and share ways to serve our clients well if the market plays out as some expect. I've learned new ways to help clients who want to pursue a 1031 tax-free exchange transaction. I've had the humbling experience of sharing meaningful conversation with respected professionals who have been in the business longer than I've been alive. All of that in just a few weeks! I soak it in like a sponge because I know all of these experiences help make me a better farm manager and a better real estate broker. I always return a vastly improved version of my professional self.

My dad has modeled well for me the importance of a lifelong commitment to learning. I tell you about the whirlwind of the past few weeks to encourage you that, as we head into an interesting 2016 cropping season, we may not have definitive answers, but we certainly aren't making uneducated guesses. We are pouring knowledge into ourselves so that we can do the best job possible for all of you.

ILLINOIS FARMLAND VALUES
2015 SUMMARY, 2016 PROJECTIONS

Each year, the Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA) produces the Illinois Farmland Values and Lease Trends Report which analyzes the land market across the state of Illinois, specifically studying individual regions within the state. The Report is based on actual 2015 land market data and is the collective effort among ISPFMRA members such as ourselves, the University of Illinois' College of Agricultural, Consumer and Environmental Sciences and the REALTORS® Land Institute. We find it to be incredibly insightful and thought you might enjoy reading a high-level summary of the 105-page report.

Net Farm Income – Belt tightening can be heard throughout the countryside. Lower corn and soybean prices will reduce net farm income by over 20 percent in 2016. Spring crop insurance prices will be the lowest since 2006, and input costs today are nearly double what they were then.

Return on Investment – Our traditional 3.5-4.0 percent cash return on farmland investments is diminished by lower commodity prices. Those returns are now in the 2.0-2.50 percent range. Investors find this acceptable when looking at alternatives.

Interest Rates – Talk of rising interest rates continues to circle, but the struggling general economy continues to keep rates historically low. Our GDP right now doesn't warrant an increase and there is no inflationary pressure.

Auction Sales – Auction sales continue to show pockets of both strength and relative softness. Class A farms selling at strong prices early in 2016 show strength still exists in areas, but an increasing number of "No Sales" in November/December 2015 also shows that every farm auction isn't bringing expectations every time. An auction takes two motivated buyers!

Drainage Pays! – 2015 taught many landowners across the state the value of good drainage on our productive cropland. The ability to effectively move excess water and keep crops healthy resulted in wide productivity ranges and better returns on farms improved with tile drainage.

Cash Rents – Generally speaking, our farm incomes were lower in 2015 and are projected to be even lower in 2016. This reduced crop share leases as compared to cash rents. Cash rents for 2015 declined by roughly $25 per acre to a $350 average on Excellent quality farmland. Most ISPFMRA members expect 2016 cash rents on Excellent quality soil farms to be another $25 per acre lower than the current year at $325 or less.

Local Land Market – Specifically across the West Central region (identified as Cass, Menard, Scott, Morgan, Sangamon, Calhoun, Greene, Jersey, Macoupin and Montgomery Illinois counties), there continues to be great demand for "excellent" productivity tracts (133-147 PI); this land is generally described as flat, black and square. Similar to other areas in the State, this region has locations with particularly strong land markets, and other areas where land sales values tend to be less. In 2015, this land class held values better than others, but showed weakening during the final months of the year. The more conservative areas in the region may have weakened relative to the stronger land market areas. The overall weakening occurred as a continuation of the plateau established in the final quarter of 2013 followed by weaker prices and no new "highs". It appears now that the market is clearly heading down.

Land Values Trends Overall 2015 Summary

Farm Classification	Total Value Per Acre (Typical in 2015)	% Change in $/Acre from 2014	Change in Rate of Land Turnover from 2014
Excellent Productivity (133-147 PI)	$11,000 - $12,500	Down 10%	Down 40%
Good Productivity (117-132 PI)	$6,000 - $8,000	Down 10%	Up 25%
Average Productivity (100-116 PI)	$4,000 - $6,000	Down 15%	Same
Fair Productivity (<100 PI)	$2,500 - $4,000	Down 15%	Same
Recreational Tracts	$2,000 - $4,000	Steady	Up 40%

Similar to the "excellent" land class, the "good" category values (117-132 PI) continued the downward bias in price per acre, but to a more apparent degree. In the southern counties of the region, this category of land is the "best land" and in those areas values appeared to have held up the best toward year end. As the land productivity approaches the lower end of this land class, values appear to fall off rapidly. This class usually has one or more hazards including: lessor productive soils, unusual shape, varying topography, lack of road frontage, ditches or ponds, cut by roads or railroads or other public utilities. If potential flooding is an element of hazard, the discount is higher.

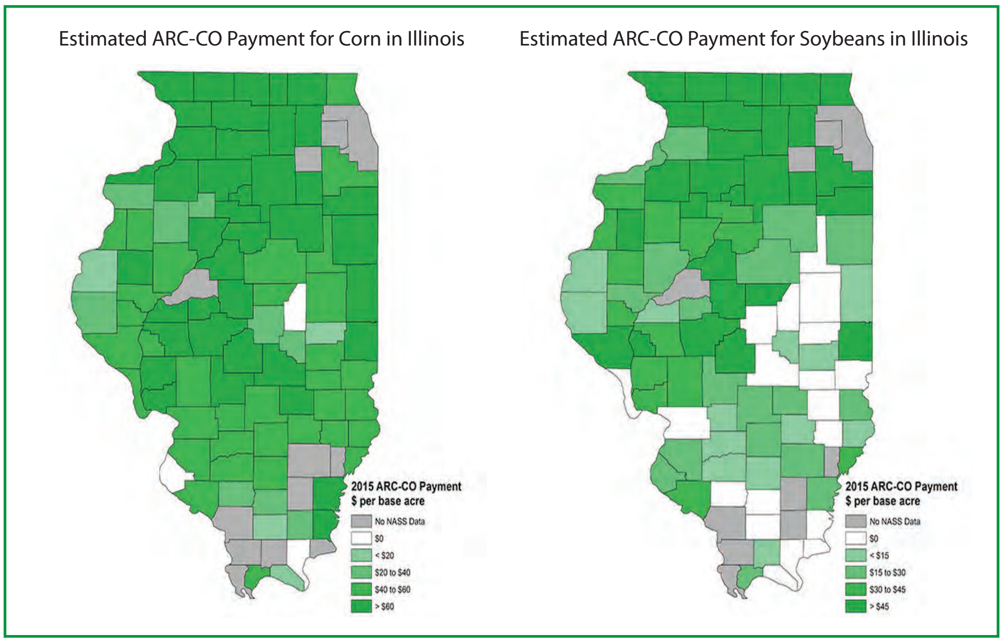
Most of the 2015 sales of "average" productivity (100-116 PI) varied in sale prices typically from a low of about $3,000 per acre to as much as $8,000 per acre. The variation is a function of percentage tillable and production hazards. Suitability for pasture or recreational use of the non-tillable acres also contributes to the price of a property. Higher prices generally are nearer to metropolitan centers and at the higher end of the productivity range. It also appears as the productivity rating approaches the low end of the average category, agricultural use prices are extremely discounted. In 2015, in our area, this land followed the trend of the better land prices, having a downward direction.

More details can be found on the ISPFMRA site at **http://www.ispfmra.org/category/land-values/.**

GOOD NEWS FOR COUNTY ARC ENROLLEES

by Allan Worrell

For landowners who enrolled in a county ARC program as part of the recent USDA farm program, there appears to be a benefit on the horizon. Under the program there are three options: PLC (Price Loss Coverage), ARC (Agricultural Risk Coverage) county or individual. An important distinction to note is that the landowner must share in the risk of production to be eligible for these programs. In other words, this is available only to producers, crop share landowners, custom farm owners, etc. Those receiving cash rent payments are not eligible.



Statistics indicate that most landowners enrolled in the county ARC program. In this case, payments are based upon COUNTY yields and national average prices, not INDIVIDUAL farm yields. Each crop has its own formula, triggers, etc. It is possible to have a corn payment, but not a soybean payment or vice versa or both.

The county yield for each crop is multiplied times an Olympic average commodity price for the previous five years. That figure is taken times .86 to determine the ARC guarantee for each crop for each county. As an example, that figure is $751 for Morgan County, Illinois for the 2015 crop year. We know that the 2015 Morgan county corn yield was 180 bu/ac. That figure is multiplied times the average commodity price from September through August. In this case September 2015 through August of 2016. When that price times the county average yield falls below the county guarantee, again $751 in this case, a payment is triggered.

With today's lower commodity prices it seems highly probable that a county ARC payment will be triggered in this area for both corn and soybeans. The payment will vary from county to county and the exact payment will not be known until after August 2016. However, at this time it appears that the corn payment could be $60 to $80 per acre and soybeans $40 to $50 per acre. A crop share landlord would receive 50% of this payment; an owner-operator 100%.

At this very early juncture, it is also possible that we might generate a 2016 crop year payment. That will depend upon county average yields and future price movement. The days of fixed rate payments are behind us. Volatility is the new norm it seems.

Map graphic source:
Paulson, N., and G. Schnitkey. "Corn versus Soybean Returns: 2016 Projections with Historical Comparisons." farmdoc daily (6):35, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, February 23, 2016. ***http://farmdocdaily.illinois.edu/2016/02/2015-arc-co-payment-estimates-corn-soybeans.html***

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SPRING 2016 NEWSLETTER

For All Seasons...

FARM TRANSITION PLANNING INFO SESSION RECAP

Dozens of landowners and farmers gathered for our Farm Transitional Planning Information Session in February. You could almost actually see brain gears turning as our guest speaker Tom Bayer, who leads the ag-industry channel at Sikich accounting firm, encouraged participants to ponder topics they'd never fully considered. For those who could not make it, here is a high-level summary of the key points:

Planning ahead is key! The transition planning process should start three years before you plan to retire, if possible. Doing so helps you manage income and expense into a reasonable tax bracket. Planning for an unexpected transition should happen as soon as possible. Some important questions to ask yourself include the following:

1. **Who is your successor for the farming operation?** If you do not have a successor, identify your plan to either sell or gift the land.
2. **How much do you need in retirement to support your retirement goals?** Know what social security benefits you will have, what your investment portfolio can produce, calculate living expenses, etc. Do your homework to hone in on specifics.
3. **What is your timeline?** Again, start at least three years prior to retirement. Be sure to get written agreements in place so your family will not have to decipher handshake agreements they were not involved in constructing.
4. **What is next socially? What do you plan to do with your time when you aren't farming anymore?** You've poured so much of your life into your work; the transition away from the farm has social implications, as well as financial implications.

Be sure to start your transition planning conversations with your financial advisor, accountant and successor(s) early. If we can be of service to you during this process, please let us know!