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Market Barometer	Total Return YTD % Change <sup>1</sup>
Dow Jones Wilshire 5000 Index (Entire market)	3.2
S&P 500 Index (Large-caps)	1.9
Dow Jones Wilshire Real Estate Securities Index	10.4
NCREIF Farmland Index <sup>3</sup>	5.7
Lehman Aggregate Bond Index (Broad taxable market)	2.9
10-Year Treasury Note	4.1
Inflation <sup>2</sup>	3.5

<sup>1</sup>Through 8/31/05; <sup>2</sup>Consumer Price Index for all urban consumers, seasonally adjusted annual rate through 7/31/05; <sup>3</sup>NCREIF Farmland Index through 6/30/05. Sources: Bureau of Labor Statistics, Lehman Brothers, National Council of Real Estate Investment Fiduciaries, Ryan Labs, Wilshire Associates

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## Month in Review

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- **2005 Land Values Summary.** The National Agricultural Statistics Service annual June Survey found farmland has risen nearly 40% over the last five years—gaining 11% in last year alone. *Page 3*
- **Illinois Land Rising at 10% Annualized Rate.** Drought depressed yields and lower profits could flatten rent increases in 2006, and perhaps even trim payouts in hard hit areas. *Page 4*
- **Cotton Subsidy Cut.** The White House's proposal to avert a potential trade war with Brazil will likely have little impact on the value of land in cotton production. *Page 5*
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- **2005 Rent Summary.** Cropland cash rental rates rose a modest 2% last year, while pasture rents climbed more than 7%. Alabama cropland rents led the country, jumping 21%. *Page 7*
- **Databank.** The Federal Reserve's second quarter survey shows that lenders expect a tamer land market in the face of rising fuel and interest costs. Land values accelerated in the western half of the U.S. and lost steam in the Midwest and East. *Page 8*

## Farmland Could Outpace Stocks Again This Year, But Lofty Price Multiples Raise Risk

**L**ow interest rates, record farm income, urban sprawl, recreational demand and speculation combined to drive the average value of farmland up 11% last year—the biggest percentage gain in 24 years.

Factor in the national average of \$78/acre in cash rent, subtract .75% for property taxes, and farmland generated a 16.1% total return last year—outpacing stocks' 12.6% gain.

If national trends parallel recent reports that Illinois land prices are rising at a 10% annualized rate this year, despite a severe drought, farmland could well be on track to beat stocks again by year end.

While we remain optimistic about the long-term prospects of the U.S. agricultural sector, we have grown cautious about the returns from farmland over the next 18 months, given current valuations. Rising short-term interest rates,

lower farm income and stagnating cash rents are raising the risk that farmland may be due for a price correction. At the very least, with farmland's historical 4% to 6% annual appreciation rate, the market's current momentum is not sustainable.

It's also too early to assess if Hurricane Katrina will have any lasting impact. The

disaster is pushing up the price of fuel and electricity as farmers enter the fall harvest season, and has shut down New Orleans grain-exporting ports, depressing grain prices.

"The odds that land will quit going up are much greater than it collapsing," says Prof. Michael Duffy, who monitors land values at Iowa State University. Prof. Duffy and other market observers agree that the greatest risk for a correction will be near urban markets where investors and farmers seeking 1031-exchange property have pushed suburban land sale proceeds into farmland in outlying areas.

No broad analysis can take into account all the factors that affect local land prices. That requires the expertise of

people in the local market. But valuation tools can offer useful clues for land buyers wary of getting in at the top.

One yardstick for evaluating stocks is the price/earnings multiple. This is the relationship of a company's stock price divided by earnings per share. It shows how much the market is paying (share price) for a company's earnings potential. An above average P/E multiple indicates investors' confidence in the company's ability to maintain earnings growth. The ratio of land prices to cash rent is akin to the P/E multiple.

Last January, the \$1,970/acre national average price of cropland was 25.3 times the average cash rent rate. Benchmark Iowa farmland, which includes land and buildings, is trading at more than 20 times cash rent—a 28-year high, and richer than the stock market.

This suggests that land buyers believe rents will either

escalate, or speculators are betting land will continue on its recent upward tear. But with one-year CDs recently paying 3.6% and that rate headed higher as the Federal Reserve continues to push up the overnight funds rate, CDs will offer an attractive alternative for Section 1031 tax-deferred exchange buyers.

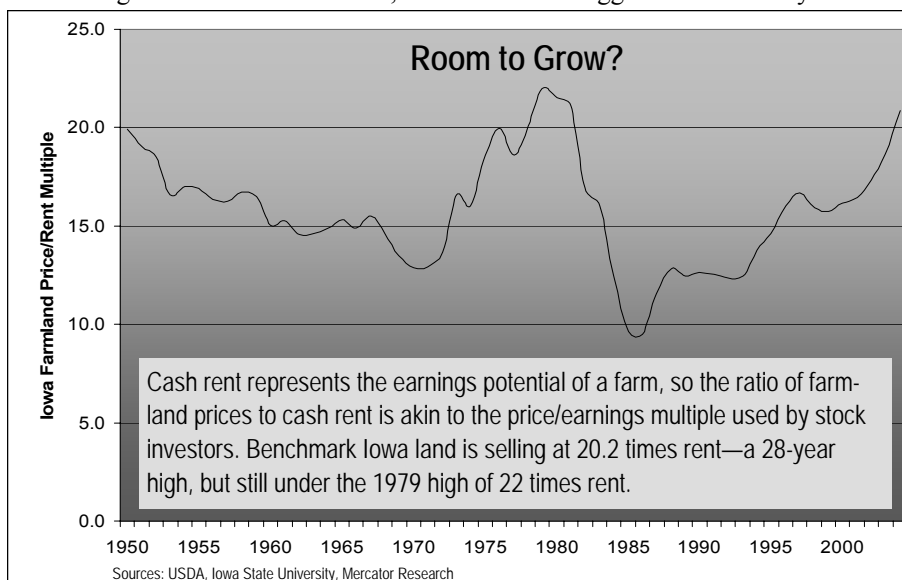
Such 1031-

exchange buyers made up 56% of all Illinois land purchases in this year's first half, estimates the Illinois Society of Professional Farm Managers and Rural Appraisers. The potential elimination of the capital gains tax could cause a \$350 to \$400 per acre decline in farmland prices, says the group.

Regional gains in the value of farmland ranged from 8.2% in the Delta and Southern Plains to 13.2% in the Northeast and Southeast, according to the National Agricultural Statistics Service Land Values and Cash Rents Summary.

Urban influences pushed the average price of Northeast farmland to \$4,020 per acre, the steepest regionally. In the

*(Continued on page 7)*



### 2005 Land Values Summary

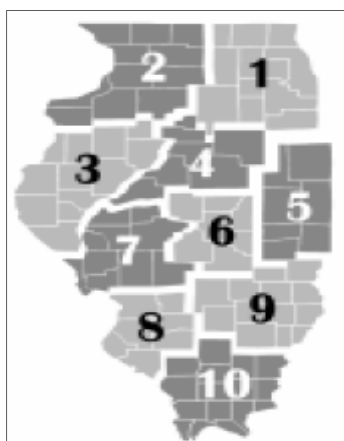
Region/State	Farmland <sup>1</sup>				Cropland				Pasture			
	2005 value/acre (\$)	12-month gain (%)	3-year gain (%)	5-year gain (%)	2005 value/acre (\$)	12-month gain (%)	3-year gain (%)	5-year gain (%)	2005 value/acre (\$)	12-month gain (%)	3-year gain (%)	5-year gain (%)
<b>Northeast:</b>	<b>4,020</b>	<b>13.2</b>	<b>34.0</b>	<b>59.5</b>	<b>4,290</b>	<b>12.9</b>	<b>33.6</b>	<b>49.5</b>	<b>2,770</b>	<b>12.1</b>	<b>32.5</b>	<b>30.7</b>
Connecticut	10,800	5.9	27.1	63.6	-	-	-	-	-	-	-	-
Delaware	8,400	40	127.0	200	8,000	40.3	128.6	190.9	-	-	-	-
Miane	1,950	5.4	21.9	56	-	-	-	-	-	-	-	-
Maryland	7,900	38.6	97.5	119.4	7,600	35.7	94.9	117.1	7,300	32.7	108.6	114.7
Massachusetts	10,500	6.1	29.6	78	-	-	-	-	-	-	-	-
New Hampshire	3,450	6.2	23.2	50	-	-	-	-	-	-	-	-
New Jersey	10,300	5.6	19.8	45.1	10,500	6.1	16.7	32.9	11,300	6.6	16.5	27
New York	1,880	5.6	16.8	33.3	1,470	4.1	15.9	31.9	825	6.5	21.3	47.3
Pennsylvania	4,000	9.6	23.1	47.1	4,000	8.1	19.4	28.2	2,200	10	22.2	14.6
Rhode Island	11,200	9.8	34.9	69.7	-	-	-	-	-	-	-	-
Vermont	2,300	7	21.1	39.4	-	-	-	-	-	-	-	-
<b>Lake States:</b>	<b>2,480</b>	<b>11.7</b>	<b>32.6</b>	<b>58</b>	<b>2,220</b>	<b>9.4</b>	<b>29.1</b>	<b>48</b>	<b>1,200</b>	<b>14.3</b>	<b>35</b>	<b>82.1</b>
Michigan	3,150	7.9	27.5	46.5	2,750	7.8	27.9	37.5	1,950	8.3	34.5	80.6
Minnesota	2,030	12.8	35.3	58.6	1,850	9.5	29.4	45.7	810	15.7	40.9	84.1
Wisconsin	2,850	14	32.6	67.6	2,600	10.6	30.0	62.5	1,400	16.7	33.3	84.2
<b>Corn Belt:</b>	<b>2,550</b>	<b>10.9</b>	<b>25.6</b>	<b>32.1</b>	<b>2,750</b>	<b>12.2</b>	<b>26.1</b>	<b>29.7</b>	<b>1,330</b>	<b>10.8</b>	<b>26.7</b>	<b>37.8</b>
Illinois	2,900	11.1	23.4	21.8	3,030	12.2	24.7	21.2	1,240	11.7	20.4	14.6
Indiana	3,050	10.1	24.0	29.8	3,080	12	26.2	28.3	1,900	6.7	21.8	23.4
Iowa	2,490	13.2	29.7	36.8	2,650	14.2	29.9	34.5	1,000	13.6	31.6	42.9
Missouri	1,740	10.1	26.1	39.2	1,890	11.8	27.7	46.5	1,260	11.5	28.6	46.5
Ohio	3,180	8.5	22.3	38.3	3,230	9.9	22.8	33.5	2,240	6.7	20.4	40
<b>Northern Plains:</b>	<b>704</b>	<b>11.4</b>	<b>22.2</b>	<b>33.8</b>	<b>880</b>	<b>12.4</b>	<b>22.2</b>	<b>31.7</b>	<b>325</b>	<b>16.5</b>	<b>30.5</b>	<b>40.7</b>
Kansas	800	11.9	20.3	35.6	800	13.5	17.8	20.1	500	16.3	25	33.3
Nebraska	910	10.3	19.7	30.9	1,430	10.9	19.2	28.8	310	12.7	26.5	34.8
North Dakota	500	9.9	20.5	20.5	546	11.4	21.3	28.5	210	13.5	27.3	35.5
South Dakota	570	14	32.6	50	847	13.4	35.3	66.1	290	20.8	38.1	52.6
<b>Appalachian:</b>	<b>2,860</b>	<b>11.7</b>	<b>27.1</b>	<b>43.7</b>	<b>2,930</b>	<b>9.7</b>	<b>25.2</b>	<b>39.5</b>	<b>2,500</b>	<b>13.6</b>	<b>30.9</b>	<b>38.1</b>
Kentucky	2,200	10	20.2	37.5	2,400	7.6	20.0	37.1	1,700	11.1	18.1	21.4
North Carolina	3,570	8.2	23.1	42.8	3,400	7.9	23.6	41.7	3,430	7.2	21.2	42.9
Tennessee	2,700	8	17.4	25.6	2,600	7.4	14.5	16.1	2,620	6.9	16.4	17
Virginia	3,900	21.9	54.2	77.3	4,000	21.2	56.9	86	3,500	25	66.7	70.7
West Virginia	1,600	6.7	20.3	39.1	2,350	6.8	22.4	46.9	1,380	7.8	23.2	53.3
<b>Southeast:</b>	<b>2,740</b>	<b>13.2</b>	<b>28.0</b>	<b>41.2</b>	<b>2,960</b>	<b>20.3</b>	<b>32.1</b>	<b>60</b>	<b>2,400</b>	<b>11.6</b>	<b>28.3</b>	<b>50</b>
Alabama	2,050	10.2	20.6	22	2,200	22.2	37.5	50.7	1,550	9.2	19.2	19.2
Florida	3,700	19.4	36.0	54.2	4,650	22	24.7	39.2	2,600	15.6	33.3	65.6
Georgia	2,590	10.2	26.3	37.8	2,730	20.8	38.6	95	3,150	6.8	26	46.5
South Carolina	2,330	8.4	22.6	45.6	2,050	10.8	28.1	65.3	2,150	7.5	22.9	48.3
<b>Delta States:</b>	<b>1,710</b>	<b>8.2</b>	<b>23.0</b>	<b>39</b>	<b>1,370</b>	<b>7.9</b>	<b>18.1</b>	<b>29.2</b>	<b>1,510</b>	<b>16.2</b>	<b>29.1</b>	<b>46.6</b>
Arkansas	1,820	10.3	29.1	45.6	1,420	10.1	20.3	31.5	1,570	20.8	26.5	57
Louisiana	1,680	6.3	16.7	34.4	1,390	6.9	16.8	25.2	1,500	11.1	18.1	30.4
Mississippi	1,580	6.8	18.8	33.9	1,280	5.8	16.4	30.2	1,420	11.8	25.7	42
<b>Southern Plains:</b>	<b>900</b>	<b>8.2</b>	<b>19.2</b>	<b>42.6</b>	<b>965</b>	<b>7</b>	<b>19.4</b>	<b>36.3</b>	<b>695</b>	<b>11.4</b>	<b>21.7</b>	<b>28</b>
Oklahoma	805	8.1	18.4	27	745	6.9	15.9	35.9	550	15.8	26.4	32.5
Texas	925	8.2	19.4	46.8	1,050	7	20.6	36.4	725	10.7	20.8	27.2
<b>Mountain:</b>	<b>599</b>	<b>8.9</b>	<b>19.8</b>	<b>29.7</b>	<b>1,260</b>	<b>5</b>	<b>12.5</b>	<b>22.3</b>	<b>346</b>	<b>14.6</b>	<b>26.7</b>	<b>37.8</b>
Arizona <sup>2</sup>	1,750	9.4	25.0	48.3	6,790	6.1	21.3	47.6	600	20	33.3	66.7
Colorado	845	9	20.7	26.1	1,110	4.7	11.1	25.1	555	18.1	35.4	54.2
Idaho	1,480	8.8	19.4	26.5	1,840	7.6	15.0	23.5	805	11	15	-5.3
Montana	445	8.5	20.3	27.1	586	6.9	16.5	20.6	320	12.3	25.5	39.1
Nevada <sup>2</sup>	550	10	18.3	25	2,070	6.2	11.9	8.9	295	13.5	18	9.3
New Mexico <sup>2</sup>	290	9.4	16.0	33.6	1,450	0	0.7	0.7	195	14.7	25.8	30
Utah <sup>2</sup>	1,230	7	18.3	36.7	2,900	0	0.7	5.8	630	21.2	32.6	50
Wyoming	350	11.1	22.8	45.8	1,010	3.9	10.4	23.9	270	14.9	28.6	63.6
<b>Pacific:</b>	<b>2,700</b>	<b>8.9</b>	<b>20.5</b>	<b>42.1</b>	<b>3,880</b>	<b>8.7</b>	<b>13.8</b>	<b>12.1</b>	<b>1,120</b>	<b>9.8</b>	<b>24.3</b>	<b>60.5</b>
California	4,160	9.5	22.4	46	6,590	9.5	15.0	10.6	1,750	9.4	25	75
Oregon	1,350	8	17.4	32.4	1,800	6.5	9.1	14.6	510	8.5	15.9	25.9
Washington	1,650	7.8	18.7	37.5	1,610	6.6	11	20.1	585	8.3	14.7	19.4
<b>National Average<sup>3</sup></b>	<b>1,510</b>	<b>11</b>	<b>24.8</b>	<b>39.8</b>	<b>1,970</b>	<b>11.3</b>	<b>23.9</b>	<b>32.2</b>	<b>694</b>	<b>9.5</b>	<b>20.3</b>	<b>32.4</b>

Data is based on the National Agricultural Statistics Service June Area Survey, conducted during the first two of June. Land value estimates are as of January 1st for each calendar year. <sup>1</sup>Farmland includes the value of all land and buildings on farms. <sup>2</sup>Excludes American Indian Reservation Land. <sup>3</sup>Excludes Alaska and Hawaii. Source: USDA

# Illinois Land Rising at 10% Annualized Rate

Illinois farmland continued its upward trend through this year's first half, rising 5% downstate and double that pace in areas surrounding suburban Chicago.

The strong market persists even though the volume of land sales is up, according to the Mid-Year Land Value Survey, sponsored by the Illinois Society of Professional Farm Managers and Rural Appraisers. Indeed, land that has not been on the market for decades is finding its way on to listings.



Tax-deferred exchange buyers dominate the market, making up an estimated 56% of all buyers, according to the Survey. Exchange buyers are seeking large, high-quality parcels and pressing for premium rent terms.

But with many areas of the state expecting below-average yields due to the drought, lower farm profits could translate to modest cash rent increases, and perhaps even decreases in hard hit areas for 2006.

ISPFMRA also notes widespread reports of prime land clearing \$5,000 per acre in many Central and Northern Illinois counties—a historic benchmark.

Strong demand from urban buyers seeking hunting and recreational prop-

erty pushed the price of recreational land up at a faster pace than cropland in this year's first six months.

More than 75% of the Society's

members expect Illinois farmland values to stabilize or rise in 2006. ■

Access the survey online:

[www.ispfmra.org](http://www.ispfmra.org)

Mid-Year 2005 Illinois Farmland Values by Region				
Region/Date	Land Quality			
	Excellent	Good	Average	Fair
<b>Region 1, Northeast</b>				
January 1, 2004	\$5,073	\$3,722	\$2,867	\$1,633
July 1, 2004	\$5,682	\$4,206	\$3,217	\$1,933
January 1, 2005	\$6,786	\$5,800	\$5,300	\$4,460
July 1, 2005	\$7,821	\$6,358	\$5,829	\$4,740
<b>Region 2, Northwest</b>				
January 1, 2004	\$3,942	\$3,425	\$2,817	\$2,404
July 1, 2004	\$4,850	\$3,863	\$3,046	\$2,579
January 1, 2005	\$4,950	\$4,083	\$3,522	\$3,031
July 1, 2005	\$5,360	\$4,295	\$3,689	\$3,213
<b>Region 3, Western</b>				
January 1, 2004	\$3,383	\$2,839	\$2,111	\$1,632
July 1, 2004	\$4,106	\$3,403	\$2,675	\$1,794
January 1, 2005	\$4,500	\$3,763	\$3,150	\$2,375
July 1, 2005	\$4,660	\$3,963	\$3,275	\$2,575
<b>Region 4, North Central</b>				
January 1, 2004	\$3,858	\$3,053	\$2,422	\$1,672
July 1, 2004	\$4,133	\$3,328	\$2,647	\$1,894
January 1, 2005	\$4,668	\$4,069	\$3,550	\$2,825
July 1, 2005	\$4,868	\$4,238	\$3,600	\$2,938
<b>Region 5, Eastern</b>				
January 1, 2004	\$3,665	\$2,650	\$2,292	\$1,346
July 1, 2004	\$4,054	\$2,908	\$2,558	\$1,481
January 1, 2005	\$4,600	\$3,860	\$3,163	\$2,575
July 1, 2005	\$4,938	\$4,226	\$3,563	\$2,956
<b>Region 6, Central</b>				
January 1, 2004	\$3,896	\$3,177	\$2,473	\$1,815
July 1, 2004	\$4,365	\$3,438	\$2,769	\$2,035
January 1, 2005	\$4,577	\$4,088	\$3,588	\$2,936
July 1, 2005	\$4,771	\$4,332	\$3,805	\$3,082
<b>Region 7, West Central</b>				
January 1, 2004	\$3,850	\$3,314	\$2,686	\$1,993
July 1, 2004	\$4,143	\$3,371	\$2,969	\$2,271
January 1, 2005	\$4,461	\$3,967	\$3,294	\$2,583
July 1, 2005	\$4,625	\$4,095	\$3,450	\$2,710

Source: Illinois Society of Professional Farm Managers and Rural Appraisers

## Cotton Subsidy Cut Not Likely to Impact Land Values

**T**he White House's proposal to avert a potential trade war with Brazil by asking Congress to eliminate a cotton subsidy program will likely have very little impact on the value of land in cotton production.

Ending the program known as "Step-2"—which subsidizes cotton sales to fabric mills and exporters—would bring the U.S. into compliance with a World Trade Organization ruling in March that found Step-2 was unfairly hurting Brazilian cotton exports.

All payments—especially farm program payments—have a direct impact on farm land value. But, because Step-2 payments are made to first handlers and not directly to cotton farmers, the impact will be indirect, says Texas A&M University economist Jose Pena.

"Cotton buyers may have to lower their bids for US cotton when US prices are higher than world prices in order to remain competitive in world markets for US cotton products," he says.

Texas Tech University's Cotton Economics Research Institute also recently concluded that dropping Step-2 would not dramatically affect exports or cotton prices.

This should tend to lower the price of US cotton to farmers and have an indirect reduced effect on land values. But, the expected effect should be very small, in the one to two cent per pound range, says Prof. Pena. This should have very little, if no effect, on land values, especially since the land could be shifted to other uses.

If the elimination of Step-2 payments reduces price bids for US cotton, other program payments, such as counter cyclical payments, increase as U.S. cotton prices decrease.

While no one knows how Congress will react to eliminating Step-2 payments, says Prof. Pena, it may be possible to restructure the way payments are made so as to not create a potential to discriminate against US cotton use when cotton price bids in world markets are lower than in the US. ■

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## Conservation Easements Under Scrutiny

**T**he Internal Revenue Service is moving to eliminate the abuse of conservation easements which offer tax breaks to landowners who surrender development rights on their land.

Under a conservation easement, a landowner donates a piece of property usually to an environmental group and gets an income-tax break for giving up development rights on the property. The land typically is transferred to a land trust to ensure the property is maintained as open space. Donating the easement to a land trust exempts the owner from capital-gains taxes and allows the owner an income-tax deduction for the value of the easement of up to 30% of their adjusted gross income.

The recent run up in land values has fueled interest in conservation easements as landowners looking to sell land seek to reduce capital-gains taxes.

The IRS effort comes as Congress prepares legislation to require stricter monitoring and enforcement of such donations and make charities that accept easement donations more accountable. For the past two years, the Senate Finance Committee has been investigating the practices of The Nature Conservancy and other conservation organizations. Sen. Charles Grassley (R-IA), finance chairman, had hoped the committee would propose reforms before the August recess

covering the valuation of conservation easements, especially improving appraisals; adequate monitoring and enforcement of easements; insuring conservation purposes of easements; proper reporting and limits on easement modifications; accreditation of land trusts; and greater transparency in reporting by land trusts. No formal proposals from the Senate Finance Committee have been announced.

Early this year, the Joint Commission on Taxation proposed cutting the deduction for qualified conservation contributions to 33% from 100% of the fair market value of the contributed easement, and imposing new standards on appraisals, and appraisers who value such contributions. The proposed changes would be effective for contributions made in taxable years after the date of enactment.

Meanwhile, the IRS has formed a team to crack down on abusive tax breaks claimed through easements and is currently investigating seven charitable groups that deal in conservation easements. Four more charities are expected to be examined shortly. IRS says it is auditing more than 240 taxpayers who have taken open-space easement deductions. Another 100 donors are being considered for audits.

In addition, the IRS is investigating promoters who market conservation easements to investors in states that allow transfers of tax credits. In a typical case, investors pool funds to buy a property. After one year, the owners place a conservation easement on the property using an inflated appraisal that generates an easement deduction that is many times the value of the property's original purchase price. IRS agents have recommended opening investigations on five easement promoters. ■

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## Institutional Roundup

### Alaska Finds Hunt For Ag Land Slow Going

Steep land prices and organizational delays have made for slow progress in the Alaska State Pension Investment Board's effort to invest \$200 million in farmland.

Since hiring managers UBS Agrivest and Hancock Agricultural Investment Group late last year, Alaska has spent \$23.7 million on six farm parcels.

"We hear from both of our managers that pricing has gone through the roof and they can't get the kinds of returns we want," says Michael Oliver, an ASPIB investment officer for real estate and private equity.

Alaska's expected return on its farmland investments is 7.8% on an absolute basis, and greater than 5% on an inflation-adjusted basis.

The pension fund has four farm parcels under pending contracts totaling 4,819 acres. UBS and Hancock were also recently evaluating another 40 to 50 properties for potential purchase.

Separately, UBS Agrivest says it is moving forward with plans to take advantage of what its managers see as a second wave of capital entering the farmland sector.

As we reported in February, UBS hopes to launch an open-end ag real estate investment fund. UBS says there has been "considerable" interest in the fund by a number of corporate, state and municipal pension plans, as well as a real estate "fund of funds" investor. ■

### AT&T and Bell South Flirt with Sale of Farm Portfolio

Managers who oversee pension plans for AT&T and Bell South

Recent Farmland Purchases by Alaska State Pension Investment Board					
Location	Land type	Crop type	Acreage (Gross)	Purchase price	Price/Acre
Bingham County, Idaho	Irrigated crop	Potatoes	2,856	\$7,400,000	\$2,591
Tulare County, Calif.	Permanent	Walnuts, pastachios	515	\$5,600,000	\$10,874
Yuma County, Colo.	Irrigated center pivot	Corn, sugar beets, alfalfa, wheat	2,560	\$4,800,000	\$1,875
Fresno County, Calif.	Irrigated row crop	Cotton, tomato, grain, alfalfa	712	\$2,900,000	\$4,073
Leflore/Tallahatchie Counties, Miss.	Irrigated row crop	Cotton, soybeans, rice, corn	966	\$1,700,000	\$1,760
Cassia County, Idaho	Irrigated row crop	Potatoes, sugar beets, wheat, barley, alfalfa, corn	677	\$1,300,000	\$1,920
<b>Totals</b>			<b>8,286</b>	<b>\$23,700,000</b>	<b>\$2,860</b>
<i>Transactions completed through 7/31/05. Source: ASPIB</i>					

appear to be mulling an effort to sell off a \$200 million portfolio of 55 farm properties formed in 1990.

The potential sale is said to be prompted by a series of restructurings and layoffs at the companies. AT&T and Bell South declined to comment on the portfolio and its investment performance, but representatives at both companies said their pension plans are currently "over funded."

The portfolio—held through an entity called Winding Brook Corp.—includes land in Cross and St. Francis counties, Ark.; Washington County, Idaho; Franklin Parish, La.; Coahoma, Leflore, Sunflower and Tallahatchie counties, Miss.; Chouteau County, Mont.; Hidalgo County, Texas, and Yakima County, Wash.

The farms produce cotton, rice, soybeans, wheat, apples, corn, sunflowers, and sorghum, and generated \$615,092 in government program payments between 1995 and 2003.

Early this year, the Alaska State Pension Investment Board allocated up to \$75,000 for consultants to study whether to bid on the portfolio.

An Alaska official confirmed the

investment board held discussions with the telecom pension plans, but the discussions have ended. UBS Agrivest, which manages the Winding Brook portfolio, also declined to comment. ■

### Two Vineyard REITs Win Funding

Two recent private offerings aimed at the vineyard sector have won funding.

Vintage Wine Trust Inc. of San Rafael, Calif. has raised \$145 million through a private Real Estate Investment Trust. The REIT will acquire and lease-back vineyards and wine-related real estate assets.

Global Wine Partners of St. Helena, Calif., says it has attracted funding commitments for VinREIT, a Real Estate Investment Trust that will also acquire and leaseback vineyards.

Global Wine Partners' Mike Fisher says his group intends to complete more than \$100 million in acquisitions annually. VinREIT will target 12% to 15% net annualized returns. ■

(Continued from page 2)

Corn Belt—Illinois, Indiana, Iowa, Missouri and Ohio—farm real estate values climbed 10.9% to \$2,550 per acre. Meanwhile, the Mountain states—dominated by pasture and rangeland—had the lowest priced farmland at \$599 per acre.

Cropland in the Southeast—Alabama, Florida, Georgia and South Carolina—generated the steepest 12-month gain, jumping 20.3% to \$2,960 per acre. In the country's mid section, Corn Belt cropland rose 12.2% to \$2,750 per acre, and Lake States cropland—Michigan, Minnesota and Wisconsin—gained 9.4% to \$2,220 per acre. The Corn Belt and Lake States regions represent nearly one-third of all U.S. cropland.

Pasture in the Northern Plains—Kansas, Nebraska, North Dakota and South Dakota—rose 16.5% the sharpest regional gain for the category. Pasture in the Southern Plains, Mountain and Pacific regions rose 11.4%, 14.6% and 9.8%, respectively.

The 17 western states in these four regions account for 87% of all pasture in the continental U.S.

Though farm real estate values are on a tear,

cash rent increases for cropland rose just 2% in 2005; pasture rents increased 7.3%. Cropland cash rents rose in all regions except the Mountain states, where rental rates slipped 0.8%, and the Southern Plains, which remained flat. Rental rates in the Corn Belt and Northern Plains regions, which represent more than half of all cash-rented cropland, rose 2.6% and 6%, respectively. The major corn and soybean producing states of Illinois, Indiana and Iowa saw rents climb to \$129/acre, \$109/acre and \$131/acre, respectively.

Pasture rents fell a modest 10 cents to \$19/acre in the Southwest, while rates in the Northeast and Pacific were flat. Northern and Southern Plains pasture, which accounts for two-thirds of cash-rented pasture acreage, saw rent rates rise 1.7% and 3.7%, respectively. Wisconsin's \$38/acre average pasture rate continues to stand as the country's steepest.

The Summary's estimates of land values and cash rents are based on NASS's annual June survey of agricultural producers. NASS polls farm operators on the estimated value of all land and buildings in their entire farming operation and the estimated percent change from the previous year. NASS also collects data on acres of crop and pasture land rented for cash and the corresponding cash rental rate. ■

Access the report online: <http://usda.mannlib.cornell.edu/reports/nassr/other/plr-bb/land0805.pdf>

2005 Rent Summary				
Region/State	Cropland		Pasture	
	2005 rent (\$/acre)	12-month change (%)	2005 rent (\$/acre)	12-month change (%)
<b>Northeast:</b>	<b>46.00</b>	<b>3.4</b>	<b>24.00</b>	<b>0.0</b>
Delaware	64.00	4.9	-	-
Maryland	62.00	5.1	-	-
New Jersey	47.50	0.0	-	-
New York	41.00	2.5	-	-
Pennsylvania	45.00	4.7	27.00	8.0
<b>Lake States:</b>	<b>78.00</b>	<b>2.4</b>	<b>26.90</b>	<b>9.8</b>
Michigan	62.00	0.0	-	-
Minnesota	86.50	3.6	20.50	5.1
Wisconsin	70.00	0.0	38.00	2.7
<b>Corn Belt:</b>	<b>117.00</b>	<b>2.6</b>	<b>30.50</b>	<b>5.2</b>
Illinois	129.00	2.4	34.50	1.5
Indiana	109.00	1.9	-	-
Iowa	131.00	4.0	36.00	10.8
Missouri <sup>2</sup>	79.00	3.9	27.00	3.8
Ohio	82.00	2.5	-	-
<b>Northern Plains:</b>	<b>53.00</b>	<b>6.0</b>	<b>12.00</b>	<b>1.7</b>
Kansas	42.00	2.4	13.40	1.5
Nebraska	97.00	2.1	12.00	0.0
North Dakota	39.00	4.0	10.60	3.9
South Dakota <sup>2</sup>	50.40	6.1	12.30	6.0
<b>Appalachian:</b>	<b>58.00</b>	<b>5.5</b>	<b>21.00</b>	<b>9.9</b>
Kentucky	73.00	1.4	-	-
North Carolina	55.00	3.8	25.00	8.7
Tennessee	67.00	0.0	18.00	-5.3
Virginia	40.00	2.6	20.00	14.3
West Virginia	28.00	-6.7	-	-
<b>Southeast:</b>	<b>48.00</b>	<b>7.9</b>	<b>19.00</b>	<b>-0.5</b>
Alabama	40.00	21.2	17.50	-2.8
Florida <sup>2</sup>	58.00	0.0	18.50	5.7
Georgia	58.00	0.0	22.00	-8.3
South Carolina	29.00	1.8	-	-
<b>Delta States:</b>	<b>70.50</b>	<b>2.9</b>	<b>17.00</b>	<b>2.4</b>
Arkansas	76.00	1.3	-	-
Louisiana	66.00	0.0	16.50	6.5
Mississippi	69.00	4.5	16.50	0.0
<b>Southern Plains:</b>	<b>30.50</b>	<b>0.0</b>	<b>8.40</b>	<b>3.7</b>
Oklahoma <sup>2</sup>	29.00	-3.3	9.00	15.4
Texas	29.70	-0.3	8.30	6.4
<b>Mountain:</b>	<b>62.00</b>	<b>-0.8</b>	<b>3.80</b>	<b>5.6</b>
Arizona <sup>1</sup>	165.00	10.0	-	-
Colorado	61.00	5.2	4.30	16.2
Idaho	104.00	5.1	-	-
Montana	25.00	2.0	5.90	18.0
New Mexico	-	-	1.80	5.9
Utah <sup>1</sup>	65.00	6.6	9.00	-10.0
Wyoming	-	-	4.00	0.0
<b>Pacific:</b>	<b>185.00</b>	<b>2.8</b>	<b>13.50</b>	<b>0.0</b>
California <sup>1</sup>	330.00	10.0	12.00	4.3
Oregon	100.00	0.0	-	-
Washington <sup>1</sup>	190.00	2.7	-	-
<b>National Average<sup>3</sup></b>	<b>78.00</b>	<b>2.0</b>	<b>10.30</b>	<b>7.3</b>

Data compiled from National Agricultural Statistics Service June Area Survey, conducted during the first two weeks of June. Unless otherwise specified, data are for all cropland. <sup>1</sup>Irrigated cropland. <sup>2</sup>Non-irrigated cropland. <sup>3</sup>Excludes Alaska and Hawaii. Source: USDA

## Higher Fuel and Interest Costs Prompt Lenders to Look for Tamer Land Market

Rising interest rates and drought-depressed crops in some areas has most bankers in the Chicago Fed District forecasting that farmland values will stabilize in the third quarter.

As of July 1, interest rates for new farm mortgage loans in the Chicago District averaged 6.7%; farm operating loan rates rose to 7.3%, a three-year high, according to Fed economist David Oppedahl.

And with farmers facing higher fuel and other costs, bankers in the Chicago and Minneapolis Fed Districts expect increased farm loan volume in the third quarter, vs. prior year levels.

Farm income increased in most parts of the Minneapolis District during

the second quarter as spring rains gave a lift to crops in the western part of the District. Land prices continued to rise, though at a slower pace.

Second-quarter ranch land in the five-state Minneapolis District rose 30% from the prior year period; non-irrigated land rose 19%.

The region's hottest market for non-irrigated land was South Dakota where prices increased 29% for the 12 months through June 30. One state lender predicted that a continued rise in interest rates could begin softening land values by next year's second quarter.

In the Dallas District, hot, dry weather strained crop and pasture conditions in some regions. Higher fuel

and energy-related product prices continue to push up farm operating expenses, further stressing an already strained production environment. Ag land values in Hill County, Texas are on the rise due to natural gas leases.

Most Dallas District bankers look for land values to stabilize in the third quarter; lenders in Central and Coastal Texas, and the Trans-Pecos and Edwards Plateau expect prices to rise.

Recreational buyers continue to boost ag properties, and more buyers are paying cash for their purchases.

Just 11% of the Dallas District's bankers expect farmland loan volume to rise in the third quarter, down from 20% a year ago. ■

The charts below track quarterly changes in the value of farmland in six Federal Reserve Districts. Data for the Chicago and Richmond Districts represent the percentage change of all farmland during the quarter. Data for the Dallas, Minneapolis, Kansas City, and San Francisco Districts represent the percentage change of non-irrigated farmland.

