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GEORGIA Landowners NEWS

A Newsletter from Southern Plantations Group, Inc.

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Energy - Biofuels and Farming

By: Joe Marshall

Farmers have experienced unprecedented spikes in energy prices this year, focusing attention on alternative energy. New energy production efforts range from nuclear, solar, and windmill energy to shale oil mining and the manufacture of biofuels.

Biofuels are generated from farm-produced products. The most common biofuels are ethanol, made in the U.S. from corn and used as a component of gasoline, and biodiesel, a blend of soybean oil and diesel fuel.

Corn-produced ethanol is blended with gasoline to produce fuels called E10 and E15, typically a ratio of 10% to 15% ethanol and 85% to 90% gasoline. These blends can run in gasoline engines and are used in many locations in the Midwest. Research is underway in developing and testing flexible fuel vehicles (FFV's) capable of running blends of up to 85% ethanol. With current oil prices around \$60 per barrel and congressional action giving tax incentives to biofuels, E10 and E15 may become more common in our part of the country soon.

Biodiesel is a blend of, typically, 20% soy oil and 80% diesel, sometimes called B20. It is currently used in transit bus fleets, trucking fleets and other operations around the country. Some diesel-powered vehicles are now adapted to use 100% soy oil or animal fats, or 100% recycled restaurant cooking oil. Gary Black, a candidate for Georgia's Commissioner of Agriculture, adapted his campaign pickup to burn biodiesel or 100% animal fat from

a poultry by-product processing facility. A petroleum company in Perry, Georgia is reportedly offering biodiesel B20.

Current biofuel market levels

While current ethanol production uses less than 10% of the nation's corn crop, some experts see the use expanding to 20% or more in the next few years. The U.S. is second in the world in E technology



(ethanol/gasoline) and B technology (biodiesel). Brazil, which leads in E technology, uses ethanol produced from sugar cane, and Europe, which is ahead in B technology, uses rapeseed oil and diesel.

Advantages of biofuel

Biofuels reduce trade deficits, dependence on imported oil, and the amount of toxic emissions released in the air. Biofuels also support U.S. agriculture and rural economies. The use of biofuels increases and strengthens the market for corn and soybeans, thereby maintaining and increasing the rental rates for U.S. farmland.

Farmers and landowners should encourage their congressmen to open up arctic and coastal areas for petroleum speculation, to continue the development of biofuels, and to promote alternative forms of energy.

visit our website at www.splantations.com

Like-Kind Exchanges: The Devil is in the Details

By Carol Bishop, CPA

According to Benjamin Franklin, there are only two things that we can be sure of - death and taxes. Yet, real estate buyers and sellers are eternally looking for ways to avoid or defer taxes on real estate transactions. Using one of the last available tax shelters, the Section 1031 tax deferred exchange, investors may avoid paying taxes when investment properties are disposed of as long as they keep exchanging (and not selling) properties. And if they die before cashing out of their investment, the capital gains liability disappears altogether, as long as the estate is not worth enough to trigger taxes. It is no wonder that real estate investors have fallen in love with this section of the Internal Revenue Code.



Section 1031 allows you to sell a piece of real estate and invest the proceeds in a like-kind investment of the same value. But, like most things in the Internal Revenue Code - the devil is in the details.

Effect on land prices in SW Georgia

As this popular tax feature has become more and more common in recent years, it has had a significant impact on land values in Southwest Georgia. In Illinois, a recent survey showed that 56% of all land sales involve 1031 exchanges. Our experience indicates that between one half to three fourths of the farmland sales in Southwest Georgia involve 1031 exchanges.

As urban encroachment continues to drive up land values, farmers are increasingly selling to developers and then buying more acres in another area. For example, we are seeing cattle ranchers from central Florida essentially trade up and use the value of their increasingly expensive land to get even more acres in southwest Georgia. The reasons for wanting to sell range from being crowded out, to seeing a lack of interest in farming among their grown children, to locking in the extraordinary gains on their farmland, to consolidating or diversifying their investment, to eliminating management hassles, to providing a greater cash flow.

The typical 1031 buyer has a lot of money to reinvest and a short time frame to identify and buy their next property. Thus, tax free exchange buyers usually have a lot more bidding power than other buyers and a great deal more time pressure to close the deal. With huge dollars chasing a limited number of properties, 1031 buyers often pay a premium. Gary Schnitkey, a University of Illinois agricultural economist, estimates that buyers using tax-free swaps pay \$350 to \$400 more per acre in Illinois.

Rules of the game

Section 1031 has been in the tax code since 1921 when it was enacted to pacify outraged farmers who were forced to pay 2% income tax on the sale of farm property after returning from World War I. But, it became more useful to investors in the 1980s when the rules were expanded to allow a 180 day gap between selling and buying and to allow for the use of intermediaries.

The idea is simple. Section 1031 allows you to sell a piece of real estate and invest the proceeds in a like-kind investment of the same value. But, like most things in the Internal Revenue Code - the devil is in the details.

Since two property owners rarely want each other's properties, simultaneous exchanges are rare. Most exchanges involve three parties, the taxpayer who wants to sell (and yet defer paying taxes), the buyer for that property, and the seller for the property that the taxpayer wants to transfer his equity into.

To facilitate the exchange, a qualified intermediary is hired to hold in escrow the proceeds of the property sold and to acquire the replacement property. To qualify as a 1031, it must be a non-cash exchange; the seller cannot receive the money.

The timing is crucial. From the date the relinquished property is closed, the seller has 45 days to identify in writing up to three properties to buy, and the seller must close on one or more of them within 180 days. It is best to pick the replacement property before the sale because 45 days is rarely enough time to identify, research, and negotiate the properties. Also, the 180 day replacement window closes as soon as the taxpayer files his taxes, so a filing extension may be required.

The property given and received must be of a like-kind (held for productive use in a trade or business or for investment). Generally, like-kind business property has been interpreted broadly.

Landowners could exchange farmland for:

- o other farmland;
- o a rental condo in Florida or elsewhere;
- o an office building;
- o a rental duplex; or
- o a restaurant or drug store under a long-term lease.

Worth the effort

With the complexities involved in tax-deferred land exchanges, professional help is a necessity in order to avoid the pitfalls and to structure deals that comply with the detailed rules crafted by the IRS. But more and more farmers are finding that it is worthwhile to pay attention to the devil in the details and reap the benefits of one of the best games in town - the Section 1031 exchange. Although 1031 exchanges may not completely eliminate all taxes, they may bring some doubt as to the certainty of Mr. Franklin's taxes.

Tax issues are fun. Getting to love them may take a bit of effort, but the same is true for Beethoven's string quartets, and think of how much pleasure they give if one does make the effort. Peter L. Faber

Time to Lock in Long-Term Interest Rates?

By Jeff Peterson

Recent Sales

Lee Co., GA August 05
599 acres sold for \$3,200 per acre. The property consisted of 294 acres of 7-17 year old planted pines, 216 acres of natural woodland, 75 acres of beautiful cypress ponds, and 14 acres in buildings area. Timber value was estimated at \$124,000. A 1,850 sq. ft. house and a metal equipment shed were on the land.

Early Co., GA October 05
2,354 acres sold for \$2,900 per acre. 1,800 acres of center pivot irrigated cropland, 50 acres of dry cropland, 49 acres planted pines, 438 acres of natural woodland with significant timber value, and 17 acres in building area. The buildings consisted of a nice brick house and three nice equipment sheds. First quality property with major creek frontage.

Calhoun Co., GA Sept 05
945 acres sold for \$2,200 per acre. Property consisted of 200 acres of center pivot irrigated cropland, 35 acres of dry cropland, 75 acres of pastureland, 96 acres of 7-14 year old planted pines, 293 acres of wet woodland, 55 acres in ponds, 5 acres in building area, and 186 acres in a heavily wooded pond. Property has significant frontage on a major creek. Buildings consisted of small cabin and equipment shed.

Seminole Co., GA Apr 05
225 acres sold for \$3,000 per acre. Property consisted of 175 acres of center pivot irrigated cropland, 18 acres of dry cropland, and 32 acres of wetland. The cropland was good quality with slightly rolling soils.

Short-term interest rates are on the rise. During the past year the prime rate has increased from 5% to 7% and the 30 day LIBOR has increased from 2.4% to 4.41%. Surprisingly, long-term rates have increased very little during the period with the current 10 year T-Bill at 4.4% and the 30 year T-Bill at 4.61%.

Though the short-term rates have increased, they are still relatively low from a historic perspective. After September 11th, Alan Greenspan began lowering the Fed Funds rate to spur the U.S. economy. With inflation on the rise, Mr. Greenspan has reversed this process to keep growth and prices under control. For the lucky people who have excess cash, the good news is that one year CD rates are 4% versus 1% just 18 months ago.

From an historical standpoint, long-term rates are still very low.

Which direction will interest rates go from here? Current economic factors suggest an upward trend. The federal government is running record deficits, and it does not appear that congress or the President has the political will to get the budget under control. Inflation is on the rise. Those of us who are old enough to remember the energy crisis of the 1970's, remember that it caused hyperinflation and unbelievably high interest rates especially in the late 70's and the early 1980's. Will history repeat itself? Will we have to

pay 20% interest on operating loans? Will a 13% long-term interest rate on land look like a good deal? Will the fortunate people with excess cash be able to buy a one year CD with an interest rate of 16%?

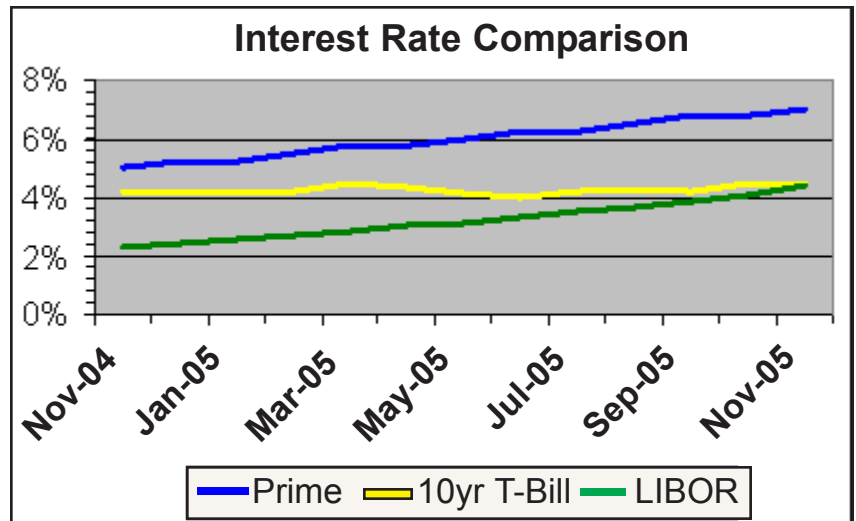
Let's hope not because as we found out in the 1980's, American agriculture was not successful under those conditions and suffered the worst economic down turn since the Great Depression of the 1930's.

For the past few years, it has been a very difficult decision to lock in long-term interest rates at 6% to 7%, when short-term money has been at 3% to 5%. Those of you who locked in long-term interest rates in the low 6% range made a good decision. From an historical standpoint, long-term rates are still very low.

SPG, in association with national insurance companies, offers 10-15 year fixed interest loans on land in the 6.5% to 7% range. Currently, there are many positive economic factors to help landowners obtain long term financing. For instance, land values are very high and this allows landowners to more easily meet the loan to value requirement. The current USDA farm price support program (due to expire in 2007) and the relative good crop yields over the past few years have allowed farmers to show good historic earnings to cover future debt service requirements.

No one knows for sure which direction interest rates will move, but history and current economic conditions suggest rates are moving higher. This may be a good time to lock in a long-term interest rate on all or a portion of your long-term debt.

Long-term rates have remained stable over the past year. The current 10 year T-bill is 4.4% and the 30 year T-bill is 4.61%.



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Southern Plantations Group, Inc. (SPG) is a professional agricultural consulting firm specializing in real estate sales, farm management, farm and timberland appraisals, long term fixed interest rate lending, and farm accounting. For more than 25 years SPG has provided services to farm and timberland owners, lenders, and operators.

Current Listings



910 ± Acre Buena Vista Cattle Ranch

First quality cattle ranch with many building improvements and fencing to support the cattle operation. The property has row cropland, Coastal Bermuda hay fields, improved pasture, three beautiful ponds, planted pines, mature natural pines and hardwoods. The owner has allowed no hunting on the property for the past 15 years, so deer and wild turkey populations are abundant. **Listing price - \$2,900,000**



1,038 ± Acre Long Leaf Pine Quail Hunting Tract

First quality quail, deer, duck hunting property located in the heart of SW GA plantation country. Over \$800,000 in timber value, 360 acres of long leaf pines, 326 acres hardwood pines, 12 acre cypress pond, 340 acres of cropland generating \$34,300 yearly cash rent. **Listing price - \$3,360,000**

*Call Joe Marshall or
 Jeff Peterson for more
 information on these and
 other properties*
229-439-0012
www.splantations.com

We have investors who want to purchase recreational timber tracts and center pivot irrigated cropland with or without a lease back from the owner. If you are thinking about selling your property within the next few years, this may be the best time with such an active market. **Please call for a confidential consultation.**

COMMODITY PRICES

Futures	Dec 05	Dec 04
Corn	1.91	2.10
Wheat	2.98	3.10
Soybeans	5.72	5.70
Cotton	.49	.48

Commodity prices are weak and in the low end of the range for the past 5 years.

Long Term Interest Rates

SPG offers low-interest fixed rate loans up to 30 years amortization to landowners. Lower rates with excellent credit. Rates change daily. Call for more information on our long term loans.

5 Year 6.60%
7 Year 6.55%
10 Year 6.60%
15 Year 6.96%

LOCAL TIMBER PRICES

Pine Pulpwood	\$7 - 9/ton
Pine Chip-N-Saw	\$25 - 27/ ton
Pine Sawtimber	\$47 - 50/ton
Hardwood Pulpwood	\$8 - 11/ton
Hardwood Sawtimber	\$23 - 25/ton

Timber prices are rising and are in the upper end of the range for the past 5 years.