

Southern Plantations Group

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# GEORGIA Landowners NEWS

A Newsletter from Southern Plantations Group, Inc.

## Land Prices, Politics, and the Year Ahead

Winter 2007

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Year end is a good time to assess the year(s) just passed and contemplate the year(s) ahead.

**Current Situation:** Land prices appear to be leveling off after a two/three year sharp upswing. "Trophy" property prices are still strong but "normal" properties are level to experiencing a slight softening.

**Factors Affecting Land Values:** The recent strength in land prices was primarily driven by the strong land boom in Florida and resultant Section 1031 tax deferred land exchanges in south Georgia, and secondarily by the strong 2002 Farm Bill.

No doubt, rising interest rates, rising construction costs, recent hurricanes, and saturation contributed to the slowing of the Florida market and then the south Georgia market. There are reports that well-funded investment funds have an inventory of land for future development. If so, future demand for south Georgia land may be weakened for several years ahead.

Farmland has traditionally yielded yearly rental or operating returns of six to seven percent, then five percent; and now good farmland properties are yielding three to four percent and less. Mixed use properties are yielding returns as low as one and two percent and less. It's easy to see that one has to buy acreage with 1031 exchanges or cash on hand. One doesn't pay off six and eight percent mortgages with the aforementioned returns. It's also easy to see how a farm operator can afford to rent land, but not buy it.



**USDA Farm Program:** Cropland rental rates are determined principally by irrigated vs. dryland and Farm Program payments, and to a lesser extent by location, quality of irrigation, etc. The Farm Program of 2002 is farm operator friendly and has allowed operators to bid up farmland rental rates in recent years. However, the current Farm Bill expires at the end of the 2007 crop year. Congress will have to write a new Bill during the year 2007. *continued on page 3*

Key factors to watch in 2007 are:  
Florida land activity, the new farm bill, bio-fuel policy,  
and the health of the general economy.

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# USDA-FSA Price Support Payments

## Who is Entitled to Them?

**“The FSA farm price support payments on my farm are almost as much as the rent I receive; I should get my rent and all or part of the FSA payments.”** On many occasions I hear landowners make the above statement. On the surface it would seem to be a fair statement, but an in-depth look would suggest otherwise.

### USDA-FSA Commodity Farm Price Support

**Program:** The FSA commodity price support program is designed to allow farmers to make a profit in times of low commodity prices. The program started in the 1930's and continues today through a series of new farm bills every five to seven years. Farms have FSA crop bases and established yields if they have been in continuous production of peanuts, cotton, corn, wheat, grain sorghum, oats, and soybeans. USDA sets target prices and loan rates for each commodity. The amount of the support payments is the difference between the target price and what the average farmer receives for his crops or the loan rate, whichever is lower. There are two types of payments under the program, direct and counter cyclical. The direct payments are guaranteed each year even if the average price received is above the target price. If commodity prices are high, the counter cyclical payments may be zero, but if the commodity prices are low, the payment can be very high. The theory being, a farmer receives his revenue out of the market or the U.S. government.

USDA farm price support programs result in higher rents, higher returns, and higher land values

**Farm Profitability:** Let us assume we have an irrigated farm planting 1/3 peanuts and 2/3 cotton (necessary rotation for good peanut yields). At current peanut and cotton prices, maximum counter cyclical payments are projected. At a peanut yield of 2 tons/acre, revenues would be \$710/acre, less direct operating costs of \$500/acre, less land rent of \$150/acre; this equals \$60/acre operating return before equipment replacement costs, management, and profit. Assuming a USDA peanut direct payment of \$62/acre and a counter cyclical payment of \$180/acre, the return to equipment, management, and profit is \$302/acre.

At a cotton yield of 1,000 lbs/acre, revenue would be \$570/acre, less \$500/acre operating costs, less \$150/acre land rent, which equals -\$80/acre operating loss. Assuming a cotton direct payment of \$50/acre and a counter cyclical payment of \$102/acre, the return to equipment, management, and profit is \$72/acre.



Without USDA payments the above example would have an average return to equipment, management, and profit of -\$33/acre. With the USDA payments the return to equipment/management/profitability is \$149/acre.

**At current prices for peanuts and cotton, a farmer would not be able to lease farmland at current rates and stay in business without the USDA price support payments.** The history of land rents in Southwest Georgia supports the above statement. On average, commodity prices have not increased over the past 25 years. In the middle 1980's USDA programs provided very limited price support and typical irrigated land rents ranged from \$60-\$100/acre. The USDA programs improved in the 1990's and typical rents increased to from \$90 to \$125/acre. When the current USDA program was enacted in 2002 and increased price supports significantly, typical irrigated cropland rents increased to \$150-\$200/acre.

USDA farm price support programs are very important to landowners who lease their farms. The programs result in higher rents, higher returns, thus higher land values. **In a way, landowners are ultimately receiving the USDA payments, it is just passing through the farmer first.** If a period of high commodity prices is experienced, a fair lease arrangement may be the sharing of the direct payments.

The current USDA farm program expires at the end of 2007. The terms of the next farm program will be a major influence on cropland rents and land values. Farmers, landowners, and agricultural suppliers have a lot at risk.

*By Jeff Peterson*

*Continued from page 1 Land Prices*

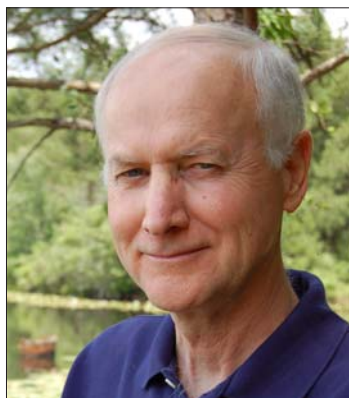
It's outcome, in both levels of price support and in payment limitations, could affect future rental rates and even the rentability of some cropland. There is some speculation that since democrats will be in charge of writing the new Bill, it may be more midwest friendly than southern friendly, in that the Congressional Agricultural Committee chairmen will be from the midwest rather than from the South. There could be more support for the corn and soybean farmers (in the form of creating demand for bio-fuels, etc.) than for the cotton and peanut farmers of the south. That's just political speculation, but if major changes are made it could affect rents and rentability, thus land prices.

**Future Direction of the Land Market:** In summary, the key factors to watch to determine the direction of the land market for 2007 are:

- Housing starts and foreclosures in Florida (affecting 1031 exchanges);
- Payment limitations, level of support for cotton and peanuts in the new farm bill (affecting land rents);
- U. S. energy policy toward bio-fuels (affecting corn price, increasing corn acres, and thus decreasing cotton and peanut acres and inventories); and
- Health of the general economy (affecting funds available for recreational properties).

*By: Joe Marshall*

SPG's founder and President, Joe Marshall, has more than 40 years experience in southern agriculture and agribusiness. He is a farm owner, Certified Agricultural Consultant, real estate broker, and holds a Ph.D. in Agricultural and Applied Economics. Joe is a former President of the American Society of Agricultural Consultants.



Jeff Peterson has more than 30 years experience in southern agriculture and agribusiness. SPG's Senior Vice President was the first employee of SPG in 1978. He is a farm owner, an Accredited Farm Manager, broker, Certified General Appraiser, and a graduate of the UGA College of Agriculture.

## Recent Sales

### Lee Co., Ga - September 06

**773 acres** sold for **\$4,462 per acre** at public auction. Fair quality property consisting of approximately 250 acres of irrigated cropland, 218 acres of dry cropland, 172 acres of upland woodland, and 133 acres of wet woodland along Muckalee Creek. The irrigation equipment was not owned by the seller. Property was located 3 miles east of Leesburg. Considered above market sale, because 3 adjoining landowners were bidding on the property.

### Terrell Co., Ga - July 06

**1,900 acres** sold for **\$3,211 per acre**. Fair quality property consisting of approximately 538 acres of center pivot irrigated cropland, 128 acres of dry cropland, 335 acres of planted pines, 313 acres of upland woodland, 576 acres of wet woodland, 5 acres in ponds and 5 acres in building area. The timber value was estimated at \$700,000 and buildings at \$100,000. Irrigation equipment was in fair to poor condition and 2 additional wells were needed. Property had excellent hunting.

### Terrell Co., Ga - July 06

**486 acres** sold for **\$2,173 per acre**. The property consisted of 46 acres of dry cropland, 248 acres of planted pines, 162 acres of upland woodland, and 30 acres of wet woodland. Timber value was estimated at \$100,000. Property located in north end of county with dirt road access.

### Miller Co., Ga - March 06

**281 acres** sold for **\$3,510 per acre**. This good quality property consisted of 180 acres of center pivot irrigated cropland, 10 acres of dry cropland, 39 acres of 17 year old planted pines, 50 acres of wet woodland, and 2 acres in building area.

### Dougherty Co., Ga - March 06

**750 acres** sold for **\$3,067 per acre**. Fair quality pecan property consisting of 570 acres of older irrigated pecans, 100 acres of older dryland pecans, 78 acres of wet woodland, and 2 acres in building area.

### Worth Co., Ga - June 06

**406 acres** sold for **\$4,069 per acre**. Fair quality property consisting of 172 acres of dry cropland, 20 acres of upland woodland, 202 acres of wet woodland, and a 12 acre pond. Timber value was estimated at \$100,000. Deer and turkey hunting appeared excellent.

### Calhoun Co., Ga - June 06

**187 acres** sold for **\$2,700 per acre**. Fair quality property consisting of 141 acres of 1 year old planted pines and 46 acres of wet woodland with an estimated timber value of \$38,000. Property was surrounded by hunting plantations and appeared to have good deer hunting.

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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

### 205 Acre Country Estate

19 minutes west of Albany mall  
 in Terrell County

Listing Price: \$1.2 Million

Immaculate 4 bedroom/3 bath home and farm nestled in tall pines, magnolia, river birches and maples. 21 acre lake with tastefully landscaped grounds, one mile exercise pathway and large gardens. Lake amenities include dock fishing pier, picnic shelter, and sheltered boat house. Center pivot irrigated cropland with shops, farm shelters, potting shed and grain storage.



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	Jan 07	Jan 06
Corn	4.00	2.30
Wheat	5.03	3.80
Soybeans	6.50	6.00
Cotton	.55	.55

Wheat and corn prices are near record highs while cotton and soybean prices are stable 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 6.65%**  
**7 Year 6.67%**  
**10 Year 6.70%**  
**15 Year 6.75%**

## LOCAL TIMBER PRICES

Pine Pulpwood	\$7/ton
Pine Chip-N-Saw	\$22/ton
Pine Sawtimber	\$48/ton
Hardwood Pulpwood	\$6/ton
Hardwood Sawtimber	\$29/ton

Timber prices are decreasing but are in the upper end of the range for the past 5 years.