

# THE WISE AG UPDATE



FOURTH QUARTER, 2014

VOL. XXX, NO. 3

## COMMENTARY by Ken Nofziger



Go ahead and use whatever metaphor you prefer: Storm clouds are gathering; The bloom is off the rose; Rough seas on the horizon.

Here's the situation: Commodity prices are down significantly with little indication of changing any time soon. The ripple effect will result in pressure on cash rents, and continued increases in input costs will elevate operating risk. Government intervention to manage historically low interest rates may be ending, affecting both the cost and actual availability of credit.

Whatever your favorite metaphor, it's unarguable that farmland owners and operators are facing significant headwinds in the near term. The situation is made more frustrating because these circumstances don't result from anything that either group did or failed to do. They are the result of market and government forces generated around the globe, but their impact is the same, even if we can't attribute them to a single

source. We've benefited from a very solid two decades in agriculture. Operating incomes have soared, farm debt is down, and land values have been in a twenty year bull market. A correction was inevitable.

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So, now what?

I see a number of possible actions that an operator or landlord could take to get his family and finances through the storm.

1. First is simple enough: **Control what you can: Costs.** Most of you are aware of techniques that can be used to make your farming operation more efficient, but the past several years of relative prosperity may have dulled your pencil as well as your commitment to the tough decisions

that accompany cost controls. Just running along as you have in the past is a luxury you can no longer afford. Every check you write should represent a well thought out and justified expense.

2. **Enhance landlord/tenant communications.** For many operators, the land lease is a major cost. And for landlords who share in the farm operation, risks taken with less than direct control can be major problems. One answer here, for either party, is to consider renegotiating whatever rent or income sharing system is in place. It may be that some sort of hybrid system or temporary adjustment will have long term benefits for both parties. But it won't happen if you're not communicating.

3. **Emphasize marketing and crop planning.** Do your homework. Understand and utilize the tools available to minimize price risks. Consider professional management assistance. In carpentry, the maxim

*See COMMENTARY, page 2*

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## INSIDE THIS ISSUE

Commentary .....	1-2
This Palmer Must Be Beaten .....	2
Our Newest Team Member .....	2
Continued Pressure on Midwestern Land Values .....	3
Farmland Values: The MWA View .....	3
Recent Auctions .....	3
Upcoming Auctions & Private Listings .....	4

COMMENTARY *CONT'D*

is to “measure twice, then cut once.” In years past, when it was difficult NOT to market well, you may have gotten into the habit of “measuring” just once. Make sure your cropping and marketing decisions are based on real, careful analysis.

**4. Maximize operating efficiency:** Once again, do your homework. Are you or your tenants using current best practices? Are you taking advantage of technological advances in seed and inputs? In technique? In equipment?

**5. You could leave the business.** Yes, I said you could consider leaving farming. If you’re not making it as an operator, consider related industries that may make good use of your skills. You might even be helping a young farmer get his start by creating an opening.

**6. Sell the land.** If you own the land, you’ve probably built up some substantial equity over time. It may just be the time to realize all or some of the hard earned gains.

Quite a list isn’t it? It ranges from standard business tactics for difficult times like controlling costs, operating as efficiently as possible and planning carefully, to making the potentially wrenching decision to sell the land or look for a job.

No easy tactical solutions, but then, no one ever said it would be easy. ♦

## THIS PALMER MUST BE BEATEN



To many of us, the name Palmer has connotations of greatness. Arnold Palmer was the greatest golfer of his generation. Jim Palmer is a hall of fame pitcher who was a devastating competitor when on the mound for the Orioles years ago. Both were tough-as-nails competitors... difficult to handle, but certainly not undefeated.

Now we are hearing of a current day “Palmer” that is proving as difficult to defeat. The problem is that this Palmer is a weed. A particularly virulent weed. A weed with stalks tough enough to damage a combine. A weed that appears to have as many lives as the proverbial cat.

It’s called Palmer Amaranth and to this point it has defied any number of herbicides and cocktail mixtures of multiple those normally dependent chemicals. Growers familiar with it have begun calling it simply “Palmer” though it has also been called Careless Weed as well. The bushy weed grows taller

than soybeans and produces long slender seed pods or stems that can spew millions of potential progeny. It is particularly troublesome for cotton growers as there is no known herbicide that even damages Palmer that doesn’t kill cotton plants. In the Midwest, it appears some corn herbicides are at least partially effective, but some soybeans are apparently as at-risk as cotton.

Palmer has made its appearance in the Midwest where many have begun to wonder if the use of certain herbicides so universally has led to the evolution of chemical resistant plants and bugs. Chemical researchers are hard at work on attacking both problems, of course, and some producers are looking into possible changes to tillage plans or even reverting to hands-on weed control.

We have such confidence in the people in an supporting our industry that we don’t see Armageddon...just another problem to solve. ♦

## OUR NEWEST TEAM MEMBER



Murray Wise Associates is pleased to announce that Lisa Howe has recently been hired as an administrative assistant in the Champaign office. Lisa graduated from Winona State in 2008 with BA’s in English and Philosophy. Lisa also received a Paralegal Certificate from William Rainey Harper College in 2011. The next time you call or stop into the Champaign office, make sure to give Lisa a hearty welcome! ♦

# CONTINUED PRESSURE ON MIDWESTERN LAND VALUES

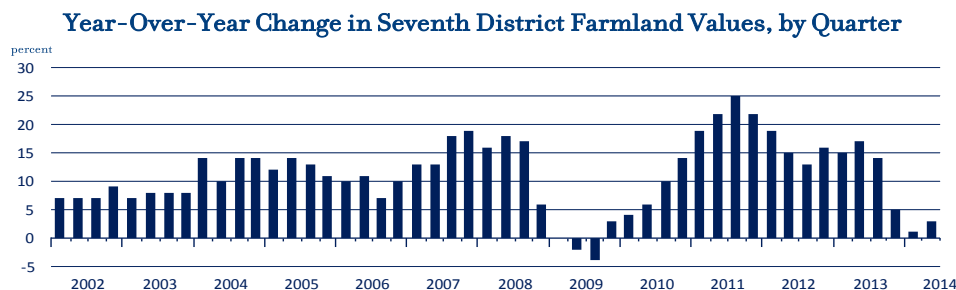


Ken Nofziger's Commentary column in this issue is based on the difficult current operating environment facing farmers and landlords alike. Depressed grain prices may be resultant from a combination of factors, but the levels themselves are clearly applying pressure to farmland values in the Midwest.

We know that the market for farmland is much more local than even other real estate categories. However we call your attention to a couple of survey-based estimates of Midwestern general farmland values and trends. The two have similar approaches to gathering their data, but use the data accumulated to develop slightly different pictures of the situation.

The Federal Reserve Bank of Chicago publishes a quarterly AgLetter that includes the results of surveys of bankers from rural banks in Illinois, Iowa, Indiana, Michigan, and Wisconsin. As recently as August bankers were reporting land values up about 3% from the second quarter of 2013 and even 2% above second quarter 2014 results. Estimates were based on values for "good" farmland. Though reflecting increases in value for the periods mentioned, the numbers are quite depressed from the double figure gains seen regularly for the past ten years, and we fully expect to see modest declines in the 3rd quarter. This deceleration is reflective of the depressed grain prices and the anticipation that operating incomes will be down and that, ultimately, cash rents will also come under pressure.

Another survey-based estimate



Source: The Agricultural Newsletter from the Federal Reserve Bank of Chicago, Number 1965, August 2014

of anticipated farmland values is constructed by the Heider College of Business at Creighton University. They produce a monthly Mainstreet Economy Report also based on survey of rural bankers. One of the components used to generate a "Mainstreet Economic Index" is

bankers' views of future trends in farmland values. One of the primary figures in the October 2014 report is the tenth straight monthly decline in the resultant farmland index. The bankers surveyed are universal in naming declining grain prices the culprit here as well.

## FARMLAND VALUES: THE MWA VIEW



The adjacent article about the general level of Midwestern farmland values was developed by reviewing surveys of rural bankers throughout the region.

Well, we at Murray Wise Associates have our own indicators of current land values and trends. And ours is not survey based, but the product of the actual auction sales we've conducted this year. Simply put, good quality land is holding its own. Top land values we'd call flat to down

maybe a couple of percentage points, but land of lesser quality is off more significantly...as much as 10 to 15 percent from year ago levels.

From conversations we've held with attendees and bidders at the auctions, it's clear that fears of continued soft grain prices are the major dampener.

We have a number of auctions of good Midwestern farmland scheduled for the next few months, so stay tuned.

## RECENT AUCTIONS



\$ 9,510,000	1,342± Acres	JUL 30	Greene Co.	IL
\$ 4,195,000	765± Acres	AUG 25	Franklin Co.	IL
\$ 990,000	116± Acres	AUG 27	Vermilion Co.	IL
\$ 1,004,000	80± Acres	AUG 27	Piatt Co.	IL
\$ 3,215,000	294± Acres	SEP 12	McLean Co.	IL
\$ 3,582,340	1,996± Acres	OCT 11	Muskingum Co.	OH
\$ 2,125,000	1,367± Acres	OCT 28	Halifax Co.	NC
\$ 2,525,000	402± Acres	NOV 6	DeWitt Co.	IL

# THE WISE AG UPDATE

## UPCOMING AUCTIONS & CURRENT LISTINGS



### Upcoming Auctions

**Monday, November 17 at 5PM** – 760± acres in Clay County, Illinois, Stanford and Pixley Townships - Productive Illinois farmland with country home and grain storage offered in 16 tracts ranging in size from 20 acres to 125 acres

**Wednesday, November 19 at 10AM** – 275± acres in Vermilion County, Illinois, Middlefork Township - Productive farmland with scenic recreational land offered in 6 tracts ranging in size from 6 acres to 120 acres

**Thursday, November 20 at 10AM** – 106± acres in McLean County, Illinois, Cheney's Grove Township - Nearly all tillable Illinois farmland offered in 1 tract

**Monday, December 1 - Sealed Bids Due at 1PM** – 375± acres in Kossuth County, Iowa, Lincoln and Buffalo Townships - Productive Iowa farmland with CRP income offered in 3 tracts ranging in size from 110 acres to 155 acres

**Tuesday, December 2 at 10AM** – 160± acres in Champaign County, Illinois, Rantoul Township - Irrigated Central Illinois farmland offered in 1 tract

### Private Listings

**Calhoun County, Iowa – Twin Lakes Township** - 80.3 CSR rated farm with 593± acres of which 577.67 are tillable. Call for price.

**Wright County, Iowa – Belmont Township** - 77.5 CSR2 rated farm with 214± acres of which 211.3 are tillable – Asking price: \$11,000 per acre

*Visit [www.MurrayWiseAssociates.com](http://www.MurrayWiseAssociates.com) for more information on these properties.*



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