

THE WISE AG UPDATE



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COMMENTARY by John Kirkpatrick



SOMETIMES THE BEST WAY TO STAY ON THE FARM IS TO SELL IT

A publication we have often mentioned is the Chicago Federal Reserve’s AgLetter. The Chicago Federal Reserve does a remarkable job of reaching out to lenders and monitoring credit conditions.

In the most recent AgLetter, a quote from a lender stuck out to me: “Several area banks are putting pressure on producers with tight margins to either sell land or refinance with another bank.”

This quote confirms what I have been hearing in talks with lenders and operators. When talking to operators, I have often found that refinancing with another bank is not an option, and selling land only decreases acreage and makes problems seem more difficult.

While grain prices have remained low, inputs high, and interest rates have started to inch up -- all squeezing operators’ bottom lines -- the one positive has been that land prices have continued to stay near all-time-high values. This is due, partially, to strong demand for farmland from investors.

One potential solution in this environment is something my clients have had success with throughout my career and that is the sale/leaseback.

A sale/leaseback offers investors a ready-made investment by having a long-term lease in place.

This has positives for both investors -- who, as I mention above, have a great appetite for land yet have had trouble finding it -- and farmers who need to improve their balance sheet. It can also act as a safety net as it did for one of my clients in the late 1980’s, when father & sons were in the midst of foreclosure on 1,600 acres in north central Iowa. An investor client of mine bought 1,300 acres and offered a 3-year leaseback. This allowed the sellers to keep 300 acres with all the buildings and livestock facilities and to keep farming the balance of the property. They are still farming the 1,300 acres today.

Another example happened just this year when I worked with a farm owner/operator to sell 80 acres to an investor with a 3-year leaseback. That investor has now purchased 4 additional farms in that area and has leased them all to the same operator.

A sale/leaseback offers investors a ready-made investment by having a long-term lease in place. It’s something many investors I speak with on a daily basis are actively seeking.

For farmers, a sale/leaseback offers the security of freeing up capital while maintaining current acreage and income potential.

In a market in which it seems hard to find a win these days, many sale/leaseback transactions have the potential to become “win-wins.”

If you are a farmer looking to do a sale/leaseback or an investor looking to acquire land with a proven tenant who has worked the land, please feel free to call me at our Clarion, Iowa office, (515) 532-2878. ♦

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MWA RECENT NOTABLE SALES

\$136,500,000	38,000± Acres	Osceola County, FL
\$ 2,890,000	2,176± Acres	Pittsburg County, OK
\$ 14,800,000	4,700± Acres	Walker County, TX
\$ 5,100,000	1,002± Acres	Lorain County, OH
\$ 2,258,000	218± Acres	Macon County, IL
\$ 3,870,000	483± Acres	Pocahontas County, IA
\$ 4,260,000	438± Acres	Kendall County, IL

Congratulations Kenny Schum, CAI, ALC

Congratulations to our own Kenny Schum for his recent completion of the Accredited Land Consultant (ALC) program. This designation is granted by the RLI National Board of Directors to recognize the exceptional efforts of its designees. Kenny is also a graduate of the NAA Certified Auctioneers Institute (CAI), making him a land and auction expert. Contact Kenny Schum today with any of your land inquiries at kenny@mwallc.com.

FARM SUCCESSION PLANNING – 5 THOUGHTS

Contributed by Brooke Didier Starks Meyer Capel, A Professional Corporation, Champaign, Illinois

1. **Be Practical.** Farmers are rightfully proud of the legacies they’ve built and want to safeguard them for years to come. One hundred years from now, though, a farmer with three children could have as many as 120 descendants. Plans that irrevocably lock farmland in arrangements for extensive years eventually run the risk of resulting in unrealistic outcomes. Imagine the income from an 800-acre farm being split among 120 people: each is earning the net income from just 6.6 acres. What sounds enticing on first blush may not have such a great effect in practice.
2. **Be Open to A Combination of Tools.** Often, succession plans are not one-size-fits-all and instead use a combination of tools. Consider the use of installment contracts for equipment sales, rights of first refusal (not triggered until the owner decides to sell), options to farm or purchase (triggered by the person granted the option), and the possible purchase of life insurance even later in life to balance the inheritances of off-farm heirs with on-farm heirs.
3. **Consider Use of An Entity.** Entities such as limited liability companies (LLCs) and trusts can be used to transfer small fractions of the greater farm operation to beneficiaries over a period of years in a tax-effective manner. The instruments governing those entities can be crafted to impose limitations on who may be a beneficiary (precluding non-blood relatives and creditors of beneficiaries, for example). The instruments can also provide options to farm, preclusions on sales, and rights of the other beneficiaries/members to buy out the interests of an exiting party. Entities can allow a slow transition of ownership from the parent generation to the child generation and can allow an on-farm heir to manage the operation while allowing off-farm heirs to share passively in income.
4. **Rules Change -- Frequently.** Transfers for less-than-fair-market value are gifts. The Tax Cuts and Jobs Act (TCJA) enacted in December 2017 doubled the federal estate and gift tax exemption, causing individuals to be able to pass roughly \$11.2 million in gifts before being assessed a federal tax ... BUT the legislation is set to sunset December 31, 2025, when the law will revert back to the pre-TCJA numbers. Additionally, some states (including major agricultural states Iowa and Illinois) still impose their own state estate or inheritance taxes, which are often overlooked in planning. Know the rules and limitations on how much you can gift both during life and at death, and keep abreast of changes because they happen often.
5. **Communicate, Communicate, Communicate.** In practice, clients frequently stew over how to craft the succession or how to divide a farm among children, some of whom, unbeknownst to their parents, have no interest at all in owning a share of the operation or the land. Moreover, a majority of the conflicts that land in the attorney’s office (and perhaps the courtroom) occur when beneficiaries had an expectation that inheritances would work out differently from how they did. In both instances, bringing all the parties (on-farm and off-farm) to the table to talk long before any plan is in motion will have immeasurable benefit to preserving family harmony long after the transition has taken place.



Brooke Didier Starks is a shareholder attorney at Meyer Capel, A Professional Corporation in Champaign, Illinois. This article does not constitute legal advice and does not create an attorney client relationship but is provided for informational purposes only. You should consult with your personal attorney regarding your succession plan. For more about Ms. Starks, visit www.meyercafel.com/brooke-starks

A NOTE ON INTEREST RATES



Interest Rate Boosts Add to Farmers' Challenges

Farmers faced with low commodity prices and the prospect of trade wars have another challenge facing them – higher interest rates on operating loans.

The fixed rate on U.S. farm loans increased to 5.6 percent in the fourth quarter of 2017, according to the Federal Reserve. That was up from 5.3 percent a year earlier – and is the highest rate in five years.

That rate is expected to continue to rise this year as the Fed pursues a path of raising interest rates gradually as a means of tamping down inflation.


For farmers, it's another expense they must try to manage as input costs climb and farm income remains stagnant or declines.

There's also the concern that more farm lenders will restrict lending as they assess their clients' higher debt burdens.

Many producers, however, have the

advantage of having locked in low interest rates on farmland purchases 5-10 years ago – when rates on such loans were at historic lows. So while they may start paying more for operating loans, they can continue to enjoy low payments on farm real estate loans.

Earlier this year, Bloomberg writer Alan Bjerga noted that the ratio of debt to total farm equity hasn't changed much over the last decade. It remains less than 13 percent – only about half of what it reached during the farm crisis of the 1980's. While we expect to see more bankruptcies in the second half of this year, we do not anticipate an 80's like farm crisis.


Still, it's not easy to manage additional expenses on loans when income isn't rising. According to the U.S. Department of Agriculture, net farm income is projected to fall to \$59.5 billion this year, the lowest in 12 years. 

El Maximo Ranch Sold for \$136.5M

Murray Wise Associates LLC and Crosby & Associates, Inc. ("CAI") served as transactional advisors to the Latt Maxcy Corporation in connection with the sale of the El Maximo Ranch in Osceola County, Florida. The 38,000+ acre ranch was sold to The Investment Corporation of Dubai in April 2018 for \$136.5 million after an extensive national and international sale marketing process.

"We were privileged to have worked closely with the Latt Maxcy Corporation on the sale of this historic property," said Ken Nofziger of MWA. "It was a complicated transaction, and we are honored to have worked with Optimum Agriculture, the investment manager, and all the other professionals on this transaction to bring about a successful conclusion for both the buyer and seller."

Located in central Florida, this property is one of the largest contiguous ranches in the Southeast. The sale of El Maximo Ranch marks the final transaction in a series of divestitures of this 150,000-acre agricultural property. El Maximo Ranch had been under the stewardship of the Latt Maxcy Corporation and the Wilson family for seven decades.


"A ranch of this size provides an excellent opportunity for the buyer to create a platform for future expansion in the Southeast," said CAI President Ben Crosby. "It's historically been utilized as a cattle ranch with various crops throughout the years, and has water permits that could allow for plenty of options in alternative crops and biofuel feedstock farming." 

MWA Foundation Scholarships

As this newsletter is being prepared, the 2018 Murray Wise Associates Scholarship winners are being notified of their awards. The MWA Foundation provides scholarships annually to selected students, who have submitted impressive applications that are then voted on by the Foundation Board. Provided they remain in good academic standing in an agriculturally related field of study, these scholarships are annually renewable.

This year, the Foundation received more than 200 applicants. Sixty percent of the applications were submitted by graduating high school seniors, with the balance coming from undergraduate college students. Applicants from 33 states applied and represented students from nearly 100 colleges and universities across the country.

The diverse range of majors represented in the applicant pool -- from agribusiness to ag education, from ag engineering to agronomy, from animal sciences to ag policy, and beyond -- show the breadth of topics about which the next generation of agriculturalists are passionate. These bright young people have demonstrated scholarship, community involvement and a commitment to agriculture. They are exactly the sort of future leaders the MWA Foundation was established to assist.

If you are interested or are aware of a student who may qualify for this scholarship in the future, email info@mwallc.com to be notified when applications for the 2019 awards become available in January. 

THE WISE AG UPDATE

UPCOMING AUCTIONS & CURRENT LISTINGS



AUCTIONS

Saturday, August 18 at 9AM - 1,050± acres in Muskingum County, Ohio. Property offered in 21 tracts with tract sizes from 14± acres to 190± acres. 450± acre hunting lease also available.

Saturday, September 15 at 10AM - 448± acres in Meigs County, Ohio. Property offered in 16 tracts with tract sizes from 4± acres to 87± acres. 396± acre hunting lease also available.

Coming Soon - *Online Auction of Grain Facility in Piatt Co., IL • Live Land Auction 1,148± acres of premiere water fowl habitat & farmland in Fayette Co., IL • 80± acres of prime Champaign Co., IL farmland*

LISTINGS

Private Offering 63,000± Contiguous Acres - One of the largest U.S.-based, vertically integrated potato farming operations, is seeking a sale or lease transaction. Contact Ken Nofziger for details at ken@mwallc.com.

Hatch, NM - Las Uvas Valley Dairies, Farmland and Ranches: A well maintained New Mexico dairy complex with 20,000± lockups and a 9,000± heifer facility. This offering includes a large farmland tract with approximately 2,500 acres under drip irrigation and two large ranch properties totaling over 60,000 acres of deeded, BLM and State leased ground with grazing allocations of over 900 AUs. Dairy Herd & Rolling Equipment auctions August 3-4. Contact for details.

Turlock, CA - 25± acres with a modern specialized agricultural facilities. Offering includes a processing facility, office space, covered commodity storage and 6-bay loading dock. Asking Price: \$ 3,699,000.

Cerro Gordo, IA - 308± acres with a CSR2 of 83.2. For details, contact John Kirkpatrick at (515) 532-2878.

Visit MurrayWiseAssociates.com for more information on these properties.



1605 South State Street, Suite 110 / Champaign, Illinois 61820 / Bus: (217) 398-6400 / FAX: (217) 352-9381
214 North Main Street / P.O. Box 537 / Clarion, Iowa 50525 / Bus: (515) 532-2878 / FAX: (515) 532-2870
4309 Crayton Road / Naples, Florida 34103 / Bus: (239) 430-6240 / FAX: (239) 430-4663

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