

# THE WISE AG UPDATE



FOURTH QUARTER, 2017

VOL. XXXVI, NO. 2

## COMMENTARY by Murray Wise



The market for midwestern agricultural land this year has been extremely slow, probably the slowest I've seen in 30 years. Based on a relatively small number of transactions, I am seeing higher-quality land maintain its value, while lesser-quality ground has been seeing greater declines.

Part of the reason for the slow market has been the restraint of prospective sellers. They simply don't know what else to do with capital as returns on treasury bills and bonds have been extremely low, and the stock market seems pricey and risky to many. Also, even though cash rents may be down, owners of farmland continue to see satisfactory returns each year. Most owners I've talked with are holding off on selling for the above reasons and thus far have been hesitant to pull the trigger.

Still, I continue to see strong interest in farmland from investors. In a low interest-rate environment, a 3 percent return on Midwestern farmland isn't something to ignore.

Generally, buyer participation this year has been pretty good, both from farmers and investors. As the quality of land goes down, so does interest in

the property. Naturally, when farmers are looking to downsize, they sell off lower-quality tracts first.

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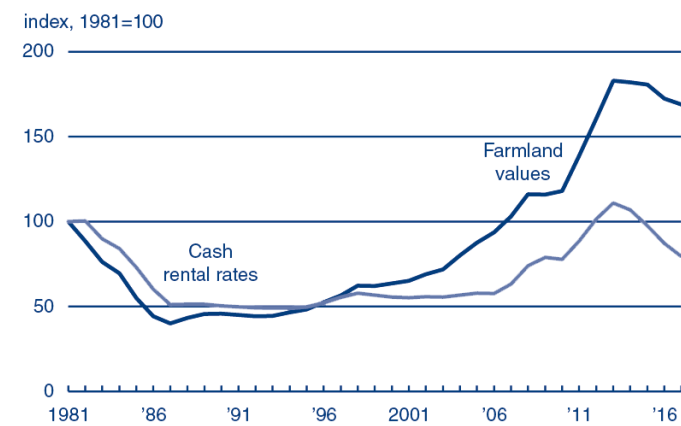
My observations have been borne out by others; a mid-year survey by the Illinois Society of Professional Farm Managers and Rural Appraisers found a 1.6 percent drop in value for excellent-quality land in the first half of 2017. Lesser-quality land saw bigger drops, with good-quality land off 3 percent, average-quality land down 3.8 percent and fair-quality land off 4.4 percent.

In August, the Federal Reserve Bank of Chicago's AgLetter reported that "good" agricultural land values in the five-state district rose 1 percent from the first quarter

of 2017 to the second quarter, according to a survey of agricultural bankers, however, year-over-year decreases in overall farmland value were reported in Illinois and Indiana. The Fed AgLetter also reported cash rents in the "I" states are down for the third straight year.

Almost all the downward pressure on farmland values can be attributed to lower grain prices. Many parts of the world, in particular South America and the Midwest US, have had exceptional grain yields the past couple years and it seems we have moved from a demand to a supply market for grain. I expect the next direction in grain prices to be down.

### Midwest Farmland Values and Cash Rental Rates



Source: AgLetter: May 2017 by David Oppedahl - Federal Reserve Bank of Chicago

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## INSIDE THIS ISSUE

Commentary .....	1-2
In Memory of Rick Baker .....	2
Sustainable Groundwater Management Act (SGMA) .....	2
Our Newest Team Member .....	2
MWA Foundation Announces 2017 Scholarship Winners .....	3
History of Institutional Farmland Investing & Permanent Crop Acquisition .....	3
Upcoming Auctions & Current Listings .....	4

## COMMENTARY (CONT.)



Meanwhile, I'd advise you to keep an eye on some other factors that may affect land values in the coming months namely: Congressional action regarding the estate tax which affects the number of sales caused by transition of farmland between generations and rising interest rates which will not only affect the cost of capital for land purchases but will also affect the relative attractiveness of farmland as an investment asset class. Also watch U.S. trade relations with Mexico and China which have the potential to greatly affect grain markets.

*Murray R. Wise*

### In Memory of Rick Baker

With this newsletter, we remember with great fondness and admiration our longtime friend and Wise Ag Update editor, Rick Baker.

Rick had an amazing way with words and we will miss his presence in these pages. More than anything though, we will miss his friendship.

Our thoughts and prayers are with his wife Carol and their family. 

## SUSTAINABLE GROUNDWATER MANAGEMENT ACT (SGMA)



Major changes are in store for California farmers as a result of the state's Sustainable Groundwater Management Act (SGMA). The 2014 act requires that groundwater sustainability plans (GSPs) be created by January of 2020 for 43 high priority basins and 84 medium priority basins in California, and that Groundwater Sustainability Agencies be established for those areas. During GSP development, SGMA prohibits groundwater users from increasing their water usage to expand appropriative rights.


With the inability to increase their water usage and the potential of having less water allocated in the future, farmers envision changes in the types of crops they grow, spending more time monitoring wells, changing methods of irrigation, and having to allow some land to sit fallow. These alterations in practices will be necessary to allow

SGMA to achieve its goal of sustainable management of California's groundwater supplies by 2042.


Preparations for the affects of SGMA have already begun. In 2015, a preliminary list of overdraft sub basins was created and was finalized in 2016. By June 30th, 2017, 99% of the high and medium priority groundwater basins met one of the key SGMA requirements by forming locally controlled Ground Water Sustainability Agencies (GSAs). The GSAs will now work toward forming their groundwater sustainability plans by 2020 as well as looking at ways to solve the problems that have led to this point.

Nearly 40 years ago, a study of groundwater supplies showed that 40 of the state's 450 groundwater basins were seeing a lowering of the water table as a result of water being extracted, much of it for agriculture production.

Succeeding decades have only worsened the situation. Droughts have prevented sufficient replenishment of surface water supplies, forcing growers, developers and other to tap groundwater supplies to a greater extent.

One of the biggest questions farmers are faced with now is just how much will the implementation of SGMA shape how they use water. Most would agree at this point that a fundamental adjustment is needed to bring water supplies in balance with demands, however there is less agreement when it comes to what those adjustments should be. We will be keeping an eye on how the GSPs are developed in the next few years and the changes that will come with them. One thing is certain, that changes to management and use of water in the \$20 billion California agriculture industry are on the horizon and it may take growers some time to adjust. 

### Murray Wise Capital Update


MWC has had an active year, advising and representing clients in transactions throughout the agricultural and commodity sectors. Notably, MWC advised Norac, Inc. in the sale of its chemical additives division to German-based Peter Greven Group. MWC represented Mesquite Cattle Feeders, Inc. in the acquisition of a majority interest of Winter Feed Yard's 30,000 head cattle feeding operation in Dodge City, Kansas. Additionally, MWC is currently advising Eclipse Berry Farms LLC in the restructuring and downsizing of its California strawberry farming operations. 

### OUR NEWEST TEAM MEMBER



Murray Wise Associates is pleased to announce that Devon Izard has recently been hired as our Acquisitions and Investments, Manager in the Champaign office.

Devon recently finished his MBA from the University of Illinois. He had previously interned with the company while he was pursuing his degree. He is currently focused on helping acquire properties for our permanent crop fund.

Devon grew up in Urbana, IL before spending time in Chicago and San Diego. His roots run deep in the local agricultural community; his grandfather, Ron Izard, ran the Homer Grain Company in Homer, IL for many years. Welcome aboard! 

# MWA FOUNDATION ANNOUNCES 2017 SCHOLARSHIP WINNERS



In 1997, Murray Wise established a foundation that would provide financial assistance to college students who have demonstrated vast potential and have an interest in establishing a career in agriculture or agribusiness.


The students who have received the scholarships in the past have gone on to do great things in the field of agriculture and this year's new and returning recipients will be no different.

There are seven new students who are receiving scholarships this year, made up of one junior, three sophomores and three incoming freshmen.

The students were chosen from 210 impressive applications from all over the United States. Along with the new scholarship recipients, there are 11 previous winners that have had their scholarships renewed for the 2017-2018 school year.

All MWA Foundation scholarship recipients are awarded annual \$1,000 cash stipends to help reduce the cost of their agricultural education.

The board of the Murray Wise Associates Foundation, who decides the winners of the scholarship, could not have been more pleased with the

quality of candidates this year. Murray Wise, who sits on the board, personally gave out an five additional scholarships this year to runner-up applicants due to their outstanding achievements and potential in the field of agriculture. 

## Foundation Scholarship Application Opening Soon



We will begin accepting applications for the 2018 Murray Wise Associates Foundation Scholarship on **JANUARY 1, 2018.**

Applications are due **MARCH 15.**

HS seniors and undergraduate students pursuing a degree in agriculture are encouraged to apply.

Start your application today at

[APP.MURRAYWISEASSOCIATES.COM](http://APP.MURRAYWISEASSOCIATES.COM)

## RECENT TRANSACTIONS



\$ 864,000	80± Acres	Grundy County, IL
\$ 5,500,000	680± Acres	Tattnall County, GA
\$ 5,307,750	2,099± Acres	Tate & Panola Counties, MS
\$ 8,375,000	3 Dairy Sites	Delta, UT
\$ 4,061,290	2,596± Acres	Coshocton & Muskingum Counties, OH
\$ 2,141,370	937± Acres	Morgan County, OH
\$ 7,458,000	849± Acres	Richland & Huron Counties, OH

## HISTORY OF INSTITUTIONAL FARMLAND INVESTING



Congratulations to Murray Wise who was recently recognized and cited in a white paper titled "History of Institutional Farmland Investing" which traces the history of farmland investing from its origins as a "niche investment dominated by a few large pension plans and insurance companies" to its current status as "a mainstream institutional real asset class that increasingly can be accessed by retail-oriented investors".

The white paper, written by Chartered Financial Analyst Julie Koeninger and published by HighQuest Partners, examined institutional farmland investment from the 1970s to present day. Murray was one of the pioneers in this asset class and Murray Wise Associates LLC continues to be an active participant as witnessed by our latest venture acquiring permanent crop properties in the the U.S.

(See "Permanent Crop Acquisition" on right)

### Permanent Crop Acquisition

Murray Wise Associates has partnered with an investor and a prominent California wine grape grower to acquire an existing 903 acre vineyard in Monterrey County, California. This marks the first acquisition in our venture to acquire permanent crop properties throughout the United States.

We are actively looking for more properties to acquire and have the flexibility to acquire properties outright or to partner with growers looking to expand their operations. If an owner is looking for an outright sale, we can close quickly with no financing contingency. If an owner is looking to retain a minority equity interest, we can partner with them and allow them to continue operating the property. We are able to discretely evaluate properties and act quickly when the opportunity is right.

Please contact Joe Bubon if you have available permanent crop properties. [Joe@mwallc.com](mailto:Joe@mwallc.com)

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## UPCOMING AUCTIONS & CURRENT LISTINGS



### Upcoming Auctions & Current Listings

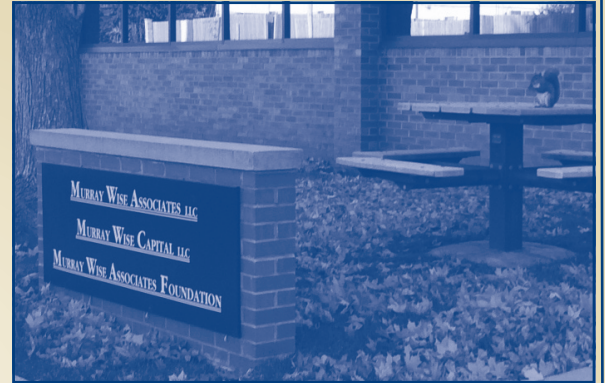
**Nov 30** - 338± Acres in Fayette County, OH. Offered in 2 large tracts. Productive, tillable farmland.

**Jan 9** - 650 ± Acres in Hardin, Logan & Allen Counties, OH. Largely productive, tillable farmland.

**Mar 15** - 1,061 ± Acres in Lorain County, OH.

**Mar 20** - Burrer Farm Equipment Auction. Near Elyria, OH

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



**For a list of available properties in Iowa, contact John Kirkpatrick in our Clarion, IA office at (515) 532-2878 or [john@mwallc.com](mailto:john@mwallc.com).**

*To receive email updates on upcoming auctions, join our mailing list by scanning the code with your smartphone or calling (800) 607-6888 and requesting auction information.*



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