

# Q3 2018



## MWA MURRAY WISE ASSOCIATES

# THE WISE AG UPDATE

Your source for farmland & agribusiness transaction news by Murray Wise Associates LLC

### FARMLAND IS MORE THAN EVER A “GENERATIONAL” ASSET

I started working with Murray and investing in high-quality farmland in 1990. At that time, there were only three or four other firms providing opportunities to invest in farmland to a small number of pension funds and individual investors.



Today, the number of firms offering those services has grown significantly. The number of interested pension funds and individual investors has exploded, creating demand for firms that can identify and manage opportunities in farmland.

the last 30 years. The only aspect that may be surprising to us is that it has taken this long for investors to figure out what farmers have known all along.

Farmland, while still widely considered an alternative investment, has moved closer to the mainstream as it increases in popularity. More and more pension funds, family offices and individual investors are entering the market and buying farms each year.

By “generational asset,” I mean that we are buying an asset we don’t plan to sell for 30-40 years or much longer. This type of asset is meant for the next generation, where it has tax benefits compared with other investments, provides annual income as well as real growth, and is an exceptionally stable investment.

The reasons for rising popularity of high-quality farmland are complex. They range from the inelasticity of demand for food, competitive annual cash returns and real long-term appreciation to the decreasing amount of global arable land relative to an increasing population.

Farmland has always been a generational asset for farmers. The farm gets passed down from one generation to the next, with each generation adding acreage. This method of growing farmland holdings has been extremely successful for farmers who have done so.

Each fund, family office, investor and farming operation has its own reason for owning farmland. Ours is simple, and it is the culmination of all the other reasons: Farmland is a generational asset.

The benefits of long-term farm ownership that these farmers have seen translate directly to non-farmer owners. As this knowledge becomes more common, we are seeing more funds and family offices looking to buy high-quality farmland with every intention of holding it for a very long time.

When I consider investing for the next generation, I cannot think of a better place to keep wealth than in high-quality farmland. It has always been our recommendation that any institution or family office make farmland an integral part of its portfolio. It’s not a surprise to us that so many have taken up this cause in

Farmers are no longer the only ones who see farmland as a generational asset. Don’t look for this trend to reverse itself anytime soon. ❖

Joe Bubon is president of MWA. For information on investing in farmland, please call (217) 398-6400.

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## 📌 DO YOUR HOMEWORK

It's back-to-school season, and if there's one lesson we can apply to farm and agribusiness transactions from the messages we tell our kids, it's this: "Do your homework!"

We've all heard horror stories of money pits – the acquisitions in which people overpaid and later discovered material issues. In many cases, those issues could have been uncovered earlier, had the buyer not been so hasty and applied proper due diligence.

The most important step is to hire the right professional for the job.

- Need to evaluate conditions of a vineyard in California? Hire a qualified water consultant.
- Planning to sell the family farm? Hire an attorney well-versed in estate planning and tax issues.
- Wanting to invest in Midwest row crops? Hire a firm with extensive experience vetting such opportunities.
- Looking to acquire an operating agribusiness? Hire a financial adviser with specific agricultural experience.

You get the idea. Finding professionals with the specific expertise – whether it's regional, crop-specific, regulation-based or deal-type – can be crucial in the information-gathering stage of a potential acquisition.

When performing due diligence, you should consider factors such as water rights, leases and contracts, permits, titles, mineral rights, taxes and zoning, weather, customer lists, vendors, macroeconomic market conditions and any anticipated changes in legislation that could materially affect the profitability of your investment.

In more complex deals, it's also important to consider different deal structures and terms to craft the most advantageous purchase agreement.

Too often, people associate hiring brokers and professionals with the "sell" side of a transaction, but they overlook the value of professional guidance to buyers. The mistake can be attributed to a few factors:

1. **Overconfidence.** "I don't need to hire someone to tell me how to run my business." If you are buying your neighbor's farm, you're probably right. You likely ARE the expert in that specific micro-climate. Do a quick scan through the title search, and you can be confident in your decision and valuation. But if you are expanding into a new region and different crop or buying an operating business while continuing to operate your current portfolio, it's likely you're not an expert in every

facet of the deal you're about to sign.

2. **Inexperience.** Despite having extensive operational experience, many buyers who are looking to expand their business or land holdings into new regions or business lines don't have the volume of transactional experience to anticipate the challenges they might face. Depending on the size of the deal, it may be a once-in-a-lifetime transaction for you, so you will want to consult professionals who specialize in those areas and deal with the issues on a day-to-day basis.
3. **Expense.** Most often, buyers simply don't want to spend the money on hiring professionals to evaluate a deal on their behalf. Slim margins in many areas of agriculture have led to thinking like this, but it's often penny-wise and pound-foolish.

### *Consider the alternatives:*

If you spend the money and find issues, you can reject the deal or modify your offer to mitigate damages and adjust the purchase price. If you spend the money and don't find issues, you'll simply have a sunk cost akin to "insurance."

Conversely, if you don't spend the money and later find issues, your future losses will be greater because your investment decision was made with inadequate information. There's also the possibility of not spending the money and finding no issues – but that amounts to luck, and luck is not a strategy.

In essence, if the property or acquisition target has no defects and no areas of weakness and due diligence would not turn up anything, the limit of your "losses" for hiring professionals is your out-of-pocket cost. But if due diligence would turn up material issues, those losses could be crippling and ongoing.

Imagine a situation in which an almond orchard is purchased without exhaustive due diligence. After the purchaser is in the second or third year of operation, it's discovered that not enough water is available to irrigate the orchard adequately. Without enough

### **MWA RECENT TRANSACTIONS**

|              |               |                   |
|--------------|---------------|-------------------|
| \$ 2,889,150 | 1,050± ac     | Muskingum Co., OH |
| \$ 1,312,000 | 160± ac       | Wright Co., IA    |
| \$ 692,000   | 80± ac        | Mitchell Co., IA  |
| \$ 2,282,000 | 263± ac       | Worth Co., IA     |
| \$ 413,000   | 69± ac        | Worth Co., IA     |
| \$ 97,600    | Grain Storage | Piatt Co., IL     |

## 🌿 *DO YOUR HOMEWORK (CONT.)*

water, the large investment in the property and trees is handicapped for the duration of the plants' life, affecting productivity and overall return on investment. Detailed due diligence would have uncovered the precarious water rights situation and would likely have convinced the investor to pass on the opportunity or to adjust the valuation significantly. This would have been an upfront cost well worth its price in the long run.

The same could be said for acquiring a business without proper vetting of its customer contracts, supply agreements, market share and management team. Spending millions of dollars, and upon closing, finding that your key customers have switched suppliers -- or that your suppliers have terminated long-term contracts -- could be crippling.

In short, if there are aspects critical to your deal's success, don't act solely on gut instinct, and don't assume. Know! And if you don't know – or don't know how to find out reliably – consult experts and professionals who do, so that you aren't left with a true mess on your hands. 🌿

*MWA is well-versed in the scenarios mentioned in this article, as well as with many other unique agricultural transactions, through direct experience or partnerships with other professionals.*

## 🌿 *MIDWEST ORGANIC ACRES ON THE RISE*

Certified organic acreage in the predominately grain-producing states of the Midwest has been on the rise in recent years. While still a miniscule percentage of overall grain production, organic crops have had a growing impact.

This should come as no surprise, considering declines in commodity prices coupled with increasing demand for organic foods. Some producers have converted cropland to organic production, partially as a result of the large price difference between organic and conventional crops. They've also turned to specialty crops, such as white corn, in contrast with standard grain crops.

With low commodity prices, farmers are looking to grow whatever will make the most per acre on their ground, whether that's a specialty crop or whether it involves converting the land to organic production.

However, don't expect farms to convert to organic en masse. To be a certified organic farm, a farming operation must first fight through transitional years

when it is essentially producing an organic crop for a conventional price – a risky proposition by any means.

Still, it's worth noting that many farmers have successfully converted to organic operations and are bearing the fruits of that transition.

In the past decade, more than 10,000 acres in Illinois have been successfully converted to organic production. With organic corn prices being nearly triple conventional prices and with weather cooperating the past two years to achieve high yields, there have been many success stories.

While the vast majority of grain produced in the Midwest will continue to be conventional, the market for domestic organic grain will keep on growing, especially with concerns about the integrity of imported organic grains.

This increase in demand will continue to have farmers thinking about potentially transitioning acres in order to produce the most profitable crop they can. 🌿

## *IN THE NEWS: FROZEN AVOCADOS?*

Fruit & vegetable producers have seen growth in the demand for individually quick-frozen (IQF) produce, with the newest addition to the marketplace being avocados. Some consumers may shy away from a frozen avocado while others embrace the convenience. It will be interesting to see if this innovation for preserving avocados (something that traditionally has not been a commercial option) catches on with consumers at home and abroad.

## UPDATED LOOK, SAME GREAT COMPANY



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*Murray Wise Associates is proud to launch the rebranding of our core business lines.*

**MWA Auctions & Real Estate | MWA Capital Advisors | MWA Investments**

For decades, our team at Murray Wise Associates has proudly served the agricultural community, helping buyers, sellers, farmers, & investors navigate the intricacies involved in the acquisition and disposition of farmland assets. We may have a new logo, but rest assured, the same team of experts is here to help you achieve the highest return possible on your land and agriculture investments.

# THE WISE AG UPDATE

## UPCOMING AUCTIONS & CURRENT LISTINGS

### Upcoming Auctions

**Wednesday, November 7 at 10AM** - 120± Acres in 2 Tracts in Piatt County, IL. All tillable. Primarily Elburn, Flanagan and Drummer soils with a P.I. rating of 143. Frontage along County Road 425 East. Lease Open for 2019.

**Thursday, November 8 at 10AM** - 78± Acres in 1 Tract in Champaign County, IL. All tillable. Primarily Drummer and Flanagan soils with a P.I. rating of 143. Less than 1 mile by road to the Market Street Interchange on IL-57. Lease Open for 2019.

**Wednesday, November 28 at 6PM** - 1,148± Acres in 3 Tracts in Fayette County, IL. Premier South Central IL Recreational Retreat. Prime Waterfowl, Whitetail Deer and Upland Bird Hunting. Income Producing Farmland. 2± Miles of Kaskaskia River Frontage.

**Wednesday, December 5 at 10AM** - 1,049± Acres in 19 Tracts in Accomack County, VA. Growing & packing operation consists of 557± of productive farmable acres, packing facility and multiple employee housing facilities with capacity for up to 580 workers.

### Current Listings

**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.

**McLean Co., IL** - 50± Acres with development potential, 2019 lease open. Asking Price: \$500,000

**Cerro Gordo Co., IA** - 303± Acres with a CSR2 of 83.2

**Humboldt Co., IA** - 80± Acres with a CSR2 of 83.7

Visit [www.MWAAuctions.com](http://www.MWAAuctions.com) for more information.

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