

Q4

2018

MWA
MURRAY WISE
ASSOCIATES

IN THIS ISSUE

P1 2018 Midwest
Land Market

P2 Current Credit
Conditions Give Mixed
Signals

P2 Water
Availability And
California Land Values

P3 Conservation
Easements – Some
Things To Think About

P3 Newest Team
Members

P4 Upcoming
Auctions & Listings



THE WISE AG UPDATE

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

2018 MIDWEST LAND MARKET - BY MURRAY WISE

Last year when writing my commentary for this newsletter, it was hard to draw conclusions on the Midwestern agricultural land market due to the relatively small volume of transactions. While land prices generally declined, I noted that in the transactions that had occurred, high-quality land was maintaining its value better than lesser-quality land.

That has continued to be the case this year with much greater transactional volume -- but at the same time, markets are more neighborhood-specific than ever. This year I have seen extremely high-quality farmland sell for more than \$13,000 per acre and similar farmland less than 15 miles away sell for \$9,000 per acre. The difference between these farms was not their potential yield or the cost of operating, but the local farmers and the investors in the area.

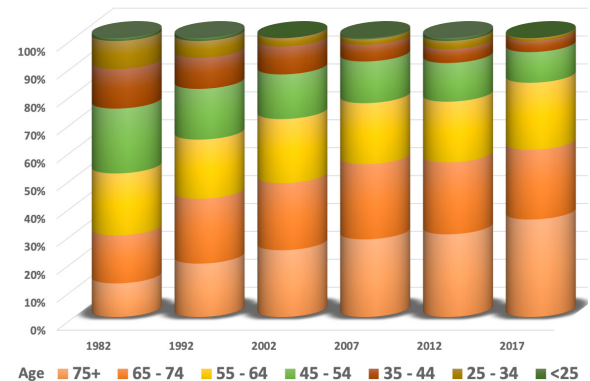
The biggest difference I have seen from 2017 to 2018 in terms of the farmland market is not in the result of the sales, but in the number of sales.

I have seen estate situations and distressed cases continue to be major reasons for transactions this year in addition to a number of other reasons for selling farmland.

Also, a trend that has been gaining momentum in the past few years and was especially true this year is retiring farmers as sellers and/or landlords. This trend will likely continue to broaden, with farm incomes down again in 2018, and 60 percent of Iowa farmland being owned by people 65 years old or older (a third owned by people

older than 75!), the idea of either cash-renting or selling land is starting to become more popular for aging farmers.

Iowa Farmland Owners by Age (According to Iowa State Survey)



Historically the succession plan for many family farms has been to pass the farm to the children for them to farm. However, for families in which their children have moved away from the farm, we have seen renting or selling become the “go-to” options. As an example we recently completed a series of sales in Ohio with our long-term partner, The Wendt Group in which a prominent farm family sold its operation to retire successfully.

In summary, I see the farmland market as very similar to this time last year, with slightly higher transactional volume. Prices of high quality land have and will continue to hold their value better than low quality land, and rents will likely be down slightly in 2019 again as they were in 2018.

The 2018 farmland market has been easier to make sense of due to the quantity of sales and I expect 2019 to be that way as well, which is good news for our readers looking for more acres. 🌾

Murray R. Wise

❖ CURRENT CREDIT CONDITIONS GIVE MIXED SIGNALS

This summer Iowa State University came out with its annual survey of Iowa farmland owners and reported that 82 percent of farmland in the state is debt-free. That was the highest percentage of debt-free land in the report's history.

In contrast, the Federal Reserve Bank of Chicago in its most recent AgLetter reported that the fund availability index for agricultural banks is at 82, its lowest point since the third quarter of 2000. It should be noted that the only other times that the fund availability index has been lower at ag banks were in the second quarter of 2002 and from the third quarter of 1977 to the first quarter of 1980. Meanwhile, the loan-to-deposit ratio at ag banks in the district has continued to rise to an all-time high of 79.4 percent.

The amount of land owned debt-free and the credit conditions outlined in the AgLetter may seem to disagree with each other. However, what has happened is that more individuals have paid off their farms and own them debt-free, while others have continued to increase the amount of debt they have. This has created a scenario in which there is more debt than ever before, but in fewer hands.

Until recently, high commodity prices, strong land values and low interest rates have covered up many

of the issues being this leveraged can cause. However, commodities have been hit hard by tariffs and by macro supply/demand factors that have driven prices down. At the same time, land values have stagnated, and interest rates are on the rise.

While cash rents and land prices have both slightly declined, they still remain well above the levels of a decade ago while input costs aren't much different (in some cases higher) than they were when corn was \$7 a bushel.

While current farm conditions are less than ideal, we are confident it will not be a repeat of the 1980s farm crisis. For one thing, far more land is held debt-free, as evidenced in Iowa farmland data showing 82% of acres owned debt-free today versus the 62% in 1982. The planning of farmers and farmland owners across America for a down market is apparent today, and these are the owners and farmers who will continue to own and farm for the long haul.

This is not to say that debt does not have its place in farmland ownership or operations; rather, that farm owners must look at their operation or investment as a business and make sure they can truly afford their current and anticipated debt load and are not simply farming on equity. ❖

❖ WATER AVAILABILITY AND CALIFORNIA LAND VALUES



In the 2017 Fourth Quarter edition of The Wise Ag Update, we discussed California's Sustainable Groundwater Management Act (SGMA) and the mandated development of groundwater sustainability plans (GSPs) for various parts of the state.

The questions we proposed then were: How would the Sustainable Groundwater Management Act shape how farmers use water with crop allocations? Would it alter their methods of irrigation? Would it result in the potential fallowing of ground?

Those questions remain, but one thing noticeable so far has been the impact the legislation has had on California land prices.

Farm properties that rely on groundwater only and don't have access to surface water have dropped in value, when compared with similar properties that do have access to surface water.

SGMA's impact on land value "was most apparent in the San Joaquin Valley in 2017," according to the 2018 Trends in Agricultural Land & Lease Values report issued by the California Chapter of the American

Society of Farm Managers and Rural Appraisers.

In Madera County, which lies in the central portion of the San Joaquin Valley, cropland with access to irrigation district surface water fell "16 percent from its 2015 peak," the report said.

But cropland that had access to only well water fell by more than twice that amount – 38 percent – from its 2015 peak.

Similar value differences between cropland with access to surface water and cropland with access to only well water were also seen in Fresno, Tulare and Kings counties, though these variances weren't as drastic as those in Madera County.

What's going on? Buyers are pricing in the potential cutback on the amount of water they'll be allowed to pull from their wells once all the groundwater sustainability plans are established and implemented. The buyers are putting a higher value on properties with access to both ground and surface water.

The eventual impact of the Sustainable Groundwater Management Act and its mandated groundwater sustainability plans is still unknown. But one thing is evident: currently, land with access to surface water is demanding a higher price. ❖

🌿 CONSERVATION EASEMENTS – SOME THINGS TO THINK ABOUT

This fall, we had the opportunity to market two properties with two very different types of conservation easements. (Think permanent easement, rather than a term program such as the Conservation Reserve Program, or CRP.)

The first owner used a conservation easement to preserve prime central Illinois farmland, ensuring it would remain in production and never be developed. The second owner used a conservation easement to establish a large wetlands area for wildlife protection and recreational enjoyment.

Obviously, as these two examples show, conservation can have different meanings for different landowners. In both instances, however, the landowners used conservation easements to help achieve their personal goals for the land.

While setting up a conservation easement can provide certain tax incentives and benefits to you as a landowner, your approach to setting up a conservation easement should be cautious, considering both your short-and long-term goals for the property, as well as the financial implications and your emotional ties to the property. Each situation is unique. This list of some of the broader pros and cons may give you an idea of what to consider if you are thinking about a conservation easement for your property.

Pros:

- You may qualify for personal income tax deductions similar to those available for making charitable donations.
- The easement may result in a potential reduction in estate taxes when the property is passed to the next generation.
- Easements can be tailored to meet the desires of the individual property owner.
- Conservation easements may provide you with the ability to protect high-quality farmland or sensitive wetlands from development.
- The property owner retains the right to use the land for crop production, recreation or even specific construction projects as outlined in the easement.

Cons:

- A conservation easement is typically perpetual.
- A future owner or your heirs may not have the same affinity for conservation as you do.
- The future value of the property will likely be diminished as a result of the restrictions of the easement.
- Not all land will qualify for a conservation easement.
- Setting up an easement can be complicated, and you may incur some costs. Hiring an experienced attorney and planning with a tax accountant is highly recommended. 🌿

NEWEST TEAM MEMBERS



MWA Investments is pleased to announce the addition of Robert Cowan to our team to help lead MWA's Latin American operations; including the acquisition and management of agricultural properties throughout Latin America.

Before joining MWA, Robert served as president at Farmland Partners; president & chief investment officer at American Farmland Company; director of agriculture and timber at Utah Retirement Systems; and assistant vice president of special projects and Latin American farmland acquisitions at Farmland Reserve Inc.

Robert has built agricultural land portfolios across the world for three-and-a-half decades. He has a master's degree in agricultural economics from Brigham Young University. He enjoys volunteering and spent 3 years in South Africa working with several humanitarian projects. 🌿



MWA Auctions and Real Estate is pleased to announce that Eric Sarff has been hired to supervise marketing for brokerage and auctions sales and will contribute to the farm management and investment divisions as well.

Before joining MWA, he was the Midwest director of acquisitions and management at Farmland Partners Inc. and was a vice president at The Loranda Group Inc. Eric has experience managing nearly 50,000 acres across the Midwest and has been involved in numerous large farmland transactions throughout his career.

Eric is a graduate of the University of Illinois with a bachelor's degree in agribusiness. 🌿

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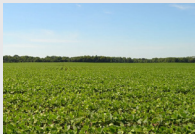
UPCOMING AUCTIONS & CURRENT LISTINGS

Upcoming Auctions

Tuesday, January 15 at 6PM - 47± Acres in 3 Tracts in Delaware County, OH. Potential River-Front Building Sites. Excellent Road Frontage. Woods that Back up to the Scioto River Scioto Township.



Wednesday, February 27 at 10AM - 704± Acres in 11 Tracts in Marion County, IL. Large contiguous property featuring productive farmland, timber for hunting and recreation and a well-kept farmstead, 4bd home, 18,000bu grain storage and multiple out buildings. Lease open for 2019.



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.

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

Franklin Co., IA - 163± Acres with a CSR2 of 83.4

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

Visit www.MWAAuctions.com for more information.

MWA RECENT TRANSACTIONS

\$ 1,140,000	120± ac	Piatt Co., IL
\$ 850,000	80± ac	Champaign Co., IL
\$ 1,923,600	844± ac	Accomack Co., VA
\$ 487,500	50± ac	McLean Co., IL
\$ 1,228,500	157± ac	Webster Co., IA
\$ 2,662,800	317± ac	Hancock Co., IA

APPLICATIONS OPENING SOON

We will begin accepting applications for the 2019 Murray Wise Associates Foundation Scholarship on **JANUARY 1, 2019**.

Applications are due **MARCH 15**.

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

Start your application at www.MurrayWiseAssociates.com

MurrayWiseAssociates.com

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



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