(800) 607-6888 | MurrayWiseAssociates.com | info@mwallc.com

Q2 2019

MWA MURRAY WISE ASSOCIATES

THE WISE AG UPDATE

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

IN THIS ISSUE

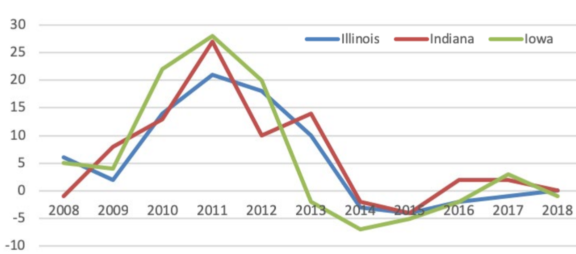
Commentary: Midwest Farmland Trends I'm Seeing

By Eric L. Sarff

For my first commentary at MWA, I thought it important to touch on trends I've seen recently in the Midwest farmland market and the reasons behind those trends.

Trend 1: Midwest land prices have remained steady so far in 2019, despite numerous obstacles for farmers. It remains to be seen what kind of effect the delayed planting season will have on the land market. While commodity prices have rebounded recently, it's uncertain how much of a positive effect those increased prices will have on the bottom line for operators. The main reason for the uncertainty is that poor planting conditions in the Corn Belt have seriously hampered the ability of Midwest farmers to put in their crops. At this point, it seems likely that 2019 yields will be down relative to the last few years.

Percent Change in Farmland Values By Year



Additional headwinds this year for farmers include higher interest rates, tightening credit markets and trade concerns. All these variables could influence 2019 farm incomes, which could in turn affect the land market since the financial strength of farmers determines how much they can spend on land purchases and farm rents.

For farmers who are able to produce a decent crop and capture increased crop prices, 2019 could be a profitable year. On the flip side, many operators will rely on insurance payments for poor yields or no crop at all, and those individuals may hope to just break even.

Trend 2: Overall sales volume has remained firm, but the availability of Class A farms continues to be scarce. While I have seen a steady volume of sales, they mostly have been lesser-quality farms that typically sell for a lower price. However, when we have had a "Cadillac" farm come on the market, it still commanded a premium. I have seen sales north of $12,000 per acre in Central Illinois, both at public auction and in private transactions, and competition for these types of farms remains strong. As the soil quality of a farm decreases, so does the price and the buyer interest. If the trajectory of the land market continues to trend positively, I think you will see more Class A farms come on the market from landowners who have been sitting on the sidelines looking to capture higher prices.

Trend 3: Increased institutional investment from previous years. I wouldn't say 2018-19 has been as active for institutional investors in the Midwest as it was in the boom years of six to 10 years ago. But there has been a marked increase in sales volume in which an institutional or high-net-worth investor has been the purchaser. A few of these buyers are new to farmland, but most are either long-time investors who have increased their rate of acquiring Midwest row crops, or purchasers who have jumped back into

Continued on Pg. 2 (TRENDS)

Trends (cont. from pg. 1)

the asset class after a multi-year hiatus. These investors have been purchasing for a number of reasons, from simply needing to place available funds to a changing outlook on Midwest farmland that has led them to view it more positively as an investment vehicle than they had in the previous few years. Most institutional buyers are seeking long-term investments in high-quality land, and due to the decreased public availability of this asset, many of these investors are looking at off-market transactions -- which leads me to my final trend: the sale-leaseback.

Trend 4: Increased sale-leasebacks. As commodity prices have fallen over the last few years, and profit margins have tightened, many farmers have looked for ways to generate cash. One way that owner-operators have done this is to sell a tract of land to an investor and lease that farm back, typically on a long-term lease. I have worked with a number of farmers and investors on this type of transaction this year, and it can be a "win-win" for both parties when structured correctly. The buyer/investor is able to purchase a high-quality farm that has the ability to meet return-on-investment requirements, and more than likely would not have been available to them otherwise. The seller/farmer continues to operate the farm and, in many instances, will be given the right to repurchase the tract in the future, or will be given a right of first refusal. Farmers are able to keep their economies of scale intact for input costs.

A sale-leaseback transaction isn't necessarily a sign of distress in a farming operation. In many instances, savvy operators will use it to grow their operations. For example, if a tract closer to the farmer's core operation comes up for sale, the farmer could sell a farm farther away to an investor, lease that farm back, and use the cash generated to purchase the closer farm.

Eric L. Sarff , Vice President

Eric joined MWA last year having previously worked with Farmland Partners, Inc.. Eric has a wealth of experience working the in the Midwest both buying and selling farmland.

Ongoing Changes with The Clean Water Rule

The Clean Water Rule (CWR) was formulated in 2015 by the Environmental Protection Agency (EPA) and the Army Corps of Engineers in an attempt to clarify what wetlands and waterways should fall under the federal government's oversight. The rule has been a hotly debated topic since its formulation. Many landowners suddenly found themselves with land containing "jurisdictional waters," although that historically had not been the case. Farmers were one of the groups most affected by the broader "Waters of the U.S." (WOTUS) definition.

In December, the EPA and the Corps published a proposed rule that would make exclusions from WOTUS and loosen oversight regulations. Among the proposed exclusions to the Clean Water Rule that would give the most relief to agriculture are: ditches, prior converted cropland, groundwater (including groundwater drained through subsurface drainage systems), artificial lakes and ponds constructed in upland regions (such as farm and stock watering ponds) and artificially irrigated and flooded areas (such as rice fields and cranberry bogs).

The proposed definition change was opened for comment on Feb. 14, 2019, and closed on April 15, 2019, and there were nearly 6,800 public comments on the EPA public forum. On May 28, 2019, the U.S. Court for the Southern District of Texas invalidated the expansion of the WOTUS definition.

It was determined by the court that in 2015, when the change to the WOTUS scope was made, the EPA and the Corps did not give sufficient time for public notice and comment.

This is an evolving topic that will likely continue to be deliberated, both in the court of public opinion as well as in the courtroom itself.

In the News: CA Snowpack Rebounds in '19

The Sierra snowpack is 33 times bigger this year than last year's snowpack. This winter featured a long succession of storms crossing the Sierra Nevada mountains, leading to the large increase in snowpack. The added snowpack and heavier than usual rains in the Central Valley have equated to full water allocations for many water districts. The Bureau of Reclamation's Central Valley Project water allocations this May were 75% for the West-side contractors south of the delta, 100% for Friant division contractors and 100% for other districts served by the federal water project. This is a stark contrast to the drought years of 2014-2015 in which these contractors received 0% of their water allocations from the Bureau.

Meat Alternatives and "Beyond" – A Growth Opportunity

The recent initial public offering of Beyond Meat, a producer of plant-based meat substitutes, was a great reminder that what once were niche products (plant-based alternatives to conventional animal foods) are becoming a diverse and growing segment in the food and beverage industry for incumbents and new players alike.

Given the market response to the recent IPO of Beyond Meat as well as recent retail sales growth of plant-based meat substitutes, it is expected that consumer demand for plant-based alternatives will continue to grow in coming years, though to what degree, it is uncertain. Nielsen reported a 13.5% increase in US sales of plant-based meat alternatives compared to a 2.6% increase in traditional meat sales in 2018.

While plant-based meat alternatives may be out-pacing traditional meat in annual growth, their market share is still *dwarfed* by the behemoth that is the $1.4 trillion global meat industry. According to Beyond Meat's S-1 filing, "the plant-based meats category currently represents approximately 2.0% percent of the U.S. meat industry". Global demand for meat is growing and will continue to be driven by population growth and rising incomes in developing nations around the world. Countries like China and Brazil have experienced tremendous growth in meat consumption per person in recent decades.

Despite meat-replacers being a very small percentage of the overall market, this is a trend to watch. Over the past decade, plant-based milk alternatives like soymilk and almond milk have found a prominent spot in the dairy cooler, and while it is still too early to tell, plant-based meat alternatives may have the potential to follow a similar trajectory. Currently, nearly 12% of US households (and growing) purchase plant-based meats alternatives while 37% of US households purchase plant-based milk alternatives.

According to Nielsen and Gallup research, this adoption of plant-based alternatives is not confined to just the vegetarian or vegan populations, nor is it confined to just urban and coastal regions. Growth in plant-based sales far outpaces growth in the vegetarian and vegan population and plant-based meat alternatives sales were growing double-digits in every region of the country last year. This suggests that Americans appear "eager to include alternatives to animal products in their diets but are not willing to give up animal products completely", according to Gallup.

These shifting dietary preferences may open up new complementary opportunities for traditional and new-wave producers alike.

Tyson Foods, an early investor in Beyond Meat who divested before the IPO, is already positioning to enter the plant-based protein arena by announcing that they will be selling nuggets made from pea protein and burgers with a meat and pea blend this summer. This is one of the first of the traditional suppliers of meats looking to take advantage of their existing infrastructure to expand into the meat alternative business. Perdue Foods, another traditional supplier, has announced plans to offer blended products that incorporate vegetables into their nuggets, a soft-dive into the plant-based segment. Fast food chains have also recently announced integrating plant-based options into their menus.

Companies like Tyson and others willing to make the investment in this growing segment are making the prudent decision to diversify their product lines and take advantage of the full spectrum of consumer preference. U.S. producers will be ready to meet not only the increasing demand from meat eaters around the world but also the rise in demand for plant-based alternatives.

Family Farm Relief Act of '19 Introduced to Senate

A bipartisan bill, the "Family Farmer Relief Act of 2019", has been introduced in the Senate to make Chapter 12 bankruptcies accessible to more family farms in need of debt relief.

Our friends at Saul Ewing Arnstein & Lehr LLP have summarized the advantages this could provide small to mid-sized farming operations as compared to the currently available relief options, namely Chapter 11. If you would like to read more on the Family Farm Relief Act, please visit: https://bit.ly/2ZwbNJu

THE WISE AG UPDATE

Current Listings & Upcoming Auctions

Current Listings

Webster Co., IA - 35± Acres with a CSR2 of 66.2

Carver Co., MN - 216.42 Ac, Certified Organic, 90.1 P

Commercial Grocery Store Facility, Downtown Chicago - Located at the intersection of North & Elston, 8000± sqft on approx. 1 acre.

Upcoming Auctions

Champaign Co., IL - 100± Acres, Coming this Fall

Visit MWAAuctions.com or call (800) 607-6888 for details.

FEATURED RECENT AUCTION

MWA recently sold 705ac of farmland & timberland at auction in Marion Co., IL. The February sale demonstrated the ability of the multi-parcel auction method to bring value to all parts of a property, with active bidding on the house, timberland, and farmland separately and ultimately selling to buyers at top market prices. The sale was featured in the Landowner Newsletter by Farm Journal showcasing the price brought by the timberland at the auction. Kenny Schum, the auction manager said of the sale, "our marketing program brought the right bidders/buyers to the auction and the multi-parcel system allowed us to achieve the maximum value."

RECENT MWA NEWS HIGHLIGHTS

Estate Planning & Farmland Values

MWA reps. Ken Nofziger, Eric Sarff and Kenny Schum were honored to speak with the East Central IL Estate Planners in May on farmland values & succession planning.

2019 MWA Scholarships Awarded

MWA would like to extend congratulations to the seven 2019 MWA Scholarship recipients. The MWA Foundation awards scholarships annually to bright young people that have demonstrated academic achievement, community involvement, and a commitment to agriculture.

Celebrating Local Entrepreneurs

MWA would like to congratulate the nine Parkland College students who presented their business plans at the CobraVenture pitch showcase. Elizabeth Allen of Mahomet was named the winner by the judges and has received funding for her business, Central Illinois Vinyl. MWA supports the CobraVenture program with the goal of helping young entrepreneurs in Central IL.

WILL 2019 Ag Outlook

Murray Wise enjoyed discussing the farmland market at the WILL All Day Ag Outlook Meeting at the Beef House in Covington, IN. Murray spoke on a number of current issues concerning the farmland market. A recap of his presentation and a discussion with Daniel Grant of Farm Week can be seen in the article *"Gap grows in farmland market; property taxes add pressure"* found on farmweek.com.

MurrayWiseAssociates.com

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

PRINTED WITH SOY INK

Printed on recycled paper

MWA

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

PRSRT. STD.
US Postage
PAID
Permit No. 500
Champaign, IL