

THE WISE AG UPDATE



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COMMENTARY by Ken Nofziger



If you're reading this, you've likely had considerable success in your life and accumulated substantial assets (we've been known to have a selective mailing list!). Your area of expertise is probably not in financial planning or money management, so you've probably had the good sense to seek professional advice from CPAs, lawyers and planners to help you manage those assets.

Unfortunately, when it comes to farmland, many people coast along without actively seeking advice on how to manage the land as a major asset. That's a big mistake -- especially these days, when even a 100-acre farm can be a million-dollar asset or more. Let's take the case of a young woman who recently inherited close to two million dollars in stocks, bonds and CDs, along with her father's 160-acre farm in West Central Iowa. She immediately consulted with a personal financial advisor on how to invest and manage the financial

portfolio; however she opted to leave the management of the farm in the hands of the tenant, who took over the land when her father retired from farming.

Chances are, he's a good guy -- maybe even a relative. But he probably isn't giving her much advice on how to make the most of her very large investment. Yet, for some reason,

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she'll probably continue to lease it to him and hope for the best. Now, meaning no disrespect to the tenant, we believe this is not in her best interests. If that asset was sold and converted into cash she would no doubt consult her financial advisor to help her safeguard and grow its value. We strongly believe she should retain the services of a professional farm

manager for many of the same reasons she works with a financial advisor. Here are some ways such a manager could make a big difference in her long-term wealth:

1. Identifying opportunities and mitigating risk. With most assets, it's obvious that we need advice on ways to manage our risk, identify income opportunities, preserve the asset's value and enhance it if possible. The total return of farmland, like that of other investments, is a combination of income generated (typically rent) and growth in value. A qualified farm manager will recommend ways to increase the value of that property. For example, he might recommend capital investments, use of sound farming techniques to protect the land's fertility, or the use of drainage or irrigation systems. Sound advice in these areas could be expected to make a major difference in the immediate

See COMMENTARY, page 2

YOU CAN NOW FOLLOW US ON:



INSIDE THIS ISSUE

Commentary.....	1-2
Iowa Farmland: Doing the Math.....	2
More Bubble Talk.....	2
Upcoming Major Sealed Bid Offerings	4

COMMENTARY *CONTINUED*



value of the farmland and in the total return of the investment.

2. Maximizing revenue opportunities while limiting her tax and other government related liabilities.

Her farm manager will keep her farm and farming operation aligned with all government programs, revenue opportunities and regulations. (What's the likelihood she's ever studied wetland management regulations?)

3. Reporting regularly on the performance of her investment.

Just as a good financial advisor

will provide regular reports on the performance of a stock portfolio, a qualified farm manager will report regularly on the value and operations of her farm. After all, the prevailing price per acre of land like hers isn't something she can check easily online as she would the stock price of Microsoft.

4. Tenant interview and selection.

Most managers have a listing of quality farm operators who are looking for more land. Our landowner's farm manager will understand her plans and her land. He can thus engineer the

best possible lease arrangements by combining that knowledge with his list of outstanding potential tenants. He also has a working knowledge of her rights as a landlord.

Clearly then, just as it makes sense for our heir to engage the services of financial professionals to assist with her newfound cash, it also makes sense to utilize the services of a top quality farm manager to do the same for her land. ♦

IOWA FARMLAND: DOING THE MATH

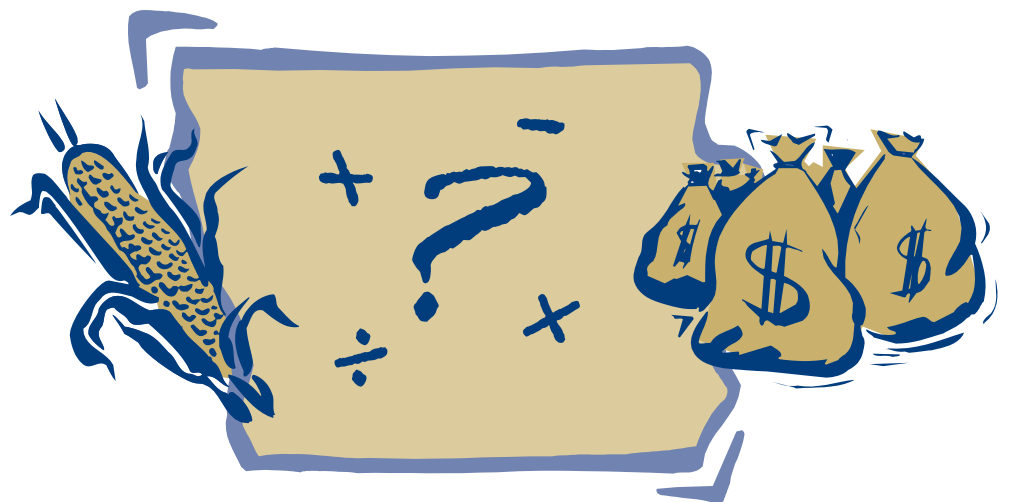


We recently read a copy of FarmWealth Update published by Pivot Wealth Strategies and were struck by a simple, clear assessment of the current value of farmland in Iowa. The article, written by Ron Beach, included a simple formula for calculating the value of an acre of farmland based on the corn price, anticipated yield, and other factors. In his example, he used a corn price of \$5.52, yield of 180 bushels per acre and a 33 percent land owner share of the gross. Two multiplications later, and you have rent of \$331.17 per acre. Now, assume a required return of 3.99% and you have "indicated value per acre" of \$8,300.

Now, according to the article, "...the average Iowa farm has a market price of \$8,296 per acre as published by...Iowa State University." You may quibble about the numbers chosen for the example, but the next step in the article is to

point out the effect of changes in the factors. For example, if corn prices fall and expected returns rise to their historical level (6.24%) the calculation drops that indicated value to about \$4,700. On the other hand, if persistent low rates make even a 3% return attractive, values could rise much higher.

We take two thoughts from this information: First, as we've always pointed out, the ultimate value of farmland is a function of the income it will generate. Not rocket science, is it? Second, we think that Mr. Beach, using quite reasonable factors in his calculation has demonstrated that current land values are reflective of those fundamentals.



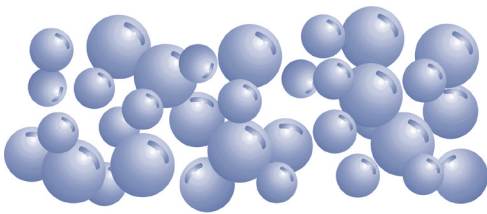
MORE BUBBLE TALK



There's a Big Difference Between Bursting Bubbles and Correcting Trends

A *USA Today* headline: Farmland Prices: Is the Bubble About to Burst?

Check the internet and you can find a dozen published references to the farmland price "bubble." The headline itself implies the certainty that such a bubble exists, but when you read the article itself, a slightly different picture emerges.



Is it a Bubble?

The article, like many others with similar headlines, starts with the rational notion that farmers have profited from record high commodity prices, and that they are using those profits to acquire more farmland. It quotes various farmers and bankers who are concerned that prices are too high and unsustainable at current levels.

Then, we get a recap of the farm recession of the early 1980s during which it's mentioned that in Iowa, "farmland plunged from \$2,147 an acre in 1981 to a low of \$787 five years later, a drop of 63%. A third of the state's farms went out of business."

So are we headed for a repeat of the 1980s? Well, continues the article, not exactly.

It's Not 1980 Again

Possibly the most significant difference in the situation today and that of the 1980 is simply the lack of leverage in the rising

prices. There is very little debt involved in most Midwestern farmland sales, even though (as the article correctly states) the cost of borrowing is lower than ever. And the industry balance sheet has never been better, with debt-to-asset ratios lower than ever tracked before.

We think a single line in the article sums up the reason we don't see a repeat of the 1980s: "Since (the 1980s) farmers have become more financially conservative, leaving them in better position to weather a downturn." Then, commenting on the relative lack of debt involved, *USA Today* adds that "A drop in land prices now means farmers are losing the investment of their own cash rather than being left in a lurch with the local bank. It doesn't mean they won't feel the heat financially, but it's likely to prevent as many farmers from getting irreversibly harmed and, at the same time, limit the severity of a drop in land prices." (emphasis added).

One of the bankers who expressed concern also noted that it was the accelerated pace of the price increases he'd seen that got his attention. The quoted comment in the article referred to flat to slower rising land prices in the coming year as opposed to falling values.

Could We See a Correction?

Certainly. At some point, in fact, corrections are likely. We could see a flattening of the growth curve or even a period of declining land values. That's neither new nor alarming. It's the way markets work. Our point in this exercise is to draw a distinction between a bubble bursting (something we don't anticipate) and the sort of normal, cyclical movement of a

market (something we actually expect).

A similar article by the University of Missouri Extension Service provided some interesting analysis. Like the aforementioned *USA Today* article, it involves comparison of today's market conditions with those of the late 1970s that ultimately led to the problems of the early 1980s. The analysis that struck us involves the long term growth trend in farmland and periodic disparities.

The article quotes U of M agricultural economist Ron Plain: "Back in the 1970s we got way above trend growth, and it looks like that is happening again. Last year we were more than \$500 above trend for the average acre of Missouri farmland." He then changes from the dollar number to a comparison of relative positions above the trend in the 1970s and today. Back then, "farmland prices were 150 percent above trend, with the trend going up 6 percent per year." If the market returned to that trend, it would have taken many years to catch up with the trend without a price drop.

Today, Missouri farmland is as much as 25 percent above that 6 percent trend -- nowhere near the same level of distortion from the trend line. Plain is quoted again, "So we are not nearly as vulnerable. The downside risk isn't anywhere near what it was in the early 1980s." He goes on to cite the reduced use of debt in financing the current market as a major factor in the changed situation. He does see some erosion of commodity prices and notes that in combination with rising interest rates, "we could see a decline or at least stabilization in farmland prices very quickly."

Sounds to us like a correction. 

THE WISE AG UPDATE

UPCOMING MAJOR SEALED BID OFFERINGS



Farms, packing houses, labor housing, a luxury hotel, a former Bible college and a number of other properties owned by East Coast Brokers and Packers Inc. and the Madonia family will be offered for sale in a series of upcoming sealed bid offerings.

Murray Wise Associates, in cooperation with Crosby & Associates, is handling the offerings for East Coast Brokers and Packers, its shareholders and related entities, which filed Chapter 11 bankruptcy in March.

“After two years of freezes on its Florida farms, a hurricane on its Virginia farms in 2011, and years of challenges resulting from cheap imports, a Chapter 11 filing was needed to provide the Madonia family an opportunity to sell assets in an organized fashion. This process will provide enough liquidity to

satisfy creditors and allow the Madonia family to reorganize and carry on its operations,” said Ken Nofziger, who is managing the offerings.

Because of the sheer size and diversity, these properties are being offered in groupings. Each group of assets will have a sealed bid submission date, followed by a court-supervised auction for qualified bidders. Following is a summary of the assets available.

- More than 7,000 acres of Florida farm and development land in Martin, Hillsborough, Polk and Manatee counties; two packing houses; a former Bible college, and several labor camps. Bids will be due by 5 p.m. Thursday, June 20.
- Thirteen farms totaling approximately 3,000 acres; four packing houses; seven labor camps, and several homes in Accomack and

Northampton counties in Virginia. Bids will be due by 5 p.m. Thursday, June 20.

- The elegant Red Rose Hotel in Plant City, along with luxury condominiums in Naples and Stuart, as well as other houses and properties not directly related to the tomato business. Contact Murray Wise Associates for bid deadline information.
- Commercial and residential buildings in Virginia, West Virginia and Pennsylvania, including warehouse and cold storage facilities, industrial and residential lots, and several luxury homes. Bids will be due by 5 p.m. Friday, July 5.

If interested in additional information about the properties contact us at 800-607-6888.



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