

# THE WISE AG UPDATE



FOURTH QUARTER, 2012

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## COMMENTARY by Murray R. Wise



### Some Thoughts on Farmland Sales

The *Des Moines Register* recently headlined the sale of 80 acres of prime farmland in Sioux County, Ia., at \$21,900 an acre. That, of course led to a sidebar about the possibility that we're in a farmland "bubble." I'm on the record already, pointing out that the current level of farmland prices is reflective of a number of factors, all of which represent fundamental support. To recap quickly: Current commodity prices resulting from increased global demand have producers in position to have outstanding cash income...even in a severe drought year. Simply put, **farm income supports those values.** The land cited in the *Register* was **purchased by a local farmer.** Most similar sales in the Midwest recently have also been to local farmers as opposed to investors. In addition, unlike previous "bubbles" there is **little debt involved** in these sales. The buyers are producers who have plenty of cash.

### On the Increased Number of Sales

Over the past several months, there has been a modest increase in the supply of land being offered in Iowa and Illinois. For years, I've felt that there was no clear financial incentive for retired farmers and folks who inherited land to sell. Where would they invest to do better? Frankly, no other reasonably stable asset class could match the total return on quality farmland. Nor would the

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alternatives be likely to match land's inflation protection.

However, today, I think the potential increase in the capital gains tax we're facing has made selling somewhat more attractive. Couple that with the relative speed with which land can transferred via the auction sales method and I think

we've identified the impetus for the increased supply.

### On Iowa State and "Paying It Forward"

Many of you are aware of my history and attendant love for Iowa State University. I owe much of what I am and have to the people there who had some faith in the young fellow from Canada. Now, today, I can tell you I am truly pleased to have the opportunity to assist the University in its mission to develop agricultural entrepreneurs. The Murray Wise Scholarships were established to "pay a little forward" in humble appreciation for what Iowa State has done for me...and is doing for the next generation of ag businesspeople. You can read more about the program and the scholarship on page 2 of this newsletter. ♦

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## MURRAY WISE AND THE IOWA STATE AGRICULTURAL ENTREPRENEURSHIP INITIATIVE



In 2005 Iowa State University established the Agricultural Entrepreneurship Initiative (AEI) with a view to establishing the foremost program for training and developing agricultural entrepreneurs in the U.S. The AEI is expected to broaden appreciation and understanding of entrepreneurship throughout the college and to encourage undergraduate participation. It is expected that this will be accomplished by providing an educational experience emphasizing entrepreneurial skills and interaction with successful leaders in agri-business.

As we prepared a story for this newsletter about the winner of this year's Murray Wise Associates Agricultural Entrepreneurship Scholarship, we contacted professor Kevin Kimle. Kevin got involved with the AEI a year or two after its founding. We asked about the structure of the AEI. "It's a program that uses several approaches to entrepreneurship," he told us. "It combines coursework, out of class programs and internships. The idea is to foster what I would call "strategic innovation" by helping students think in those terms. For decades, innovation has allowed farmers to keep up with the world's growing population. We need to "double down" on our efforts to come up with techniques to produce enough food." Clearly the folks at ISU believe development of a class of innovative entrepreneurs is one promising approach to that end.

Kevin also teaches Econ 334 at ISU. We mention the course because it seems that's where the entire process starts. As part of their class work, students are required to generate agri-business ideas and come up with an outline of a business plan. A competition is held to identify the outstand-

ing plans. According to Kevin, "This year we have two sections, about 48 students, and I think we may have 10 to 15 candidates with the potential to move to the next level."


The next level is the Incubator Program. In this out-of-class program, students with outstanding ideas are assisted in moving their idea along. "For some, it's just completing a true business plan," Kevin told us. "For others it involves developing prototype products, field trials." It can be largely independent work, but could also involve internships and, certainly mentoring with faculty or business professionals.

### **Colin Hurd Awarded Murray Wise Associates Agricultural Entrepreneurship Scholarship**

Colin Hurd is a senior at Iowa State University, and he had an idea around which he created a plan. Now he has some "seed money" to help him take the next step toward creating his own business. The Murray Wise Associates Agricultural Entrepreneurship Scholarship will provide Colin with \$10,000 to use as he sees fit in developing his business idea called "TrackTill."

According to the Iowa State Daily News, "TrackTill is aimed at solving a complicated issue that every farmer runs across in the field: soil compaction. Hurd said soil compaction is a growing issue. As farming equipment increases in size, the weight of the equipment also increases, which leads to more soil compaction." Compacted ground with less available space for air and water simply makes it harder for plants to emerge.

"TrackTill" is a planter attachment designed to reduce compaction and thereby improve yields. Colin is building a prototype and will apply for patent protection after some field trials. He introduced his idea as part of his

"Murray Wise and his Associates provide \$10,000 to be used at the student's discretion to the junior in the program who has developed the business plan most likely to become successful in the real world," said Kevin. Colin Hurd, this year's winner, intends to use the funds to provide working capital as he develops a working prototype for his idea. Kevin says this sort of "seed money" can have enormous benefit for a young person with limited resources but an idea and plan with real potential. For his part, you might want to read the final paragraph of Murray's column in this newsletter. We think he stated the case very well. 

participation in Economics 334. The course, taught by Kevin Kimle, includes a competition for development of a working business plan related to some level of agri-business. Colin's was deemed outstanding and he was invited to participate in the Agricultural Entrepreneurship Initiative Program. That's a long name for an incubator program for Iowa State students interested in and capable of developing new business ideas with innovative solutions to farming issues.

Throughout the process, Colin was able to reach out to members of the Iowa State faculty, grad students and interested alumni in the industry for assistance and direction. One of those pleased to help is our own Murray Wise. He told us, "I am proud to be an alumnus of a university that offers programs to encourage entrepreneurship and fresh thinking in our industry. I am very impressed with the program and, of course, with our 2012 scholarship winner, Colin Hurd."

The Murray Wise Associates Agricultural Entrepreneurship Scholarship is awarded annually to a junior at Iowa State who has demonstrated the creativity, initiative, and commitment to become a successful agricultural entrepreneur. 

# FARMLAND VALUES MARCH ON




## Farmland Price Index Remains Positive, Rises

Creighton University uses survey techniques in a number of Midwestern states to produce a Rural Mainstreet Economic Index. One of the components is an index in its own right: the Farmland Price Index.

The Farmland Price Index is measured on a scale of 1 to 100 with a level of 50 indicating a “neutral” position, neither positive nor negative. An index level higher than 50 signals that those surveyed expect positive development over the next six months.

As this is written, the Farmland Price Index is in its 32nd consecutive month in positive territory. Not since January of 2010 has the index been in “negative” territory. However, in recent months researchers have seen declines from the high point reached in the mid 80s in December of 2011. In August, the index was just barely above the neutral level, but increased to 61.6 in September.


The primary Rural Mainstreet Index is conducted by the Creighton University College of Business. The researchers contact bank presidents and CEOs in about 2,000 non-urban Midwestern towns (average population 1,300). The bankers’ thoughts on expectations for farmland values over the near term are solicited as part of the overall survey and become the basis for the Farmland Index. Details are presented for each of the individual states in the survey on the same format as the overall results. 

## WSJ: Could Be Right Time To Invest in Farmland

One of the objectives of this newsletter is to provide a sampling of what folks are saying about agriculture and farmland in other publications. The Wall Street Journal is not one of the most frequently cited, but when they feature an article called “A Dirty Investment” with the subhead “It may be a good time to put your money in farmland,” we just had to use it.

The thrust of the article seems twofold: First, though land prices seem high, it could be a mistake to pass on the opportunity to buy farmland; and second, that the Midwestern drought doesn’t seem to have had much impact on values.

In discussing the weather issues, the article notes that, “...this year’s drought underscores just how reliant the world is on U.S. crops.” Citing corn prices 50% higher than a year ago and despite a smaller crop, “... farm income has held up well, making a big effect on farm values due to the drought less likely.” And that’s in the face of increasing global demand for Midwestern crops with no deceleration in sight in our opinion.

The article notes that lower quality land has not fared so well probably because poorer land is more susceptible to drought damage. Such land may actually experience some price erosion according to the Journal sources. 

## BRIEFS




### Why Farmland is an Impressive Inflation Hedge

We recently got an e mail containing an article by Pax Zoega headed “Farmland and the U.S. Debt Trap.” As you can imagine, a number of items caught our eye, but one in particular stood out. According to the author, “The reason farmland is such an effective inflation hedge is that, more often than not, food price inflation exceeds the headline inflation rate. The higher the headline rate, the more this will be the case.” He goes on, “This rise in food prices is captured in farmland valuations, because over the long term, farm income to capital ratios remain constant, and the price of farmland will increase in direct proportion to the price of food. Thus the rise

in farmland values should exceed headline inflation over the long term.”

### Cash Rents and Land Values

Interesting material on the Farmdoc Daily e-letter from the University of Illinois College of Agriculture: Commenting on decades of trends in farmland cash rents relative to land values, the summary indicates continued upward pressure on cash rents despite this year’s yield and income losses. That’s because rents lag movements in land values in both directions, though they eventually stabilize along historical lines. As land values have been up dramatically in recent years, cash rents have been rising more slowly and can thus be expected to maintain that momentum, even if value growth slows. 

# THE WISE AG UPDATE

## REDEFINING LOCAL: EVEN SMALLER FARMS BENEFIT BY SELLING AT AUCTION



For years, a lot of small farms were bought and sold locally, often as not to a neighbor who said, "When you're ready to retire, I want to buy your land." But with farmland prices rising rapidly to \$10,000 an acre or more in many cases, that's not always the best strategy.

Why? Because of two things that have changed in the past few years:

- With farm prices higher than ever, the stakes are higher than they used to be. Sure, you'll make a nice profit any way you sell, but the best way to get the best possible price is to generate competition, which the auction does.

- Investors are looking for farmland to buy, and they're not necessarily in your back yard. So even if you hold an auction and end up selling to that same neighbor who first offered to buy it, you'll probably get a better price, because he'll have to compete with other interested bidders.

In the past year, we've auctioned a number of smaller properties, including Illinois farms of 143 acres (\$1,565,000) and 52 acres (\$468,000); and Iowa farms of 35 acres (\$276,500) and 230 acres (\$2,495,000). But in auctions of larger farms, many of the tracts sell individually in small tracts of 100 acres or less, often to farmers and local

investors who had no interest in larger amounts of land. 

### Orion Samuelson

As you will recall we infrequently promote in our newsletter goods and services of outside parties. And that's more than merited with the recent release of the long overdue 400-page book on the life of the great WGN agricultural broadcaster Orion Samuelson. Orion is a dear friend who has a remarkable ability to connect with people. No ag broadcaster has had a greater positive impact on our industry. The book, titled "You Can't Dream Big Enough," is available at [www.bigobook.com](http://www.bigobook.com).



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