

Q4
2020



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THE WISE AG UPDATE

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

2020 IN REVIEW

BY ERIC SARFF

Historically we have devoted a portion of the fourth quarter Wise Ag Update to take a look back at the year that was, however, to do 2020 justice I would need much more than the space allotted here. To say this year has been unique would be a colossal understatement. As with virtually every other industry, COVID-19 significantly impacted agriculture. Early on during the pandemic, society hit the panic button with our food supply. A wave of infections crippled meat processing facilities and limited the availability of meat in grocery stores, creating a logjam in the supply chain and causing retailers to limit individual purchases on meat.

The farm real estate sector has not been immune to the effects of COVID-19. Selling farmland at public auction is one of the most popular ways to market a property, historically getting a room full of interested bidders and then letting those buyers bid their best price. However, it's nearly impossible to hold a "normal" farm auction in our current environment with restrictions on crowd size and other social distancing mandates. What these roadblocks have done is caused us to be creative in the way we, and brokers/auctioneers in general, have marketed farmland in 2020. For example:

Sealed Bid Method. MWA held a sealed bid sale early on during the COVID-19 wave and it was very successful. We marketed a 208-

acre farm in Champaign County, IL using the sealed bid process and offered the farm in three tracts. Bidders were able to submit their bids by mail on both individual tracts and combinations to our office by a set deadline. Once all bids were received, we analyzed the offers and the seller chose the combination of bids that netted the highest purchase price. Ultimately the farm sold to two buyers, both local farmers.

Online Auctions. MWA has offered online streaming of our auctions for many years, and we have sold multiple farms to bidders who were bidding over the phone while watching a live stream of the auction. However, 2020 was the first time we offered 100-percent online bidding with no physical, in-person auction. We offered multiple properties for sale in this manner and sales results were quite strong on all of them. The high-water mark was a 71-acre farm in Champaign County, IL that sold for \$13,711 per acre to a local investor.



Continued on Pg. 2 (2020)

2020 (CONT. FROM PG. 1)

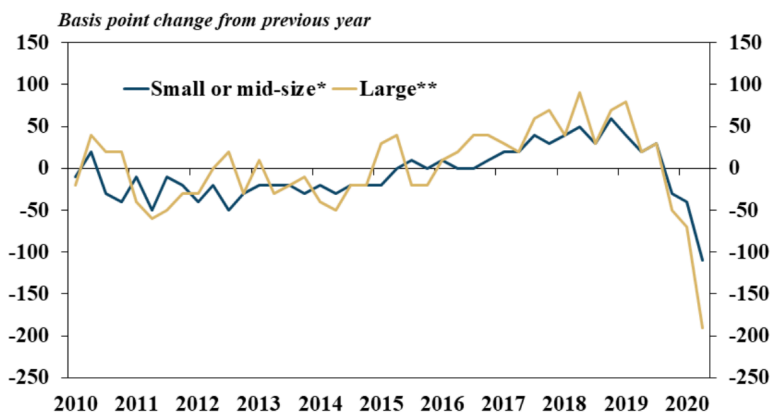
Live Auctions. If you would have told me in January that we would only conduct two live in-person auctions in 2020 I would not have believed you. We held one live auction very early in the year before the pandemic became widespread. We held a second one later in the year where we were forced to limit crowd size; we kept everyone that did attend at least six feet apart, and we had plentiful amounts of face masks and hand sanitizer.

Private Treaty Sales. These types of transactions are definitely not a new sales method, but historically have not been as favored as auctions. In 2020, though, we sold more properties using this method than any other. It will be interesting to see how many sales trend back towards auctions in 2021.

Additional Methods. There has been a variety of other methods that I have either seen or heard about. Some firms are combining some of the above methods, where bidders submit sealed bids to distill the number of buyers down to a reasonable amount of bidders, and then that select group is invited for a private in-person auction. In North-Central Iowa earlier in the summer, an auctioneer held a sale where bidders stayed in their vehicles and everyone tuned to a specific radio station where the auctioneer called the sale. Bidders flashed their headlights if they wanted to bid.

Regardless of the sales method, one thing has been consistent – the demand for farmland during 2020 has steadily grown. This increased demand, coupled with a low inventory of farms, has caused a steep uptick in prices this fall/winter. There are multiple reasons for strong demand.

One of the primary drivers has been low interest rates. Farm buyers are seeing rates that are at or near historic lows. These low rates are a benefit to all buying groups, from farmers to individual investors to large funds. The lower the debt service cost, the more dollars per acre buyers can

Interest Rates on Farm Loans by Bank Size

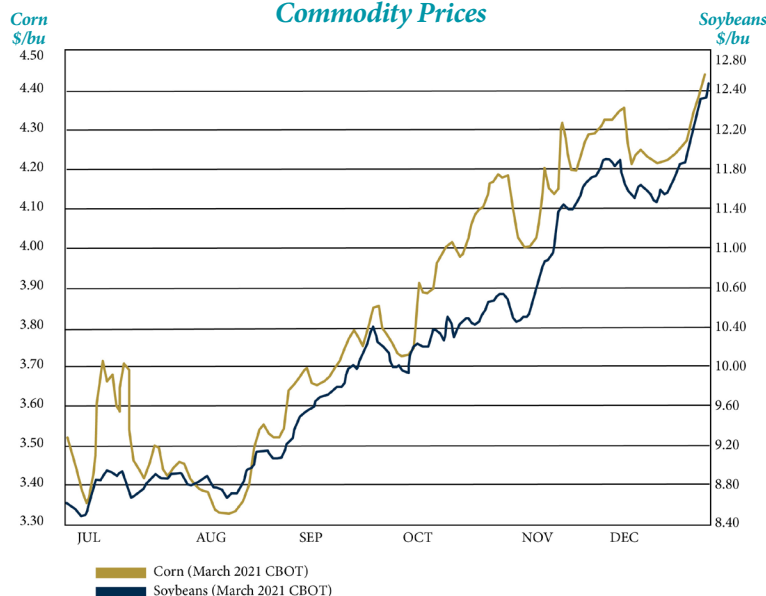
* Portfolios with \$25 million or less in farm loans.

**Portfolios with more than \$25 million in farm loans.

Source: National Survey of Terms of Lending, Table A.5.

Source: Federal Reserve Bank of Kansas City

afford to pay for the farm. A second reason for increased demand is that many believe we will see increased inflation in the coming years as a result of federal money being injected into the economy through multiple stimulus packages. Farmland has historically been a favored inflation hedge with investors with its ability to show long-term appreciation and a reliable annual income stream. We've spoken with numerous investors seeking to

Commodity Prices

Source: Chicago Board of Trade

add to their land holdings and almost every one mentioned impending inflation as a main factor in their decision.

A third factor fueling the demand side of the equation has been the steady recovery of corn and

W FROM THE ARCHIVES

In 1988, Barton Biggs wrote, “Buy a farm and get rich slowly.” It is safe to say that at the time he couldn’t have been more right. Later that year in mid-summer I penned the following article on the recent farmland market. I often find it entertaining to look back at my previous commentaries and hope you will find it so as well. In this case, I can assure you that the farms we sold for \$2,000 per acre in the quality areas of Illinois were bought by individuals that exclaimed

they were in fact overpaying for those farms at the time. I can also assure you that the runner-up bidders at those auctions probably wish they had over paid! It is interesting to look back at the past and see what has changed and what hasn’t. For example, I still adamantly believe the one factor to keep in mind when buying farmland is quality. Anyway, here are some of my “past thoughts.” *MW*

W “PAST THOUGHTS”

THE FARMLAND MARKET

By Murray Wise

June 1988

In the past few months we have seen a farmland marketplace which could be described no other way than “intensely aggressive.” [We] have been recommending farmland as an investment for some time, but never anticipated the intensity we have experienced in the last six months. In the quality areas of Illinois, \$2,000 per acre has become commonplace. In one of my favorite areas, North Central Iowa, land that was selling for \$900 - \$1,100 per acre (and begging for a buyer) 18 months ago is now meeting an aggressive market at \$1,400 - \$1,800 per acre.

Two of the key reasons are that in the last 12 months we have seen a subtle, yet stable move reflecting a 25 – 35

percent increase in commodity prices and a 25 – 30 percent increase in grain exports from the U.S. These two major ingredients have been extremely influential in initiating the turn-around in land values we have experienced in the last 12-24 months, after almost a five-year downtrend. Can you imagine what would happen to our marketplace if inflation rekindles significantly?

As you review the farmland investment opportunities, please keep one factor in mind, quality. It is easy to confuse priorities when one tries to locate and purchase a quality farm. Don’t sacrifice quality for what you believe to be a “bargain.” In the years to come, quality will be number one. Don’t be satisfied with less! *MW*

Murray R. Wise

W MWA BRINGS VALUE TO PARKLAND

Murray Wise Associates is proud to support Parkland College Ag students again in 2020. This year Isiah Sizemore, a student in the appraisal class at Parkland college, was awarded a scholarship from Murray Wise Associates after most closely predicting the sale price of a farm auctioned in McLean County, IL.

Murray Wise Associates is also proud to announce that Eric Sarff has been named to the Parkland College Ag Business Advisory Board. In this role Eric will help to further our connection to the up-and-coming ag students in the community. Eric will also use his role to ensure that students are learning relevant topics for the ag economy.

Murray Wise Associates has hired multiple individuals in

the past who studied at Parkland College, providing a solid path into the ag sector for local students. In 2014 Parkland College honored Murray Wise with its V. Dale Cozad award for Entrepreneur of the Year. We are honored to work with Parkland College and hope to continue our relationship well into the future. *MW*



Eric Sarff (left), MWA President, and scholarship recipient Isiah Sizemore outside the Noel Ag Tech Center at Parkland College.

 **2020 (CONT. FROM PG. 2)**




The buyer of our Macon Co. 77 Acre auction, bidding from his phone while applying anhydrous

prices. This is allowing producers to see more profit, which allows them to be more active bidders for farmland, as well as pay higher rents to investor landlords who in turn can be more aggressive on their land acquisitions. Many analysts are predicting corn and soybean prices to remain at or near current levels in 2021, which would help keep farmland demand at its current levels.

As I mentioned earlier, while demand is very strong the supply side is very thin. I have been in this business for nearly 20 years and I can't remember the last time there were this few farms on the market. We have a number of clients who were considering selling their land,

but many are holding off at the moment. All of them have told us variations of the same reason – “If I sell, I don't know what I will do with the cash.” In my opinion that is one of the main factors driving the low supply. For older landowners who don't need the cash, farmland is a safe and steady investment. When you look at some low-risk alternatives such as CDs, Treasury bills, and bonds, farmland will likely yield a higher return. The stock market offers the chance to beat farmland returns but offers much higher risk. Commercial real estate may be looking at some choppy waters ahead with more and more companies realizing employees can work from home and maintain productivity.

While farmland returns are not headline-grabbing, the ability to own a hard asset with zero vacancy that generates a steady return and historically has shown long-term appreciation is a very attractive investment in today's world. It's always hard to predict where farmland values will go in the future, but I don't see any of the variables on either the supply side or demand side changing much in 2021. I think we will continue to see strong demand for farmland from all types of buyer groups. That demand, coupled with a continued low supply, will likely continue to keep prices very strong. 

IOWA FARMLAND VALUES ARE UP The 2020 Iowa State University Land Values Survey indicated that farmland values were up 1.7 percent or \$127 per acre during 2019. The survey data -- as of November 1, 2020 -- missed a large portion of the recent run-up in farmland prices in Iowa. The average farmland value respondents reported was \$7,559 per acre statewide. This is the highest figure since 2015 when values were reported as \$7,633 per acre statewide. The survey reported that the majority of farmland sales (72 percent) were to existing farmers; 69 percent were local farmers. Only three percent of sales were to existing relocating farmers. Investors represented 22 percent of land sales. New farmers represented four percent of sales, and other purchasers were two percent of sales. The majority of farmland sales (51 percent) were from estate sales, followed by retired farmers at 23 percent. Active farmers accounted for 16% of sales, while investors accounted for nine percent. Sales to investors were highest in the South Central district (34 percent). The Northwest and Southeast districts reported the lowest investor activity (14 percent).

MORE STIMULUS ON THE WAY

Following much anticipated negotiations, Congress passed a \$900 billion COVID-19 stimulus package. Included in the package is much-needed financial relief for agricultural producers as well as additional financial resources for agricultural research and farmer stress assistance programs.

Of the \$900 billion in the package, \$13 billion was allocated to agricultural programs, representing approximately 1.4% of total spending in the bill. Of the \$13 billion, \$11.2 billion is allocated to the Office of the Agriculture Secretary, approximately \$870 million is allocated for a supplemental Dairy Margin Coverage program as well as a \$400 million dairy donation program.

Row crop producers will receive \$20 per acre payments on corn and soybean acres -- amounting to \$1.8 billion for corn acres and \$1.6 billion for soybean acres.

Many farmers and ranchers who were previously left out of the first round of program aid can now receive assistance, including ranchers who were forced to euthanize livestock early in the pandemic. USDA would be authorized to compensate producers for up to 80 percent of their livestock and poultry values that were lost when animals were culled because of backups at processing facilities.

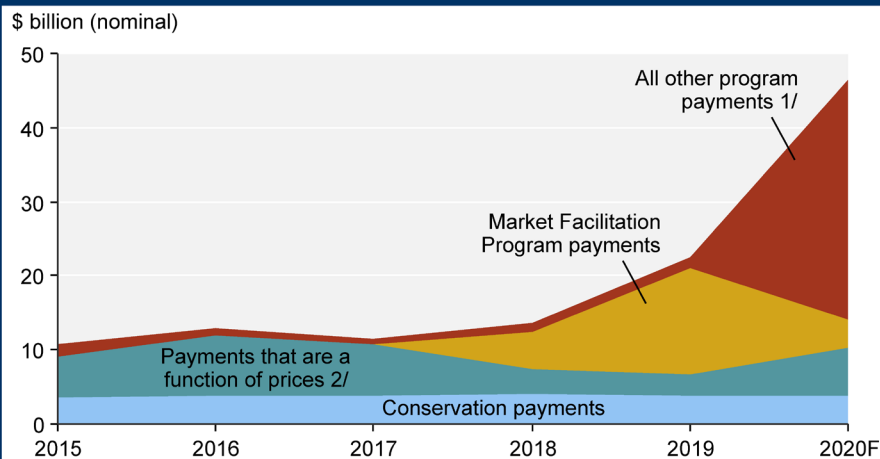
The American Farm Bureau Federation was instrumental in making sure agriculture was included in the stimulus package.

Under the CARES Act, to be eligible for assistance, the farmer had to directly own the commodity. This worked well for cattle and hog producers, but not for broiler farmers, who typically grow birds under contract and don't own the birds. These producers saw their income significantly reduced as many of their barns (whose construction is not covered

under contracts) remained empty due to supply chain disruptions earlier in the pandemic. The new bill addresses losses faced by many in the poultry industry (and other livestock sectors as well) by providing \$1 billion for contract growers of livestock and poultry.


For the dairy sector, the bill also provides cash flow assistance to small and midsized dairies by establishing supplemental dairy margin coverage based on 75 percent of the difference between recent actual production (based on 2019 marketings) and the established production history currently used by the Dairy Margin Coverage (DMC) program. Payments under this supplemental program would be based on the additional 2019 production and the elected DMC coverage level. Many small and

Direct government payments to farm producers, 2015-20F



Note: F = forecast. 1/ "All other program payments" includes supplemental and ad hoc disaster assistance, which in 2020 includes payments from Coronavirus Food Assistance Programs and the Paycheck Protection Program. 2/ Includes Price Loss Coverage, Agriculture Risk Coverage, loan deficiency payments (excluding grazeout payments), marketing loan gains, certificate exchange gains, and dairy payments. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of December 2, 2020.

midsized dairies have grown their operations since their production history was established and locked in in previous farm bills. This legislation would allow those operations to qualify for additional coverage for 75 percent of any increases in milk production up to 5 million pounds.

Biofuels (corn ethanol and biodiesel) are eligible for payments under the bill, but the USDA is not required to assist them. 

THE WISE AG UPDATE

CURRENT LISTINGS & UPCOMING AUCTIONS

Current Listings

Champaign Co., IL - 432± Acres with 140.9 PI. 391± tillable ac. Asking \$9,720/ac.

Winnebago Co., IL - 154± Acres with 122.2 PI. 129± tillable ac. Asking \$5,812/ac.

Upcoming Auction

Champaign Co., IL - 63± Acres offered in 2 tracts. Online-Only auction. Call for bidding procedure and check our website for updates.

MWA Recent Transactions

\$ 8,720/Ac	81± ac	Franklin Co., IA (Leaseback)
\$ 9,160/Ac	131± ac	Webster Co., IA (Leaseback)
\$ 8,450/Ac	174± ac	Fayette Co., IA (Leaseback)
\$ 7,982/Ac	114± ac	Kossuth Co., IA
\$ 8,790/Ac	76± ac	Humboldt Co., IA (Leaseback)
\$ 8,813/Ac	80± ac	Webster Co., IA

MWA Recent Transactions (Cont.)

\$ 13,711/Ac	71± ac	Champaign Co., IL
\$ 8,800/Ac	77± ac	Macon Co., IL
\$ 6,775/Ac	166± ac	McDonough Co., IL
\$ 9,500/Ac	234± ac	Kane Co., IL
\$ 11,600/Ac	331± ac	Douglas Co., IL
\$ 8,750/Ac	155± ac	Wright Co., IA
\$ 3,800,000	Marina	Duval Co., FL
Sale Pending	81± ac	Macon Co., IL
Sale Pending	80± ac	McLean Co., IL
Sale Pending	20± ac	Christian Co., IL
Sale Pending	80± ac	Champaign Co., IL

Visit MurrayWiseAssociates.com or call (800) 607-6888 for details on any property.

MurrayWiseAssociates.com

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