

THE WISE AG UPDATE



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COMMENTARY by Murray Wise



MORE THAN JUST COMMODITY PRICES AFFECTING FARMLAND VALUES

In March I'm scheduled to speak at two very interesting events. The first is WILL-AM's (Champaign's local public radio station) annual All Day Ag Outlook targeting Illinois and Indiana farm operators. The other event is the Realtors Land Institute's 2015 National Land Conference in Tucson, which is attended by leading land brokers from all over the U.S.

Now, the reason I'm often asked to be involved in such events is my decades long history of advocating farmland as an investment and my reputation as an evaluator of both individual properties and the market in general. And, frankly, I'm very protective of that reputation. To make sure my presentations and comments are worthwhile, I've done some very careful thinking about Midwestern farmland values, and I've concluded that there's more than just commodity prices driving values.

Throughout the bull market in farmland of nearly thirty years, I've been comfortable with the general approach

that land values would continue to rise, albeit with some occasional soft markets and decelerations along the way.

The reasons for the optimism are many, and they've been outlined in past issues of this newsletter as well as in interviews and speeches I've done. They range from improved technology in the industry to the growing international demand for food and fiber as emerging markets develop middle classes.

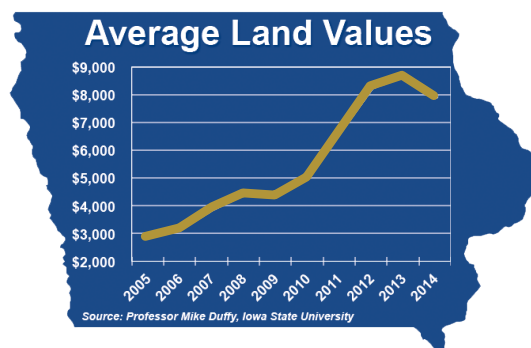
Today, those factors remain, though possibly somewhat muted. I think we're in a very unusual market and by that I mean one that is affected by economic factors both domestic and global, political considerations, and the simple fact that bull markets in any investment correct at some point.

In my mind, I think of farmland in terms of quality – its ability to produce a commodity that will generate profit. I think in terms of A, B, C, and D land (with A being top quality). There are shades in between, of course, and I've always said that farmland is traded in an

imperfect market sometimes dominated by non-economic factors.

Most D quality land should never have been farmed, but with grain prices what they were a few years ago, some tried. Now, that land is probably back in a federal program such as C.R.P.

At the other end of the spectrum, A and A+ land is generating a 2% to 3% cash return plus potential appreciation while performing almost like treasuries in a portfolio of investments.



Recently, researchers at Iowa State University reported that Iowa farmland is off about 9% from its peak value. I don't doubt that is the case in Iowa as

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well as similar declines in the rest of the Cornbelt states. They're the best in the country, in my opinion, at monitoring changes in land value. However, I think the numbers need to be examined in greater detail. I have mentioned the advantage of A and A+ land above. I think the price of such land is probably flat with some local exceptions that have risen or fallen very slightly in the past twelve months, often a function of the strength of the neighboring landowners. However, B, C and D land is down even more than estimated, distorting the overall picture somewhat.

The usually stated reason for concern in all categories is the dramatic drop in commodity prices, and I don't see significant improvement in the near term. However, I've come to the conclusion that ***the number one driving force in farmland values is not the level of commodity prices, but interest rates.***

We've documented in these pages many times, the low level of leverage involved in most farmland sales. Couple that with the advanced average age of landowners in the Midwest and you have an interesting situation.

Picture Mrs. Jones: She owns several hundred acres in central Illinois. Her investment portfolio is dominated by safety concerns, so she has government bonds and CDs. The return she is receiving on her land is not what it was just a few years ago, but it is still many times what she's being offered by the local bank and is as safe, from her point of view, as sending money off to the government. Is she a likely seller of her farmland? I doubt it. In fact, to the extent she represents a large proportion of farmland owners in the grain belt, her approach significantly contracts the supply of land available.

The way I see it, dramatic increases in interest rates are extremely unlikely given the approach we've seen from the Fed to this point. We may see some modest increases, but I don't believe they can allow too much too soon. As long as interest rates continued to be managed to the low (nearly negative) levels of the recent past or allowed to increase only slowly over extended periods of time, they will continue to provide support for farmland prices.



The other side of this coin would be the result if interest rates rise more rapidly and dramatically. In that case, assuming I'm correct in my premise, we could see continued and even accelerated softening in land values.

So what might this mean to you? If you own land and believe interest rates will rise in the near term, you might want to consider selling now before any possible erosion in value. After all, in that rate scenario, there could be attractive alternative investments. On the other hand, prospective investors may not share that rate forecast and wish to take advantage of this recent "dip", assuming we'll see a return to long-term growth trends.

My point is this: Ultimately the conclusion you draw about whether to buy, sell or hold your farmland will be affected to some degree by individual expectations of interest rates movement. In any case, Murray Wise Associates is happy to help you evaluate your options! ♦

Murray R. Wise

MURRAY WISE ASSOCIATES NEWS



Przybylski Named Vice President

Kaitlyn (Kati) Przybylski joined us as a Senior Associate in 2010 after graduating from the University of Illinois

College of Agriculture and Consumer Economics. She has since become a key player in projects ranging from

planning for agribusiness mergers to marketing farmland. In fact, she's helped lead marketing efforts for over 50,000 acres and more than \$500 million in agricultural assets. Not one to rest on her laurels, Kati is currently working on Master's degrees in both Agricultural Economics and Business Administration.

Congratulations, Kati. Well done and well deserved. ♦

SCHOLARSHIPS



Ag. Entrepreneur Scholarship

Iowa State University senior Ryan Fisher has been named the latest winner of the Murray Wise Associates Agriculture Entrepreneurship Scholarship.



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SCHOLARSHIPS CONT'D

Fisher, who has been involved with the Agriculture Entrepreneur Initiative's student business incubator program throughout his college career, said he hopes to establish an agriculture-related business.

"I grew up on a farm, so the idea of growing crops is attractive to me. But I'm also open to other types of businesses that serve agriculture. There are a lot of exciting things being done in farming with technology and data use, for example," said Fisher.

Wise said Fisher was a deserving recipient of the \$10,000 scholarship.

"Practically from the time he arrived on campus, Ryan has been distinguishing himself through his participation in the entrepreneurship program, and I really think we can expect great things from him in the future," said Wise.

Parkland College Scholarships

For years, students at Parkland College have competed in an appraisal contest, with their estimates compared to the price in an upcoming auction. Starting in the fall, Murray Wise Associates decided to make it more interesting by offering a \$1,000 scholarship to the student coming closest to the sale price.

Congratulations to recent winners, Blake Kinkelaar, Kat Longtin, and Clayton Smith. 

Applications for the Murray Wise Associates Foundation Scholarship are due *MARCH 31ST*

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

Start your application today at APP.MURRAYWISEASSOCIATES.COM



CONGRATULATIONS TO AN OLD FRIEND

For all of us at MWA, Ben Crosby is a highly respected colleague and valued friend of many years. And now he's also the Realtors Land Institute's 2015 Realtor of America. The award is presented annually at the organization's national convention and honors members who have demonstrated the highest levels of business success, client service, integrity, and commitment to the organization.

Ben is founder of Crosby & Associates in Winter Haven, FL. Ben and his firm have been facilitating agricultural land deals in the southeastern US for over 30 years and have established a national reputation as experts in the field.

Murray was pleased to comment on Ben's receipt of the RLI award:

"I can proudly call Ben Crosby one of my most valued friends and partners in the agricultural real estate industry. For over 25 years, Ben has helped guide and assist me and my associates in buying tens of thousands of acres of raw land, develop many of the citrus industry's leading groves, sell large tracts of ranch property and conduct dynamic multi-parcel auctions throughout the southeast, Mississippi Delta, and Texas. I cannot think of a person more deserving of the RLI Realtor of America award."

Congratulations, Ben. 

A LOOK AT ORGANIC AND NON-GMO

THOUGHTS ON NON-CONVENTIONAL FOOD & FARMING

Organic food is a luxury. Look up the word in Mr. Webster's dictionary: A "luxury" is "something that is expensive and not necessary." Anyone who has shopped for organically grown produce knows that they are paying a premium. Many see nutritional advantages in organic food while others believe such consumption is environmentally sound policy. The choice to "go organic" is personal. If you can afford it, we have no problem with your choice. Unfortunately, with limited resources and growing demand, we can't feed the world organically. Definitions aside, the real reason that organic food is a luxury is that organic farming is not a feasible way to feed the world.

Scale is a major portion of the problem. Typically, yields in organic farming can be up to 25% lower than conventional agriculture. Modern agriculture, with all its insecticides, herbicides and, yes, GMO seed, is necessary to provide the low cost food we enjoy in the western

world and to the millions facing critical nutrition needs in emerging nations.

When asked about the hype surrounding GMO crops, Kip Tom, president and CEO of Tom Farms, responds with a question of his own:

"Which would you rather eat: GMO sweet corn with one gene modified or sweet corn sprayed multiple times with insecticides to prevent the worms we find unappetizing?"

If you are fortunate enough to be in a position to make this choice, you already benefit from the luxury of available resources. The reality is that feeding a growing population is a tall order and according to the Gates Foundation, GMO crops will be an integral part of the solution to address global hunger now and in the future.

We don't have a problem with those who choose to consume, and even admire those who grow, non-conventional food for themselves & their families. We just acknowledge that it's a luxury many can't afford.

THE WISE AG UPDATE

RECENT AND UPCOMING AUCTIONS & CURRENT LISTINGS



Recent Auctions

\$ 5,454,750	760± Acres	NOV 17	Clay Co.	IL
\$ 2,000,000	275± Acres	NOV 19	Vermilion Co.	IL
\$ 740,250	105± Acres	NOV 20	McLean Co.	IL
\$ 1,776,000	160± Acres	DEC 2	Champaign Co.	IL
\$ 2,390,500	375± Acres	DEC 2	Kossuth Co.	IA



Upcoming Auction

Thursday, March 12 at 10AM – 224± acres in Mower County, Minnesota, Dexter Township - Productive southern MN farmland, systematically tiled, and sits on the junction of two county highways. Offered in 3 tracts ranging in size from 73 acres to 77 acres.

Private Listings

Wright Co., IA – Belmond TWP - 77.5 CSR2 rated farm with 214± acres of which 211.3 are tillable – Asking price: \$11,000 per acre

Calhoun Co., IA – Sherman TWP - 83 CSR2 rated farm with 120± acres of which 119.5 are tillable – Asking price: \$9,400 per acre

Visit www.MurrayWiseAssociates.com for more information on these properties.



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