

THE WISE AG UPDATE



MURRAY WISE
ASSOCIATES LLC

THIRD QUARTER, 2011

VOL. XXVI, NO. 3

COMMENTARY by Murray Wise



Let's Talk Bubbles

Perhaps a definition would be the best way to start. The fourth definition of "bubble" in Mr. Webster's dictionary is "anything that lacks firmness, substance or permanence; delusion." The fifth is "an inflated speculation, esp. if fraudulent."

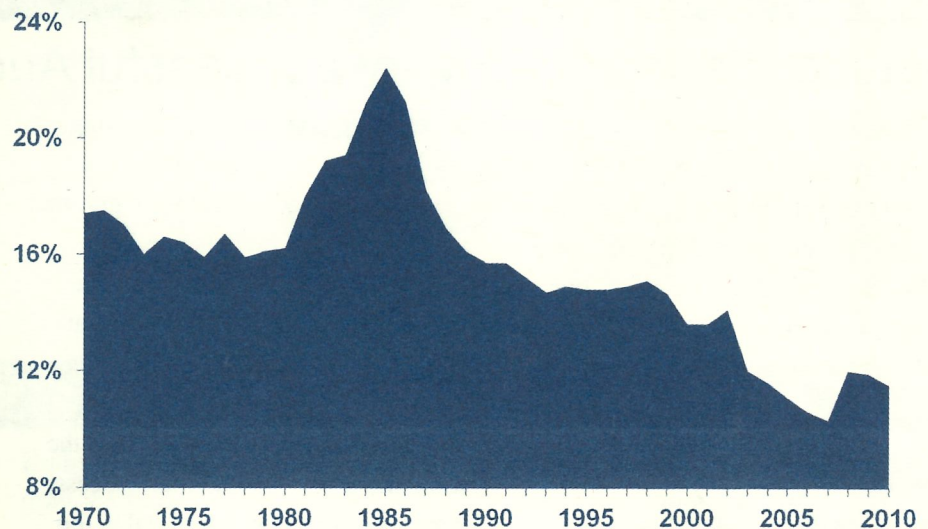
Some people—including some who should know better—have begun referring to a "bubble" in Midwestern farmland values. Let's take a look and see if recent changes in crop land values meet those definitions of a bubble.

We're entering the third decade of a bull market in farmland. That's "decade" as in years of appreciation, not a quick, speculation driven increase. Over that time, the general rise has been consistent and moderate. The past year has seen acceleration and some level of correction is possible, but I simply don't see a "bubble bursting."

And it's the drivers of this bull market that I think lend it substance. For example, somewhere between 70% to 90% of the buyers of Midwestern farmland are operating farmers...folks who intend to use the land in their businesses, not speculators betting on further growth. That's not to say they're unaware of recent trends, but note that the *utility of the purchase* is a major determinant of the decision.

U.S. Farmers Debt/Asset Ratio

Chart A



In addition, very few of the sales involve debt. Farmers are paying cash. They've had many profitable years and the collective farm balance sheet is in great shape, perhaps the best ever. (Chart A) In Iowa, 75% of the land has no note or mortgage associated with it.

Ultimately, the value of the land is a function of its ability to produce a profit for the operator of course.

That too, seems to me to lend to the substance and permanence of higher land values. The growth of a middle class demanding protein in their diets in many areas of the globe is well documented and, in my judgment, irreversible. That means increasing demand for animal feed and no one is better at growing that sort of grain than American farmers.

See COMMENTARY, page 2

INSIDE THIS ISSUE

Commentary.....	1
Past Auctions	2
Market Observations.....	3
New Associates	3
Auctions	4

COMMENTARY *CONTINUED*

Finally, given everything I've already noted and for many of those same reasons, there is simply very little land available for purchase. Many Midwestern counties with quality farmland saw less than 1% change hands in 2009. As an example; in Moultrie County Illinois, a very high quality Illinois County, only 0.3% of the land changed ownership in 2009.

So, we have tight supplies, global growth in demand for grain, and operating farmers competing for productive land with their own cash. That situation is quite different than the overleveraged housing market, the speculation driven demand for dot.com businesses yet to show a profit, or the "irrational exuberance" we saw in the stock market several

years ago.

Some correction is possible, maybe even likely...just not the sort of cataclysmic retreats seen in those other markets.

It's not a bubble. ♦

Murray B. Wise

PAST AUCTIONS



Getting Started: Two Very Successful Auctions

As we've pointed out in our promotional material, though the name of our firm has changed, we're still the same committed, professional people. As if to prove the point, our first two auctions have continued our history of land marketing success.

One was in Kentucky.

In nearly each of our multi-parcel auctions, there is some element of drama...some tension or turn of events that makes the sale stand out from the others. Sometimes it's competition among smaller bidders for a particularly attractive parcel. Other times, there's an undercurrent of covert strategizing among bidders. And in our recent sale in Henderson County, Kentucky, the drama was supplied by a group of "bidders on the whole" who seemed determined to outlast one another, eventually leaving bidders on individual parcels in their dust.

We had 4,745 acres to sell near the Ohio river. Along with our good friends at Schrader Real Estate and Auction Co, we carefully selected 44 tracts on the property, each with appeal

to some segment of the land buying public. We went about our normal marketing campaign and were gratified at the number of bidders present in person as well as on-line as the sale began. Our initial estimate was that the property would bring something in the neighborhood of \$12 million. And then things got started. After the usual desultory "feeling out" process, a number of bidders interested in the entire property came to the fore, including, we're proud to say, one of the most prominent families yet farming in Kentucky. At one point we looked up and the bid was \$14 million...and there were still eight active bidders on the whole! Ultimately, the property sold to a single bidder for \$17,510,000 after some of the most spirited bidding we've seen at that level.

Perhaps the most interesting note is that the contending bidder was an operating farmer...as were several of the other bidders. (Might be a good time to re-read Murray Wise's *Commentary* in this issue.)

Another was in Kansas.

Again, in company with Schrader, we sold 3,552 acres spread across several counties near Garden City, Kansas. This property was sold in 22 tracts ranging from 312 acres to less than fifty. Like the Kentucky sale, we had a solid group of interested bidders both in house and on-line. However, unlike the Kentucky sale, this one involved many more bidders. Never mind the differences, however. At the end of the day, the seller was satisfied and the buyers pleased and we'd concluded our second successful auction since leaving the Westchester Group. ♦

Consider This:

We relay a quote from the March 21 *Farm Week* magazine. According to the annual report of the survey of farmland values from the Illinois Society of Professional Farm Managers and Appraisers, ***"Auctions generally flushed out some of the highest prices for farm ground last year as some induced fierce competition. Auctions on average generated \$800 per acre more than private sales."***

And Murray Wise Associates has the track record to prove it!

MARKET OBSERVATIONS



Bull Market in Farmland: Another Ten Years?

It would seem so. In an *Investment News* article author Jeff Benjamin notes that Yale economist Robert Shiller speaking to the Investment Management Consultants Association told the group, "My only bullish call is farmland."

Professor Shiller also commented that, though he thought farmland had participated to a degree in the real estate bubble in recent years, it has held most of the gains. The economist cited limited supply as the key difference between farmland values and other real estate.

We would add that the supply is not only tight today, but likely to become

even more as we continue to see urban sprawl absorbing productive land and environmental limitations on the creation or even maintenance of tillable farmland in various regions of the country.

There's another key reason the supply is limited: If you own farmland today, why would you sell? Do you like bond yields?



Or maybe you're confident that stocks will return to form in the near term? Professor Shiller forecast that stocks would gain 2% to 3% annually over the next decade.

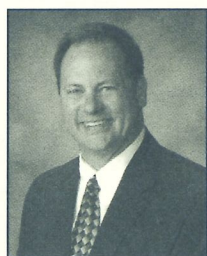
At Murray Wise Associates, we've been playing in the same band for years. We haven't always expected some of the extraordinary annual gains, but we still believe the fundamentals favor a solid future for farmland values.

And, it's always nice to have an Ivy League economist agree with us! ♦

NEW ASSOCIATES



As Murray Wise Associates settles into new offices and reintroduces the firm to old friends, we've also been busy adding some new associates.



Jeff Wright became our Accounting Manager in late March and has hit the ground running. He has had to because he's responsible for all accounting, banking, expense reporting, insurance, investments, payables, receivables, taxes, employee benefits and other administrative responsibilities. As our Ken Nofziger put it, "All the things the rest of us didn't want to deal with."

Jeff has an established reputation in our community, having held similar positions at several prominent and successful companies. He and his wife

Kathy have seven children and three grandchildren.

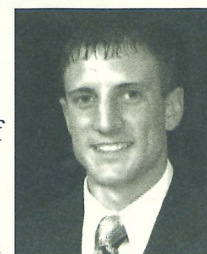
Michelle Weinzetl has joined the firm as Vice President in our Auction Division. Michelle's challenge is to drive our auction business in the upper Midwest



and Plain states. She's been in the real estate and auction business since 1995 and she's a licensed auctioneer. Most of the folks at MWA have Illinois or Iowa roots, but Michelle and husband Jeff hail from Annandale, MN where they're raising three boys.

Josh Gerig is the most recent addition to the MWA team and will be responsible for Farm Management Services in our Clarion, IA office. He grew up on a family farm in Michigan and also

brings to MWA experience in grain trading and financial management of agri-business. The management and financial skills Josh



has developed over the last 13 years as well as those learned on the farm will prove to be a valuable asset to our rapidly-growing client base.

It's automatic at this point to insert

a comment that we're pleased to welcome these outstanding individuals to the team... but we mean it. It's not just public relations jargon; it's a reflection of the faith we have that these three will soon become significant contributors as we move forward.

THE WISE AG UPDATE

AUCTIONS



Recent Auctions:

\$17,000,000 – March – 3,915 Acres in Pasquotank County, North Carolina – Tillable Farmland
Ranch Land – May – 2,485 Acres in Pennington County, South Dakota – Near Rapid City
\$4,460,000 – June – 444 Acres in Mason County, Illinois – Farmland and woods including a home

Upcoming Auctions:

Monday, August 22 at 1PM – 143 Acres in Champaign and Ford Counties, Illinois – Offered in 4 tracts including prime Central Illinois farmland and a country home. This farm features excellent Brenton silt loam and Drummer silty clay loam soils.
Wednesday, August 31 – Approximately 1,400 acres of productive farmland and scenic recreational land in Putnam County, Illinois near Hennepin
Wednesday, August 31 – 589 acres of productive farmland in Woodford County, Illinois adjacent to Minonk – Offered in 8 tracts.
Coming Early September – 473 Acres in Texas County, Missouri – This working ranch includes multiple tracts of pasture, some lightly wooded, and a rustic country home.

Coming Late Summer and Fall 2011! 7,000 +/- Acres of Productive Farmland in the following counties:

IL: LaSalle, McLean, Marshall, McDonough, Henry, Iroquois, Kankakee, Will
IN: Jasper, Newton, White



MURRAY WISE
ASSOCIATES LLC



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
9711 Ireland Avenue North / Annandale, MN 55302 / Bus: (763) 250-8425 / FAX: (320) 274-2040

MURRAY WISE
ASSOCIATES LLC



PRSR. STD.
US POSTAGE
PAID
PERMIT NO. 746
CHAMPAIGN, IL