

Farmland SEASONS

FALL 2010



MGW MARTIN, GOODRICH & WADDELL, INC.
REAL ESTATE SERVICES

*We plant profitable investment ideas
in every season*

Enhancing Quality for Mutual Prosperity **PAGE 4**



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AREAS OF CHALLENGE OR OPPORTUNITY AT HARVEST

This year's harvest logistics will be better for some than others. The Eastern Corn Belt often finds itself short of storage, and this year is no exception. A relatively good wheat crop combined with strong carry in that market have led to more wheat in storage, reducing space for corn.

"We expect a split harvest—some corn will come out of the field in September, then other acres that were planted later will be harvested in the fall," says Steve Beier, origination manager for The Andersons. "Farmers may see premiums for early high-quality corn to blend off some of last year's remaining stocks."

As the Corn Belt extends west, elevators in the Dakotas, Nebraska and Kansas are experiencing a shortage of capacity as corn's higher yields stretch systems designed for wheat, says Diana Klemme of Grain Services Corp., in Atlanta. "More storage is being built, but that takes time."

This means farmers with bins may capitalize on improving basis by storing on farm until the excess works through the system.

Cover Photo: Harlen Persinger

ANTITRUST SCRUTINY IN AG MARKETS

The U.S. Department of Agriculture and the Antitrust Division of the Department of Justice (DOJ) have completed four of five public "workshops" designed to explore competition issues affecting the agricultural sector in the twenty-first century and the appropriate role for antitrust and regulatory enforcement.

Topics include seeds, poultry contracts, dairy, beef, hog, and other animal sectors, and the spread between prices received by farmers and paid by consumers.

In Alabama, for example, dozens of farmers voiced complaints about changes in policies at the poultry companies for which they produce. Contracts that once were signed for seven years have been shortened to where they now are "flock to flock." At the same time, producers are forced to upgrade buildings at their

own expense if they want to continue contracts, without the security of knowing they will have a market.

The DOJ's interest goes well beyond the welfare of farmers, however: "My role in the federal law enforcement system is first and foremost to protect American consumers' choices and to secure for them the benefits of competition in the marketplace,"

says the DOJ's Christine Varney, the assistant attorney general spearheading the effort.

"Well-functioning ag markets are not only a matter of economic efficiency, but a matter of national security and public health. Our goal is a holistic and interdisciplinary look into how we can all work better, together, to strengthen and support fair and efficient markets in American agriculture."



THE WORLD NUMBERS GAME

In each issue of Seasons, we'll supply comparative numbers that affect farmland prices or investment. The answer to what these numbers represent appears on the next page.

SOURCE: FAOSTAT

	(Billion \$)
Argentina	22.56
Australia	8.11
Belgium	2.20
Brazil	51.77
Canada	10.69
China	20.31
France	20.99
Germany	16.47
India	133.74
Indonesia	29.68
Italy	15.59
Malaysia	7.34
Sweden	1.63
USA	97.95
Venezuela	1.95

FARMLAND VALUES CONTINUE STRONG

Q&A With Josh Waddell, Vice President MGW

Q: Has the agricultural land market softened any since the renewed surge in activity you reported in the Spring 2010 issue of *Seasons*?

Not at all. USDA reports cropland values up 3.2% in Illinois (see table) and 1.1% nationwide this year. Agricultural land listings are drying up across the state, and our sales activity has increased throughout the summer. Many listings that were on the market for 6 to 12 months have sold or are currently under contract. We anticipate closing more transactions in 2010 than in any year in MGW's history. With the lack of inventory across the state, and as new buyers continue to enter the land market, I expect agricultural land values to increase going into the fall.

Q: Can the same be said for development property? Unfortunately, the development land market remains

distressed. With the overwhelming inventory that exists and a lack of further demand in the foreseeable future, lower values have been established for land once pegged for future development. One can expect to sell these properties for slightly over current agricultural land prices as this premium has decreased dramatically over the past 12 months.

ILLINOIS CROPLAND AVERAGE PRICE PER ACRE

2006	\$3,640
2007	\$4,150
2008	\$4,850
2009	\$4,670
2010	\$4,820

Q: Are you continuing to see new investment in agricultural land?

We have seen a new optimism for ag land from investors from around the world. Considering the worrisome economic climate, agricultural land in the U.S. presents a level of stability that is difficult for investors to ignore. Many of these "new buyers" are individual investors seeking either to diversify or preserve wealth until traditional investments regain stability. Larger hedge funds continue adding to their U.S. land holdings as well. Higher cropland cash rents, reported up 3% over a year ago nationally, also support the market.

HOW MUCH CORN WILL CHINA BUY?

China has been a net corn exporter since 1996. It has not made major purchases from the U.S. since 1995, when it bought 1.48 million metric tons (mmt). The trade has anticipated for several years that China would again become a big buyer as its consumers demand more meat, milk and eggs. That day has arrived.

Imports of U.S. corn this year already total 1.2 mmt. How high can they go? The most China bought in one year in the past was just over 4 mmt in the 1994 crop year.

Longer term, demand could be three or four times that high, some say. At a recent meeting of the U.S. Grains Council, Hanver Li, chairman of the market research firm Shanghai JC Intelligence Co. Ltd., said he believes the country will import 1.7 mmt this year and purchases will climb to 15 mmt by 2015. That would about equal our biggest buyer, Japan.

To meet export demand of 15 mmt, we'd need another 4 million acres of corn in the U.S., figures University of Illinois economist Darrel Good.

Answer for World Numbers Game: Value of top 20 crops

CELLULOSIC ETHANOL DEVELOPMENT

Across the country, projects are underway to develop processes to produce so-called cellulosic ethanol from biomass (see map). One study found that the land in the U.S. could produce a sustainable supply of 1.3 billion tons of biomass a year—enough to displace 30% of the nation's present petroleum consumption. As these new technologies develop, they could impact crop choices and land values. For more information, see www.ethanolrfa.org/pages/cellulosic-ethanol.



Some Corn Belt states such as Wisconsin, Iowa and Missouri are pursuing cellulosic ethanol but many projects are outside the Midwest.

MAP: RENEWABLE FUELS ASSOCIATION

ENHANCING QUALITY FOR MUTUAL

Martin, Goodrich & Waddell, Inc. Proactively Adapts With Agriculture

American agriculture is expected to go through something of an extreme makeover in the next decade. Forty-two percent of farmers responding to an Iowa State University poll expect to retire in the next five years. Of those farms, only 56% have identified their successor.

Of course, some farms will stay in the family. On many, however, it will mean a more open buying opportunity for neighbors or investors. The continuation of change in agriculture and land ownership will place new demands on producers, agribusiness, and investors.

Martin, Goodrich & Waddell, Inc. is actively working to position the firm to serve and support clients through coming changes in the real estate, appraisal, and farm and property management markets. President Jeff Waddell has a sincere desire to ensure that the highest quality service and results are delivered to each client. "We strive to be the best in our field, and providing outstanding service and results in every interaction is

30% farm operators at least 65 years old

28% farms owned by older operators

30% older operators' share of farm assets

6% share all U.S. farms with multi-generations

75% have not identified a manager for when they retire

SOURCE: USDA; UNIVERSITY OF NORTH CAROLINA

our only intention. Our strong track record of success has increased the need for our services. Thus, we have significant focus on building our team and ensuring we have the best talent and processes in the industry."

To that end, the MGW staff has been expanding. One addition to the team is Mark

Mommsen, Operations Manager, who comes to the organization with strong knowledge and experience in production agriculture and business management.

FARM and LEADERSHIP EXPERIENCE

Mark grew up on a diversified Iowa farm that has been in the Mommsen family since 1915. Mommsen Farms has grown steadily over the years to include some 2,800 acres of corn and soybeans, 1,500 head of feeder cattle, and 10,000 head of hogs. Mark's brother, Matt, and parents, Bill and Mary, manage the farm today.

Active in 4-H and FFA, Mark grew up showing cattle and working all aspects of the operation. During those years, Mark particularly enjoyed the design and construction of livestock housing and farm buildings. His interests led him to Iowa State University where he majored in Agricultural and Biosystems Engineering.

At Iowa State, Mark found great enjoyment in leadership activities. He

PROSPERITY

was very involved on campus, eventually serving as National President for students in the American Society of Agricultural & Biological Engineers (ASABE). In recognition of his leadership at Iowa State, Mark was named recipient of the Dean's Leadership Award in the College of Engineering, and National ASABE Student Engineer of the Year.

Mark's desire to work with people and enhance his leadership skills led him to General Mills, Inc. for full-time employment after graduation. General Mills is noted as a "most-admired" company and a top-ranked leadership development organization.

While at General Mills, Mark had the opportunity to gain a wealth of knowledge in human resources, engineering, operations, and general business management. He also took time to obtain his Masters of Business Administration from the University of Iowa. Mark's work experiences at General Mills included roles in California, Iowa, and Illinois. He most recently served as



Mark Mommsen looks forward to a great future for the agricultural industry and MGW.

Operations Manager for Nature Valley granola bar manufacturing.

RETURN TO AGRICULTURE

Ultimately, Mark's passion for agriculture was a driving force in his decision to join MGW. "It was a tough decision for me to leave a great future and team at General

Mills. However, I'm a firm believer in doing everything one can to control their destiny. I want to work with my passion to serve the ag community and provide a life for my family to be engaged in agriculture," says Mommsen.

"I'm really excited to join MGW as I wholeheartedly identify with their approach:

Forty-two percent of farmers responding to an Iowa State University poll expect to retire in the next five years. Of those farms, only 56% have identified their successor.



demanding that the organization is the best at what we do. We measure our success by our ability to deliver the best possible service and results in every interaction. We are a long-term, relationship-based organization that shares mutual loyalty and prosperity with our clients.”

AG’S BRIGHT FUTURE

Agriculture has an extremely bright future, he notes. “To me, this is one of the most exciting times in the history of agriculture. The changing demographics of the industry and the potential of the bioeconomy, among other things, present numerous opportunities to enhance agriculture and agricultural investments.”

Martin, Goodrich & Waddell, Inc. is excited to be part of the bright future of U.S. and world agriculture. Their diligence in selecting and developing great talent will help them fulfill their mission to serve and support clients through coming changes in the real estate, appraisal, and farm and property management markets.

THE COMING EXIT OF OLDER FARMERS

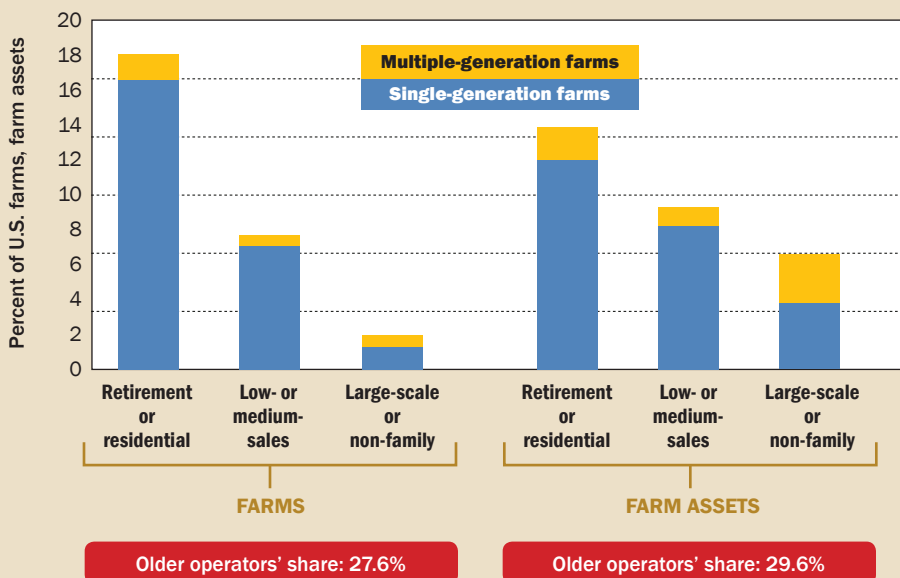
Almost 30% of farm operators are at least 65 years old, the USDA reports. This group includes 18% of all farmers who are over 65 years old who operate retirement or residential/lifestyle farms and own 14% of agricultural assets such as land and equipment. About 22% of the land they own is rented out and another 13% is in conservation or other land-retirement programs.

A North Carolina study found that 75% of farmers have not identified someone to manage their farm after they retire, and 67% of farmers have not even discussed retiring with anyone. Almost 43% have no estate plan.

Only about 6% of all U.S. farms report they are multiple-generation farms with at least a 20-year difference between the ages of the oldest and youngest operators, according to the USDA. This implies a lack of long-term successors on the remaining farms.

Furthermore, single-generation farms account for a much greater percentage of farm assets than do multiple-generation farms (see graph).

OLDER PRINCIPAL OPERATORS’ SHARE OF FARMS, FARM ASSETS, 2007



SOURCE: USDA-ERS

“To me, this is one of the most exciting times in the history of agriculture. The changing demographics of the industry and the potential of the bioeconomy, among other things, present numerous opportunities to enhance agriculture and agricultural investments.”

Martin, Goodrich & Waddell LAND LISTINGS

All acreage and mileage figures listed here are approximate

ILLINOIS PROPERTY

BOONE COUNTY

- 50 acres. Kolacinski Farm, 1.5 mi. E of Poplar Grove. \$6,500/ac. *Sale pending.*
- 52.5 acres. Nimitz Farm, contiguous to City of Belvidere – part of Nordic Portfolio.

BUREAU COUNTY

- 74.85 acres. Dalzell Farm, 3 mi. W of LaSalle. \$8,650/ac.
- 48.82 acres. Van Orin Farm, 3.25 mi. W of LaMoille. \$6,500/ac.

CHAMPAIGN COUNTY

- 201.6 acres. Cappel Farm, 3 mi. W of Grange. \$7,750/ac. *Sale pending.*

DEKALB COUNTY

- 190 acres. Donnelly Farm, 2 mi. S of DeKalb. \$8,900/ac.
- 45 acres. Donnelly 40 Farm, 3 mi. SW of DeKalb. \$8,900/ac.
- 110 acres. Hurley Farm, 8 mi. SE of DeKalb. \$5,750/ac.
- 128 acres. Mary Wesson Farm, 6 mi. S of Shabonna. \$8,650/ac.

HENRY COUNTY

- 166.72 acres. Colona Farm, 5 mi. E of Moline. \$4,650/ac.

KANE COUNTY

- 94 acres. Gurke Farm, 1 mi. W of Elgin; abuts forest preserve. \$18,000/ac.

LASALLE COUNTY

- 220.8 acres. Packard West Farm, 8 mi. NE of Ottawa. \$5,611/ac.
- 75.4 acres. Rex Farm, 3.5 mi. E of Mendota. \$8,650/ac.

LEE COUNTY

- 64 acres. Barber Farm, 1 mi. SE of Paw Paw. \$5,450/ac.
- 208.13 acres. Borell Farm, 12 mi. N of Mendota. \$6,250/ac.
- 5 acres. Franklin Grove Lot Farm, 18 mi. W of Rochelle. \$130,000/ac. *Sale pending.*
- 209 acres. Scully Farm, 14 mi. SW of Dixon. \$4,450/ac.
- 36 acres. Shaddick Farm, 4 mi. S of Paw Paw. \$6,900/ac.

OUR FEATURE FARM—NORDIC FARM PORTFOLIO, IN BOONE, OGLE, AND WINNEBAGO COUNTIES



2,344 acres. It includes a mixture of recreational, agricultural and developmental property. \$7,900/ac.

See listings below for locations of specific farms.

- 117 acres. Truckenbrod Farm, 8 mi. S of Rochelle. \$7,950/ac.
- 80 acres. Zentz Farm, 4 mi. S of Amboy. \$3,900/ac. *Sale pending.*

OGLE COUNTY

- 35.4 acres. Boyle Farm, SE corner of intersection of I-39 & I-88. \$8,900/ac. *Sale pending.*
- 77.39 acres. Christian Farm, 8 mi. SW of Rockford. \$4,511.38/ac.
- 162 acres. Deprin Farm, 7 mi. SW of Rockford – part of Nordic Portfolio.
- 37 acres. Emery Farm, 8 mi. SW of Rockford – part of Nordic Portfolio.
- 56 acres. Gill Farm, 5 mi. S of Rockford – part of Nordic Portfolio.
- 255 acres. Lindenwood Farm, 10 mi. S of Rockford. \$6,900/ac.
- 82.81 acres. Prairie Ridge Farm, 2 mi. SE of Oregon. Abundant wildlife, including deer and turkey. Great home site or weekend getaway. \$5,700/ac.
- 110 acres. Sanderson Trust Farm, 5 mi. E of Rochelle. \$25,000/ac.
- 80 acres. St. Clair Farm, 3 mi. N of Oregon. Part of the Nordic Portfolio. *Sale pending.*
- 42 acres. SV School Farm, 6 mi. S of Rockford – part of Nordic Portfolio.
- 205 acres. White Pines Farm, 4 mi. W of Oregon – part of Nordic Portfolio.

STARK COUNTY

- 116.23 acres. Erdmann Farm, 8 mi. NW of Bradford. \$4,900/ac.

WHITESIDE COUNTY

- 44.99 acres. Clow Farm, 1.5 mi. W of Sterling/Rock Falls. \$11,900/ac.

WILL COUNTY

- 78.5 acres. Smith Road Farm, 2 mi. E of Manhattan. \$29,500/ac.

WINNEBAGO COUNTY

- 191 acres. Castle Farm, contiguous to City of Rockford – part of Nordic Portfolio.
- 197 acres. Dickinson #1 Farm, contiguous to the City of Rockford – part of Nordic Portfolio.
- 83 acres. Dickinson #2 South, contiguous to City of Rockford – part of Nordic Portfolio.
- 35 acres. Dickinson #2 North, contiguous to City of Rockford – part of Nordic Portfolio.
- 171.57 acres. Farrell Farm, 1 mi. S of Rockford. \$6,975/ac.
- 79 acres. Goldie Palm Farm, 3 mi. S of Winnebago – part of Nordic Portfolio.
- 104.6 acres. Holverson Farm, 0.5 mi. W of Durand. \$6,475/ac.
- 137 acres. Pec Road North Farm, 2 mi. N of Pecatonica. \$7,900/ac. *Sale pending.*
- 422 acres. Smith Farm, contiguous to City of Rockford – part of Nordic Portfolio.
- 76 acres. Tate-Latham Farm, 4 mi. NW of Rockford – part of Nordic Portfolio.
- 15.4 acres. Tipple Farm., just west of Rockford – part of Nordic Portfolio.
- 342 acres. Westfield Oaks Farm, 3 mi. S of Winnebago – part of Nordic Portfolio.

WISCONSIN PROPERTY

WALWORTH COUNTY

- 232 acres. Corporate Ridge Business Park, .25 mi. N of the Wisconsin-Illinois border. \$10,900/ac.

MONTANA PROPERTY

EASTERN MONTANA

- 4,320 acres. \$420/ac.
- 4,000 acres. \$420/ac.
- 1,400 acres. \$420/ac.
- 7,200 acres. \$420/ac. *Sale pending.*

For details on these properties, call Jeff or Josh Waddell at 815-756-3606 or visit our Web site at www.mgw.us.com.

RECONCILABLE DIFFERENCES: WHY USDA REPORTS SWAY PRICES

USDA reports are the biggest news item affecting grain prices. Everyone *knew* last year's corn crop wasn't as big as USDA said. Then it was there. Then it was adjusted down—maybe it wasn't there.

This year is no different: Following the March *Planting Intentions* and *Grain Stocks* reports, November soybeans went into a three-week uptrend; corn rose more modestly for about two weeks. USDA's June 30 revisit of those topics produced a 70¢ run-up in corn and 90¢ in soybeans.

Though such rallies gave farmers better opportunities to sell, they inject much more uncertainty into the market and make it very difficult to manage risk—both for farmers and for grain buyers and input suppliers.

Why the surprises? There are several reasons and none really qualifies as a “mistake,” or collusion, on the part of USDA:

1. Many reports are based on surveys of farmers or other industry players. Sometimes several weeks go by between the survey and issuance of the report, during which things happen. For example, if wet weather intervenes, intended acreage may shift from corn to soybeans or to “prevented planting.” Planted acreage may be revised in the August *Crop Production* report if conditions altered plans or Farm Service Agency or remote sensing data disagree.

2. Methodology adjusts as the season progresses. Very early production estimates are based on an assumption of “normal” yields. Later in the season, objective yield and farm operator surveys are conducted in states that usually account for about 75% of production of the crop. Sample plots are chosen and counts are made (ears, pods, bolls etc.) and their weight is calculated to project yield. Then average harvesting loss is subtracted. The plots are revisited each month until crop maturity, when the production is harvested and weighed. After harvest, actual harvest loss is determined. Estimates are not revised—new ones are generated each month in the growing season.

The closer to harvest, the more accurate one might expect the results to be, since more facts and fewer assumptions are used.

If anything, there is a tendency to underestimate yields earlier in the season. This makes sense, says Joseph Prusacki, director of the statistics division of USDA's National Agricultural Statistics Service (NASS), because farmers tend to be conservative in their estimates. Those years that yields fall from early estimates generally can be explained by weather events.

3. There will be sampling errors, says Darrel Good, University of Illinois economist. “Stocks estimates should contain the smallest

“It's unlikely some 15,000 to 25,000 farmers would all lie. And if they were to lie, many times you would expect their answer to be in the opposite direction.”

—Joseph Prusacki, USDA

sampling error because they are based on a census of commercial storage facilities. Estimating is done only for on-farm stocks.”

4. Farmers could lie. “But it's unlikely some 15,000 to 25,000 farmers would all lie,” says Prusacki. “And if they were to lie, many times you would expect their answer to be in the opposite direction.”

5. Supply–demand reports are generated by the World Agricultural Outlook Board (WAOB), which is not able to change NASS figures that feed into their calculations. Some demand factors are measured—such as exports—whereas others—such as the feed, seed, residual category—are derived. “In the end, we know the supply and we know the ending stocks. The feed and residual category is where we reconcile the two,” explains Gerald Bange, head of the WAOB.

The 2009 crop year was an unusual year, with its very late harvest, corn going into bins wetter than usual, and quality issues. This meant more uncertainty. “The ‘problem’ this year is that the implied feed–residual use of corn during the March–May quarter is too large to be believed based on known livestock numbers, feeding of distillers grain, and so on,” says Good. “As a result of the small June 1 inventory and large implied feed–residual use, USDA analysts had no choice except to raise the estimate of feed–residual use for the entire year and to lower the projection of year-end stocks.”

6. There are new players in the market who are less familiar with agriculture and supply–demand. It could be that expectations going into the report were wrong—not the report itself.

So the bottom line is that the reports may not be what the market expects and may not be perfect. But they report what farmers say and they are widely considered the best in the world. We have to understand what they are reporting and what the market is expecting and learn to manage the risk when the two collide.



2020 Aberdeen Court, Sycamore, IL 60178

Web: www.mgw.us.com E-mail: info@mgw.us.com Phone: (815) 756-3606