

# Farmland SEASONS

SPRING 2011



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

*We plant profitable investment ideas  
in every season*



## It's a Farmers' Market

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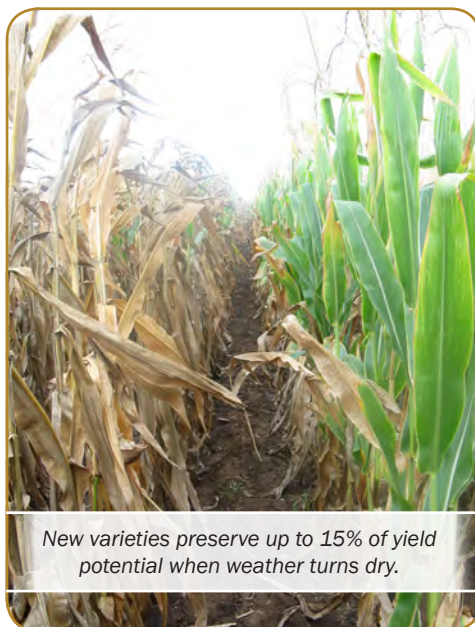


## DROUGHT-TOLERANT CORN ARRIVES IN FARMERS' FIELDS

For the first time, farmers in water-limited areas such as the western edge of the Corn Belt have the option of planting drought-tolerant corn hybrids. Pioneer Hi-Bred rolled out an Optimum AQUAmax line and Syngenta, its Agrisure Artesian line, which will be sold by Garst, Golden Harvest and NK Seeds. The companies say their yields are similar to traditional hybrids with normal water availability, but they outperform under dry conditions by preserving 5% to 15% of yield potential.

The impact on national corn production will be small in the short-run, but could grow over time as the hybrids boost yields on drought-prone acreage already planted to corn and prompt a further extension of corn acreage. Ultimately, such hybrids and their successors will support corn production in more arid regions of the world.

The new lines will have two effects: improve yields in dry weather and/or reduce the amount of irrigation water needed, notes Kraig Roozeboom, Kansas State University Extension economist. "Irrigated farms with



*New varieties preserve up to 15% of yield potential when weather turns dry.*

PHOTO: DUPONT-PIONEER

limited well capacity could also reduce their risks if the new-generation hybrids perform as advertised. Water is a scarce resource that is getting more scarce."

The lines available in 2011 are non-genetically modified varieties, although selection of parent plants was speeded by selecting genes using genetic markers, says Pioneer's research director, Joe Keaschall.

Pioneer, Syngenta and Monsanto all have GM varieties in development. Monsanto's first drought-resistant biotech corn is in the U.S. federal regulatory approval process; Pioneer and Syngenta don't expect to offer biotech varieties for at least several years.

Variety selection isn't the only factor that affects performance under limited water conditions, Keaschall notes. Planting population, planting dates, tillage practices, fertility rates and other agronomic factors all play a role.

With more intense demand on global resources, ongoing improvements in cropping systems may be necessary to maintain and expand corn acreage and production. "Cropping systems that conserve both water and soil will become ever more important for sustaining long-term production," says Roozeboom.

## 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: FAO STATISTICS

### Annual average as 10<sup>9</sup> m<sup>3</sup>

Argentina	21.52
Australia	18.01
Belgium	0.36
Brazil	31.70
Canada	5.41
China	358.00
France	3.92
Germany	1.14
India	688.00
Indonesia	92.76
Italy	20.01
Malaysia	5.60
Sweden	0.26
USA	192.4
Venezuela	3.97

## NEW DEMAND FOR APPRAISALS

The demand for appraisals is increasing dramatically, says Mark Akers, MGW's chief appraiser. "Demand is strong for both farm and agribusiness appraisals. We're seeing an increasing number of requests from elevators and fertilizer plants," he says.

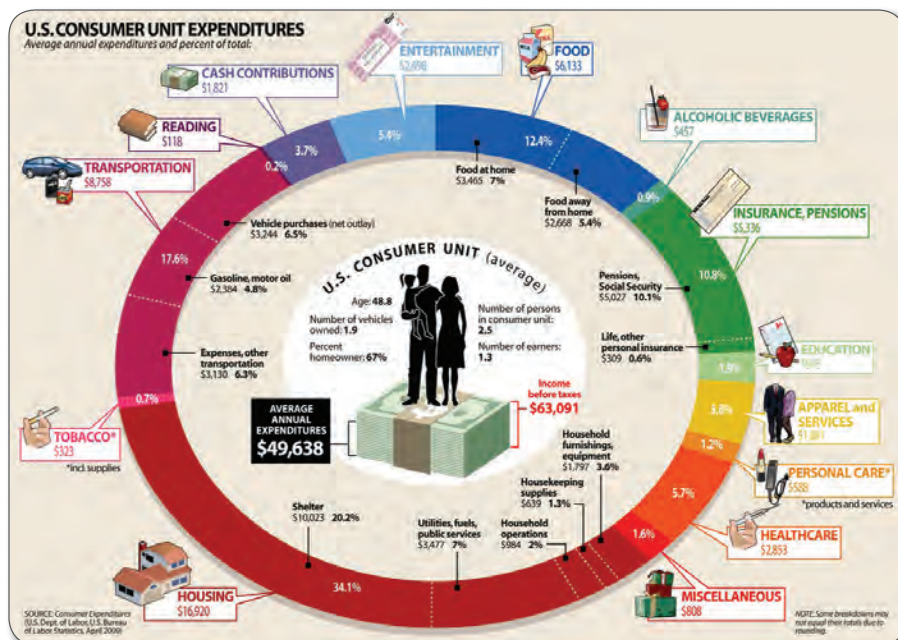
A driving force is banks that want up-to-date valuations on collateral given the need for greater credit lines. Next is estate planning and settlement, Akers adds. Sales or transfers are less common.

To meet the strong demand, MGW has become more efficient through new software that streamlines customer service and tracking of progress. They have also added a third appraiser to their staff.

"Most appraisals are done within four weeks of the request, though we try to accommodate emergencies such as short-deadline transfers," says Akers. "We aim to provide appropriate service and tailor the scope and level of detail to clients' needs."

# How Worrisome Are Rising Food Costs?

With booming commodity prices, concerns about rising food costs are increasing, even in the U.S., where food represents a fairly small piece of consumer spending. As this illustration shows, at \$6,133, food ranks third in spending categories for American consumers, after housing (\$16,920) and transportation (\$8,758). Food at home accounts for about 7% of typical household expenditures and food away from home an additional 5.4%. Consider, however, if food costs rose, say, 10%, outlays for food would increase from \$6,133 to \$6,746—or just 1.2% of the family's total budget.



SOURCE: WWW.VISUALECONOMICS.COM; DATA: U.S. DEPT. OF LABOR

## WORLD WEATHER “HOT SPOT”

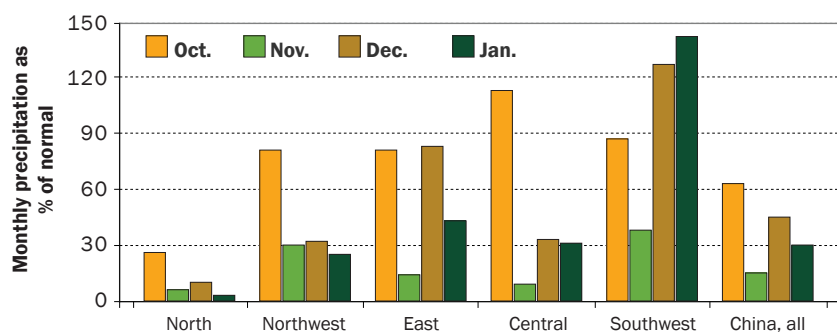
The world wheat crop has faced major challenges, beginning last summer when Russia's crop literally burned in the field and continued with too-wet weather that interfered with Canadian planting, then the quality of the Australian crop was downgraded by rains of biblical proportions. It is little wonder, then, that traders were inundated with daily headlines regarding the lack of moisture for winter wheat in both the U.S. Plains and China during February.

China is the world's largest wheat producer. Its minister of agriculture reported in mid-February that about 19 million acres of winter wheat are being affected by drought.

“Parts of China's winter crop growing regions failed to receive any moisture for more than three months,” explains Lin Tan, China correspondent for DTN. “The Southwest region has improved, but several other regions are still very much behind normal.”

Tan notes that it is not moisture during the winter that is most critical, but rains during mid-March through May, when dormancy breaks and the crop is actively growing. “But fields that go into that time period already very dry will be at greater risk for losses. And some rivers are almost dry, threatening a shortage of irrigation water.”

### CHINA'S WINTER WHEAT AREAS SHORT ON WATER



Intense evaporation can exacerbate water shortages, adds Cheng Weixin, at the Institute of Geography, Academia Sinica, in Beijing, China. “After spring begins, evaporation intensifies remarkably due to higher temperatures, dry air and strong winds. Evaporation from March to June accounts for more than half the year's total.”

China's typical wheat production is 150 million metric tons, says Tan. “Supply and demand are pretty much in balance. So if there is a shortfall, imports will be needed.” When China does import, it generally is higher-protein wheats, which already are in short supply.



# LAND: IT'S A FARMERS' MARKET

*Agriculture's strong fundamentals are powering purchases*

Farmland values have risen steadily since 1987 but have shot up in recent years, doubling in the past 10 years in many Corn Belt states. They rose even faster in the last half of 2010.

"Propelled by rising commodity prices, farmland values in the Chicago Federal Reserve district jumped 10% in the third quarter of 2010 versus a year earlier," reports David Oppedahl, business economist at the Chicago Fed. Banks in the district also indicated land values would rise again in the fourth quarter.

A Jan. 1 survey of benchmark farms by Farm Credit Services of America in Omaha confirms the increase. It found values for crop and pasture rose 20% in Iowa, 12% in Nebraska and 9% in South Dakota last year.

In just the past four months, farmland in

MGW's key state of Illinois rose by as much as \$1,500 an acre, notes MGW president Jeff Waddell. "Furthermore, Class A listings are virtually nonexistent."

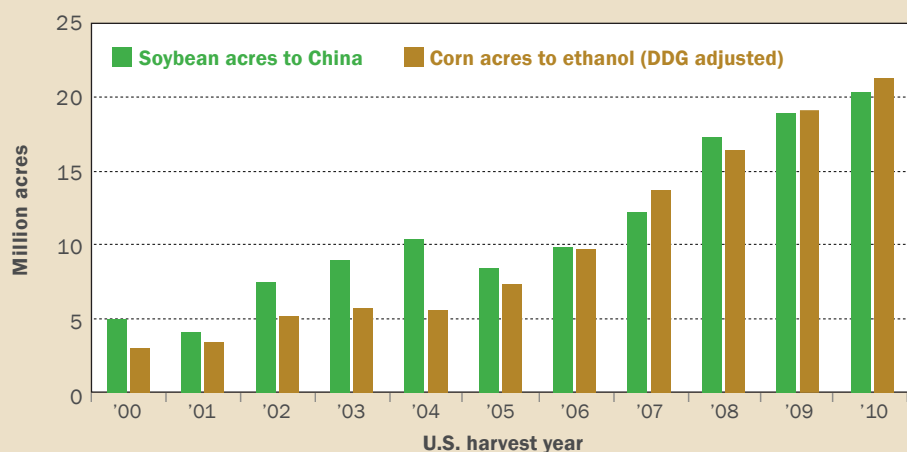
The global land squeeze is the biggest story in agriculture today, says Waddell. Developments on both the demand and supply sides of the commodity equation have led to an incredibly bullish scenario for the foreseeable future.

Before the Great Recession that began in late 2007, strong world economic growth was the driver behind demand for commodities and the land that produces them. The recession gave everyone a breather as growth eased. Then, just as world economies picked up again, Mother Nature roared onto the scene, affecting production in a number of regions.

Every year brings its share of weather worries somewhere on the globe, but markets could ill afford the multiple challenges agriculture faced in 2010. The most significant La Niña since 1917–18 is still playing out, most notably reducing Argentina's expected corn crop by 1.5 million metric tons or more. Even as it winds down, most indicators point to a blocking high pressure ridge causing continued dry weather in the U.S. South this year.

Prices of everything from grain to cotton and sugar set new records early in 2011. Even with good weather, it will take years to rebuild stocks to comfortable levels. It is little wonder that farmers, flush with cash, are bidding aggressively to control their No. 1 input: land.

## ETHANOL PRODUCTION PLUS EXPORTS TO CHINA NOW TAKE 10% OF U.S. ACRES



The number of acres required for corn ethanol production plus soybean exports to China rose from 16 million in 2005 to 41 million in 2010.

SOURCE: PURDUE UNIVERSITY

## LAND'S PERFECT STORM

Two huge growth markets—corn for ethanol and soybeans for China—have devoured a startling additional 25 million acres of farmland in the U.S. in the past five years, reports Chris Hurt, Purdue University agricultural economist (see chart). "That's about 10% of total U.S. crop base planted to the eight major crops."

In the mid-2000s, China bought the equivalent of 8 to 10 million acres of U.S.





soybeans. That demand is expected to reach 20 million acres from the 2010 crop—equal to 26% of U.S. soybean acres, up from 12% in 2005, Hurt explains.

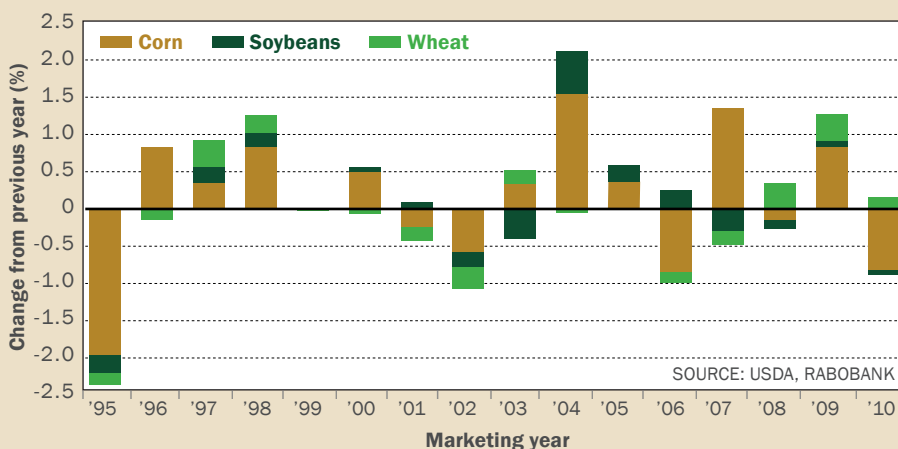
In the U.S., total corn usage has grown by about 2.2 billion bushels since the 2005 crop, and ethanol now takes 4.9 billion bushels. In addition, about 6 million acres of last year's soybean crop are destined for fuel, he adds.

In a nutshell, world production has not been able to keep up with rapidly expanding demand, especially when weather events hurt production. World grain and oilseed ending stocks have plummeted in the 2010/11 marketing year and stocks-to-use ratios for some crops are historically tight.

“The risks of further tightening world inventory levels and higher prices in a number of agricultural markets remain skewed to the upside in the year ahead,” says Luke Chandler, economist with Rabobank.

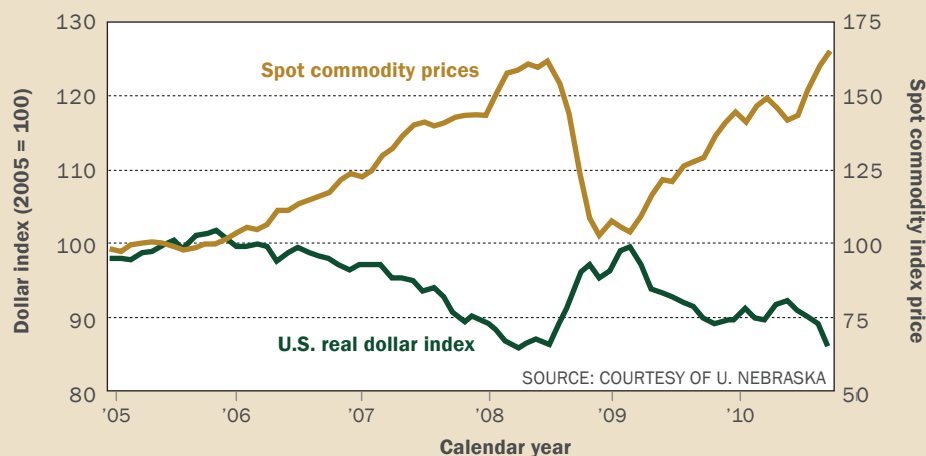
As corn stocks fall as days of use, prices tend to rise, adds Bill Fordham of C&S Commodities. The correlation became particularly strong when he plotted U.S. days of use as a percent of world days of use and Chicago Board of Trade futures prices. “Prices begin to get volatile when this ratio

## WORLD GRAIN & OILSEEDS ENDING STOCKS DOWN FOR 2010 CROP

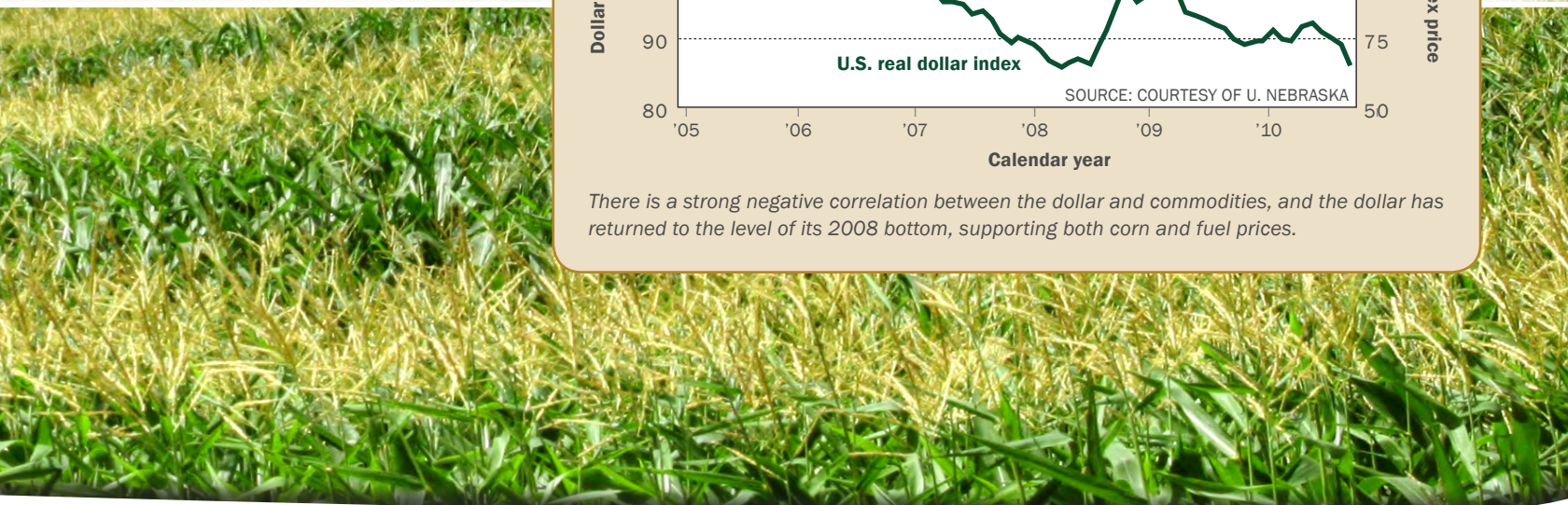


*Tight world stocks have markets on edge. It will take more than one year to rebuild stocks.*

## WEAKER DOLLAR SUPPORTING COMMODITIES



*There is a strong negative correlation between the dollar and commodities, and the dollar has returned to the level of its 2008 bottom, supporting both corn and fuel prices.*





falls to 50%. It currently is record low back to 1973, where I began the study, at 36.5%," he says. "Until the trade sees a reversal, we will not see a sustained downtrend."

At the same time, a weaker U.S. dollar is helping to stimulate export demand. "A weak dollar is the same as saying foreign currencies are strong, or have superior buying power for items that are traded in U.S. dollars. As the dollar weakens, foreign buyers observe cheaper prices for these products," Hurt explains (see chart, page 5).

## CASE FOR STRONG LAND DEMAND

Land values in Iowa tend to be closely correlated with corn revenue per acre, notes Terry Kastens, Kansas State University agricultural economist.

And 2011 corn revenue promises to be strong, given futures prices topped \$7 a bushel. Even conservative preliminary university budget estimates indicate cash market prices are well above variable-cost breakevens (see table).

Economists at the University of Wisconsin, for example, calculated a variable-cost breakeven corn price of \$3.18/bu. (see table). Using a \$4.80 cash sales price, that's a \$1.62/bu. estimated return to land and management.

Record farm machinery sales the past few years suggest producers won't need to invest heavily in updates, freeing up additional cash to bid for land, says Doug Stark, CEO

of Farm Credit Services of America.

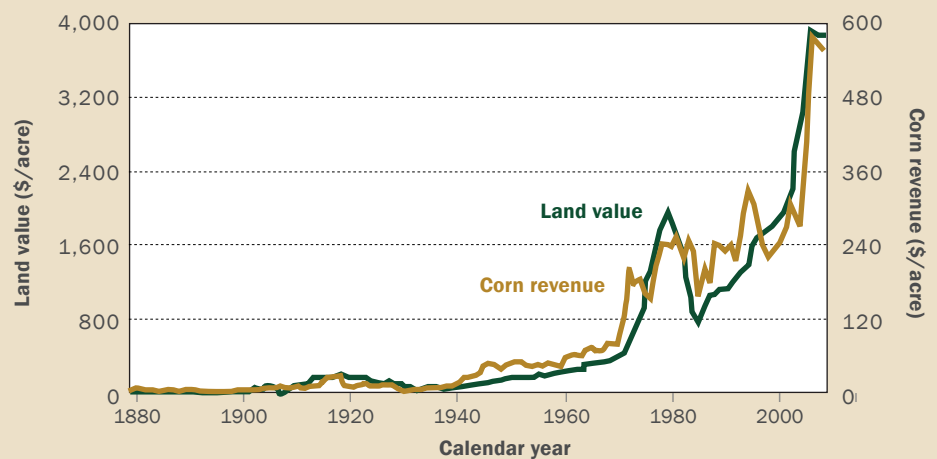
At the same time, those who own land are hanging onto it: A recent survey in Nebraska indicates that farmland turnover is currently only about 1.5% a year, less than half the historical average of 3% to 5% per year.

"One must be careful to not conclude that the rising age of farmers will result in significant amounts of farm property coming on the market," says Purdue University agricultural economist Michael

Boehlje. "Like any investor, farmers will make that decision based on current and expected returns on investment compared with alternative investments as well as capital gains tax considerations."

It is not surprising, then, that David Oppedahl at the Chicago Fed reports that more than 60% of bankers surveyed late last year expected greater demand among farmers to purchase farmland this winter and 37% expected stronger demand for farmland among nonfarm investors as well.

## CORN REVENUE AND LAND VALUE STRONGLY CORRELATED



As corn price has risen in recent years, Iowa land prices have climbed as well. The correlation is a strong 0.96.

SOURCE: KANSAS STATE UNIVERSITY

## ESTIMATED BREAKEVENS FOR 2011 PROMISE PROFITS

	Corn				Soybeans			
	NDSU	U. Wis.	U. Ill.	Purdue	NDSU	U. Wis.	U. Ill.	Purdue
<b>Bu./acre</b>	<b>79</b>	<b>181</b>	<b>195</b>	<b>161</b>	<b>25</b>	<b>55</b>	<b>56</b>	<b>49</b>
<b>\$/bu.</b>	<b>4.34</b>	<b>4.80</b>	<b>4.80</b>	<b>4.80</b>	<b>11.35</b>	<b>10.75</b>	<b>11.00</b>	<b>11.60</b>
<b>Breakeven</b>	<b>3.85</b>	<b>3.18</b>	<b>2.50</b>	<b>2.40</b>	<b>8.15</b>	<b>6.58</b>	<b>5.25</b>	<b>3.96</b>

Calculations vary widely among states, but breakevens before land and management look very profitable for 2011 given recent prices.

SOURCE: UNIVERSITY WEBSITES

# Martin, Goodrich & Waddell LAND LISTINGS

All acreage and mileage figures listed here are approximate

## ILLINOIS PROPERTY

### BOONE COUNTY

- **52.5 acres. Nimtze Farm**, contiguous to City of Belvidere. \$22,500/ac.
- **108.3 acres. Town Hall Road Farm**, 1.25 mi. S of Belvidere. \$6,950/ac.

### BUREAU COUNTY

- **81.9 acres. Dalzell Farm**, 3 mi. W of LaSalle. Price reduction: \$6,900/ac.

### CHAMPAIGN COUNTY

- **200 acres. Cappel Farm**, 3 mi. W of Grange. \$7,750/ac. SOLD

### DEKALB COUNTY

- **190 acres. Donnelly Farm**, 3 mi. SW of DeKalb. \$8,900/ac. SOLD
- **40 acres. Donnelly 40 Farm**, 3 mi. SW of DeKalb. \$8,900/ac.
- **76.45 acres. Estate of Roy Marsh Farm**, 1 mi. E of DeKalb. \$9,300/ac. SOLD
- **160 acres. MRB Grain Farm**, 1.5 mi. SW of Waterman. \$8,750/ac.
- **128 acres. Mary Wesson Farm**, 6 mi. S of Shabonna. \$8,650/ac.
- **56.3 acres. Nowicki Farm**, 4 mi. S of Waterman. \$8,600/ac.

### KANE COUNTY

- **94 acres. Gurke Farm**, 3.6 mi. W of Elgin; abuts forest preserve. \$18,000/ac.
- **161.7 acres. Motz Farm**, 0.25 mi. E of Elburn. \$13,500/ac. SOLD

### KENDALL COUNTY

- **343 acres. Route 126 Farm**, 4 mi. E of Yorkville. \$18,000/ac.

### LaSALLE COUNTY

- **149.66 acres. Becker Farm**, 0.5 mi. E of Mendota. \$7,900/ac. SOLD
- **220.8 acres. Packard West Farm**, 8 mi. NE of Ottawa. \$5,611/ac. SOLD
- **75 acres. Rex Farm**, 4 mi. E of Mendota. \$8,650/ac. SOLD

### 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**, 18 mi. W of Rochelle. \$130,000.

- **157.06 acres. LetB Pitcher Farm**, 5 mi. SW of Dixon. \$3,900/ac. SOLD

- **209 acres. Scully Farm**, 12 mi. SW of Dixon. \$4,450/ac. SOLD

- **36 acres. Shaddick Farm**, 4 mi. S of Paw Paw. \$7,200/ac.

### MACON COUNTY

- **38.33 acres. Decatur Farm**, 1 mi. N of Decatur. \$8,650/ac. Sale pending.

### OGLE COUNTY

- **171.3 acres. Baker Farm**, 3 mi. N of Byron. \$6,900/ac. SOLD
- **162 acres. Deprin Farm**, 7 mi. SW of Rockford. \$6,150/ac.
- **37 acres. Emery Farm**, 8 mi. SW of Rockford. \$6,150/ac. SOLD
- **56 acres. Gill Farm**, 5 mi. S of Rockford. \$7,900/ac.
- **17 acres. Land Investment Development Sale Farm**, 4 mi. N of Rochelle. \$9,900/ac.
- **255 acres. Lindenwood Farm**, 10 mi. S of Rockford. \$6,900/ac. SOLD
- **82.81 acres. Prairie Ridge Farm**, 1 mi. SE of Oregon. Abundant wildlife, including deer and turkey. \$5,700/ac. SOLD
- **104 acres. Ritz Farm**, 1 mi. W of Byron. \$6,250/ac. SOLD
- **42 acres. SV School Farm**, 6 mi. S of Rockford. \$6,300/ac. SOLD
- **144 acres. White Pines East Farm**, 4 mi. W of Oregon. \$4,500/ac. SOLD

### 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. \$9,900/ac.
- **197 acres. Dickinson #1 Farm**, contiguous to the City of Rockford. \$6,900/ac. Sale pending.
- **83 acres. Dickinson #2 South**, contiguous to City of Rockford. \$16,000/ac.
- **35 acres. Dickinson #2 North**, contiguous to City of Rockford. \$13,900/ac.
- **79 acres. Goldie Palm Farm**, 3 mi. S of Winnebago. \$4,500/ac. SOLD



## OUR FEATURE FARM

**HAUSEN FARM,  
4 MI. N OF DIXON, \$5,700/AC.**

**156.06 acres. Perfectly situated with an abundance of wildlife providing prime hunting ground. Property features two-story house, outbuildings, creek, 101.7 tillable acres of farm ground, and timber.**

- **179 acres. McKnight Farm**, 0.25 mi. S of Cherry Valley. \$9,000/ac.
- **70 acres. Pelley Road Farm**, immediately W of Rockford. \$12,900/ac.
- **422 acres. Smith Farm**, contiguous to City of Rockford. \$8,500/ac.
- **76 acres. Tate-Latham Farm**, 4 mi. NW of Rockford. \$5,200/ac. SOLD
- **15.4 acres. Tipple Road Farm**, just west of Rockford. \$7,900/ac.
- **309 acres. Vern A. Davis Farm**, 6 mi. NW of Rockford. \$5,950/ac.
- **342 acres. Westfield Oaks Farm**, 3 mi. S of Winnebago. \$4,900/ac. SOLD

## WISCONSIN PROPERTY

### WALWORTH COUNTY

- **232 acres. Corporate Ridge Business Park**, 0.25 mi. N of the Wisconsin-Illinois border. \$9,900/ac. SOLD

## MONTANA PROPERTY

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

For details on these properties, call Jeff or Josh Waddell at 815-756-3606 or visit our website at [www.mgw.us.com](http://www.mgw.us.com).



# TRANSITIONAL LAND LIQUIDATION: FARMING TRUMPS DEVELOPMENT AND RECREATIONAL LAND

The U.S. economy is still working its way out of the worst recession since the Great Depression. If I had to say what inning of the development land foreclosure process we are in, I'd go with between the sixth and the seventh. We are over the hump, but we still have many properties to liquidate before we are really out of the woods.

The mortgage meltdown transformed the real estate market in Illinois, especially in metropolitan areas, in the blink of an eye. Properties priced for commercial or residential development have languished while farmers bid up agricultural land.

The spread between suburban development land values and farmland values has drastically diminished. Potential development land that was once valued at \$30,000 to \$90,000 per acre is now selling in the marketplace at \$10,000 to \$13,000 per acre.

This means the premium for development land over agricultural land is negligible now, with high-quality land selling for agricultural use for as much as \$9,000 to \$10,500 an acre. High-quality farmland is bringing approximately the same price throughout the northern two-thirds of Illinois.

"The higher prices we're seeing for farmland aren't for development purposes," confirms Michael Boehlje, agricultural economist at Purdue University. "It is agricultural buyers bidding against other agricultural buyers. Demand is outpacing supply. That makes farmland a hot commodity, both for its asset value and the income it can generate."

Not only have developments ground to a halt, but demand for recreational land has lagged, contributing to wider gaps in sales prices between more productive cropland and poorer quality land—which was more desirable for recreational activities before the recession, notes David Oppedahl, an economist at the Chicago Federal Reserve.

**Climbing out of a hole.** Given where the economy is in the recovery period, I also believe it will take years, rather than months, before there is demand for new commercial development—or homes for that matter. Following the economic slump in 1981, it took 27 months before full recovery; in 1990, 32 months; and 2001, 47 months. Some estimate it will take 60 months this time, beginning in December 2007, so we could be a little more than half way there.

Offices, stores and warehouses all took a pounding as companies laid workers off, reduced inventories and, in some cases, closed their

*"The premium for development land over agricultural land is negligible now, with high-quality farmland selling for as much as \$9,000 to \$10,500 an acre."*

doors. There is likely a 5- to 25-year inventory of excess development properties on the market depending on the location. Not only do we have to fill up vacant transitional properties, but we have a large number of unfinished developments that will be utilized during the next round of expansion. Given that, further

conversion of farmland is unlikely for the foreseeable future.

In fact, at the end of 2010, a report by the Congressional Oversight Panel projected the largest losses in the commercial real estate sector in 2011 and beyond. Moody's Investors Service, which has an index that tracks commercial buildings, says it may have detected some signs of a pick-up in the spring and fall of 2010 and expects a choppy market until transaction numbers increase.

**Opportunities.** Of course, this recession may create opportunities for those with long-term investment horizons. The old adage, "Buy low, sell high" applies to land as well as stocks or commodities.

Investors with a long-term outlook and a low need for cash are considering opportunities to invest in the inventory of development and recreational land. Over time, this will prove a financially rewarding move.

So perhaps the ideal pitch in this game is to buy land that can be farmed for the next several years, with an eye to possible development sometime in the future. As we point out in "It's a Farmers' Market" on page 4, the fundamentals for farmland are compelling. Never in the lifetimes of current farmers has demand for their products been so strong or the sector so vibrant.



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