

“THE LENS ON LAND VALUES – THE VIEW NOW”

KANSAS CITY FEDERAL RESERVE AGRICULTURAL SYMPOSIUM

**Doug Stark
President & CEO
Farm Credit Services of America
July 16, 2014**





What a Difference a Year Makes!!!!

Going into 2013

- Strong Demand
 - Ethanol usage
 - Exports
 - Domestic usage
- Low Carry-over
- Short Supply
 - Widespread drought in 2012
- Low interest rates
- Reasonable input prices
- Incredible margins
 - Record prices

Going into 2014

- Record 2013 Corn Crop
- Significant Carryover
- Price adjustments
- Fed announcing tapering to begin
- Input prices now have increased
- Strong Balance Sheets
- Uncertainty

Views on a Competitive Market – Agricultural Production



Farm Credit Services
of America

AGRICULTURE WORKS HERE..

“The function of a competitive market is to drive the economic return to the average producer to breakeven through supply and demand in both input and output markets...”

...In equilibrium, the top end are profitable and growing, the average are hanging in there, and the bottom end are losing money and exiting the industry.”

**Professor Danny Klinefelter
Texas A & M University**



Producer's Today

- 2012 crop sold early in 2013 at strong prices - Needing to defer income tax...BUT
- Lower inventory values on corn on hand at year end resulted in accrual losses for some
- Strong production in 2013 – depending on location
- Little 2013 crop priced early; sold at lower values
- Still strong cash positions



**Farm Credit Services
of America**

AGRICULTURE WORKS HERE..

Land Values - In Review

- \$20,000+ Per Acre Land
- Prime Time TV Coverage
- Strong Farm Income
- 2012 Drought supported by Crop Insurance
- 2013 Strong Production
- Excess Cash
 - Limited options
 - Farmers love land
- Expectations for a softer market



**Farm Credit Services
of America**

AGRICULTURE WORKS HERE..

Benchmark Farms

- 65 Benchmark Farms (Iowa, South Dakota, Nebraska, Wyoming)
- Values Updated Semi-Annually (January and July 1st)
- 35,000+ sales analyzed over the past 5 years (15,000 in Iowa)
- The real estate market has been very active throughout 2012, 2013, and into 2014.

Benchmark Trends

(based on 7/1/2014 Values)



Farm Credit Services
of America

AGRICULTURE WORKS HERE..

| State | 6 Month | 1 Year | 5 Year | 10 Year |
|-------------------|---------|--------|--------|---------|
| Iowa (21) | -0.9% | -3.7% | 103.0% | 245.5% |
| Nebraska (19) | 1.5% | 2.2% | 143.6% | 314.7% |
| South Dakota (23) | 5.8% | 13.6% | 117.2% | 332.7% |
| Wyoming (2) * | 5.8% | 9.5% | 7.8% | 68.6% |



**Farm Credit Services
of America**

AGRICULTURE WORKS HERE..

Land Value Drivers

- Profitable cash grain production
 - strong demand for cropland tracts,
- Demand for farm commodities
 - Exports & ethanol production
- Grain ending stocks
 - global production
- Low interest rates
- Lack of alternative investments from both the buyer's and seller's perspectives.
- Equipment investment and operating capacity
- Reduction in production volatility impacts (crop insurance)



Land Value Trends

- The number of public auctions were down 25-30% in 2013.
- Land prices and demand for farmland remains strong. 1st quarter values showed some dip but have recovered. Limited sales in some areas.
- Iowa – land prices current at or near all time highs.
 - Recent record sales of \$19,700 and \$20,400 per acre
 - 55% of all sales in 2nd quarter over \$10,000
 - “no sales” at 4.9% in '14 lower than the 5.7% for '13
- South Dakota – sales prices also at all time highs
 - Auction activity similar to 2013
 - Values increased after a soft 1st quarter
- Nebraska – dry crop – significant price swings over the last 3 ½ yrs
 - Irrigated crop – leveled off with limited sales



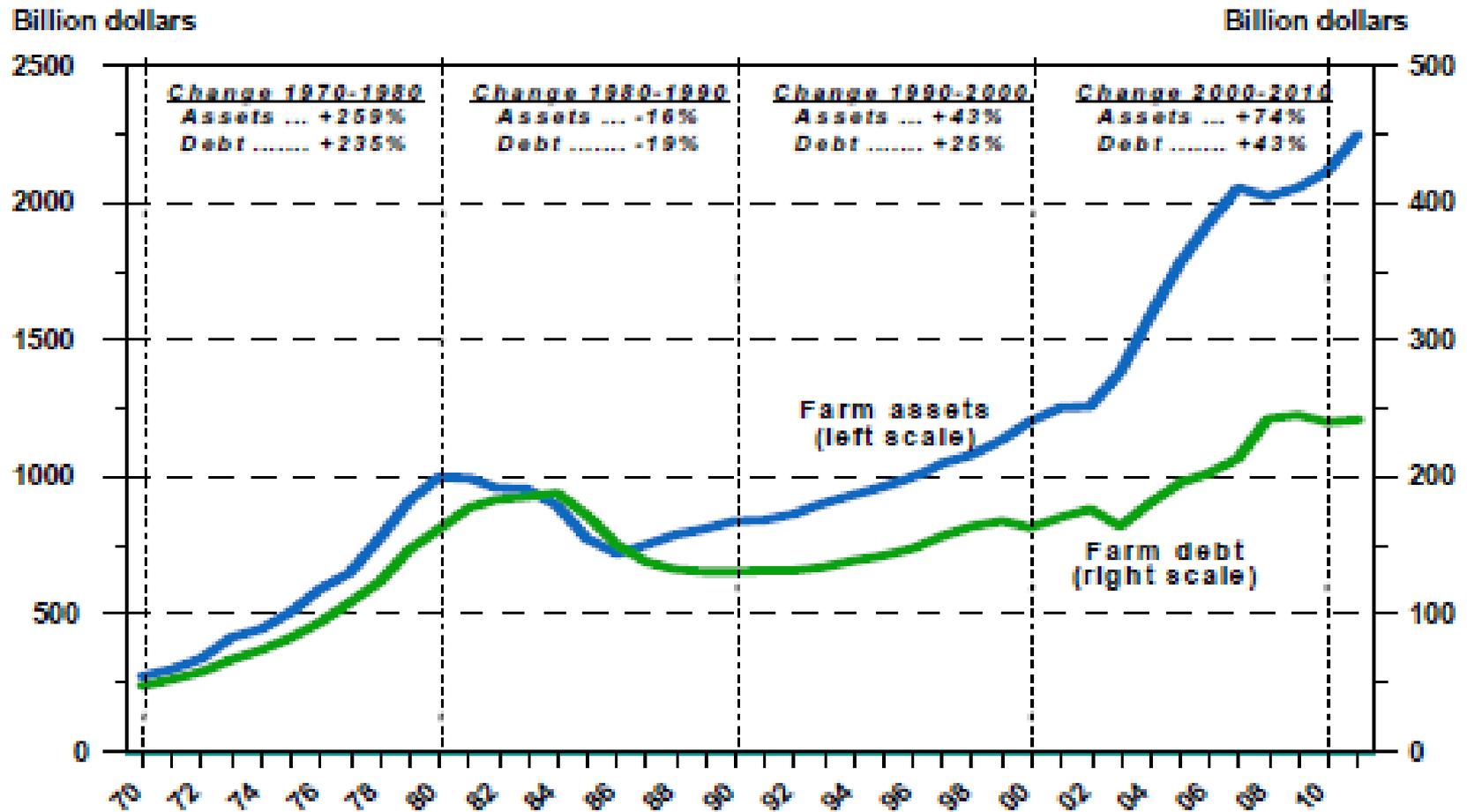
**Farm Credit Services
of America**

AGRICULTURE WORKS HERE..

The Ultimate Question ...

Is there a bubble in farm real estate???

Farm Debt Leveraging Has Not Followed Land Prices Higher





Farm Credit Services
of America

AGRICULTURE WORKS HERE..

Disciplined Purchasers & Lenders

- Cash Purchasers
- Significant Down payments
- Conservative Lending Levels
- FCSAmerica – Sustainable Lending
 - began using in 2008
 - Purpose – Manage risk for borrower and bank
 - Premise – Recognize higher commodity production margins – but limit over-reaction
 - Outcome – Help prevent over-extending credit in a rapidly increasing market

Emotional vs Economic Decision Points



Farm Credit Services
of America

AGRICULTURE WORKS HERE..

- Access/Control of land adds significant value
 - Cash rent or ownership
- Land Ownership has more than an “economic” meaning
- Strategic land ownership opportunities are rare
 - “I don’t want to own everything, just what borders me”
- More than adequate equipment
 - Labor is not as much of a constraining resource
- Hope/optimism always plays a part



**Farm Credit Services
of America**

AGRICULTURE WORKS HERE..

Food For Thought

The increase in farm real estate values is different than the housing bubble & the 80's.

- Is being purchased from a position of financial strength
- Significant equity (both cash and collateral) going into the purchases
- Is an income producing asset
- Does not materially deteriorate/depreciate from abuse and neglect
- Supply is constant (relatively); there is not a risk of over-building/over-development like housing or commercial real estate

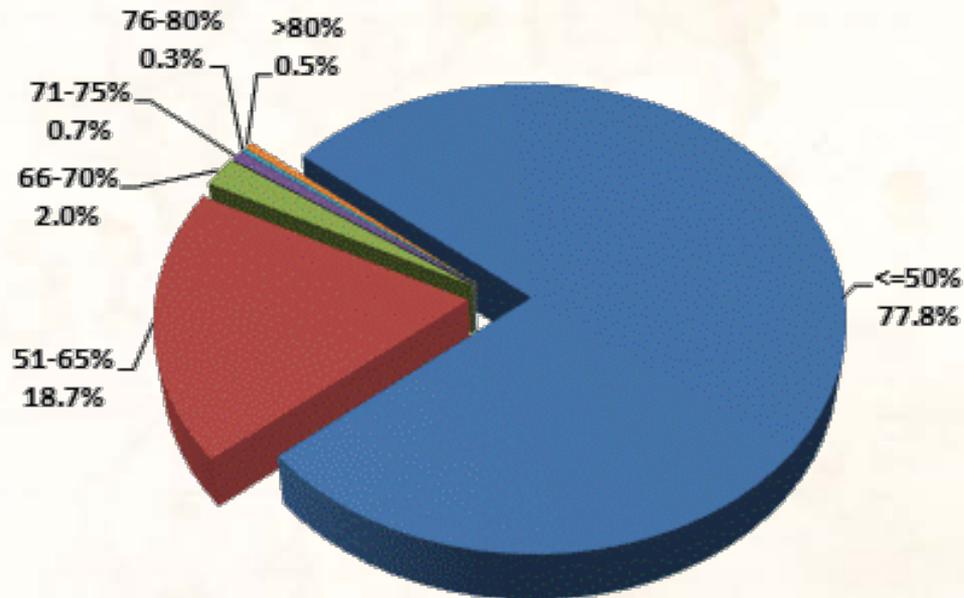
Real Estate



Farm Credit Services
of America

AGRICULTURE WORKS HERE..

Loan to Market-Adjusted Collateral Value
Excluding ABF and Capital Markets, CHL, and Swine Contract
Finishing Loans
December 31, 2011

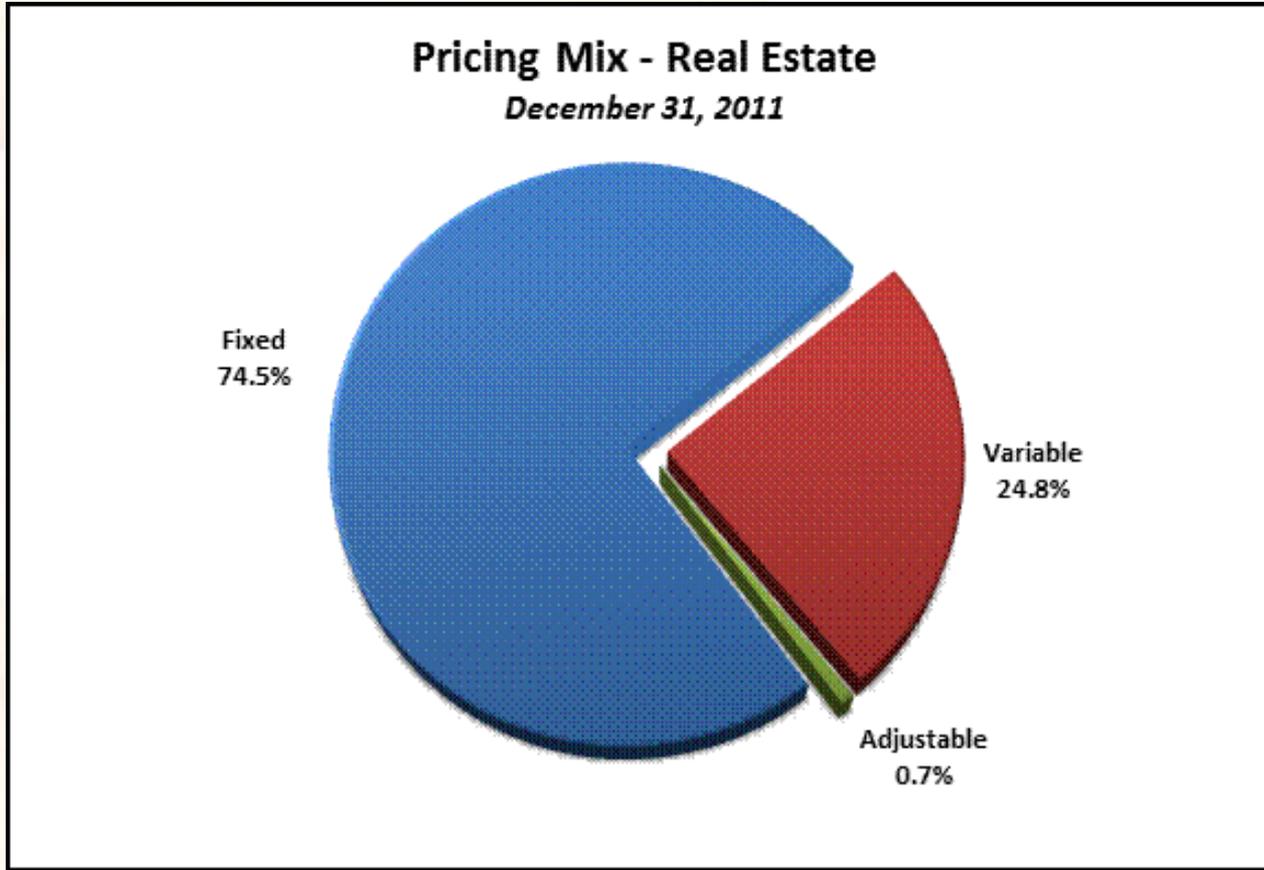


% of Fixed Interest Rates – Real Estate Portfolio



Farm Credit Services
of America

AGRICULTURE WORKS HERE..



The Market May Need to Re-establish the Value of a Rented Acre

- A significant amount of land held in non-operator ownership
- Balance between retaining / expanding acres and margins / profitability
- Will take 2 years of losses to reduce cash rents



Farm Credit Services
of America

AGRICULTURE WORKS HERE..

2014 may be the Beginning of a Soft Landing for Agriculture

- Grain commodity prices and margins were generally unsustainable
- Production agriculture margins are normalizing
- A healthy balance between grain production and livestock production is ideal
- Volatility is the new normal
- A soft landing is as good as we can expect



**Farm Credit Services
of America**

AGRICULTURE WORKS HERE..



**Farm Credit Services
of America**

**Serving
with
purpose.**

