



# **Land Values: Preparing for What's Next**

**DTN Ag Summit**

**F. Howard Halderman AFM  
Halderman Farm Management Service/  
Halderman Real Estate Services**

# Who is Halderman?



# Halderman Can Help!

**Since 1930, people have been turning to Halderman Farm Management Service, Inc. and Halderman Real Estate Services, Inc. for their farm management and farm real estate needs. All kinds of people – farm owners, investors, tenants, bankers, lenders, trust officers, wealth advisors, attorneys, accountants...in fact, anyone involved with a farm in any way. We've provided services, from an occasional consultation to complete farm management and real estate brokerage, to thousands of clients throughout the U.S.**

**If you have a farm-related problem or want to explore the investment opportunities in farmland, Halderman Can Help! We've been doing it for three generations.**



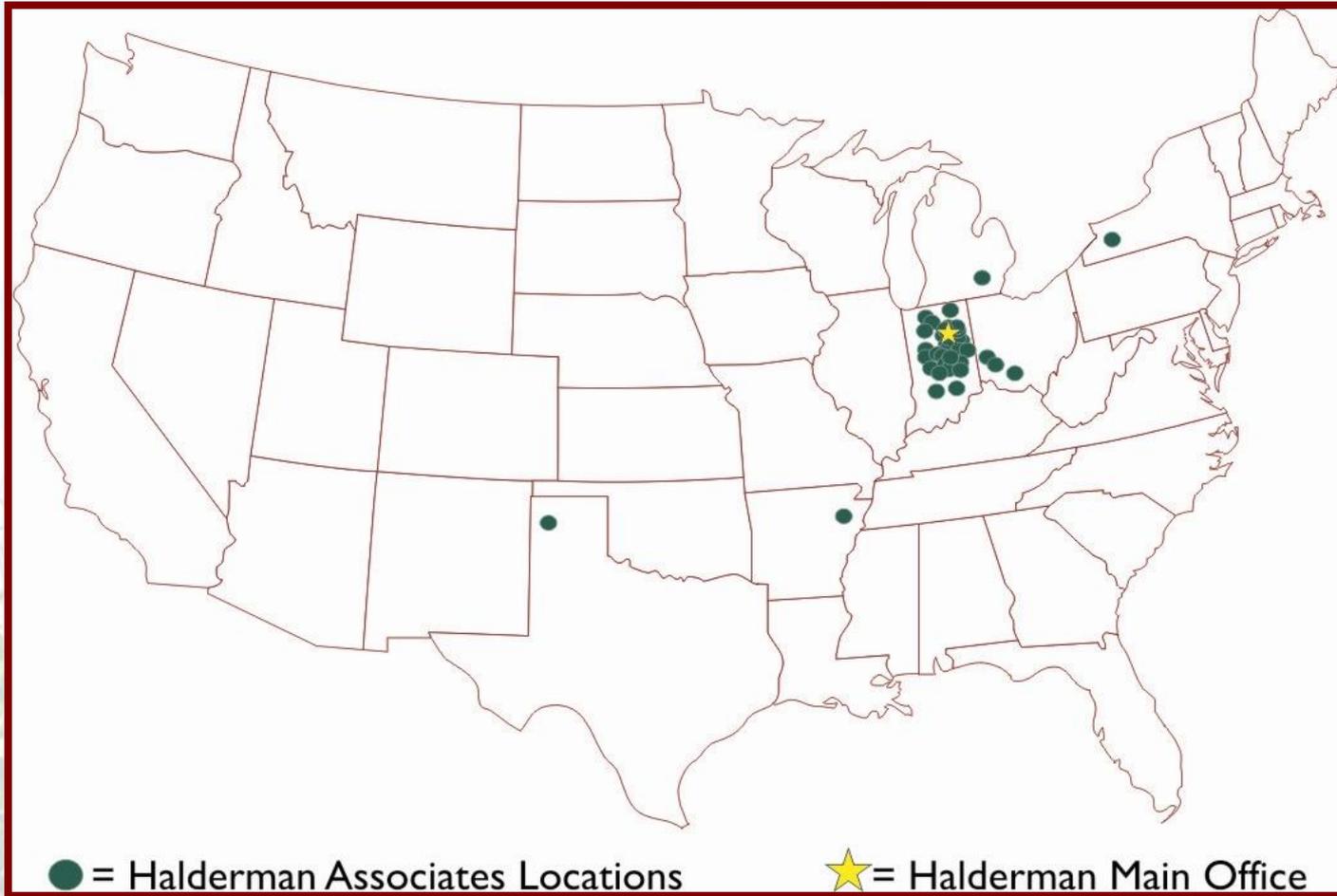
# Halderman Companies'

## Scope of Business

- **Farm Management**
  - **675 farms; 270,000 acres in 22 states**
  - **Consult on 600,000 acres - Argentina, Uruguay & Brazil**
- **Real Estate**
  - **Sales & Acquisitions**
    - **175 farms; 15,000 acres; \$100 million in sales annually**
  - **Farm Appraisals**
    - **500 appraisals annually**



# Halderman Offices



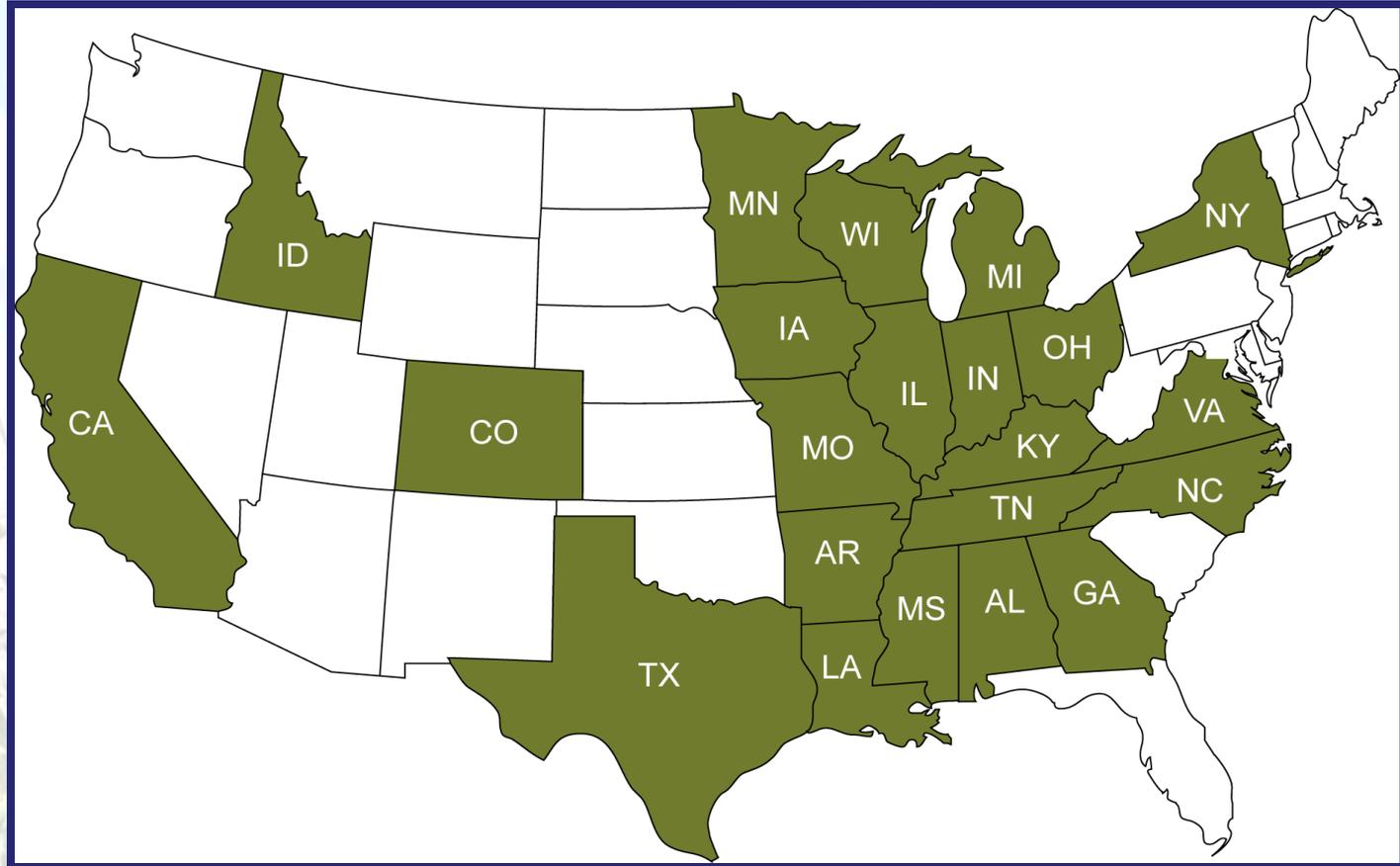
# History and Staff

- **Founded in 1930**
- **Third Generation Ownership**
- **3 corporate managers**
- **21 Area Representatives**
- **13 Real Estate Associates**
- **Indiana, Ohio, Michigan, Louisiana, Arkansas, Texas, New York & California**
- **10 Support Staff**
- **Average tenure of staff >20 years**



# HFMS NATIONAL COVERAGE AREA

36 Professionals Providing Services Across 22 U.S. Farmland Regions



# Farm Land

**Why it might be the best investment in your portfolio!**





June 2011

# Birds Point Levee Breach

December 2012

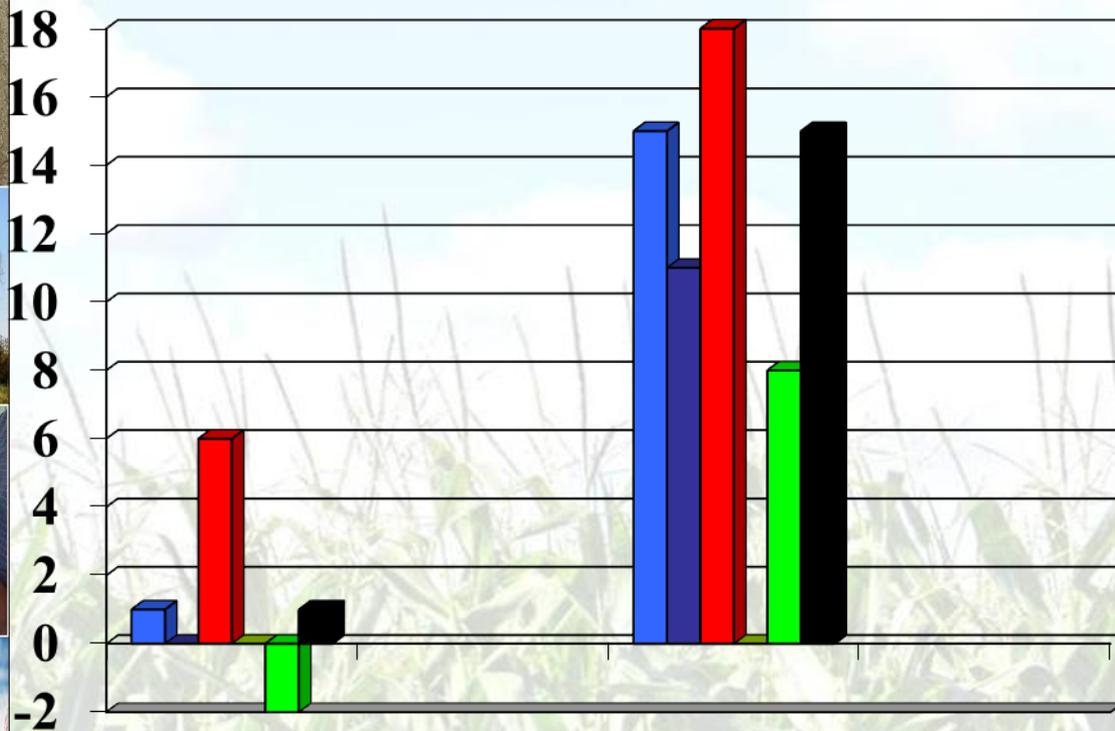
DTN Ag Summit

# Farmland Real Estate Market

- **Cropland values increase substantially!**
- **During Fall 2008, 2010, 2011 and 2012 capital gains tax increase fears once again drive some sales!**
- **Decline in recreational, timber, and residential values since “2008 financial crisis” continues.**

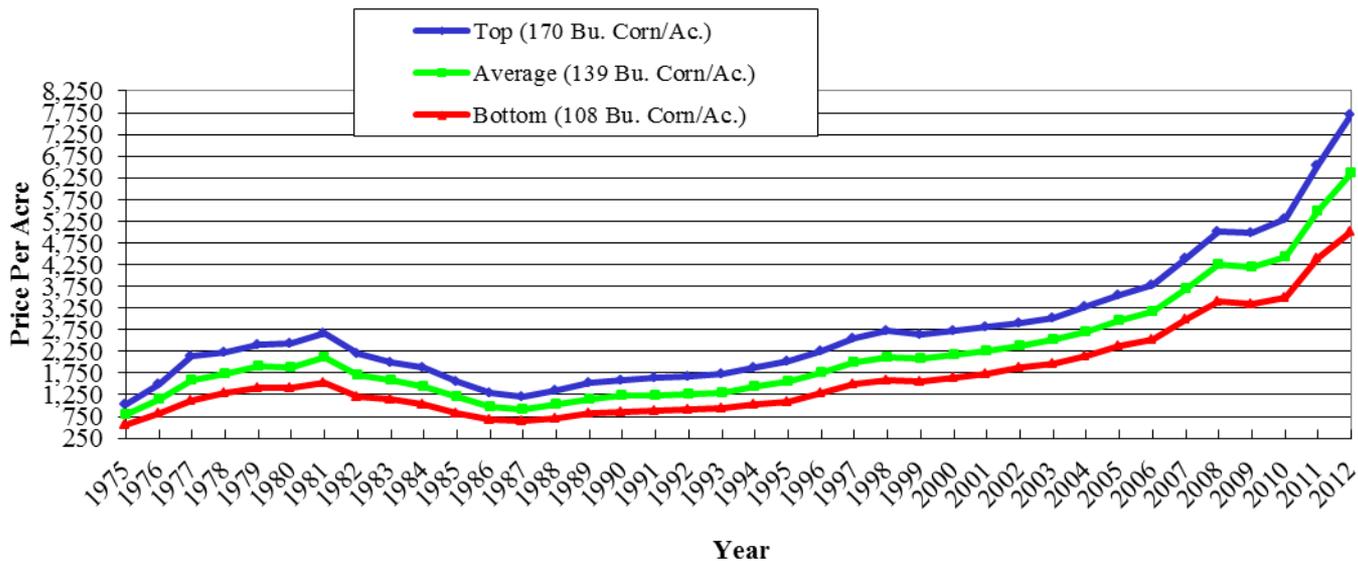


# Federal Reserve Bank of Chicago – 7<sup>th</sup> District

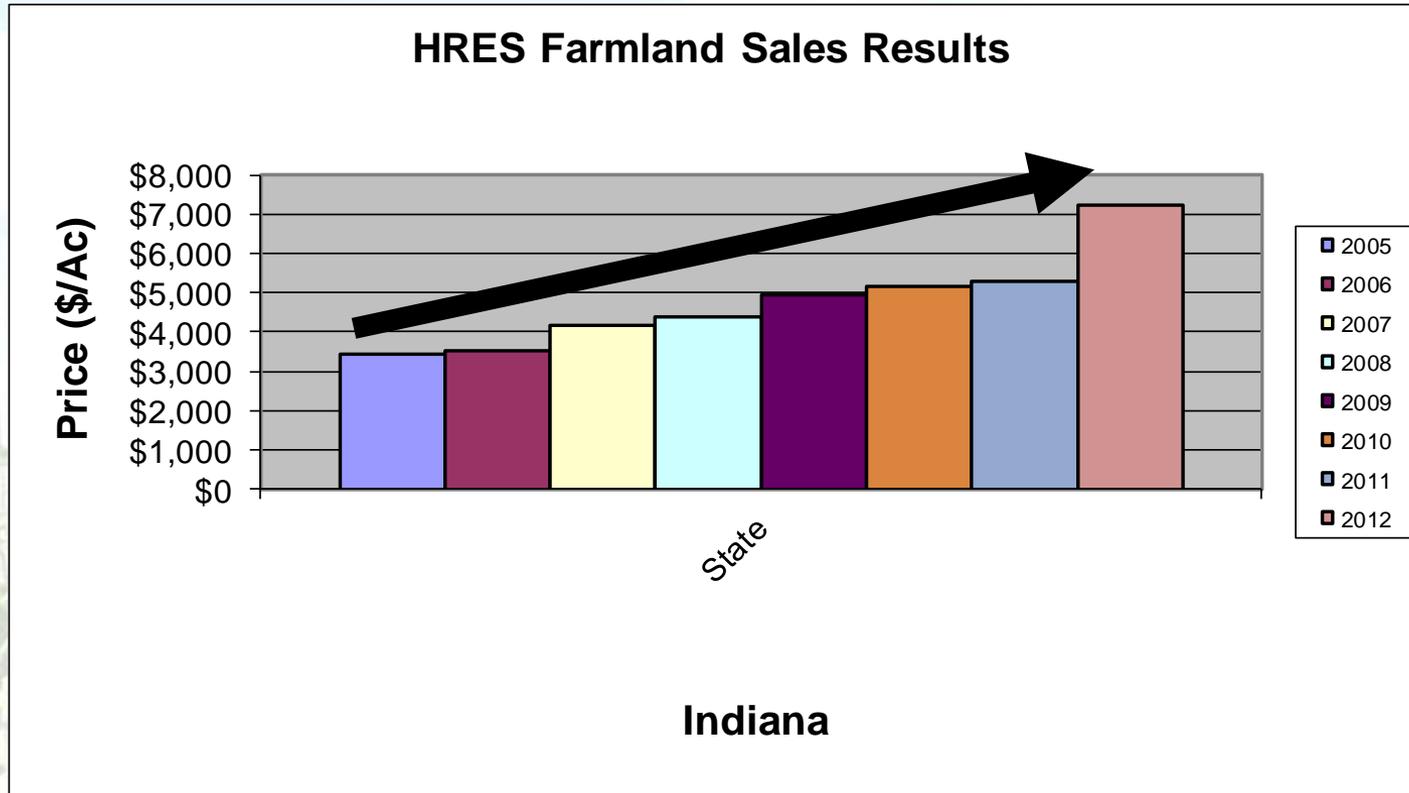


- Illinois
- Indiana
- Iowa
- Michigan
- Wisconsin
- Seventh District

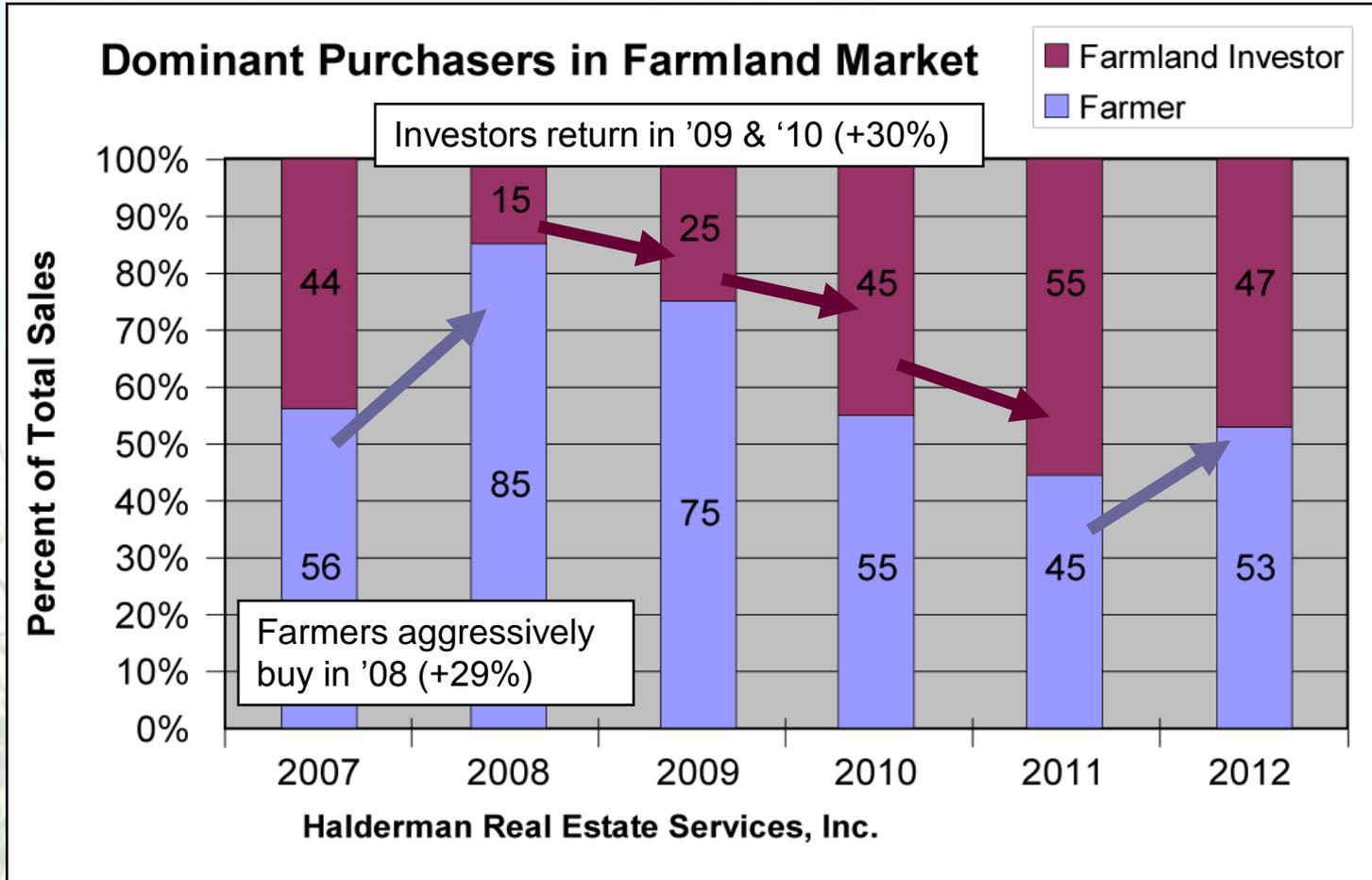
# Purdue Survey, Indiana Farmland Values, 1975-2012



# Halderman Farmland Sales, by Indiana Region, 2005-2012



# Who's Buying?



# Farmland Real Estate Sales

**Oct. – Putnam Co, OH – 169 ac. sold for \$1.132 M**

**\$6,700/acre**

**Oct.– Huntington Co – 77 ac. sold for \$530,000**

**\$6,883/acre**

**Oct. – Kosciusko Co. – 220 ac. sold for \$805,000**

**\$3,659/acre**

**Nov. – Carroll Co. – 77 ac. sold for \$960,000**

**\$12,357/acre**

**Nov. – Piatt Co., IL – 160 ac. sold for \$1.43 M**

**\$8,936/acre**



# Farmland Real Estate Sales

**Nov. – Clinton Co, IN – 105 ac. sold for \$985,000**

**\$9,363/acre**

**Nov.– Brown Co, OH – 214 ac. sold for \$715,000**

**\$3,328/acre**

**Nov. – St. Joseph Co. – 216 ac. sold for \$1,110,000**

**\$5,138/acre**

**Nov. – Tippecanoe Co. – 235 ac. sold for \$1.97M**

**\$8,382/acre**

**Dec. – Montgomery Co. – 263 ac. sold for \$1.802 M**

**\$6,850/acre**



# Farmland Real Estate Sales

**Dec. – LaPorte Co, IN – 125 ac. sold for \$730,000**

**\$5,840/acre**

**Dec.– Wabash Co, IN – 90 ac. sold for \$540,000**

**\$6,000/acre**

**Jan. – Shelby Co. – 264 ac. sold for \$3.11M**

**\$11,780/acre**

**Feb. – Tippecanoe Co. – 80 ac. sold for \$720,000**

**\$9,000/acre**

**Feb. – Union Co. – 734 ac. sold for \$5.4 M**

**One tract over \$11,000/ac!**



# Farmland Real Estate Sales

**Mar. – Jackson Co, IN – 92 ac. sold for \$195,000**

**\$2,129/acre**

**Mar. – White Co. – 50 ac. sold for \$365,000**

**\$7,208/acre**

**Mar. – LaPorte Co. – 210 ac. sold for \$2 M**

**\$11,000/irrigated acre**

**Apr. – Porter Co. – 102 ac. sold for \$850,000**

**\$8,293/acre**

**Apr. – Jay Co. – 190 ac. sold for \$1,025,000**

**\$5,377/acre**



# Farmland Real Estate Sales

**Apr. – Clay Co, IN – 93.5 ac. sold for \$920,000**

**\$9,840/acre**

**Apr. – Fulton Co. – 205 ac. sold for \$605,000**

**\$2,950/acre (1/2 cropland)**

**Apr. – Howard Co. – 67 ac. sold for \$570,000**

**\$8,500/acre**

**May – Wabash Co. – 58 ac. sold for \$410,000**

**\$7,069/acre**

**May – Wabash Co. – 75 ac. sold for \$450,000**

**\$6,000/acre**

**June – Kosciusko Co. – 50 ac. for \$150,000**

**\$3,000/acre**



# Farmland Real Estate Sales

**June – Carroll Co. – 93 ac. for \$300,000**

**\$3,225/acre**

**June – Wabash Co. – 98 ac. for \$910,000**

**\$9,237/acre**

**June – Tipton Co. – 56 ac. for \$470,000**

**\$8,392/acre**

**June – Grant Co. – 217 ac. for \$1,940,000**

**\$9,142/acre**

**July – Clinton/Howard Co. – 303 ac. for \$2.7 MM**

**\$8,900/acre**

**July – LaPorte Co. – 303 ac. for \$662,000**

**\$2,200/acre**



# Farmland Real Estate Sales

**August – Delaware Co. – 171 ac. for \$840,000**

**\$4,912/acre**

**August – Madison Co. – 80 ac. for \$910,000**

**\$11,375/acre**

**August – Wells Co. – 68 ac. for \$480,000**

**\$7,100/acre**

**August – Fulton Co. – 157 ac. for \$1,320,000**

**\$8,372/acre**

**August – Wabash Co. – 224 ac. for \$820,000**

**\$3,656/acre**

**August – Hamilton Co. – 42 ac. for \$365,000**

**\$8,295/acre**



# Farmland Real Estate Sales

**Sept. – Miami/Wabash Co. – 277 ac. for \$1,812,000**

**\$6,500/acre**

**Sept. – Miami Co. – 47 ac. for \$440,000**

**\$9,285/acre**

**Sept. – Whitley Co. – 98 ac. for \$790,000**

**\$8,061/acre**

**Sept. – Carroll Co. – 72 ac. for \$810,000**

**\$11,227/acre**

**October – Elkhart Co. – 271 ac. for \$3,100,000**

**\$11,415/acre**

**October – Coshocton Co. – 1,625 ac. for \$4,669,000**

**\$2,873/acre**

**October – Allen Co. – 234 ac. for \$2,650,000**

**\$11,315/acre**



# Farmland Real Estate Sales

**Nov. – Cass Co. – 51 ac. for \$455,000**

**\$8,992/acre**

**Nov. – LaSalle Co., IL – 148 ac. for \$1,665,000**

**\$11,000/acre**

**Nov. – Owen Co. – 44 ac. for \$170,000**

**\$3,864/acre**

**Nov. – Union Co. – 307 ac. for \$2,106,000**

**\$6,850/acre**

**Nov. – Clinton Co. – 123 ac. for \$1,075,000**

**\$8,740/acre**

**Nov. – Benton Co. IN/Iroquois Co. IL –**

**180 ac. for \$1,955,000 = \$10,861/acre**

**Nov. – Cass Co. – 110 ac. for \$1,160,000**

**\$10,545/acre**



# WHY FARMLAND?

**Farmland Investment  
Characteristics -  
Remain the same!**



# Farmers buy because...

- **Control of acres & “chance of a lifetime”**
- **Available cash from '06 -'12 operations**
- **Low interest rates – still, but for how long??**
- **What better alternatives?**
  - **Invest in what you know...and control**
- **Retain the returns to land otherwise paid as rents.**



# Investors buy because...

- **Solid Returns**
  - Farmland viewed as a “blue-chip” stock
  - Strong capital value growth (5% CAGR in US)
  - Steady dividend (cash) income (3-4% ROI)
  - Nearly zero vacancy rate
- **Inflation hedge**
  - Farmland returns positively correlated to inflation
- **Good portfolio diversification**
  - Farmland returns negatively correlated to many financial investments.



# U.S. Farmland History of Attractive Returns

Since 1992, returns averaged 12%+ per annum:



Row crops: annual crops.



Permanent crops: multi-year crops.

## Row Crops:

Period	Total Return
1 year	29.06%
3 years	26.26%
5 years	23.45%
7 years	18.63%
10 years	15.15%
15 years	13.79%

## Permanent Crops:

Period	Total Return
1 year	21.3%
3 years	38.2%
5 years	32.3%
7 years	23.0%
10 years	17.1%
15 years	13.8%

### Sources:

National Council of Real Estate Investment Fiduciaries (NCREIF) and U.S. Department of Labor

### Notes:

1. The NCREIF Farmland Index is published by the National Council of Real Estate Investment Fiduciaries and tracks the \$1.2 billion tax exempt investor farmland investment market.
2. Data through September 2008.
3. 40% Leverage, 6% Borrowing Rate

December 2012

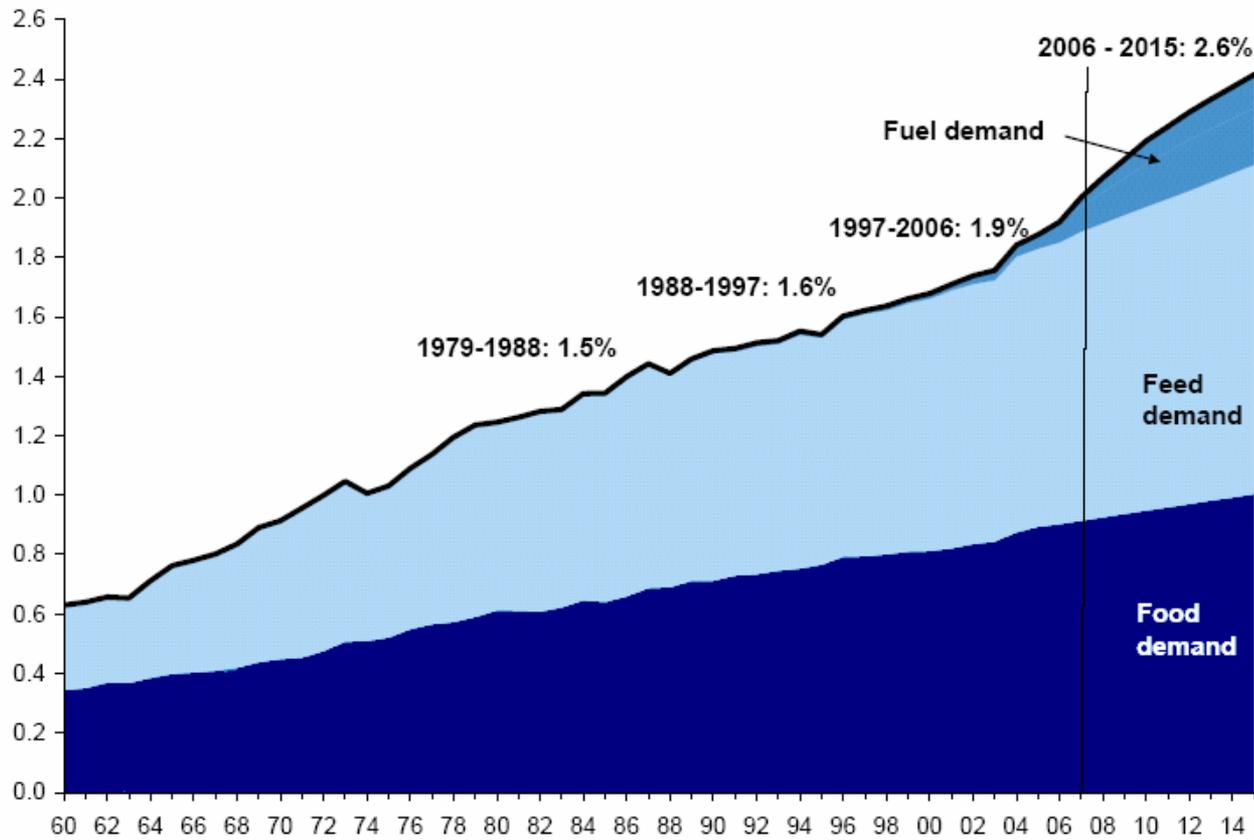
DTN Ag Summit



# Rising Demand for Agricultural Commodities

Sustained higher demand for grains: food, feed and fuel.

Billion metric tons



Sources:

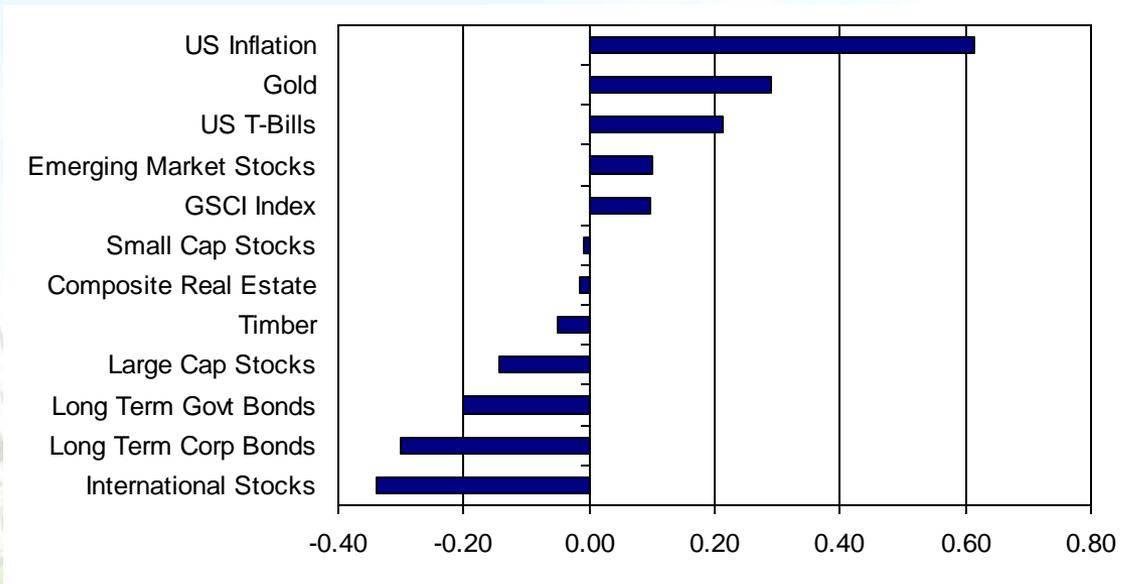
FAO, USDA, Goldman Sachs Commodities research.

December 2012

DTN Ag Summit

# Attractive Correlation Characteristics

Correlation between Farmland Return and Returns of Other Assets



**Sources:**

US Farmland 1910 to 2006 USDA, Large Cap Stocks 1910 to 2006 Ibbotson, Small Cap Stocks 1925 to 2006 Ibbotson, International Stocks 1969 to 2006 MSCI EAFE, Emerging Market Stocks 1987 to 2006 MSCI Emerging Markets, Long Term Corp Bonds 1925 to 2006 Ibbotson, Long Term Govt Bonds 1925 to 2006 Ibbotson, US T Bills 1925 to 2006 Ibbotson, General Real Estate 1972 to 2006 NAREIT Composite, GSCI Index 1969 to 2006 GSCI Total Return, S&P/GSCI Gold Total Return Index 1978 to 2006, NCREIF Timber Index 1987 to 2006, US Inflation 1925 to 2006, CPI Ibbotson.

**Note:**

Standard Deviation and Correlations are based on December ending annual returns.



# Farm Land

Where do values go from here?



# Where are land prices going?

- **Depends on**

» **Farm Income**

» **Interest Rates**

» **Supply**

- **Farm Income records '07-'11  
– (2012 slightly lower)**
- **Interest Rates historically low**
- **Farms for sale 1/2 of typical 3%**



# Farm Land Leases

**Farmland is worth what it earns!**



# Farm Leases

- **Competition for leasing land remains high!**
- **Input costs increased in '07, '08, '09, '11 and in '12.**
- **Output Opportunities are many!**
  - **Bio Fuels/Ethanol/Bio Diesel, Feed, Specialty Crops**
- **Cash Rents in 2012 - Central IL over \$300/acre – average rent. 2013 even higher?**
- **Drought Impacts???**

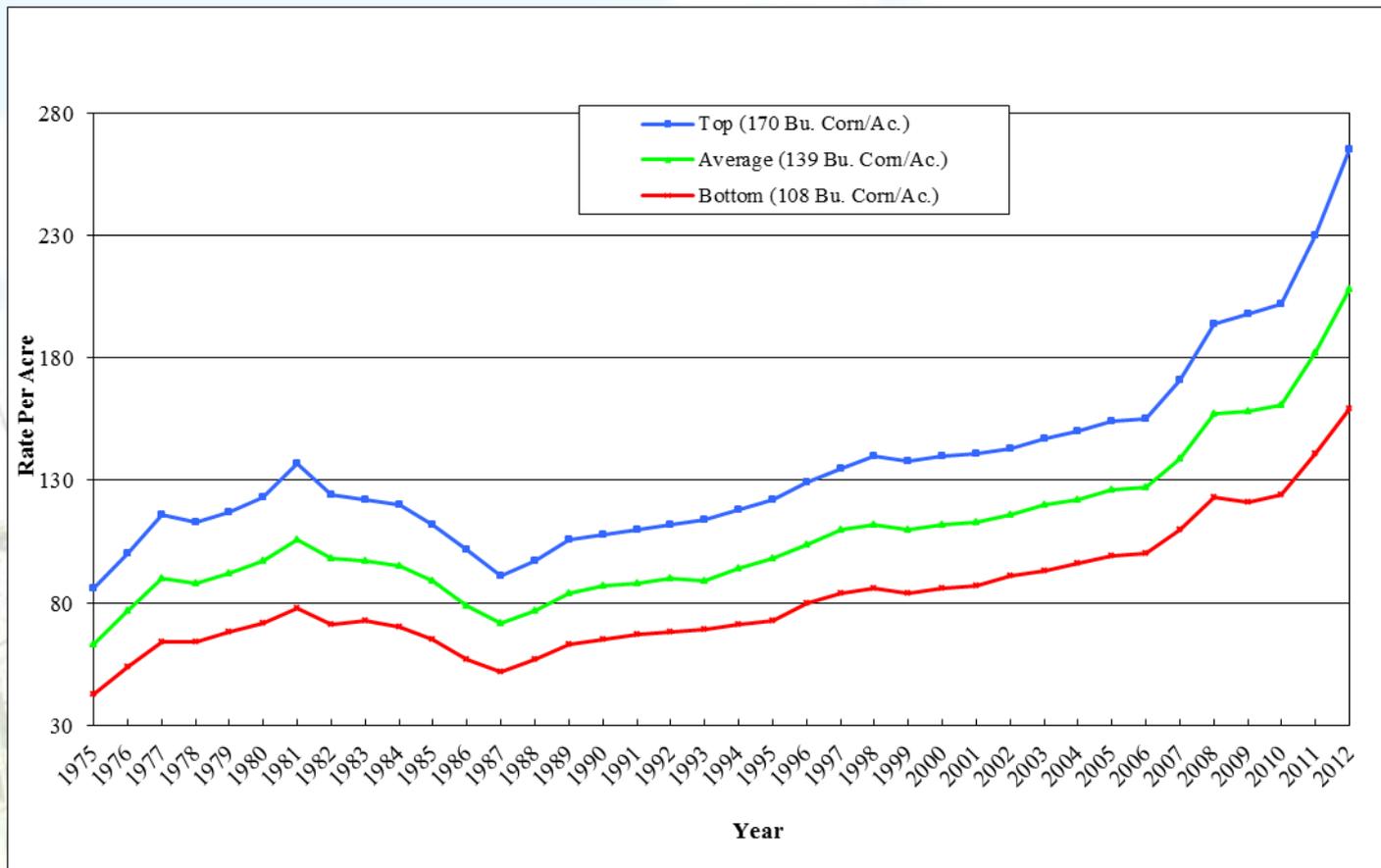


# Drought 2012

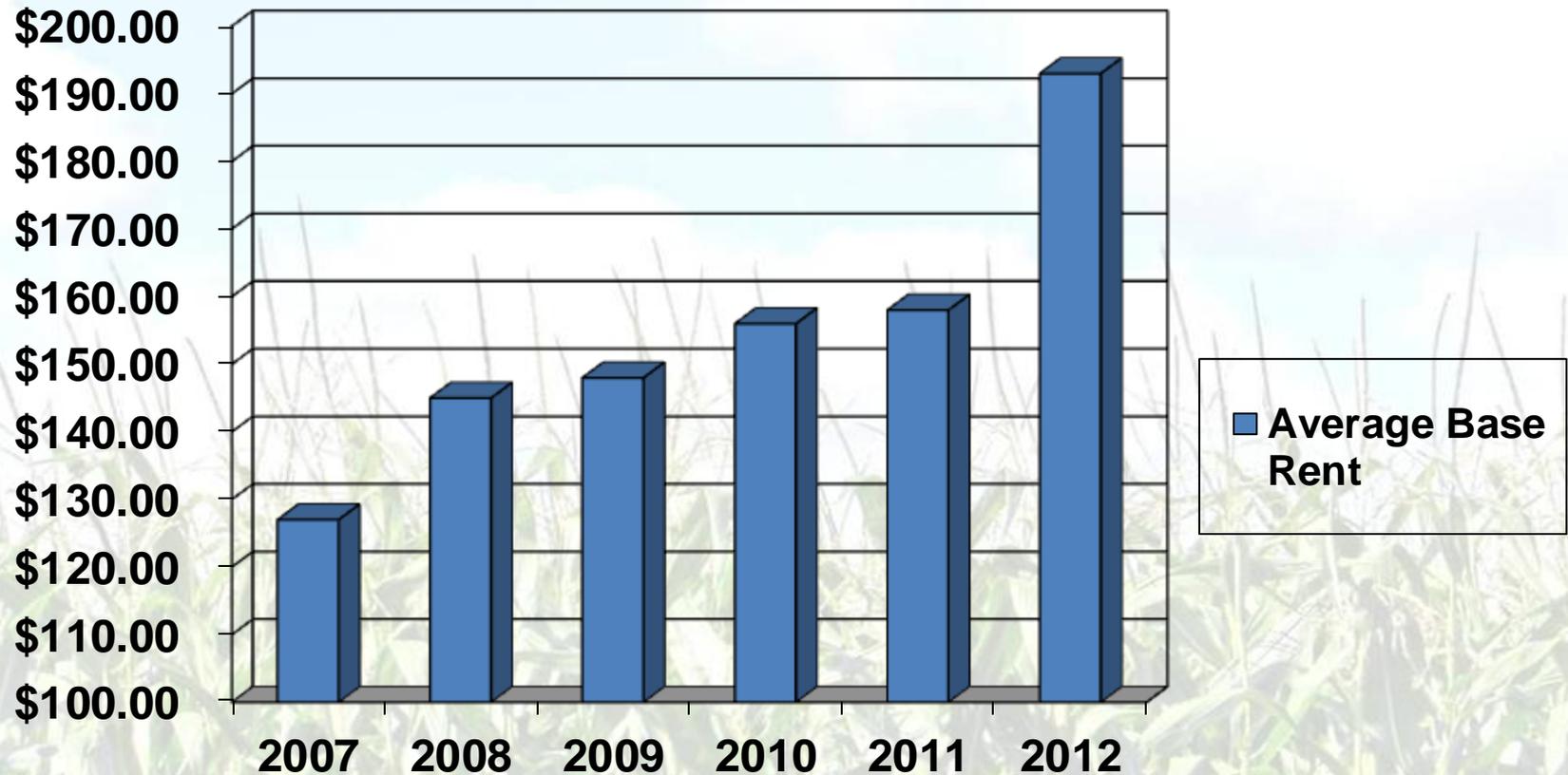
- **Yields are a disaster in many areas**
  - **Genetics provide more protection than ever**
- **Commodity prices move to all time highs**
- **Prices for 2013 grain at profitable levels**
- **74% of IN row crop farmers buy insurance**
- **Long term demand destruction a concern**



# Purdue Survey, Indiana Farmland Cash Rents, 1975-2012

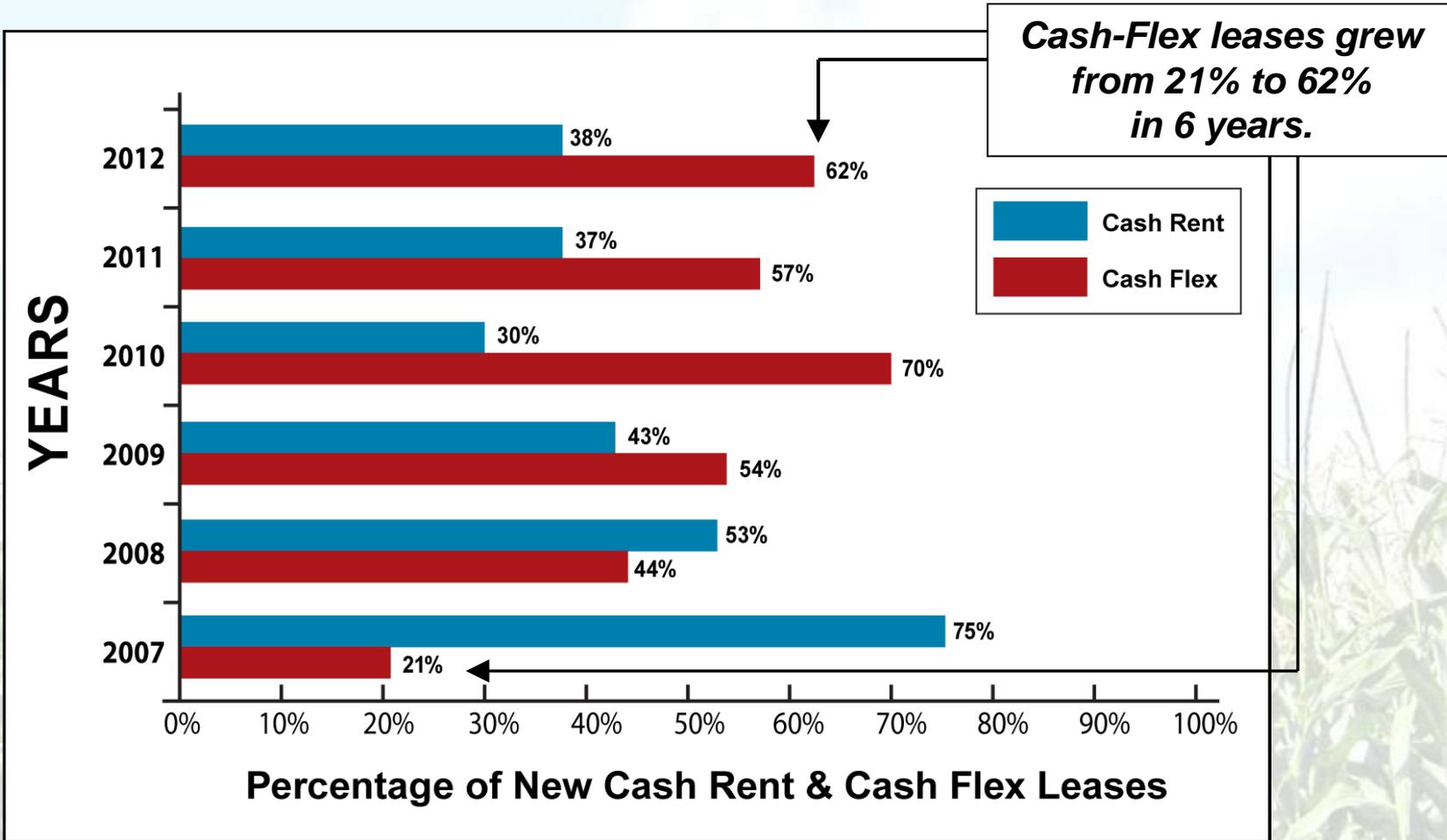


# Halderman Lease Results, 2007-2012



# Lease Types are Shifting

## (Halderman New Leases, 2007-2012)



# Cash Flex Leases

- **Many different flex arrangements**
- **Base cash rent with the “potential” for a bonus.**
- **Most triggered off gross revenue (some yield based)**
- **Averaged \$180-\$320/ac. in Wabash County in 2007 - 2012.**
- **Can add \$50-\$100/acre in bonus.**



# What have we learned??

- **The cropland market is still strong!**
- **Auctions = best method to max price**
- **Recent sales indicate strength in spite of drought**
- **Buyers – investors are 5-15%**
- **Residential and Recreational = continued weakness, BUT feeling a little better.**



# Farmland Real Estate in 2013?

- **Long-term world demand fundamentals remain bullish for agriculture and therefore land prices.**
  - UN FAO report shows we need **100% more food by 2050!**
- **Farm incomes best ever in 2011, 2<sup>nd</sup> in 2012!**
- **Interest rates still favorable (below 6%)**
- **Supply of farms for sale lower than normal till the last 3 months of 2012**



# Farmland Real Estate in 2012: A Bubble?

- **Land Value Bulls Say . . .**
  - **Low amount of debt in agriculture**
  - **Low interest rates (QE 3?)**
  - **World population growth = commodity demand**
  - **Bio Fuels – demand remains**
  - **Potential for Inflation**
  - **Water resources & competition**
  - **Low supply of farms for sale**



# What Could Make this A Bubble? (Fall 2012)

- **Land Value Bears say . . . What if?**
  - Value of dollar strengthening continues = lower exports = lower commodity prices
  - Worldwide recession **deepens** = **deflation** and therefore lower demand (Chinese GDP below 7% & EU concerns)
  - Change in biofuels mandates in primary row crops
  - Demand destruction from high prices



# What Could Make this A Bubble? (Fall 2012)

- **Interest rates increase due to *hyper*-inflation**
- **Residential Bubble Similarities Develop**
  - **Speculative purchases of land for capital appreciation gains**
  - **Purchases with significant debt financing on the belief that land value increases will cover collateral needs**
- **Other asset classes' returns improve!**



# What Could Make this A Bubble? (Fall 2012)

- **What if??**
  - **Commodity prices erode due to demand destruction from high prices**
  - **Worldwide Recession occurs (again!)**
  - **Farm incomes decline**
  - **Capital gains tax increases happen**
    - **(As of 1/1/13 cap gains are 20% plus 3.8% for Health Care Reform)**



# Why Invest in US Agriculture?

- **1928**
  - **Population: 1.2 B**
  - **US was 10%**
  - **US provided 10% of world's output**
- **1968**
  - **Population: 3.5 B**
  - **US was 6%**
  - **US provided 20% of world's output**



# Why Invest in US Agriculture?

- **2012**
  - **Population: 7 B+**
  - **US is 3%**
  - **US provides 30% of world's output**
  - **Today the US producer and US technology can produce enough food and fiber to feed the world!**



# Halderman Companies Information

**F. Howard Halderman, AFM**  
*President*

**Halderman Farm Management Service, Inc.**  
**Halderman Real Estate Services, Inc.**

**P. O. Box 297**  
**Wabash, IN 46992-0297**

**800-424-2324**  
**260-563-8889 – fax**

**[howardh@halderman.com](mailto:howardh@halderman.com)**  
**[www.halderman.com](http://www.halderman.com)**

