Who Bought The Farm?

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Aging Landowners ...

- **Current farm operators**
  - Average age over 55
    - More “kids” are moving home to farm (1970's?)
  - Most rent on retirement
    - Few sell the land
    - Land will go to non farm kids who become non operating landowners
    - Most will hold the land for a period of time
    - 3 to 5% sell (FNC)
The Silent Majority . . .

- Non operating owners
  - 75% over age 65 (FNC survey)
  - Pass land to heirs
    * Some will gift the land
    * Most cash rent
    * This is the group who sell
      * Own over 55% of the land +
      * 95% of our sales

The Land Market Today

- The search for quality continues
  - High quality farms and ranches still in high demand
    * Returns have dropped by 35% to 40%
      * Historically low cap rates from 3.25 to 4%
  - Lesser quality farms are gaining some momentum
    * Buyers are attracted to the better returns
    * Prices are starting to increase on the lower quality units, but not as fast as they increased on the top land
Seller Reluctance Has Moderated

- Possible sellers remained tight holders of land throughout 2011
  - Poor alternative investments
  - Bullish on ag
- FNC 2012 sales are up
  - Currently we have sold 30% more units than a year ago
    - Driven in part by tax concerns
    - Also driven by market concerns
      - Is this the top . . . ?

More Buyers Than Sellers

- Strong demand from all sectors
  - Several new funds are forming to buy land
  - Money is pouring into this segment
    - Limited to certain states
  - The general public is aware of the positives of land
Who’s Buying

- **Two types of Investors in the market**
  - 1. Those who currently own land and like the asset
    - Add on acres, generally low leverage
  - 2. New investors
    - Bullish on ag
    - Will leverage
    - Plan to hold for 10 years
    - Often little ag knowledge
    - 3.5% to 3.75% returns
    - More analytical

- **3. Farmers are spending profits, and expanding**
  - They are spending cash, but they are also leveraging land they already own
    - Maybe 40% of sales have leverage
  - The margins are narrowing
    - Very high operating costs

The Dominate Buyer . . .

- So far in fiscal year 2012, we have sold over 600 farms and ranches - $420 million +
  - Active farmers continue to dominate the buy side of the market, taking 70 to 75% of the sales
  - They buy most of the auctioned properties
  - New high prices are generally set by farmers at an auction
  - A new phenomenon, the 80+ year old cash buyer!
    - No return on CD’s or other safe investments

- Investors purchased between 25 and 30% of the properties
  - Traditional investors buy approximately half
  - More likely to bid/buy at auction than non traditional
  - Non traditional new investors have been purchasing the other half
Current Buyers are Long-Term Owners

• Farmers
  ◦ Own for a lifetime and beyond
  ◦ Using a lot of cash
  ◦ Average their cost over other land

• Investors are still basing purchases on return – 10 year window
  ◦ Very focused on the return
  ◦ Adjusted expectations downward to get something bought
  ◦ Some price resistance

What Drives the Demand

• Excellent profits are the #1 driver
  ◦ Both farmers and investors are bullish long term on ag
    • Renewable fuels
    • Increasing world population
    • More middle class consumers worldwide
    • Increasing demand for more protein in diets
  ◦ Land was undervalued
    • Investor perspective in 2005 – appreciation opportunity

• Interest Rates are #2
Some Changes Coming

• One Wall Street firm has decided to liquidate their land portfolio
  ◦ It was purchased in 2007
    • 10 year ownership window
  ◦ They wanted better returns
  ◦ Land in 4 states
  ◦ 45,000 acres +

Are We Focused on the Right Risks?
Is This a Bubble . . .

- “This time is different ”
- Balance sheets look positive
- Operating costs are sky rocketing
  - What caused the crash in the 80’s
- Our support has political tentacles
- What would cause velocity?

Is This Sustainable?

- If commodity prices remain strong
- Interest rates remain low
  - A rate move that allows for a 4% or better CD rate is bearish
- If renewable fuel standards remain intact
- If the Chinese economy continues to grow
Thank You!

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