



Land Value Trends in the West

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Land Value Trends in the West

- What happened to agriculture land values in the Western United States since the Financial Crisis in Mid 2008?

Information Gathering Approach

- Northwest FCS is a \$10.0 billion Ag Lending Cooperative located in Spokane, WA.
- Our chartered lending territory are the states of Washington, Oregon, Idaho, Montana and Alaska.
- Part of my job responsibilities are to supervise the Real Estate Appraisal department.
 - We have a staff of 45 people, located in 19 field offices in the above territory.

Information Gathering Approach

- The staffs job is to appraise Ag land and to identify and verify sales.
 - This process give us a good pulse of what is happening in the real estate market in our territory.
- Other Farm Credit appraisers were contacted in other Western States to identify their market activity and price trends
 - States contacted: Colorado, Wyoming, Mexico, Arizona, Utah, Nevada, California and Hawaii
- In addition to that, we looked at the USDA's annual Land Value Survey that is published every August to compare trends and conclusions

Rural Property Purchasers

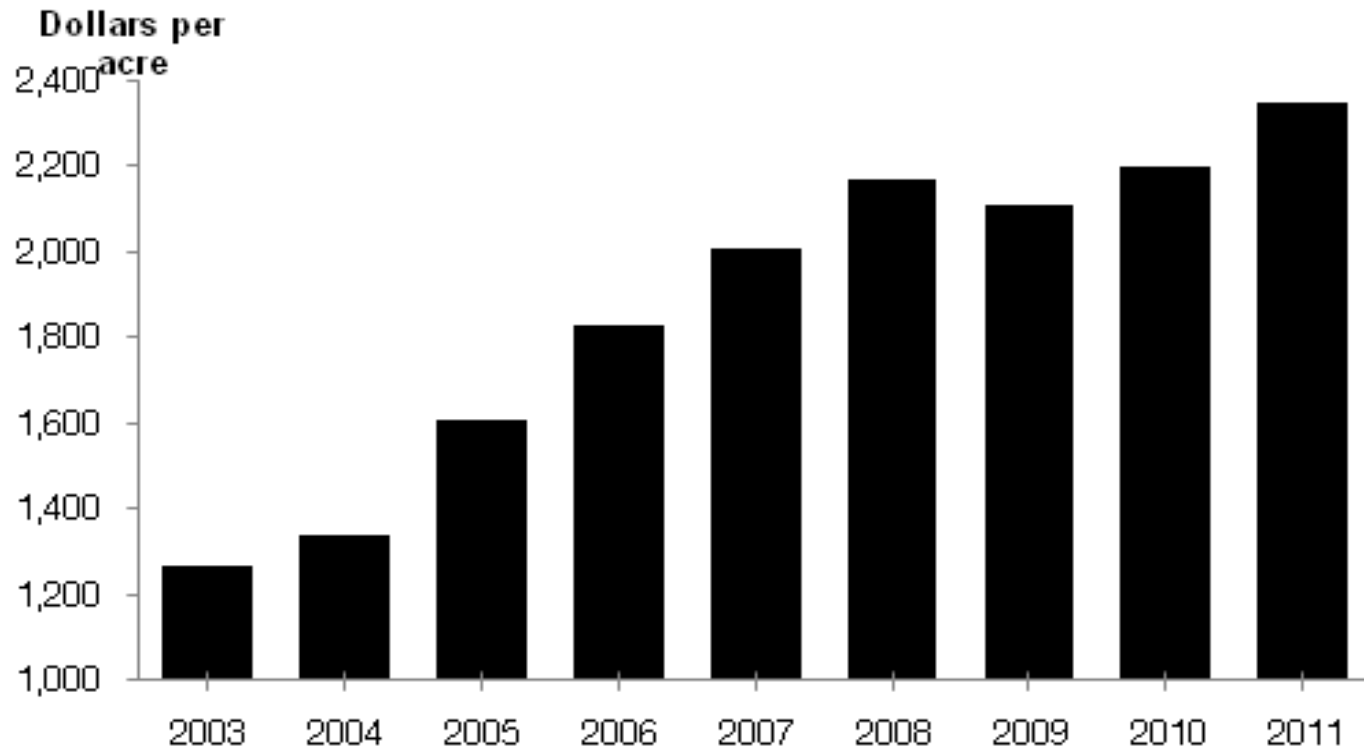
As a general rule, there are three distinct groups of purchasers of rural property:

- Commercial agriculture land purchasers driven by:
 - Commodity Prices and Investor Interest
- Rural home buyers driven by:
 - Interest Rates, Home Equity and Desire for a dream home
- Recreational and Investment buyers driven by:
 - High amenities

Current Trends

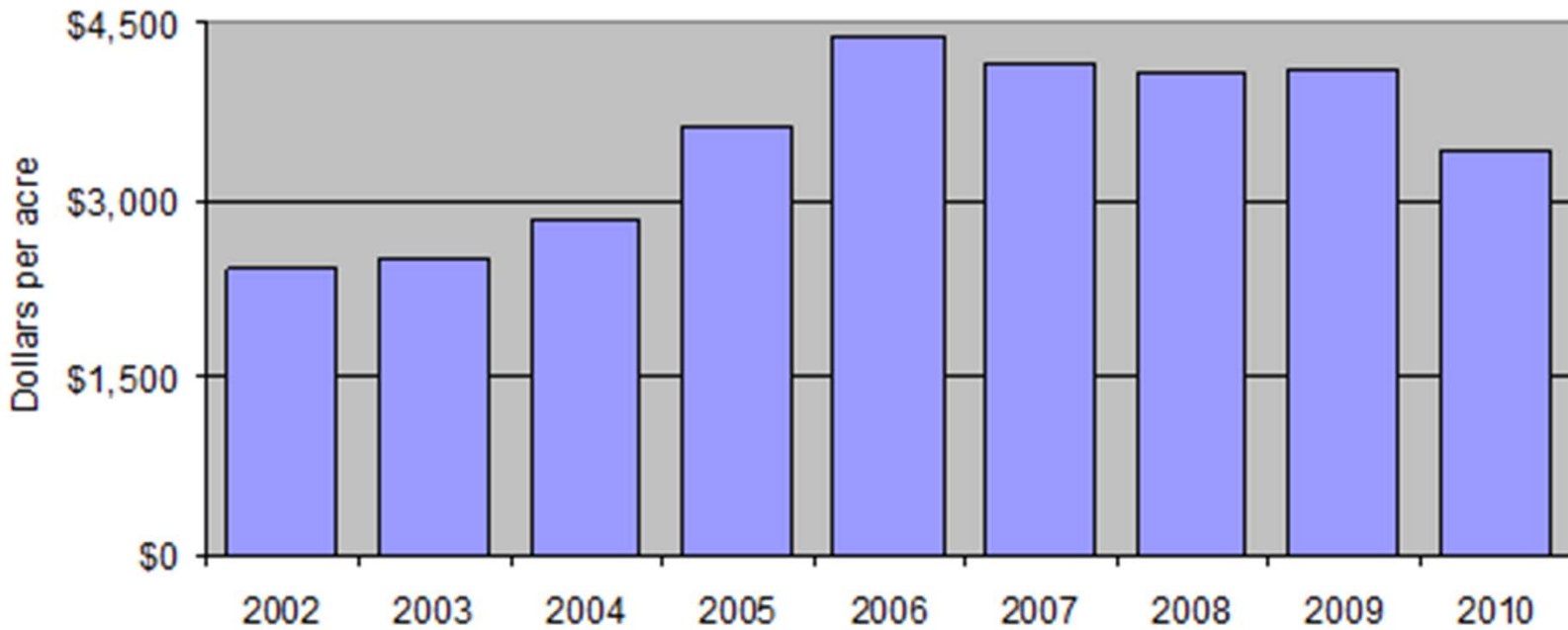
- Productive agriculture land in the northwest was relatively flat during 2000 to 2004, then increased fairly rapidly thru mid 2008 and then declined.
- In most areas of the west – 2011 land value have returned to those 2008 levels.
- The Western states have followed the trend of peaking in value in 2008 and are currently back or slightly above or slightly below that value today.

Farm Real Estate, Average Value per Acre – United States



USDA-NASS
August, 2011

Average dollar per acre values (land & buildings) for properties forty acres in size and greater located in Idaho, Montana, Oregon, and Washington from 2002 through 2010, based on NWFCS data.

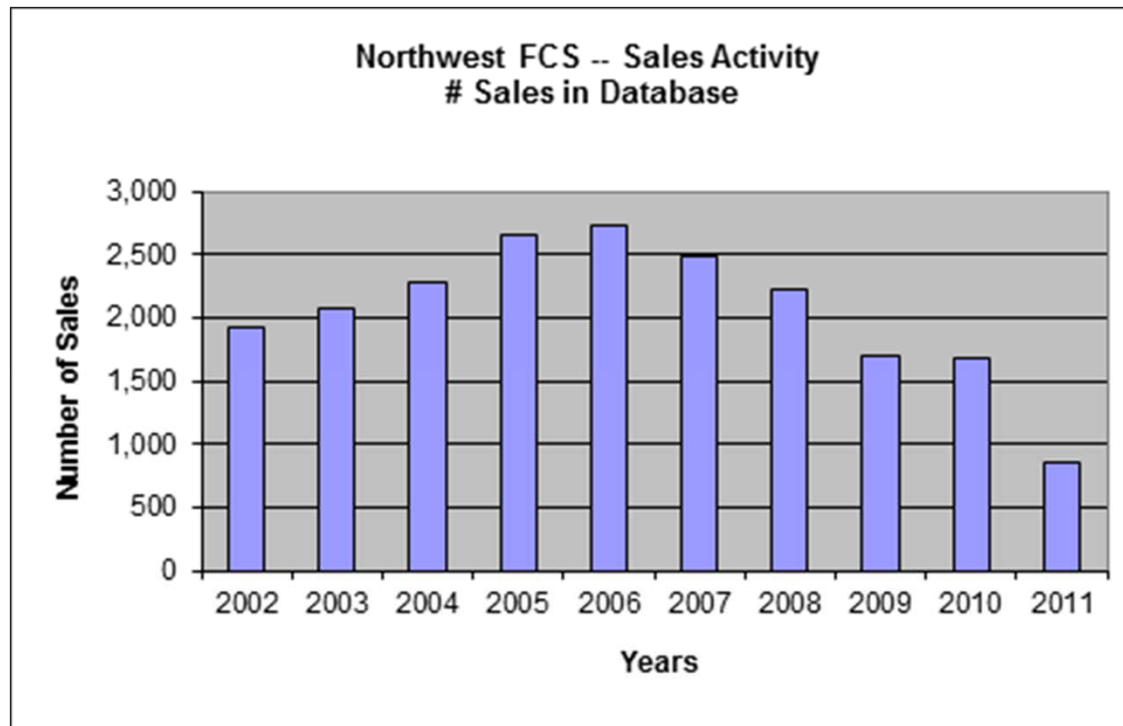


Common Consensus

Some common comments by many of my Farm Credit Contacts:

- Productive agriculture land is in demand throughout the region, with most locations reporting an increase in activity.
 - Both irrigated and non-irrigated cropland
 - The typical buyers is an existing operator expanding their operation.
- There remains a decrease in demand for rural residential, commercial and recreational land.

Market Activity



- This chart shows the numbers of sales verified and entered in the database on an annual basis.
 - Sales are entered by appraisers when verified
- The numbers of sales peaked in 2006 and have declined rapidly, 2011 remain well below previous years shown on this graph.

Sales Activity

- Increased demand by farmers to buy
- Supply of land for sale continues to lag
- Marginal farmland is not selling
- Buyers are not interested in paying for facilities or improvements
- Who are the Sellers:
 - Retired Farmers
 - Some Investors who bought in the 2006-2008 period as a speculative venture are now able to get their money back

Sales Activity

- Most transactions are between landlords and tenants.
 - Many times the property is not exposed to the market.
- While the supply of properties in the Ag market remains low – properties sell quickly if offered at market supported prices
- Strong commodity prices and favorable interest rates continue to fuel optimism.
- The higher commodity prices have attracted institutional investors as well as individual investors.
- Lease rates are up in all locations.
 - Crop share remains a prominent form of lease
 - Demand for property to lease has increased

Drivers of Land Values in the West

- Strong earning of most commodities
- Net Farm Income is at record levels
- Many of the commodities are not supported by government programs
- Debt levels of most farmers remain low
- Water and the availability of water is a significant issues in the west – maybe the most important
- Agriculture in the west is very dependent on exports
 - The value of U.S. Ag exports has nearly tripled in the last decade

A Look Ahead

The next decade could be different as agriculture deals with several Changes:

- The growth in the ethanol industry may have reached a peak.
- A stronger dollar will hamper exports.
- The U.S. and European leaders have yet to demonstrate the political will for needed action.

A Look Ahead

The Asian markets account for almost 45% of the U.S. Ag exports.

- The top 10 markets are:

- | | |
|------------|----------------|
| 1. China | 6. South Korea |
| 2. Canada | 7. Hong Kong |
| 3. Mexico | 8. Taiwan |
| 4. Japan | 9. Indonesia |
| 5. Eu – 27 | 10. Turkey |

Land Value Bubble?

- Dr. Robert Shiller, of Case Shiller Housing Index fame – a noted real estate and housing analyst has stated that farmland is his “dark-horse bubble candidate for the next decade”.
- U.S. farm exports are over 40% of U.S. production.
 - Export dependency brings increased volatility. Due to currency risk, trade disputes, embargos and so forth that does not impact domestic production
 - Exports and the growing global population and growing middle class increases the opportunities for Ag exports especially value added products due to increased spending power.
- What will happen with the next farm bill and the renewable fuels standard mandating ethanol blends?

Conclusion

- Commodities are cyclical and corrections can be extreme.
- It's important, in making Land Value decisions to remember the importance of maintaining liquidity and working capital.
- Despite record net farm incomes profit margins can get squeezed.
- Net Farm Income at 2011 levels is probably not sustainable but operating costs may be.