



Upper Midwest
Management

NORTH CENTRAL NEWS



NORTH CENTRAL®
Realty

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The Land Specialists

Winter 2009

Farm Bill Update January 27, 2009

By Brian Foster

The Food, Conservation and Energy Act of 2008, otherwise known as the 2008 Farm Bill, became law May 22, 2008 over President Bush's veto. The farm, conservation, food and feeding programs, rural development, forestry, and energy legislation covers 15 titles, five of which are new from the 2002 Farm Bill, and authorizes spending of \$289 Billion over five years.

Title I, Commodity Programs, authorizes farm program spending of about \$40 Billion over five years, and is perhaps the title of most interest to landowners in the Upper Midwest. In recent years, five crops (corn, wheat, cotton, rice, soybeans) account for over 90% of government commodity payments to farmers.

The 2008 Farm Bill continues the existing framework of farm commodity price and income support through three primary mechanisms:

- Direct payments unrelated ("de-coupled") to production or prices;
- Counter-cyclical payments which are triggered when:
 - o Prices are below statutorily-determined target prices, or
 - o Revenue for a commodity falls below a historical guaranteed level; and
- Marketing assistance loans that offer interim financing and, if prices fall below loan prices set in statute, additional income support called Loan Deficiency Payments, or LDPs.

The 2008 Farm Bill continues the existing direct payment, counter-cyclical payment, and marketing loan programs for the 2008-2012 crop years, but adjusts target prices and loan rates for some commodities. The law also creates a pilot revenue-based counter-cyclical program ("ACRE") beginning with the 2009 crop year (details follow).

Payment Limitations

Payment limits both determine farm program eligibility and set a maximum amount of commodity payments per person. The 2008 Farm Bill revises payment limitations for the

commodity programs by tightening some limits and relaxing others. Limits are tightened by (1) reducing the adjusted gross income (AGI) limits to \$500,000 of non-farm AGI and \$750,000 of farm AGI, (2) eliminating the "three-entity rule," which allowed individuals to double their payments by having multiple ownership interests (doubling payments by having a spouse continue in the 2008 law), and (3) requiring "direct attribution" of payments to a living person. Limits are relaxed by eliminating any limit on the marketing loan program. The new payment limits are in effect with the 2009 crop year.

Average Crop Revenue Election Program (ACRE)

Beginning with the 2009 crop year, farmers may choose either the traditional counter-cyclical program (CCP) or the new revenue-based ACRE option. Participants in ACRE will continue to receive direct payments, but at a 20% reduced rate. Participants will also continue to be eligible for non-recourse marketing loans, but with a 30% lower loan rate. Producers who choose ACRE (whether in 2009, 2010, 2011, or 2012) may **not** revert back to the traditional CCP for the remainder of the Farm Bill. The ACRE program is available for the same crops as traditional counter-cyclical payments, but is based on planted acres rather than on base acres.

To receive an ACRE payment, two triggers need to be met:

- First, the actual state revenue for a supported crop during the crop year must be less than the state-level revenue guarantee amount;
- Second, an individual farm's actual revenue for a supported crop must be less than the farm's benchmark revenue.

The state-level guarantee amount and the individual farm benchmark revenue are determined by the product of a guaranteed price with a guaranteed level of production. Benchmark or guaranteed yields at the state and farm levels are Olympic averages of the most recent five years. Price guarantees are averages of the higher of (a) the marketing year price or (b) the marketing loan rate as reduced under ACRE for

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the most recent two years. The revenue guarantee is 90% of the product of the average benchmark yield and the price guarantee.

If market prices are expected to be high, ACRE might be preferred by many farmers because the traditional counter-cyclical payments would be zero or small. Even under high prices, ACRE may help farmers manage downside risks – risks that are inherent in the market and cannot be diversified away. And, as market prices fall, ACRE may make payments when traditional counter-cyclical programs would not. ACRE is expected to perform better than traditional counter-cyclical programs under high-price environments, in states with larger yield increases since the 1980s, in states with more variable yields, and in states that are outside the primary growing regions of a particular commodity.

Farm Bill Implementation

As in the past, county Farm Service Agency (FSA) and Extension offices are the key contact points for farmers as the new provisions of the 2008 Farm Bill are implemented. It is advised that farmers and landowners check in regularly with the county FSA office as new programs are implemented and new forms designed. For example, new AGI forms (CCC-926) and new payment limitation forms (CCC-902) are needed and can be downloaded from the FSA website <http://www.fsa.usda.gov> or picked up at your FSA office. As of this writing, FSA offices are still waiting for more information on the ACRE program from the national FSA office in Washington, DC.

"Brian Foster is an independent agribusiness consultant based in New Utm, Minnesota. He was involved in development of the 2008 farm bill as a lobbyist for several agricultural producers and organizations, and was an

agriculture policy advisor to former Congressman Tim Penny in Washington, DC. Mr. Foster has recently undertaken numerous agriculture-related consultancies in Eastern Europe, Latin America and Africa, and farms and feeds cattle in north-central Iowa. He can be reached at: Brian@InsightEnterpriseConsulting.com.



Note from Jim Thomas, President of Upper Midwest Management Corporation

The article "Farm Bill Update" by Brian Foster highlights some of the changes that are in the new 2008 Farm Bill. The bill continues much of the old framework from the 2002 Farm Bill with one all new option called Average Crop Revenue Election Program or ACRE.

The article did not cover all the farm bill ramifications because all of the details have not been worked out yet. The ACRE program is the one major component of the farm bill currently with the most unknown details.

The ACRE election is one which will affect program payments on farms where the owner participates in the payments, primarily in custom and share crop leases. However, in a cash rental situation, the tenant will have the option to sign up to continue the old price support payment structure from the 2002 farm bill or the new ACRE program. However, if the tenant signs the farm into the ACRE program, the farm will be under this contract through 2012.

As you can tell, this new program option is complex and needs further analysis. We will be speaking about this new program at our spring seminars in Chaska and Willmar. We hope you will be able to attend one of the seminars.

** Original article with footnotes available through UMMC*

New location... Same great service!

We are excited to announce the recent move of our office location in Olivia. Our new office is located at 2510 Lincoln Avenue West, in the Plaza West Center. Our phone numbers remained the same.

This move allows us to better serve our customers and clients with increased visibility and accessibility. If you had not been to our previous location, we were located on the 2nd floor of the American Bank in downtown Olivia. Our new ground floor location provides easy access to all of our clients, including those with physical limitations, to personally meet and work with our professional staff. Our new location helps us to better position NORTH CENTRAL Realty/Upper Midwest Management for the future and

serves as a token of our long standing commitment to Olivia and the surrounding area.

The new facility has undergone extensive remodeling as well as technical upgrading on the interior, which helps to enhance the services provided to our customers. Additionally, plans are being developed for exterior upgrades to the building this coming Spring.

We invite you to stop in at any time to view the space, inquire about the services of NORTH CENTRAL Realty/Upper Midwest Management. An open house is planned for late Spring. Please join us, if at all possible!

Your Farm Manager... working for YOU!



Spring Input Price Update

By: Scott Nelson, Farm Manager

In our last newsletter, we looked at what the high commodity prices had done to the fall fertilizer, fuel, and seed costs for the 2009 crop. I really feel that a lot of the increase in prices was due to the high commodity and energy prices. The closest correlation would be between fertilizer and energy because natural gas is used to make nitrogen.

Grain prices have also come down significantly from their highs last summer. Cash prices in the New Ulm area have ranged in the area of \$3.50 to \$3.80 per bushel for corn and \$9.00 to \$9.50 per bushel for soybeans since the first of the year. Likewise, new crop prices for fall of 2009 have dropped to \$3.75 per bushel for corn and \$8.25 per bushel for soybeans.

We all know that the price of energy has dropped, just look at the price at your local gas station. Last summer we were paying close to \$4.00 per gallon of gas to drive our cars and today, the station down the road from our office is selling it for \$1.79 per gallon. Likewise, I quoted diesel fuel last fall at \$3.69 per gallon and today, I have a quote of \$1.99 for diesel fuel this spring.

Based upon this, we would hope that fertilizer has followed suit. Let's look at the current price of Anhydrous Ammonia, which is one of the most used forms of nitrogen in our area.

I checked with two of our local suppliers and the quotes were \$700 and \$800 per ton. This equates to \$0.43 and \$0.49 per pound of nitrogen. The price I quoted in the previous newsletter for fall application was \$0.70 per pound of nitrogen or \$1149 per ton.

Likewise for phosphate the quotes were from \$740 to \$845 per ton. This compared to a fall price of \$1049 per ton. For potassium the price actually increased slightly from a fall price of \$813 to \$820 and \$850 per ton.

We had quoted a cost \$239.23 per acre for a fall application of fertilizer with an analysis of 160-78-90. Using the current prices that were gathered from the suppliers, the same amount of plant food would cost \$180.08 to \$197.64 per acre this spring.

There are several factors for this drop in price. One, the price of crude oil is down as much as \$100 a barrel from last year. This lowers the price of the natural gas that is used to make various forms of nitrogen. A second factor is the effect on the cost of transporting the product from the suppliers to the retailers. Whether it is brought in by rail, river, or truck, they all burn fuel.

Another factor affecting price is if the supplier laid in large quantities of high priced inventory that did not get applied last fall. There were some suppliers that had large supplies on hand last fall and because of weather or farmers not

Farm Manager, continued on page 9

Commercial Insights... looking out for you.

How's it Going?



By: Chad Thomas, Commercial Property Manager

This is a question posed by many of our friends, families and acquaintances throughout our daily lives. Our responses usually range from "Great" or "Fine" to "Could be better" or (my personal favorite) "Good Enough".

But, in these trying economic times, property and asset managers may respond "It depends on how you look at it".

In commercial real estate, managers primarily use a balance sheet and an income statement to communicate to owners the

state of the properties that they manage. Both of these tools provide different perspectives on how a property may be performing. When used together, they can communicate to an owner or investor both the performance of a property over a period of time and also the financial position of a property for any given date.

A property's (or owner's) balance sheet provides a "snapshot in time" of the financial health of the managed asset. Balance sheets are critical in determining liquidity, equity structures, and debt ratios. These factors are essential in making appropriate financial decisions which support the owner's stated goals.

Commercial Insights, continued on page 8

Real Estate Offerings



NORTH CENTRAL® Realty, A Division of Upper Midwest Management Corporation.
Contact either the New Ulm or Olivia office.

RECREATIONAL

FARIBAULT COUNTY, MN

Property:

101.4 acres more or less in Brush Creek Twp. (Albert Lea – Blue Earth, MN area)

Benefits/Features:

CREP income. Good hunting habitat with shallow lake, marsh and state land nearby.

WATONWAN COUNTY, MN

Property:

146.42 acres more or less between St. James and Madelia

Benefits/Features:

Good hunting land for pheasants, ducks, geese & deer. Will consider offers.

COMMERCIAL PROPERTY

NEW ULM, MN

Property:

2 story commercial building in downtown New Ulm, MN. 2 commercial businesses and 4 apartments. *Income information upon request. Confidential agreement.*

Public Auctions



RENVILLE COUNTY, MN

Property:

150 ac., more or less, 143.39 tillable acres, more or less in Kingman Twp., 7.5 mi north of Olivia, MN. Productive soils!

TO BE SOLD AT AUCTION ON

March 17, 2009, 10:30 a.m. Max's Grill – Olivia, MN. 2.5% Buyer's Premium applies.

Call NORTH CENTRAL® Realty,
a division of
Upper Midwest Management Corp.
1-800-545-6227 (Olivia)
507-359-2004 (New Ulm)

DEVELOPMENT PROPERTIES

LESUEUR COUNTY, MN

Property:

55 acres, more or less.

Benefits/Features:

Ready to be annexed into the City of Montgomery 7 miles south of New Prague. Utilities extend to east property line.

WRIGHT COUNTY, MN

Property:

60 acres Ag/Development land

Benefits/Features:

Edge of Annandale. Great investment potential.

RENVILLE COUNTY, MN

Property:

4.7 acres more or less

Benefits/Features:

U.S. Hwys 212/71, Olivia, MN. Lots 1 & 2, Block 2 Rauenhurst-Bellows Industrial Park.

BROWN COUNTY, MN

Property:

10.56 acres more or less.

Benefits/Features:

Outside city limits of New Ulm. Presently zoned: light industrial. Future zoned: high density residential.

FARMLAND FOR SALE

WRIGHT COUNTY, MN

Property:

71 acres more or less, 50 tillable acres in Section 22, Stockholm Twp.

Benefits/Features:

1 building eligibility. Mix of tillable and marsh low lands. Good site for hobby farm near Cokato.

RENVILLE COUNTY, MN

Property:

232.73 acres more or less, 228.05 tillable acres in Section 20 & 21, Wang Twp.

Benefits/Features:

98% tillable. Productive soils, tilled. Good investment property

MCLEOD COUNTY, MN

119.37 acres more or less, 114 acres more or less tillable in Hale Twp. on Hwy 7, 2 miles east of Silver Lake.

Benefits/Features:

Excellent soils, 1 large field, good topography. First option on wooded bldg site.

COTTONWOOD CTY., MN

140 acres more or less, 131.2 tillable acres more or less in Amo Twp. 6 miles southwest of Jeffers, MN.

Benefits/Features:

Excellent tillable farmland. Productive soils, drained.

We have detailed information and brochures on all offerings. To receive information by mail, please contact us at one of the following: Phone Olivia Office 800-545-6227 or New Ulm at 507-359-2004. Visit our websites: www.landspecialists.com or www.ummccorp.com. The information you will receive is from sources deemed reliable, but is not guaranteed by agent. Package is subject to prior sale, price change, correction or withdrawal.

Please e-mail us if you would like to visit with us about any of our services. E-mail addresses for NORTH CENTRAL® News are: info@ummccorp.com or ummcolivia@ummccorp.com

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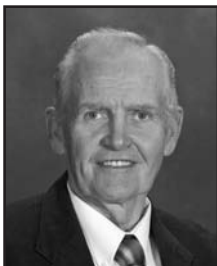
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**NORTH CENTRAL
Realty**

May We Be of Service to You?

Upper Midwest Management Corporation/NORTH CENTRAL® Realty
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For questions or comments
please contact us by email
at our Olivia office at
ummcolivia@ummccorp.com
or at our New Ulm office at
info@ummccorp.com



2008 Farm and Land Sales

Sold by: NORTH CENTRAL® Realty/Upper Midwest Management Corp.



January 1, 2008 – December 31, 2008

P.A. Sale Date	County	Total Acres	Price	Price Per Acre	Buyer & Comments
Jan, 2008	Renville	160	\$650,000	\$4,062	Farmer/Operator
Jan, 2008	Chippewa	170.67	\$670,000	\$3,925	Farmer
Feb, 2008	Wabasha	157	\$522,000	\$3,325	Farmer
Feb, 2008	Wabasha	648.34	\$2,002,500	\$3,089	Farmer
Feb, 2008	Polk	305	\$575,000	\$1,885	Investor
Mar, 2008	Renville	56	\$279,748	\$4,995	Local Elevator
Apr, 2008	Redwood	160	\$770,800	\$4,817	Farmer buyers
Jun, 2008	Yellow Medicine	160	\$640,000	\$4,000	Farmer
Jun, 2008	Big Stone	228.79	\$556,960	\$2,434	Farmer
Jun, 2008	Mower	697	\$3,021,495	\$4,335	Farmer
Aug, 2008	Grant, SD	383	\$500,000	\$1,306 for half interest	Half Interest sold to family member.
Sep, 2008	Cottonwood	240	\$959,400	\$3,997	Sold to two different farmers. \$5,996/ac. for 80 ac. & \$2998/ac. for 160 ac.
Sep, 2008	Renville	155	\$703,022	\$4,536	Investor
Oct, 2008	Renville/Kandiyohi	411	\$1,800,000	\$4,380	Farmer/Operators
Nov, 2008	Sibley	192.31	\$892,896	\$4,643	2 Buyers (Tenant & Farmer)
Nov, 2008	Chippewa	397	\$1,459,316	\$3,675	2 Farmer Buyers
Nov, 2008	Murray Co.	160	\$836,400	\$5,227	Farmer
Nov, 2008	Swift	80	\$292,560	\$3,657	Farmer
Nov, 2008	Lyon	275	<i>waiting to close</i>	<i>waiting to close</i>	2 Buyers (Farmer & Investor Buyer)

UPCOMING EVENTS

WILLMAR AG SHOW

Willmar Civic Center
2707 Arena Drive, Willmar, MN
March 10 9:00 a.m.-5:00 p.m.
March 11 9:00 a.m.-4:00 p.m.

NEW ULM AG SHOW

New Ulm Civic Center
1212 N. Franklin, New Ulm, MN
March 13 6:30 p.m.-9:00 p.m.
March 14 10:00 a.m.-5:00 p.m.
March 15 11:00 a.m.-4:00 p.m.

SPRING SEMINAR

“Economic Outlook-2009”

Minnesota Landscape Arboretum
3675 Arboretum Drive, Chaska, MN
March 28 8:00 a.m. Registration
8:30 a.m.-11:30 a.m., with lunch to follow

SPRING SEMINAR

“Economic Outlook-2009”

Holiday Inn
2100 East Hwy. 12, Willmar, MN
April 2 8:00 a.m. Registration
8:30 a.m.-11:30 a.m., with lunch to follow

Please Plan to Join us for These Events!

Call 507-359-2004 or 1-800-545-6227 to register for an upcoming seminar.
Register by March 20th for the March 28th seminar or by March 24th for the April 2nd seminar.

This newsletter is intended as general information to our clients and friends on agricultural subjects. It is not intended to render advice; such advice can only be given when related to actual situations. If you have any questions, please contact Jim Thomas, Owner, President of UMMC/NORTH CENTRAL® Realty at 507-359-2004.

What's New in Real Estate?



Farmland Price Update

By: Terry Dean, REALTOR®

2008 may long be remembered for record high grain, oilseed and energy prices and the ensuing collapse of the stock market and U.S. economy in general. How has farmland weathered the financial storm? If you're talking about highly productive, well-drained, mostly level black dirt—VERY WELL!

In general, according to the most recent Federal Reserve Bank of Minneapolis 3qtr survey of banks, non-irrigated Minnesota farmland rose 23.7% annually to a value of \$4188/acre. Irrigated values rose 12.4% to \$3589. North and South Dakota saw even larger increases of 40% and 35% respectively. Iowa's increase was 14%, down from 2007's surge of 22%. It was the 9th year in a row of annual increases in values for Iowa.

What factors were driving the market? Another year of record farm earnings were the main factor. The bull markets in all commodities that started its run in 2006 hit a peak in July with new all-time high prices for corn, soybeans and wheat. Record farm earnings have allowed producers to pay off debt to a historic low of 9.2% debt to equity ratio according to USDA. The strong balance sheets have allowed producers to use cash to take on additional land purchases. Although farmers haven't been the only buyers of farmland the past year, they do make up approximately 2/3 of the active buyers. Investors are the main buyers of the balance, with 1031 exchange buyers being almost non-existent.

Not all types of land have been selling for record prices, however. Hunting and recreational land, development land and lower quality farmland has struggled to find buyers even

at reduced prices. Land that used to have a "development premium" due to proximity to a city is now more likely to have buyers looking at the productive capacity for crop production than how many homes could be built on it. Metro buyers that may have been using home equity loans to fund recreational land purchases no-longer have the equity available. Others may have been crushed by stock market losses or declines in other investments and simply aren't positioned to take on additional debt.

What can we expect for 2009 land values? Increases like the past year are sure to be fewer and farther between. All the economic turmoil on Wall Street has come home to roost on Mainstreet. Many producers were forced to lock in input prices last summer at all-time highs, only to see the price of commodities collapse into harvest. The ethanol industry is wheeling from low energy prices that have splashed red ink all over their P&Ls. Ethanol giants like Verasun are now filing bankruptcy and leaving corn producers and elevators who delivered hanging out to dry. A new administration in Washington has talked of raising taxes to pay on the national debt. Local governments are struggling to fund basic programs and may turn to property taxes as a means to finance those needs.

Do we see a 1980's type of collapse coming to land values? Probably not. The historic increases in values are likely to be just that for a while—history. What should the landowner do? If you have a need to sell in the next couple of years, sooner may be better than later. If you have a long time horizon to work with, farmland ownership has proven itself a worthy investment. Change is constant—we'll keep you posted!

Commercial Insights, continued from page 3

An income statement is commonly referred to as the P&L or "Profit and Loss" statement. A regularly issued income statement provides owners with a documented report of performance of the property over a measured period of time. Included in any good income statement are actual and budgeted amounts for both the current time period and the year-to-date performance. Within the income statement, owners and investors are able to see any variances between the budgeted and actual amounts. From the income statement, owners receive a report of activities which are ultimately characterized as a profit or a loss. With the added budget information, owners can better understand where they are

currently, compared to where they are expected to be and what changes can be made to their operations to ultimately help them reach their goals.

Profit and loss statements and balance sheets are valuable tools utilized by Upper Midwest Management to help investors and commercial property owners reach their financial goals.

So the next time you ask a manager of Upper Midwest Management Corporation "How's it going?" you can know that we are ready to offer an answer that will support your investment goals. Give us a call, we're ready for your questions.

A Note From Our Appraisal Department



Agricultural Educational Opportunities

By: *Dave Gehrke, Accredited Rural Appraiser*

I have been attending the Minnesota Chapter of the American Society of Farm Managers and Rural Appraisers (ASFMRA) annual meeting for the past 25 years or so. In January we celebrated our 80th annual meeting. It was evident that a lot has changed in the past 80 years. However, this year more than any year in the past the change was more prevalent.

In the past we had general appraisal sessions. Now we have specialized sessions, as some appraisers specialize in large hog confinements, large dairy facilities, grain handling and fertilizer facilities, duck, geese and turkey facilities, conservation easements and wind easements - due to the large wind turbines that have become so popular. The challenge in many of these assignments is having the expertise and knowledge to efficiently complete the appraisal. That is one of the many benefits that the ASFMRA has to offer. We had sessions on grain handling construction cost, wind rights, irrigation facilities, conservation easement appraisals for the IRS and an update of changes in the livestock industry - what works and what doesn't, what is the new technology, etc. The sessions the ASFMRA offers aids the appraiser and the farm manager to become professionals in their field.

The ASFMRA is not just for professional appraisers and farm managers. Anyone interested in agriculture can attend these sessions by becoming a "Friend of the Chapter" member. Membership dues are \$35 for those who are not farm managers or appraisers. Sessions are based on a wide variety of topics such as the commodity prices outlooks, cash rents and flexible rent contracts, the placement of electrical transmission lines and the new farm bill, to name a few. Each year it is a little different.

But as some things seem to change it is also evident that a lot of things stay the same. At these sessions, you will still find a group of professional people with the common love for the land and the grass roots that have brought them there. They continue to maintain the highest level of ethics, standards, and the quality of services to their clients. This continues to be a group of professionals that care about each other and their community.

Our next meeting will be in Alexandria, Minnesota in June. This is slated for an agricultural tour of the region and should be very educational. If you would like more information please contact me at our office in New Ulm by April 1 and I will get you on the mailing list. I invite you to join us, if you can.

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wanting to apply high priced fertilizer, still have a large portion of last years inventory on hand. They are very slowly dropping their prices as they bring lower priced inventory to their warehouses.

On the other hand, there were some suppliers that felt that the price was going to have to come down and recommended to their customers that they hold off putting fertilizer until spring of 2009. These suppliers did not contract for last years high priced inventory and have filled their warehouses with this year's lower priced fertilizer. They are driving the market down and they are making an excellent margin on the product that they are selling in the meantime.

It is also a known fact that the price of fertilizer tends to follow the price of our commodities irregardless of all the other factors mentioned above. When our commodity prices took off with such a rapid increase, the fertilizer industry started looking at those high commodity prices and began setting their product's prices accordingly.

Another major input for corn and soybeans is the seed cost. Soybean seed appears to be up around \$10 per acre over last

spring. The price per bag has increased to \$43 to \$45 per unit from \$31 to \$34 a year ago.

The increase for corn seed will end up costing an additional \$25 to \$35 per acre for the coming year. This increase does depend on the biotech trait package that a person selects for their operation.

Herbicide expense seems to be holding steady with the exception of the Glyphosates (roundup). You may remember that when the Olympics were held in China last summer, they shut quite a bit of industry down to try to clean up their air in order to make a good impression on the rest of the world. This move by the Chinese government idled approximately 19 plants that make Glyphosate, which created a shortage in the industry. The price has almost doubled since last spring from \$26 per gallon to over \$50 per gallon.

We will keep monitoring these input prices with not much change projected for seed but we do anticipate reductions for fertilizer continuing if commodity prices settle in a similar range to where they are now.

UMMC/NORTH CENTRAL® Realty
2510 Lincoln Ave. W., Suite 4
Olivia, MN 56277

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