



# Winter 2016

## Market Update

Farm Industry  
Market Trends  
Heavy Equipment,  
Land & Cash Rents



Selling Land & the Equipment to Farm It Since 1960



## Market Valuation and Trend Line Observations

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### About Steffes Group

Steffes Group is a nationally recognized leader in the auction industry. We perform On-Site & Online Auctions, Large Agtron Events, Farm Real Estate Auctions, Land Brokerage & Auctions, Farm Asset Management, and Equipment Appraisals.





## Overall Market Trend

Dear Reader,

Welcome to the Fall/Winter 2016 Market Update provided by the Steffes Group.

In the coming pages the Steffes Group will share our updates, facts, and experiences about what's been happening in the markets related to agriculture. We'll also attempt to provide valuable information based on our experience, knowledge, and belief of what to expect in the coming months and what changes to look for with regard to markets and pricing.

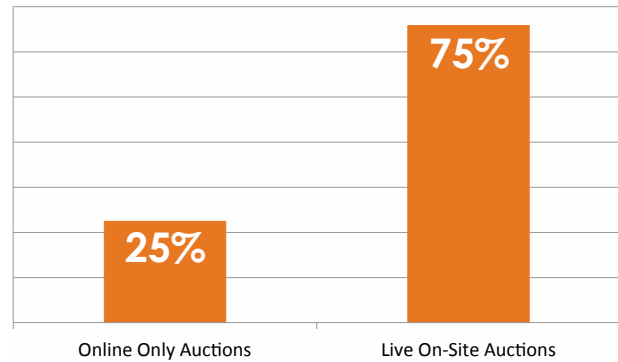
Operating in the auction world gives us first hand, real time information as to market trends; what's hot and what's not and changes as they occur. By the very nature of auctions operating in the real time, cash today world, we always see trends as they happen first. It's the ultimate expression of the American free enterprise system and the purest "Price Discovery" method available in any market.

Since our last Spring 2016 Market Update, we've seen a continuing softness in the markets in which we participate. The June commodity market rallies gave us hope and expectation of a trend shift along with great growing conditions in most areas. Unfortunately, the rally was short-lived and it seems many operators missed the opportunity to lock in prices that were attractive in comparison to today. There has been very little optimism in market and price rallies as we approach Fall and Winter. We see many operators struggling with price decisions as their storage is full waiting for better pricing and the Fall crop coming off the field with no place to go. Besides the obvious storage dilemma there is the reality of cash requirements needed to remain current and pay bills with the reluctance to move crop at less than profitable prices. Buying machinery has not been high on operators' lists in spite of tremendous market discounts available, especially on first generation, late model equipment.

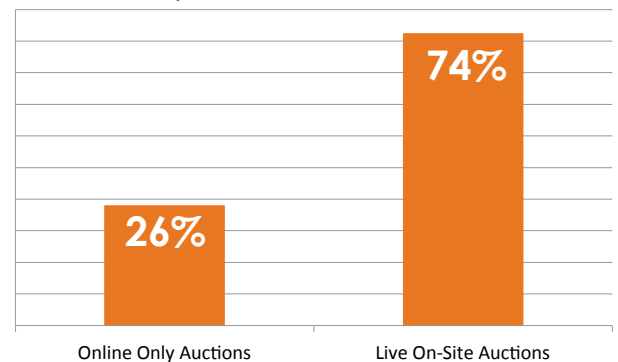
Summer auctions are typically fewer and we did not see out of the ordinary selling events, so supply hasn't changed but demand was disappointing. There have been some outstanding buying opportunities that a few took advantage of but many ignored because funds were not available or sentiment was negative.

The planned retirement events from operators who didn't want to deal with Spring mud or wanted better weather were predictable from a price perspective, but considering the quality of the equipment, many buyers will be even more pleased with their Summer purchases as markets recover. Dips in off-season equipment purchases (eg. planters) were exacerbated because farmers simply didn't have the cash and wholesalers were too hesitant to take a position for fear of continued market declines. If you happen to be in the buying position, these times are few and far between and conservative, well-financed operators are quietly smiling with the tremendous opportunities. Sellers remain disappointed, yet motivated, as they must change their

### 2010 Sales: Online Only vs. Live On-Site Auctions



### 2016 Sales (YTD): JAN. 1 - SEPT. 16, 2016 Online Only vs. Live On-Site Auctions



current positions with regard to cash flow and debt. As always, it depends on what side of the fence you're on as you evaluate the markets.

Dealer inventories continue to diminish, albeit slowly, as most are recognizing some losses and adjusting prices or terms to get aged inventory off the books. Our dealer inventory auctions were fewer through Summer and we do not expect dealers using auctions to move inventory through Fall and Winter, but rather aggressively pricing inventories and being tremendously cautious on taking new trade inventory as they have been for the last several months.

Going forward, we do not expect additional price discounting (compared to true current market levels) because we're at such historical levels already there is not much farther to slide. It's difficult to imagine further price reductions when currently we're at 30-50 cents on the dollar for 2-4 year old current equipment compared to new. Third and fourth generation well-cared for equipment is firm

(continued on next page)



and holding simply because it's affordable and at a price range in the less than \$80,000 category in most instances.

### Real Estate

On the real estate side, Summer is typically the slowest marketing season of the year and there are fewer sales to identify any changes. Iowa continues to be the most stable, the most active with the highest prices, and the largest demand. The Summer auctions saw sales at or near the highest levels achieved in 2012. Typically, buyers have been tightly held family farm operations buying adjoining or close properties, and for the majority, paying cash! The demand is there as people in agriculture typically value land above all else ignoring alternative investments that obviously show better returns, at least in the short-term.

Quality land in the Minnesota markets has been stable to slightly weaker and reflective of Iowa but to a lesser extent. Buyers for investment are dwindling more in Minnesota as we hear them complain of burdensome real estate taxes compared to other markets. As rents come down from historical highs, tax bills in the \$30-\$50 an acre range in many areas take a larger portion of their income.

Throughout the remaining regions it seems the gap between where buyers are willing to write checks and where sellers are willing to liquidate their most valued asset has spread. There will be opportunities for buyers in the coming months as some operators will be forced to move real estate to fund operations or appease lenders to continue operations. Many of those will look to continue to farm the land via renting. We are starting to see absentee owners or investors choose to liquidate farm real estate holdings as their yields/returns shrink and alternative investments look better, or they wish to take profits off the table. It is also evident families who own farmland; whether it was farmed by their parents, grandparents or even great grandparents; are at or past retirement age. They have diminished ties to the land and simply choose to liquidate and enjoy the fruits of their investment.

It's historical to hear many of our farmer clients who always paid whatever it took, to acquire or hold rented land, say "someone else can farm it. I'm not paying what they ask". We've never heard that before. In the 1980's farmers had to let go of rented land, not because they wanted to, but because they simply couldn't write the rent check. That isn't the sole motivator today. You will see land rents slowly adjusting to levels reflective of current commodity values instead of the \$6 corn levels and \$15 beans that drove rents to recent highs. This reduction, however, won't be dramatic but incremental and it will create more opportunities for operators who see a long-term advantage of expanding in trying times as absentee owners look for better rents from other operators.

## What's In Store? Bottoms Are In On Equipment

Historically, many events, political or social, have had a significant effect on commodity pricing. We seem to always have a weather issue somewhere that disrupts the norm. The current markets say a bumper crop is out there. That may change and a rally occurs or some headline immediately turns us in another direction. For example, changing export demand or future changes in tariffs from South America. The last two years have seen extremely small windows where short-lived rallies can make the difference between profit and loss, yet few take advantage. Maybe that should change.

*Agriculture markets (land and machinery) move based on 3 fundamental principals in our experience.*

1. Commodity prices
2. Crop Production
3. Interest Rates

Commodity prices affect markets more than the other two combined. It's logical the current market changes are occurring just like it was logical we went through the extraordinary run up we enjoyed starting in 2005. The operators who understood their costs, had foresight to take advantage of the small rally windows, and good production, will be profitable. The operators who took long-term positions on short-term prospects must adjust. It's not all doom and gloom, but it depends on what side of the fence you're on. There are unprecedented buying opportunities for late model equipment. This will be short lived, probably another year, as manufacturers continue to diminish new production and machinery gets another year older. The majors will not sell new machinery for less than a profit. Their investors will not allow it and management will not be around long unless they adjust, cut costs, overhead, and show a proactive plan going forward to be profitable. That also sounds like good advice to any farmer going forward too, doesn't it?

Land is less now than it was two years ago, in most markets, and everyone in agriculture who has owned land for the long-term knows what a wonderful investment it has been. There will be opportunities to buy land in the coming months from good operators who will be willing to forge solid relationships on a rental basis. Retirement age landowners, with no attachment to the farm, will be more inclined to sell for fear of price reduction. Farmers with solid balance sheets will have expansion opportunities with little competition, at least in the short-term. Take advantage of the times when you can be "on the right side of the fence".

Kind Regards,  
Scott Steffes  
President  
Steffes Group, Inc.



## Our 2016 Auction Footprint

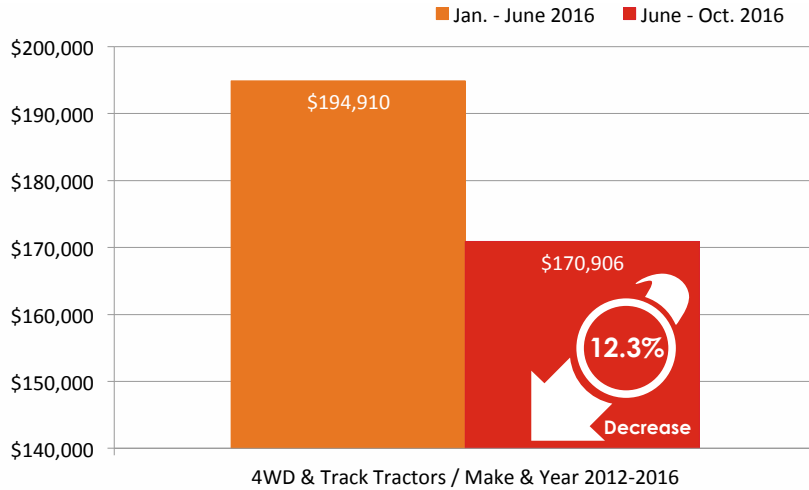


- Completed Auctions
- Upcoming Auctions

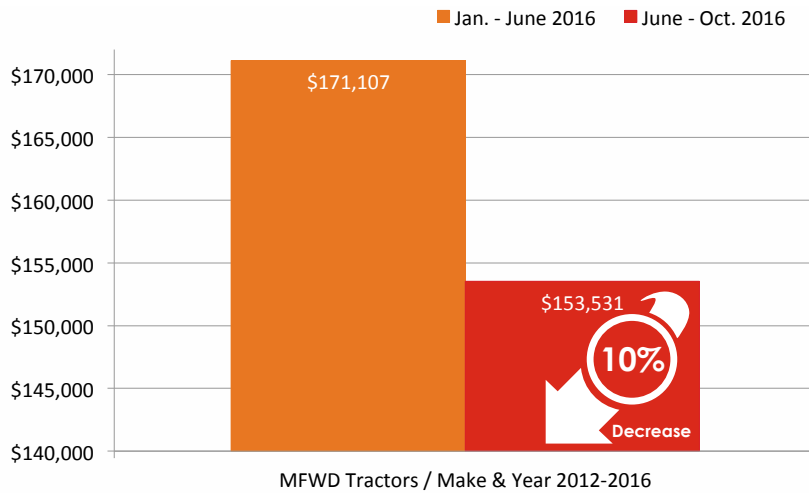


## Winter 2016 Market Update: Farm Industry Market Trends

### 4WD & Track Tractors: Average Selling Price



### MFWD Tractors: Average Selling Price



### Tractors: 4WD & Track

Unscientifically, we created an overall aggregate of tractor sales of 2012-2016 units and compared to the previous selling season using the same aggregate. All brands were lumped together as well as track and wheels. Historically, Summer has been the best time to buy high horsepower units. It's a large investment and typically operators are not in the market because they already planned and purchased in the Fall or Spring. Part of the decrease can be attributed to this typical market trend, but the decrease is usually much less than 10%. Wholesalers who use this market to accumulate inventory for Fall and Spring were much more hesitant, leaving us with farmers making great buys or perhaps a dealer filling an existing order. The high horsepower tractors always create more demand in the Fall and Winter months and we expect this to occur, especially, with the track machines.

### MFWD Tractors

The statistics gathered represent a decrease which is greater than the typical Summer low. We expect significant discounts for tractors exceeding \$200,000 in the current marketplace. The higher the price of the unit, the less the demand. We expect this market to stabilize and show a bit more strength once inventories are absorbed.



## 4 Fall/Winter of 2016: A Company Update

### Additional Location

Over the past year we have established a new Sioux Falls, SD location to further assist the growing need of auction services & resources.

### MFWD Tractors with Loaders

This category has shown very little, if any, price reduction. Even though livestock prices have corrected, the multiple capabilities of this tractor type have allowed for consistent values.

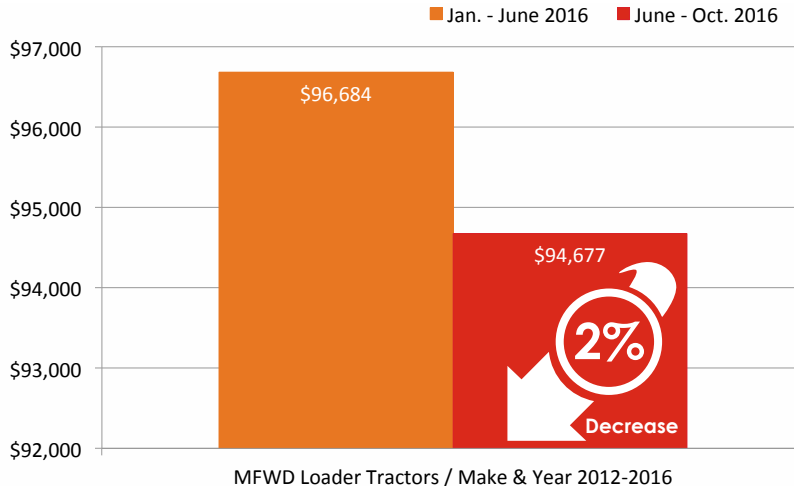
### Combines

The 8% decrease should not have occurred based on seasonal demand and there were many disappointing sales especially, on the largest, latest model machines. Here is where the largest spread between the cost of new and the current market of late model units is occurring. The Summer discounts were also disproportionate and extremely rare compared to other years. Buyers are smiling, sellers are disappointed.

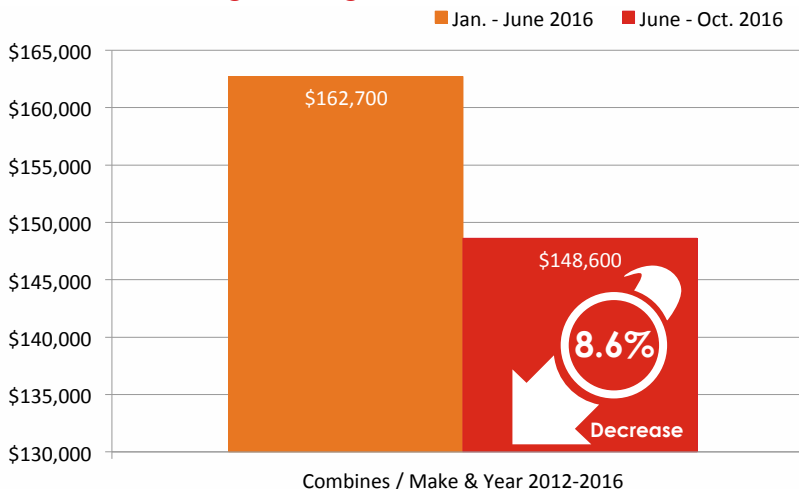
### Heads

Without stating specific sales statistics (view at [www.SteffesGroup.com/Auction/ArchivedAuctions](http://www.SteffesGroup.com/Auction/ArchivedAuctions)), the header market, especially on corn heads, has recovered a bit from the discounts since the Spring of 2015. This is one area where we saw some sales picking up and prices increasing! We look for this trend to continue because of normal wear and tear of older units needing replacement and the fact new sales of heads slowed to a crawl the last few years. This is the first of the markets we discussed where our pricing predictions are showing up.

### MFWD Loader Tractors: Average Selling Price



### Combines: Average Selling Price



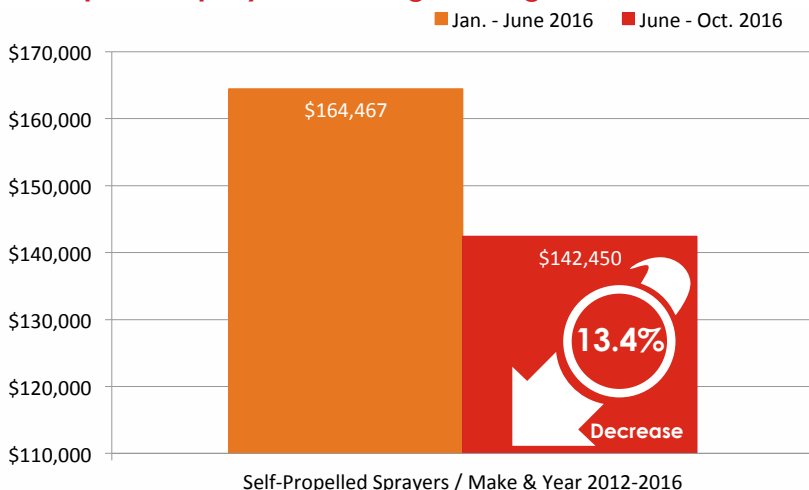
Selling Land and the Equipment to Farm It in 10 states; selling to 12,000 Registered Buyers in 46 states, 8 Canadian Provinces, as well as 2 Foreign Countries in 2016.



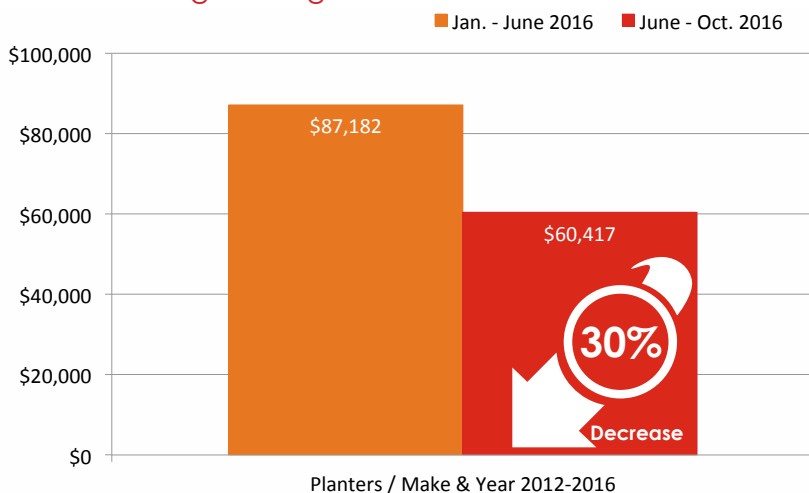


## Winter 2016 Market Update: Farm Industry Market Trends

### Self-Propelled Sprayers: Average Selling Price



### Planters: Average Selling Price



### Sprayers

Well-cared for, late model sprayers did reasonably well and will continue to do well as current prices are steeply discounted from new. We found new markets in older sprayers being converted to dry boxes as well. There is an unanswered problem and lack of a market for one segment. This is the large, high utilization machines from large commercial operators or large farmers. The smaller operators have no use for them and the large farmers don't want them because they're perceived as having too many hours, not dependable enough, or too maintenance intensive. It seems once the units are past 2,000 hours the buyers disappear.

### Planters

Planters took another hit this Summer compounded by off-season sale discounting. The obsolescence of the box planters, no matter the condition, was significant as well. This will continue to worsen. We look for the late model, technically advanced units to show good market recovery through Fall and Spring as buyers go to their dealers to price new units and compare the price disparity to the available used. The current discounts are too severe and the supply is dwindling.

### Tillage

It's amazing how a couple of years can change from farmers paying at or more than new price at auction because the supply wasn't there, to discounts of 40% for two and three-year-old units. The vertical tillage market, which was rock solid, is also experiencing the change. Chisel plows have been the least affected, followed by field cultivators. The heavy ripper market seems to be stable and found bottom with the hopes of increasing as supply is leaving. The disc market has taken the biggest hit with phenomenal buys because most farmers view a disc as an occasional use unit and a luxury.

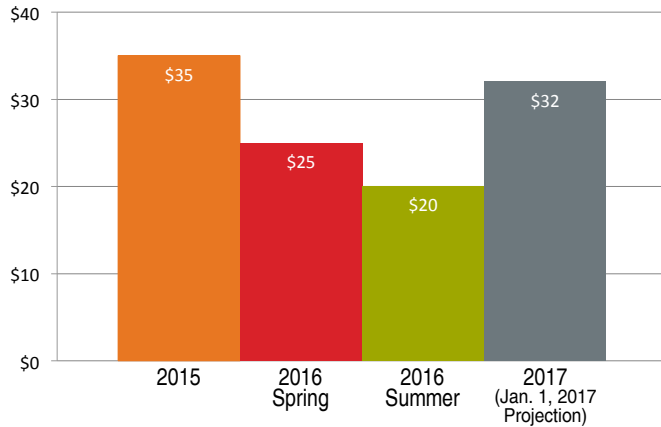


**Noteworthy** | In 2015 we had 220 auctions and are on track to surpass that number this year.





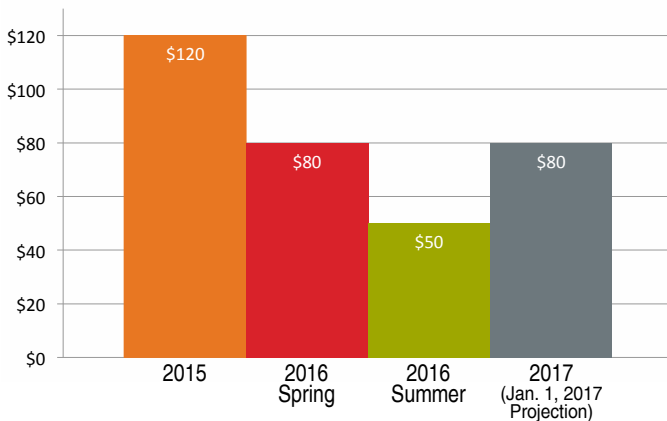
**Wheat Straw in Medium Square Bales: Price per bale**



**Wheat Straw**

After a season of oversupply and poor prices in 2015, the wheat straw market will have a significant rebound in price from Fall 2016 to Summer of 2017. Weather conditions in the major wheat producing regions have challenged producers' ability to bale clean, dry wheat straw. Extensive rainfall, high humidity, and lack of sunshine throughout harvest has made for less bales and poorer quality. Prices will rebound to 2013 pricing resulting in \$100/ton by end of 2016 and up to \$130/ton by late Spring of 2017. Availability will become a major issue by May of 2017.

**Grass Hay in Large Round Bales: Price per ton**



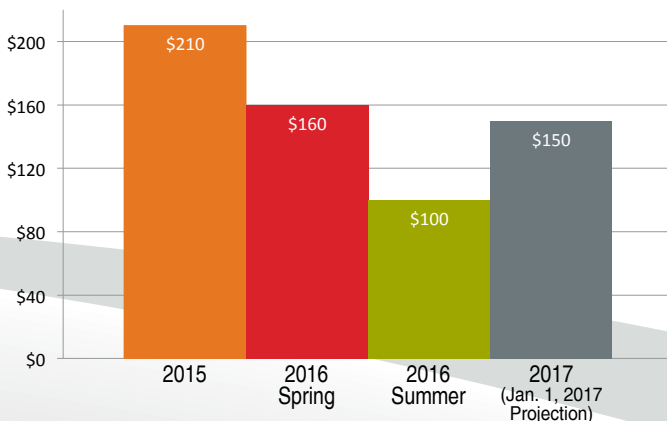
**Grass Hay**

Strong supplies and poor pricing have been the norm for 2016. Expect prices to strengthen slightly as the demand for low-quality grass will ease the lack of availability of straw.

**Alfalfa Hay**

Dairy quality alfalfa has been in moderate demand with poor prices. As dairy markets show slight improvement, alfalfa prices will follow. Although production was high in 2016, prime dairy hay (200+ RFV) is in short supply. Expect 150 RFV hay to be priced at \$125/ton by late 2016 and \$150/ton by Spring 2017. Prices should increase on 200 RFV alfalfa from \$150-\$200 by Spring 2017.

**Dairy Quality Alfalfa in Medium Square Bale: Price per ton**



■ 2015 ■ Spring 2016 ■ Summer 2016 ■ January 1, 2017 Projection





## Farmland Values & Rental Rates

### Current Market

Farm real estate values continue their downward swing. Land value surveys conducted by universities and land professional groups and associations in North Dakota, South Dakota, Minnesota, Iowa, and Illinois support this observation. The downward swing continues to be gradual and varies from as little as 2% to as high as 10% YTD in some areas.

Statistics and surveys can tell us a great deal about general trends. However, there will always be outliers that buck the general trend. There have been isolated sales throughout the areas we operate in the past several months at, or even above, the "historical highs". Sales like this are for the most part achieved at auction and involve two or more highly motivated buyers.

The supply of available farms for purchase at fair market value or auction has been limited in many regions and has caused this downward trend to be less severe than many anticipated. As forecasted and anticipated, many landowners are simply refusing to sell at the new market prices and are opting to wait for a more advantageous market to sell their land. The majority of the land sellers in the market now are motivated by times of family transition and death, as opposed to 2011-2014, where the majority of the sellers in the market were motivated by the upward trending market. Landowners who own and operate on their land have entered the market as sellers like we haven't seen in years. Producers who are experiencing economic distress are being pressured to sell land to improve their financial outlook. Often times, the operator is able to lease back the land and continue business as usual.

### Rental Rates:

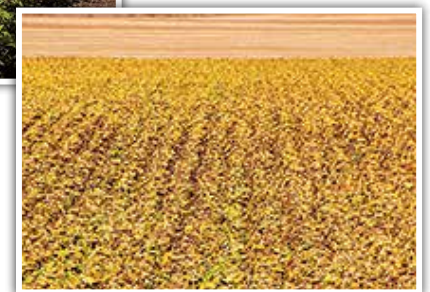
The demand for rented acres is still surprisingly high. The desire to control land in hopes of future optimism has truly held the rental market up for longer than anticipated. There was some weakening in contracts renewed in the Spring of 2016. The cash rent market in many areas is still at levels that are often times not profitable given the current commodity markets.

### Short & Long Term Outlook

The downward swing of land values will continue for the short-term so long as commodity prices stay at their current level. All bets are off if we get a substantial jump in the markets. One must not forget it took only months for land values to jump thousands of dollars per acre in some areas. The same will be true if we get a significant crop failure event triggering a run on the commodity market. The rebound from current prices to old market highs could be just as quick as the initial run up.

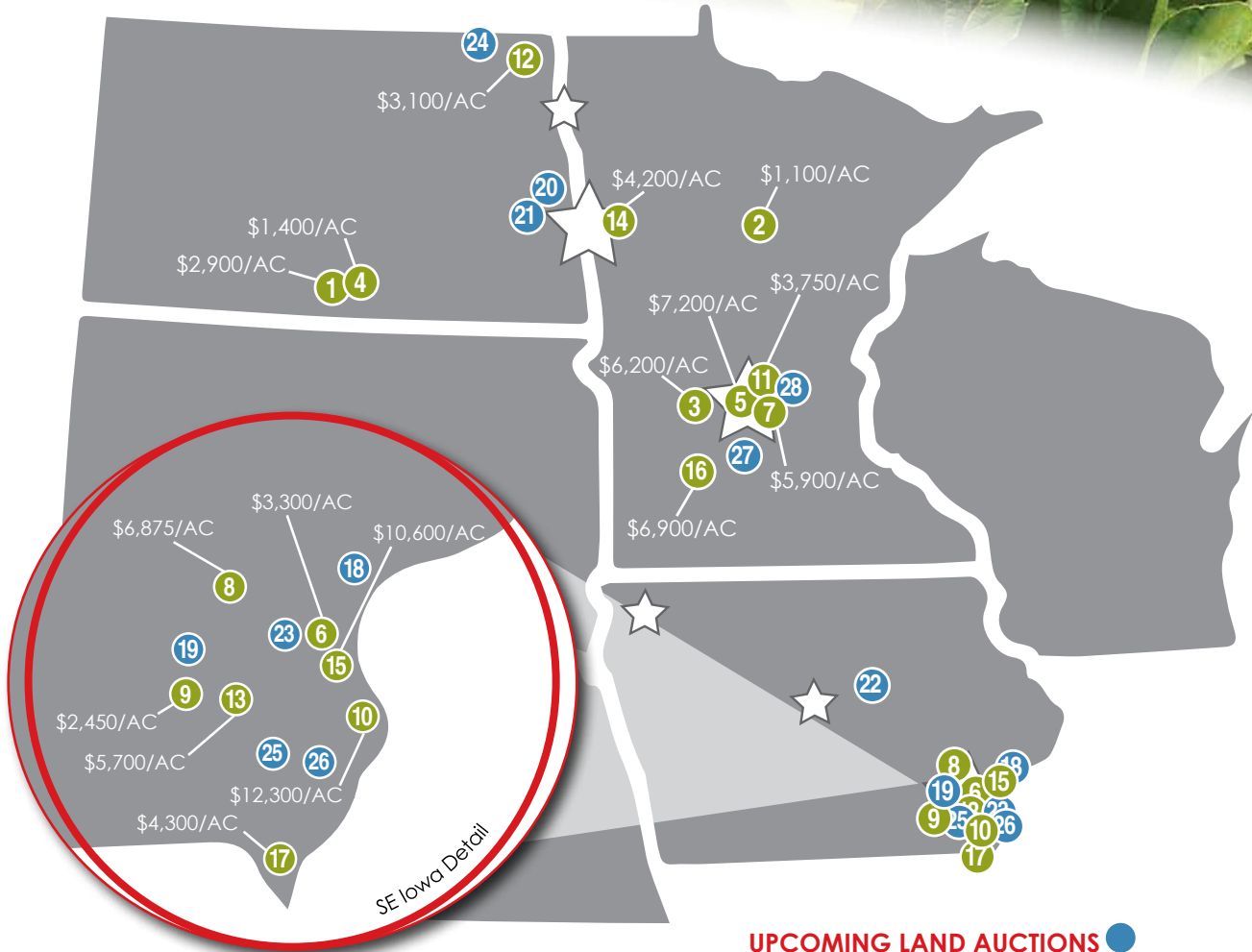
We are stepping into the most active selling time for farm real estate. The largest quantity of farms are sold after the crop has been harvested and before the crop is planted. Market activity this selling season will be very telling as to the direction of this land market. Moreover, we are coming into renewal season for farmland rental agreements. Expect more downward pressure than we have seen in some time for cash rental rates. Rental rates have to move to profitable levels if producers wish to farm another year.

The long-term prospects for the land market is bullish. History shows us those who have invested in farm real estate have been paid handsomely both in property appreciation and on yearly ROI. Producers and investors who are financially positioned to make land purchases should not hesitate to buy simply because the market is trending downward and could likely descend to lower prices. Very rarely is one lucky enough to buy at the lowest of market lows and sell at the highest of market highs. If an investor can make a purchase that secures their desired return or if a producer can purchase the piece of land that fits perfectly into their operation, they should jump at the opportunity.





# Land Auction Results



## COMPLETED LAND AUCTIONS

1. Emmons County, ND	10/29/2015	\$2,900/AC
2. Cass County, MN	11/20/2015	\$1,100/AC
3. Kandiyohi County, MN	12/15/2015	\$6,200/AC
4. Emmons County, ND	12/15/2015	\$1,400/AC
5. Meeker County, MN	12/23/2015	\$7,200/AC
6. Louisa County, IA	1/29/2016	\$3,300/AC
7. Meeker County, MN	3/10/2016	\$5,900/AC
8. Washington County, IA	5/19/2016	\$6,875/AC
9. Jefferson County, IA	5/26/2016	\$2,450/AC
10. Des Moines County, IA	6/2/2016	\$12,300/AC
11. Meeker County, MN	6/18/2016	\$3,750/AC
12. Pembina County, ND	6/23/2016	\$3,100/AC
13. Henry County, IA	7/26/2016	\$5,700/AC
14. Clay County, MN	8/9/2016	\$4,200/AC
15. Louisa County, IA	8/25/2016	\$10,600/AC
16. Renville County, MN	9/16/2016	\$6,900/AC
17. Lee County, IA	9/22/2016	\$4,300/AC

## UPCOMING LAND AUCTIONS

18. Muscatine County, IA	10/27/2016
19. Washington County, IA	11/01/2016
20. Cass County, ND	11/04/2016
21. Cass County, ND	11/11/2016
22. Grundy County, IA	11/04/2016
23. Louisa County, IA	11/09/2016
24. Cavalier County, ND	11/10/2016
25. Henry County, IA	11/15/2016
26. Des Moines County, IA	11/17/2016
27. McLeod County, MN	12/02/2016
28. Meeker County, MN	12/08/2016



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Look for the release of our next Market Update in February 2017!



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