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Strength in Numbers

by By Greg Vincent



The area of Macoupin and Montgomery counties in central Illinois, known as Racehorse Flats, has produced a feel-good story the likes of which isn't heard much these days.

The region's nickname comes from the aggressive attitude of area farmers: They're always in a race to be first in the field each spring. That attitude has produced a competitive landscape that's as rocky as the countryside is flat and fertile. Farms of 10,000 acres are common, and the area has three operations that total more than 30,000 acres each.

So when nearly 4,000 acres of the locally famous Kilton land came up for sale around Litchfield, Ill., three area farmers knew they had to get it. Steve Gartner, Kevin Niemann and Chris Zimmerman each farmed ground that was near some of the parcels, which surround Litchfield to the north and west. And it is good land.

Individually, it would be difficult to compete for the 43 tracts in the multiparcel auction, particularly in this region of the state. Guys like these, with a couple thousand acres each, have to be resourceful to secure highly productive, conveniently located ground like this.

Well, they got downright creative when they decided to join forces with other area farmers. A pool of money that was more than \$15 million deep put them in the running.

"An advantage to this is we were able to work with people who would normally be our competitors in the auction," Zimmerman says. "We were looking at as many as eight bidders. Now we were all together."

A group of 10 businesses, ranging in size from 600 acres to 3,000 acres, was formed. The group walked away from the January 21, 2009, auction 2,462 acres stronger. Each partner took his pre-agreed share of land and the mortgage that goes along with it.

Play nice. The original three, Zimmerman, Gartner and Niemann, met to discuss how they would approach the potential purchase and who they wanted to join forces with. This ruffled a few feathers along the way, Gartner says.

“The three of us know each other and we trust each other. I kept saying we had to find guys who play well with others. There might be some guys in the area who aren’t happy they weren’t asked, but we wanted to work with people we knew and trusted.

“It was important for everyone to be open and honest because we had to show what tracts we were bidding on and how much each of us could afford to bid.”

Each person targeted by the three men as a potential member was notified, and they all met in Niemann’s shop to discuss the partnership. Of the members at that initial meeting, only two didn’t come back.

There is no formal partnership, Gartner says. No contracts were ever signed between the group members, and all agreements were made with a handshake. After the auction, each member of the group was responsible for his own purchase and has no obligation to the group as a whole or to any individual in it.

Hash it out. Once the group was formed, egos were checked and financing was secured, and it was time to commence negotiations over who was in for which tracts.

“We got together about four times after that initial meeting to pick and choose who would bid on what ground,” Zimmerman says. “There wasn’t too much of an issue, but there were some cases where people wanted to bid on the same tract. We just got together in the shop and hashed it out.”

The basis of the negotiation process was simple, Niemann says. “There’s enough ground to go around. And if we didn’t get what we wanted, it wouldn’t be the end of the world.”

All the current tenants of the Kilton ground were invited to be part of the group, and they were given first opportunity to choose the tracts they would bid on. In some cases, hashing it out meant that some members had to give up to another member land that they had farmed for years. But oddly enough, everyone came out of the process happy.

For example, Brad Carriker and his father, Jim, bought ground that Jay Greenwalt farmed, as did Brad Pastrovich and his dad, Dave. But Greenwalt is satisfied because he picked up a new piece of land.

“The ground Brad and Jim got was right next to a piece of ground they were farming, so they should have been farming it anyway,” Greenwalt says. “I checked with the guy farming the piece I got, and he wasn’t interested in buying it. He was okay with me bidding on it.”

How it works. Each tract was auctioned separately, says Kent Aumann of Aumann Auctions. After all 43 auctions had established the base for each tract, the call went out to the nearly 300 bidders to form combinations of tracts.

“To make combinations work, the sum of the tracts you put together has to be worth

more than the sum of what they are when they're apart. Whichever way they're worth more is how they're going to stay," he says.

A high first-round bid can work well if you're interested in only one or two tracts. "With a strong first round, you have a better chance of getting the ground. If you have ground that is worth \$6,000/acre, and the base is \$4,000/acre, everything is going to have raises. If you get one tract up around \$6,000/acre, you're probably going to get it," Aumann says.

That method makes a group like this work, Zimmerman says. "Once you put together a big group, it makes a pretty good chunk of money. As individuals, you just can't compete."

The group had one bidder number, and everything was handled through it. Each member was responsible for his own financing and had his own closing date and signed contract for his piece of ground.

Sale day. As the auction progressed, the group used an Excel spreadsheet designed by group member Jeff Helgen to track the group's progress and determine how much money each individual was responsible for throughout the day. They compared the total bid to the amount each person could pay, and that resulted in two group members dropping out, Zimmerman says.

Although this was unfortunate for those members, it was a seamless process because the group had decided up front how much each person could afford and knew who was bidding on which piece of ground. The group simply gave up on the problem tract and moved on to the remaining 28 tracts on their wish list.

In the event one of the buyers is not able to close on the ground, the responsibility for the ground falls back on the individual doing the bidding, Aumann says.

For this group, Zimmerman doesn't see that becoming a problem, and he says he hopes the group will hold together given their current satisfaction. "Today, everyone is happy. We'll see in 10 years if everyone still feels that way."

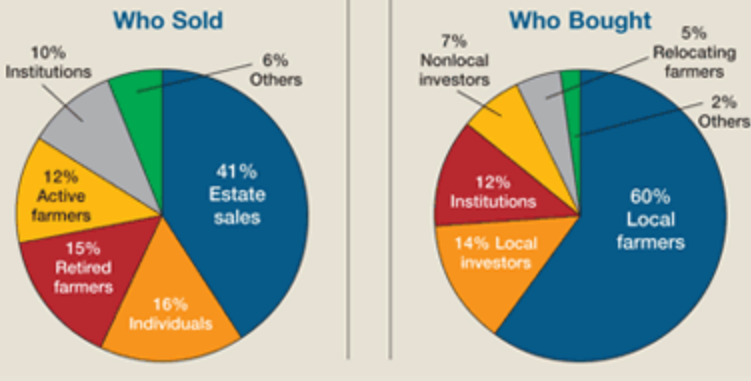


PHOTO: GREG VINCENT

With no group contract, 10 businesses purchased 2,462 acres in central Illinois. Group members are (l-r) Brad Carriker, Mike Schwab, Jim Carriker, Chris Zimmerman, Steve Gartner, Jay Greenwalt, Kevin Niemann, Dave and Brad Pastrovich and Mike Bitter. Not pictured: Jeff Helgen.

Illinois Prices Forge Ahead; Iowa Backs Off

The annual survey of Illinois farmland prices released in March by the Illinois Society of Professional Farm Managers and Rural Appraisers shows most regions and land qualities posted gains last year. The competitive Central Region, including the counties where the auction described in this feature took place, was up the most—15% for excellent ground, 13% for good land and 0% to 12% for average land. Price changes in the Northern Region were the most variable, ranging from -10% to +20%. “Parts of this area were seeing a lot of development, and that simply dried up,” says Bob Swires, chairman of the survey project.

The latest Iowa survey, on the other hand, averaged a 7.6% decrease. However, this survey was for the six months from September 2008 to March 2009. On a yearly basis, declines were more modest, with a maximum drop of 5.8% in the West-Central region and changes positive in the Southern tier. “The districts posting year-on-year declines are the ones that gained the most in recent years,” notes Troy Louwagie, head of the survey for the Iowa Farm and Land Chapter #2 Realtors Land Institute.

Is Iowa’s softening a precursor to weaker prices elsewhere? The Illinois survey respondents expect a slight decrease in farmland prices this year and are almost evenly divided among up, unchanged and down for 2010. —*Linda H. Smith*