AGRICULTURAL LAND VALUE AND RENTAL RATE TRENDS MARICOPA COUNTY, ARIZONA

Mr. Charles J. Havranek

General Real Estate Market Comments:

- The 2009 raw land market is one that can be summarized in a few paragraphs.
- First, 2009 raw land sales activity is very similar to 2008, and both were down from 2007, and down dramatically from 2006, 2005 and 2004.
- Second, prices/price ranges are declining for raw land. As one moves out from the urban infill areas, one will observe that not only does sales activity decline, but the prices paid per acre also decline from the peak of the market in 2005/2006. Prices continue to be depressed, but some buyers are coming back into the market at these current price levels.
- Third, the current lack of IRC 1031 funds of any significant amount, and institutional financing requiring greater equity margins and solid cash flows has also reduced activity. Cash is king. This has had an impact on the agricultural sector of the land market as well as the residential, commercial, and industrial land markets.

Market Comments (Cont):

- This relatively inactive residential raw land market will probably remain this way through 2010, and until such time as the over-supply of SFR units are absorbed. The agricultural land market will remain sluggish until price levels come back to what a producer can afford to pay, not what the speculators had been paying.

- We observe that residential developers and home builders are continue delaying bringing new residential projects on-line due to the soft demand for new single family residential units. But we have a significant amount of lender owned residential projects on the market or coming to market. This is especially true for those projects that are further in distance from employment centers. In-fill areas are the exception.

General Farmland and Farming Market Comments:

- Raw land or farmland sales activity for 2010 will probably continue at the modest levels observed in 2008 and 2009. Keep in mind that we are not creating any new farmland, so as we build on the existing farmland, competition for the remainder had kept prices relatively strong until 2006/2007. But with the soft real estate market we currently observe around the metro areas, we anticipate that prices will soften, especially in the out-lying areas. However, most of the Maricopa County farmland is priced at levels that still cannot be supported solely by agricultural production.

General Farmland and Farming Market Comments:

- As we start 2010, small grains, corn, silages, and hay commodity prices are stronger than a year ago, and the demand for all of the above commodities for dairy, feedlot and horse uses is still strong. These commodity prices are anticipated to stay at the late 2009 price levels or continue to improve through most of 2010. We expect planted acreages to increase for cotton in 2010 as compared to 2006 through 2009. Cotton prices have strengthened over the last quarter of 2009. Milk prices have strengthened in the last three quarters of 2009, and most dairies are operating at or near breakeven levels, which is a welcome event after the cash bleeding we observed in 2009.

General Farmland and Farming Market Comments:

- Costs of crop inputs have stabilized or are increasing moderately.

- Since 2006 and into early 2010, we are observing a trend of increasing prices for cash farmland rental rates in Maricopa County for most areas, especially those areas with the lowest water costs. Due to the absorption of cropland for development, rental rates have shown some increases as tenant farmers compete for the smaller supplies of available farmland.

General Farmland and Farming Market Comments:

- The exception to this observation is in the remote desert pump farm areas of the County, were the deep irrigation well water lifts have been impacted due to the increase in energy prices, no matter if the energy source is electric, natural gas or diesel. While energy costs have increased for all farms or dairies that operate their own irrigation wells, the shallow lift areas have not seen as large of an energy dollar cost increase as those farms that are pumping from deeper aquifers.

- In 2009 and into 2010, in some of the deep well water lift areas we continue to observe some tenants are asking the landlord for rent concessions. Concessions include reduced rental rates or additional well maintenance on the part of the landlord. Even in some of our irrigation or power districts that receive hydroelectric power, the drought on the Colorado River and its tributary system has caused not only a reduction in available water supplies, but also a reduction in the amount of low cost hydro power being generated, which is forcing the electrical power districts to purchase power in the spot market at higher rates. Some districts report electrical rate increases that have totaled an accumulative 35 to 40% over the last 5 years.

General Farmland and Farming Market Comments:

- Some irrigation districts have increased water costs to the farmers, either pumped or surface water, from 2006 through 2009. Some districts have increased assessments to have the funding available to repair the districts' wells or to drill new wells, so that water delivery levels can be maintained to the growers.

- The following table provides a general or typical land sale price and farmland rental rate range and trend for 2009 and early 2010, in major irrigation districts or farming areas of Maricopa County, as well as current water and assessment charges:

SALT RIVER VALLEY WATER USERS ASSN. (SRP) *MARICOPA COUNTY*

- ***ASSESSMENT:*** ***$29.00/ACRE***

- ***WATER COSTS:***

STORED/NORMAL FLOW	***$14.50/AF***
DISTRICT PUMP WATER	***$43/AF***
SUPPLEMENTAL WATER	***Unknown***

- ***SALE PRICE RANGE:*** ***$25,000-$250,000+/AC***
- ***RENTAL RANGE:*** ***$150 TO $250+/ACRE***

- ***TRENDS & ACTIVITY: The entire district is part of the Phoenix metro area, and land prices are based on urban/suburban land uses. Activity has slowed, prices have softened. Rents are stable to increasing within the range. District farmland is fully occupied. Water availability in 2009 is projected to be equal to 2008. Water charges and assessments are up slightly in 2010 versus 2009. Assessment payment is credited towards initial water purchases.***

BUCKEYE WATER CONSERVATION AND DRAINAGE DISTRICT (BID) *MARICOPA COUNTY*

- ***ASSESSMENT:*** ***$5.68/ACRE***
- ***WATER COSTS:*** ***$15.00/AF***
- ***SALE PRICE RANGE:*** ***$20,000-$62,000+/AC***
- ***RENTAL RANGE:*** ***$150 TO $250+/ACRE***
- ***TRENDS & ACTIVITY:*** ***2009 sales activity is reduced from prior years; 2009 prices are softer, but there are few sales. Sellers are asking prices in the range of $35,000+ per acre in the floodway for sand and gravel properties, which had been the most active after the market started to slow in late 2006. Sand and gravel market activity has slowed through 2009. District farmland is fully occupied. Water availability in 2010 will be adequate and similar to 2009. Assessment costs are up from 2009.***

ROOSEVELT IRRIGATION DISTRICT (RID) *MARICOPA COUNTY*

- ***ASSESSMENT:*** ***$17.10/ACRE***
- ***WATER COSTS:***
  DISTRICT: ***$40/AF***
  ON FARM WELLS: ***$28 TO $43/AF***
- ***SALE PRICE RANGE:*** ***$10,000-$40,000+/AC***
- ***RENTAL RANGE:*** ***$100 TO $175+/ACRE***
- ***TRENDS & ACTIVITY:*** ***The district is in the west Phoenix-Mesa metro areas of Avondale, Buckeye and Goodyear, and land prices are based on urban/suburban land uses. Activity has slowed significantly in 2008 and 2009, prices have softened. Rents are stable to increasing slightly within the range, District farmland is fully occupied. District water supplies will be adequate in 2010. Water and assessment costs are equal to 2009.***

ROOSEVELT WATER CONSERVATION DISTRICT (RWCD) *MARICOPA COUNTY*

- ***ASSESSMENT:*** ***$111/ACRE***
- ***WATER COSTS:***
  - ***DISTRICT:*** ***$27.50/AF***
  - ***ON FARM WELLS:*** ***$38 TO $60/AF***
- ***SALE PRICE RANGE:*** ***$40,000-$250,000+/AC***
- ***RENTAL RANGE:*** ***$150 TO $200+/ACRE***
- ***TRENDS & ACTIVITY:*** ***The entire district is in the eastern segment of the Phoenix-Mesa metro area, and land prices are based on urban/ suburban land uses. Activity has slowed significantly in 2008-2009. Prices are softening within the range, especially in the fringe areas. Rents are stable to increasing slightly within the range. District farmland is fully occupied. District water availability will be about equal to 2008. Assessments and water costs are stable.***

HARQUAHALA VALLEY IRRIGATION DISTRICT (HVID) *MARICOPA COUNTY*

- ***ASSESSMENT:*** ***$12.68/ACRE***
- ***WATER COSTS:***
  - ***DISTRICT (CAP):*** ***$46/AF***
  - ***ON FARM WELLS:*** ***$39 - $65/AF***
- ***SALE PRICE RANGE:*** ***$6,000-$10,000/AC***
- ***RENTAL RANGE:*** ***$50 TO $150/ACRE***
- ***TRENDS & ACTIVITY:*** ***District is outside of urban development influence, but water and land speculation had been very active in this district into 2006, but 2007 -2009 activity is very minor. Typical buyer is an investor or speculator. Rents are stable to increasing, but the higher end of the range represents farms with good well water supplies or drip irrigation. CAP water availability will be equal to 2009, (1±af). On-farm wells are available on most farms, but not all farms have adequate water supplies for all tillable acres. District assessments are stable, water costs are up in 2010.***

QUEEN CREEK IRRIGATION DISTRICT
MARICOPA COUNTY

- ***ASSESSMENT:*** ***$0/ACRE***

- ***WATER COSTS:***
  DISTRICT (CAP) ***$42/AF***
  ON FARM WELLS: ***$48 TO $70/AF***

- ***SALE PRICE RANGE:*** ***$30,000-$60,000+/AC***
- ***RENTAL RANGE:*** ***$80 TO $125/ACRE***

- ***TRENDS & ACTIVITY:*** ***Both the Pinal and Maricopa County portions of the District are in urban/suburban influence. Activity has slowed significantly; prices appear to have softened within the range. Rents are relatively stable. District farmland is fully occupied. Water availability and assessments are the same as 2008, water charges are up.***

MARICOPA WATER DISTRICT
MARICOPA COUNTY

- ***ASSESSMENT:*** ***$0/ACRE***

- ***WATER COSTS:***
  - ***DISTRICT*** ***$30/AF***
  - ***ON-FARM WELLS*** ***$45-$80/AF***

- ***SALE PRICE RANGE:*** ***$43,000-$150,000+/AC***
- ***RENTAL RANGE:*** ***$80 TO $100+/ACRE***

- ***TRENDS & ACTIVITY:*** ***District is in urban/ suburban influence of Surprise/Sun City Grand/Glendale/Peoria. Activity has slowed significantly. Prices at the lower end of the range are impacted by Luke Air Force Base noise- crash zones. Rents are stable to increasing within the range, and vary with suitability for specialty crops. District farmland is fully occupied. 2010 water supplies will be normal, water costs are up.***

TONOPAH IRRIGATION DISTRICT
MARICOPA COUNTY

- ***ASSESSMENT:*** ***$1/ACRE***
- ***WATER COSTS:***

DISTRICT (CAP)	***$30/AF***
ON-FARM WELLS	***$39-$75/AF***

- ***SALE PRICE RANGE:*** ***$7,500-$10,000/AC***
- ***RENTAL RANGE:*** ***$50 TO $100+/ACRE***
- ***TRENDS & ACTIVITY:*** ***District is outside of near term urban/suburban influence of the Phoenix-Mesa metro area. The investor/ speculator activity that heated up in 2004 and 2005 has cooled significantly, land prices have softened. Rents are relatively stable, and vary with developed well water supplies. District farmland is fully occupied. CAP water is cheaper than the well water, so most operators will buy as much CAP water as they can. Pumping costs are up.***

RURAL – PUMP FARMLAND (NON-DISTRICT) WESTERN MARICOPA COUNTY AREAS

- ***ASSESSMENT:*** ***N/A***
- ***WATER COSTS:*** ***$17 -$100+/AF***
- ***SALE PRICE RANGE:***

Gila Bend to Hyder areas:	***?/AC***
Cotton Center to Gila Bend:	***?/AC***
Rainbow Valley area:	***$7,700 - $15,000***

- ***RENTAL RANGE:*** ***$25 TO $150/ACRE***
- ***TRENDS & ACTIVITY:*** ***Some of these farmland areas are outside of the sphere of urban influence. Activity has slowed significantly in 2008 and 2009, prices are softening, but in some areas there is no activity to discover current price levels. The better farms are fully leased; the poor quality farms have only portions leased. Quality of water and soils can vary greatly between the different areas. Pumping water costs are up.***

ARLINTON CANAL COMPANY
MARICOPA COUNTY

- ***ASSESSMENT:*** ***$4/ACRE***

- ***WATER COSTS:***
  - ***10/1 – 3/31*** ***$7.50/AF***
  - ***4/1 – 9/31*** ***$15.00/AF***

- ***SALE PRICE RANGE:*** ***$8,500/AC***
- ***RENTAL RANGE:*** ***$50 to $100/acre.***

- ***TRENDS & ACTIVITY:*** ***This area is outside of the sphere of urban influence. Sales activity is primarily for sand and gravel uses or wildlife purposes. Only two sales in 2009. Water supplies should be adequate for 2010.***

PALOMA IRRIGATION & DRAINAGE DISTRICT (PID) - GILA BEND AREA *MARICOPA COUNTY*

- ***ASSESSMENT:*** ***$7.50/ACRE***
- ***WATER COSTS:***
- ***SURFACE OR PUMPED*** ***$36.50/AF***
- ***SALE PRICE RANGE:*** ***$? To $?/AC***
- ***RENTAL RANGE:*** ***$50 to $100/acre.***
- ***TRENDS & ACTIVITY:*** ***This area is outside of the sphere of urban influence. Sales activity starting in 2002 was minor, but prices were very strong by early 2006. 2009 and early 2010 activity is non-existent. Water supplies should be adequate for 2010.***

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range per Acre	Rental Activity / Trend
Salt River Project	Surface: $14.50 / AF Pumped: $43 / AF Assess: $29 / AC	$25,000 – $250,000 + (Demand for development)	Slowing Act. / Static to Declining Rng. (Non-Ag Inf. – mostly infill.)	$150 - $250 Higher end of range indicates use for specialty crops	All Rented / (very little left for AG) Stable to increasing
Buckeye I.D. (SW Valley Metro Fringe Area)	Surface / Effluent Surface: $15 / AF Assess: $5.68 / AC	$20,000 – $62,000 (Demand for Development)	Negligible Act. Range Declining (Non-Ag Influence)	$175 - $250	All Rented / Increasing Trend
Roosevelt I.D. (West Valley Metro Fringe Area)	Pump & Surface: $40 / AF Assess: $17.50 / AC Wells: $28 - $43 / AF	$10,000 – $40,000 + (Demand for development)	Minor Act. / Range Declining (Non-Ag Influence)	$100 - $175	Stable / Stable to increasing within the range

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range / Acre	Rental Activity / Trend
Roosevelt W.C.D. **(SE Valley Metro Fringe Area)**	**Pump & Surface** **$27.50 / AF** **Wells:** **$38 - $60 / AF** **Assess:** **$105.20 / AC**	**$40,000 –** **$250,000 +** **(Demand for development)**	**Minor Act. /** **Range is Declining** **(Non-Ag Inf. – mostly infill.)**	**$150 –** **$200 +**	**All Rented /** **Stable to increasing within the range**
Harquahala Valley I.D. **(Non Metro Area 65 mi. west of PHX)**	**Surface & Pump** **CAP:** **$46 / AF** **Wells:** **$39 - $65 / AF** **Assess:** **$12.68 / AC**	**$6,000 –** **$10,000** **(Invest / Spec. Demand)**	**Minor Act. /** **Range is Declining** **(Investor Activity has diminished)**	**$50 - $150** **Varying w / water supplies** **$75 - $100** **Is typical**	**Stable to** **Increasing especially for those farms w/ adequate well water supplies**

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range per Acre	Rental Activity / Trend
Queen Creek I.D. (SE Valley Metro Fringe Area)	Surface & Pump CAP: $42 / AF Wells: $48 - $75 / AF Assess: $0 / AC	$30,000 - $60,000 (Demand for development)	Minor / Range is Declining (Suburban - Non-Ag Influence)	$80 - $125	Stable to Increasing within the range
Maricopa W.D. (NW Valley Area)	Surface & Pump Surface: $30 / AF Wells: $45 - $80 / AF Assess: $0 / AC	$43,000 + - $150,000 + (Demand for development)	Modest Act./ Static (Suburban Non-Ag Inf. – some infill.)	$80 - $125	Stable / Stable

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range per Acre	Rental Activity / Trend
Tonopah I.D. (40 mi. west of PHX)	Surface & Pump CAP: $30 / AF Wells: $36 - $65 / AF Assess: $1 / AC	$7,500 – $10,000 (Invest / Spec. Demand)	Minor / Range is Declining (Investor demand has cooled significantly)	$50 - $100	Stable / Stable
Desert Pump Farms (Non-District, Rainbow Valley, Aguila, Hyder)	Pump (Shallow – Deep Lift) $17 - $100 + / AF No Assess	? - $15,000 (Varying w / water costs, supplies & location.)	Minor / Range is Declining (Investor demand has cooled significantly)	$25 - $150 Varying w/ Gov. payments and water cost	Mixed Bag; Increasing on those farms w / adequate well water supplies

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range per Acre	Rental Activity / Trend
Arlington Canal Company	Surface Winter: $7.50 / AF Summer: $15 / AF Assess: $4 / AC	? to $8,500	One Sale	$100 - $150	Stable to Increasing within the range.
Paloma Irrigation & Drainage District	Surface & Pump $36.50 / AF Assess: $7.50 / AC	? to ? (Invest / Spec. Demand)	No sales in 2009.	$80 - $100	Stable to Increasing within the range.

Note: Pumping costs reported for farmer owned wells are energy only.