AGRICULTURAL LAND VALUE AND RENTAL RATE TRENDS MARICOPA COUNTY, ARIZONA

Mr. Charles J. Havranek

General Real Estate Market Comments:

- Since many, (but not all), of the new residential subdivisions and commercial/industrial projects being developed in the metro fringe of the Phoenix-Mesa area of central Maricopa County are being developed on farmland or dairy sites, we had observed a continued escalating demand for farmland and dairy sites during the period of 1993 into the last quarter of 2005.

- Along with the escalating demand, we observed strong price increases, with especially rapid appreciation in the period of 2003, 2004 and the first half of 2005.

- Many of these developer/builder/investor purchases left the selling farmers, dairy operators or speculative investors flush with large amounts of IRC 1031 Exchange funds available for re-investment into the more rural farmland areas of the County, or into other areas of the state, or in some cases, in other states.

Market Comments (Cont):

- This abundance of available 1031 funds fueled the activity levels in the more rural areas of Maricopa County such as the Gila Bend and Harquahala Valley areas.
- In these areas we observe that land prices increased 5 to 10 fold from 2002 to 2005. But with hind sight, we now observe that the activity level began to wane in the last quarter of 2005 as new escrow openings started to slow, and later in 2006 we observed that a number of pending sales failed to close. Some sales fell out of escrow, others obtained extensions on closings as the buyers attempt to read the future of the real estate market.
- This abundance of available 1031 funds fueled the activity levels in the more rural areas of Maricopa County such as the Gila Bend and Harquahala Valley areas.

Market Comments (Cont):

- 2006 was a significantly different year for the raw land market in Maricopa County.
- The rural - farmland areas of the County as well as the outer fringe of the Phoenix-Mesa metro area have experienced a declining amount of sales activity in 2006, as compared to the prior year, as well as the prior five years.
- Demand for new SFR units is down, and so are the number of permits for new SFR construction.
- If we look at some of the more remote areas of the county that are away from near term urban encroachment, such as Gila Bend and Harquahala Valley, 2006 sales activity is off significantly. Asking prices are being reduced on some offerings, and some sellers are choosing to take the property off of the market.

Market Comments (Cont):

- We also observe some residential developers are delaying bringing new residential projects on-line due to the softening demand for new single family residential units.

- This is especially true for those projects that are further in distance from employment centers.

- Thus, at the present time, (early 2007), many developers and home builders have enough inventory that they are not out looking for the next community site, and investors are standing on the sidelines.

Market Comments (Cont):

- While Internal Revenue Code 1031 funds had been a significant source of cash for land acquisitions in the last 8 to 10 years, with the decline in sales activity, we anticipate that the level of 1031 buying activity will be off from prior years.
- While we lack redundant data to indicate that land prices are declining, we do observe that asking prices are being reduced by some sellers.
- **The real estate market bears watching as we go forward into 2007.**

Market Comments (Cont):

- As we have summarized the market participants for the last few years, the primary purchasers of farmland in the non-metro areas are developers or short term investors acquiring close-in metro fringe parcels; long term investors and developers taking that one step further out of the metro area looking for cheaper land for the next cycle of development; or farmers, long term investors or dairymen purchasing in the more remote rural areas of the County.

2007 Farmland Sales Activity:

- Farmland sales activity for 2007 will probably continue the activity trends described for 2006, (slowing/limited activity), with less activity as compared to the trends observed in 2003, 2004 and 2005.

- Keep in mind that we are not creating any new farmland, so as we build on the existing farmland, competition for the remainder has kept prices relatively strong.

Commodity Notes:

- As we start 2007, small grain, corn, silages and hay commodity prices are stronger than a year ago, and the demand for hay for dairy, feedlot and horse uses is still strong. These commodity prices are anticipated to stay strong through most of 2007, and we expect planted acreages to increase for hay and silages in 2007 as compared to 2006.

- Cotton prices are little changed from 2005 and 2006, and are still relatively low, but we again observe that cotton acreage levels are well below historical harvested acres, as farmers move to producing the more profitable forage crops.

- Milk prices have been weak for the last twelve months, but are expected to strengthen as we move into the first and second quarter of 2007. (But no matter the milk price, the dairy operators must feed the herds.)

Farmland Rental Rates:

- In 2006 and into early 2007 we are observing an increasing trend in cash farmland rental rates in Maricopa County for most areas, and the increasing trend in rental rates is stronger than what has been noted in the last few years.

- While most of our irrigation districts will have similar water supplies available in 2007 as compared to 2006, due to the absorption of cropland for development, rental rates have shown some increases as tenant farmers compete for the smaller supply of available farmland.

Rental Rates Continued:

- But the exception to this observation is in the remote desert pump farm areas of the County, where 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, (as well as for fuel, fertilizers and chemicals), the shallow lift areas have not seen as large of an energy dollar cost increase as those farms that are pumping from deeper aquifers. We are observing in some of the deep well water lift areas that 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 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 25 to 30% over the last 3 years.

Rental Rates Continued:

- Some irrigation districts have increased water costs to the farmers, either pumped or surface water, from 2006 to 2007, but some have held rates equal to 2006. Some districts have increased assessments in 2007 to have the funds available to repair the districts' wells or to drill new wells, so that water delivery levels can be maintained to the growers.

Rental Rates Continued:

- The following tables provide a general or typical farmland sale price and rental rate range and trend for 2004 and early 2005, in the major irrigation districts or farming areas of Maricopa County, as well as current water and assessment charges:

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range per Acre	Rental Activity / Trend
Salt River Project	Surface $12.00/AF Pumped $40/AF Spillway – N/A $24/AC Asses	$75,000 to $250,000+ (Demand for development)	Slowing activity / Up (Non-Ag Influence) Water costs are up.	$150 to $250, Higher end of range indicates use for specialty crops	All Rented / Stable to increasing.
Buckeye I.D. **(Southwest Valley Metro Fringe Area)**	Surface / Effluent Winter: $9/AF Summer: $11 Farm Asses: $1/AC	$25,000 to $115,000+ (Demand for development)	Slowing activity / Static – except for sand and gravel. (Non-Ag Influence)	$175 to $250	All Rented / Increasing Trend.
Roosevelt I.D. **(West Valley Metro Fringe Area)**	Pump and Surface $35/AF $15/AC Assess. Wells: $25-$33/AF	$65,000 to $120,000+ (Demand for development)	Slowing / Static (Non-Ag Influence) Water costs are up.	$100 to $175	Stable / Stable to increasing within the range.
Roosevelt W.C.D. **(Southeast Valley Metro Fringe Area)**	Pump and Surface $25/AF Wells: $30-$47/AF $88.60/AC Assess.	$100,000 to $250,000+ (Demand for development)	Slowing / Static to increasing (Non-Ag influence) Assessment costs are up.	$150 to $200+	All Rented / Stable to increasing within the range.

Irrigation District	Water Source / Cost	Sale Price per Acre	Sale Price Activity / Trend	Rent Range per Acre	Rental Activity / Trend
Harquahala Valley I.D. **(Non Metro Area 65 miles west of Phoenix)**	Pump and excess C.A.P. CAP: $38/AF Wells: $34 -$60 $12.67/AC Assess.	$6,000 to $15,000 (Invest / Spec. Demand)	Slowing / Static. (Investor activity has diminished.)	$50 to $150 Varying w/water supplies $65 to $100 is typical.	Stable / Static, especially for those farms with adequate well water supplies.
Queen Creek I.D. (SE Valley Metro Fringe Area)	Pump and C.A.P. CAP: $32/AF. Wells: $40 - $60/AF $0/AC Assess.	$60,000 to $100,000 (Demand for development)	Slowing / Static (Suburban – Non-Ag influence).	$80 to $100	Stable / Static.
Maricopa Water District **(NW Valley Area)**	Surface & Pump $28/AF Wells: $35 - $60/AF $0/AC Assess.	$40,000+ w/in Noise Zones; $65,000 to $120,000 out. (Demand for development)	Slowing / Static (Suburban Non-Ag influence).	$80 to $100	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 miles west of Phoenix)**	Surface & Pump CAP: $30/AF Wells: $36 - $65/AF $1/AC Assess.	$15,000 to $30,000 (Invest/Spec. Demand)	Very quiet since early 2006. Investor demand has cooled significantly.	$50 to $100	Stable / Stable
Desert Pump Farms **(Non-District, RV, Aguila/ Hyder)**	Pump (Shallow to Deep Lift) $16 to $90/AF No Assess.	$2,500 to $60,000 (Varying w/ water costs, supplies & location.)	Very quiet since early 2006. Investor demand has cooled significantly.	$25 to $150 Varying w/Gov. payments and water cost, $50 to $125 is typical	Stable to indications that rental rates could decline due to higher energy costs.
Paloma Irrigation & Drainage District **(West of Gila Bend)**	Surface Diversions & Pump $32/AF Assess. @ $7.50/ac.	$6,000 to $15,000 (Invest/Spec. Demand)	Very quiet since early 2006.	$100	Stable / Increasing within the range. Water costs have increased for the last two years.