

2011 Arizona Dairy Report



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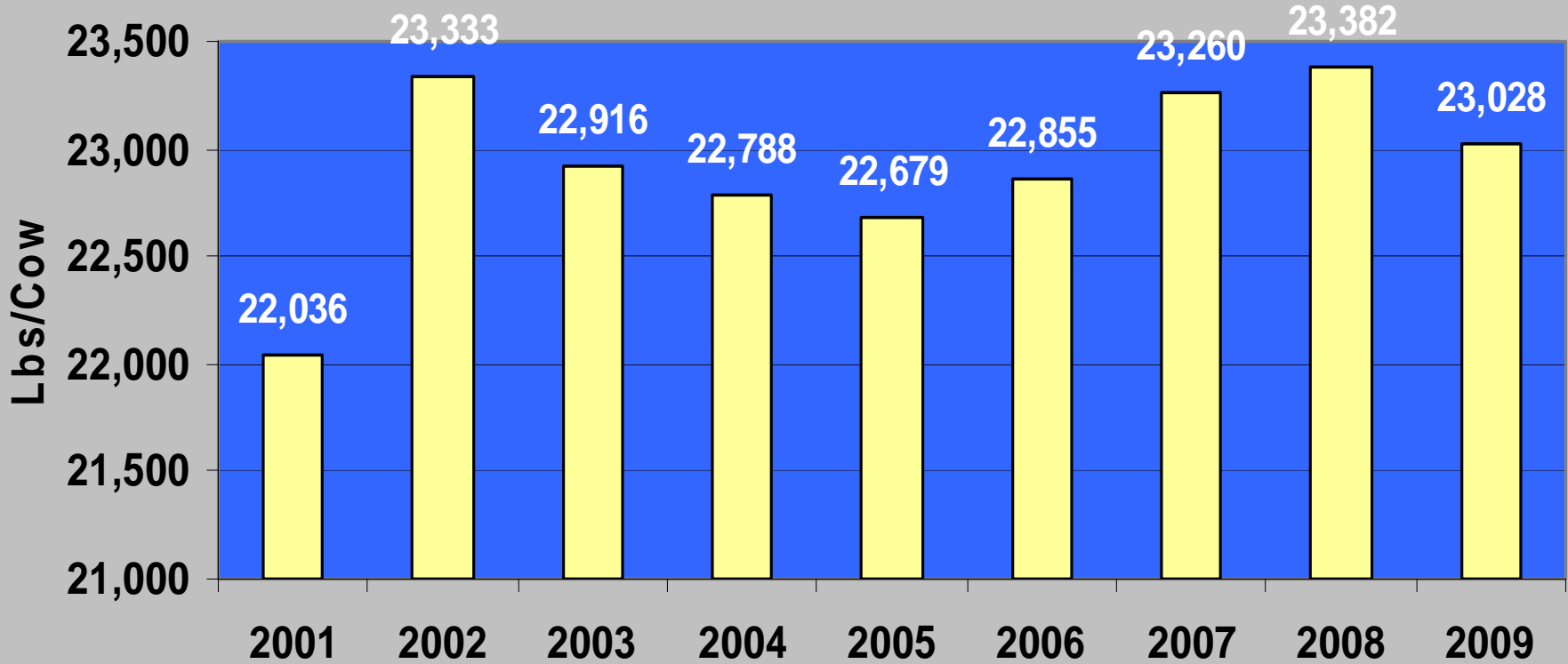
Recent Dairy Market Trends

- 2010 cow numbers up from 2009 both statewide and throughout the nation
 - 184,000 milk cows in Arizona in December 2010, compared to 167,000 head in December 2009
- Milk per cow down in 2009, will show an increase in overall in 2010 due to profit taking
- Dairymen still struggling to overcome 2009 losses
- Outlook is mixed with higher milk prices but also higher feed costs



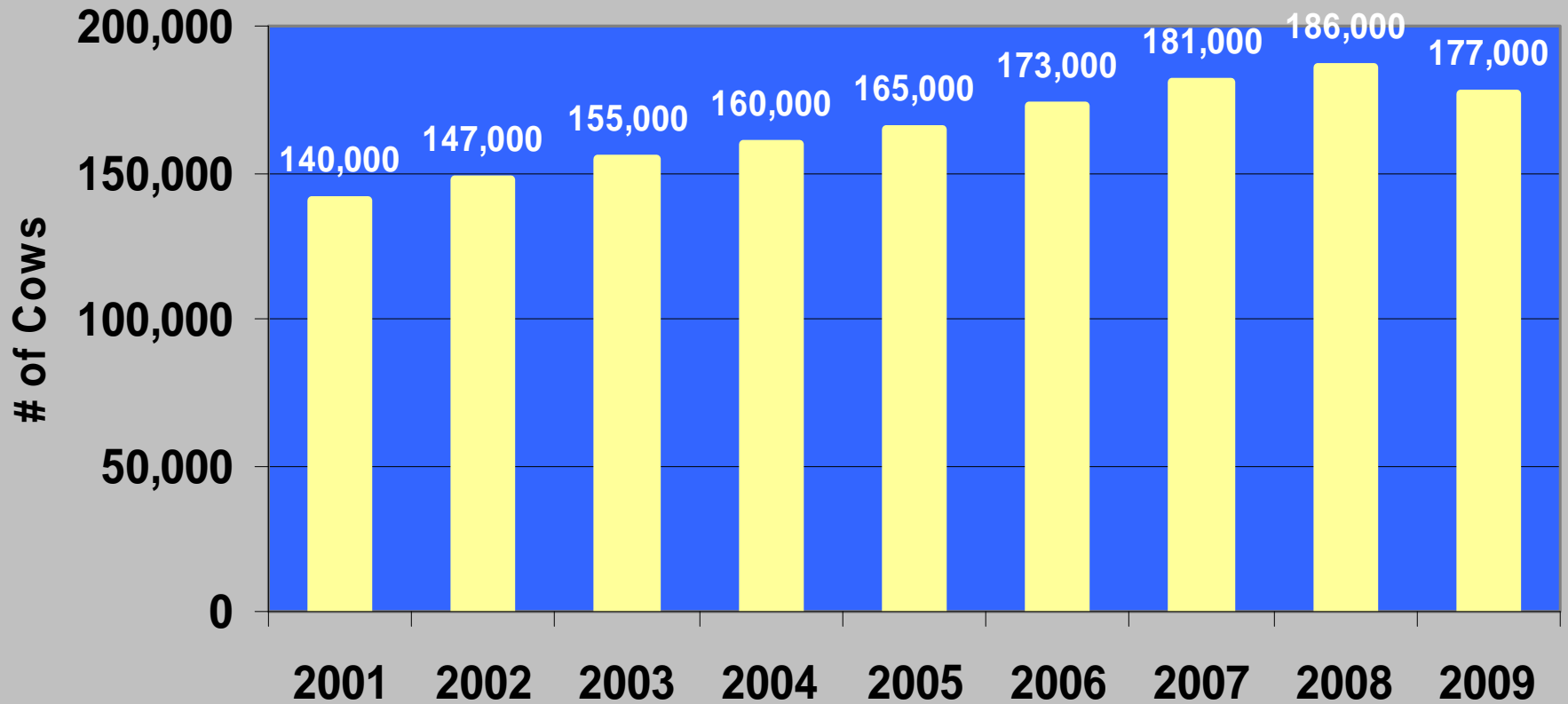
Milk Production Per Cow in Arizona

per USDA's *AZ Agricultural Statistics*



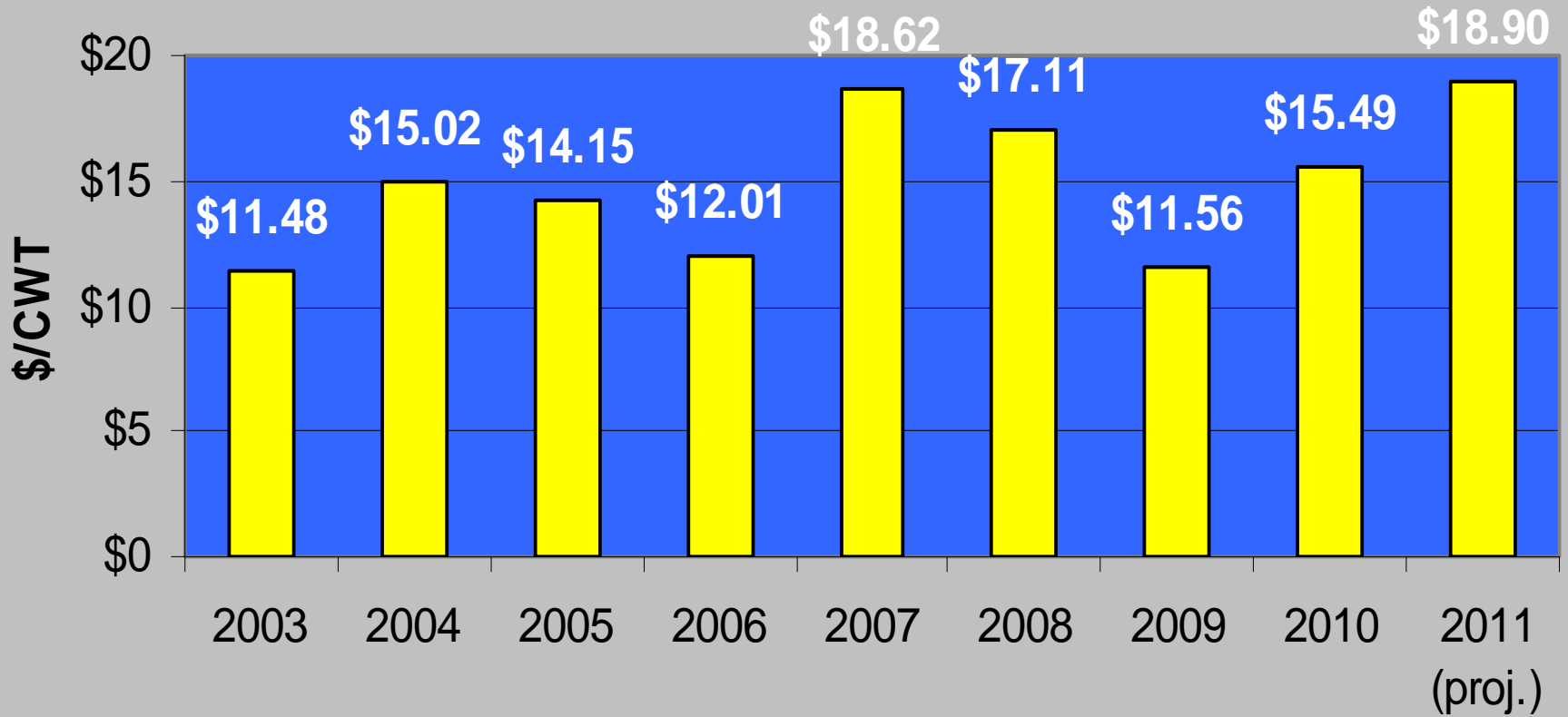
of Cows in Arizona

per USDA's *AZ Agricultural Statistics*



UDA Blended Milk Price

50/50 Quota-Over Quota Blend



Dairy Income & Expense Trends

Provided by Frazer, Frost LLLP's "Dairy Farm Operating Trends"

<i>Income/ Cow</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010 (through 1st 6 months)</i>
Milk	\$4,115	\$3,702	\$2,569	\$1,692
<u>Calves-other</u>	<u>82</u>	<u>63</u>	<u>52</u>	<u>34</u>
<i>Gross/cow</i>	<i>\$4,197</i>	<i>\$3,765</i>	<i>\$2,621</i>	<i>\$1,726</i>
<i>Expenses/Cow</i>				
Feed	\$1,622	\$1,853	\$1,728	\$777
Labor	318	322	323	159
Herd Repl.	368	351	399	141
<u>Other</u>	<u>1,195</u>	<u>1,153</u>	<u>992</u>	<u>499</u>
<i>Total Ex.</i>	<i>\$3,503</i>	<i>\$3,679</i>	<i>\$3,442</i>	<i>\$1,576</i>
<i>Net Income/Cow</i>	<i>\$694</i>	<i>\$86</i>	<i>(821)</i>	<i>150</i>
<i>Net Income/Cow/Month</i>	<i>\$58</i>	<i>\$7</i>	<i>(\$68)</i>	<i>25</i>

Dairy Income/Expenses

- 2010 saw improved prices from historic lows in 2009
 - Most efficient producers were profitable
 - Income and Expenses closer to historical averages
 - Not sufficient profits to fully recover the equity lost in 2009



Dairy Income/Expenses

- 2011
 - UDA Blended Milk Price currently projected to be \$18.90 per cwt for the year (as of 2/1/11)
 - Feed and fuel increasing also
 - Dairy hay around \$200/ton and grain corn increasing
 - Competition for local farmland for dairy feed
 - Profitability outlook is better but still cautious



Rental Rates

- 2 new leases negotiated in Central AZ in 2010
- Both facilities newer, modern Saudi style dairies
 - Lease #1
 - \$17 per wet head per month
 - Lease #2
 - Graduated Lease
 - \$14.70 per wet head/month for 1st year, \$15.70 for 2nd year and \$16.80 in years 3-5

Rental Rates

- Based on these 2 leases rates are slightly lower to stable
- Historically older, conventional style dairies rent for \$8-12 per wet head/month



Dairy Sales

- Prior to 2010, no true dairy sales since 2001
- 4 Dairy Sales in 2010
 - 2 lender owned facilities
 - 2 conventional buyer/seller transactions
 - All 4 were newer, modern at least partially Saudi style
 - Sales indicate external depreciation/obsolescence of -3.23% through -42%, average of -20%
- 1 additional 2010 dairy sale with high underlying land value was not included



2010 Dairy Sales Grid

<i>Sale</i>	<i>Midfirst-Stotz</i>	<i>FCSSW-Vander Poel</i>	<i>Blevins-Feenstra</i>	<i>Feenstra-Griffioen</i>
<i>Date</i>	2/26/2010	4/30/2010	11/17/2010	12/15/2010
<i>Location</i>	Buckeye	Casa Grande	Stanfield	Florence
<i>Sale Price</i>	\$13,300,000	\$10,572,119	\$9,000,000	\$9,500,000
<i># of Cows</i>	7,800	5,560	3,300	4,100
<i>\$ per Cow</i>	\$1,705	\$1,937	\$2,727	\$2,317
<i>Cap Rate</i>	7.57%	5.88%	5.24%	5.46%

Pylman-Stotz Buckeye Dairy Sale

- Negotiated 12/09, closed 2/26/2010
- Sale Price- \$13,300,000 or \$1,705/cow
- 7,800 cow Saudi style dairy on 621 acres west of Buckeye
 - Built in 2005-2006
 - Includes full youngstock facilities
 - Calf barns with 1,384 hutches
 - 4,466 stanchions in calf/heifer corrals
 - 356 acres of RID farmland



Pylman-Stotz Buckeye Dairy Sale

- Indicated Capitalization Rate of 7.57% based on projected rent
- Sale exhibits estimated 42% External Obsolescence/ Depreciation
- Actual seller is Mid First Bank
- The dairy was foreclosed on by lender Midfirst Bank in fall 2009
- Buyer owns a nearby dairy and wanted to expand their existing dairy operation



FCSSW-Vander poel Casa Grande Dairy Sale

- Sale Price- \$10,572,119 or \$1,901 per cow
- Closed 4/30/2010
- 5,560 cow dairy on 294.15 acres west of Casa Grande
 - 2 facilities on site:
 - 4,060 head Saudi style corral facility built in 2001-2002
 - 1,500 head conventional facility built in 2007
 - 1,500 head of heifer corrals
 - No hay barns or farmland included



FCSSW-Vander poel Casa Grande Dairy Sale

- Capitalization Rate of 5.88% based on projected rent
- Actual seller is Farm Credit Services Southwest
- This facility was deeded to FCSSW on 1/8/2010 in lieu of foreclosure
- Buyer sold his dairy in California and relocated his herd to this facility
- Sale exhibits estimated 9.2% External Obsolescence/Depreciation



Dairyland Dairy-Feenstra Stanfield Dairy Sale

- Negotiated 04/2010, closed 11/17/2010
- Sale Price- \$9,000,000 or \$2,727/cow
- 3,300 cow Saudi style dairy on 240 acres in Stanfield
 - Facility was built in 2001-2002
 - Includes full youngstock replacement facility
 - 3 calf barns with 464 hutches
 - 8 corrals with capacity for 1,536 heifers
 - 85 acres of MSIDD farmland
 - Includes 4 site built houses



Dairyland Dairy-Feenstra Stanfield Dairy Sale

- Capitalization Rate of 5.24% based on actual rent
- Sale exhibits estimated 3.23% External Obsolescence/Depreciation
- Conventional buyer and seller
- Buyer's motivation was to expand his existing dairy operation located 1 mile north of this facility
- Facility has been leased since 2006, existing tenants remain in place at similar rates



Feenstra-Griffioen Florence Dairy Sale

- Sale price- \$9,500,000 or \$2,317 per cow
- Negotiated 07/2010 & closed 12/15/2010
- 4,100 cow dairy on 355.24 acres located west of Florence & south of Queen Creek
- 2 facilities on site
 - 3,000 head Saudi style facility built in 2002
 - 1,100 head conventional style dairy built in 2003
 - Includes full youngstock replacement facility
 - 5 calf barns with a total of 468 hutches
 - Corral capacity for 1,554 head of youngstock



Feenstra-Griffioen Florence Dairy Sale

- Capitalization Rate of 5.46% based on projected rent
- Sale exhibits estimated 25% External Obsolescence/Depreciation
- Conventional buyer and seller
 - Seller rented out the dairy since it was built
 - Buyer is from California and is expanding their dairy operation



Outlook

- Outlook for profitability is better than prior 2 years
- Supply management issues being debated to prevent such large swings in the market
- Arizona is still desirable place to dairy compared with neighboring states
 - Evidenced by 2 producers choosing to expand/relocate here vs NM, TX, etc.

