

Case Study

Queen Creek Farm

In 1959, with the assistance of collateral on the original 160 acre homestead, the owners of the Queen Creek Farm settled onto the property on which they would spend the balance of their days.

- **History of Queen Creek Farm:** While raising seven kids, they fought rattlesnakes, hard times and the elements in making the 640 acre section of farmland productive. For a generation the farm provided a lifestyle conducive to meeting the family goals. Hard work, integrity, family, church, community service and a good education were the values taught in the family home. The farm provided this foundation for the children, even if the parents sacrificed their own comforts to build it.

The Patriarch is famous for saying he never made a dime farming, but the family was able to enjoy a rewarding quality of life despite his grumblings. At the same time, they stayed in the path of progress, one that would ultimately catch up to the family and provide a large return on the 48-year investment of hard work.

- **A Trusted Advisor:** Starting in early 2005 the family began facing tremendous pressure from speculators interested in buying and flipping the farm. Offers were pouring in almost daily. After many family meetings without agreeing on the terms, the Patriarch resolved to simply hold his calloused hand out to the speculators, told them to place the cash in his hand, and the farm was theirs. For years, no one took him up on his tongue-in-cheek response, which felt gratifying to many of the family members.

Scythe & Spade stepped in to assist the family in finding some peace through the process of deciding to sell. First and foremost, they needed to come to grips with the moral damage that selling the farm may have on future generations. Scythe & Spade helped them realize that their strong moral upbringing and work ethic can be passed on independent of the farm environment – and that good stewardship over the legacy was as important as the stewardship that the patriarch and matriarch had shown over the land.

Second, the family had to address how to manage profits from the land sale. Working closely with the family's estate attorney, Scythe & Spade was able to help develop a preliminary investment strategy, one that gave the family the



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peace of mind they needed with the prospect of selling on the horizon. It helped that Scythe & Spade identified several replacement farm properties, which were insulated from the bubble developing in the Southwest, on which the family could maintain their agricultural roots if they so desired.

Slowly but surely, the family changed their mindset and adjusted to the sales process. Scythe & Spade was able to help them identify a means of comparing each of the offers, recognizing the time value of money and which offers and offerors carried enough substance to deserve a further look.

Once offers hit the neighborhood of \$95,000 per acre, the frenzy climaxed. The family and their trusted advisors sensed that the bubble was about to burst. In a valiant decision, the family chose good economics and business sense over greed. They negotiated a lesser value sale and a quicker closing with a reputable national developer rather than continue to consider higher offers with longer closing timeframes. The buyer was capable and willing to perform under the terms and the farm closed escrow in the fall of 2005.

It is interesting to note that the Queen Creek Farm was the last property to close in the region before the bubble burst. Not a single property was put into long term escrow with a greater value.

After the sale, and at our urging, the family spread out geographically to purchase good farms with productive soils. The goals were to stay in the eventual path of progress and to diversify to avoid regional and commodity-related downturns in the economy. Scythe & Spade provided assistance in identifying acceptable 1031 exchange properties in Southeastern Arizona, Central Colorado, Mid and Western Idaho and in Lewistown, Montana.

The family purchased lands with low prices per acre that generated typical modest ag-related returns on investment. Going in at ag-based prices, the farms have not decreased in value in spite of the downturn. In short, the family purchased land at the right price and in stable locations. The expanded acreage continues to generate significant cash flows that far exceed the annual returns from the home place.

Scythe & Spade has been able to play a further role of managing the properties by screening and recommending tenants, overseeing well repairs and consulting on other needed projects to increase cash flow.

In summary, the family has gone from a 550 acre farm capable of providing one select family member a modest farming income for a small to mid-sized family—to a variety of property types which is very capable of generating close to a million dollars of free cash flow annually.

The groundwork is now laid for the next generation of grandchildren who may choose to transition into the business via these new assets. Flexibility in property and investments will also enable other grandchildren to pursue an education and career outside of agriculture if they so choose.



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▪ **Beyond the Sale—Bringing A Farm Back to Life:**

Scythe & Spade remains actively involved managing the health and care of each of the family's properties. One in particular, the Weiser, Idaho property, had become run down as a result of a previous bankruptcy. The irrigation delivery system lacked sufficient pressure and the land had become overgrown with unattractive weeds. As a result, the farm couldn't be rented, and with no cash flow the farm entitlements and water rights were in jeopardy.

Here are the steps Scythe & Spade took to revive this property:

- Initially arranged for a short term lease to a farming entity to idle the farm in the first year to resolve cleanliness issues
- In the second year, Scythe & Spade found a long term tenant and developed a plan to address the irrigation issues
- Solicited input from locals, the tenant and irrigation consultants and experts, generating a list of ideas and options for family review and approval
- After a plan was agreed upon, Scythe & Spade oversaw all aspects of projects that included replacement of lift pumps and sections of pipeline, taking care of all the complex circumstances that arose

The result: The farm has a water distribution system in place which delivers the needed amount of water to any area of the farm. Irrigable acres as well as water quantities are up. Farm rental income has increased and the farm is again cash flowing. With another year or two, we expect it to return to its former glory as the showpiece of Cove Road.

- **Overall Value Brought by Scythe & Spade:** As mentioned, Scythe & Spade has played a valuable role as a partner and trusted advisor in helping represent the family in the sale of the homestead and the ensuing identification, due diligence and purchase of additional land in the following ways:

- Real Estate Guidance: Provide trusted and gentle guidance during the emotional transition from being a farmer – to a seller – to a steward and manager of an estate
- Property Management: Share in-depth knowledge of regional resources to help get new landowners up and running with such tasks as tenant screening, publicizing properties, negotiating rents, reviewing tax rates, updating well and water records and providing quality quarterly reports
- Bookkeeping Services: We help keep the books, pay maintenance and well repair costs, and taxes for the estate and remain an active participant in regularly scheduled business meetings

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