

# The Dairy Business

By  
Newton Bair

**What is a farm worth?**

I recently had the opportunity to study and evaluate nearly 100 recent sales of farms and land in Lebanon County. It was the kind of listing that real estate brokers like to use for comparison in appraising the present value of a farm. I question whether that kind of comparison is true and valid, although it is certainly widely used.

Comparative sales are often the strongest criteria in judging the value of a farm. But they can be misleading.

There have been farm sales within the past two years that range from \$1600 to \$7990 an acre. Granting the wide range in production capacity, one can usually say that most of these farms brought what they were worth. Unfortunately, some of

them were priced too high to ever be profitable as a working family farm.

In the heat of competitive bidding, or in the intense desire to "own a piece of the earth," land often brings a price that is purely speculative. If inflation takes off again, and if agricultural production begins to show better profit margins than at present, and if population growth puts more pressure on land for housing, then some of that \$3000 to \$5000 an acre land might pay off.

That's okay for a speculator, but might spell disaster for a farm family trying to pay for it out of farm profits.

**Pricing a farm for profit**

How can a young family determine a fair price for a farm? I always advise a young family starting out in farming to write

to scenarios of possible outcomes. The first one establishes the family goals, such as raising a good herd of cows, owning good machinery, and making enough to live well and pay the bills. They will usually project yesterday's highest prices and lowest costs. The scenario is always favorable and looks good on paper, if it ever gets that far.

The second scenario should be a very realistic one in which only the average prices for products, including milk and sale cattle, are used. Expenses should be calculated at average or better than average, to allow for inflation, greater than normal purchases, and unforeseen shortages. In either case, amortization of the farm debt must be calculated, and in this case, particularly, allowance must be made for fluctuation in interest rates. Too often, this item is grossly underestimated in a young family's projections and dreams.

Now for the third scenario for buying a farm. This is seldom considered, because it would immediately dash a young family's dreams into the dust. After the commitment is made to buy the farm, there are two, or three years of drought. (Of course that can't happen here.) A tornado wrecks the barn and destroys the corn crop. (Have faith baby, that only happens in Butler or Erie County.) John's disease strikes

the herd and production plummets. (Not me, I know how to handle that one.) Someone forgot that three cows were treated for mastitis, and the milk entered the tank. No sales for a month. (Now, who ever heard of such a dumb thing!) The list can go on ad infinitum.

Every one of those things can happen, have happened, and will happen again. None of them need necessarily sink the ship, but for the one who forgot to allow for the worst possible scenario, just one set-back could cost the farm.

The main reason for the last projection in a young family's

dream is not to scare the life out of them, but to make them aware of some of life's probabilities. Obviously, the second projection will succeed, if the figures show a potential profit. The first one, which is too optimistic, will often fail, even though a paper profit is shown.

It is sad to see a young family lose their farm because they did not allow for unforeseen expenses and lower-than-expected income. And it is too often the size of the farm debt that makes the difference when adversity strikes

**Hungary given loan guarantees**

BUDAPEST - U.S. Secretary of Agriculture John R. Block announced that \$22 million in Commodity Credit Corporation credit guarantees have been authorized for sales of U.S. agricultural products to Hungary.

The announcement came during a day of meetings with Hungarian agricultural and trade officials, including Minister of Agriculture and Food Jenő Vancsa. Block stopped here to discuss trade and other agricultural matters en route to Washington from the Soviet Union, where he held similar talks with Soviet officials.

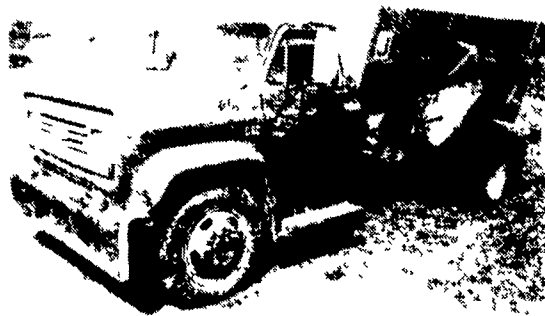
In Washington, Melvin E. Sims, general sales manager for the U.S. Department of Agriculture's Foreign Agricultural Service, said

the credit guarantees will provide the following coverage for purchases by Hungary: \$13.5 million on sales of protein meals (soybean, cottonseed, and sunflowerseed); \$2 million on sales of soy protein products for human consumption; \$5 million on sales of cotton; \$1 million on sales of animal breeding materials including semen, embryos, and breeding animals; and \$0.5 million on sales of shelled almonds.

Hungary imported \$42.6 million worth of U.S. agricultural commodities last year, mostly soybean products. Programs covered by this announcement are for up to three-year terms. The guarantor can be the National Bank of Hungary and/or other eligible banks.

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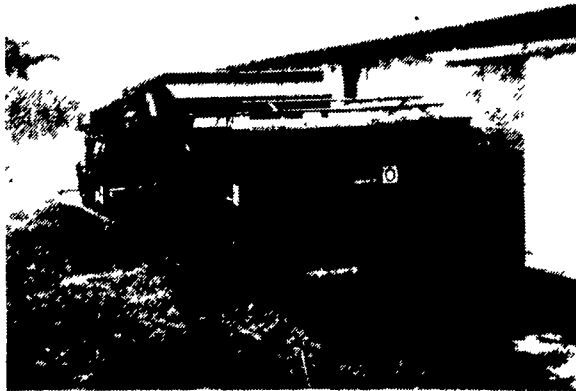
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