

Stable Farmland Values Seen...Overall

The Midwest farmland market is showing signs of stability, but it is also highly selective. The stability is most evident in Iowa (see page 2), where Iowa State University's annual farmland survey noted a 2% annual increase in the value of an average acre of farmland.

The stability is not as widely evident in Illinois and Indiana. Some auctions have seen strong demand. In fact, a new county record was posted at a recent central Illinois farmland auction. However, other sales across both Illinois and Indiana have been slightly more inconsistent. The specific neighborhood where a farm sale is located, matters. In Nebraska, values continue to broadly decline, although the rate of that decline is slowing.

The selectiveness of the market is based on a few basic things. Properties that offer a low percentage of tillable acres and lower soil quality continue to face weak demand. That weakness is seen in Iowa but is more apparent in Illinois, Indiana and Nebraska. Investor interest in these lower-quality farms is highly limited, leaving neighboring farmers as the only potential buyers. Listings, rather than auctions, tend to perform better for the sellers of these low- to medium-quality farms.

Limited supply continues as a key support factor.

The number of farm properties available for purchase remains well below levels seen just three to five years ago. It is not unusual to see only one farm listed for sale or auction in a county. A sudden increase in the number of properties offered for sale could change this dynamic.

While it appears a few more properties may soon come to the market, there are no signs yet that the supply will be unusually large.

However, some pockets may see a slight boost in offerings as some farmers offer a portion of their holdings for sale-and-leaseback to shore up balance sheets.

How much longer the current squeeze on farm incomes will continue is, of course, unknown. USDA says net farm incomes rose slightly this year, but both 2016 and 2017 saw farm incomes at their lowest levels since 2009. Its forecast calls for another year of low grains prices, which will keep the financial pressure on grain-only operations. But USDA also sees relatively firm livestock prices for the year ahead. That suggests demand for farmland with a heavy livestock base could see steady demand in the year ahead.

Here are results from a few of our recent sales.

- **269 acres in Marshall Co., Illinois**, north of Sparland. Three tracts, part of a 459-acre offering, sold for \$9,600 per acre December 19. The three tracts featured a total of 257 tillable acres and a soil Productivity Index (PI) of 135.2 (147 is maximum).

- **68 acres in Black Hawk Co., Iowa**, south of Hudson sold December 15 for \$11,300 per acre. It was mostly tillable with well-maintained waterways and featured a Corn Suitability Rating (CSR2) of 92.2 (100 is maximum).

- **82 acres in Henderson Co., Illinois**, south of Raritan sold December 14 for \$9,200 an acre. It offered 79 tillable acres and a PI of 139.8.

- **80 acres in Butler Co., Iowa**, east of Greene sold at auction December 14 for \$9,500 per acre. It featured 77 tillable acres and a CSR2 of 84.2.

- **160 acres in Cerro Gordo Co., Iowa**, east of Plymouth sold November 29 for \$10,200 per acre. It offered 159 tillable acres with a CSR2 of 93.4.

For more information about these sales or an update on the farmland market in your area, please call our professionals on the team at Hertz Real Estate Services and Hertz Farm Management.

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Iowa Farmland Values Rise 2% After 3-Year Decline

The average value of an acre of Iowa farmland rose 2% as of November 1, according to Iowa State University (ISU). The year-over-year gain halts three years of decline.

ISU's annual survey, conducted by Dr. Wendong Zhang, pegs the average value of an acre of Iowa farmland at \$7,326. The survey findings are similar to results from recent surveys conducted by the state's REALTORS® Land Institute and the Federal Reserve Bank of Chicago.

"The main cause for this hike in prices this year is the limited supply of farms available for sale," says Zhang. He said 40% of respondents reported lower sales in 2017 relative to a year ago. Just 20% reported more sales and 37% reported the same level of sales in 2017 relative to 2016.

Only four of Iowa's 99 counties — Fremont, Mills, Montgomery and Page — reported lower land values this year. Each of those counties listed a decline in value of 0.3%.

For the fifth year in a row, Scott and Decatur counties reported the highest and lowest farmland values, respectively. Decatur County reported a value per acre of \$3,480, a gain of \$37, or about 1.1%, from last year's report. Scott County reported a value of \$10,497, an increase of \$162 per acre, or about 1.6%. Dubuque County reported the largest dollar increase in value with a gain of \$335 per acre, and Allamakee and Clayton counties reported the largest percent increase in values at 4.7% each.

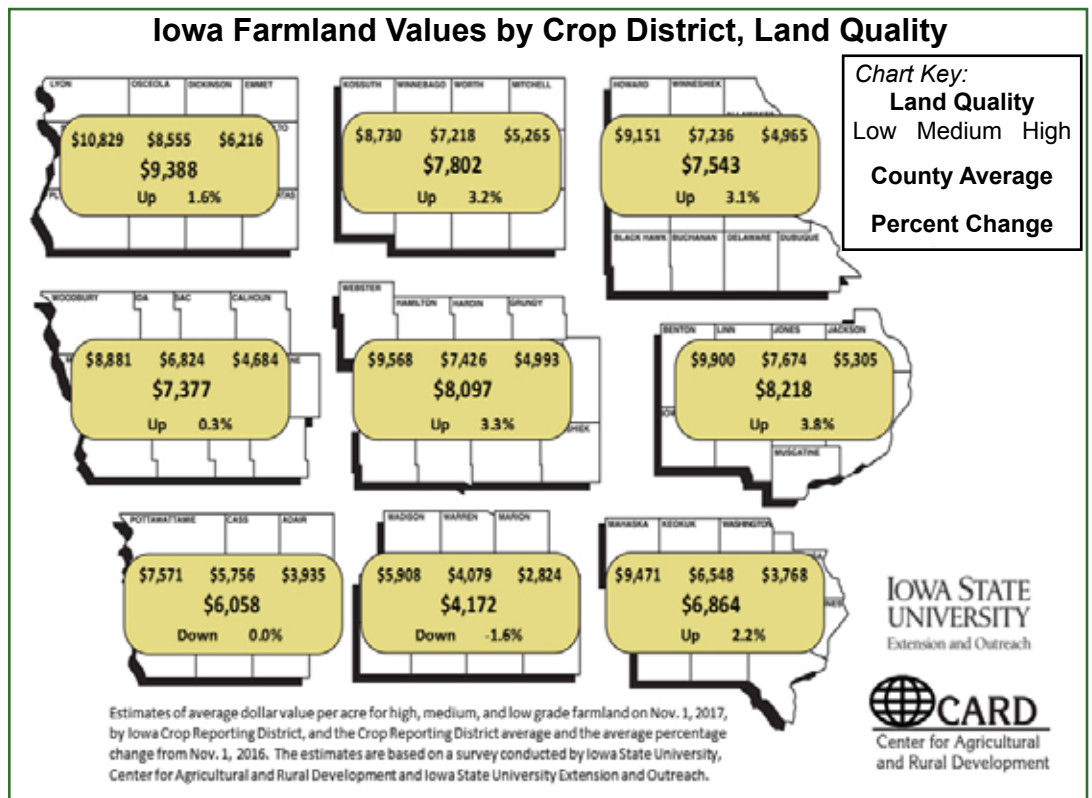
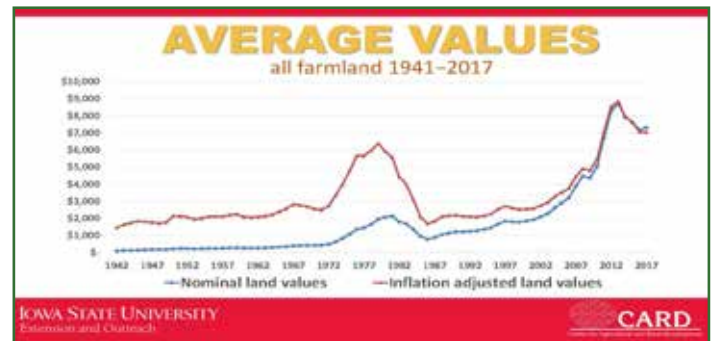
Of the four counties that reported a decrease in value, Mills County had the largest dollar decrease in value, losing about \$25 per acre.

Of the nine crop reporting districts, only the south-central reported a decrease in average value, with values falling from \$4,241 per acre in 2016 to \$4,172 in 2017, a loss of 1.6%. The northwest district again showed the highest overall value — \$9,388 per acre, up from \$9,243 per acre in

2016, a gain of 1.6%. The east-central district showed the largest percentage gain in value, 3.8%, bringing average value there to \$8,218.

Statewide, high-, medium- and low-quality farmland values increased 2.0%, 2.2% and 0.5%, respectively. High-quality farmland saw the largest increase in value in the east-central district, 4.2%, and the largest decrease in the south-central district, 1.2%. Medium-quality farmland increased the most in the southeast district, 4.2%, and decreased the most in the south-central district, losing 1.2%. Low-quality farmland gained the most value in the northwest district, 3.3% and decreased the most in the southwest district, where it fell 6.1%.

The survey found 72% of all farmland sales were to existing farmers. Investors accounted for 22% of land buyers with new farmers at 4% and "other" 2%.



Boost in Sale-and-Leasebacks Ahead?

The steady decline in net farm incomes the past three years has erased working capital for many farm operators, and has some facing financial pressure as they look to financing the 2018 crop year. Some may choose to ease that stress by selling a portion of their farmland through a sale-and-leaseback. Such a transaction could pay down debt and rebuild liquidity in their balance sheet.

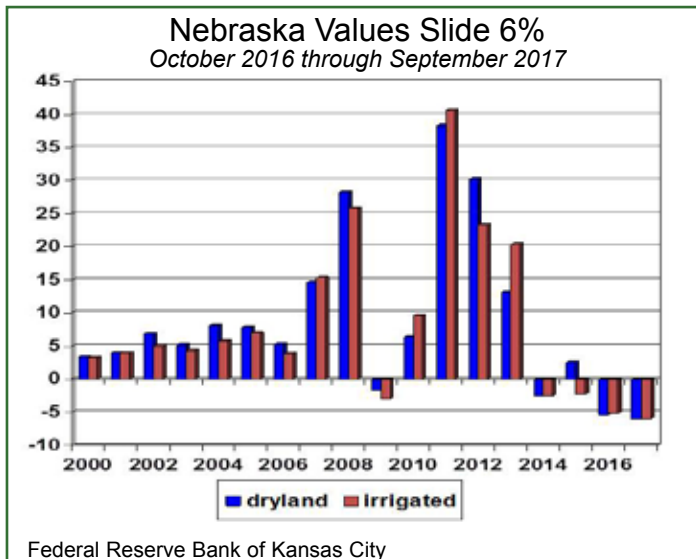
In these sales, the producer sells a tract of land to a non-farming investor who is willing to lease the land back to the producer-seller. The result does not significantly change the overall scale of the farming operation and maintains control of the land (which is often most important). Besides the rental income, the investor buyer receives a farm operator who is

very familiar with the property, and often is a ready-made buyer if the investor decides to sell later.

In leaseback situations, producer-sellers often need to have flexibility with investor buyers, either by: a) Offering a very competitive/strong rental arrangement, or b) Offering some level of pricing discount on the sale price of the land. It takes these additional incentives to attract investor interest because current rental returns are frequently too low compared to alternative investments.

We believe sale-leasebacks are going to become a widely discussed topic in 2018. If you have questions about various sale-leaseback options, either as a seller or buyer, please feel free to contact any of our Hertz associates.

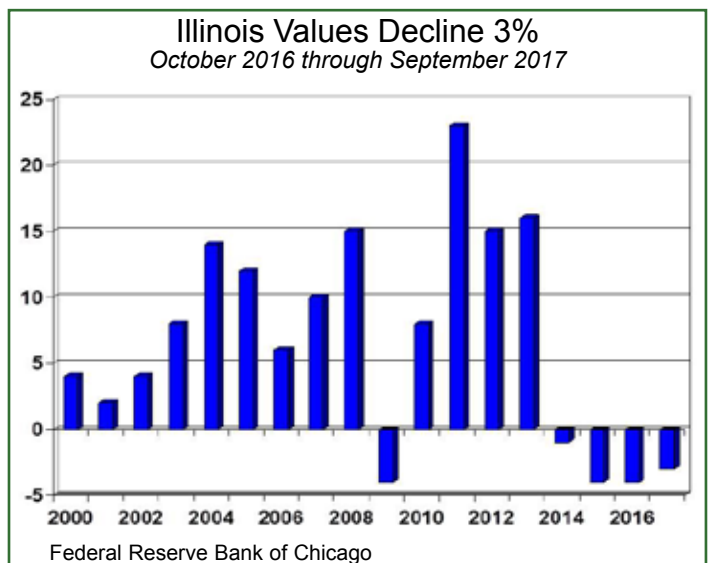
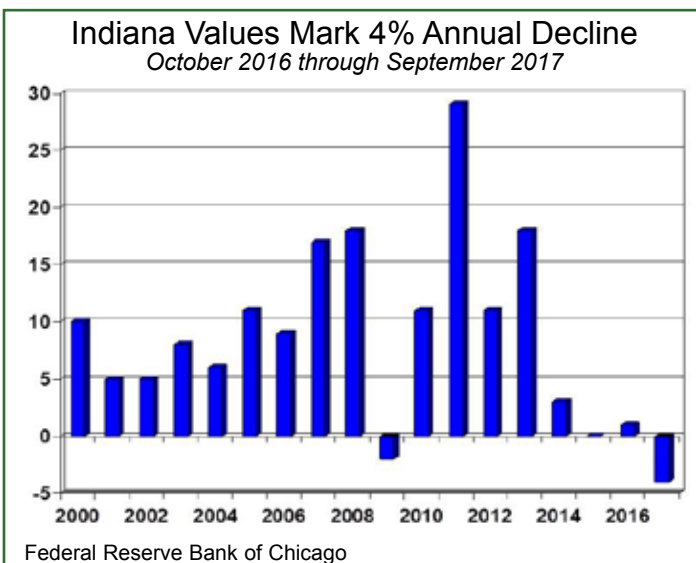
Fed Banks Note Annual Declines in Illinois, Indiana and Nebraska



Data from the Federal Reserve Bank of Chicago shows farmland values slipping in the Eastern Corn Belt. The survey of ag bankers finds the value of Illinois farmland declined 3% on a year-over-year basis through September. It also showed values fell 4% annually in Indiana.

However, the bank also notes values are stabilizing in those states. It shows Illinois values slipped only 1% in the third quarter versus the previous quarter. Values were unchanged in the second quarter, the previous survey reported. Indiana values rose 1% during the third quarter, following a 2% gain in the second quarter.

Values continue to weaken in Nebraska, however. The Federal Reserve Bank of Kansas City reports the value of non-irrigated and irrigated cropland declined 6% annually through September.



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