Hertz® Outlook

Summer 2019 Published by Hertz Real Estate Services

New Wild Cards for the Farmland Market

Weather and China are the latest wild cards commanding the attention of agriculture and potentially impacting the farmland market.

The break-off in trade talks between the U.S. and China, and the resulting tariff battle between the two nations, weighed heavily on commodity prices at the end of spring. The collapse in these discussions resulted in a renewed bearish outlook for grain and livestock prices.

Weather became a wild card in the grain outlook as May rains continued to delay planting of this year's crops. Planting progress fell well behind schedule across the Corn Belt with Illinois and Indiana the most negatively impacted. Another round of stormy weather in late-May grabbed the market's attention as traders and analysts began anticipating a reduction in seeded acres and potential yield reductions.

These negative developments have resulted in more uncertainty than usual in the land market.

Leading into spring, a few trends were becoming evident in the farmland market. The total number of farms offered for sale has grown ever so slightly compared to one and two years ago. But, the total volume remains well under the levels seen prior to the 2010s, thereby supporting prices.

That's especially true for top-quality farms. Rarely do such farms come to market. When they do, interest is strong and bidding is highly competitive. Such recent offerings have regularly seen selling prices exceeding $10,000 an acre, and even topping $13,000 an acre. Buyers of these high-quality farms tend to be financially strong farm operators seeking to expand their existing farm operation.

The number of medium- and low-quality farms moving to market has edged upward in recent months. Demand for these farms is lower than for high-quality farms. Such properties, especially the low-quality farms, can remain on the market for an extensive period of time. The weakness at the middle- and low- end of the market is a divergence from top-quality land, and is resulting in a generally steady to slightly weaker trend in *overall* farmland values.

One factor we've seen work in favor of the farmland market is long-term interest rates. Rates moved higher last year with expectations that even higher rates would be seen in 2019. However, the Federal Reserve has put the brakes on short-term interest rate hikes and long-term rates have eased. This has supported interest in farmland ownership by investors seeking stronger returns, and has made financing of farmland purchases a bit more attractive.

Below are the results of a few of our recent auctions, which occurred this spring:

- **160 acres in Marshall Co., Iowa,** southeast of Liscomb. Parcel 1 offered 80 acres with 78 acres tillable and a CSR2 of 97.2. It sold for $13,200 an acre. Parcel 2 consisted of 80 acres with 77 acres tillable and a CSR2 of 93.2. It sold for $11,700 an acre.

- **106 acres in Story Co., Iowa,** northeast of Huxley. It was nearly 100% tillable, carried a CSR2 of 86 and featured extensive tiling. It brought $10,900 an acre.

- **154.7 acres in Tazewell Co., Illinois,** east of Groveland. The farm had 144.5 estimated tillable acres with a PI of 135.6. It sold for $10,500 an acre.

Hertz Real Estate Services and Hertz Farm Management have extensive knowledge of local markets across the Midwest. Feel free to call any one of our offices listed on page 4 if you have questions about your local farmland market. Or contact us toll-free at 800-593-5263 (LAND).

Inside This Issue

Iowa REALTORS® Report 1% Decline in Cropland Values

March 2019 Iowa Farm & Land Chapter #2 REALTORS® Land Institute Survey of Farm Land Values (Dollars Per Acre)											
	Land Classification by Potential Corn Production										Percent change in tillable cropland values
Area in Iowa	High Quality Cropland		Medium Quality Cropland		Low Quality Cropland		Non Tillable Pasture		Timber		
	Sept.	March	Sept.	March	Sept.	March	Sept.	March	Sept.	March	Past 6 Mo.
Central	$9,775	$9,571	$7,282	$7,083	$4,674	$4,667	$2,891	$2,893	$2,498	$2,581	-1.9%
East Central	10,057	10,041	7,402	7,321	4,818	4,619	2,714	2,690	2,288	2,267	-1.3
North Central	8,997	8,931	7,079	6,846	4,796	4,517	2,415	2,410	2,115	2,054	-2.8
Northeast	9,819	9,434	7,300	7,207	4,814	4,707	3,068	3,027	2,805	2,814	-2.7
Northwest	11,071	11,009	8,496	8,369	5,280	5,342	2,828	2,827	2,578	2,550	-0.5
South Central	7,172	7,100	4,706	4,594	2,972	3,000	2,739	2,690	2,934	2,953	-1.0
Southeast	9,389	9,693	6,386	6,570	3,911	4,006	2,742	2,725	2,450	2,489	+3.0
Southwest	7,860	7,645	6,185	6,130	4,463	4,445	3,260	3,155	2,574	2,489	-1.6
West Central	9,013	8,991	6,950	6,968	4,577	4,627	2,890	2,854	2,243	2,319	+0.4
State Average	$9,239	$9,157	$6,860	$6,788	$4,478	$4,437	$2,839	$2,808	$2,498	$2,502	-1.0%

The value of an acre of Iowa cropland eased 1.0% in the six-month period ending March 1, according to the semi-annual survey conducted by the Iowa Chapter of the REALTORS® Land Institute (RLI). That decline, combined with the 1.7% decrease reported in September 2018, results in a statewide average annual decrease of 2.7%, notes survey chair Kyle Hansen, ALC, Hertz Real Estate Services, Nevada, Iowa.

While the trend was generally lower, not all areas of the state saw weakness. The Southeast crop reporting district noted a 3% gain during the six-month period and the West Central district eked out a slim 0.4% rise. However, the North Central district notched a 2.8% decrease for the six-month period followed by a 2.7% decline in the Northeast district.

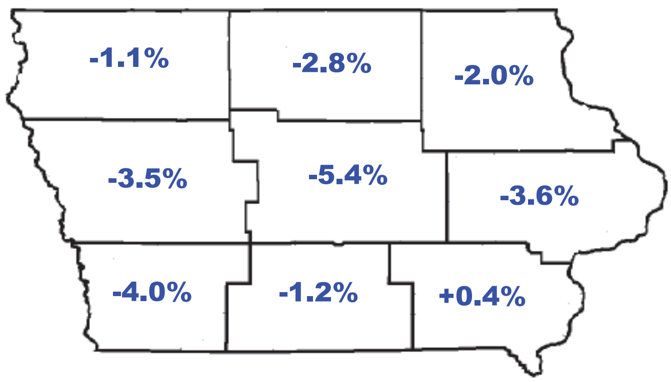
The survey pegs the statewide value of an acre of high-quality cropland at $9,157 as of March 1 — down $82 (0.9%) from September 1. It puts the value of medium-quality cropland at $6,788 an acre — down $72 (1%) from September. And the survey lists the statewide value of an acre of low-quality cropland at $4,437 — down $41 (0.9%).

On an annual basis, the Southeast district posted a 0.4% gain. However, it was the only district to register an increase. The Central district led declines with a 5.4% annual decrease, followed by the Southwest district with a 4% decline. The East Cental and West Central districts marked annual decreases of 3.6% and 3.5%, respectively.

Survey respondents listed four factors supporting cropland values — the limited amount of land available for sale, government compensation through the Market Facilitation Program (MFP), the new farm bill and higher-than-expected crop yields. On the negative side, respondents listed continuing trade uncertainty, decreasing levels of working capital and slightly higher interest rates.

The survey puts the statewide value of an acre of non-tillable pasture at $2,808 — down $31 (1%) from the September report. It pegs the statewide value of an acre of timber at $2,502 — up $4 from September. Five of the nine reporting districts list slight gains in the value of timber with the Central district leading with a gain of $83 (3.3%) an acre.

Change in Iowa Cropland Values on *Annual Basis*



Percent Change March 1, 2018 to March 1, 2019

Change in value for an average acre of tillable cropland
Source: REALTORS® Land Institute

Opportunities in Sale-Leasebacks

We are finding increased interest in sale-leaseback farmland sales from both farm operators and investors. The rise in interest from farm operators is due to the extended pressure on working capital.

The squeeze on farmer working capital came about five years ago as grain prices retreated from their lofty levels posted in 2011-2014. Input costs rose sharply during that time period, increasing the stress on working capital as grain prices fell.

Farmers, in general, entered the downturn with ample working capital and low debt loads. While difficult, many operators were in position to weather the storm of low grain prices — for a time.

However, low grain prices continue to persist, and the stress on working capital has put some operators in an untenable position. Some of these operators are considering the sale of some cropland in order to rebuild working capital. But the loss of control of the cropland they once owned could jeopardize their operation in the long-term as they lose the additional acres needed for optimal economic viability.

A sale-leaseback offers an attractive alternative for such operators. That's because they retain the right to farm the ground they sold, frequently with the first option to re-purchase the ground after a set period of time. Meanwhile, they have the equity from the sale to replenish working capital and ease financial stress, while paying a rent that fits their operation.

The negative is they may give up a little off the selling price in order to attract the type of investor interested in their cropland and operation. But that potential "discount" is offset by retaining control over their land base.

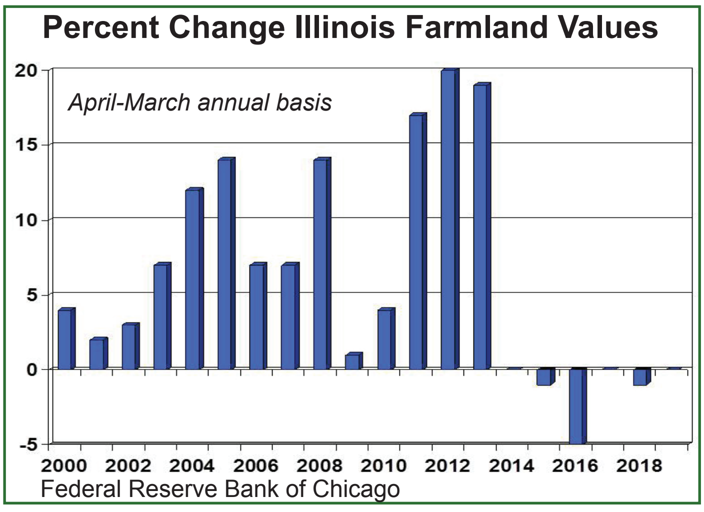
Investors are showing increased interest due to the changing interest rate environment. Actions and statements from the Federal Reserve Bank in 2018 indicated interest rates would be moving higher in 2019 and beyond. For investors, that was a signal to wait for the higher rates to come and invest in Treasuries for a safe return in a highly liquid financial instrument. But the current low-inflation environment has the Federal Reserve backtracking on stated plans. With Ten-year Treasuries offering less than a 3% annual return, investors are finding well-structured cropland purchases offering potentially higher returns.

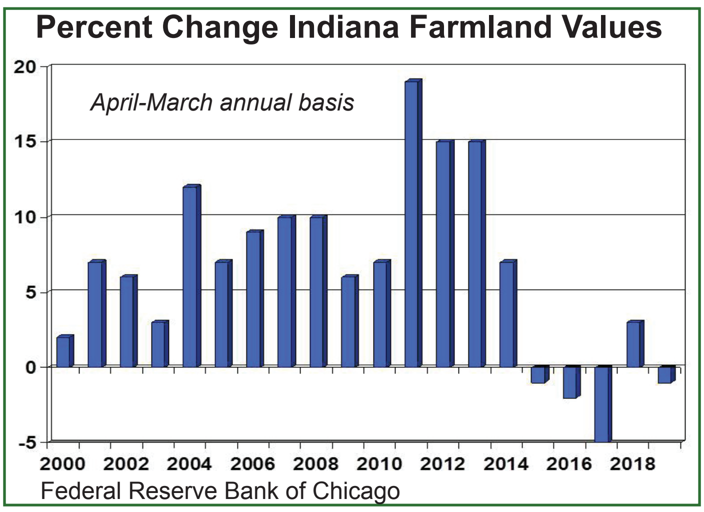
The farmland pros at Hertz Real Estate Services and Hertz Farm Management have a thorough understanding of farmland and cash rent markets across the Midwest. That expertise means they are well-positioned to help farm operators and investors structure a sale-leaseback that meets the needs of both the farm operator as well as the value-conscious/return-minded investor.

Steady to Slightly Weaker Values Seen

Ag bankers in the Central Corn Belt report farmland values were steady to slightly weaker through the first quarter of 2019, according to the Federal Reserve Bank of Chicago. The bank's quarterly survey of bankers found values were steady versus a year earlier in Illinois and 1% weaker in Indiana. The bank also notes that values during the first quarter of 2019 were unchanged from the fourth quarter of 2018 in Illinois and 2% higher in Indiana.

A similar survey in Nebraska conducted by the Federal Reserve Bank of Kansas City found the value of that state's dryland cropland was down 2% from a year earlier. The survey pegged the value of irrigated cropland and ranchland as down 4%.





Hertz Office Directory

Hertz Real Estate Services
415 S. 11th St
PO Box 500
Nevada, IA 50201-0500
515-382-1500
E-mail: Doug.Hensley@Hertz.ag

Hertz Real Estate Services
6314 Chancellor Dr.
PO Box 1105
Cedar Falls, IA 50613
319-234-1949
E-mail: MorganT@Hertz.ag

Hertz Farm Management
1101 13th St. N
PO Box 503
Humboldt, IA 50548-0503
515-332-1406
E-mail: TomC@Hertz.ag

Hertz Real Estate Services
2800 4th St. SW, Ste. 7
Mason City, IA 50401-1596
641-423-9531
E-mail: CalD@Hertz.ag

Hertz Real Estate Services
102 Palisades Road & Hwy. 1
PO Box 50
Mt. Vernon, IA 52314-0050
319-895-8858
E-mail: TroyL@Hertz.ag

Hertz Farm Management
120 W Mission Street
PO Box 157
Strawberry Point, IA 52076
563-933-4973
E-mail: JoelK@Hertz.ag

Hertz Farm Management
1621 E. Washington St., Ste. 5
Washington, IA 52353
319-382-3343
E-mail: AdamS@Hertz.ag

Hertz Real Estate Services
143 N 2nd St.
PO Box 907
DeKalb, IL 60115
815-748-4440
E-mail: RichG@Hertz.ag

Hertz Real Estate Services
720 E. Culver Court
P.O. Box 9
Geneseo, IL 61254-0009
309-944-2184
E-mail: ChadK@Hertz.ag

Hertz Real Estate Services
200 E. Court St., Ste. 600
Kankakee, IL 60901
815-935-9878
E-mail: EricW@Hertz.ag

Hertz Real Estate Services
700 W Bridge St.
PO Box 467
Monticello, IL 61856-0467
217-762-9881
E-mail: BrentB@Hertz.ag

Hertz Farm Management
11717 M Circle
Omaha, NE 68137
402-697-7500
E-mail: MikeK@Hertz.ag

Hertz Farm Management
100 North 34th Street, Suite A
Norfolk, NE 68701-7700
402-371-9336
E-mail: SamZ@Hertz.ag

Hertz Farm Management
113 Dover Ave.
Tipton, IN 46072
765-319-3384
E-mail: KevinW@Hertz.ag

Presorted Standard
U.S. Postage Paid
Waterloo, IA 50701
Permit No. 71

Hertz® Real Estate Services

Corporate Headquarters
415 South 11th St., P.O. Box 500
Nevada, IA 50201-0500
(515) 382-1500
www.Hertz.Ag

RETURN SERVICE REQUESTED