



# Hertz<sup>®</sup> Outlook

Fall 2022

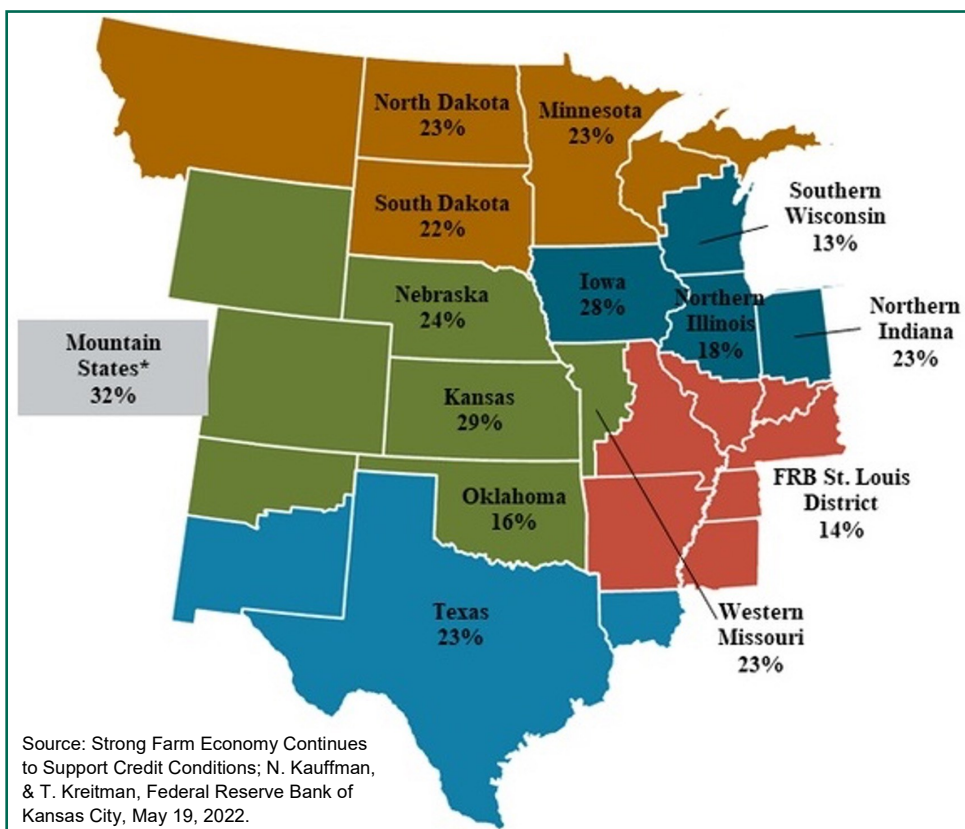
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## Land Market Still Going Strong, Amidst Shifts

As 2022 winds down, the farmland market remains strong. “We’re still in a market that can have a record sale, but not every new sale will be a record,” explains Doug Hensley, president of Hertz Real Estate Services. The land market is simply not quite as “explosive” as it was in Q4 2021. “A year ago, we had record low interest rates, good farm profits and tax policy concerns,” says Hensley. It was a perfect storm for farmland values. “Last fall, we had an extreme high volume of farmland sales and even greater demand for land, and every sale of quality seemed to set a new record for price. However, that was not sustainable in the long-term. This year, there are a few more headwinds as we approach the winter,” notes Hensley. “And the most recent land value surveys reflect a market that is leveling out.”

On the plus side, crop prices remain high – and grain prices are still the predominant factor in people’s minds when they consider farmland values, Hensley explains.

The average daily closing price for corn this year is \$7.02 per bushel. Two years ago, in 2020, the average closing price for corn was \$3.64 per bushel. And for the five years preceding that, the average daily corn price never exceeded \$3.86.



While there was some softening that occurred in commodity prices in July and August, commodities unseasonably rallied coming into harvest. And generally, as long as crop prices stay high, farm buying interest will stay strong, notes Hensley.

However, areas that had poor yields may see some weakness in land values. It hasn’t been a banner year for the Western Corn belt in terms of yield. “In the very western parts of Iowa and into Nebraska,” Hensley reports, “120 bu. corn and sub-40 bu. soybeans does not inspire confidence. On the other hand, in eastern Iowa, much of northern Illinois, and in southern Minnesota, land values will be buoyed by yields of 70-80 bu. per acre soybeans and 230-260 bu. per acre corn.”

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# Farmland Price Appreciation Slows

The year-over-year increase in farmland values looks impressive, but the six-month and quarterly data show a marked slowdown in gains. Most of the increase in farmland values came in the first half of 2022, with single-digit gains expected in the second half of this year.

The Iowa Chapter of the REALTORS Land Institute reported a slight statewide average gain of 2.8% from March 1 to September 1, 2022, after climbing 14% in the prior six months.

Farmland values in Iowa's north-central crop reporting district showed no gain in the half of year from March to September, while the year-over-year increase in that district topped 12%. Western Iowa crop reporting districts saw the greatest annual strength in farmland values with gains from 18.6% to 22.9% compared to a year earlier, with average six-month gains ranging from 2.5% to 4.4%.

Illinois farmland values also got off to a hot start in the first part of 2022. The survey of Illinois Society of Professional Farm Managers and Rural Appraisers, conducted the first two weeks of August, reported an 18% increase of farmland values compared to a year ago. However, over half (56%) of the survey respondents expected land values to simply remain steady for the rest of 2022, 15% predicted a slight decrease in land values (a drop between 1% and 3%), and just 12% expected a small increase in values of less than 3%.

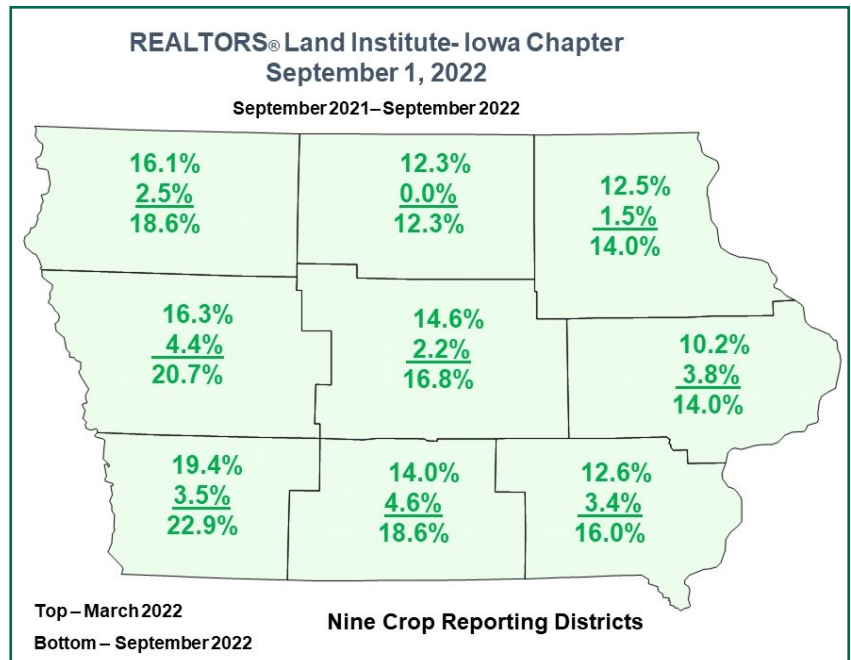
A survey by the Chicago Federal Reserve Bank of 137 agricultural bankers reports similar numbers (see chart).

Percent change in dollar value of "good" farmland		
<i>Top:</i>	April 1, 2022 to July 1, 2022	
<i>Bottom:</i>	July 1, 2021 to July 1, 2022	
	April 1, 2022 to July 1, 2022	July 1, 2021 to July 1, 2022
Illinois	0	+18
Indiana	+1	+25
Iowa	+4	+26
Michigan	*	*
Wisconsin	-1	+13
Seventh District	+2	+22

\* Insufficient response.  
Source: AgLetter, August 2022; Federal Reserve Bank of Chicago

2022, land values only increased an average 2%, ranging from basically steady in Illinois, Indiana and Wisconsin to up 4% in Iowa.

Looking forward, 71% of the ag bankers in the Chicago Fed district expected land values to be steady, 25% predicted an increase in farmland values in the third quarter and 4% expected lower farmland prices.



Drought in the western Corn Belt (western Iowa, Nebraska, southeast South Dakota) may clip land values there. While the University of Nebraska's farmland survey in early 2022 showed an average annual increase of 16%, the Kansas City Federal Reserve (which includes Nebraska, Kansas, Oklahoma and western Missouri) reported that the 2% gain in the second quarter in the value of farmland was the slowest increase since the end of 2020. Non-irrigated land in the district rose less than 1% in value in the second quarter of 2022. And the drought in the Kansas City Federal Reserve district has continued.

Looking forward to 2023 rental arrangements, most of the marketplace expects modestly higher rental rates. The Illinois Society survey showed respondents expect 2023 Illinois cash rents to rise an average \$17 per acre for top quality ground (farmland that averages over 210 bushels corn per acre) and increase about \$8 per acre for fair productivity land (average corn yields below 157 bu. per acre). While grain prices remain elevated, assuming average yields, landowners who have "participating leases" will also continue to benefit. In the state of Illinois specifically, 26% of the farm leases are share rent, plus another 12% that are modified share rent leases. Cash rent leases account for 26% of the total farm leases and 31% are variable cash rent leases. The remaining 5% are custom farming rental arrangements.

# Land Market Still Going Strong *continued from page 1*

On the negative side of the market, besides poor local yields in drought areas, higher interest rates and skyrocketing input costs for next year's crop are beginning to impact farmland values. The interest rate environment has definitely changed. Last year, farm mortgage rates were 4-5%. "Talking with farmland lenders now, most long-term mortgage rates will have a 7 in front of them going forward," Hensley reports.

The other headwind for farmland values is the huge jump in input costs for the 2023 crop. Fertilizer and seed prices in the fall of 2022 are anywhere from 30% to 100% higher than they were in the fall of 2021. "The general breakeven price for the 2022 corn crop is around \$4.00 to \$4.25/bu. For the 2023 corn crop, we're likely looking at something north of \$5.00/bu, and maybe even \$5.50," explains Hensley.

A final aspect of the market that reflects a leveling out: Buyers are becoming more selective in the quality of farmland they want to buy, Hensley says. High-quality farms continue to attract well-healed buyers. But lower quality ground is drawing less interest from buyers as the market starts to level.

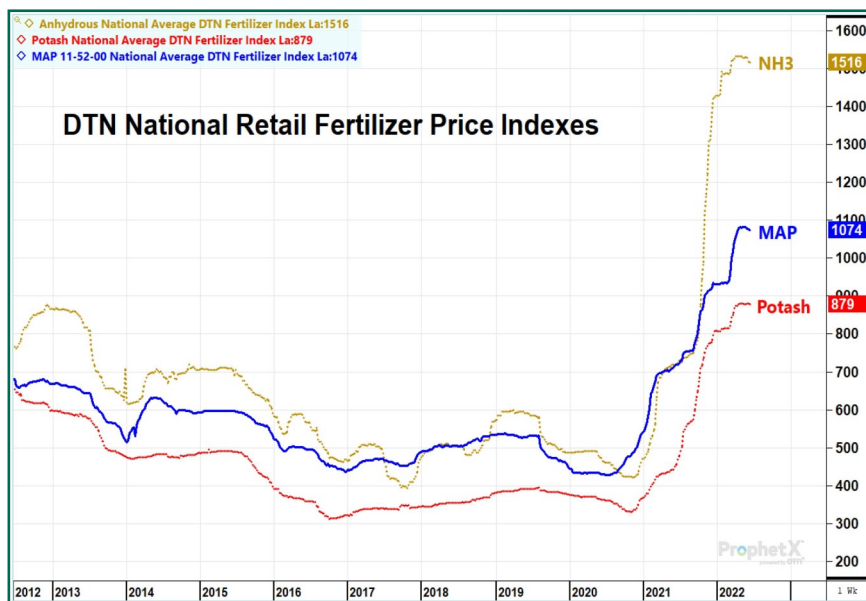
## Don't expect distress sales

All that said, in general, farmers are as healthy financially now as they've ever been. And that's a really positive thing for agriculture, says Hensley. That avoids distress sales, even in areas with lower yields.

"The vast majority of our land sales are by currently active estates, and/or beneficiaries from estates in recent years," Hensley reports. "People who inherited farmland between 2015 and 2020 tended to hold onto inherited land, because at that time, they didn't want to sell into a soft/negative market. However, over the past 12-18 months, as

they've learned of the widespread market strength, they've become more interested in selling."

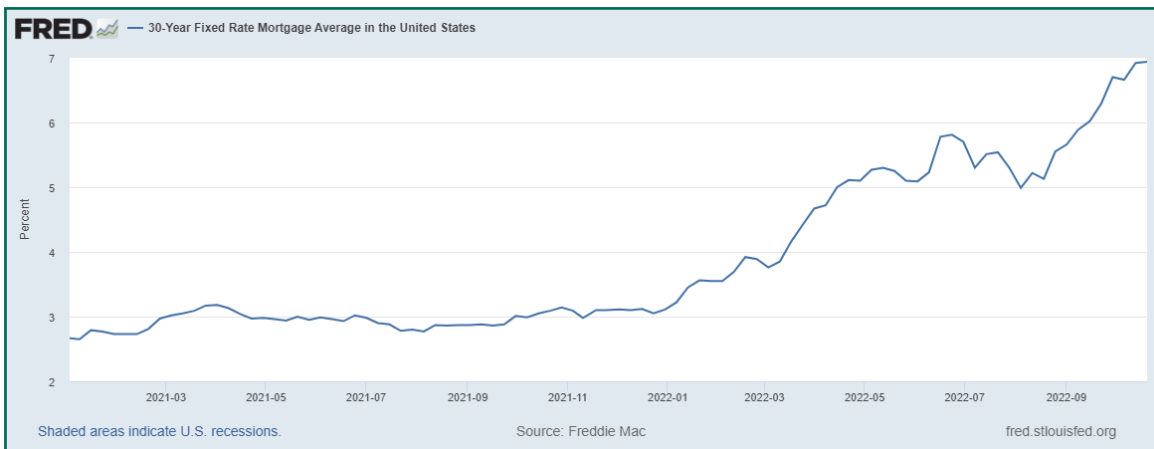
Land sale volume is still above average at the end of 2022, but not as much as last year when a new government administration was talking about changing how capital gains tax would be calculated on inherited property (which ultimately did not pass).



Hensley predicts there may be a slow-down coming in 1031-tax deferred land exchanges, particularly as interest rates climb and put pressure on the suburban housing market. "For many years, residential developers were lulled to sleep by uber low interest rates, as the physical growth of urban areas just kept expanding the edges of their communities," notes Hensley. But at some point, as interest rates tick up, residential property sales will slow down and that will trickle down to the agricultural land market, thereby shrinking the number of buyers looking for farmland to complete a tax-deferred exchange.

As we conclude harvest, the farmland market remains strong, concluded

Hensley, but it has stabilized sideways when compared to a year-ago. Going forward in 2023, the market may face additional pressure from higher interest rates and more constricted farm profits.





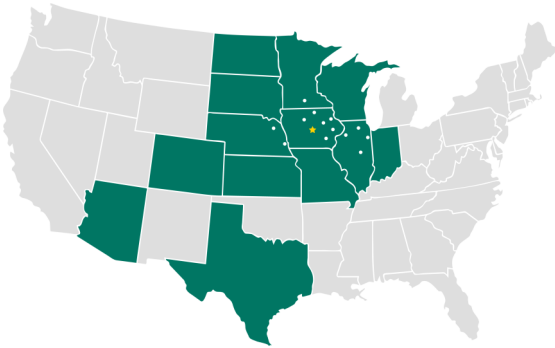
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## Recent Hertz Sales Continue To Surpass Expectations

### Iowa

**142.40 Acres in Benton Co., IA, north of Keystone**, sold in 2 parcels at auction in August. Parcel 1 was 66.40 total acres with 66.4 tillable acres and a CSR2 of 90.03. This parcel was sold to an investor for \$17,700/Ac. or \$205.26/CSR2 point/tillable acre. Parcel 2 had a total of 76.00 acres with 74.96 tillable acres and a CSR2 of 93.16. This parcel was sold to a farmer for \$20,500/Ac. or \$223.10/CSR2 point/tillable acre.

**78.60 Acres in Marshall Co., IA** sold to an investor via private treaty. The farm 76.87 FSA tillable acres and a CSR2 rating of 94.00, and sold for \$20,000/Ac. This equates to \$217.55/CSR2 point/tillable acre.

**185.61 Acres in Jasper Co., IA, near Mitchellville**, sold at auction to a local farmer. This farm had 184.32 tillable acres with a CSR2 of 90.70, and sold for \$17,800/Ac. This equates to \$197.62/CSR2 point/tillable acre.

### Minnesota

**120.00 Acres in Renville Co., MN, near Hector**, sold at auction. The farm was nearly all tillable with 118.89 crop acres and a CPI of 92.10. With a sale at \$14,000/Ac., this equates to \$153.43/CPI point/tillable acre. The buyer was an investor.

### Illinois

**332.03 Acres in Henry Co., IL, northwest of Geneseo**, was offered in 3 parcels and sold via a One-Chance Sealed Bid Sale. **Parcel 1 had a total of 132.61 acres** with 47.15 tillable acres and the remainder in timber. PI on the tillable acres was 113.20. Parcel sold to a local farmer for 7,450.44/Ac. or an equivalent of \$185.11/PI point/tillable acre. **Parcels 2 and 3 sold together to a local farmer and totaled 199.42 acres** with 185.99 tillable acres and an average PI of 121.40. Property sold for \$18,319/Ac. or \$161.79/PI point/tillable acre.

**96.98 acres in DeWitt Co., IL** sold to an investor via virtual online auction. This farm had 94.87 tillable acres with a PI of 140.70 and sold for \$18,200/Ac., or an equivalent of \$132.23/PI point/tillable acre.

### Nebraska

**77.18 Acres in Lancaster Co., NE, near Lincoln**, was offered via virtual online auction. This farm had 77.19 FSA crop acres with an SRPG rating of 68.70; and sale price of \$11,500/Ac., selling to an investor.