Hertz Outlook

Summer 2021

75 YEARS

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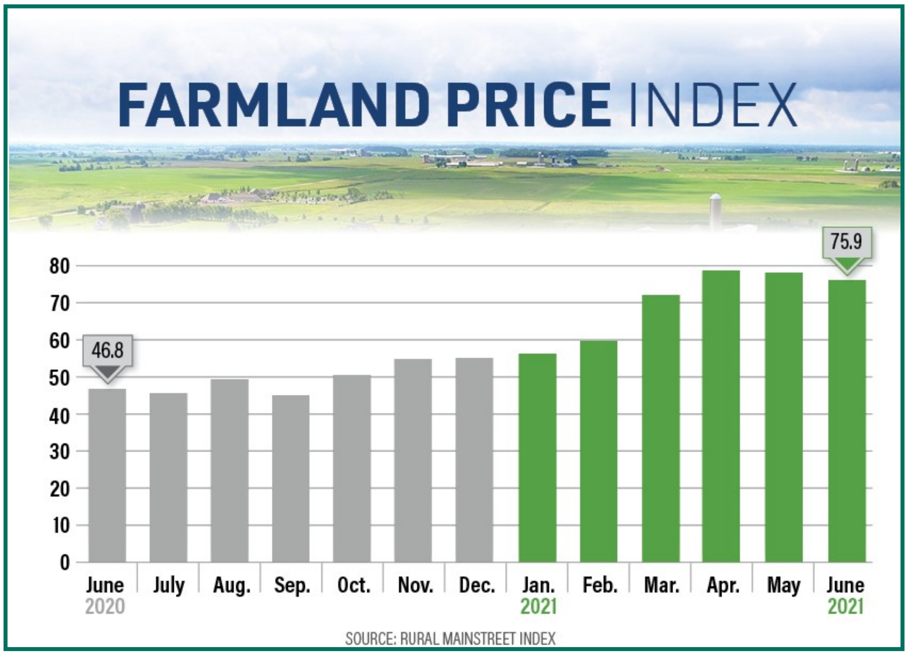
All Aboard (and Buckle Up!) for the 2021 Land Market

No one would argue that 2020 was unusual – and now 2021 is continuing a different, but still unusual course. First, we had a very slow start to the growing season with cool, dry weather. "That got us ahead on planting progress, but behind on rainfall," explains Doug Hensley, President of Hertz Real Estate Services.



SOURCE: RURAL MAINSTREET INDEX

Second, the grain market has been on a wild ride. "This spring, no one had any grain left to sell into the cash market while demand remained strong, shooting commodity prices back to previous record highs. This occurred even before hitting the typical 'weather market' time period in the U.S.," adds Hensley.

Third, it is shaping up to be a potentially profitable farming year. Using a baseball metaphor, most farmers are satisfied with hitting singles or doubles in profits, but this year Hensley says, "If we can grow an average or above average crop, Midwest farmers will be hitting triples or home runs." After five or six years of marginal profits, farm operators are looking at the high commodity prices with optimism not seen in quite some time. "The potential for profit is so significant, especially when compared to the conditions we've had for so long," says Hensley. People this year bought inputs in the fall of 2020 when commodity price outlooks weren't quite as bright, and therefore input costs had not yet risen. Moving forward, profit potential for 2022 likely won't be as great because input costs will adjust higher, Hensley adds.

Fourth, the drivers of land values have all aligned in a positive manner. We're experiencing low interest rates, high commodity prices, a low inventory of farms for sale, and an increase in demand from people looking for an inflation hedge. Hensley explains that rarely do all these components favor higher land values at the same time. "This partially explains why we've seen such an exaggerated move in the land market thus far in 2021," says Hensley. "Usually, one or two drivers are positive, while one or two are negative, thereby creating a more balanced situation."

On interest rates, the 10-year Treasury rate, which influences long-term mortgage rates, took a significant jump early this spring, but has settled down a bit in the past 2 months. "While you could lock in a long-term rate for farmland mortgages at the beginning of the year around 4%, interest rates

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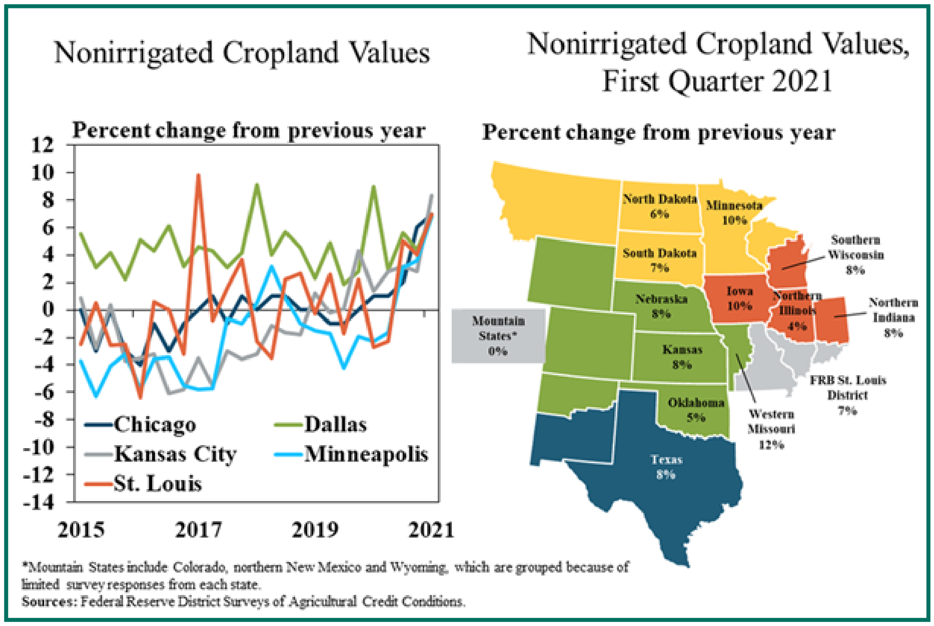
Farmland Value Surveys Verify Strong Market



*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions.

Agricultural lenders report rising farmland values across the Midwest. In the Chicago Federal Reserve district, farmland values in the first quarter of 2021 jumped an average 7% compared to April 1, 2020. Iowa farmland led the way with a 10% increase compared to a year ago. Illinois' farmland rose an average 4% compared to April 1, 2020, according to the banker survey.

In just the first quarter alone, ag lenders in the Chicago district report farmland values climbed 2% -4%. The steady trend upward in land values (compared to the previous year) began in the first quarter of 2020 in the Chicago Federal Reserve district. On April 1 this year, the index of agricultural land values across the Chicago Fed district was just 6% off the peak in land values posted in 2013.

In the Kansas City Federal Reserve district, farm and ranch values also improved -- up 8% on average. Western Missouri and Kansas saw the biggest jump in land values - up 8% to 13% compared to 2020. Nebraska's non-irrigated cropland values improved 8% compared to last year, while irrigated ground jumped 9% and ranchland stayed mostly steady, up 1% in the first quarter 2021 bank survey.

The upper Midwest showed mixed farmland trends in the first quarter of 2021, according to the Minneapolis Federal Reserve Agricultural Conditions Survey. Land values climbed most in Minnesota with non-irrigated cropland rising 10% compared to 2020. Ranchland values were reported unchanged from last year.

Cash rents in the Chicago Federal Reserve district increased 2% to 5%. This was the first annual increase in cash rental rates across the 5-state Chicago Federal Reserve district since 2013.

The REALTORS® Land Institute – Iowa Chapter March survey confirmed trends noted by bankers. Iowa farmland on average rose 7.8% between September 2020 and March 2021.

In addition to trend levels, the survey of farm and land Realtors, professional farm managers and rural appraisers asked for average land values in each crop reporting district in the state. The average high quality, cropland value across Iowa reached $9,236 per acre.

Average value for high quality cropland ranged from $12,010 per acre in Iowa's northwest crop reporting district (an increase of 8.3% in the past six months) to $7,013 per acre in the south central Iowa, up 6.2% since last fall.

All Aboard (and Buckle Up!) *continued*

today are still low, but are now slightly higher towards the 5% range," says Hensley. And there are still a lot of cash farmland sales in this market that don't depend on mortgage rates at all.

Will we see a shock in interest rates as we saw in 1979 to keep inflation in check? "I don't think so," Hensley says. "With the level of our current national debt, I don't think the Federal Reserve, which controls short-term rates, will be able to get too aggressive. I think the Fed will be very cautious and attempt to massage the interest rate environment so they don't cause shocks that would negatively impact the overall economy."

Low farmland inventory for sale continues to frustrate potential buyers. "Although we're having more discussions with people possibly interested in selling, there are fewer farms available for sale than what we've traditionally seen," Hensley reports. "And while the higher quality Class A farms, that are well-drained and highly productive, still capture the top end of the market, we've seen poorer quality Class B

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All Aboard (and Buckle Up!) *continued*

and Class C farms selling well due to an increase in demand, especially over the past six months."

Adding to the strength in land values, non-farm investors are looking at the threat of inflation creeping into the economy and are recognizing that farmland has traditionally been a positive performer in an inflationary environment. Also, non-farm investors are looking for investment diversity. However, it's an important reality to understand that current land buyers are still predominately active farmers, who tend to out-bid investors, Hensley says.

Are We Looking at a Farmland Bubble?

Midwest farmland is in such stable hands, Hensley does not anticipate a scenario that would drastically lower farmland values. "So much of the land in the countryside is paid for, that 'over-paying' a couple hundred thousand dollars for a quarter-section doesn't seem like such a big stretch. In every neighborhood, there seem to be half a dozen or more financially healthy farm families who could bid aggressively on an 80- or 160-acre tract," says Hensley.

This could change if a neighborhood gets oversold and soaks up the local capital, but Hensley explains, "we have so few farms for sale, that is not a current problem."

Also, agricultural lenders are being responsible and Hensley does not predict farmland flooding the market as it did in the 1980s, or as housing did in 2008. "There is more stringent oversight by farmland lenders than there was in the housing market at that time. For example, today's agricultural lenders require very healthy down payments and cash-flow testing," explains Hensley.

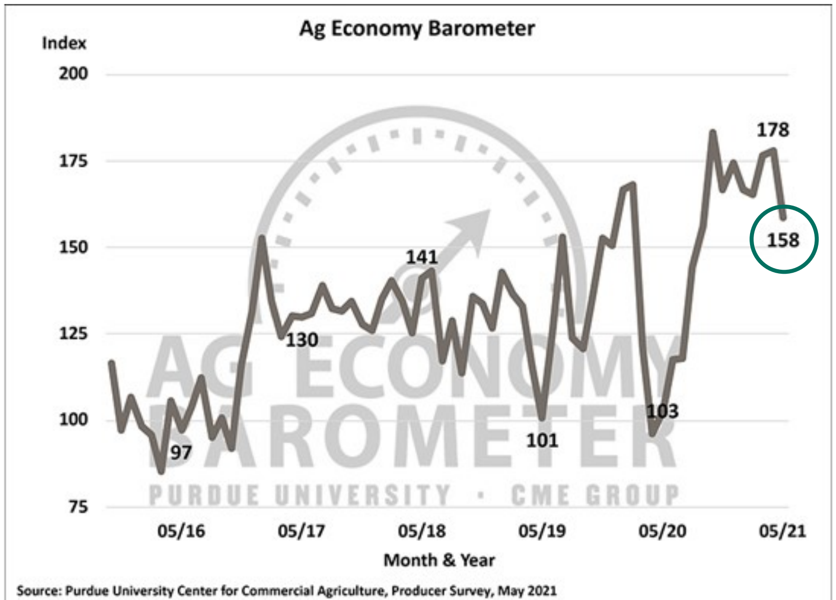
"Also, as I mentioned, there are still a significant number of cash farmland sales. This is just not a leveraged market yet," Hensley adds.

There is good stability in the countryside to absorb a potential future downturn. When land is owned without a mortgage, people aren't forced to make moves if/when conditions shift. Land prices could fall if the ag economy turns back down, but Hensley predicts it would be a soft landing, not a drastic collapse.

Factors that Could Upend this Land Market

"There are three significant and legitimate risks I see in this current market," says Hensley: 1. Tax policy changes, 2. Falling commodity prices, and 3. Loss of the ethanol mandate.

Higher capital gains tax rates proposed by the new Administration, and changes in the estate tax laws,



Hertz note: We believe this recent drop was due to concern over potential tax policy changes.

such as losing the step-up in basis at death, would negatively affect farmland values, Hensley advises. "We've had more conversations lately with people who are concerned about tax policy changes."

As for commodity prices, history shows commodity prices don't stay at these levels for long. Barring a weather market, Hensley worries that commodity prices could fall precipitously, especially if Chinese demand for U.S. corn and soybeans dries up.

Hensley also is concerned for the continued support around the ethanol mandate, which has underpinned the corn market since the Renewable Fuels Standard (RFS) became law in 2005. "Support for farmers has been good politics in the past. But that may not hold true in the future," says Hensley. And when you consider that 40% of the U.S. corn crop goes into ethanol production, we feed livestock another 40% of the corn crop, and the remaining 20% is exported, you then understand how important ethanol is. "If the RFS shifts or goes away, corn prices will drop." Hensley predicts.

"For now, our land market is strong and moving higher. It's unclear how high it will go or for how long it might stay there. But there is a lot of optimism in the countryside right now, especially if we can grow an average or average-plus crop," Hensley concluded.

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Recent Hertz Sales Surpass Expectations

Sales in the countryside have been stronger this past quarter. We're cautiously optimistic this will continue through the summer and into the fall.

1,023.70 Acres in Edgar Co., IL, near Metcalf, sold via Virtual Live Auction. The property was offered in 14 parcels via Choice and Privilege. Three parcels totaling 242.92 acres with 238.27 tillable acres and PI ratings ranging from 142.2 to 144.0 sold for $16,800/Ac. Five parcels totaling 434.25 acres with 418.65 tillable acres and PI ratings ranging from 140.3 to 144.0 sold for $15,300/Ac. Four parcels totaling 265.37 acres with 260.74 tillable acres and PI ratings ranging from 138.3 to 143.4 sold for $14,600/Ac. A single parcel of 37.31 with 35.31 tillable acres and a PI of 143.90 sold for $14,000/Ac. The final remaining parcel of 43.85 acres was 100% tillable with a PI of 143.9, and sold for $11,100/Ac.

360 Acres in Story Co., IA, near Nevada, offered in 3 parcels sold via Virtual Live Auction. Two parcels totaling 200.00 acres with 199.07 tillable acres, 3 grain bins and an average CSR2 of 85.70 sold for $16,100/Ac. The third parcel with 160 acres, 157.92 tillable acres and a CSR2 of 84.90 sold for $14,500/Ac.

232.59 Acres in Cottonwood Co., MN, near Sanborn, recently sold via Sealed Bid auction. The property was offered in two parcels - individually and in combination. Parcel 1 consisted of 115.29 acres with 92.74 tillable acres and a CPI of 90.6. There were an additional 10 acres enrolled in CRP. Parcel 2 consisted of 117.30 acres with 102.26 tillable acres and a CPI of 89.80. There were an additional 7.2 acres enrolled in CRP. The high bidder at $9,463/Ac. took both parcels.

332.21 Acres in Washington Co., NE, near Fort Calhoun, sold via private listing for $7,224.35/Ac. This farm has 279.93 tillable acres with 3 grain bins and an older shed and was located along hard-surface US Hwy. 75 approximately 5 miles north of the greater Omaha area.

In-depth knowledge of the local market is key to a successful farmland sale or purchase. Let our team of Real Estate experts answer any questions you may have on your local market.