Hertz® Outlook

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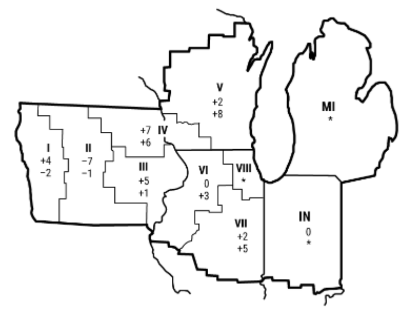
Cautious Land Market Holding Its Own

Percent change in dollar value of "good" farmland

	January 1, 2024 to April 1, 2024	April 1, 2023 to April 1, 2024
Illinois	+1	+5
Indiana	0	*
Iowa	+1	0
Michigan	*	*
Wisconsin	+3	+10
Seventh District	+2	+4



Top: January 1, 2024 to April 1, 2024

Bottom: April 1, 2023 to April 1, 2024

*Insufficient response.

Ag Letter: May 2024, Federal Reserve Bank of Chicago

Since the beginning of the year, the farmland market has not changed all that much, reports Doug Hensley, president of Hertz Real Estate Services. "We are still facing low commodity prices, high interest rates and high input costs, none of which is overly sustainable for strong and appreciating farmland values," says Hensley. Yet, despite the strong headwinds in the farm economy, the farmland market is holding its own and, so far, has been chopping sideways.

"Marketwide, we've seen a low volume of sales and the bias of economic factors is toward weakness in the land market," says Hensley. However, it's noticeably different from one neighborhood to the next. "One strong farm sale does not mean a strong land market overall. And one weak sale doesn't mean another farm won't bring a better-than-expected offer," Hensley reports.

And farmers have become more cautious. Given the economy, farmers are reluctant to make capital purchases, especially equipment, as headlines report layoffs by equipment manufacturers. But the farmland market is more resilient than farm equipment. Hensley explains, it's easier to say "no" to buying a tractor or combine upgrade when not making a profit versus buying a piece of land. You can't control when a neighboring farm is offered on the market. Whereas a similar tractor, harvester or implement will be available when strong profits do return, you can't say the same about an adjacent farm. "It's harder to pull the trigger when you're not making money, but some land buyers will begrudgingly buy farmland because it may not become available again in their lifetime," Hensley advises.

There is still considerable liquidity in the countryside from profits made in 2021 through 2023, but farmers are increasingly protecting their finances. So far, demand remains adequate to absorb the current supply of farmland for sale, thereby largely maintaining price stability. "This year we'll have to grow a heck of a crop to make a profit," Hensley remarks. "And, unfortunately, we didn't start out perfect this spring. This is the most uneven planting season we've had in a few years, and it certainly hasn't added confidence across the market leading into the growing season. So, what happens in June, July and August will be key to the farmers' profits (and attitudes) this year," Hensley concludes. "The short-term trajectory for farmland values remains cautious."

Inside This Issue

Bankers Report Moderate Land Value Growth and Tighter Credit Conditions

Despite soaring interest rates, farmland values held steady or slightly increased in the first quarter of 2024 according to banker surveys in the Federal Reserve Bank districts of Chicago and Kansas City.

Illinois farmland saw a 1% increase in the first quarter of this year and was up 5% from April 1, 2023. Iowa bankers also reported a slight 1% quarterly increase, but values were flat compared to a year ago. Indiana farmland values stayed steady, while Wisconsin showed the most growth, up 3% for the quarter and 10% for the year. A district-wide average annual increase of 4% in farmland values was the smallest year-over-year growth since the third quarter of 2020.

Further west in the Corn Belt, the Kansas City Federal Reserve Bank district reported that non-irrigated and irrigated cropland was up 6% compared to a year ago.

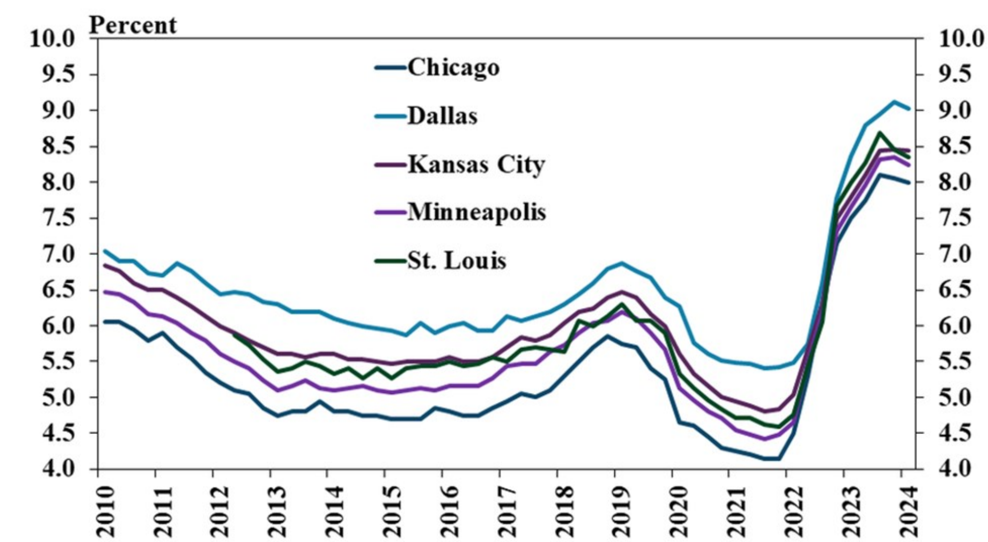
These backward-looking surveys strike a contrast to Creighton University's most recent Rural Mainstreet Index survey of bankers, which for the first time in more than four years, detected weakening farmland price growth. Only 4.2% of the bankers surveyed in the ten states including Illinois, Iowa and Nebraska, reported farmland values expanded from previous levels.

Farm buyers are feeling the pinch from tumbling commodity prices and skyrocketing interest rates (*see table*). Average farm loan interest rates this past year hit the highest levels since 2007.

"Farmers' demand for agricultural loans increased and repayment rates declined in the first quarter of 2024, as farm income deteriorated further. However, despite some tightening in financial conditions, farm household spending remained robust and balance sheets appear positioned to sustain thinner profit margins in 2024," reported the agricultural economists at the Kansas City Federal Reserve, which covers Kansas, Nebraska, Oklahoma, western Missouri, Colorado, Wyoming and northern New Mexico.

Annual cash rental rates in the Chicago Federal Reserve Bank district also slowed their increase. While cash rents rose for a fourth year in a row, the increase was only 2% -- much slower growth compared to the previous three years. For 2024, at the State level, average annual cash rents for farmland were unchanged in Illinois and were up 4 percent in Indiana, 1 percent in Iowa, and 6 percent in Wisconsin.

Chart 3: Average Farm Loan Interest Rates*



*Average fixed rates on agricultural loans of all types – operating, intermediate and real estate
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

Bankers in the Creighton University survey reported average cash rents of $245 per acre for non-irrigated cropland. The ten states in the Creighton survey include Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North and South Dakota and Wyoming.

In the May 2024 Chicago Federal Reserve *Ag Letter*, an Iowa banker reported, "projections for 2024 show most farmers breaking even or going backwards in equity and working capital." This view seemed widespread in the district, observed agricultural economist David Oppedahl, author of the Chicago Fed *Ag Letter*.

Five Factors that Influence Farmland Values

In each issue of our *Hertz Outlook* newsletter, we give you a full view of "the what" behind all that is occurring in the farmland market. In this article, we would also like to explain "the why" behind land prices. In the nearly 80 years that Hertz Farm Management has been in business, we have found the following five factors to have the greatest impact on farmland values:

1. Commodity prices are the single biggest factor with influence on the land market. This is because farmers are the number one buyers of farmland, purchasing 7 out of 10 farms that are sold. And when they are making money, farmers plow their profits back into their business. So, when their cashflow is positive and the grain price outlook is strong, the demand for land goes up. Weak commodity prices lead to soft (or no) farm profits and a shaky land market. It can often take the land market several months to adjust to lower grain prices, although in areas with weak production, it can happen more quickly.

2. Interest rates are a major undercurrent to our entire economy. When interest rates are low, it's more affordable to do just about anything, including buying a farm. Alternatively, when interest rates increase, borrowed money is more expensive and therefore impacts the market towards less consumption. Yet another aspect is how interest rates influence alternative investment decisions. For several years in farmland, ultra-low interest rates attracted investor dollars in search of better returns. During that time, a 2 to 3% annual cash return on land was comparatively attractive. However, when interest rates rose, as they have over the past 18 months, excess investor capital started to flow towards higher immediate returns in some alternative investments.

1. Commodity Prices
2. Interest Rates
3. Input Prices
4. Land Sale Volume
5. Local Wealth

3. Crop input prices are the third major contributing factor to farmland values. You can think of crop input prices as the ingredients to the recipe for growing a crop. Whenever we have either more ingredients and/or more expensive ingredients going into the recipe, the resulting outcome (profit) will be impacted. Agriculture profits soared in 2021 and 2022, because commodity prices moved higher relative to input costs. In 2023, however, the pendulum swung back, and input suppliers captured a larger portion of the available margin with record or near-record costs for seed, fertilizer, fuel, and equipment. For 2024, input prices moderated a bit, especially for fertilizer. But commodity prices have dropped even more than input costs, thereby setting up for the smallest profit margin forecast in several years – and the real possibility of no profit margin for some producers this year – which will pressure land values.

4. Land sale volume also impacts land values. As we learned in basic economics, when the supply of something is scarce, relative to demand, the price normally rises. And vice versa, more supply than demand leads to lower prices. In recent years, we saw a large number of farms offered to the market, but because of incredible profitability and future profit potential, the demand to purchase additional land outpaced the supply of farms available, and therefore we saw land prices move strongly higher across the Corn Belt.

So, now that we are looking at near or below breakeven profits for 2024, will demand for additional land soften? It's reasonable to think that it could. However, that does not necessarily mean that land prices will fall. The supply-demand of farmland is location specific. Local neighborhood dynamics play a huge role in that supply-demand relationship. We all know areas where land prices never seem to soften, and other areas where sales look like relative bargains – this is often the result of local supply-demand relationships playing out.

5. Finally, local historical wealth also influences farmland values. Of the five factors mentioned here, this one may be the most ambiguous, because it can be difficult to come up with a precise measure of local wealth. We all know those neighborhoods where land values seem to include a premium that is not common to the broader market. Many of these financially vibrant neighborhoods have a correlation to very productive soil types, and often, a diversity of enterprises.

For example, in the highly competitive and record-setting land sales in the northwest corner of Iowa, you can find 3 of the top 4 Iowa County Average CSR2 ratings—O'Brien (#1), Osceola (#3), and Sioux (#4). (Grundy county in central Iowa is #2.) Over the long-term, the most productive soils will outperform other areas, and this long-term benefit accrual creates a fertile environment for wealth creation. In addition to consistently strong soils, there is also a significant livestock presence in Northwest Iowa that provides earning and income-stream diversity. Add in productive livestock operations, with access to manure, and you have another enhancement to top-quality soils.

From area-to-area, at Hertz Farm Management, we have observed a strong correlation between quality of soils, local historical wealth, and the competitiveness/strength in local land markets.

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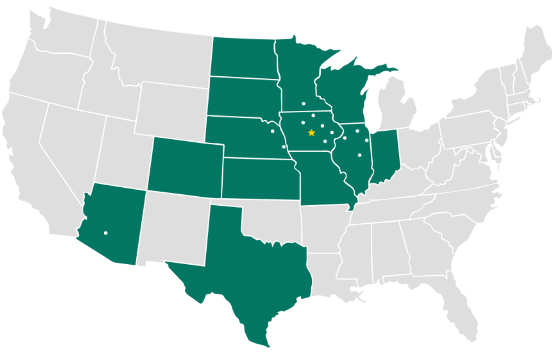

Market Sees Offerings Trending Toward Private Treaties

IOWA

150.00 acres in Benton Co., IA, located north of Keystone, sold via private treaty in mid-February. The farm had 142.64 tillable acres with a CSR2 rating of 92.50. There were 3.40 acres enrolled in CRP contracts. Farm sold to a farmer-buyer at $16,667/Ac., or $189.48/CSR2 point/tillable acre.

237.20 acres in Hamilton Co., IA, located east of Stratford, sold in 3 parcels via Hybrid auction in early-April. Parcel 1, consisting of 80 acres with 77.46 tillable acres and CSR2 of 81.80, as well as a wind turbine, sold for $15,000/Ac. ($196.96/CSR2 point/tillable acre). Parcel 2 had 77.20 total acre with 76.75 acres all enrolled in CRP contracts. CSR2 on the CRP ground was 74.00. It sold for $8,600/Ac. ($116.90/CSR2 point/tillable acre). Parcel 3 was also 80 total acres with 75.79 tillable acres and a CSR2 rating of 84.40. It sold for $12,200/Ac. ($152.12/CSR2 point/tillable acre). All three parcels sold to a local farmer.

100.00 acres in Clinton Co., IA, located partially in the City Limits of Lost Nation, sold via private treaty in mid-April. This property had 94.69 tillable acres with a CSR2 rating of 84.70 and potential for a building site. There were some older bins and a windmill onsite. Farm sold for $15,000/Ac., or $187.03/CSR2 point/tillable acre, to a non-local investor.

ILLINOIS

294.32 acres in DeKalb Co., IL, located west of Sycamore, sold via private treaty in late-April. This property had 285.59 tillable acres with a PI rating of 138.30 and sold for $15,970/Ac. ($119.00/PI point/tillable acre) to non-local investor.

257.04 acres in Macon Co., IL, located east of Maroa, was offered in 3 parcels via Hybrid auction in late-March. Parcel 1 had 78.86 total acres with 77.79 estimated tillable acres and a PI rating of 141.90. Parcel 2 had 80.00 total acres with 80.00 estimated tillable acres and a PI rating of 135.50. Parcel 3 had 80 total acres with 98.18 estimated tillable acres and PI rating of 140.20. Parcels 1 and 2 sold together for $17,200/Ac., or $124.85/PI point/tillable acre to a non-local investor. Parcel 3 sold for $18,300/Ac., or $130.53/PI point/tillable acre to a non-local investor completing a 1031-Exchange.

MINNESOTA

231.98 acres in Watonwan Co., MN located west of Lewisville, sold via In-Person auction in late-January in 2 parcels. Parcel 1 consisted of 80.00 total acres with 77.80 tillable acres and a CPI rating of 91.20. Parcel 2 had 151.98 acres with 145.70 tillable acres and CPI rating of 91.10. Parcel 1 sold for $11,400/Ac. ($128.53/CPI point/tillable acre). Parcel 2 sold for $11,300/Ac. ($129.39/CPI point/tillable acre). Both parcels sold to a local farmer.

58.29 acres in Dakota Co., MN, located south of Miesville, sold at an In-Person auction in mid-April. This farm had 54.00 tillable acres with a CPI rating of 71.90 and came with two building rights to the property and was adjacent to a local golf course. Property sold for $12,700/Ac., or $190.67/CPI point/tillable acre, to a non-local investor.

*Visit the **Auction Results** page on our website, **www.Hertz.ag***