



Hertz[®] Outlook

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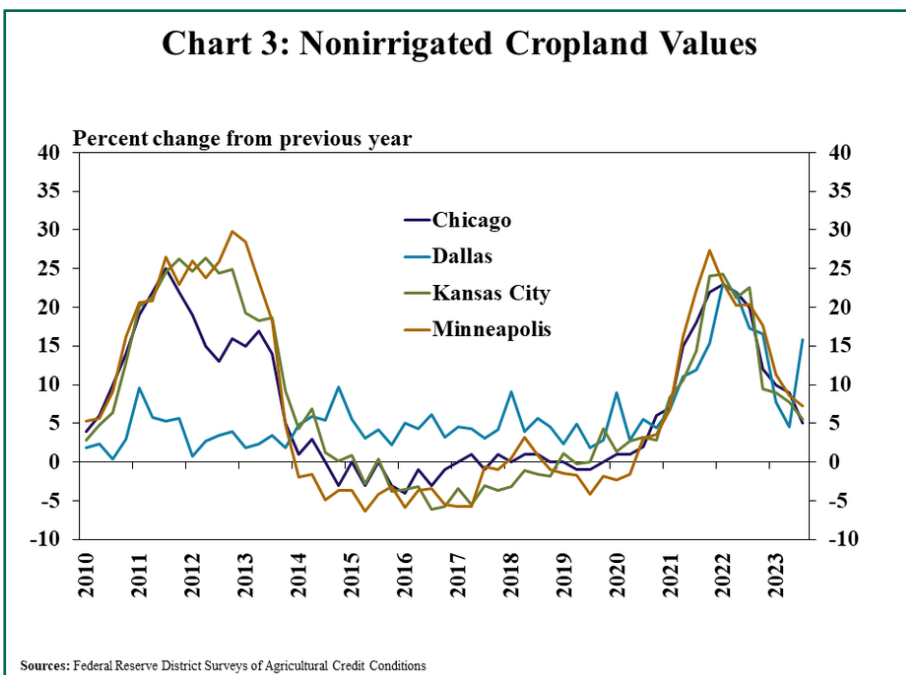
Farmland Values Still Strong, But Upside Limited

After several years of climbing to new heights, farmland values appear to be leveling off, notes Doug Hensley, president of Hertz Real Estate Services. That's not to say top quality farms aren't still attracting strong prices. In late October, one Marshall County, Iowa auction Hertz sold brought \$21,300 per acre for a 77-acre farm with a 94.4 CSR2 soil rating (very high quality) next to a hard-surfaced road; and in late December Hertz sold another 176 acres in Piatt County, Illinois that brought \$21,200 per acre at auction. "But the market is not currently as deep for lesser quality farms as it was in late 2022," Hensley explains.

The main pressure point on land values is the drop in commodity prices. Although higher Interest rates have also been negative, their impact has not yet been as significant.

Corn prices have skidded 27%, comparing USDA's report of last year's crop's season-average farm price of \$6.70 per bushel to its forecast of only \$4.85 per bushel season-average price for this year's crop in the 2023-24 marketing year.

"We've just experienced two to three years of record farm profits, but 2023 profit margins tightened," Hensley says. And with a tempered outlook, that has put the brakes on setting new highs for farmland.



now getting into the middle of their growing season and if it looks like they'll have a bumper crop, that will pressure our commodity prices, and subsequently will be a bit of a wet blanket on land values." Conversely, if the South American crop experiences weather problems, that could push corn and soybean prices higher and pump up U.S. ag exports, which had collapsed last year. "We'll be watching the development of the crop in South America closely in the first quarter of 2024," adds Hensley.

Higher interest rates have impact... on borrowers and savers

Fortunately, most farmland buyers have not been borrowing heavily to finance land purchases because of recent record farm profits. "Cash has been powering most land purchases which has kept land values stable, overall," Hensley reports. And the predominant buyers of farmland are farmers.

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Commodity price worries

"Looking into early 2024, much will depend on the South American crop," explains Hensley. "We're

Iowa Farmland Hits New Peak in 2023, Pace Slowed

After steep double-digit increases in Iowa land values in 2021 and 2022, the 3.7% increase in farmland values in 2023 seems modest. Yet the average statewide value of \$11,835 per acre is the highest since Iowa State University began its survey in 1941.

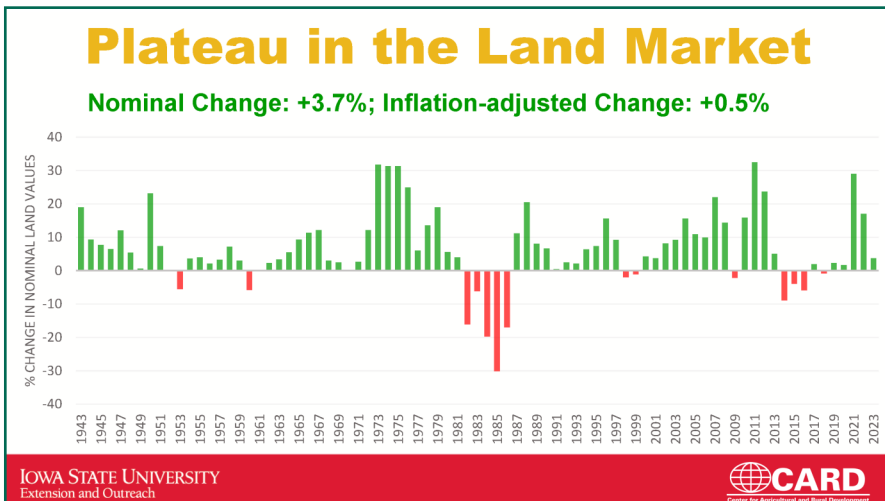
ISU's survey of bankers, real estate professionals, appraisers, professional farmland managers and others reported a statewide average for high quality land at \$14,296 per acre, up 3.5% for the year. On medium quality Iowa cropland, the state average was \$11,075, up 3.8%, and low-quality land was pegged at \$7,664, up 4% compared to December 2022.

By region, the northwest corner of the state posted the highest average land value of \$14,753 per acre, but that was actually down \$125 compared to 2022. Rabail Chandio, the ISU ag economist who conducted the annual survey explained that the decline was small enough to be within the survey's margin of error.

More than 70% of the farmland buyers in 2023 across the state were farmers. "When we're seeing sales valued at \$26,000 or \$30,000 per acre, those are not going to investors because they're not getting a return. They're most likely the long-term farmer that's buying land because it's that specific parcel," Chandio explained.

USDA predicts farm income to fall 17.4% in 2023 compared to a record high in 2022, although the income forecast is not as severe as the 23% decline USDA had forecasted in August. And after four years of increasing farm income, farmers have strong cash

reserves. So, even with an expected drop in farm income, farmers' incomes remain more than 30% above farm income levels in 2020, Chandio explained.



"Interest rates will continue to be a negative factor in the land markets -- even if they stop increasing them or they decrease a little bit -- because the hikes we have seen have not been fully absorbed yet," Chandio said.

On the other hand, a limited supply of farmland for sale is supporting land values, according to the survey. The majority of sellers (57%) were estates, with retired farmers accounting for 23%.

"While positive influences (to land values) were more prominent at the beginning of the year (2023), negative pressures are building as we approach 2024," Chandio said. She thinks the land market is likely entering into a period similar to the post-ethanol boom, where prices slowly declined or stayed flat.

Federal Reserve Banks—

Land Values Moderate as Farm Economy Slows

Financial data from USDA and the Federal Reserve Bank districts report a "slowing" in the agricultural economy. However, this reduction in the rate of increase follows several years of strong acceleration. In general, farm incomes and land values remained strong in 2023. Farmland values increased, just not at a breakneck speed. Most bankers expect land values to level off or slightly decline in 2024.

Non-irrigated cropland values in the five central U.S. Federal Reserve districts are still about 5% to 7% higher than a year ago, with the Dallas Federal Reserve Bank reporting a 15% annual increase in the third quarter of 2023, compared to Q3 of 2022.

In the Midwest, farmland values in the Chicago Federal Reserve district, were mostly flat after July 1, with agricultural bankers reporting only a 1% increase

from July 1 to October 1.

"Agriculture credit conditions remained sound, but conditions have eased from a period of considerable strength," affirmed Nate Kauffman, senior vice president, economist and Omaha Branch Executive of the Kansas City Federal Reserve Bank. While farm income in 2023 weakened compared to 2022, repayment rates on farm loans were largely unchanged in all regions compared to a year ago, Kauffman reported.

Despite a widespread drought across the Chicago Fed District, corn and soybean yields for its five states in 2023 dipped just a bit from 2022 and stayed close to their historically highest levels, based on U.S. Department of Agriculture (USDA) data.

Farmland Values Still Strong, But Upside Limited *continued from page 1*

But the draw of investor dollars to farmland, which can often help support land values is diminishing a bit, says Hensley. Pure-play investors can get a 5% return on their money with virtually no risk at any local bank. “So, farmland is not the most competitive asset class at these interest rate levels,” says Hensley. “That has taken away what I call the ‘pure-play investor’. And investment alternatives to farmland are more positive now than they have been in the past couple years.”

Another type of investor Hensley expects to be more affected by higher interest rates is the 1031-exchange buyer. “We’re just starting to see a slow-down in development projects,” says Hensley. “Lenders I’ve talked with in growing markets are not as busy as they were a year ago, so we’re beginning to see downstream 1031 activity also slow, and this will eventually have an impact on the farmland market; not a huge one, but 1031 buyers do matter because they have a tendency to be very aggressive and competitive, when they have reinvestment money to place.”

In a 1031-exchange, when a developer buys farmland to convert into commercial or residential property, the land seller can find other farmland or investment property to buy (within a set period of time) and in the “exchange,” defer capital gains taxes on any appreciation he had in the original property. The IRS code allowing this tax deferral is Section 1031 – thereby the name ‘1031 tax-deferred exchange’.

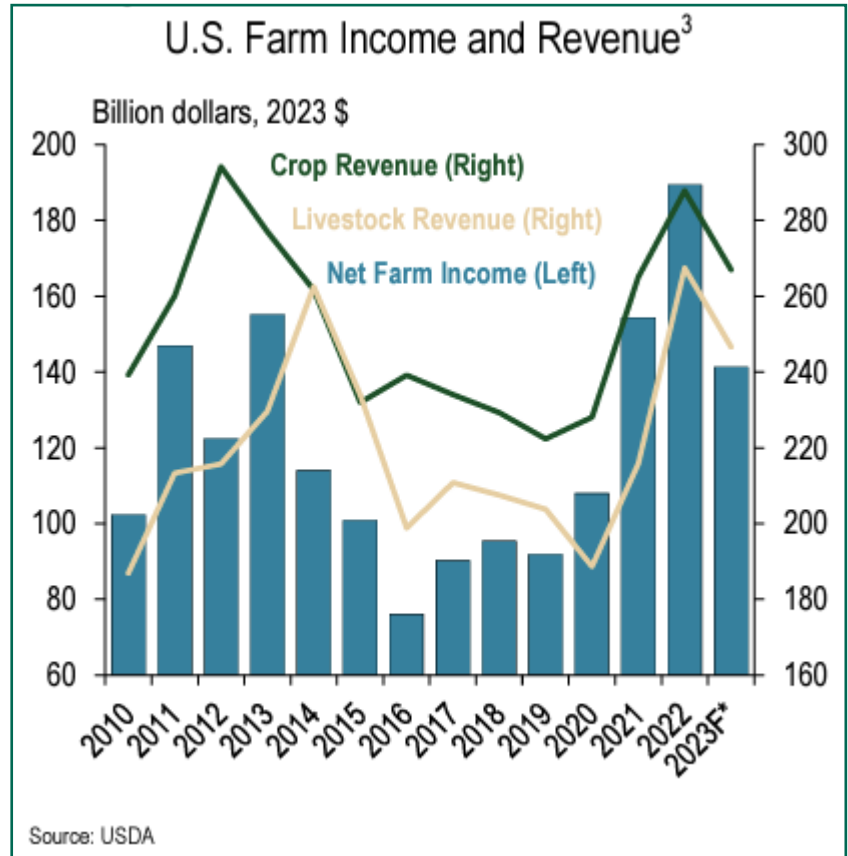
Since developers tend to use more borrowed money for their purchases, current high interest rates curtail their purchasing power. Also, high interest rates slow down customers looking to buy a new house or rent commercial space.

With fewer outside investors, the farm economy becomes even more of the central factor in land values, and that makes the land market more sensitive to commodity prices.

Fewer land sales and lower input costs support land prices

After a wild two-year stretch from mid 2021 to mid-2023, Hensley expects land sales volumes to transition back to something more normal. “We saw more ‘elective sales’ the past couple years, as farmland owners wanted to take advantage of high land values and some were worried about potential tax law changes. Now, we’re getting back to more normal volume,” Hensley reports. Less property for sale supports stable farmland prices.

Also sustaining steady land values are lower input costs, compared to last year. This is predominantly from lower fertilizer costs. The University of Illinois forecasts an average breakeven price for corn in Illinois around \$5.00 per bushel and for soybeans, \$12 per bushel across all regions of Illinois.



Cash rents stable

With the uncertainty of commodity markets and lower fertilizer costs, cash rents are expected to be stable to slightly higher in areas that had good yields in 2023. However, where there was a drought this past year, such as northeast Iowa, southeast Minnesota and in northeast Nebraska and western Iowa, they had weaker yields and we may see a little pressure on cash rents there, Hensley explains.

Hensley views the land market as steady ahead, with fewer land sales, no heavy pressure on values as we head into the new crop year, and generally limited upside -- barring major weather problems in South America or the Midwest.



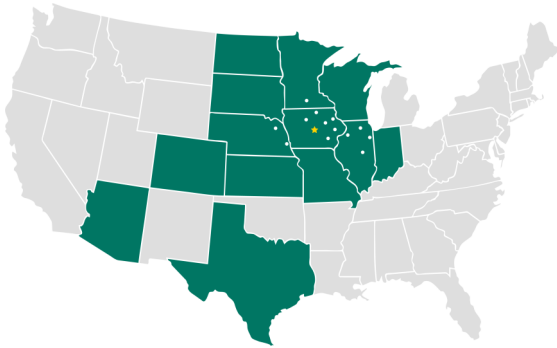
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Recent Hertz Sales Continue To Surpass Expectations

IOWA

599.01 acres in Clayton and Delaware Counties in northeast Iowa, were offered in 8 parcels via Hybrid auction. Parcels 1-3, which were mainly row-crop acres with CSR2 ratings between 75.10 and 88.70, sold for \$16,100/Ac. equating to a price/CSR2 point/tillable acre ranging between \$196.20 to \$296.73. Parcels 4-7, which consisted of a combination of crop/timber/CRP acres, sold in a range from \$7,000/Ac. to \$10,000/Ac. With lower CSR2 ratings on these parcels, the price/CSR2 point/tillable acre ranged between \$314.35 to \$413.52. There was also a 23-acre building site that sold for \$670,000. The farms were geographically located near Edgewood, Elkport, Garber and Osterdock.

76.70 acres in Marshall Co., IA, located east of Liscomb was sold via Hybrid auction. The farm had 72.81 tillable acres with a CSR2 of 94.40 with an open lease for the 2024 crop year. Farm was located on a hard-surface road. Sale price of \$21,300/Ac. was equivalent to \$237.69/CSR2 point/tillable acre.

162.72. acres in Benton Co., IA, south of Keystone was offered in 2 parcels via Hybrid auction. Both parcels were 94% (+) tillable. Parcel 1, consisting of 97.67 total acres had 96.74 tillable acres and a CSR2 rating of 95.60. Parcel 2 had 65.05 total acres, 61.00 tillable acres and a CSR2 rating of 91.50. Both farms sold well with Parcel 1 bringing \$20,900/Ac. (or \$220.72/CSR2 point/tillable acre), and Parcel 2 bringing \$16,500/Ac. (or \$192.30/CSR2 point/tillable acre).

ILLINOIS

176.49 acres in Piatt Co., IL, west of Bement was offered in 2 parcels via Hybrid auction and sold to a single buyer for \$21,200/Ac. or \$152.45/PI point/tillable acre. The farms had a total of 171.09 tillable acres with an average PI of 143.45.

90.00 acres in Henry Co., IL, west of Geneseo was sold via Virtual Online Only auction. The farm had 87.08 tillable acres with a PI of 140.60. Property brought \$19,100/Ac., or \$140.40/PI point/tillable acre.

1,006.26 acres in northwest Iroquois Co., IL was offered in 12 parcels via Virtual Online Only auction. Parcels had PI ratings ranging from 123.10 on the low-end up to 134.00 on the high-end, and sold well with sale prices ranging from \$9,300/Ac. to \$14,600/Ac.

MINNESOTA

165.31 acres in Renville Co., MN, north of Stewart was offered in 2 parcels via Hybrid auction. Both parcels sold to the high bidder at \$16,800/Ac. The combined farms had a total of 163.68 tillable acres with a CPI rating of 93.30. Sale price equates to \$181.86/CPI point/tillable acre.

984.41 acres in Mower Co., MN, were offered in 9 parcels at a Hybrid auction. Parcels 1 through 4, totaling 530.60 acres, were taken in the first round of bidding at \$11,900/Ac; followed by Parcels 6, 8 and 9, totaling 328.94 acres, at \$11,000/Ac. in round 2. Rounds 3 and 4 saw Parcel 5 (50.95 acres) selling at \$10,000/Ac. and Parcel 7 (73.92 acres) selling at \$8,100/Ac. Prices per CPI point per tillable acre ranged from \$106.07 to \$152.18.

Visit the [Auction Results](http://www.Hertz.ag) page on our website, www.Hertz.ag