Hertz Outlook

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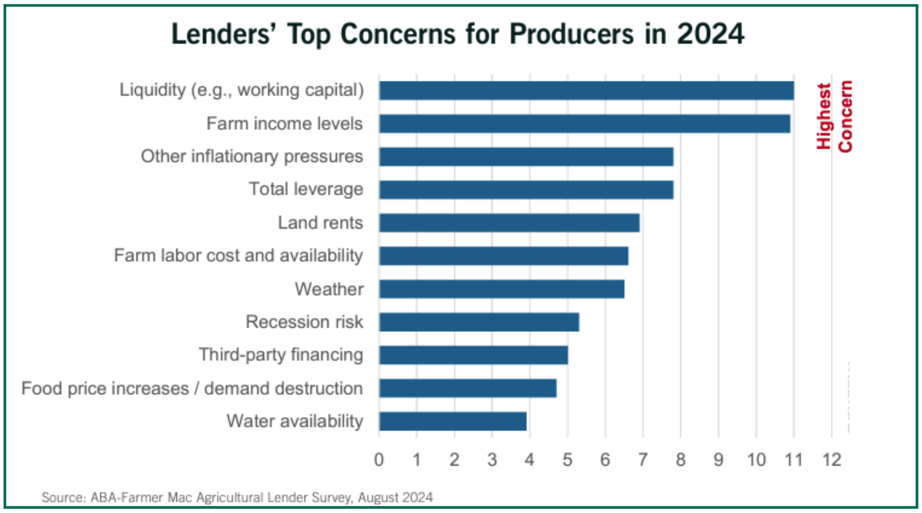
Farmland Market Softens Heading Into 2025

"As we bring in 2025, we're seeing more of a bias toward softness than strength in the overall farmland market," observes Doug Hensley, President of Hertz Real Estate Services. "Although we still saw a few surprisingly strong auctions at the end of 2024, they have become fewer and further in-between." Land prices are generally down 5% to 10% from a year ago, with some weaker neighborhoods down as much as 15%, Hensley reports.

Farmland mortgage interest rates are hovering around 7.5% -- that's a jump from the 4.5% to 5.5% long-term rates land buyers experienced from 2012-2022, if they even needed to borrow money to buy land. The farm financial situation has deteriorated with lower commodity prices and higher interest rates. "Coming into 2024, farmers had strong working capital, but working capital has eroded this past year," notes Hensley.

"In early 2024, we really started to see weakness in the grain commodity markets. As a result, profit margins today are thinner than they've been in the past five years," Hensley explains. "This has created a narrower buyer base. Put simply, fewer hands are actively participating in land auctions."

Fewer outside investors are looking at farmland, too. More attractive alternative investments have siphoned off many non-farming investors from today's market. And the slow-down in real estate development, primarily because of higher interest rates, has also meant a decrease in the number of 1031 tax-deferred, land exchange buyers.



There are still farmer buyers with a strong interest in neighboring property, but they are being more careful in today's economic climate, advises Hensley. "Cautious lenders are also encouraging farmers to make prudent decisions," notes Hensley.

Land sellers shifting expectations

A year ago, anyone thinking of selling a farm thought they could still get a near record sale price. Now, farm sellers are not expecting a record sale, Hensley explains. "Everyone *wants* last year's prices, but buyers are not willing to bid that high, and sellers have largely adjusted to the different financial reality," he adds.

As we look back over the past year, there was more softness in the market in August through October – basically the pre-harvest market – as predictions for low farm income turned farmers very hesitant until they better understood their harvest position and outcomes. And, Hensley reports, farmers harvested a bigger crop than they expected, which has helped to improve the negative attitude in the countryside. "I

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wouldn't say attitudes have turned positive, but you can feel an improvement from late summer and early fall," Hensley says. "That has helped to firm the land market to close the year, compared to early September."

And, some landowners who considered a sale, but who are not in a hurry to sell, have just decided to hold onto their property. "Whenever we have market uncertainty, as we do today, it prompts some potential sellers to 'tap the brakes' and wait for improved market conditions," Hensley explains.

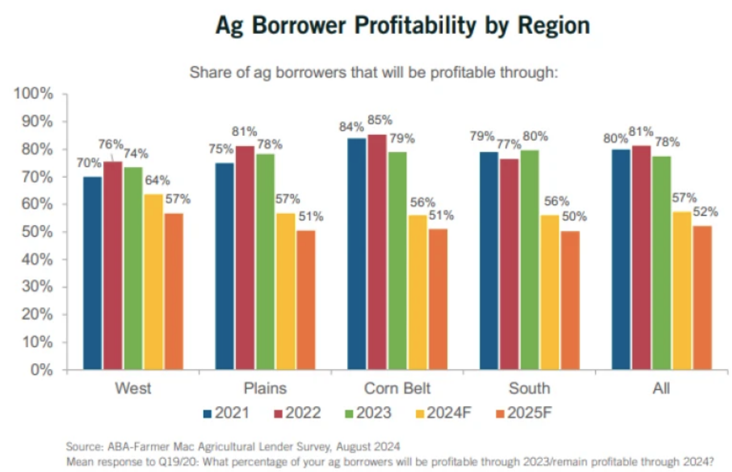
In fact, public land sales volume is the lowest it's been since 2020. And because there is not an excess volume of land for sale, that has also helped keep farmland prices from further weakening.

Cash leases remain mostly flat

"I don't think we'll see much change in cash rent leases from 2024 to 2025," says Hensley. Farmland leases may be 0% to 5% lower, but better yields than most people expected will likely keep rents at status quo. "We out-busheled it in 2024. However, with tight profit margins and another year of working capital erosion in 2025, you'll have red ink on income and cash flow statements. So, if we have another tough year, we will likely see more legitimate pressure on cash rent leases. I just think we are a year away from the possibility of those more significant adjustments," explains Hensley.

Farm Profitability Sinks

Only half of agricultural borrowers are expected to be profitable in 2025, according to an August 2024 agricultural banker survey across the country. After several strong profitable years in 2021-2023, farm and ranch profits are expected to drop abruptly in 2024 with no relief in 2025. High input costs, low commodity prices and higher interest rates have combined to wring profits out of farming, particularly for those farming operations that lack scale in corn and soybean production.

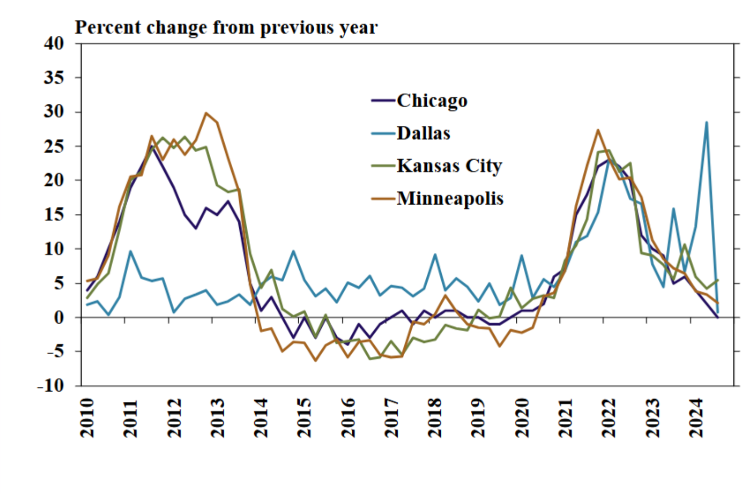


Cyclical Land Values Head Into Flat Territory

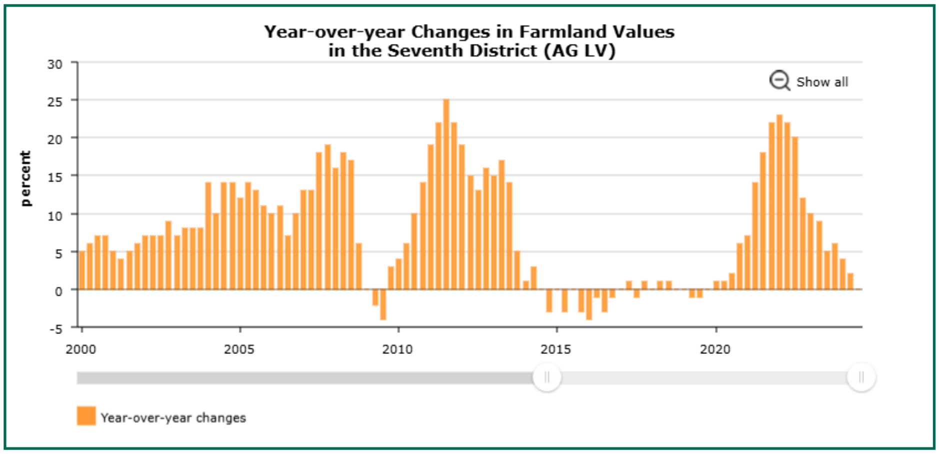
For the first time since 2019, farmland valuation in the Chicago 7th Federal Reserve district remained unchanged from the previous year. The Chicago district includes Iowa, the northern half of Illinois, northern Indiana and southern Wisconsin and Michigan.

After four years of strong growth, cropland values across all regions are cycling into a flat-to-negative pattern. Further west, the Kansas City Federal Reserve district's non-irrigated cropland values were still up 5% on the year in the third quarter of 2024, powered largely by a strong livestock market. However, lenders in the region which includes Nebraska, Kansas, Oklahoma, Colorado, Wyoming and parts of Missouri and New Mexico, reported sharply lower crop farm income and slightly slower loan repayments. A profitable cattle market, in particular, has helped some producers in this region. But as one lender reported, "Current grain prices are putting continued pressure on margins and most farmers have recognized the lack of profitability and have pulled back spending."

Non-irrigated Cropland Values in several Federal Reserve Districts



Uncertainty Clouds Ag Economy



Agricultural interest rates ended the year in 2024 higher than at the beginning of the year, despite the Federal Reserve cutting rates. “That tells me the agricultural market is factoring risk differently,” explains Doug Hensley, president of Hertz Real Estate Services. So, what is weighing on the ag market? Uncertainty.

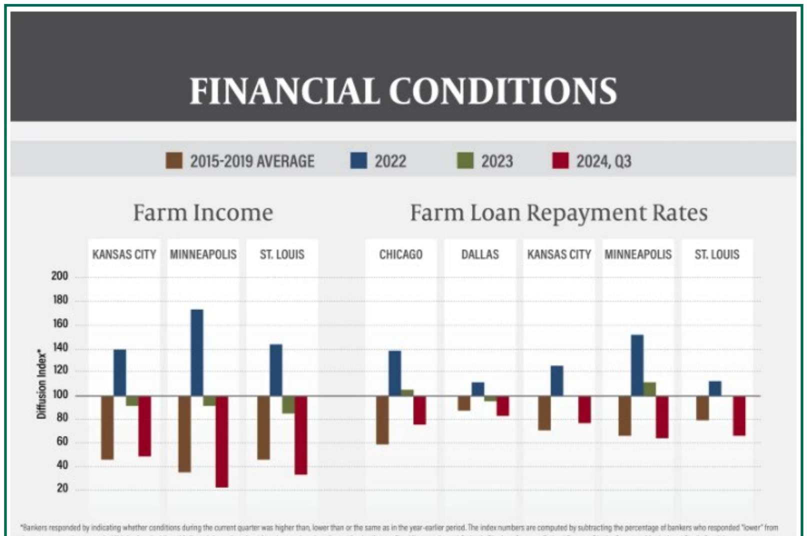
There are several buckets of uncertainty that will affect agriculture in the coming year, explains Hensley. Of course, there are commodity price and production unknowns, each of which are common every year. However, in 2025, additional political and economic uncertainties will be important factors to watch.

Renewable fuel tax credits. The incoming Administration has suggested it may eliminate a production tax credit (45Z Clean Fuels Production tax credit) that the biofuel industry is counting on for economic viability. Currently, Sustainable Aviation Fuel (SAF), made from biomass grown by farmers, costs more than twice as much as conventional jet fuel. However, the aviation industry had pledged to achieve net-zero emission by 2050 and SAF was key to obtaining that goal and the tax credit was going to help make that economically viable.

The Farm Bill. The previous farm bill from 2018 expired in 2023 and we are currently operating under an extension of that bill until Congress can write a new five-year bill. With new Congressional leadership and a contentious bipartisan atmosphere, it’s difficult to predict what will be decided in the legislation, which greatly affects the profitability of agriculture, including commodity price supports, conservation programs, food assistance, federal farm loan programs, biofuels and crop insurance.

Tariffs & Trade. Import tariffs placed on goods coming into the U.S. could result in retaliatory tariffs placed on U.S. exports, much of which are agricultural related. The U.S. exports 60% of its soybean crop, accounting for $27.7 billion in 2023. Of that, $15 billion in soybeans was sold to China in 2023. Our next biggest customer is the European Union which bought $3.45 billion in soybeans, followed by Mexico at $2.79 billion in 2023. Also, 10% to 20% of our corn is exported with more than a third of that going to Mexico, a little over 20% sold to Japan, with China as our third largest corn export customer.

Uncertain world economy. Wars in the Middle East, the questionable future of Ukraine (an important world producer of sunflower oil, wheat, corn, soybeans, sugar beets, barley and canola), and the French government in turmoil, all contribute to economic uncertainty that can impact the farm economy.



Farm Income and Loan Repayment Rates (Source: Federal Reserve District Surveys of Agricultural Credit Conditions)

“I don’t know if I would consider any of these a ‘Black Swan’ (an unexpected, potentially devastating event), but any and all have the potential to greatly influence grain markets and interest rates,” Hensley cautions. “Plus, we have our own basket of challenges here in the U.S. Historically, both Democrats and Republicans have shown challenges in maintaining fiscal discipline, making it difficult to predict how these market factors will evolve over the next two years," Hensley says. His advice: “Focus on what you know and can control. Outside of that, buckle your seatbelts. It’s likely to be a bumpy ride.”

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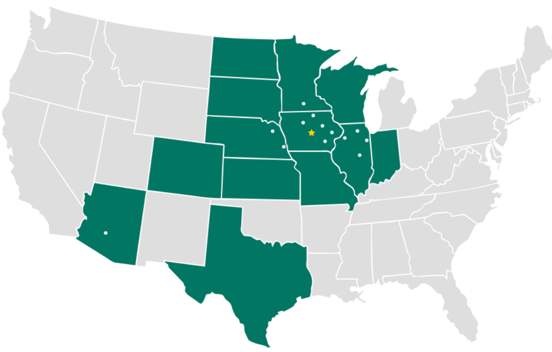

Strong Sales in a Softer Market

IOWA

1,306.83 acres in Fremont Co., IA, located southwest of Thurman, sold via private treaty in mid-July. This partially irrigated farm had 1,140.63 tillable acres with a CSR2 rating of 74.20. There were 104 acres, m/l, in timber. Farm included an older dwelling and multiple outbuildings and grain bins. Farm sold to a farmer-buyer at $12,894/Ac., or $199.09/CSR2 point/tillable acre.

240.56 acres in Butler Co., IA, located northeast of Aplington, was offered in 2 parcels via One-Chance Sealed Bid sale in early October. Parcel 1, consisting of 116.77 total acres, sold for $15,700/Ac., or $190.37/CSR2 point/tillable acre with 107.00 crop acres and a CSR2 rating of 90.00. Parcel 2, consisting of 123.79 total acres, sold for $16,600/Ac. Or $186.90/CSR2 point/tillable acre with 119.12 crop acres and a CSR2 rating of 92.30. Both parcels sold to a local farmer.

ILLINOIS

273.52 acres in Mercer Co., IL, located south of Seaton, was offered in 3 parcels via Virtual Online auction in late-October. Parcel 1 had 81.48 total acres with 80.79 estimated tillable acres and a PI rating of 137.90. It sold for $17,000/ac., or $124.33/PI point/tillable acre. Parcel 2 had 88.14 total acres with 66.14 estimated tillable acres; 17.14 acres in CRP; and a PI rating of 130.50. It sold for $13,000/Ac., or $132.75/PI point/tillable acre. Parcel 3 had 103.90 total acres with 92.51 tillable acres and PI rating of 130.10. It sold for $11,800/ac., or $101.87/PI point/tillable acre. All three parcels were sold to farmer-buyers.

80.00 acres in Tazewell Co., IL, located west of Minier, sold via Virtual Online auction in mid-November. This property had 78.69 tillable acres with a PI rating of 141.90 and sold for $20,600/Ac., or $147.59/PI point/tillable acre.

MINNESOTA

668.46 acres in Blue Earth Co., MN located northeast of Minnesota Lake, sold via Hybrid auction in early-September in 6 parcels. The individual parcels ranged in size from 40.25 acres up to 161.07 acres with tillable acres ranging from 40.43 acres up to 154.46 acres. CPI ratings ranged from 77.90 up to 84.60, giving the seller a price per CPI point/tillable acre that ranged from $140.22 to $168.37 (average of $154.70).

SOUTH DAKOTA

1,275.70 acres in Clark Co., SD, located southwest of Clark, sold via One-Chance Sealed Bid sale in mid-October. The property was predominantly grass, spring-fed pastureland, but also had 271.18 tillable acres with a PI rating of 78.30. Property included older livestock buildings, a machine shed, Morton shed, grain bins and concrete silos. The farm sold for $3,998/ac., or $240.19/PI point/tillable acre to a farmer buyer.

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