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Economic Uncertainty Increases Value of Owning Land

What would you rather own today, more than a farm? Stocks? Bonds? Development property?

In this time of market uncertainty, it's a great time to own farmland, notes Doug Hensley, president of Hertz Real Estate Services. Throughout the economic cycles of the past 25 years, farmland has shined – through the 2000-2002 Dot-com crisis, the 2008 housing crisis, and through the 2020 global COVID-19 pandemic.

While we are not facing a new crisis, current land values are holding steady despite emerging economic uncertainties, according to Hensley. "It appears the farmland market hit its recent low point around last year's harvest," he notes. "Throughout most of 2024, values had remained flat. As harvest approached, there was uncertainty around yields, commodity prices were soft, and higher input costs loomed. That combination led to some buyer hesitancy last fall."

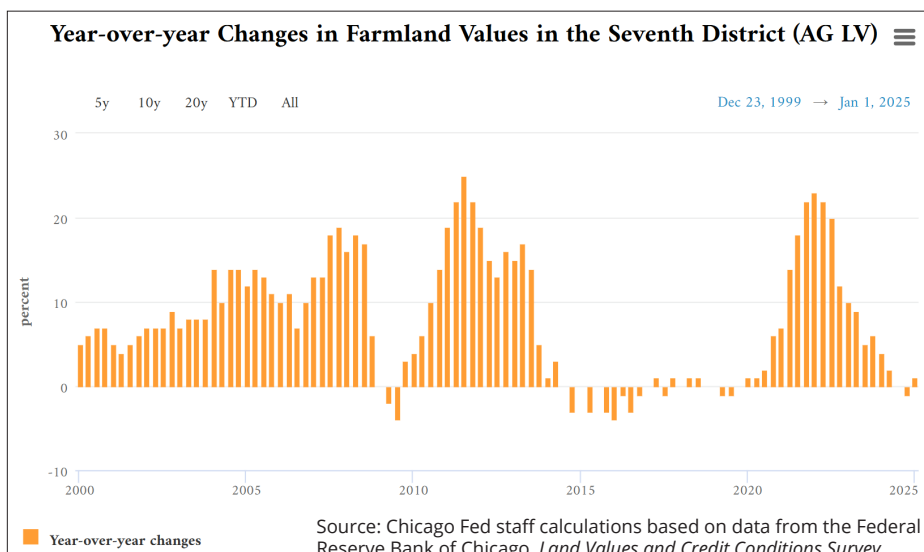
"Then, we harvested a better than expected crop. And the budget bill that passed in December 2024 allocated \$10 billion in direct payments for farm country. As the news of that disseminated in January, we enjoyed a really nice rally in commodity prices, and those who had missed selling their '24 crop for a profit months before, got another chance," Hensley adds. "These things combined to inspire confidence again."

"Today, our economy is in a kind of limbo again," says Hensley. Tariffs, trade, and geopolitics have stolen the show. Since the beginning of April, many landowners who may have considered a farm sale have decided to take a wait-and-see attitude. "People don't like selling land or any other asset when they don't fully understand how the market is behaving, which has limited sale volume," Hensley explains. But that lack of supply is also keeping a floor under farmland values.

"Relative to recent years, we haven't seen very many farms for sale in the first quarter of 2025," Hensley reports, and "high quality farms being offered for sale are attracting strong interest."

"So, if you are looking to sell a farm for a strong price, you can do so with confidence because there is little else for sale," advises Hensley.

"I get it, and it makes sense when you think practically about it. People like to hang on to hard assets in the face of an uncertain economy. And that uncertainty is



Economic Uncertainty Increases Value of Owning Land (continued from page 1)

at a level we've not seen in several years," says Hensley. "And, beyond the sale uncertainty, when people sell a farm, they want to know what they are going to do with their money – buy stocks, invest in a business, trade into development or other investment property, etc. Today, they are unsure," he adds. "And that uncertainty breeds indecision and a slow market."

This new uncertainty across the U.S. (and world) economy has added to the annual agricultural uncertainties that we are used to during a normal growing season, notes Hensley. As we head into the summer growing season, the commodity markets tend to set the direction for corn and soybean prices. We had an excellent planting window this spring. So, as summer weather patterns shape up, we'll know more about the outlook for this year's crop, resulting farm incomes, and how land values may trend. We also have an expectation that the geo-political uncertainties will settle, compared to the first half of 2025.

And as the land market of the past year has shown, even when farm incomes drop, there is still resiliency in farmland values. Over the past couple

years, farm income has dropped 25%, but land values over the same time period only slipped marginally in comparison, says Hensley. "And since January 1, we've seen land values firm up."

Compared to other investments, farmland has several strong advantages:

- Unlike paper assets, land is not going to disappear
- There is rarely any vacancy with Midwest farmland.
- You don't have to remodel when you get a new tenant. It won't rust, rot, or need paint.
- Farmland builds wealth as it is positively correlated with inflation, and allows for wealth-transfer between generations.
- Price fluctuations are gradual and tend to be resilient over time.
- Farmland offers a consistent annual cash income.

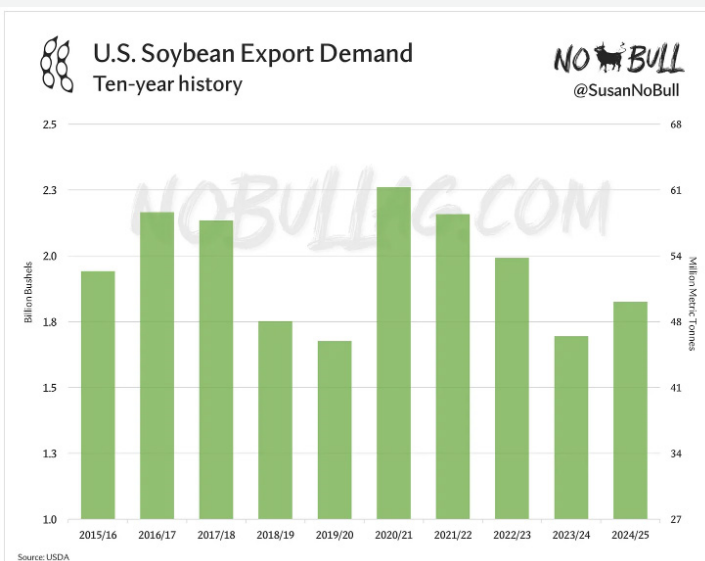
Continued ownership of any asset is based on current needs and future expectations. Sellers of farmland today certainly have legitimate and rational reasons. The question any landowner must answer is, ***"What would you rather own right now?"***

China Trade Risks Different in 2025 than 2018

While China continues to be a major export customer for U.S. soybeans, U.S. agricultural export growth has become less dependent on China. "While China is still a huge world player, we are currently less reliant on China for our major agricultural exports than the last time we tangled back in 2018," explains Doug Hensley, President of Hertz Real Estate Services.

Tariff negotiations between our two countries do affect commodity markets, but maybe not as strongly as many people fear.

Overall agricultural exports from the U.S. to China fell 14% from January to November 2024, compared to a year earlier, down for a second straight year. "China has not been as significant of an export customer for the past 2 to 3 years," explains Hensley. Mexico is our number one



China Trade Risks Different in 2025 than 2018 (continued from page 2)

purchaser of U.S. corn and Canada is our biggest foreign buyer of ethanol.

However, despite the diminished exports, China still buys about half of our soybean exports. Last year that was worth \$12.4 billion, according to the U.S. Department of Agriculture. Our next three large soybean customers combined, Mexico, Indonesia and the European Union, purchased about \$6 billion of our soybeans in 2024.

But China's number one soybean vendor is now Brazil. And China relies on agricultural imports from South America, especially in the first half of the calendar year after the major crops in the southern hemisphere are harvested from March

to May. So, timing may also be playing a role in the somewhat muted commodity market response to this spring's tariff kerfuffle.

U.S. farmers are paying attention, however, and have cut back on soybean acres, noting that U.S. soybean exports will likely be lower in 2025. In fact, USDA's estimated soybean acres this year is the lowest since 2020.

So, while tariff negotiations between China and the U.S. are important for U.S. agriculture, they appear to be less vital than back in 2018. It remains to be seen what China will do when it normally buys the bulk of its U.S. soybean needs during our harvest season in the fall.

Farmland Values Resilient Year-over-Year, Stronger in Q1

Farmland values across the "I" states found support in the first quarter of this year and remained steady compared to a year ago, according to the Chicago Federal Reserve Bank survey of farm lenders.

However, that was mostly due to a cutback in supply of farmland for sale rather than an overall stronger demand for land. The amount of farmland for sale and the actual sales (by farm number and by acreage) were all lower in the first quarter of 2025 compared to a year earlier.

On the demand side, 29% of the surveyed bankers reported lower demand for farmland in their area, while only 15% of the bankers noted stronger interest in purchasing farmland compared to those wanting to buy in the first quarter of 2024.

Looking ahead, 69% of the surveyed bankers expect farmland prices to be unchanged in the second quarter of 2025.

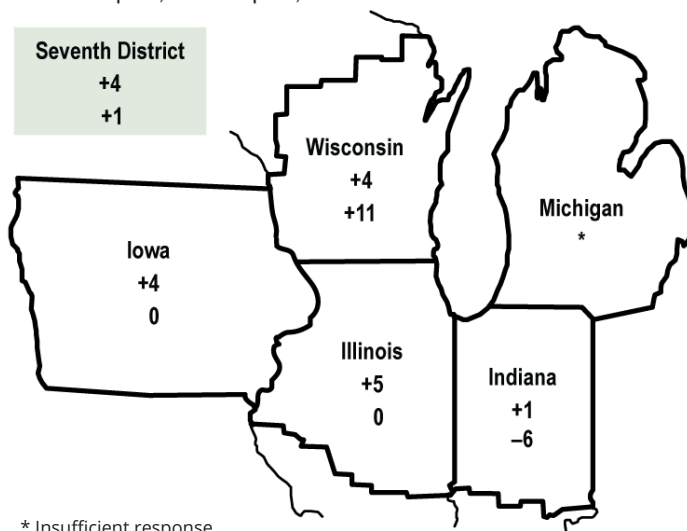
Annual cash rents declined across the district for the first time since 2020. This year, average annual cash rents slipped 3% in Iowa, declined 2% in Illinois and actually went up 1% in Indiana.

Although not at the "doom and gloom" stage, the farm financial picture is more murky. No

banker in the survey observed higher rates of loan repayment in the first quarter, compared to last year, and 39% reported lower rates of repayment by their farm customers. On average, 19% of their farm borrowers (still a small percentage) had more carryover debt from last year's crop carried over into the new growing season, compared to the amount of carryover debt one year ago.

Percent Change in Dollar Value of "Good" Farmland

Top: January 1, 2025 to April 1, 2025
Bottom: April 1, 2024 to April 1, 2025



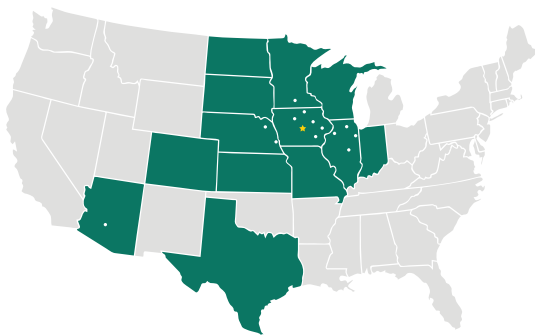
* Insufficient response

Source: Chicago Fed staff calculations based on data from the Federal Reserve Bank of Chicago surveys of farmland values.

Corporate Headquarters

415 S. 11th St., P.O. Box 500
Nevada, IA 50201-0500
(515) 382-1500
www.Hertz.ag

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Amid Low Market Inventory, Spring Sales Still Strong

IOWA

161.34 acres in Hamilton Co., IA, located southeast of Jewell, sold via One-Chance Sealed Bid Sale in late-February. The farm had 150.26 tillable acres with an additional 5.40 acres in CRP. The CSR2 rating on the tillable and CRP acres was 83.10. There was a pipeline crossing the property. Farm sold to a farmer-buyer at \$15,101/Ac., or \$195.12/CSR2 point/tillable acre.

95.80 acres in Jones Co., IA, located southeast of Monticello, sold via private treaty in mid-January. The farm, consisting of 92.58 tillable acres with a CSR2 rating of 91.20, sold for \$18,528/Ac. or \$210.22/CSR2 point/tillable acre to a farmer-buyer.

ILLINOIS

41.58 acres in Shelby Co., IL, located south of Findlay, sold via Virtual Online auction in early-March. This property was nearly all tillable with 40.42 FSA crop acres and a PI rating of 144.00. Farm sold to a local investor at \$18,500/Ac., or \$132.16/PI point/tillable acre.

64.75 acres in Ogle Co., IL, located northwest of Hillcrest, sold via private treaty in early January. The farm had 64.40 tillable acres with a PI rating of 140.80 and sold to a farmer-buyer. Sale price was \$14,000/Ac., or \$99.97/PI point/tillable acre.

MINNESOTA

80.57 acres in Sibley Co., MN, located west of Winthrop, sold via Hybrid auction in mid-March. The property had 77.10 tillable acres with a CPI rating of 93.90. It sold to a farmer-buyer at \$14,100/Ac. or \$156.92 per CPI point/tillable acre.

NEBRASKA

159.26 acres in Antelope Co., NE, located southwest of Creighton, sold via Virtual Online auction in late-February. This irrigated farm had 149.43 tillable acres with an NCCPI rating of 57.60. There were an additional 4.75 acres enrolled in CRP. The property sold to a farmer-buyer at \$11,000/Ac. or \$202.86/NCCPI point/tillable acre.