

Hertz[®] Outlook

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Support Remains Under Land Market

The farmland market continues to be very strong in the first half of 2022. The momentum of last year's good crop, strong commodity prices and still relatively low interest rates have played into the strength of current values.

The Chicago Federal Reserve Bank reported farmland values in the district, which includes Iowa, much of Illinois, Indiana and Wisconsin and Michigan, increased another 4% from January 1 to April 1 this year. Compared to 2021, land values in the latest survey rose 18% in Illinois, 23% in Indiana and 28% in Iowa.

Similar land value increases were reported by the Kansas City Federal Reserve. Non-irrigated cropland in Nebraska rose 24% in the first quarter compared to 2021. Western Missouri's non-irrigated cropland climbed 22% compared to last year, while Kansas non-irrigated farmland jumped 29%.

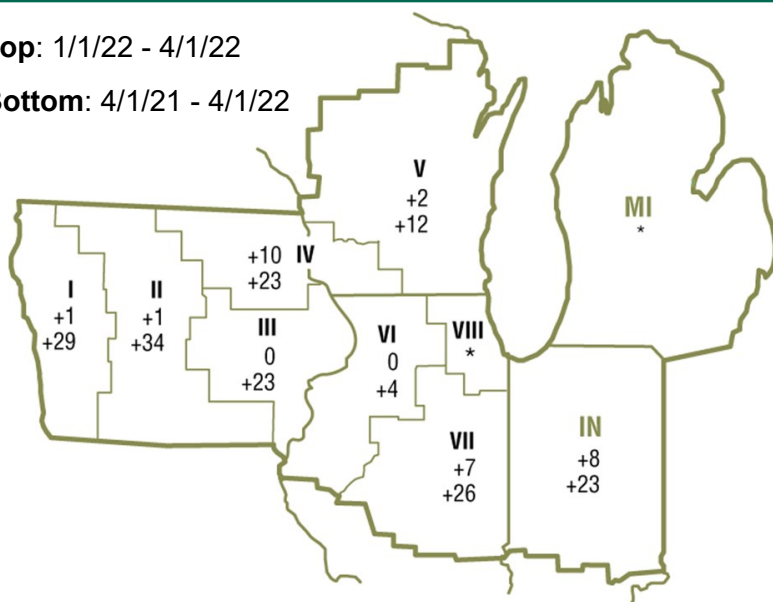
"We had a 'Goldilocks' land market last year," says Doug Hensley, President of Hertz Real Estate Services. "But we are starting to see a shift. Interest rates are going up and will continue rising. At some point, that will slow down the farmland market."

The effects of rising interest rates may take a while to dampen farmland values, according to research by agricultural economist Wendong Zhang at Iowa State University. In his economic model, the

expected interest rate hikes will not significantly translate to lower farmland values until late 2023. "The proposed interest rate hikes will exert downward

Top: 1/1/22 - 4/1/22

Bottom: 4/1/21 - 4/1/22



Chicago Federal Reserve Ag Letter, released May 12, 2022

pressures on the farmland market; however, the hikes are not substantial enough to fully offset the influence of the March 2020 [Federal Reserve interest rate] cuts, and the farmland market likely will not feel the downward pressure from higher interest rates until late 2023," predicts Professor Zhang.

Interest rates are just one of the four drivers of farmland values, Hensley explains. The other drivers – commodity prices, demand for farms and supply of farmland for sale are still supportive of underlying values.

Commodity prices have been propped up by the military conflict in Ukraine and the drought in the Plains states.

In addition, demand for farmland remains robust. "We continue to see both farmers and investors actively looking to buy farmland," Hensley reports. "Bonds and the stock market have really taken a beating in 2022. There may come a point where they become an attractive 'buy' and we see a shift from

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Choosing the Best Method of Sale for You

Selecting the best method of sale can help improve your return on your farmland investment by attracting the right buyer(s) at the right price for the right terms. There are several sale methods to choose from, including a public auction, a private listing or a one-chance sealed bid sale.

The most effective method will depend on the quality of your farm, the strength in your local market, and your sale objectives. As you consider a sale, it is best to work with an experienced agent to help you sort through the factors that may influence your sale. Some advantages and disadvantages of each sale method are described below.

Public auctions are attractive in a rising market. Auctions work best in a competitive market with several interested buyers bidding against each other. They are efficient at price discovery, and auctions work especially well in an up-trending market. This sales method often works best for highly desirable property in an area with several financially-strong buyers.

Advantages of a public auction:

- You determine the date of the sale and the terms.
- A room of active bidders can help generate the best price for the property.
- In cases where there are multiple owners, fiduciaries count on the auction method to be public, fair and impartial.

Public auctions may not work as well in areas of little financial strength, poor quality with little overall demand, or in areas where the supply of farms sold has been very high (e.g., high supply can diminish demand).



Private listings set an asking price, but the timeframe and terms of the sale are open for negotiation (e.g., closing date, possession, income, financing terms, etc.). Sellers opting for private listings will need to have more flexibility in their timing. Depending on the circumstances, a sale could happen fast, or it could take a while, advises Doug Hensley, President of Hertz Real Estate Services.

Advantages of a private listing:

- Allows for open-ended timeframe to find buyer(s), which can be especially important for lower quality land.
- Listings can offer a more private sale process, with less of a public forum.
- For Sellers who enjoy negotiating, everything is negotiable.
- May allow for longer due diligence periods, which can be important for some properties that may be burdened with an environmental hazard or are under threat of eminent domain.
- Listings can also offer more choice in determining the ultimate buyer, such as helping a young farmer get started or a neighboring family that has helped you out in the past.

A third common method of sale that has existed for decades, but which has not been used as frequently in farmland, is the **One-Chance Sealed Bid Sale**. One-chance sealed bid sales became more popular during the COVID pandemic, when public auctions were not able to be held because of group size limitations. A One-Chance Sealed Bid Sale is marketed in the same manner as a public auction with a four- to six-week promotional period. But instead of culminating in a public event at a hotel ballroom, VFW, or community center, bidders are required to submit their one bid – their best bid – to us on a purchase agreement that we provide to them in a bidder's packet. Bids are due by a publicized bid deadline. Then on the publicized deadline day, the sealed bids are privately opened and we, as agents, work with the Seller(s) to choose the best bid(s) from among the various bids that have been submitted.

Advantages of the one-chance sealed bid sale:

- A more private sale atmosphere. "Some sellers don't want all the hoopla of a public auction, but they appreciate the bid deadline "lever" that forces action from the market," explains Hensley.

Choosing the Best Method of Sale for You *(Continued from page 2)*

- A one-chance sealed bid sale can help flush out the value of the highest and best use of the property. For example, if a tract of land could be farmed or developed for housing or used for other commercial expansion, the one chance sealed bid method keeps the bidders independent. “So, instead of only needing to bid \$100 more per acre than the next bidder at a public auction, the interested buyer has to bid the best price he or she can offer – essentially the price a property is worth to them.” In several one-chance sealed bid sales we have had in the past, that independent bidding process has added another \$1,000 to \$2,000 per acre to the value of the property,” Hensley says.
- For properties with thin buyer bases, a one-chance sealed bid sale may help avoid a public failure, especially compared to the open forum of a public auction. In a one chance sealed bid sale, it’s not publicly known how many bids were received, nor what the various offers were.
- You control the timing and terms of the sale. This is an advantage that both public auctions and one-chance sealed bid sales have over a private listing since you set a deadline and the sale terms. The only thing remaining to settle is the price. The benefit to controlling the timing of a sale is you know when you can reinvest the proceeds.

With any method of sale, the Sellers we serve have the ability to accept or reject the highest bid. “We always want our clients to be protected in the event the sale doesn’t perform as expected,” Hensley explains. “While we certainly do our best to avoid that, you never know if a snowstorm prevents buyers from attending an auction or there’s a terrorist attack or a pandemic. Our goal is to publicize and promote the property to attract the widest possible range of interested buyers, while using the best sale method for the circumstances of the Seller and their property. It may sound overly simple or silly, but the choice of the sale method is a very, very important choice for a Seller and their agent to correctly make.”



Support Remains Under Land Market *(Continued from page 3)*

hard assets to paper assets. But so far, demand for land continues strong.”

The supply of farmland for sale in 2022 is not as high as it was the second half of 2021 when owners were worried about proposed tax changes. “But I was surprised to see a continued enhanced supply of farmland for sale in 2022,” says Hensley. “These strong land markets bring more people wanting to sell. However, there are still more buyers than sellers.”

Cash rents moving higher

Cash rents in 2022 rose an average 11% in the Chicago Federal Reserve district, reported the latest survey of district bankers. In Iowa, the most recent Iowa State University annual survey of cash rental rates shows rates increased, on average, by 10.3%

in 2022 to \$256 per acre. This is the third consecutive and largest uptick in cash rents since 2013, when rents peaked at \$270 per acre.

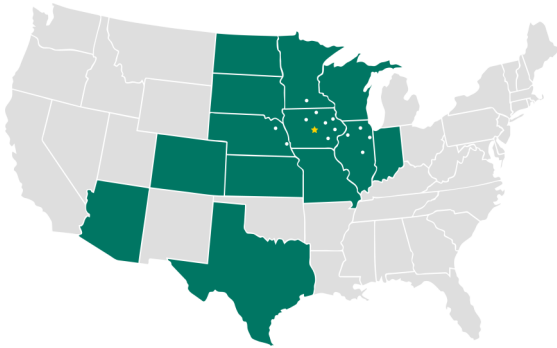
Are high land prices cause for concern? Iowa State’s ag economist Zhang is reassuring. “While the staggering inflation is a cause for concern, the replay of a farm crisis or a near-term burst of the “farmland bubble” seems unlikely due to the current very low interest rate environment, the slow and modest moves indicated by the Federal Reserve as opposed to substantial and surprise hikes, less reliance on adjustable-rate mortgages, and the substantially higher commodity prices despite rising input costs. Furthermore, the agricultural sector in general is not as leveraged, as 82% of Iowa farmland is debt-free.



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Recent Spring Auctions Continue to Showcase Strong Land Market

Iowa

35.93 Acres in Linn Co., IA, on the west side of Cedar Rapids, sold at auction in late-March. The farm had 36.16 tillable acres and a CSR2 of 90.05. Farm sold for \$26,250/Ac. which equates to \$289.65/CSR2 point/tillable acre. Buyer was an investor.

81.67 Acres in Clay Co., IA, near Rossie, sold at auction in early-April for \$16,700/Ac. Farm was over 95% tillable with 78.65 tillable acres and a CSR2 of 93.20. Sale equated to \$186.06/CSR2 point/tillable acre. Buyer was an investor.

219.13 Acres in Dubuque Co., IA, near Cascade, sold at auction in April. The property was offered in two parcels. Parcel 1 consisted of 180.74 total acres with 166.36 tillable acres and a CSR2 of 73.69. This farm sold for \$18,600/Ac. or \$274.23/CSR2 point/tillable acre. Parcel 2 was a short-40 with 38.14 tillable acres and a CSR2 of 77.82. This farm sold for \$21,000/Ac. or \$271.62/CSR2 point/tillable acre. Both properties were purchased by farmers.

Illinois

175.00 Acres in Champaign Co., IL, near Tolono, sold in March via public auction. Farm was offered in 2 parcels but sold together to a single investor buyer. Total tillable acres equated to 175.02 with a PI of 141.70. With a sale price of \$19,300/Ac. this equates to \$136.19/PI point/tillable acre.

Minnesota

160.00 Acres in Redwood Co., MN, near Lucan, sold at auction in March. The farm was nearly all tillable with 158.51 crop acres and a CPI of 92.00. With a sale at \$13,075/Ac., this equates to \$143.46/CPI point/tillable acre. Buyer was a local farmer.

151.44 Acres in Nicollet Co., MN, near St. Peter, was offered in 2 parcels at public auction in February. Parcel 1, with 72.04 tillable acres and CPI of 93.10 sold for \$12,512/ac., or \$141.64/CPI point/tillable acre. Parcel 2, with 74.00 tillable acres and a CPI of 92.10 sold for \$11,124/ac. or \$123.25/CPI point/tillable acre. Both parcels sold to a local investor.

Nebraska

548.03 Acres in Nemaha Co., NE, near Auburn, was offered in 5 parcels via virtual online auction in late-March. Farms had significant tile and terrace improvements. High bids ranged between \$8,000 to \$8,900/acre, for a total sale price of \$4,595,560. Average price per acre was \$8,703, while average price per tillable acre was \$9,314. All Buyers were farmers.