

Inside This Issue

2 - Data Centers - What's Real & What's Not?

5 - Farmland Values Resilient Amid Tight Farm Finances

Stable Midwest Farmland in an Unstable World

With all the uncertainty in the world and markets right now, Midwestern farmland gives people a feeling of stability, says Doug Hensley, president of Hertz Real Estate Services. "I don't want to be overly optimistic. But I think there is some upside potential to the farmland market between now and the end of the year," he adds. "It's not a traditional 'Seller's market', but it sure seems seller-friendly."

Yet from a production agriculture perspective, that might not make sense, Hensley admits. Profit margins for crop farmers are extremely tight right now. Countering that, however, is the fact that "row-crop and recreational land is held in strong hands," explains Hensley. "So, there just isn't much land for sale, nor is there a reason for much land to come to market – and both of those things are price supportive."

Other revenue sources for farmers have also helped maintain farmland values such as government farm program payments, enhanced crop insurance support, and the growth in wind, solar, and other commercial developments across the Midwest.

As summer matures towards fall, Hensley also mentioned four factors to watch that will influence buyer attitudes for Q3 and Q4 land sales:

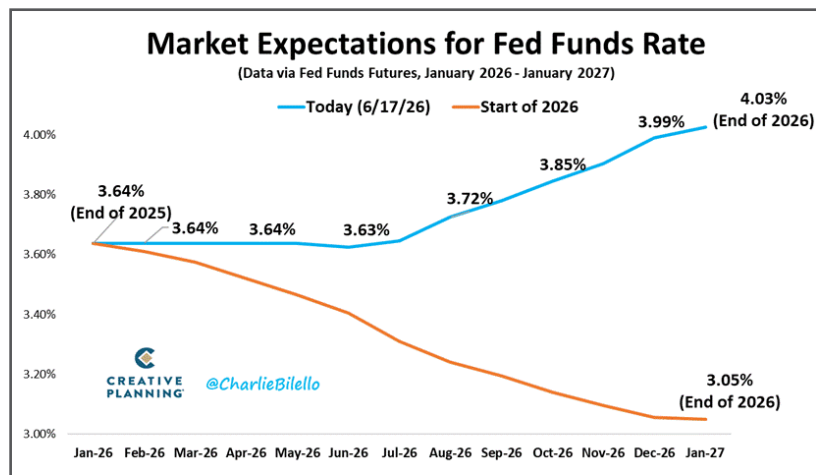
1. Weather. The crop got off to a good start this spring with timely planting and adequate moisture. Looking ahead, how the crop progresses throughout the rest of the growing season will affect how confident farm buyers will be heading into the fall.

2. China. China matters because of the sheer size of its potential demand for our crop exports, Hensley explains. China has pledged to buy at least 25 million metric tons (MMT) of U.S. soybeans annually through 2028 (up from 18 MMT in 2025). And, after the May summit between Donald Trump and Xi Jinping, China also pledged to buy \$17 billion annually in U.S. farm goods (in addition to soybeans), which market watchers say would require significant corn purchases to meet. This compares to China's imports of just \$8.4 billion of U.S. agricultural goods last year, but down from China's peak purchases of \$38 billion in U.S. farm goods in 2022.

3. Iran. "Our conflict with Iran has affected oil, fuel and fertilizer prices around the world, and indirectly our inflation rate," Hensley explains. As Middle East negotiations continue, the situation remains in flux, as does the long-term market reaction.

4. Interest rates. The new Federal Reserve chairman, Kevin Warsh, may have had a bent toward lower interest rates. But because of the geopolitical realities with Iran and higher oil, inflation has spiked again, along with a bump in long-term interest rates. "Because of this inflation flare up, it's widely expected that the Fed will reverse their 2025 course of lowering short-term rates and move to increase them before year-end 2026," Hensley explains.

"If we see interest rates move meaningfully higher, we may see some additional pressure on the economy and asset values, including farmland," he concludes.



(continued on page 2)

Stable Midwest Farmland in an Unstable World (continued from page 1)

For farm owner-operators, who built up working capital in profitable years from 2021-23 and have a strong collateral base, simply having stable land values is good news. "In production ag, the folks feeling the most pressure with these slim to negative farm operating margins are those who rent all or most of their land," says Hensley. "While many expected rents to tick down this year, for the most part, they were flat for 2026. And while input prices jumped following the start of the conflict with Iran, most operations were fortunate to already have had 2026 inputs booked. We'll see what happens with input pricing this fall, going into the '27 crop year."

Hensley recognizes the financial strain for farming businesses, but estimates only a small minority of Midwest farmers are in a financially precarious situation. For some, off-farm incomes are helping to balance on-farm weaknesses. And, there are some operations that are using sale-leasebacks to take advantage of the strong land market to provide a capital cushion.

A final factor affecting farmland values in some locations is the proliferation of data centers (see accompanying article). "Capital gains deferrals on data center land sales are real. The per acre price for data center land is often north of \$100k per acre, and many of these projects total multiple millions of dollars. Reinvestment of data center land sale funds through 1031 tax-deferred exchanges is impacting the farmland market," Hensley notes.

"And it's happening across the Midwest in places around Des Moines, Omaha, Chicago, and Indianapolis – as well as many rural areas in-between. Data centers are providing an upside bias in land values in areas wherever they are being built," advises Hensley.

Uncertainty is the way of life in agriculture, with dependence on weather and world trade for a significant part of its demand. "We continue to deal with the cyclical nature of agriculture. Beyond the normal cycles, current uncertainty seems to be moving a mile-a-minute, and many people feel unsettled. Fortunately, farmland is a stabilizing, long-term asset," concludes Hensley.

Data Centers – What's Real & What's Not?

The rapid increase in demand for data centers and computing power to underwrite the A.I. (Artificial Intelligence) race has become front page news. On one hand, the ability for AI tools like Chat-GPT, Claude, CoPilot, Grok, or Gemini to enhance our ability to accomplish everyday tasks is amazing. On the other, concerns about economic and workplace stability, wealth concentration, and machine control give pause to many. From a real estate use perspective, there are also two sides to the coin. To the positive, data centers are an enormous economic development opportunity, and they are strategically important for hosting both AI applications and other Internet infrastructures, all of which are important to our national competitiveness. The main opposition to data centers has focused on two issues: the amount of water they use and the electrical capacity needed to run them.

Peeling through the hype presented by both sides, how you are affected by a local data center depends on your water source and your utility that provides your electricity. This differs by state and location. Let's consider Illinois and Iowa as two case studies.

First, water use. Data centers currently use a lot of water. A high-volume hyperscale data center uses the same amount of water in a year as 10,000 to 50,000

people (1 million to 5 million gallons of water per day). Medium data centers consume 300,000 to 500,000 gallons per day.

The majority of Iowa data centers are clustered around Des Moines and draw water from relatively shallow aquifers which are vulnerable to drought and have caused concerns about the amount of water available for data centers.

The situation around Chicago is also causing headaches. Data centers southwest of Chicago are contributing to the crisis of the dwindling aquifer beneath Joliet. To ensure adequate drinking water supply, six suburbs made an agreement with the city of Chicago to buy millions of gallons of water a day from Lake Michigan. They are currently building a \$1.5 billion pipeline to transport the water, expected to be completed by 2030.

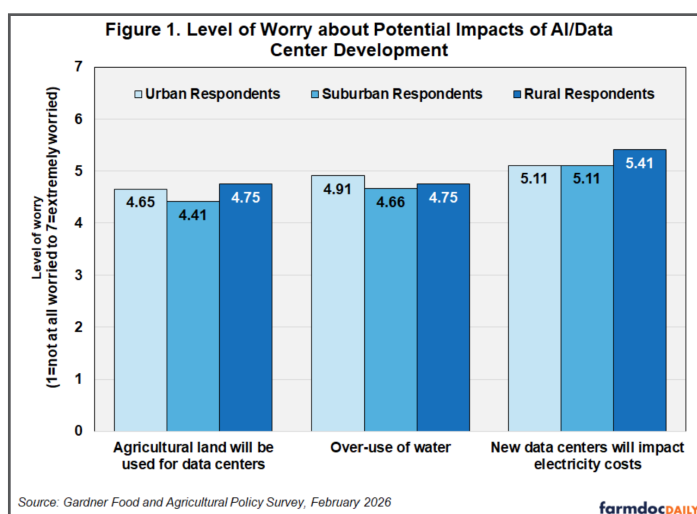
However, not all areas in Illinois or Iowa are equally stressed for water. And in Iowa, large water users must apply to the Iowa Department of Natural Resources (DNR) for a permit that protects instream flows, natural lake levels and well interference. Data centers may tap rivers or drill deep wells into shared aquifers, as long as the use complies with their Iowa DNR Water Use Permit. Use is monitored and fines can be assessed.

(continued on page 3)

Data Centers – What’s Real & What’s Not? (continued from page 2)

In Illinois, on the other hand, permits are not required for withdrawing water from a ground or surface water source. Only annual reporting is required of large water users.

Since 2024, Illinois planning agencies have worked with the IDNR, Illinois-Indiana Sea Grant, and the Northwest Water Planning Alliance to develop a water sustainability plan for five counties in northeastern Illinois — the very region under the greatest data center pressure. But it remains a planning exercise rather than a permitting or enforcement regime.



What’s the future? Tech companies are recognizing the water issue pushback. An increasing number of data centers now use cooling systems that dramatically reduce or eliminate freshwater consumption. For example, most of Microsoft’s Mount Pleasant, Wisconsin data center campus will use a new “closed-loop” system design that will consume zero water for cooling.

QTS Data Centers’ plan is to use a system requiring no water, using a refrigerant or a closed-loop system that requires a one-time input of water that is then recycled and reused. The company reports that those methods save more than 48 million gallons of water annually in the operation of each data center.

Google uses reclaimed or non-potable water at over 25% of its data center campuses. Amazon Web Services announced that 20 of its data centers are cooling with purified wastewater instead of potable water – a small number of centers currently, but the number is expected to increase.

The second big issue for data centers is their appetite for electricity and the potential to increase electricity rates for normal power customers.

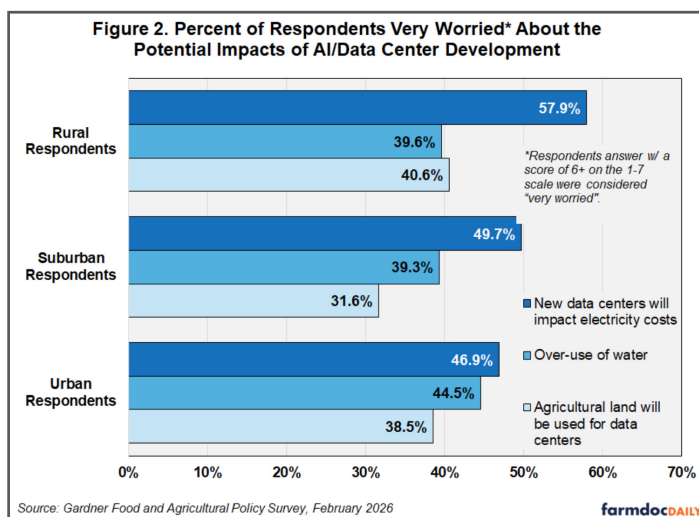
In northern Illinois, electricity rates increased about 50% over two years for customers served by Commonwealth Edison (ComEd). In Illinois, electric rates are unregulated, so as the demand for ComEd electricity increased and prices from its grid operator soared, these costs were passed directly to consumers.

In Iowa, however, average residential rates (using the month of March) have remained steady around 13.40 cents per kilowatt hour since 2024. And in March 2025, they actually dropped to an average 12.48 cents per kilowatt hour, until rising back up to 13.42 cents in 2026). The main difference between Illinois and Iowa is Iowa’s electric rates are regulated at the state level by the Iowa Utilities Commission.

Also, one of Iowa’s major utilities, MidAmerican Energy, attributes its rate containment to 20 years of investment in wind and solar projects. In 2026, 60% of Iowa’s electricity comes from wind power, 2.5% comes from solar power, with 25% from coal, 12% natural gas and 1% hydropower.

Many states and utilities are exploring ways to ensure that data centers can come online without shifting costs to other ratepayers. The electric grid provider, PJM Interconnection, which manages power for 13 states including ComEd in northern Illinois, has pushed to require large tech facilities to pay for new power sources built on their behalf, ensuring they cannot shift costs onto regular consumers.

Last year, utility AEP Ohio introduced a new rate



(continued on page 4)

Data Centers – What’s Real & What’s Not? (continued from page 3)

schedule for data centers, requiring them to pay for at least 85% of the energy they are subscribed for, regardless of how much they actually use. Other states, like Oregon, Minnesota and Missouri, have required utilities to create new billing classes and rate structures for large energy users so that their costs aren’t shared by households and businesses.

AI tech companies such as Anthropic have publicly committed to funding 100% of the grid upgrades required for their operations, rather than passing those costs onto the public.

Microsoft recently released its Community-First AI Infrastructure initiative, in which it pledges to cover electrical costs, replenish local water sources and pay its full share of local taxes.

On the economic development side, the construction of data centers can generate hundreds of well-paying, though not permanent, jobs for technicians, electricians and other local trade workers. Longer term, a data center complex generally employs 25-150 permanent full-time staff. However, these salaries can range from \$74,000 for a data center technician to more than \$160,000 for an operations manager.

Data centers can also generate local and state tax revenue which boost the local economy. According to a recent Wall Street Journal article, in a school district in Louisiana, some of its teachers will receive bonuses of more than \$50,000 this year, thanks to increased tax revenue linked to a Meta Platforms data-center construction project.

But how big of tax boost depends on the tax incentive package offered to the technology companies. In Iowa, some data center projects qualify for state sales and use tax exemptions. Local property tax exemptions, if offered by a community,

generally have an expiration date.

In Illinois, effective July 1, 2026, Governor J.B. Pritzker directed the Illinois Department of Commerce and Economic Opportunity to pause processing all new state tax incentive agreements for data centers.

Some local jurisdictions have also added their own requirements for locating data centers. Linn County, Iowa – home to Cedar Rapids – recently revised its zoning ordinance to require water studies for proposed data center sites. Even more comprehensive, the city of Lancaster, PA, adopted a community benefits agreement which directs the developer to use clean energy to power the facility; mitigate noise; support local employment programs; and deliver \$10 million each for economic development and advancing Lancaster climate and community goals.

There is much at stake as our nation (and the world) continues to develop technology and tools for the benefit of our citizens, businesses, and economy. Like all technological advancements, there are sure to be a great many ongoing discussions and competing tensions that must be managed, in the thoughtful development of this evolving space. Water, electricity, and land use are central to this topic.

Spending as percentage of GDP, annual average

Louisiana Purchase (1803)

3.0%

Projected capital spending for Meta, Amazon, Microsoft and Alphabet in 2026

2.1%

U.S. railroads (1850-59)

2.0%

U.S. interstate highway system (1955-70)*

0.4%

Apollo space program (1960-73)

0.2%

*Federal highway spending

Sources: National Archives and Measuring Worth (Louisiana Purchase); the companies (Tech capital spending); Visible Alpha (projected Microsoft capital spending) Louis P. Cain (U.S. Railroads); Robert Gordon (U.S. interstate highway system); Planetary Society (Apollo); Wall Street Journal calculations (all ratios)

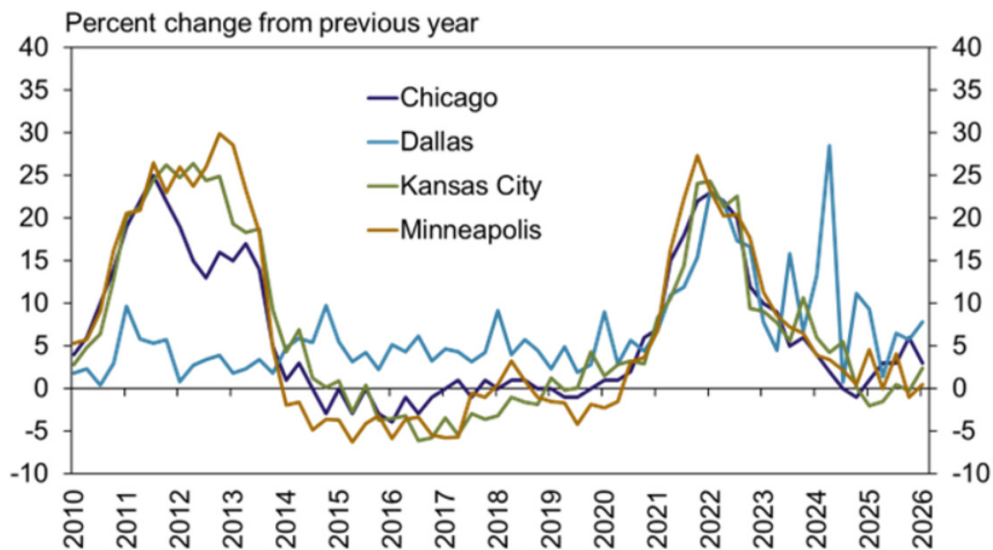
Farmland Values Resilient Amid Tight Farm Finances

Agricultural lenders report resilient farmland values across Federal Reserve Districts across the Midwest and Plains states. Factors such as higher input costs and drought were offset by government payments and strong cattle prices. As illustrated in Chart 1, the average value of non-irrigated cropland increased across the districts by about 3%, ranging from up 7.8% in the Dallas district to unchanged in the Minneapolis Federal Reserve district. Land values remained near record levels in most regions in the first quarter of 2026, when the survey was conducted.

In the Chicago district, land value trends were more variable, with Indiana and Wisconsin posting strong single-digit year-over-year gains, while Iowa farmland was slightly up and Illinois' farmland was slightly down.

Steady farmland values in the second quarter of 2026 was expected by 80% of the ag lenders surveyed across the district, although lenders see operational pressures. An Iowa lender responding to the survey reported, "cash flow projections for many operations are at or below breakeven for 2026 and many borrowers are using up working capital to fund those cash flow shortfalls."

Chart 1: Nonirrigated Cropland Values

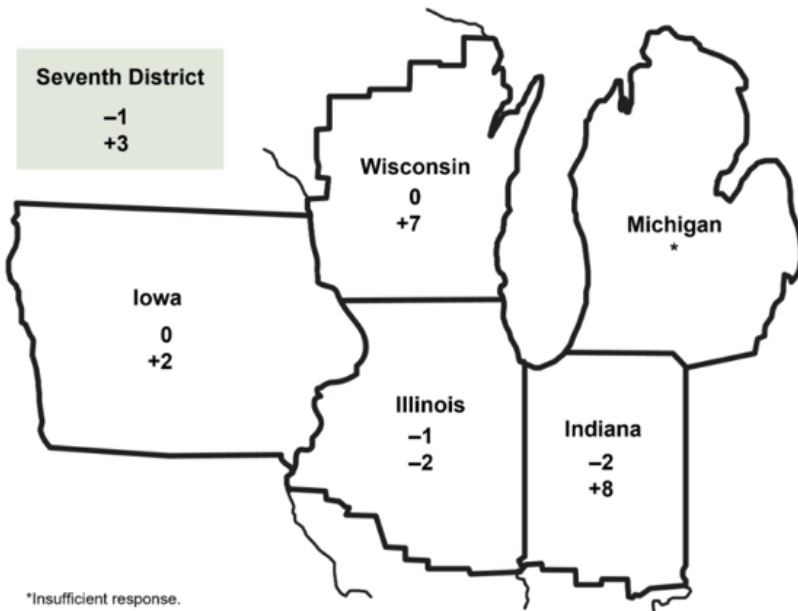


Source: Federal Reserve Surveys of Agricultural Credit Conditions

Percent change in dollar value of "good" farmland

Top: January 1, 2026 to April 1, 2026
Bottom: April 1, 2025 to April 1, 2026

Seventh District
-1
+3



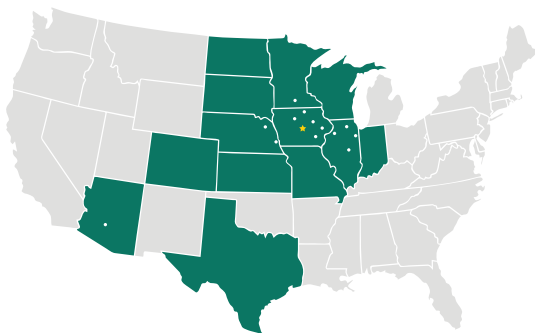
*Insufficient response.

Source: Data from Federal Reserve Bank of Chicago surveys of farmland values.

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Recent Land Sales

IOWA

146.27 Acres in **Poweshiek Co., IA**, located south of Grinnell, sold to a local investor via an online auction in June. The property consisted of 139.98 tillable acres with a CSR2 rating of 87.60. The property sold for \$18,100/Ac. or \$215.91/CSR2 point/tillable acre.

40.00 Acres in Cedar Co., IA, located west of Tipton, sold to a local investor via private treaty in April. The property consisted of 32.20 tillable acres with a CSR2 rating of 90.20. The farm sold for \$15,379/Ac. or \$211.80/CSR2 point/tillable acre.

157.19 Acres in **Benton Co., IA**, located northeast of Watkins, sold via private treaty to a local investor in February. The property consisted of 155.39 tillable acres with a CSR2 rating of 88.20. The property sold for \$15,900/Ac. or \$182.36/CSR2 point/tillable acre.

ILLINOIS

158.96 Acres in **DeKalb Co., IL**, located northwest of Malta, sold to a farmer via an online auction in February for \$16,300/Ac. The property had 156.22 tillable acres with a PI rating of 139.55. This brings the price/PI point/tillable acre to \$118.86.

MINNESOTA

123.02 Acres in **Faribault Co., MN**, located south of Delavan, sold to a farmer at a hybrid auction in March. The property consisted of 120.70 tillable acres with a CPI rating of 93.50. It sold at \$12,200/Ac. or \$132.99/CPI point/tillable acre.

55.32 Acres in **Brown Co., MN**, located southwest of Hanska, sold to a farmer via a private treaty in April. The property had 54.64 tillable acres with a CPI rating of 96.00. The property sold for \$12,900/Ac. or \$136.05/CPI point/tillable acre.

NEBRASKA

160.00 Acres in **Dodge Co., NE**, located north of Fremont, sold via a one-chance sealed bid sale in February. The property had 154.56 tillable acres and an NCCPI rating of 61.90. Property sold to a farmer at \$11,250/Ac. or \$188.14/NCCPI point/tillable acre.