

# AgUpdate

Timely information for a select group of farm owners and investors

## Understanding COVID-19 Impacts on Agriculture

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**With the worldwide COVID-19 outbreak over the past 6 months,** our lives and society have been severely disrupted in a way we've never seen. The outbreak has reminded us all that we don't have as much control as we'd like to think. To that end, we've been fielding inquiries about how all this disruption and societal motion is impacting the various aspects of agriculture. So, let us share some reflections regarding what all of this may mean for landowners in the months – and potentially, years – to come. As is often the case with disruptive shifts, there are likely to be winners, losers, and lots of unknowns that will become clear as time passes.

### The Early Winners

We've heard various metaphors used to describe the COVID-19 lockdown to our society, and our economy. A long, hard winter. An induced coma. Simpler times. Having said that, some winners are emerging from this current version of reality...



Spring planting didn't stop for COVID-19

### *Some winners are emerging from this current version of reality...*

#### 1. Oil and gasoline consumers.

The lockdown of the nation (and world) in the battle against the spread of COVID-19 has cratered consumer gasoline demand. At the same time, major oil and gas supplier-nations including Saudi Arabia and Russia have engaged in a price war by over-supplying the world with cheap oil. The result has been a historic combination of demand implosion with a simultaneous oversupply – a real double-whammy for oil prices! According to AAA,

gasoline prices have fallen to multi-year lows, thus benefiting those few consumers who are still traveling. The biggest benefit may be enjoyed by freight shipping/transportation companies who are still hustling to supply food and goods to grocers and other consumer suppliers.

**2. Grocery retailers.** For most of us, it has been a wake-up call to go into our grocery store and find them out of anything. First, it was toilet paper (We still haven't figured

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*The ethanol industry has experienced tremendous damage from the onset of the COVID-19 economy.*



Midwest ethanol plant

that one out). Then it was hand sanitizer. Then Lysol. Then Tylenol. And the list continues to build for other common products. With forced closures of restaurant dining across much of the nation, a huge percentage of consumers have been spending more time at home and eating there in record numbers, which has been a boon for grocery store sales. In fact, according to an early-April article on supermarketnews.com, dollar sales per store were up 62% compared to the prior-year period.

### The Early Losers

Just like the early winners, there are also some clear early losers lining up in this disrupted environment...

**1. Restaurants.** Eateries through the ages have thrived on people dining with the company of others, as 'breaking bread' has long been one of life's social building blocks. But, when a business that relies on people choosing to come together,

is forced to close, it's easy to see why they are hurting. If there are lingering effects of COVID-19 – which seems likely – restaurants may continue to hurt for some time. Closed restaurants are significant to agriculture because research has shown that, when dining out, people tend to eat more, and better cuts of, meat and other agricultural products. For example, according to the National Pork Producers Council, about 70% of all bacon produced in the U.S. goes into food services, not retail grocery. And this dramatic loss of demand from a closed food service sector is quite harmful to many parts of the supply chain.

**2. Livestock Producers.** The evolution of the U.S. livestock industry over the past 30-50 years has created a 'machine', of sorts. Long gone are the days where every farmer has a few cows, a few chickens, and a few hogs. Specialization and integration now lead the way. When demand is great and growing, the industry can typically respond relatively quickly

and scale-up. Likewise, when demand is weak, producers can dial back volume. But with the lightning-like onset of the Corona-crisis, livestock producers (and the entire supply chain), faced an unprecedented and nearly overnight shift. Case in point are lean hogs. According to a year-to-date commodities study by *The Wall Street Journal* (WSJ study) through the first half of April, lean hog prices were down ~47%, with nearly all that weakness occurring since mid-March. Cattle, a sector which is slightly slower to respond to market forces because of a longer production cycle, are down ~18%. Yes, retail grocery volume for meat sales is up. But with restaurants, schools, and other major users of meat closed or severely curtailed, demand has cratered, and supplies are stacked up. And when you consider that USDA reports approximately 40% of our corn crop is annually consumed as animal feed, this creates storm clouds on the horizon for row-crop commodity prices.

**3. Dairy Producers.** By now, you have probably seen videos of dairy producers dumping truckloads of milk into a gutter or out in a field. After an initial bump in demand in the retail grocery market, milk prices have plummeted because of a loss of sales to restaurants, schools, and other bulk users in the food service sector. This pain comes on the back of an extended years-long struggle in the dairy sector where roughly 5,000 U.S. dairy farms have exited the business.

**4. Ethanol.** Let's be clear... the ethanol industry has experienced



tremendous damage from the onset of the COVID-19 economy. Ethanol is blended with gasoline, typically at a 10 percent rate, so ethanol usage tracks very closely with gas usage. When people stay home and aren't driving, gas use drops, and this drop in gas demand is causing major pain for ethanol producers. According to a recent DTN report, ethanol production was recently down 43% from a year ago levels, and plants are currently losing an average of 37 cents per gallon produced. As a result, over half of the ethanol industry is offline right now. And, similar to livestock feed use, when you consider that USDA projected 37% of the U.S. corn crop would be consumed by ethanol plants, this is a major concern for Midwestern row-crop agriculture.

**5. High-Cost Oil Producers.** On the flip side of the low-gas-price-benefit to the budgets of Joe & Jill-consumer, oil producers – particularly those with a high-cost structure – are also hurting in the current COVID-19 environment. According to the WSJ study mentioned above, gasoline prices through mid-April were down 58.1% year-to-date, and crude oil was down over 70%. In fact, we all saw crude oil prices actually go negative near the end of April. Again, when people don't drive, they simply don't need gasoline. Here in the United States, in the past decade-plus, our nation has become energy independent through the discovery of shale oil and new oil drilling technologies to capture it, and our country is now the largest oil-producing nation in the world. However, much of the

U.S. production requires a higher per-unit cost than our worldwide competitors including Saudi Arabia and Russia. Therefore, when oil prices plummet, it creates real pain in the American oil patches.

### Landowner Impacts

So, here in the early stages of the COVID-19 economy, there has been a great deal of disruption. Are these disruptions short-term or permanent? We encourage you to focus on the fundamentals and what you know to be true for the long-term. But in the short term, the following are a few takeaways for landowners to consider as we enter the heart of the 2020 growing season...

**1. Profit margins will be tight in 2020.** Midwestern landowners have become accustomed to a tight-margin environment for the past 5 years or so. But 2020 is likely to pinch the tightest.

**2. Crop Insurance & Government Support are important (and likely) in 2020.** In 2019, crop insurance and other government support (e.g., MFP payments) accounted for roughly 30% of U.S. net farm income. This level of support – and possibly an even higher amount – is likely to continue in 2020.

**3. Technology adoption and adaptation.** With the new protocols in place for social distancing, in-person meetings and encounters are likely to be less common for the balance of 2020 – or at least until a vaccine is developed. This limitation is forcing the adoption and adaptation to many new technologies including client video conferences, virtual property tours, web-based contract signing, and online auctions, among others. Fortunately, the Hertz client base is well-positioned because we have been an early adopter and user of many, if not most, of these technologies.

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*We encourage you to focus on the fundamentals and what you know to be true for the long-term.*

# Hertz Professionals Update

Hertz welcomes **two new members** to our team:

**Allison Bishop** – Allison joined Hertz Farm Management in January of 2020 as a farm manager in Mount Vernon, IA.

**Dylan Daehn** – Dylan joined Hertz Farm Management in November of 2019 as a farm manager in Mount Vernon, IA.



Allison Bishop



Dylan Daehn

## Thirteen Hertz Agents Recognized as Part of RLI's 2019 APEX Producers Club

Hertz Farm Management is proud to announce that thirteen Hertz agents have been recognized as part of the 2019 APEX Producers Club by the Realtors® Land Institute, sponsored by The Land Report.

They were recognized by RLI CEO Aubrie Kobernus, MBA, RCE, as well as The Land Report's Co-founders Eddie Lee Rider Jr. and Eric O'Keefe at a special awards ceremony on Monday, March 30, during RLI's Virtual 2020 National Land

Conference (NLC20). All applicants recognized in the APEX Producers Club had at least 4 million dollars in qualifying dollar volume in closed land sales.

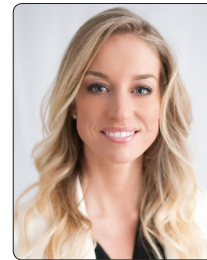
The REALTORS® Land Institute confers the esteemed Accredited Land Consultant (ALC) designation to only those individuals who have achieved the highest level of education, experience, and professionalism. 



Cal Dickson, ALC



Kyle Hansen, ALC



Rachelle Heller, ALC



Scott Henrichsen



Ryan Kay



Ed Kiefer



Mike Krause, ALC



Troy Louwagie, ALC



Chris Smith, ALC



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Kirk Weih



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# How Do I Know What My Farm is Worth?

Dave Nebel,  
President of Hertz Appraisal Services,  
Nevada, IA

If you own a farm, there will be times when understanding the value or potential price of your farm is important. Whether the ultimate user of that information is you or others, having an accurate number will be crucial to making wise decisions. Buying or selling a farm, obtaining a mortgage, estate planning, and portfolio management are all times when somebody has to make an important decision based on the estimated value or price of a farm. Thankfully, different options are available – so let's talk about which option is best suited for your situation.

## Price estimation services:

These services are typically provided by real estate brokers and salespeople at a local level. A property's price estimate is provided in a report commonly known as a BPO (broker's price opinion) or a CMA (competitive market analysis). The level of detail, professionalism, and accuracy varies according to the individual providing the service. Some agents use a "just trust me" approach and skip supporting information, while other agents provide exceptional reports containing information on comparable sales plus a brief summary of their analysis.

BPOs are helpful for deciding a purchase or selling price, many

business decisions, and even some mortgage processes. If completed by a real estate agent, you can be confident they have had formal education required for licensing. Experience and additional qualifications of the professional will vary.

## Appraisal services:

Appraisals are more detailed and thorough and are completed by state certified appraisers. While the process can take longer than a basic BPO, the level of research, analysis, and reporting are more complete. Put simply, appraisals are considered more authoritative.

Appraisals are appropriate for deciding a purchase or selling price, contentious family settlements, litigation, and income tax purposes (estate tax, gifting, and non-cash charitable donations). Certified appraisers must complete a rigorous licensing process which includes education, testing, and experience criteria. Experience and qualifications of the professional will vary.

Both appraisals and price estimate services can be equally helpful in the appropriate situation. If an increased level of documentation is necessary, then an appraisal is often the best solution.

## Technology:

Technology – including valuation algorithms and artificial intelligence – continue to impact the valuation profession. In just a few years, companies like Zillow have entered the residential market, real estate professionals in all sectors have implemented drone usage, and the real estate business has become increasingly digital. These powerful influences are changing how everyone does business!

Over the first half of 2020 you have likely experienced the benefits and limits of technology. You have also experienced the incredible resiliency and flexibility of the human race. While problems still occur, the combination of technology and humanity provide optimism for successful outcomes and solutions.

The real estate valuation world is no exception. We believe technology plus a professional's expert judgement can deliver a powerful combination. Combining these strengths enables us to solve problems more efficiently than ever before.

Hertz specializes in helping farmland owners when impactful ownership decisions must be made. We offer basic BPOs as well as more formal appraisals. Please let us know how we can help you! 📞

***“Hertz specializes in helping farmland owners when impactful ownership decisions must be made.”***



# Grain Markets: Historic Impact of COVID-19

Justin Bahr,  
Farm Manager, Cedar Falls, IA

**The USDA 2020 Prospective Plantings and Quarterly Grain Stocks Report** was released on March 31. Corn acres were estimated at 97 million acres, and soybean acres were estimated at 83.5 million for 2020. These estimates result in an increase of approximately 8.1% for corn acres compared to 2019 and an increase of 9.7% for soybean acres. The majority of the increase for both crops comes from millions of prevent plant acres in 2019 returning to production in 2020. These assumed acreage increases raised concerns on the direction of commodity markets prior to the outbreak of COVID-19.

Corn prices traded in a steady range from December 2019 until Early-March. Soybean prices experienced a significant increase in December as optimism for U.S. and China trade negotiators to

reach a Phase 1 Trade Agreement improved. The soybean rally faded as COVID-19 fears spread in China. COVID-19's market disruption put doubt on China's ability to fulfill their agreement to purchase more U.S. agricultural products. Most traders anticipated a surge in demand following the signing of the Phase 1 trade deal with China. During the same time period, a record South American soybean crop was being harvested and strength in the U.S. dollar made South American soybeans more competitive than U.S. soybeans.

Beginning in March, COVID-19's impact in the United States resulted in Stay at Home orders which drove gasoline consumption to the lowest level in decades. The limited demand for fuel and an ongoing oil production fight between Russia and Saudi Arabia resulted in high levels of global crude oil supplies. Crude oil prices have fallen to historically low levels, dipping below \$20 for the first

time since 2002. Corn and soybean prices have dropped to levels that have not been seen in more than a decade as global demand dwindles and supply concerns grow.

Ethanol stocks are at record high levels while production faces the lowest average since the U.S. Energy Information Administration started reporting production in June 2010. Many livestock processing, ethanol, and oil plants have experienced closures or gone idle. The Commodity Credit Corporation (CCC), meanwhile, received a \$14 billion replenishment for the 2020 fiscal year. Although a significant amount of government assistance will be directed towards livestock producers, corn and soybean growers will benefit from the effort by maintaining livestock feed demand.

Most areas of the Midwest experienced above average planting pace and near-ideal planting conditions. Favorable weather

2020 December Corn Futures



2020 November Soybean Futures



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in April and May makes it hard to find a positive in the corn and soybean markets in the short run.

Commodity, livestock, and equity markets are all trending downward in value as the wait for the U.S. economy to open and recovery occurs. While COVID-19 has certainly impacted commodity markets in a negative way, we still believe there is potential for profitability to improve through the remainder of the crop year. Low interest rates, land stability, trade agreement progress, improved weather conditions, supporting payments from the U.S. Farm Bill ARC and PLC Programs and the possibility of an additional MFP-type payment will all help farm operations. Producers utilizing federal crop insurance will be able to use past production history and current prices to insure their 2020 crop. Managing price risk and maximizing production will be critical for profit margins again in 2020. 🌱

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**4. Growing Interest in Buying Land.** It may seem counter-intuitive that, in an environment with such overall uncertainty, the marketplace would have an increasing interest in buying farmland. But when you consider long-term interest rates are at all-time lows, coupled with the extraordinary and mostly negative volatility observed in recent months from nearly every other asset class (e.g., equities, bonds, commercial real estate), the steady and long-term nature of returns offered by farmland look very attractive. Having said that, if farmer-buyers turn increasingly cautious in this tight margin environment, there is certainly no guarantee that land values will push higher. But, a new breed of investor-oriented market participants are likely to look at farmland as an asset class, in a way they may not have previously.

**5. Confidence in Society.** The real issue for the overall economy – both domestic and international – is confidence. When will people feel confident to come out of their homes? How long will it take to fill up restaurants again? When will Churches return to corporate

worship? If there isn't a vaccine for COVID-19, will schools re-open in the fall? If they do, will traditional fall sports like football, volleyball, and others continue? Make no mistake, our lives and our markets alike, operate on the foundation of confidence.

In conclusion, the first few months of 2020 have been like no other. The Coronavirus has likely changed our world, for years to come. But we here at Hertz Farm Management have great confidence in both the creativity and capability of our medical community, and we believe a definitive solution to the COVID-19 crisis will be forthcoming. Likewise, we want to take this opportunity to say that we admire the optimism and resilience of all those involved in agriculture. No industry is better positioned or prepared to handle the new challenges that get thrown its way *every single year*, than U.S. agriculture. And this challenge too, shall pass. 🌱

***“We want to take this opportunity to say that we admire the optimism and resilience of all those involved in agriculture.”***

**Have a topic you'd like to see in a future issue?**

***Let us know!***

**Visit: [www.Hertz.ag/Topics](http://www.Hertz.ag/Topics)**

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## Introducing Hertz Online Educational Webinars



To keep everyone safe and healthy during the time of COVID-19, we have decided to move our **summer seminars online**. We will be hosting four webinars and will focus on grain markets, farmland values, leases and an update on how COVID-19 is impacting agriculture.

If you are planning for the next generation, you're encouraged to invite your children to listen/watch with you.

**Three easy steps to register:**

1. visit [www.Hertz.ag/Seminars](http://www.Hertz.ag/Seminars)
2. Complete Online Registration
3. Click the link in your confirmation email on the day of the webinar

The **schedule** for our Online Webinars is:

**Tuesday, July 28, 2020, 1:30–3:30 p.m. CST**  
– Land values session will be focused on **Iowa**

**Thursday, July 30, 2020, 10:00 a.m.–12:00 p.m. CST**  
– Land values session will be focused on **Illinois**

**Tuesday, August 4, 2020, 10:00 a.m.–12:00 p.m. CST**  
– Land values session will be focused on **Nebraska**

**Thursday, August 6, 1:30–3:30 p.m. CST**  
– Land values session will be focused on **Minnesota**