



Hertz[®] Outlook

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Low Grain Prices Cloud Market Outlook

The farmland market showed signs of stabilizing in the heart of the Corn Belt this summer. However, the market in the western Corn Belt remained weak.

The lack of farm properties available for purchase was an important factor in keeping farmland values steady to slightly higher in most areas east of the Missouri River. The strongest gains were seen in areas receiving beneficial precipitation this summer. Investors looking for quality farmland to utilize a 1031 Tax-Deferred Exchange impacted a few sales, as well. Dry areas of western and southern Iowa, along with central Illinois, saw overall stability in farmland prices, but not the slight bounce noted in areas with more consistent and timely rains.

A few strong sales occurred in eastern Nebraska this past summer. Those sales involved high-quality soils on flat to moderately rolling cropland with center-pivot irrigation. Such offerings were rare, however. In general, cropland demand proved weaker due to continuing pressure on grain and livestock prices in addition to a lingering drought.

Where farmland prices go from here is unknown, of course. The number of farm properties coming to the market this fall and winter will likely increase. Currently these appear to be sales prompted for estate settlement purposes. This will tend to keep total supply somewhat tight going forward, which may give anyone wanting or needing to sell some property an excellent marketing opportunity.

The demand side of the market remains cloudy.

Farmers, the dominant buyers of farmland, are again facing another year of low grain prices. Much of this year's harvest could be sold at prices which are below the farm-

er's cost of production. For many operators, this could be the second consecutive year that they have sold grain for less than what it cost to produce the crop. This situation most directly impacts farm operators that cash rent a high percentage of their farmland.

But investor interest remains steady as they seek diversity from financial instruments and safety in owning a physical asset. Meanwhile, interest from recreational buyers is rising slightly as confidence in the economy continues to grow and fuel prices remain relatively low. The combined interest from these non-farm operators could prove an offsetting factor in the upcoming marketing season.

Here are results from a few of our recent auctions:

- **80 acres near Masonville** in Buchanan Co., Iowa sold September 22 for \$12,000 an acre. It featured 76 tillable acres and sported a CSR2 rating of 88.5 versus the county cropland average CSR2 of 75.2. It included a machine shed and grain bin. A second 136-acre parcel brought \$9,100 an acre. It offered 127.5 tillable acres and a CSR2 of 79.6.

- **155 acres south of Minier** in Tazewell Co., Ill, sold September 21 for \$10,500 per acre. The farm featured 150 tillable acres and an average soil Productivity Index of 139.6, with 147 equal to maximum. The farm was offered as two parcels but sold as a single unit.

- **159 acres southwest of Washington** in Washington Co., Iowa sold September 21 for \$8,750 an acre. The farm offered 153 tillable acres with a CSR2 of 75.7. The county average cropland CSR2 is 68.0. There were several grain bins and barns included.

- **80 acres northwest of Jefferson** in Greene Co., Iowa sold September 19 for \$10,700 per acre. The farm offered 79 tillable acres and a CSR2 of 85.7 compared to the country average cropland CSR2 of 80.1.

For more information about these sales or an update on the farmland market in your area, please call anyone on the team at Hertz Real Estate Services and Hertz Farm Management.

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Iowa Farmland Values Rise 2%

September 2017										Percent change in tillable cropland values	
Iowa Farm & Land Chapter #2 REALTORS® Land Institute											
Survey of Farm Land Values (Dollars Per Acre)											
Area in Iowa	Land Classification by Potential Corn Production										Past 6 Mo.
	High Quality Cropland		Medium Quality Cropland		Low Quality Cropland		Non Tillable Pasture		Timber		
	Sept.	March	Sept.	March	Sept.	March	Sept.	March	Sept.	March	
Central	\$9,855	\$9,609	\$7,256	\$6,992	\$4,586	\$4,389	\$2,714	\$2,680	\$2,310	\$2,310	3.4%
East Central	9,903	9,627	7,284	7,025	4,494	4,268	2,769	2,711	2,237	2,121	3.6
North Central	8,811	8,731	6,613	6,561	4,453	4,432	2,197	2,166	1,780	1,740	0.8
Northeast	9,358	8,951	6,955	6,836	4,318	4,216	2,842	2,748	2,605	2,520	3.1
Northwest	10,962	10,824	8,231	8,027	5,247	5,130	2,911	2,863	2,518	2,481	1.9
South Central	6,938	6,891	4,590	4,630	3,047	3,122	2,503	2,543	2,694	2,613	-0.5
Southeast	9,431	9,273	6,089	6,073	3,743	3,668	2,535	2,527	2,207	2,208	1.3
Southwest	7,667	7,468	5,921	5,806	4,394	4,256	3,183	3,203	2,314	2,252	2.6
West Central	8,777	8,708	6,955	6,871	4,863	4,789	2,913	2,881	2,411	2,330	1.1
State Average	\$9,078	\$8,898	\$6,655	\$6,536	\$4,349	\$4,252	\$2,730	\$2,702	\$2,342	\$2,286	2.0%

The value of an acre of Iowa tillable cropland rose 2% during the six-month period ending Sept. 1, according to the semi-annual survey conducted by the Iowa Chapter of the REALTORS® Land Institute (RLI). Combining that with the slight six-month gain reported March 1 results in an annual increase of 2.9%, reports survey coordinator Kyle Hansen, ALC, Hertz Real Estate Services, Nevada, Iowa.

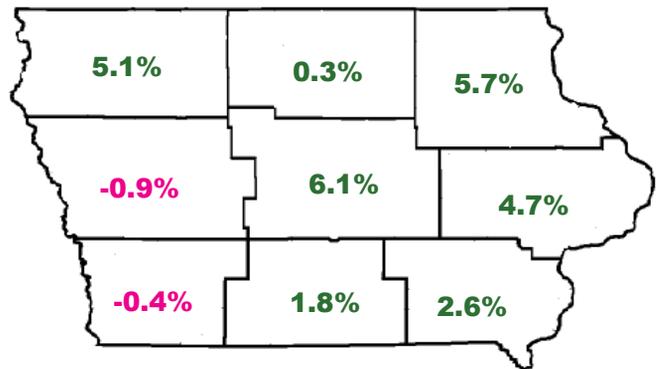
Stronger increases were reported in the central-to-eastern areas north of I-80 due to timely summer rain and limited available offerings. Values in the western third and southern third of the state each reported smaller gains or slight declines due to persisting dry conditions.

On a crop district basis for the six-month period, the central, northeast and east-central districts all reported gains in excess of 3%. The south-central district, with its 0.5% decrease, was the only district to mark a decline. The northwest district listed a 1.9% rise, the west-central a 1.1% gain, the southwest a 2.6% boost and the southeast district reported a 1.3% increase.

On a land-quality basis, the six-month survey found the value of high-quality cropland rose 2% to an average of \$9,078 an acre. The value of medium-quality land rose 1.8% to an average value of \$6,655 an acre. The value of low-quality cropland increased 2.2% to an average of \$4,349 an acre.

The survey also found the value of non-tillable pasture land rose 1% during the survey's six-month period and 1.7% versus September 2016. The value of timber land posted a 2.4% gain and an annual increase of 3.1%.

Change in Iowa Cropland Values on Annual Basis



Percent Change Sept. 1, 2016 to Sept. 1, 2017

Change in value for an average acre of tillable cropland
Source: REALTORS® Land Institute

On an annual basis, seven of the state's nine crop reporting districts reflect a gain in values while two list slight declines. The central district posts the strongest annual increase at 6.1% followed by 5%-plus gains in the northeast and northwest districts. The east central district follows with a 4.7% annual rise, with the bulk of that gain occurring during the most-recent six-month period. The southeast district lists a 2.6% annual increase; while the south-central district reports a 1.8% gain and the north-central marks a 0.3% rise. The southeast and west-central note annual losses of 0.4% and 0.9%, respectively.

Illinois Farmland Prices Flat to Slightly Weaker

The value of Illinois farmland and sales activity was basically flat during the first half of 2017, according to a survey by the Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA) and REALTORS® Land Institute (RLI).

“There was a very slight drop in farmland values, only 1.6% for excellent-quality land, in the first half of 2017,” reports survey coordinator Dr. Gary Schnitkey, University of Illinois extension economist. The survey shows good-quality land dropped 3.0% while average-quality land saw a 3.8% decline and fair-quality land fell back 4.4%.

The volume of farmland sold in the first half of 2017 was the same as the last half of 2016. They also report they see no change in that level of sales activity for the balance of 2017.

Respondents peg average farmland prices on July 1 at \$10,900 an acre for excellent-quality land, \$8,900 an acre for good-quality farmland, \$6,900 an acre for average-quality ground and \$5,000 an acre for fair-quality land.

(Excellent-quality farmland averages more than 190-bu. per acre with a soil productivity index (PI) of 133 or higher; good-quality averages between 170 and 190 bu. per acre with a PI of 117-132; average-

quality averages between 150 and 170 bu. per acre with a PI of 100-116; and, fair-quality land averages less than 150 bu. per acre with a PI under 100.)

Looking ahead, 39% of respondents expect farmland prices to decline through the end of 2017. Some 54% expect prices to decline between 1% and 5%, and 5% expect prices to decrease between 6% and 10%. Only 2% expect prices to increase.

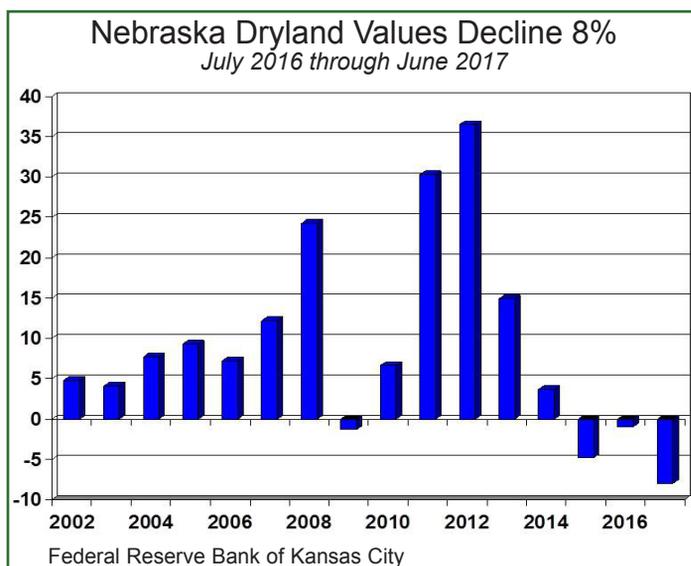
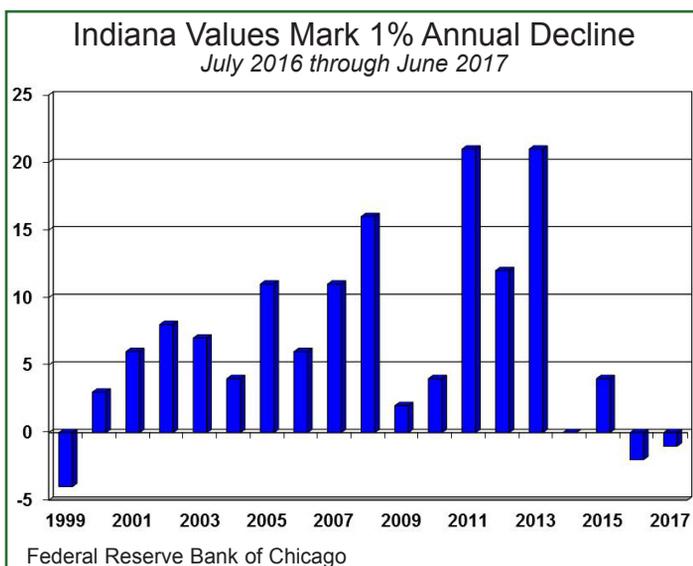
Farmers remain the dominant buyers. Respondents indicate 70% of first-half sales went to operating farmers. That compares to 61% reported for 2016. Local investors were 15% of buyers, according to the survey and 8% were non-local buyers. The two groups total 23% of all buyers, up from the 19% reported for 2016. The percentage of farmland purchased by institutions and “other” buyers declined to 7%.

Survey respondents expect cash rents on excellent-quality land to decline \$5 to an average of \$300/acre in 2018. They see average rent on good-quality ground dipping a similar \$5 to \$255/acre. They expect a \$10 decline to an average of \$210/acre for average-quality ground and a \$6 decrease to an average of \$160/acre for fair-quality land.

Weakness Continues in Nebraska; Indiana Cropland Stabilizes

As noted above in Illinois, the value of Indiana cropland is showing signs of stabilizing. In its latest survey the Federal Reserve Bank of Chicago found the value of “good agricultural” land in Indiana eased just 1% on an annual basis through July 1. That follows a 2% decrease noted the previous year.

However, the Western Corn Belt continues to reflect weakness in farmland values. The Kansas City Federal Reserve reports the value of Nebraska dryland cropland declined 8% for the year ending July 1. In addition, the bank reports irrigated cropland decreased 7% while pasture land declined 8%.



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