Hertz® Outlook

Summer 2017

Published by Hertz Real Estate Services

Push-Pull in the Farmland Market

The farmland market has found itself in a somewhat odd "push-pull" balance this summer. That odd balance is due to the extremely low number of farms currently available for sale.

Farm listings and auctions normally decline during spring and early summer. But the number of offerings are down for 2017 compared to last year. And sales volumes in 2016 were off by 50% or more from just a few years earlier. That lack of volume is having an impact on sale prices by providing a "push" to prices because selection is so limited.

Meanwhile, the demand side of the market remains weak to mixed. The three-year decline in net farm incomes has sent many farmers to the sidelines, either unwilling or unable to take advantage of a property offering. Lenders, likewise, are very cautious about financing new land purchases except to their strongest customers with solid financial statements.

The result is a downward "pull" on prices as the pool of farm operators, the dominant purchasers of farmland, is greatly constricted.

While fewer farmers are willing to consider purchasing farmland under current conditions, investor interest has been relatively stable to stronger. These buyers have picked up some of the slack of the demand lost from decreased interest from owner-operator buyers.

Some market watchers and economists have expressed concern that these investor buyers would disappear as the returns from interest-bearing financial instruments rose. The Federal Reserve has been quite open about its desire to "normalize" interest rates, which means lifting of short-term rates. A boost in the short-term rates along with a pickup in inflation from a quickening economy would boost long-term rates. But interest rates have not yet risen high enough to divert interest in farmland ownership by investors. In addition, many of these investor buyers say they are seeking farmland for the security that land ownership provides.

These buyers remain highly selective, however. Their interest is in high-quality farmland or medium-quality land that has the potential to increase yields through on-farm improvements. While the number of such farms available for sale is quite limited, this demand from investors tends to provide some upward "push" to farmland prices in the face of weaker demand from the reduced number of farm buyers due to low grain prices.

Why is the supply of farms available for sale so low? Many remember the steep sell-off in farmland prices that occurred in the 1980s — the last time farm incomes collapsed significantly and interest rates soared.

While the current correction in farmland values is likely not yet completed, the market is functioning differently than in the 1980s. It has seen very few farmland listings prompted by financial stress for the owner. The few distressed sales that have occurred have tended to be of the "sell-and-lease-back" type. These sales result in the farmland owners/operators selling a portion of their farmland to a non-farm investor and then leasing the ground back. These types of sales sometimes have a set date for offering the land back to the seller, or will give the seller the first right of refusal if the investor decides to sell.

In the absence of distressed sales, the only sellers of farmland are heirs who are selling the ground to settle an estate. These types of listings and auctions tend to occur infrequently in any farmland market. Thus, the low current supply situation.

It takes a thorough understanding of the local market to successfully navigate a farmland purchase or sale. Please feel free to call anyone on the team at Hertz Real Estate Services and Hertz Farm Management if you have any questions about your local market.

Inside This Issue

Iowa REALTORS® Note Six-Month Uptick in Farmland Values

March 2017
Iowa Farm & Land Chapter #2 REALTORS® Land Institute
Survey of Farm Land Values (Dollars Per Acre)

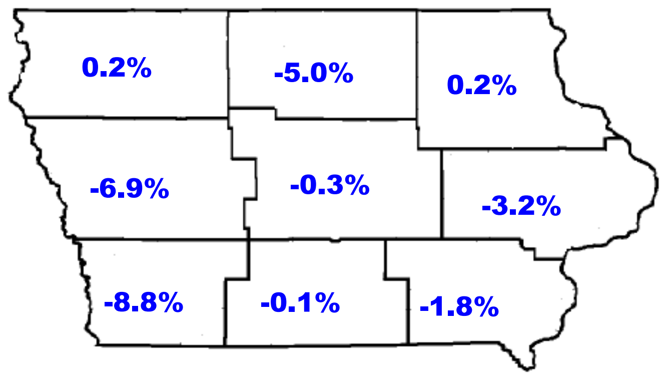
Area in Iowa	Land Classification by Potential Corn Production: High Quality Cropland		Medium Quality Cropland		Low Quality Cropland		Non Tillable Pasture		Timber		Percent change in tillable cropland values
	Sept.	March	Sept.	March	Sept.	March	Sept.	March	Sept.	March	Past 6 Mo.
Central	$9,285	$9,645	$6,752	$6,901	$4,267	$4,289	$2,701	$2,675	$2,334	$2,315	2.7%
East Central	9,486	9,568	6,904	7,026	4,253	4,285	2,709	2,684	2,165	2,137	1.1
North Central	8,747	8,717	6,550	6,526	4,453	4,400	2,202	2,140	1,705	1,713	- 0.5
Northeast	8,830	8,997	6,575	6,834	4,193	4,278	2,646	2,723	2,432	2,498	2.6
Northwest	10,596	10,839	7,820	8,015	4,784	5,044	2,842	2,828	2,505	2,494	3.2
South Central	6,773	6,887	4,525	4,689	3,023	3,075	2,677	2,531	2,618	2,613	2.3
Southeast	9,209	9,305	5,938	6,058	3,355	3,675	2,368	2,519	2,116	2,253	1.3
Southwest	7,657	7,446	5,938	5,717	4,391	4,289	3,233	3,259	2,238	2,236	- 3.0
West Central	8,831	8,640	6,895	6,804	4,837	4,714	2,758	2,943	2,370	2,361	- 2.0
State Average	$8,824	8,900	$6,429	$6,508	$4,206	$4,227	$2,682	$2,700	$2,276	$2,291	0.9%

The value of an acre of Iowa cropland rose 0.9% in the six-month period ending March 1, according to the semi-annual survey conducted by the Iowa Chapter of the REALTORS® Land Institute (RLI). That gain, combined with the 3.7% decrease found in September, results in a statewide average annual decrease of 2.8%, notes survey chair Kyle Hansen, ALC, Hertz Real Estate Services, Nevada, Iowa. This marks the fourth consecutive annual decline for tillable Iowa cropland on a March-to-March annual basis. The decrease since the peak posted March 1, 2013, is 25%.

The survey pegs the statewide average value of high-quality cropland at $8,900 an acre, up 0.9% from six months earlier. This follows a 3.8% six-month decline in the September survey.

Medium-quality cropland rose 1.2% to an average of $6,508 an acre. That followed a 3.9% six-month decrease in the previous survey. The value of low-quality cropland increased 0.5% to an average of $4,227 an acre, the survey reports. That slight boost follows a 3.4% decrease in the September survey.

Change in Iowa Cropland Values on Annual Basis



Percent Change March 1, 2016 to March 1, 2017

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

The value of non-tillable pastureland rose a slim 0.7% since Sept. 1, 2016, to an average of $2,700 an acre. That followed a 2.3% decrease reported in the previous semi-annual survey. The value of timber land also rose 0.7% for the six-month period to an average of $2,291 an acre. That follows a 0.4% increase in the previous survey, resulting in a 1.1% annual increase.

On a crop-district basis, average cropland values varied from a decrease of 3% in the southwest district to a gain of 3.2% in the northwest district. Overall, six districts posted gains ranging from 1.1% in the east-central district to the northwest district's 3.2% gain. Three districts reported declines, ranging from a 0.5% decrease in the north-central district to the southwest district's 3% decrease.

Two districts, the northwest and northeast, show slim annual gains of 0.2%. The seven remaining districts show annual decreases of 0.1% to 8.8%. The south-central district is down a shallow 0.1% on the year, while the southwest district is down a state-leading 8.8%.

Fed Banks Highlight Diverging Trends

Farmland values in Illinois and Iowa are showing signs of stabilizing, but values in Indiana are weakening, judging by data reported by the Federal Reserve Bank of Chicago.

The institution surveys agriculture bankers within its district each quarter. It's latest survey covering the year ending March 31 found value of "good" farmland slipped 5% in Indiana, was unchanged in Illinois and edged 2% higher in Iowa.

The Chicago Federal Reserve Bank's survey shows the value of "good" Iowa farmland rose 2% for the year ending March 31. That rise is contrary to the nearly 3% annual decline found by that state's REALTORS® Land Institute (RLI) survey (See page 2). But they both show the same general trend.

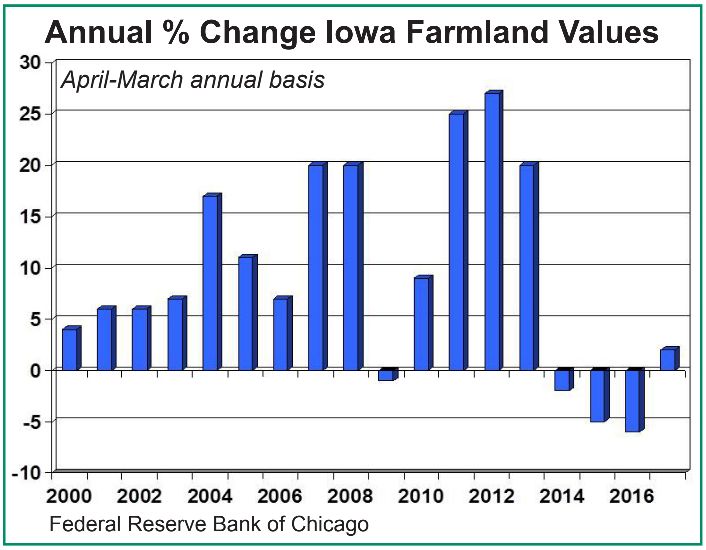
The RLI survey shows values rose nearly 1% during the six-month period ending March 31. The Chicago Federal Reserve survey data shows Iowa farmland values stabilized in late 2016 and then rose in the first quarter of 2017. While flashing slightly different numbers, both surveys show values stabilizing and edging higher after three years of decreases.

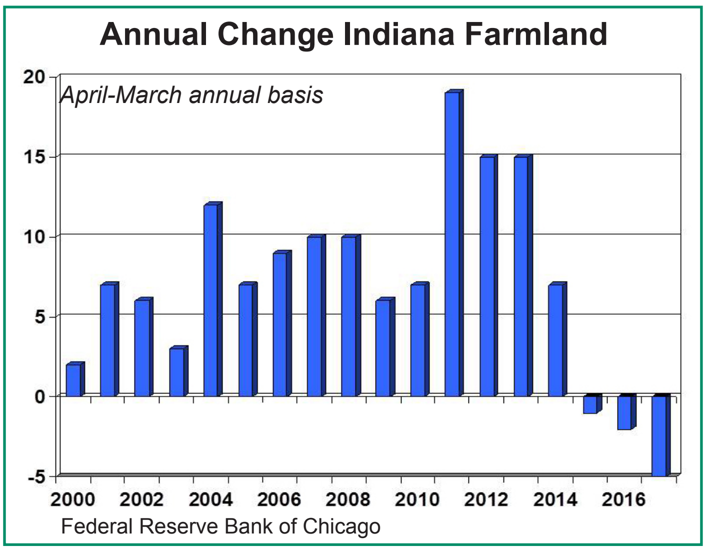
The Chicago Fed bank survey shows the value of "good" Illinois farmland was unchanged compared to a year earlier at the end of the first quarter. Similar to Iowa, this stabilizing comes after three years of steady to lower farmland values.

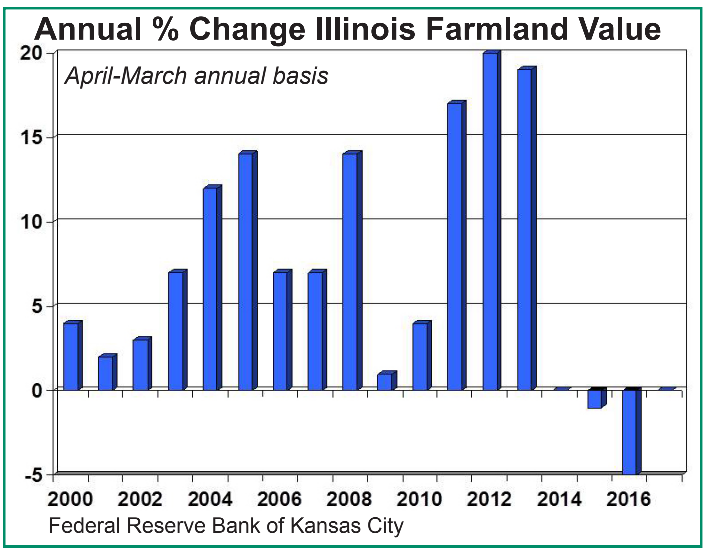
Survey results for Indiana, however, are telling a different story. They show the value of "good" Indiana farmland declined 5% through the end of March compared to a year earlier. This year's decline follows a decline of about 2% the previous year.

This year's survey marks the third consecutive year of reported declines in farmland values. While both Iowa and Illinois were either unchanged or reflected a decrease in 2014, Indiana posted a contrary 7% increase in 2014. The survey did not report a decline in Indiana until 2015. This year's decrease as reported in the survey marks the third consecutive year of declines. Iowa reports its increase after three years of decline and Illinois lists values as unchanged after three years of decline. Some may argue that farmland values in Indiana are merely "catching up" with the trends already noted in Illinois and Iowa.

Does that mean Indiana will stabilize in 2017 and possibly post a small gain in 2018? Obviously, that's anyone's guess right now. But the pattern seen in Iowa and Illinois suggests that stabilization could be possible. The answer will rest with the success of this year's harvest and the level of corn and soybean prices this fall.







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