

Headwinds in Midwestern Farmland Market

While the market showed signs of stabilizing last fall and winter, it appears to now be in transition. The relatively low number of farm properties available, along with growing confidence in both the general and farm economies, boosted demand. But lingering headwinds have brought new uncertainties to the market. The result has the market in transition as it adjusts to these disruptions.

Rising tensions over trade, especially with China, have become a major headwind for the commodity and farmland markets. Some positive progress has been made regarding Mexico, Canada and South Korea. But the deepening rift with China has contributed to feelings of uneasiness in the farmland market.

The Federal Reserve, meanwhile, continues to boost interest rates. It lifted its Fed fund rate in September and left market observers expecting another rate increase later this year. While the rise in rates was widely anticipated and early increases were largely ignored, the continued increase in the face of rising trade tensions and low commodity prices adds to the uneasiness in the market.

Also contributing to the market's unease are concerns about potential 2019 crop insurance price levels for revenue policies. This year's rates, which are currently based on the spring price that was established in February, are \$3.96 per bu. for corn and \$10.16 per bu. for soybeans. Unless a surprise sends

prices higher during the harvest month of October, the February prices will prevail. Without a change in the market, 2019 crop insurance prices could reset well below this year's.

Despite the transition to a less confident market, high-quality farms continue to attract strong interest. For instance, mid-September saw a Hamilton Co., Iowa auction bring \$11,100 per acre. Located north of Story City, the farm offered 156 gross acres and 155 tillable acres. It featured a CSR2 of 85.7 compared to the county average cropland CSR2 of 82.7. However, properties located in weaker neighborhoods, or those with a below average productivity rating and/or a low percentage of tillable cropland, may see a rather lengthy marketing period.

The transitioning market at a macro level is impacting local markets in highly unique ways. It takes an in-depth understanding of the local market to successfully complete 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 questions about your local market. In addition, our team is quite knowledgeable on sale-and-lease-back transactions.

Below are the results of a few of our recent auctions, which occurred prior to the start of harvest activity:

- **200 acres in Iowa Co., Iowa**, southeast of Millersburg, sold mid-September for \$5,300 per acre. The offering featured 151 tillable acres with a cropland CSR2 of 58.6 versus the county average cropland CSR2 of 62.1. An additional parcel of 120 acres sold for \$3,950 per acre. It had 67 tillable acres, a CSR2 of 46.3 and a cattle barn and storage shed.

- **160 acres in Poweshiek Co., Iowa**, northeast of Grinnell, sold early-September for \$7,800 per acre. It featured 152 tillable acres and a CSR2 of 69.2 versus the county average CSR2 of 67.

- **344 acres in Wayne Co., Iowa**, east of Humeston, sold late-August for \$4,700 per acre. It had 314 tillable acres and a CSR2 of 57.1 versus the county average cropland CSR2 of 50.2.

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Slight Weakness Noted in Illinois Farmland Values

Prices for excellent-quality Illinois farmland trended slightly lower in the first six months of 2018, according to the Mid-Year Snapshot Survey conducted by the Illinois Society of Professional Farm Managers and Rural Appraisers.

The survey reports a 2% decline in the value of excellent-quality farmland and a 1% decrease in the value of average-quality land. The survey also indicates the value of good- and fair-quality land remained basically unchanged from the start of the year.

The statewide average price for excellent-quality land dropped \$200 an acre to \$10,522 from January 1. Values for the other three land classes of good, average and fair declined a lesser amount — down less than \$100 an acre, respectively.

Fourteen percent of respondents indicated that the same volume of farmland was sold during the first half of 2018 as during the second half of 2017. Some 48% of respondents indicated that less farmland was sold and 38% indicated that more farmland was sold.

Looking ahead, half of survey participants expect about the same volume of farmland to be sold in the last half of 2018 as compared to the last half of 2017.

Some 28% expect more to be sold, while 22% expect less volume will be sold.

Respondents indicate that 65% of buyers of farmland in the first half of the year were farmers, 17% were local investors, 9% were non-local investors, 8% were institutions and 1% were other buyers.

Most survey respondents expect farmland prices to decrease during the second half of 2018. Some 13% look for farmland prices to remain the same, 60% expect farmland prices to decrease between 1% and 5%, and 27% expect farmland prices to decrease between 6% and 10%.

Seventeen percent of survey respondents cited rising interest rates as a negative factor on farmland values. Some 38% indicated interest rates must be more than 6% to negatively impact farmland values. Some 21% said that interest rates must be above 7% and 23% indicated that interest rates must be more than 8% to negatively impact farmland values.

The tariff battle with China was also listed as a current negative on farmland prices. Nearly 60% said China's tariffs have already negatively impacted farmland prices. Some 41% said the tariffs had not yet negatively impacted prices.

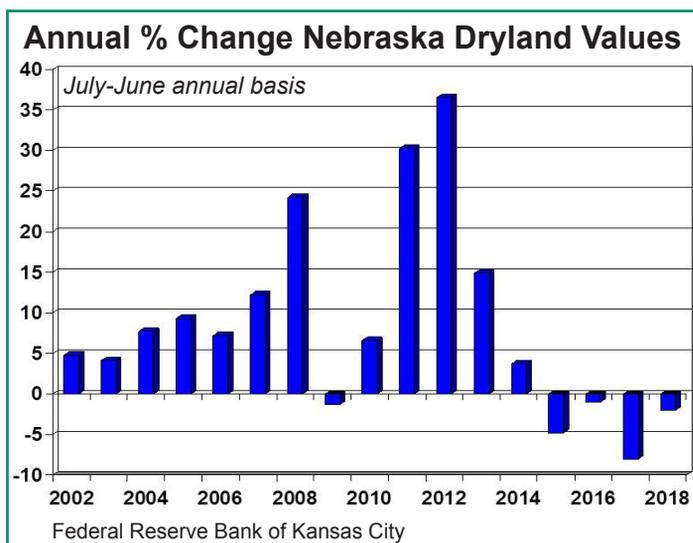
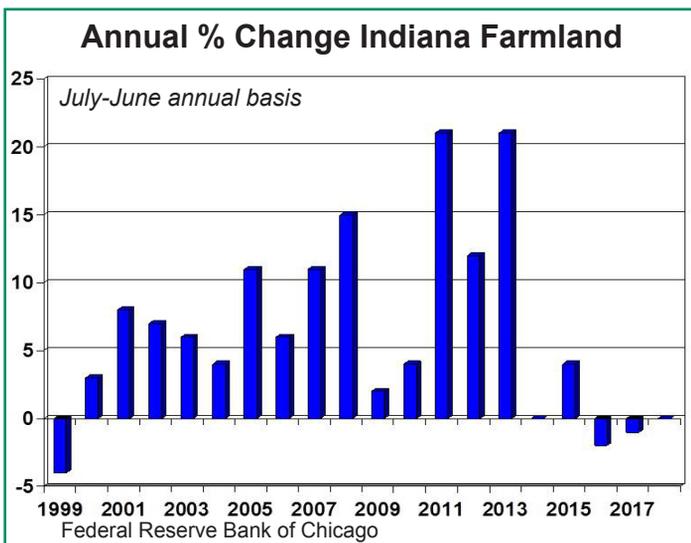
Indiana Farmland Values Steady; Nebraska Dryland Weaker

The mid-year update on Indiana and Nebraska farmland values reveals steady prices in Indiana but continued weakness in Nebraska, according to the Federal Reserve Banks of Chicago and Kansas City.

Indiana farmland values are listed as steady through the first half of 2018 compared to a year earlier, according to agriculture bankers surveyed by the Chicago Federal Reserve Bank. This follows a 1% decline recorded in

2017 and a 2% decrease in 2016. Values rose 4% in 2015.

Nebraska dryland values are down 2% annually through June, according to bankers surveyed by the Kansas City Federal Reserve. This follows an 8% decrease in 2017, a 1% decline in 2016 and a 5% decrease in 2015. Irrigated cropland is down 7% and down 23% from 2015. Ranchland is off 5%, following an 8% decrease in 2017. Ranchland values were unchanged in 2016.



Iowa Farmland Marks Slight Six-Month Loss

September 2018 Iowa Farm & Land Chapter #2 REALTORS® Land Institute Survey of Farm Land Values (Dollars Per Acre)											Percent change in tillable cropland values Past 6 Mo.
Area in Iowa	Land Classification by Potential Corn Production						Non Tillable Pasture		Timber		
	High Quality Cropland		Medium Quality Cropland		Low Quality Cropland		Sept.	March	Sept.	March	
	Sept.	March	Sept.	March	Sept.	March	Sept.	March	Sept.	March	
Central	\$9,799	\$10,140	\$7,283	\$7,440	\$4,669	\$4,891	\$2,845	\$2,815	\$2,462	\$2,470	-3.5%
East Central	10,087	10,279	7,324	7,491	4,741	4,915	2,741	2,767	2,337	2,285	-2.3
North Central	8,999	9,039	6,995	6,969	4,871	4,857	2,397	2,334	2,074	1,958	0.0
Northeast	9,804	9,895	7,292	7,118	4,829	4,755	3,063	3,067	2,813	2,813	0.7
Northwest	11,029	10,999	8,499	8,570	5,268	5,388	2,824	2,835	2,602	2,625	-0.6
South Central	7,188	7,190	4,666	4,699	2,952	2,952	2,709	2,650	2,979	3,003	-0.6
Southeast	9,464	9,721	6,341	6,475	3,875	3,909	2,708	2,773	2,410	2,423	-2.6
Southwest	7,792	7,956	6,105	6,256	4,428	4,614	3,233	3,279	2,560	2,499	-2.4
West Central	9,014	9,304	6,894	7,131	4,595	4,894	2,822	2,811	2,200	2,200	-3.9
State Average	\$9,237	\$9,392	\$6,822	\$6,917	\$4,473	\$4,575	\$2,816	\$2,815	\$2,493	\$2,475	-1.7%

The value of an acre of Iowa cropland decreased 1.7% in the six-month period ending September 1, according to the semi-annual survey conducted by the Iowa Chapter of the REALTORS® Land Institute (RLI). That decline, combined with the 2.9% rise in March, results in a statewide average annual increase of 1.2%, notes survey chair Kyle Hansen, ALC, Hertz Real Estate Services, Nevada, Iowa.

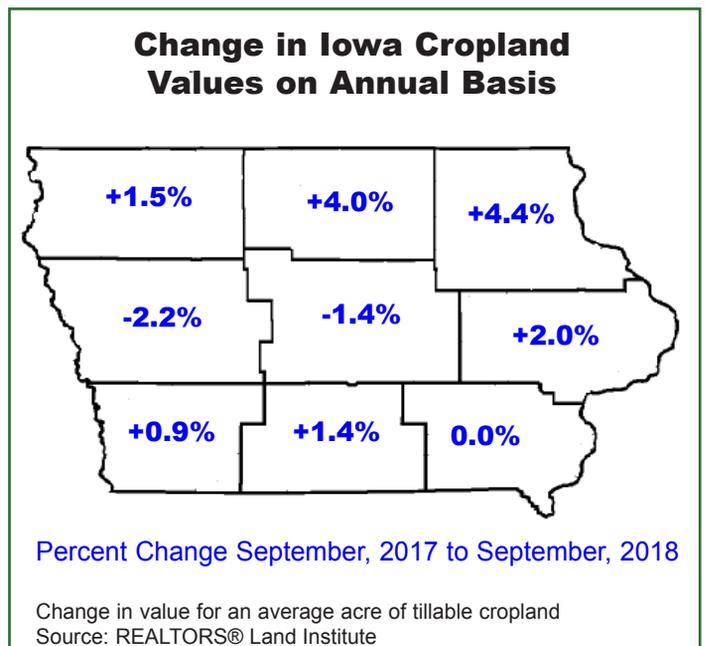
The results are similar to observations of Hertz Real Estate Services agents and personnel. Land values strengthened during the fall and winter seasons but slight weakness appeared during spring and summer.

Survey respondents cite the decline in commodity prices and uncertainty over trade and tariffs as key negatives impacting demand for farmland. Expectations of future increases in interest rates also contributed to demand weakness.

For the state, high-quality cropland averages \$9,237 an acre, medium-quality land averages \$6,822 an acre and low-quality cropland averages \$4,473. These represent declines of 1.65%, 1.4% and 2.2%, respectively.

On a crop district basis, the northeast and north-central districts continue to report annual increases in district farmland values of 4.4% and 4.0%, respectively. The northeast district combined a 0.7% rise in September with a strong 3.7% gain in March for the positive annual gain. The north-central district reports values were unchanged as of September but are higher on an annual basis due to a strong 4% gain from September to March.

Declines of 3.5% and 3.9% posted for September resulted in annual losses for both the central as well



as the west-central districts. Both districts listed increases of 2.9% and 1.7%, respectively, in March, but the recent declines more than offset those gains. The result is an annual loss of 2.2% for the west-central district and a decrease of 1.4% for the central district.

The northwest district continues to report the highest average values with an \$11,029-per-acre average for high-quality cropland. As usual, the south-central marks the lowest average value at \$7,188 an acre.

The value of non-tillable pasture and timber remains basically unchanged. Non-tillable pasture averages \$2,816 an acre while timber averages \$2,493 an acre.

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