

FALL ISSUE

FARMLAND UPDATE

AT THE PEAK, WHERE FROM HERE?

TOPICS IN THIS ISSUE

- OUR THOUGHTS ON THE FARMLAND ISSUES THIS HARVEST SEASON
- WHAT ARE CURRENT LAND VALUES?
- WEATHER & PRODUCER OUTLOOK



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AT THE PEAK, WHERE FROM HERE?

BY: HOWARD HALDERMAN, PRESIDENT OF HALDERMAN COMPANIES

US farmland is at the **all-time high** of values, even when adjusted for inflation. The market is at the peak and there are signs that land is leveling out in price and may be experiencing a slight downturn due to lower commodity prices and much high interest rates. This is consistent with previous periods with similar commodity price declines and/or interest rate increases. The financial health in agriculture is good, therefore any leveling off or decline will be minimal.

Farm incomes, as projected by USDA, are set to decline -20% or more this year from 2022. Last year was a record year for farm incomes and generated a lot of the cash used in purchases of land, equipment and operating budgets for this year. The decline will reduce cash for some operations and may cause 2024 land rents to remain steady with 2023.

Farmland is known as an inflation hedge. For much of the past 30 years this was a non-factor for most investors. Since mid-2021 when inflation took off farmland once again proved its ability to be a rock solid hedge against inflation causing or reminding investors why it is an important part of anyone's portfolio.

Our topics at our recent corporate fall meeting included opportunities for landowners (our clients) in the renewables space. This includes solar, wind, CO2 pore space leasing and methane digesters. We have a client who is looking to site methane digesters near large metropolitan areas to take food waste, convert it to methane to generate electricity. For a landowner it creates a tremendous lease opportunity for the land for the digester and the ability to access the digestate to apply to farmland as a soil enhancement. If you have questions please contact your local Halderman representative.

We also discussed trends in cropland rental terms for 2024 as well as the direction of the land market. Please ask your representative if you are curious about any of these topics or if you have any questions about your farm, the 2024 lease or how to make an investment in farmland.

Here are some thoughts on the major farmland issues in the Corn Belt as we enter the 2023 harvest season.

1. 2023 Crop Production. Based on USDA reports, the US planted 94+ Million acres of corn and 83 million acres of soybeans. Projected yields are lower than trend for both crops due to dry weather across the Corn Belt at multiple times throughout the growing season. Variable is my prediction for yields, highly variable!! This was the second driest year (2012 the driest) for June, July and August in the last 20. I think most Halderman farms will have average yields or better, but they will vary by township.

2. Commodity Prices. Corn and soybean prices



continued their decline since last spring. Prices for old crop ('22) remain good, but new crop prices are well below cost of production as we enter harvest. Most producers forward sold some of their 2023 production at higher levels or have revenue insurance at the much higher February prices, but still these lower prices will negatively impact land values and rents for 2024.

3. Government Support. 2023 USDA support is low. The next Farm Bill debate continues as the current bill expires September 30. Most expect the 2024 Farm Bill gets done by year-end and there may be an extension of the current bill past October 1. We believe the annual programs continue in a similar form, crop insurance support remains and there is more emphasis on sustainable practices.

4. Interest Rates. Rates remain high in the 7-8% range for land mortgages. Most predict they remain steady for the near term, with maybe one more 25 bps increase. The rates increase

costs for land ownership and operating lines as well as increase the return for other fixed income investments which compete versus farmland.

5. Renewable Energy Markets. In past issues we discussed solar, wind, and pore space leasing. If you have interest in any of these please contact us.

6. Land Values & Rents. Land values are trending sideways to slightly downward as we enter the fall real estate season. Halderman expects rents to remain steady for 2024, depending on the farm and location. Input costs for 2024 are slightly lower than for 2023, but elevated interest rates keep a lid on rents and land values.

7. Auctions. Online auctions remain very popular and generate excellent results. In 2023 80+% were online only auctions. Halderman reviews every property and provides a recommendation on the best sale approach based in its merits. Our staff reported in my September 1 survey that auctions remain the best way to maximize your sales price.

Final thoughts: US farmland is a symbol of stability in an uncertain world. Enjoy your investment and if you need help or guidance through the vast questions, ask an expert for assistance! Halderman offers 93 years of vast agricultural experience and our staff knows their regions very well. Remember we do not charge for answering questions (only for answers where we provide a service)!!



If you want to learn the value of your farm, please contact your local Halderman representative today.

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CURRENT LAND VALUES

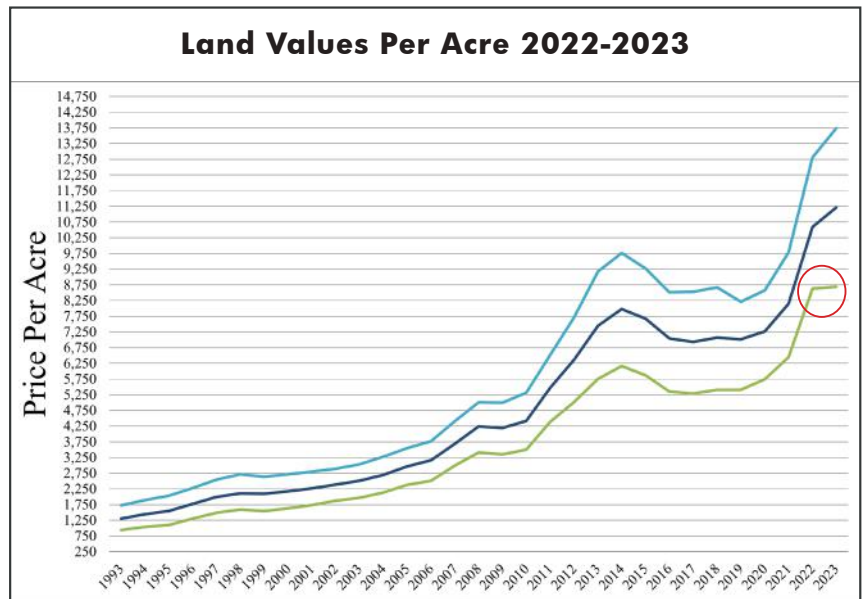
BY: PAT KARST, VICE PRESIDENT, REAL ESTATE, FARM MANAGEMENT, & CERTIFIED APPRAISER

Everyone knows farmland values are at all-time highs nominally. According to the Federal Reserve Bank, current land values, when adjusted for inflation, exceed the previous high level from 2013. The chart below shows the history of land values since 1977.

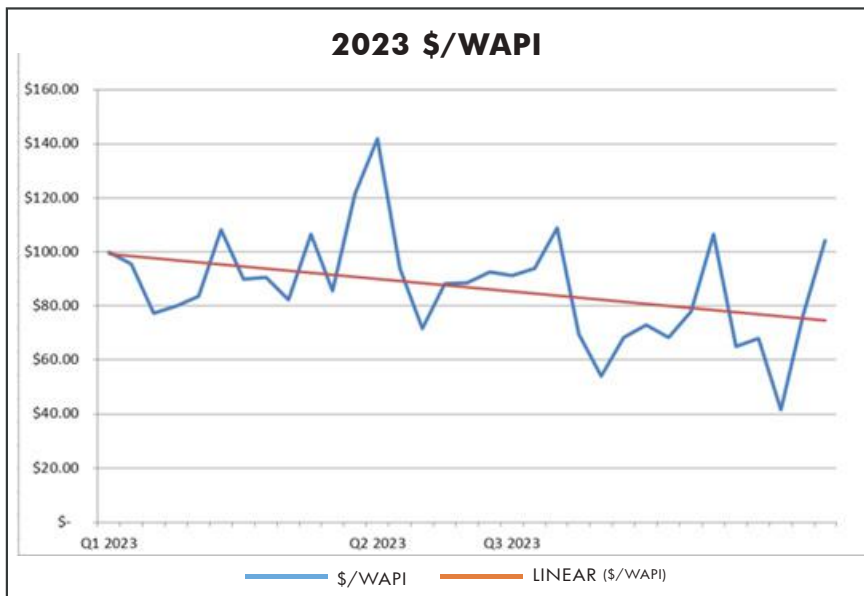
Every summer, Purdue University asks farm real estate professionals about land values. Below is a chart showing the most recent results. The light blue line is best quality land; the dark blue line is average land while the green line is below average farmland. Notice that the green line is nearly flat. Historically, poorer land rises later and slower in an increasing land market and drops sooner and faster in a declining market. Is this an early indication that land values are reaching their peak?

I talked about the ratio of land prices and the Weighted Average Productivity Index (WAPI) in previous newsletters. The WAPI is an indicator of soil productivity. While productivity is important to land value, other factors like location, reputation, size, and shape are also important.

Recently the Halderman team sold several farms in central Indiana that were average or below average in quality, location and reputation. The chart below summarizes our sales of primarily tillable land in 2023. Prior to the middle of August, the value trend was flat. Nine of the 12 farms sold in August sold below the trend line. Therefore, these sales indicate a possible weakening of land values.



What is causing a steady to slightly downward trend in farmland? Indiana farmland is earning approximately 2% cash on cash return. Bank CD rates are a relatively safe investment and are near 5%. Other safe investments like securities are also trending higher. Therefore, there are fewer investors actively buying farms. According to a survey of the Halderman representatives, farmers purchased 84% of the land sold this year. This is markedly higher than 2022. If they are borrowing any money to make land purchases the much higher interest rates are a detraction.



We don't know the future but we know that land is at an all-time high. If you want to sell your farm at the top of the market, now is the time. Call your Halderman at 800.424.2324 to learn how you can capitalize on this opportunity.

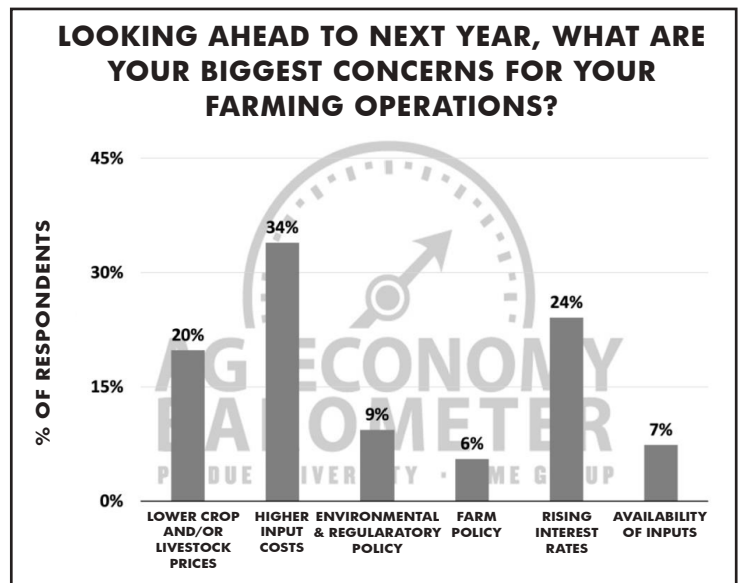
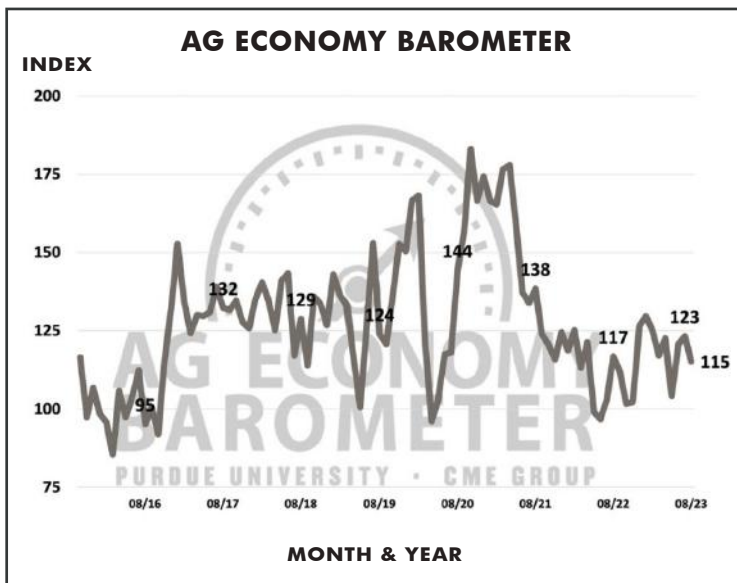


WEATHER & PRODUCER OUTLOOK

BY: **NOLAN SAMPSON**, DIRECTOR OF BUSINESS DEVELOPMENT

As fall begins with dropping temperatures, it seems that prices continue to rise for items such as fertilizer, fuel, seed, and machinery. Concerns about those prices rising is shown by this month’s ag barometer. The Purdue University CME Group Ag Barometer is a survey of 400 agricultural producers across the United States to gauge industry concerns based on producers’ feelings. According to this survey, trends within the ag industry are casting concern on the perception of their personal operations and the industry altogether. In August 2020, the ag economy barometer was at an all-time peak but has since weakened steadily. Despite record-breaking values for land and machinery in recent years, as costs and interest rates rise there is a dip in farmer sentiment looking to the future – negatively impacting perception of the investment climate among farmers.

Some of the leading topics of concern include higher input costs (35% of survey respondents) and rising interest rates (24%). With the current Farm Bill set to expire at the end of September, it is surprising to see only 6% of respondents showed concern for USDA farm policy. It is still uncertain if the Farm Bill will be extended into 2024 until a new bill is written. Farm land values remain strong, showcased by Halderman sales this past year – and producers appear to have a lot of confidence in that data. The Short-Term Farmland Values Expectation Index rose by one point while the long-term index did not change at all. Survey respondents expect land values to continue rising for the next five years. Evidently, many producer’s outlook on the long-term future isn’t all bad.



SOURCE: PURDUE UNIVERSITY CENTER FOR COMMERCIAL AGRICULTURE, PRODUCER & SURVEY, AUGUST 2023

Locally – crops are beginning to turn and we are seeing silage being chopped, seed corn harvest is also underway. We will begin to see harvest ramp up soon. Talking to several agronomists in the area a general consensus is that we are 5-10 days behind “normal” with crop maturity. Now is a great time to start building a plan for post-harvest projects such as soil testing, fence line clean up, or more intensive projects on the farm. Feel free to call me, Nolan Sampson, at 219-575-1486 and I would be pleased to help you in these capacities.



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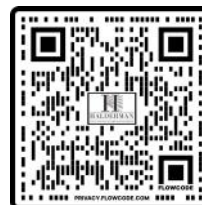
INVESTING IN FARMLAND, CURRENT MARKET AND MORE

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INTERESTED IN LEARNING MORE?

Be sure to be on the lookout for invitations to our local Halderman seminars. These are a good opportunity to get a full update on what we are seeing in real estate as well as the general farm economy and learn from our local partners. The demand has been high so we have added new seminars statewide in several places to be sure that everyone who wants to attend has an opportunity!

Our website hosts a vast array of upcoming events along with recordings of past newsletters, podcasts, blogs, and webinars. To view our current events and RSVP please utilize the QR code below or visit www.halderman.com/events.



"TO DO FOR YOUR
FARM WHAT WE
WOULD DO IF YOU
HAD THE TIME AND
THE EXPERIENCE."

- Howard H. Halderman



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