FARMLAND UPDATE

FALL 2020 - NEWS & VIEW

A MEMORABLE YEAR

Howard Halderman
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A year no one will forget anytime soon is only 2/3's complete. What the remaining four months has to offer remains shrouded in mist. In most economic markets, Black Swan events are random, unpredictable and happen infrequently. 2020 so far is full of multiple Black Swan events from COVID to the derecho storm in the Midwest earlier this month to record low interest rates, negative oil prices and many farm commodities trading at or below the cost of production.

On January 1st no one predicted any of these outcomes, yet 9 months later they all happened. Remarkably, throughout the difficulties, farmland values remain steady, according to our recent sales and most reports, but this fall will be very telling as the numbers of sales this summer were very few. This performance is what you should expect from your farmland investment. Your farm will produce positive net cash flow, assuming little or no debt (which is the case for most of our clients and landowners in general), and steady values that are not subject to volatile swings due to dramatic events.

In my career, I saw the lows of the farm depression in the late 1980's, the euphoric times of the late 2000's and early 2010's and many steady, consistent performance years in between. There were historic weather events such as droughts in 1988 and 2012, wet springs with vast acres of "prevented planting" claims, derecho storms, tornadoes and effects from hurricanes. There were elections that changed the course of other markets dramatically, 9/11, COVID, trade wars, ethanol development, and expanding populations straining the food supply. What is interesting is that if you chart farmland values over the past 35-40 years they increase at a steady 4-5% per year. Compared to many markets this total return of 6%-8% is very appealing. Consistency - that is what farmland offers.

1) **2020 CROP PRODUCTION:** As expected, planting in the US went forward like normal and in most areas was timely. The crop is growing well, receiving plenty of heat units; just enough rain and should be above average as of September 15 although late season dryness may clip some yields.

2) **COMMODITY PRICES:** Prices began suffering with the outbreak of the virus. Demand dropped across the world due to weaker economies and reduced ethanol production. Prices rebounded slightly in early July on some weather fears, but once the rains returned and the crop prospects improved prices fell back, well below cost of production. Then, China began to fulfill the terms of the Phase 1 trade agreement with some large purchases of corn and soybeans, and the derecho weather event combined with last season drought conditions impacted final yield of the US crops and is sending prices much higher.

3) **GOVERNMENT SUPPORT:** Certainly, government support is present in almost every industry and to individuals. The Ag support to offset losses from COVID is broad covering many areas within agriculture, more is on the table for Congress after the August recess, and therefore additional grains support may come.

4) **INTEREST RATES:** They remain extremely low (4.4% average fixed for real estate loans in the 7th District of the Federal Reserve) and most predict they remain at these levels for a while. This is a positive for Ag production and land values.

5) **LABOR:** Health of the labor force in Ag (mainly livestock processing) was a huge concern during the first couple of months of the outbreak. Health of the workforce is still a concern, but work conditions are improving and largely did not affect grain production.

6) **LAND VALUES & RENTS:** Our sales to date match the opinion shared in the Purdue Land Value survey published this month. Farmland in Indiana increased in value during the second half of 2019 and experienced a slight decline the first six months of 2020. As a result, June 2019 to June 2020 shows values steady to slightly higher depending on location and quality. In my opinion, the market is steady today, but there is some financial stress and the lower commodity prices will not help send values higher. I predict steady to slightly lower land prices this fall.

7) **AUCTIONS:** Halderman Real Estate conducted our April, July and some August and September auctions via on-line and phone bidding. The technology worked flawlessly and the farms sold within tenths of a percent of the values achieved pre-COVID. Contact our Wabash office at 800-424-2324 if you have questions about bidding on a property we are selling.

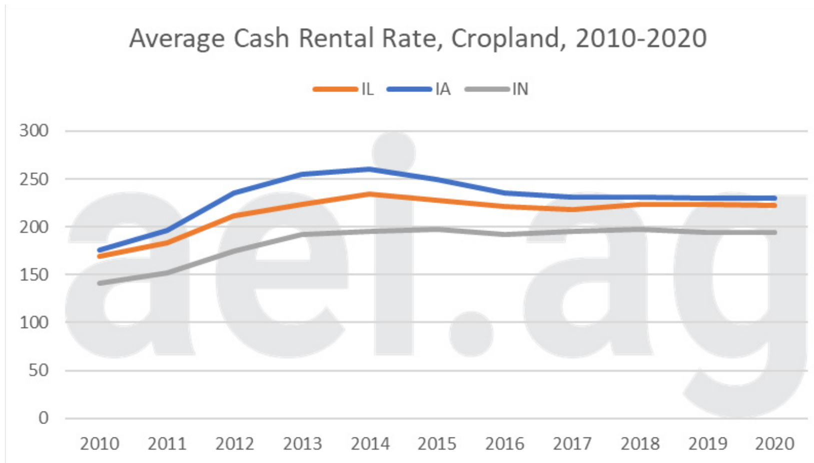
Final thoughts: The world is full of unknowns, let Halderman make your farmland investment 110% known to you. If you need help or guidance through the vast questions, ask an expert for assistance! Halderman offers 90 years of deep agricultural experience and our staff knows their regions very well. If you have a question about your farmland asset simply ask – we do not charge for answering questions (only for answers where we provide a service)!!

FINANCIAL UPDATE

RENTAL RATES

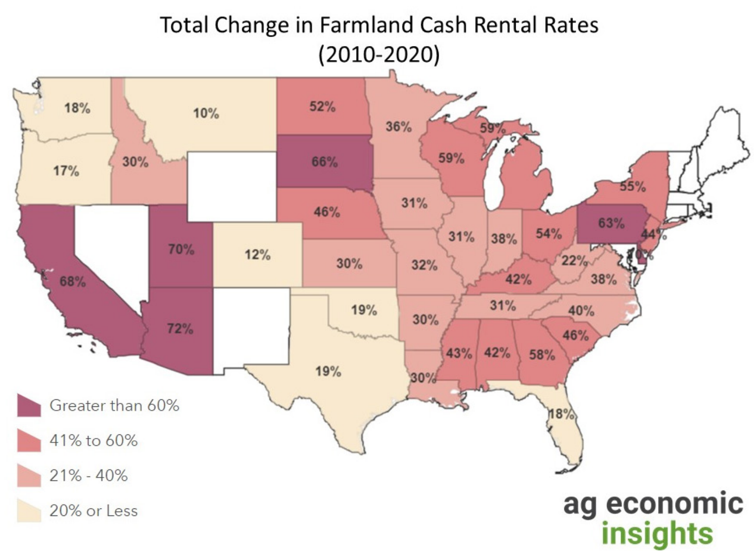
Pat Karst
Vice President, Real Estate, Farm Management, & Certified Appraiser

Net farm income is down over the past 4 years but cash rental rates are steady. The first figure to the right is from Brent Gloy from Agricultural Economic Insights and shows the trend in cash rental rates in the Midwest over the past 10 years. They accelerated rapidly from 2010 to 2014 and declined slightly from 2014 to 2016.



Farm rental rates are considerably higher than they were 10 years ago as evidenced by the second figure to the bottom right. Despite the rate decline from the top in 2014, cash rental rates are up 38% in Indiana over the past 10 years. This equates to a 3.2% annualized increase in rent per year.

How can rental rates stay constant when farmers earn less money? Here are several possible reasons:



1. Farmers received ad hoc government payments over the past few years shoring up their income stream. If these payments end, it is likely that rent will go down.
2. U. S. crop yields continue to trend higher. Farmers are getting better at growing more grain per acre. If prices stay the same but yield is higher, gross earnings are higher.
3. The grain marketing window for crops extends over multiple years. For example 2020 corn can be sold in 2019, 2020 and 2021. We've seen opportunities almost every crop year to sell grain at prices above the cost of production.
4. Due to continued strong demand for non-GMO crops, farmers have the opportunity to grow them at premium prices. This sounds easy but these crops take a different management style and may incur more cost.
5. Competition for leased land remains strong. Farmland in the Midwest has a 0% vacancy rate. In other words, land does not go un-farmed due to lack of an operator. If a farmer decides to give up land, there is typically strong competition to replace them.
6. Scale is important. Even if margins are slim, farmers don't want to give up rented farms so they can spread fixed cost over more acres.

Are your lease terms fair to you and your tenant? Does the lease achieve the goals for your farm in both earnings and stewardship? Is your farm operator asking for lower rent in 2021? Contact your Halderman agent at 800.424.2324 for help answering these questions. We have the experience, knowledge and professionalism to help you meet your goals.