

Farmland As Infrastructure

What is the Value in Farmland?

June 8, 2018

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Who is Halderman?



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Halderman Companies' Scope of Business

- **Farm Management**
 - 675 farms; 250,000 acres in 19 states
- **Real Estate**
 - Sales & Acquisitions
 - 175 farms; 15,000 acres; \$110 million in sales annually
 - Farm Appraisals
 - 650 appraisals annually



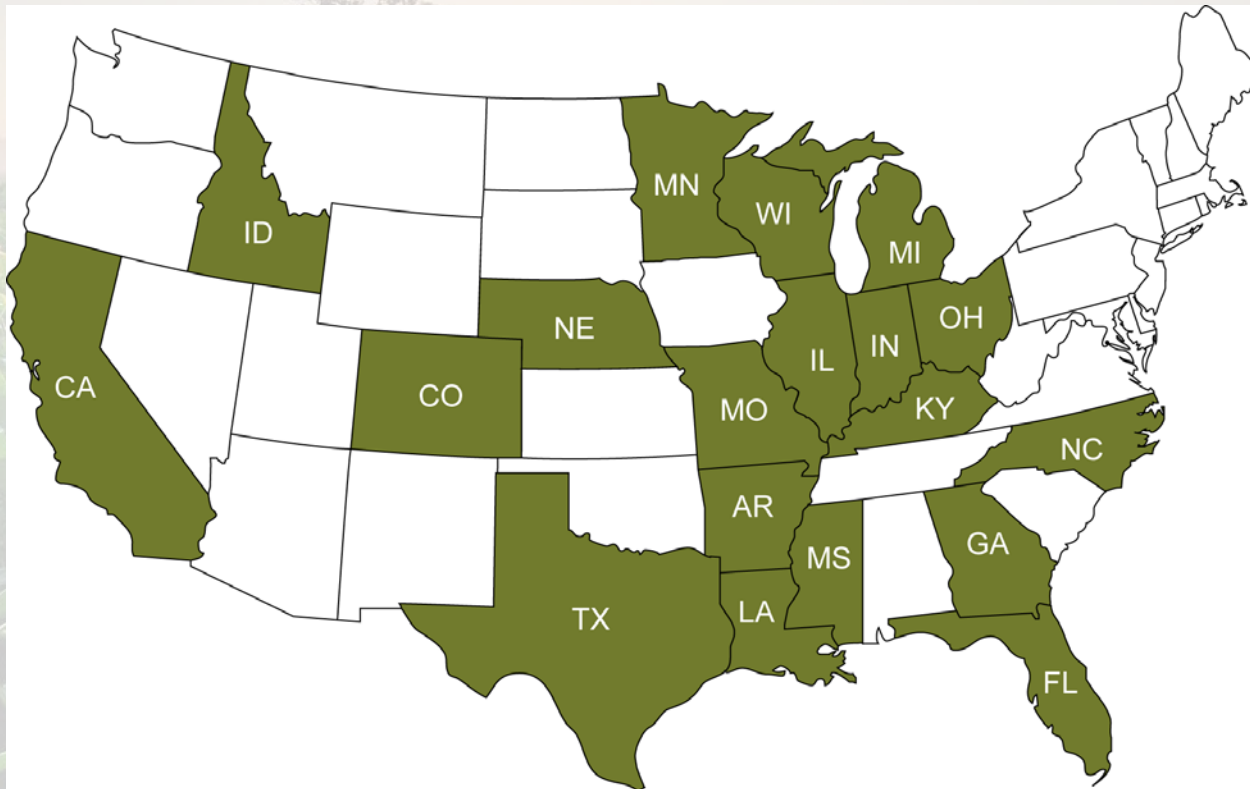
History and Staff

- Founded in 1930
- 3rd Generation Ownership
- 3 corporate managers
- 22 Area Representatives
- 11 Real Estate Associates
- Indiana, Ohio, Michigan, Louisiana, Arkansas, Texas & California
- 10 Support Staff
- Average tenure of staff >20 years



Halderman Farm Management National Coverage Area

36 Professionals Providing Services Across 19 U.S. Farmland Regions



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Farm Land

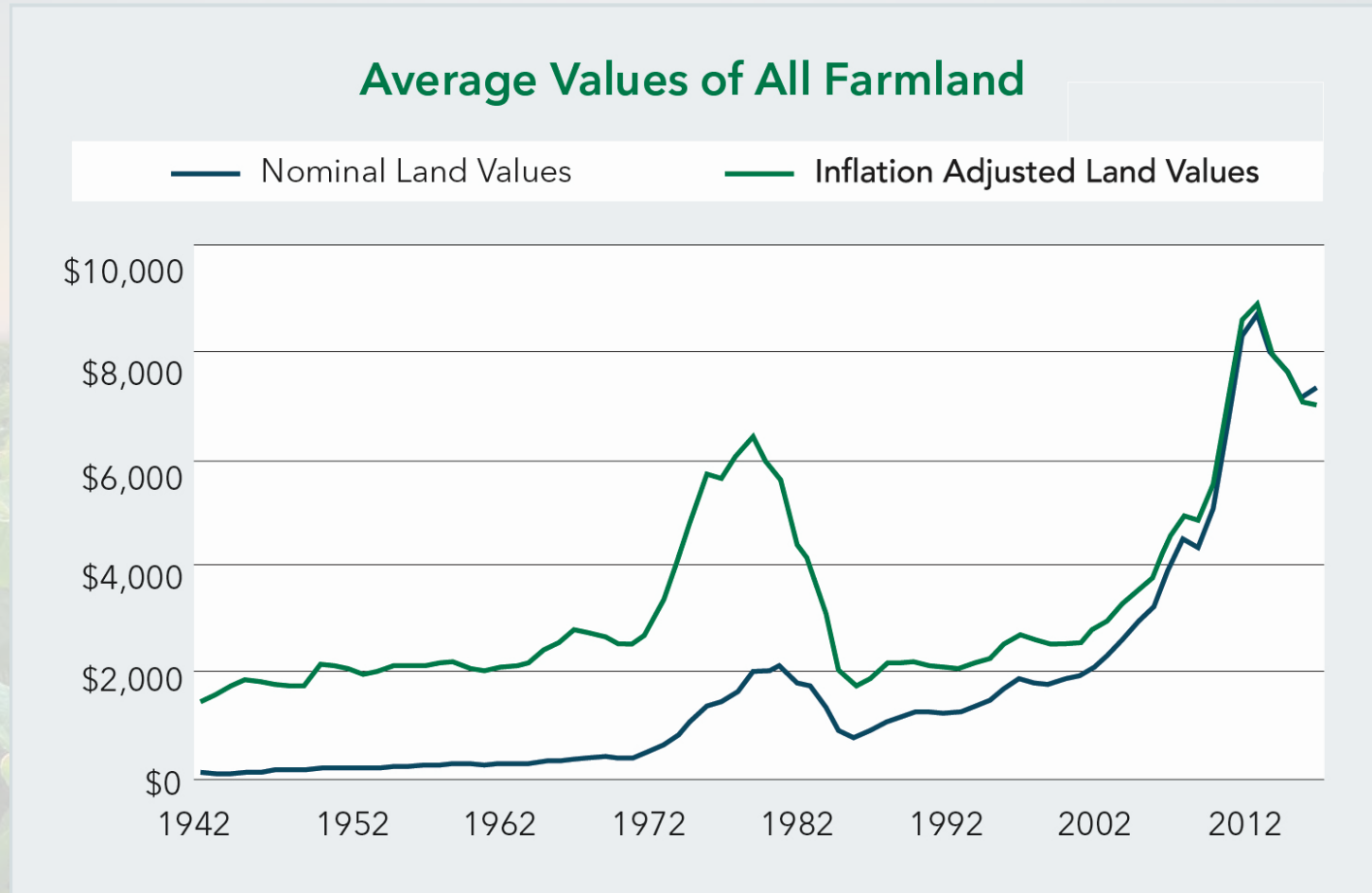
“The original infrastructure”



Land – the _____est

- Farm row crop land costs (rent, debt, opportunity cost) range from 33 – 40% of the annual gross income.
- *Largest* expense line item
- *Hardest* to obtain (20-40 bidders on top quality farmland)
- Most consistent and loyal input (*stickiest* and least volatile)

History of farmland values



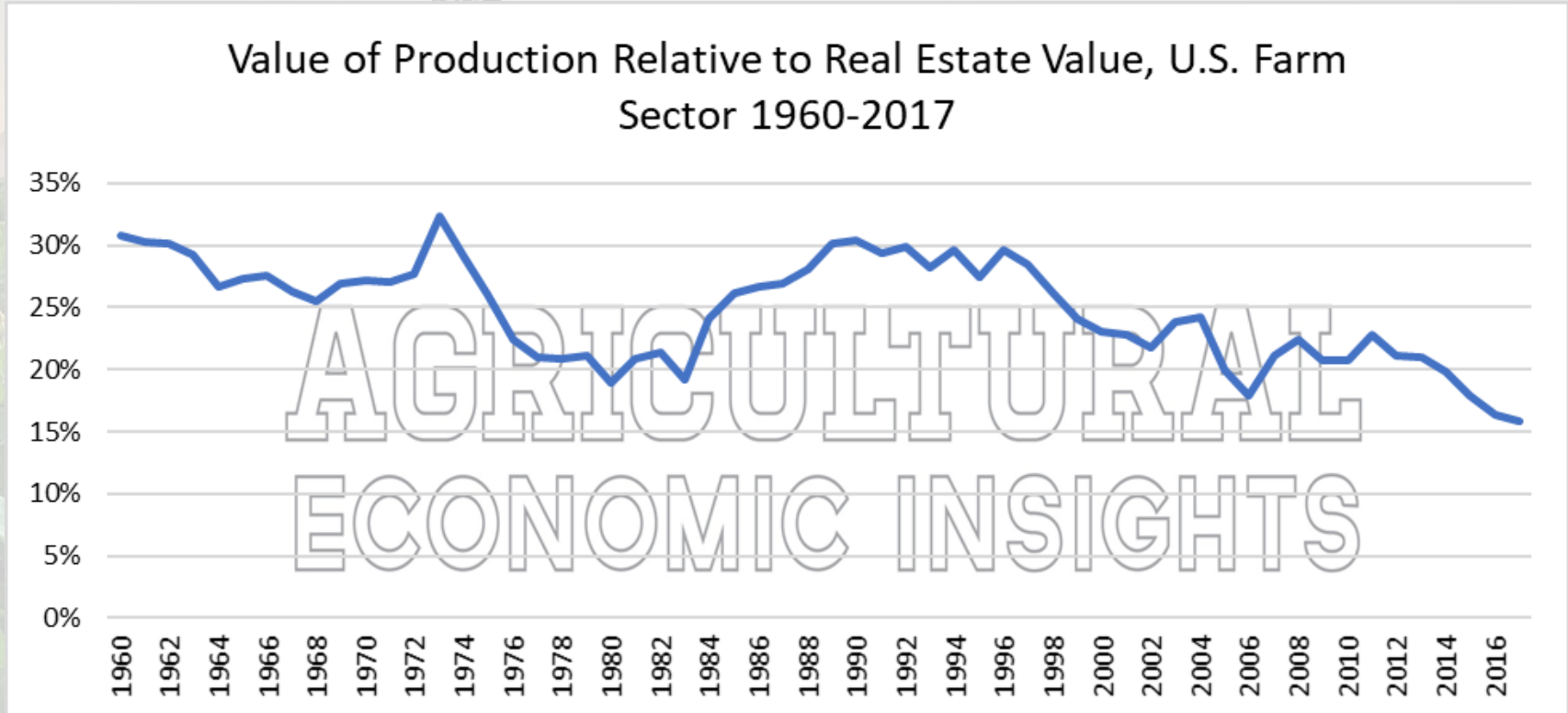
Source: Farm Journal Landowner Vol. 38, Issue 15 Published December 28, 2017

Production Costs 2018



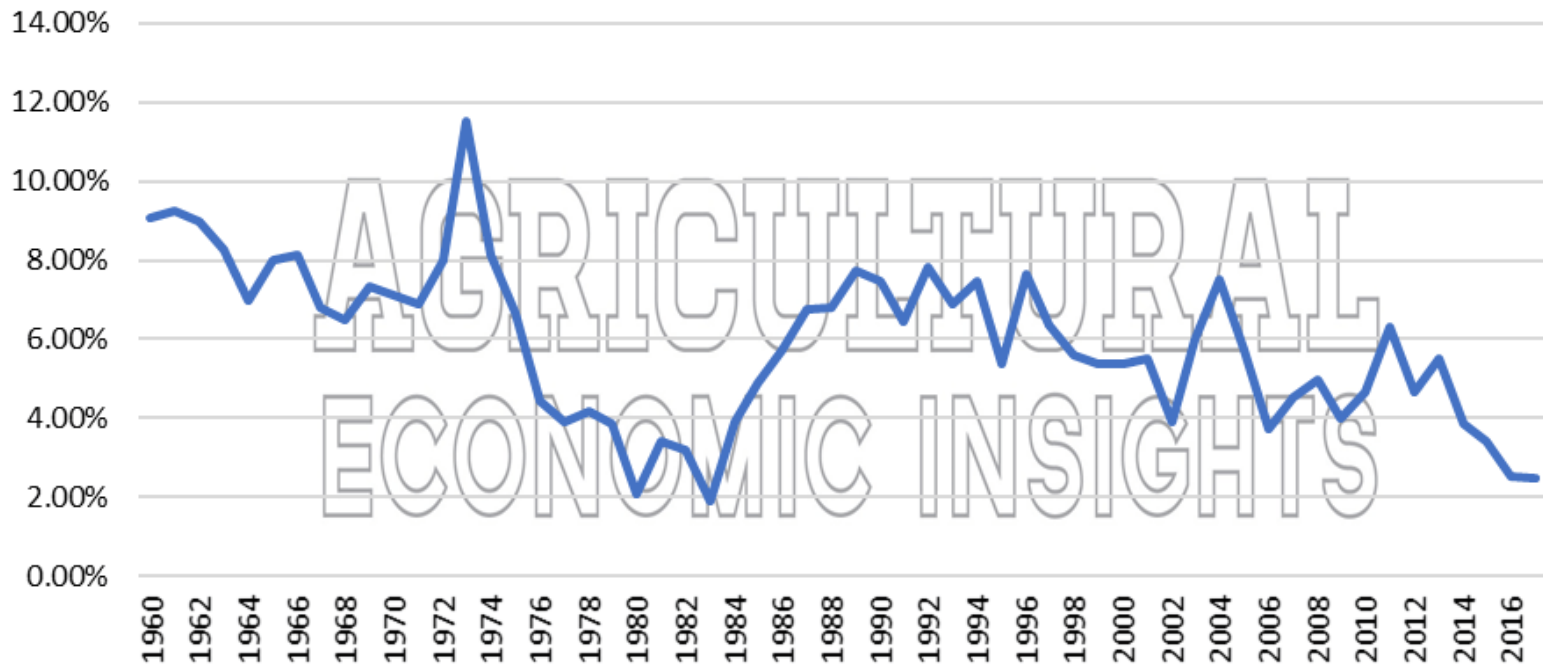
- Total Production Costs
 - With rent (assume \$250/acre)
 - \$640-\$850 – corn (33% at \$750)
 - \$450-\$650 – beans (45% at \$550)
 - Without rent
 - \$390-\$550 – corn
 - \$210-\$390 – beans
- Rents across Corn Belt – \$200-\$300 range

Value of Production/Real Estate

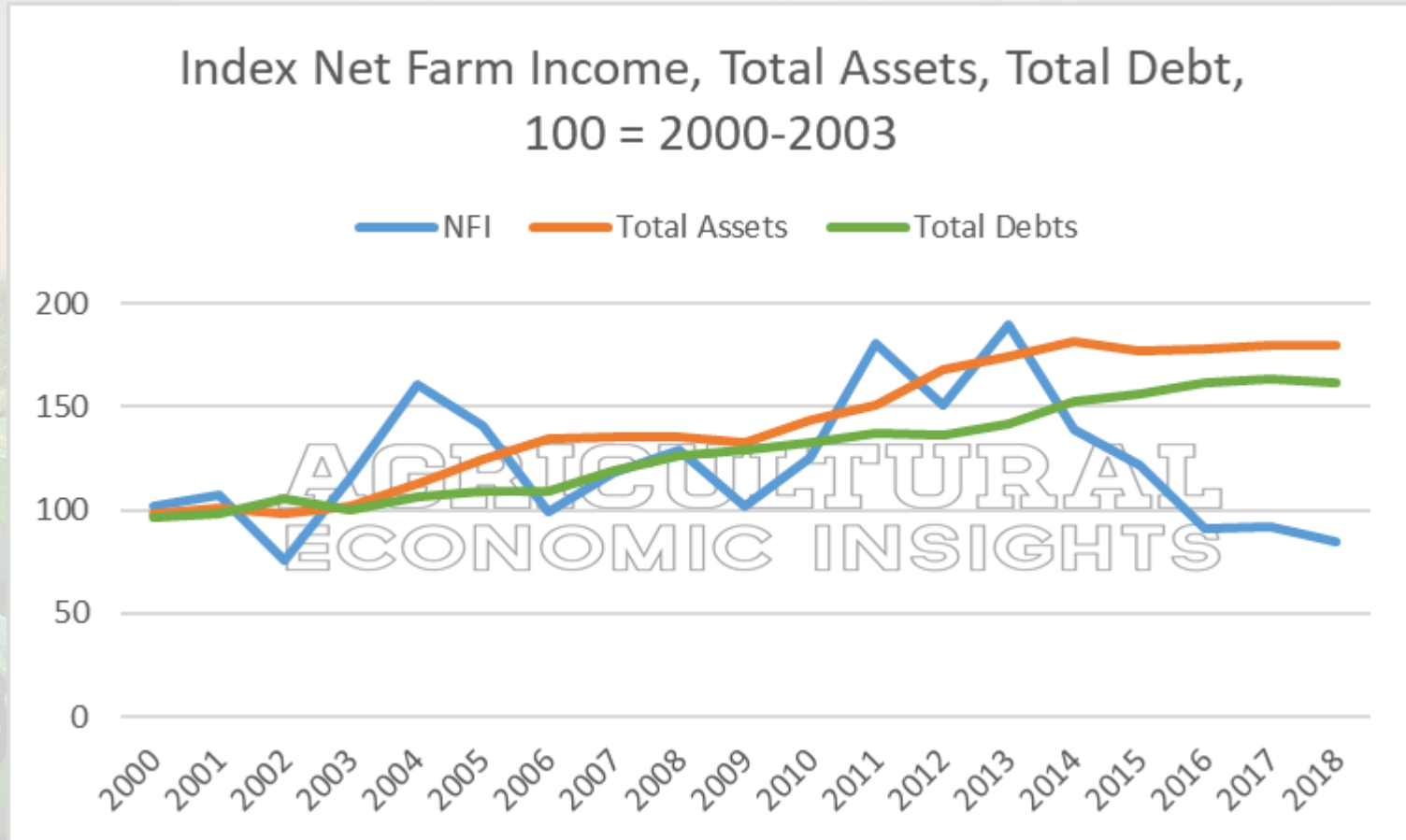


Value of Net Income/Real Estate

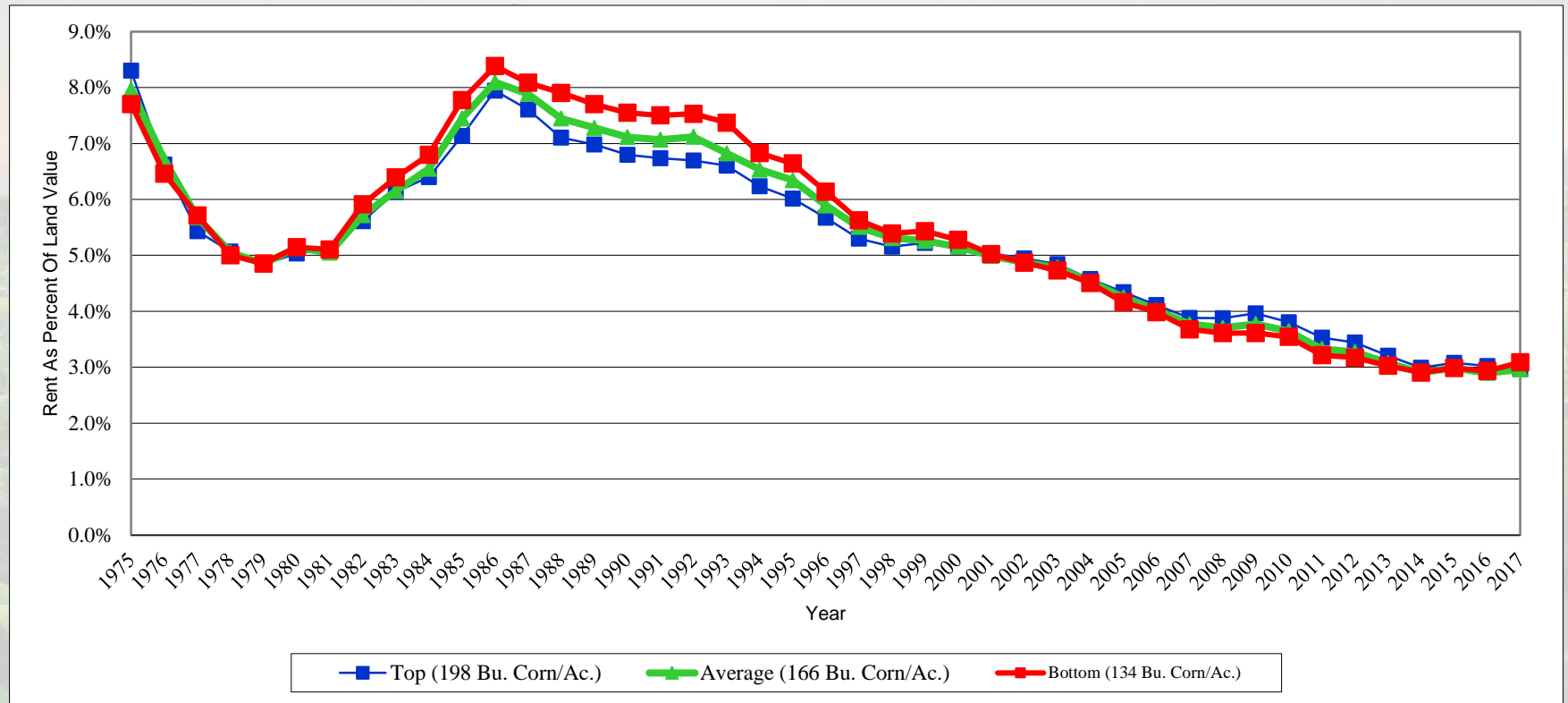
Net Farm Income Relative to Real Estate Value, U.S. Farm Sector 1960-2017



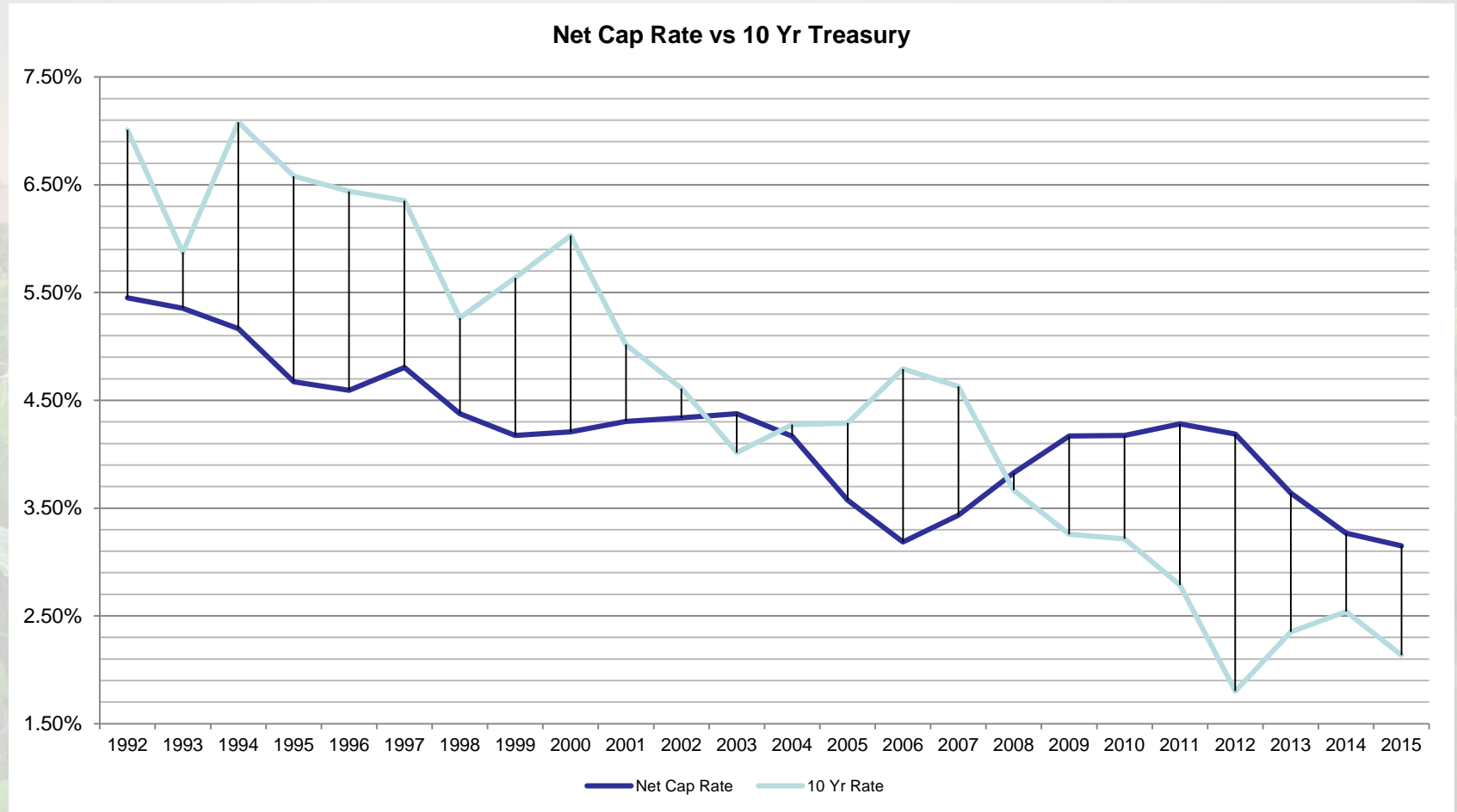
Net Income, Assets and Debt



IN Farmland Cap Rate 1975-2017



Cap Rate vs Treasury Rate



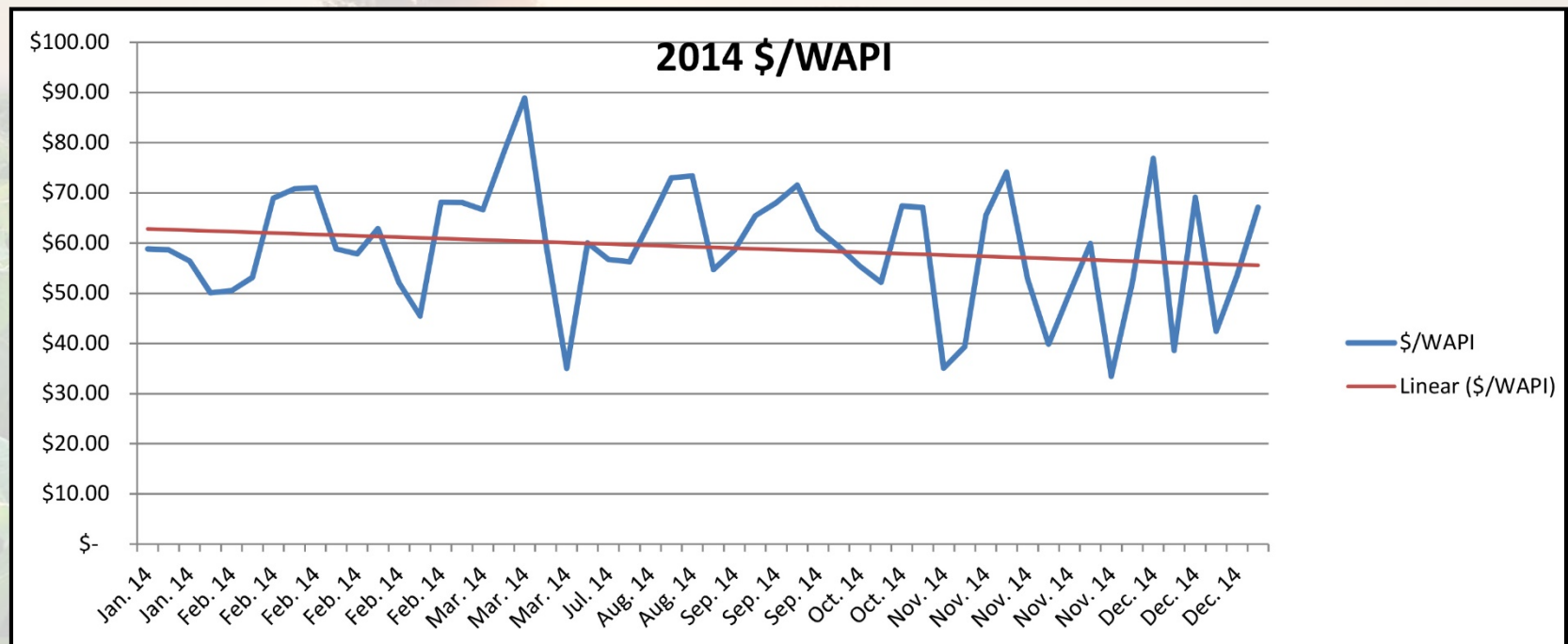
Farm Land

Where are we today?



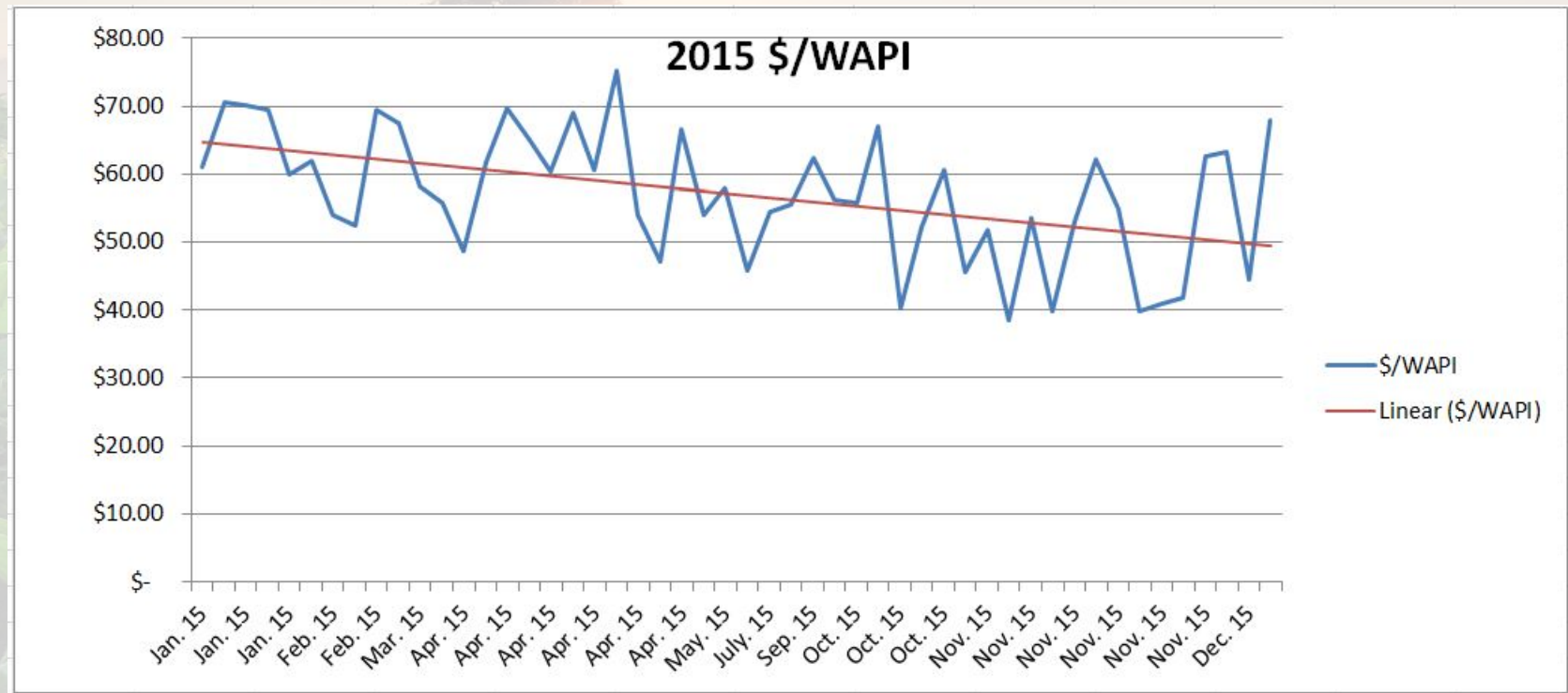
Summary of HRES Sales

- Soil Quality Measurement - Trend 2014



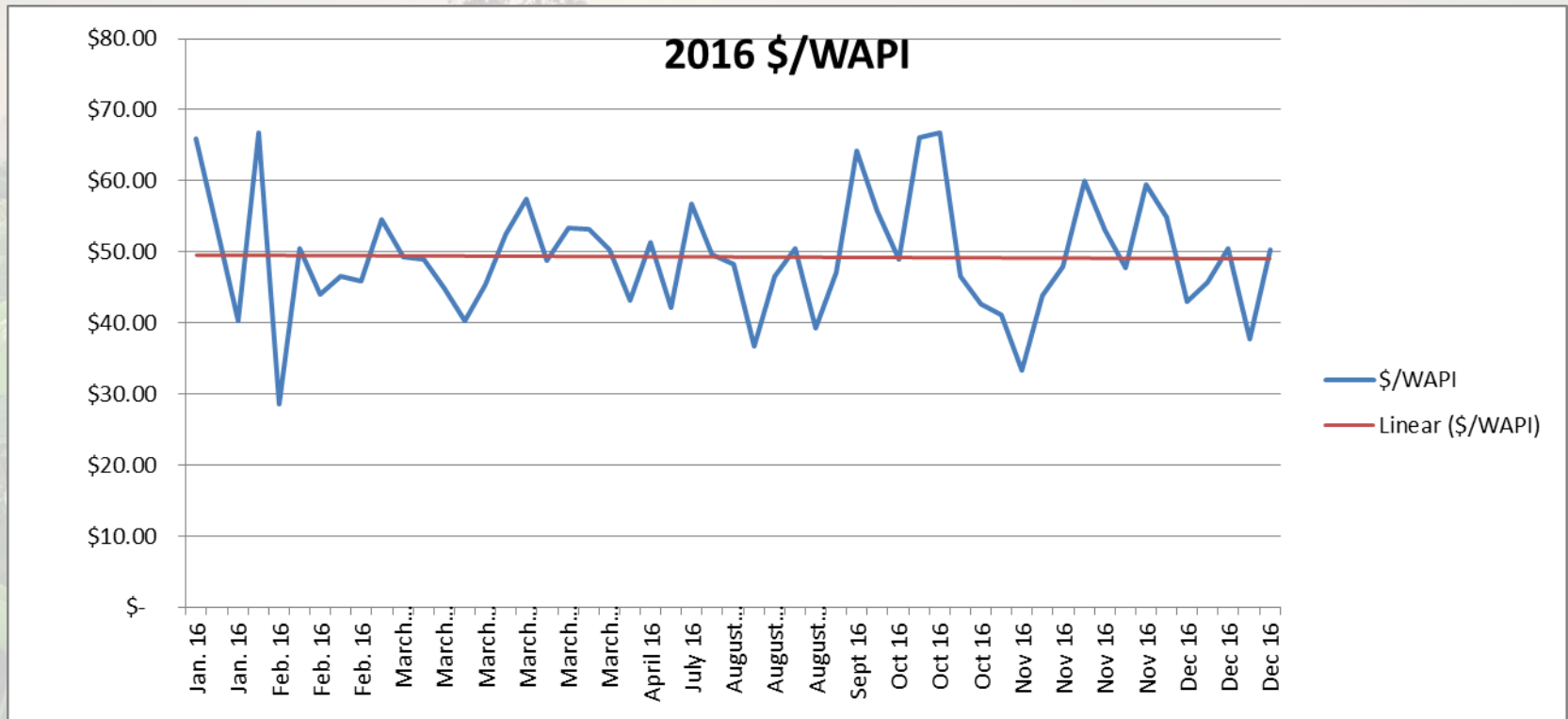
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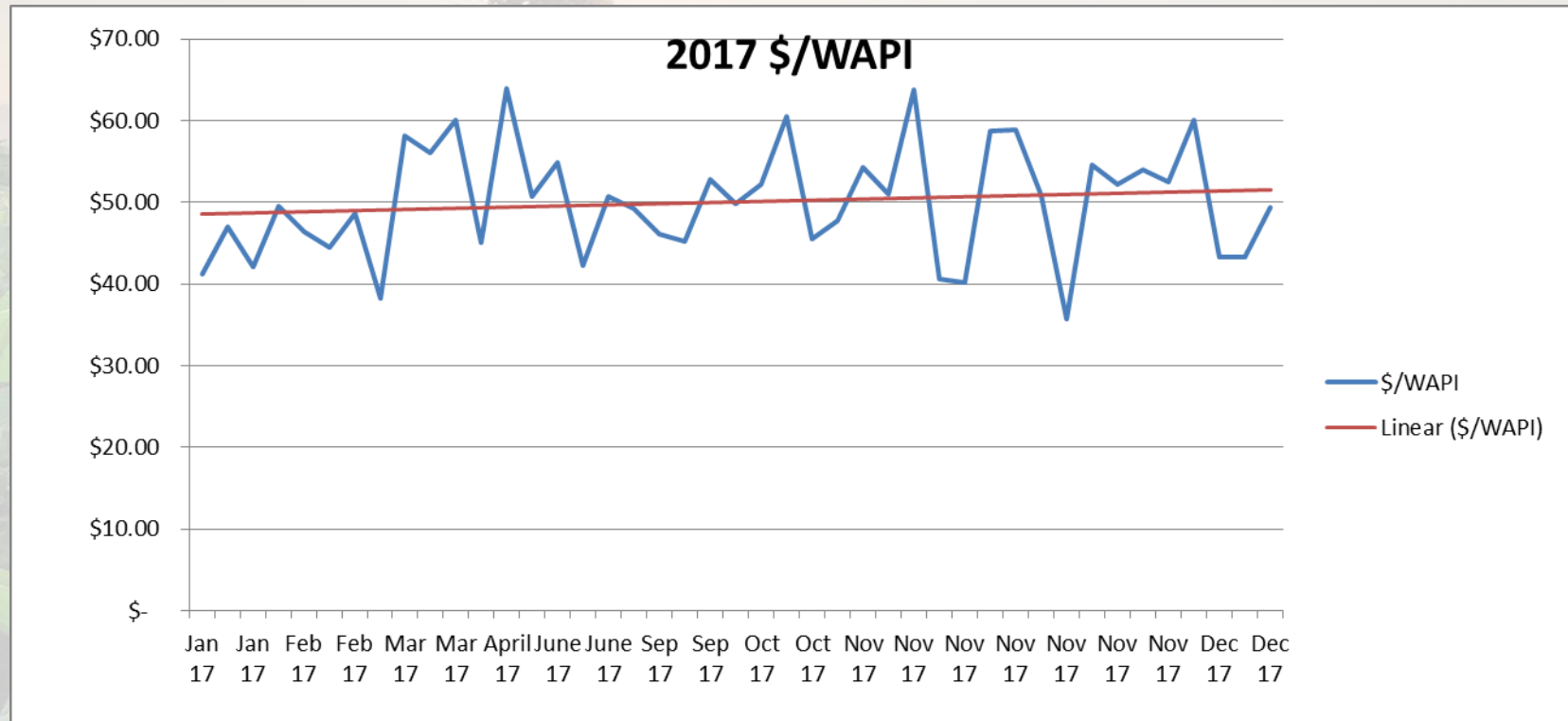
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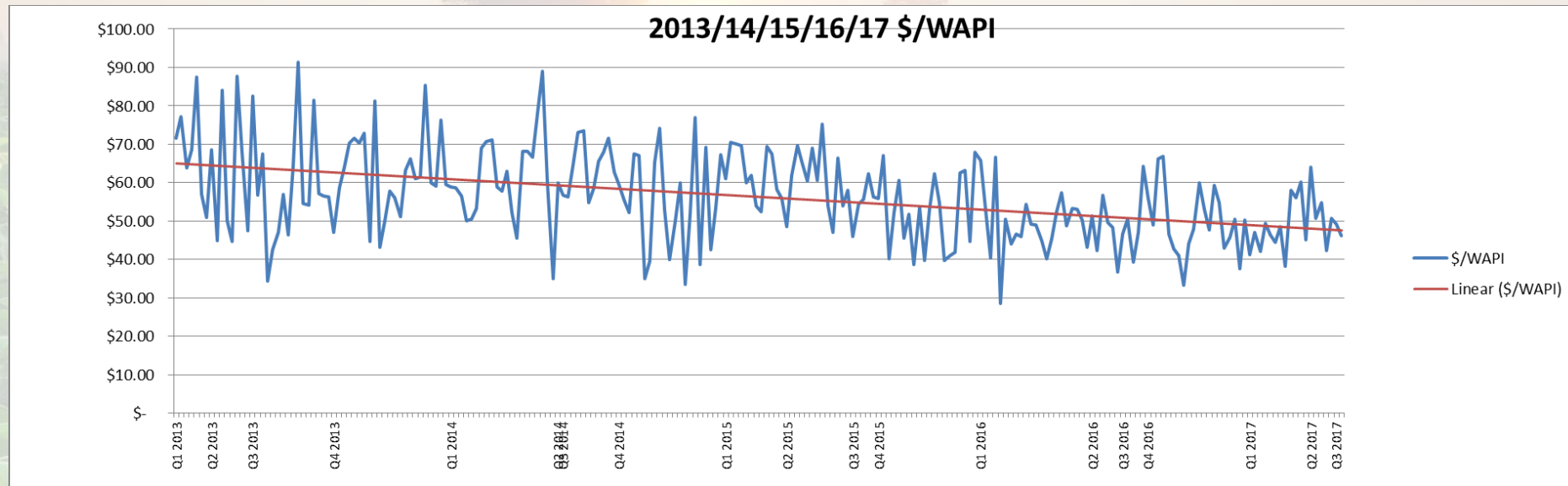
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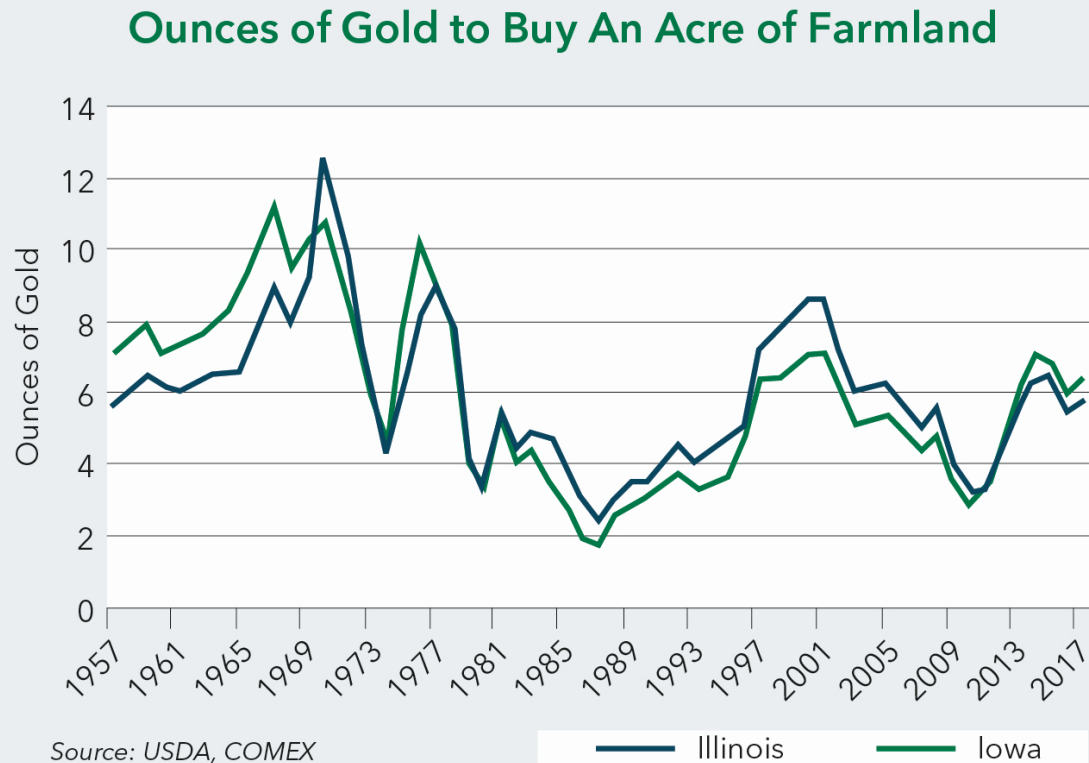


Summary of HRES Sales

- Soil Quality Measurement –Trend 2013 - 2017



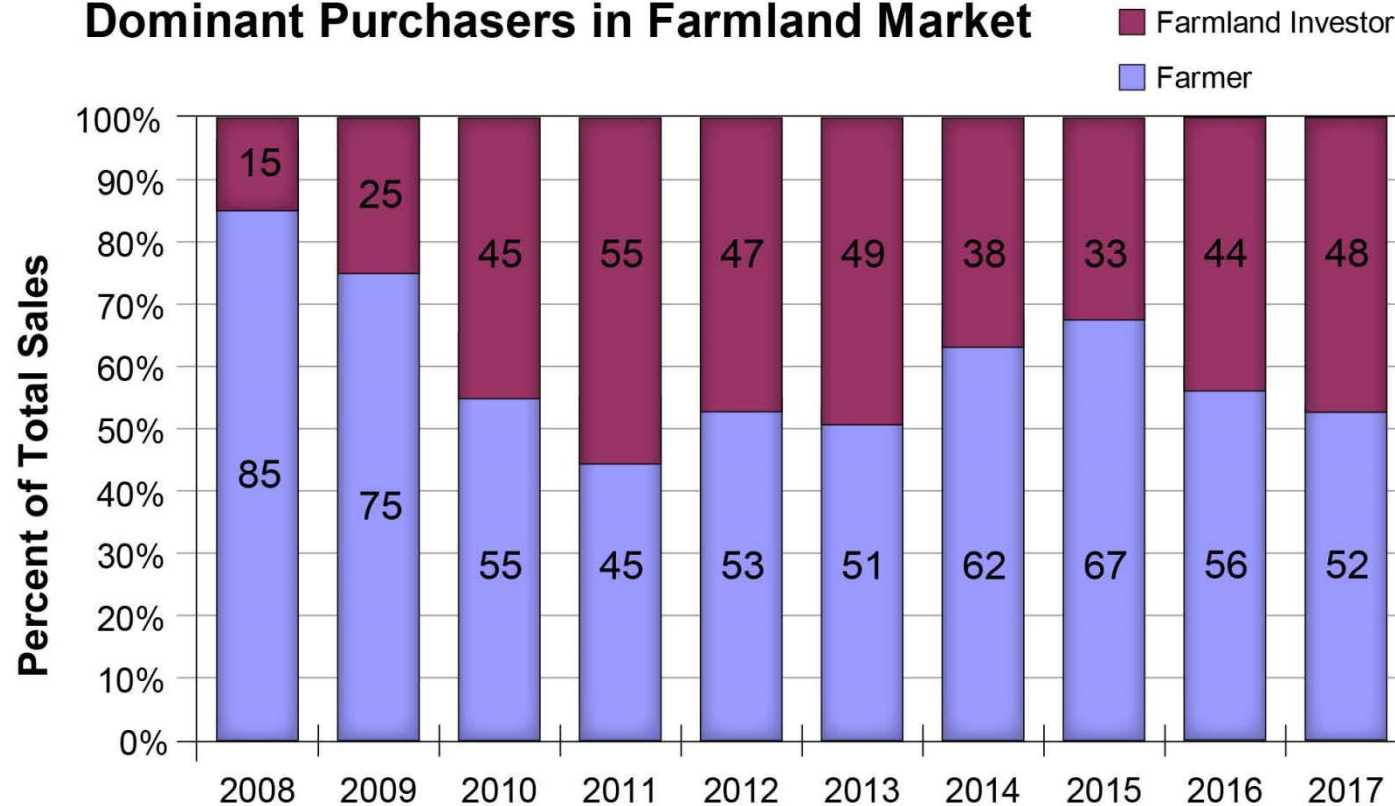
How much Gold to buy 1 acre of Farmland?



Source:
Farm Journal Landowner Vol. 38, Issue 15 Published December 28, 2017

Who is Buying?

Dominant Purchasers in Farmland Market



Halderman Real Estate Services, Inc.

Institutional Buyers???

- Sale/Leaseback opportunity
- Significant dollars
- Transaction size varies (\$500K up)
- Specific return expectations
- Due diligence requirements
- Common vision is important



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Purdue Ag Barometer

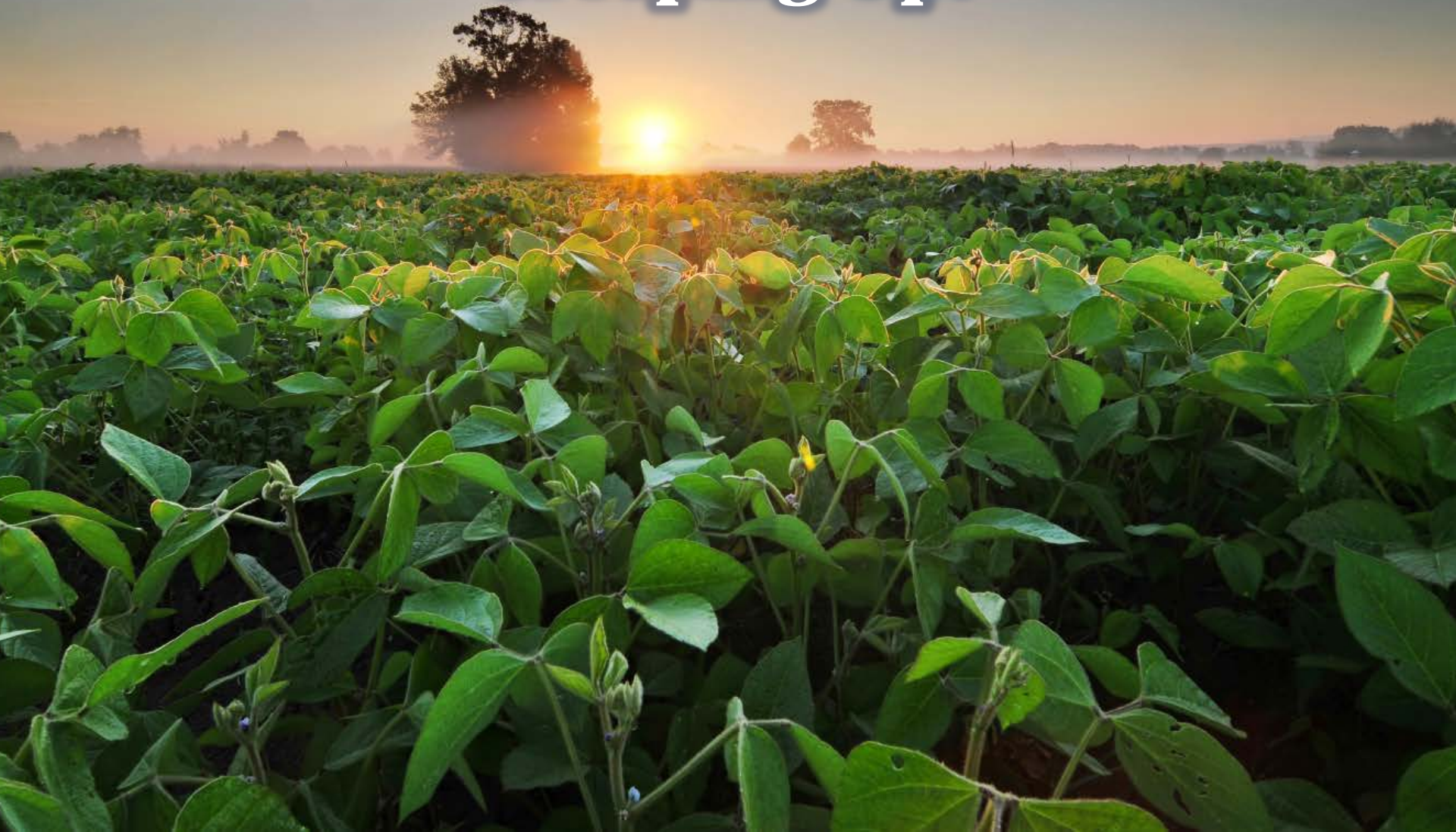
Purdue Ag index barometer jumps to 132 in Dec., 153 in Jan., 138 in Feb., 124 in March, 130 in April, 130 in May, 131 in June, 139 in July, 132 in Aug & Sept. and 135 in Oct Fell off in November to 128 and December 126 (132 for current and 120 for future). January 2018 starts at 135, by April it is down to 125. May sees a reversal of opinion due to changing trade talks and rising prices – now at 141.

Started in 2015. Scale is 0-200.

Sales Volume is Down!

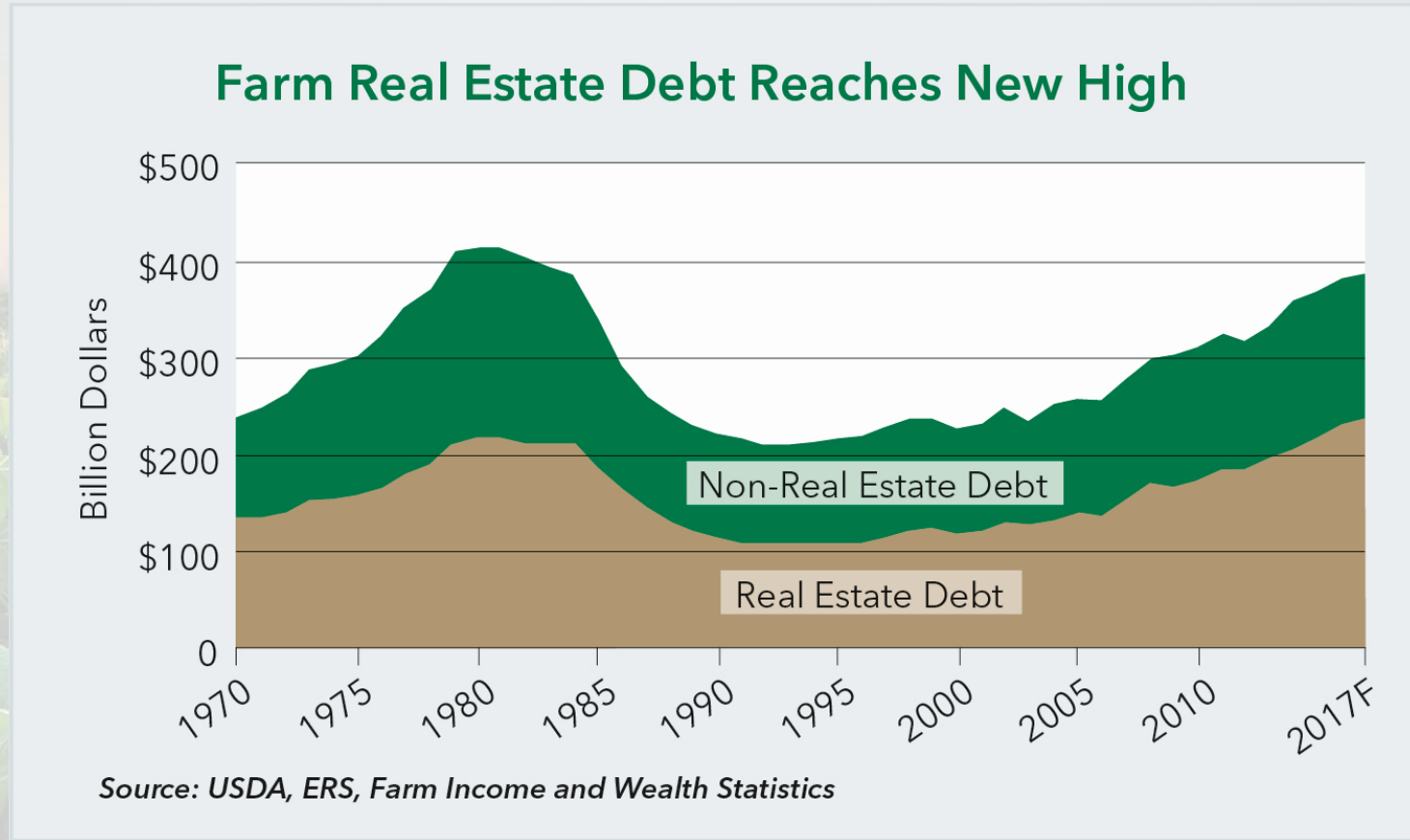
- **Farm Credit Services of America**
- **“no sales” as percent of *all* sales**
- **2017 – 3,334 137 4.1%**
- **2016 – 3,604 131 3.6%**
- **2015 – 4,099 147 3.6%**
- **2014 – 4,416 160 3.6%**
- **2013 – 4,424 164 3.7%**
- **2012 – 5,925 130 2.2%**
- **2011 – 4,816 149 3.0%**
- **2010 – 4,701 116 2.5%**

Farm Land Debt Creeping Up!



Real Farm Debt Near 1980 High

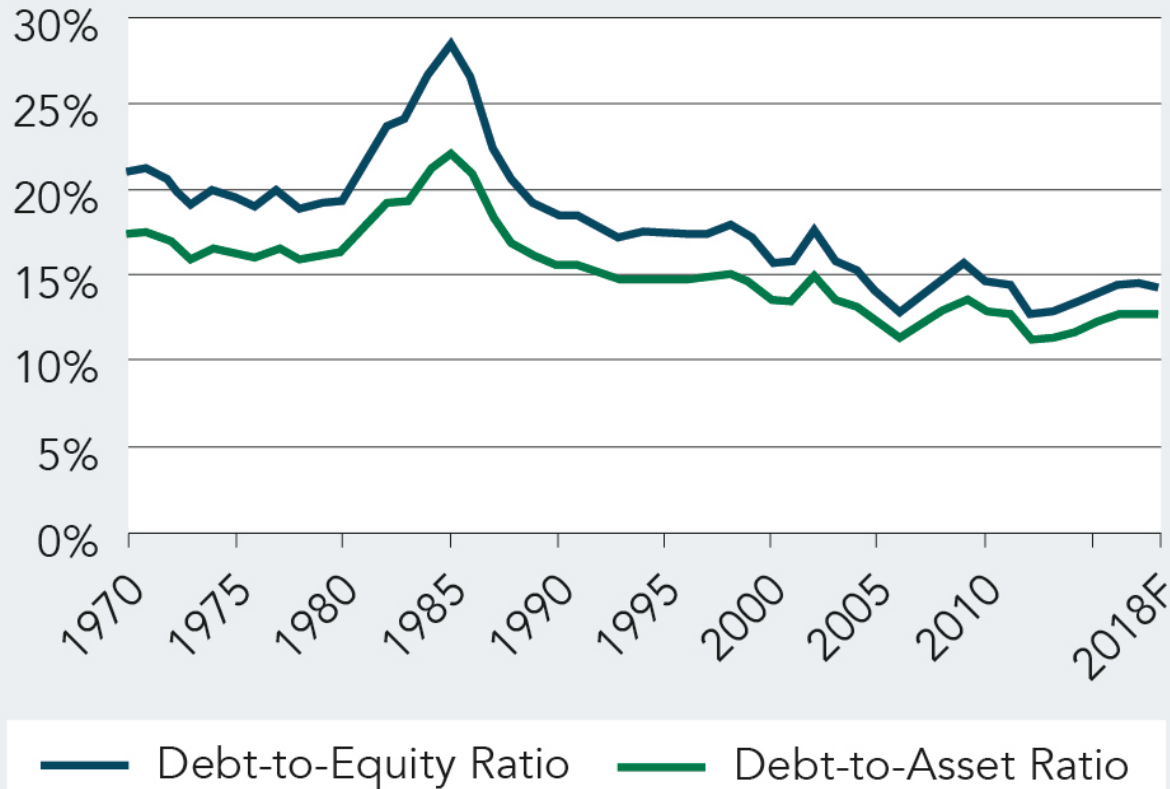
Debt shown in 2009 dollars



Source: Farm Journal Landowner Vol. 38, Issue 15 Published December 28, 2017

History of US Farm Real Estate Debt

Farmers' Debt Levels Remain Muted



Source: USDA, ERS, Farm Income and Wealth Statistics

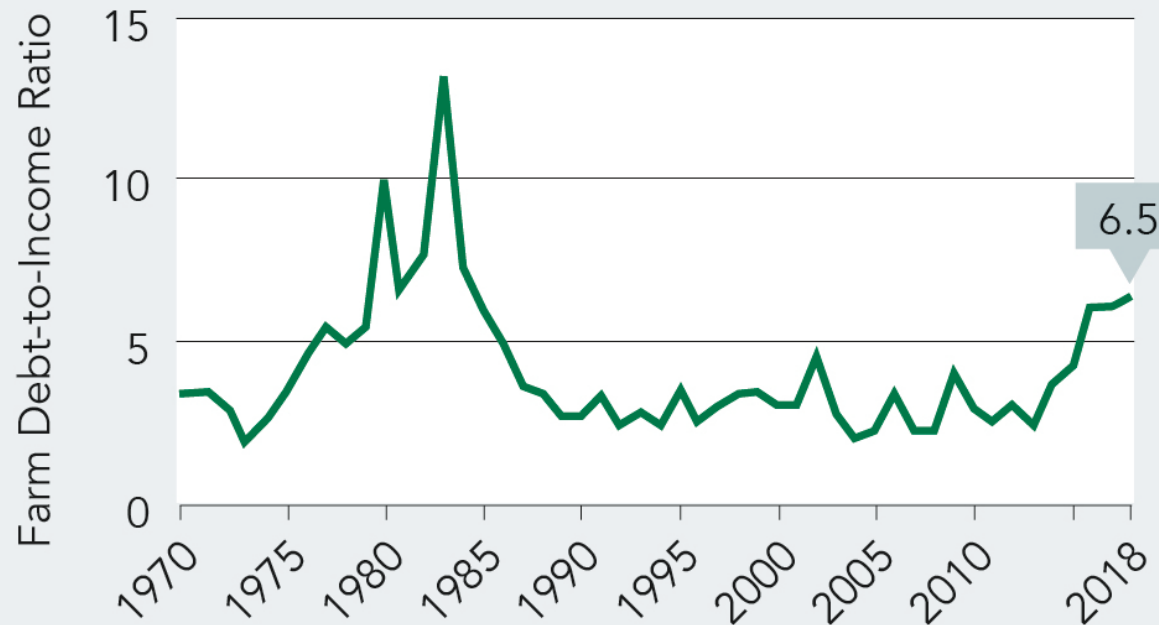


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History of US Farm Real Estate Debt

Debt:Income Ratio = Trouble signs!!

Debt-to-Income Ratio Edges Higher



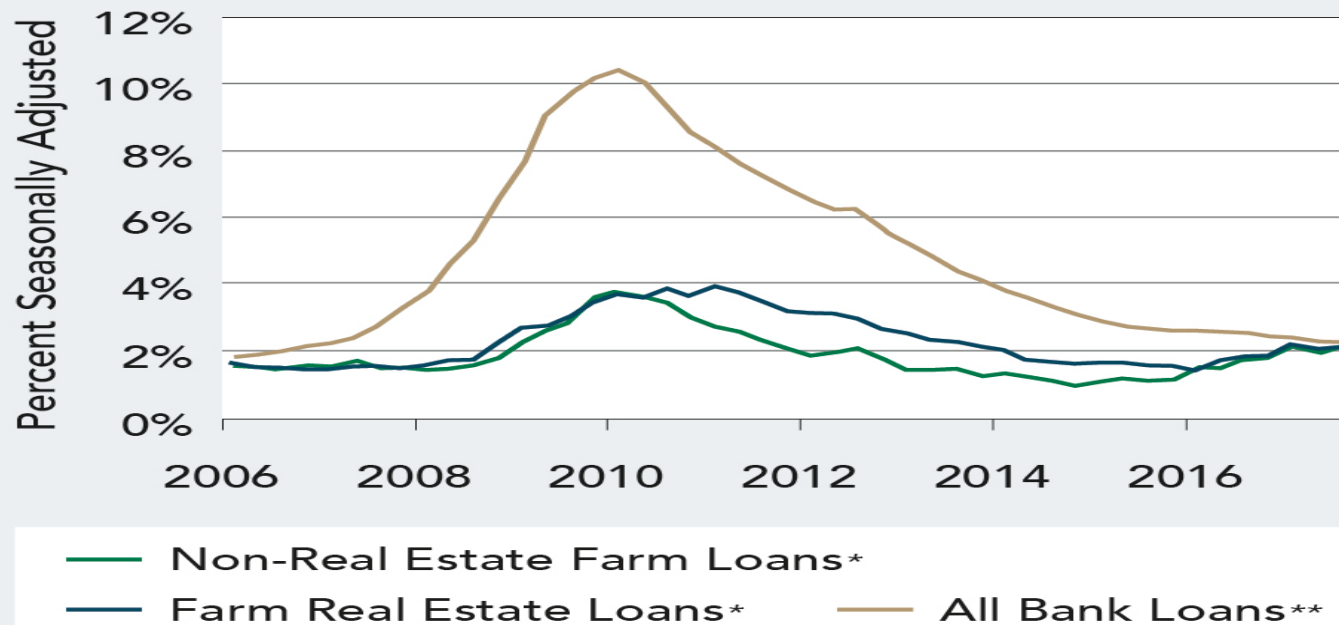
Source: USDA, ERS

Source:
Farm Journal Landowner Vol. 39, Issue 2 Published February 22, 2018

Delinquency Rate

Delinquency Rates Remain Low

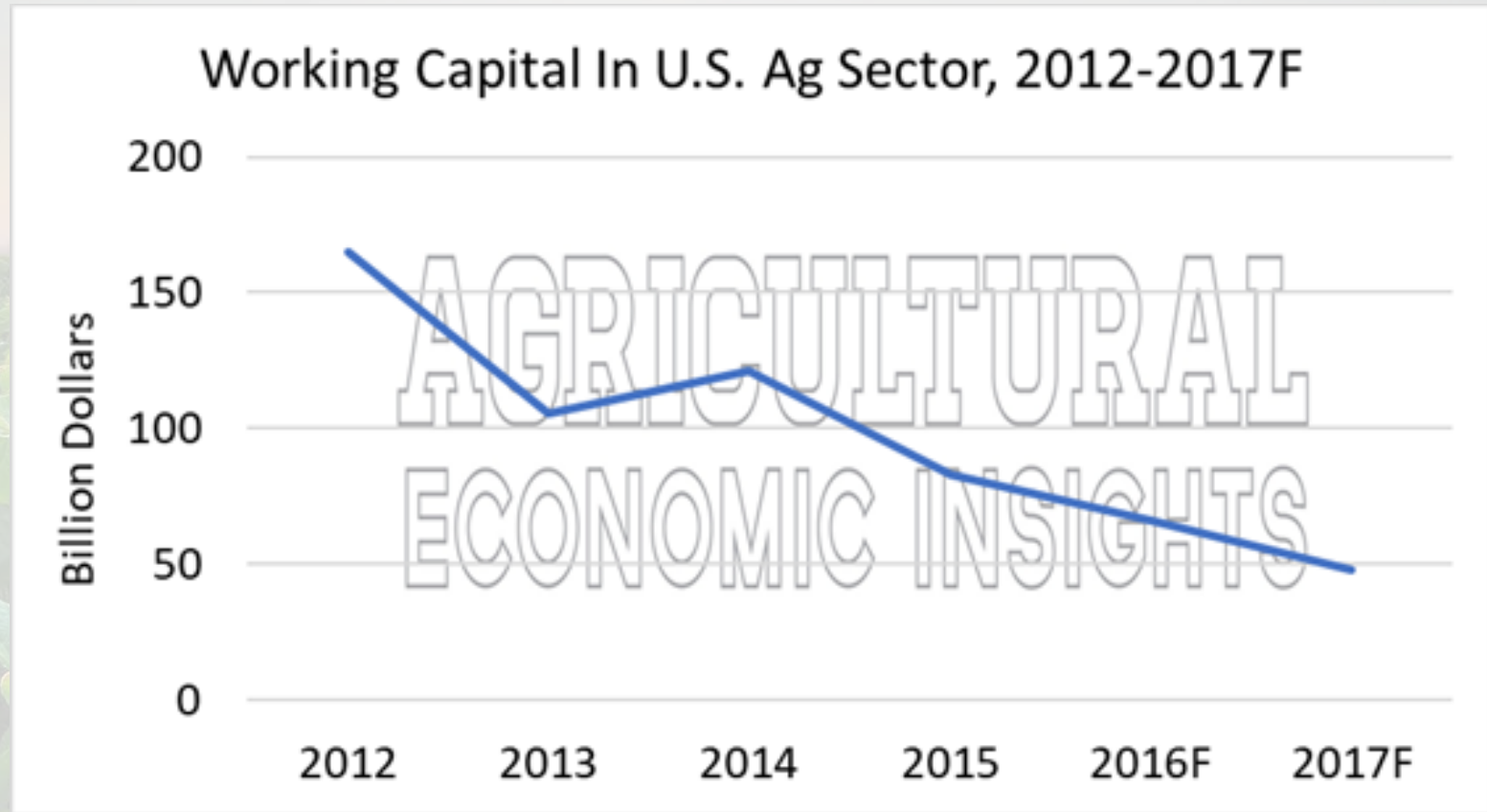
Even though farmers' outstanding debt has increased, farm loan delinquency rates—for both real estate and non-real estate loans—have stayed low, near 2% in the third quarter of 2017.



*Includes the share of all past due, nonaccruing and net charge-off loans

**All bank loans include all loans made at commercial banks

Working Capital Declines!



Source: Agricultural Economic Insights August 14, 2017,

Farm Land

Where Do Values Go from Here?



Where are Land Prices Going?

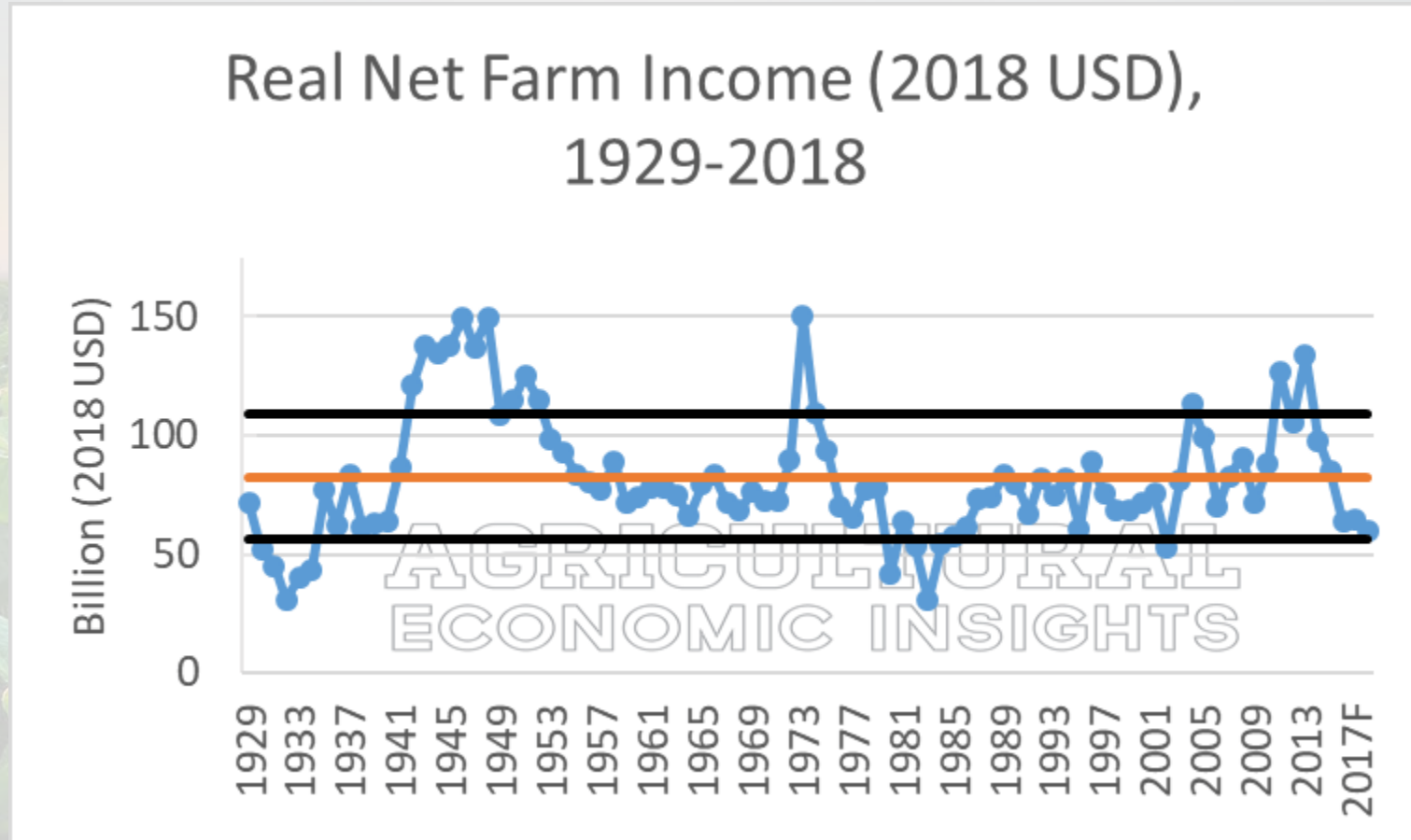
- Depends on
 - **Farm Incomes**
 - **Interest Rates**
 - **Supply**
- Farm Incomes '07- '13 “Golden Era”
- Interest Rates STILL historically low
- Farms for sale 3/4's of typical 2%

Farmland Leases

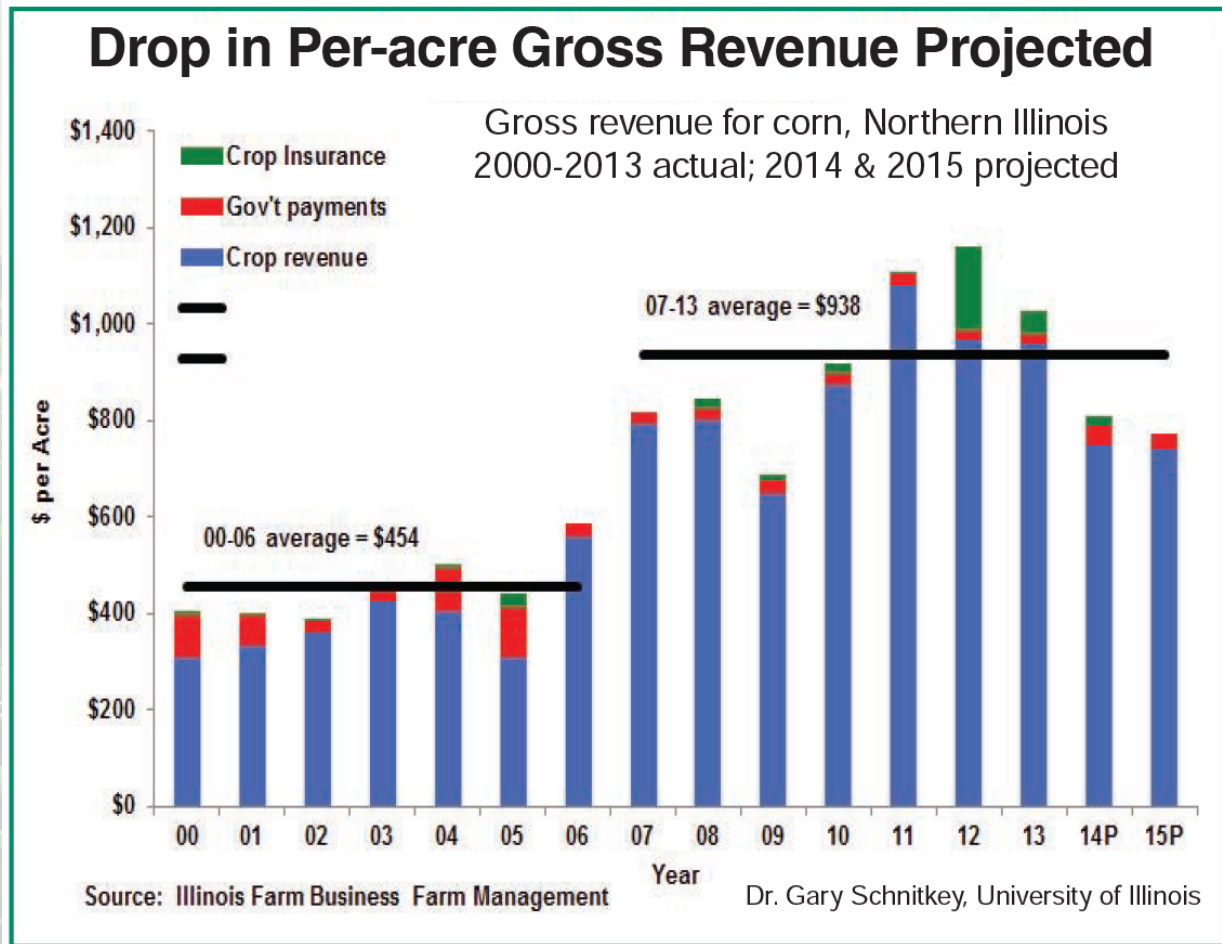
Farmland is Worth What it Earns!



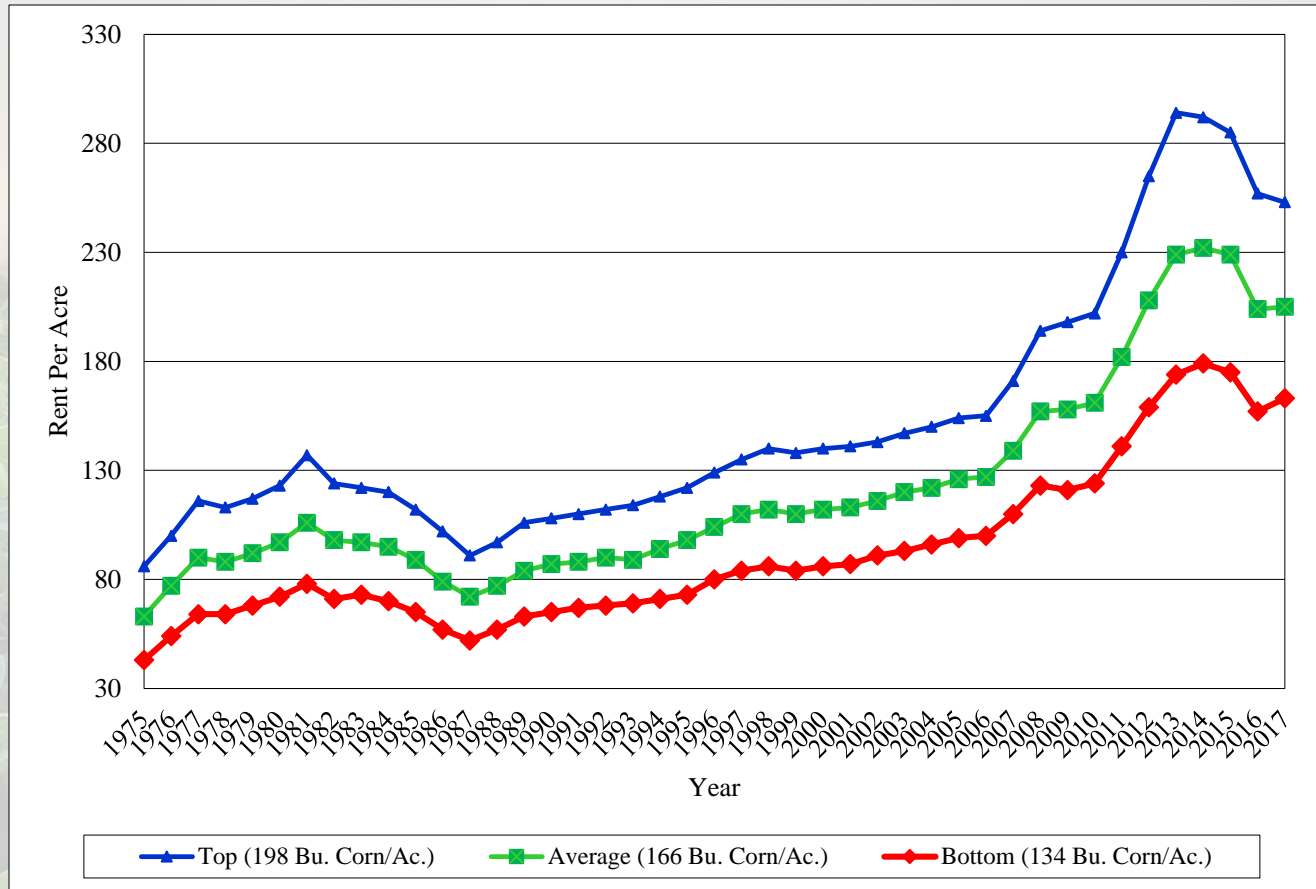
Real US Net Farm Income



Gross Revenue Projections Are Down!



Purdue Survey, Indiana Farmland Cash Rents 1975-2017



Farm Land Values Forecast



Farmland Real Estate in 2018?

- All time high values for prime farmland
 - peak in 13/2014 still in 80th percentile
- Foresee strength continuing in...
 - Timber (# of sales up, # of bids up, prices improved but still behind high in 2004)
 - Recreational (spotty results)
 - Rural residential
 - Average to below farmland/hassle farms are still less desirable.

Quality Factors in Value

- Soil Health
 - Fertility & pH
 - Organic Matter
 - Drainage
 - Water
- Sustainable Practices
 - Organic or Non-GMO
 - Cover crops
 - Erosion Control – CRP, Waterways, tillage
 - Irrigation efficiency/Reuse

Expectations for Land Values

April 1, 2018 – October 1, 2018

- **Farmland**
 - Higher: 1 (2%- 4%)
 - Lower: 4 (-5% to -10%)
 - Same: 12
- **Rural Residential Lots**
 - Higher: 3 (5% to 10%)
 - Lower: 0
 - Same: 14
- **Recreational Land**
 - Higher: 8 (2% to 10%)
 - Lower: 0
 - Same: 9
 - Strong US economy drives strength



Where From Here?

- Land Value Bulls Say . . .
 - Low amount of debt in agriculture
 - $\frac{3}{4}$'s D/A <50% and 75% fixed
 - Low interest rates still favorable = 5.14%
RE mortgage rates in 7th District – 57 bps
above LOWEST EVER!
 - World population growth
 - Bio Fuels – demand remains steady –
BUT Trump factor?
 - Potential for Inflation
 - Water resources & competition
 - Low supply of farms for sale



Where from here . . .

(Spring 2018)

- **Land Value Bears say...What if?**
 - US and global production is a record = lower commodity prices (and they continue) Must cut costs by \$100/acre.
 - Worldwide economic woes worsen = lower demand (Chinese GDP below 7% & EU concerns) – Trump's trade policy??
 - Biofuels RFS mandate – Trump's policy??
 - Interest rates increase due to inflation concerns

What is the Trend (Spring 2018)

- **Other asset classes' returns improving!**
 - Liquid treasuries and CD's
 - Stock market
 - Commercial RE
- **Residential Bubble Similarities Develop**
 - Theme in 2017 loan renewals “most all renewed, but it was difficult”
 - Will more debt go on land to generate working capital for 2018?

Why Invest in the Infrastructure of US Agriculture?

- 1920 - A US farmer fed 19
- 1970 – A US farmer fed 26
– 50 years and a 37% increase.
- 2013 – A US farmer fed 155!
– 43 years = 496% increase



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Questions?

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