

HALL AND HALL 2015 ANNUAL MARKET REPORT

BY MIKE MCDONNELL, ARA

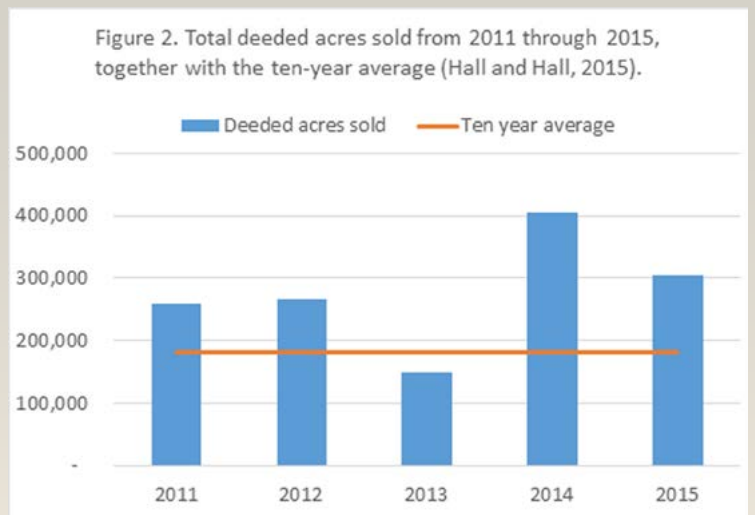
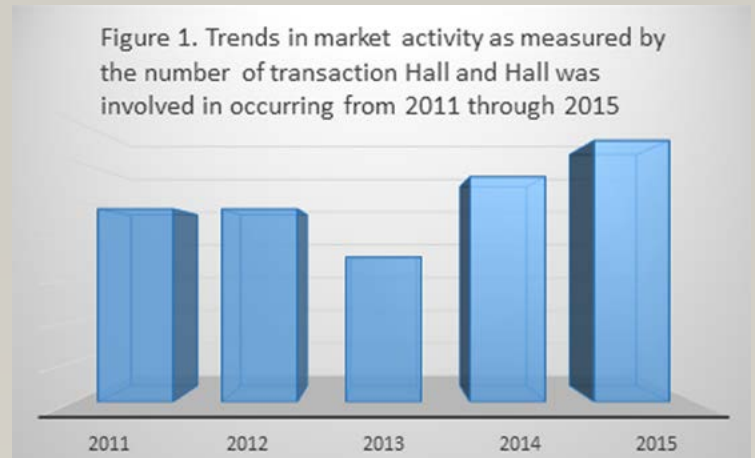
MARKET PARTICIPANTS

It was a dynamic mix of market participants ranging from individual and institutional investors to expanding producers. Most buyers today are coming into the market with a long term investment horizon. Speculators have not been seen in the marketplace for a number of years. While a few select properties with highly sought after features commanded premiums, buyers in general had lots to choose from and continued to drive hard bargains. Many buyers facilitated transactions with cash as volatility in other investment arenas pulled funds towards real estate and other safe-haven investments.

MARKET ACTIVITY

Similar to past years, 2015 was largely characterized by increasing demand. Short supply of quality properties remained a limiting factor. Here at Hall and Hall, the momentum created in 2014 carried into 2015 making it yet another active year. While mixed across segments, market activity was generally up. As shown in Figure 1, sales volume at Hall and Hall increased in 2015.

The increase in sales volume was not matched by an increase in total deeded acres. As shown in Figure 2, the number of deeded acres sold decreased in 2015. The spike occurring in 2014 is largely attributable to the sales of larger ranch properties in our southwestern region. However, the number of deeded acres sold in 2015 remains above our ten-year average.





FARMLAND

While well below the historic levels reached in 2013, at more than \$90 billion, 2014 net farm income remained above the previous 10-year average. As a result, production agriculture entered 2015 with strong balance sheets. Coupled with an investor-led drive to secure assets with an income stream, farmland values generally remained stable throughout most of 2015.

As shown in Figure 3, nationally the average dollar per acre value for farm real estate continued to increase reaching historically high levels in 2015. It is important to note that the increase has come at a substantially lower rate, with the inflation-adjusted values basically leveling off in 2015.

RANCHES

While moderating in 2015, from a historic perspective, the cattle market was relatively strong. All signs continued to point towards an industry in expansion mode. Together with steady investor demand, larger properties (1,000 acres and greater) drew a significant amount of interest in 2015.

This increase in demand for larger properties is demonstrated in Figure 4, which shows Hall and Hall market activity based on size. Properties over 10,000 acres represented 20 percent of sales volume in 2015. This is up from 12 percent in 2014.

Figure 3. Average dollar per acre value of US farm real estate 1971 to 2015 (USDA, 2015)

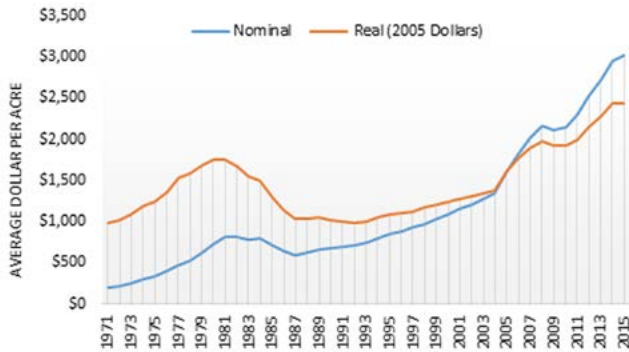


Figure 4. Market activity segmented by property size (deeded acres), based on deeded acreage (Hall and Hall, 2015)



RECREATIONAL RETREAT/SPORTING PROPERTIES

As economic conditions improved, the recreational investor reemerged in 2014. This trend continued in 2015 with steady demand for recreational retreat properties in many regions. Properties with good locations, and premier scenic and recreational amenities commanded a premium.

A majority of these transactions involved properties in the \$5 to \$10 million price category. This is a segment of the market that has been relatively weak in recent years. Many of these properties had been on the market for an extended period of time, with sellers often having to recognize buyer's price sensitivity.



OUTLOOK

A continued decrease in net farm incomes is anticipated. While lower energy costs should translate into reduced production expenses, the strength of the dollar will hamper near-term improvement in the commodity markets. Market activity for cropland is forecasted to be somewhat stagnant as current landowners remain anchored in the recent past and new entrants remain mindful of current and future conditions.

The cattle market remained a bright spot in the agricultural sector through much of 2015. As a result, many cattle producers will have the desire to expand. This in combination with investor demand is expected to continue to create competition for quality ranch properties.

After nearly a decade of near-zero rates, the Federal Reserve modestly increased the federal funds rate in mid-December. Volatility brought on by broader global economic worries and persistently low inflation is

expected to dampen Fed officials' appetite for dramatic rate increases. In the near term, these modest increases are not expected to significantly impact sales transactions.

Regions with economies heavily influenced by oil have and will continue to feel the impact of the sustained downturn in oil prices. Conversely, broader economic uncertainty has the potential to drive capital toward real estate and other safe-haven investments. The same factors have the potential to make current owners reluctant to sell, constraining the supply of quality properties.

We remain cautiously optimistic as we head into 2016. An active fourth quarter led to a large book of pending sales that could equal fifty percent of our 2015 sales volume. It's yet to be seen whether the market stalls prior to November elections, but the current pipeline of sales guarantees a strong start to 2016. ■



MIKE MCDONNELL - ARA BOZEMAN - MONTANA

Mike was raised in Arizona and worked on large cattle ranches in the Western U.S. during his youth. With a desire to advance in the field of agriculture, Mike enrolled at Montana State University where he earned a Bachelor of Science degree in Agricultural Business and subsequently a Master's Degree in Animal and Range Science. After graduation, Mike was presented with the opportunity to enter the rural appraisal profession. He holds certified general appraisal licenses in Montana and Idaho and is an accredited member of the American

Society of Farm Managers and Rural Appraisers. He is currently working towards his MAI designation with the Appraisal Institute.

MIKE CAN BE REACHED AT MMCDONNELL@HALLANDHALL.COM OR 406.587.3090