

Conterra Outlook

Regional Supplement

Summer 2023



Conterra Outlook: Regional Supplement

Summer 2023 Edition

Current Land Values, Crop Conditions and Water Conditions across the U.S. plus a special California Water Section



Included:

Regional Updates: Land Values, Crop Conditions and Water Conditions

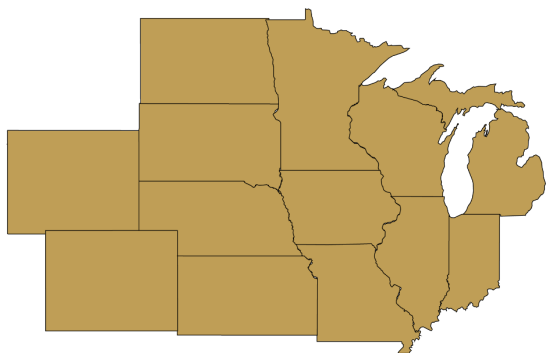
- Midwest and Great Plains
- South and Southeast
- Southwest
- Northwest

California Water

Following the recent drought period, the winter of 2022-23 brought relief to California's agricultural sector with wet, cold weather for most of December 2022 through March 2023. Read the good news and not so good news in this special section.

Regional Update: Midwest and Great Plains

A look at land values, crop conditions and water conditions across the central U.S.



Land Values: Midwest and Great Plains

Observations indicate the dynamic nature of land values in the Midwest and Great Plains regions, influenced by various factors such as market demand, economic conditions and agricultural investments.

Land values in the Great Plains have been variable, with the market witnessing new highs in prices per acre. Cash flow for expansion on larger farms and

ranches has contributed to these price increases. However, there are pockets where land values have dipped as producers and investors carefully consider factors such as quality and water issues. High-production land with favorable locations and good precipitation continues to command premiums in the market. According to brokers in the area, it remains a 'seller's market' as investments flow back into agriculture from non-agricultural sectors.

In the Midwest through the Eastern Cornbelt, land market conditions have experienced a slowdown. Rising input costs, interest rates, rent and stagnating commodity prices have led to fewer transactions compared to previous years. The land market in the region appears to be cooling off, barring any significant changes in economic factors. While Midwest farmland values have continued to increase, the pace has slowed down. However, experts predict a double-digit increase in farmland values for the first quarter of 2023.



Crop Conditions: South and Southeast

The variability of rainfall and the impact of drought conditions are significant factors influencing crop conditions in the Midwest and Great Plains. Farmers are closely monitoring weather patterns and taking appropriate measures to mitigate the effects of dry conditions on their crops.

In the Great Plains, the winter wheat crop has suffered due to dry conditions during fall planting. Areas in western Kansas, northwest Oklahoma, western Nebraska, and eastern Colorado, known for heavy winter wheat production, experienced damage that could not be reversed. As a result, reduced yields are expected during summer harvest. Some fields were unable to recover, leading to insurance claims, and spring crops were planted in the hopes of better results later in the year.

On the eastern side of the Great Plains, May rains have benefitted corn crops, which have fully emerged and show signs of good health. Soybean planting is expected to be completed by mid-June for most farmers in the region. Grain prices peaked earlier in the year but have since tapered off as the planting and growing season approached, which is a typical pattern in the grain market.

Drought conditions have led to a decrease in cattle numbers, with more cows being sent to slaughter due to limited pasture and forage availability. The cattle market has seen prices that are anticipated to reach all-time highs, with peak prices predicted for the fall of 2023. Producers are taking advantage of this favorable market condition, as cattle herd numbers are expected to gradually increase in the coming years.

In the Midwest, crop conditions initially got off to a good start with adequate rainfall, except for western Iowa, which experienced drought conditions during planting. However, as time has passed, crop conditions have worsened, with more areas falling into drought conditions. Iowa, in particular, is facing worsening conditions and is currently in a moderate drought. The forecasted weather indicated hot and dry conditions, posing further challenges for crop growth and development.



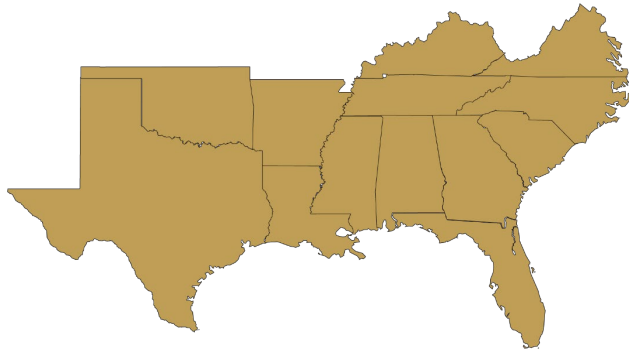
Water Conditions: Midwest and Great Plains

While water scarcity and drought are significant concerns in the western half of the U.S., the Midwest and Great Plains remain relatively sheltered from these discussions. However, there are exceptions in western Kansas and Colorado, where the reliance on the aquifer for water supply is becoming more pressing. Heavy pumping from the aquifer is necessary to cope with the ongoing drought conditions.

Currently, regulations on water usage are not as strict in Kansas compared to western states, but if the drought persists, it is anticipated that further regulations may be implemented. Seasoned farmers in the region understand the cyclical nature of weather patterns and are patiently awaiting the return of adequate precipitation to replenish water resources.

Regional Update: South and Southeast

A look at land values, crop conditions and water conditions across the southern U.S.



Land Values: South and Southeast

Overall, the land market in the South and Southeast presents distinct challenges and opportunities. The transition of agricultural land to residential and commercial development, limited availability of farm ground, and increasing land prices in certain sectors demonstrate the evolving nature of the agricultural landscape.

In the South, particularly in Florida, the land market is experiencing significant changes, primarily driven by the transition of agricultural land to residential and commercial development. A prominent example is the citrus industry, which has been heavily impacted by Greening disease, leading many citrus operators to either sell their land or undertake extensive revitalization efforts. As a result, the prices of citrus groves have soared, with average prices ranging from \$25,000 to \$30,000 per acre, compared to the previous range of \$10,000 to \$15,000 per acre. The land market in Florida remains highly competitive, however the limited availability of farm ground for sale and the prevalence of cash transactions contribute to the challenges faced by agricultural land buyers.

Moving to the Mid-South region, land values appear to be holding strong, and transactions are taking place, primarily through cash deals and off-market transactions. Farmers and brokers report a high demand for available land, but opportunities are scarce. Buyers are actively seeking agricultural land, and properties that do become available are often sold due to the limited supply. This competitive landscape underscores the challenges faced by potential buyers in acquiring suitable farmland in the region.

In Texas, the land market has been experiencing significant appreciation over the past few years, particularly in the last two years. The demand for irrigated farmland has driven prices to rise rapidly, with substantial sales occurring at prices exceeding \$4,000 per acre. Even farms with lesser-quality water sources are commanding prices of \$3,500 or more per acre. This surge in prices can be attributed to various factors, including the expansion of local dairies requiring more land for cattle feed production and the growth of larger operators in the region. As a result, irrigated farmland has appreciated by over 60% in recent years, reflecting the ongoing trend of consolidation and expansion within the agricultural sector.



Crop Conditions: South and Southeast

Diverse crop conditions stretch across the South and Southeast regions, reflecting the impact of weather patterns and specific challenges faced by each state.

In Florida, crop conditions have been relatively good, despite slightly below-average rainfall across the state. While southern parts have experienced normal rainfall ranges, the northern regions have seen slightly below-average precipitation. Georgia and Alabama, on the other hand, report overall excellent crop conditions. Peanuts, pecans, corn, and blueberries are thriving, benefiting from favorable weather and moisture conditions. These states are on track for a successful crop year.

Moving to the Carolinas, the current crop condition is generally good. Cotton, peanuts, and soybeans are on track, showing positive progress. However, the peach industry has faced many challenges due to freezing temperatures during winter, leading to disease issues in many peach operations. In North Carolina, crop conditions are good, with cotton, corn peanuts, sweet potatoes and tobacco showing positive progress. Although some parts of the state experienced high rainfall, causing a minor delay in planting, the overall crop outlook remains favorable.

The Mid-South and Delta regions had a relatively good start to the planting year, despite minor slowdowns due to cooler wet weather. Some early emerged corn in Central Louisiana faced a freeze, impacting a significant number of acres, but most have rebounded or been replanted. Overall, planting progress is excellent, and crop conditions are favorable. Adequate spring rainfall and widespread irrigation availability contribute to the positive outlook for the region's crops. Corn and bean acres are similar to last year, with a slight increase overall, while cotton acres have decreased substantially. Rice acres are up as well.

In Texas, the situation in the Texas Panhandle has significantly improved compared to the past two years of record drought conditions. This year, the onset of El Nino has brought substantial rainfall in late spring and early summer. While some areas still require more rain, overall conditions are looking very favorable for higher yields in the upcoming harvest season. Although some producers are slightly behind schedule due to the recent heavy rainfall, the moisture in the ground is expected to have a positive impact on crop production.

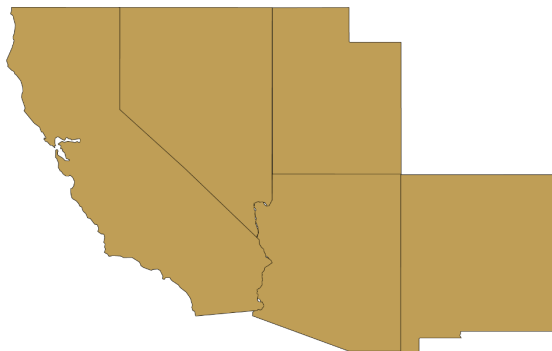


Water Conditions: South and Southeast

The drought in Texas has led to the ground water supply not providing enough support for high yielding crops across larger farm operations, so they have been creative in crop mixtures. In addition, the region provides great opportunities for marketing crops to maintain income stream during the drought including selling to dairies, feed yards, etc. This and the utilization of heavy crop insurance coverages and additional government programs have been a big reason producers have continued to maintain financial stability during the drought.

Regional Update: Southwest

A look at land values, crop conditions and water conditions across the southwest U.S.



Land Values: Southwest

Arizona real estate prices vary drastically depending on location within the state, water source(s) & availability and commodities that can be grown. While some areas have had an active sales trend, there are several areas that have seen limited sales likely as buyers wait to see the outcome of water regulation whether it be surface or groundwater. Regardless, prices appear to be holding stable in some areas, primarily those with good water that is less likely to be impacted by regulation, seeing an upward trend that is expected to increase as regulations get put into place.



Crop Conditions: Southwest

Arizona dairy came off a good 2022 year, but margins have continued to tighten in 2023 with prices softening and increased expenses expected to result in losses for most producers. Alfalfa prices have remained strong with stable demand and a reduction in supply, whether from farms completely moving away or less cutting due to water reductions. Cotton acreage is down to about 75,000 acres this year, roughly a 25% decrease from last year. Some of the decline is from farms switching to alfalfa or corn silage which have seen higher prices. Cotton prices aren't at historical lows but not high enough to offset the increase in input costs.

Pecan yields in Arizona and New Mexico varied between very low to average. Pricing started off low with shellers out of Mexico contracting lower prices before the harvest volume was known. Many growers put the crop in cold storage and started selling when prices hit around the \$2.00 mark. Some still expect the price to increase to \$2.10-\$2.20. Pistachio prices have remained stable though prices are expected to soften in coming years as new plantings begin reaching mature bearing age. To what extent is still unknown as demand has also continued to increase.

Arizona citrus is expected to remain steady or climb. A decent number of trees were taken out of production this year, but most were older fields that needed to be culled. The water following program in the Yuma Mesa District helped encourage grove removal. Some of the import countries had weather issues and higher input costs so they are forecasted to be lower, which will help domestic prices.

Produce in general is steady, there has been some shift in acreage over the recent years into Mexico, but there is still large production forecasted in Yuma/Imperial Valley. The weather and flooding impacted Salinas planting but high pricing should help offset yield issues. Watermelon pricing is currently high. Spring weather did slow down the Arizona crop, so everyone was late starting, but with much of California acreage unable to get planted in typical fashion due to the flooding the pricing is expected to remain high through the summer production with lower-than-normal volume coming off. Onion pricing is currently steady. The early weather situation has resulted in some off sizing, but they should continue to rebound as the season goes on.



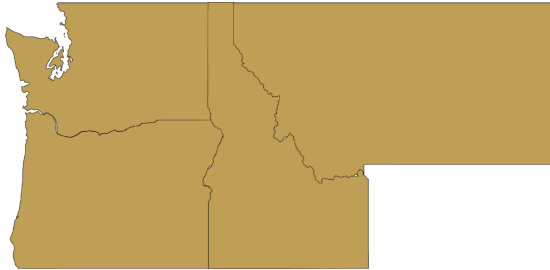
Water Conditions: Southwest

There are 7 states (plus Mexico) that have some reliance on the Colorado River for water and hydropower. The three lower basin states consisting of Arizona, California and Nevada came to an agreement at the end of May avoiding the federal authorities issuing a conservation proposal. The lower basin states proposed to collectively reduce their water usage by a minimum of 3MM acre-feet from now to the end of 2026. For some perspective, the lower basin states annual allocation is 7.5 MM acre-feet. The cuts would be shared amongst farmers, cities, tribes and irrigation districts. Detailed allocations of the cuts have yet to be provided but the plan includes that those participating in the reduction of water use will be compensated with funds from the Inflation Reduction Act. It's important to note that this agreement is awaiting Federal approval before it can be formally adopted.

The agreement of the lower basin states has been referred to as a short-term fix to a long-term problem. While it is not a permanent solution, it along with the wet winter provides a buffer of time for the negotiations amongst all the states to develop new operating guidelines to be completed by 2026 when the current guidelines are set to expire. It also allows for these negotiations to take place without the imminent concern of 'dead pool' having to be considered. The dead pool elevation for Lake Powell is 3,370 feet and Lake Mead is 895 feet. The water level in Lake Powell as of June 1st was up to 3,562 and Lake Mead is 1,054.

Regional Update: Northwest

A look at land values, crop conditions and water conditions across the northwest U.S.



Land Values: Northwest

Farmland prices in the Northwest generally are holding at all-time highs, even with the current interest rate environment. There is ample property for sale and land is actively trading hands. Funds are a major buyer of land in the region along with large corporations and private non-profits.



Crop Conditions: Northwest

The Pacific Northwest is a very diverse region with many geography types, climates and commodities produced. A total of 300 crop varieties are grown in Washington, 250 in Oregon and 185 in Idaho. Crops most well known in each state are apples, wheat, hops, pears, blueberries, and cherries in Washington. Hazelnuts, Christmas trees, and cranberries in Oregon. Potatoes and Barley in Idaho. Most of the vegetable regions of the area in dry arid climates that require irrigation water to provide consistent and quality results. Crops grown in these areas are many, but the major ones include potatoes, onions, sugar beets, alfalfa, and corn silage. The dry land areas of the region can range from very productive to moderately productive in the production of grains, peas, and lentils. Permanent plantings dominate the upper PNW and the Willamette Valley of Oregon. These areas are highly desirable apple, cherry, and hazelnut production areas.

Dairy is a major contributor to the agricultural economy of the PNW. Idaho ranks 3rd and Washington ranks 10th of the highest milk producing states in the country. The dairies have provided a consistent buyer for forage crops and seem to always be looking to add to their land base. This has helped keep the demand high for farm real estate in the region. It appears that dairy receipts will likely be pressured this year due to lower milk prices and higher priced feed put in the piles last fall. This will result in lower net income for these operations throughout the year. On a brighter note, feed costs and general inputs have come down quite a bit this year. Once milk price stabilizes dairy should move closer to traditional breakeven.

California Water: San Joaquin Valley



Following the 2020-22 drought period, the winter of 2022-23 brought relief to California's agricultural sector with wet, cold weather for most of December 2022 – March 2023. Notably, the Central and Southern Sierras region had record snowpacks exceeding 320% and 440% of average, respectively, and the entire state received precipitation at levels last seen in 2017.

The Good News...

100% Surface Water Allocations. For the San Joaquin Valley, the wet water resulted in 100% allocations under the federal and state water contracts for contractors south of the Sacramento – San Joaquin Delta (the “Delta”). This was the first time since 2006 that all three major systems south of the Delta – the Central Valley Project, the State Water Project and the Friant System – received a 100% allocation in the same year. These strong surface water allocations have multiple benefits: better quality water for crop and soil health, opportunities to flush soils of salt and other constituents and suspended groundwater pumping, just

to name a few.

Reduced Water Costs. The effective cost of surface water for agricultural water users in California is heavily influenced by the quantity available and therefore is heavily impacted by hydrology. In most water districts, fixed costs are allocated across acreage or delivered water in any given year. Accordingly, when there is less surface water those costs burden the limited quantity that is available. 2023 is on the opposite end of the spectrum. As an example, one water district in Kern County, CA budgeted costs in late 2022 of over \$1,000 per acre-foot in anticipation of another drought year. In the Spring, following months of wet weather, that same district modified its costs to less than \$250 per acre-foot.

Full Surface Reservoirs. The wet winter has also resulted in full reservoirs, so much so that the expectation is that the reservoirs will remain full all year, allowing all water users to enter the 2024 season with a healthy stored supply.

Unlike the last wet year (in 2017), when Oroville Lake – the second largest reservoir in the state and the most critical to the State Water Project – had a catastrophic failure to its spillway that required several years and over \$1 billion to repair, the systems and infrastructure have performed well in 2023. Further, there are a number of projects underway in 2023 that are intended to increase the storage capacity of certain facilities and/or retrofit facilities that have a particular risk (i.e., seismic) to mitigate the risk of future disasters.

Increased Underground Storage. The passage of the Sustainable Groundwater Management Act of 2014 (“**SGMA**”) has prompted a number of regions in the San Joaquin Valley to optimize underground storage capacity and/or develop new underground storage capacity. In the last wet year of 2017, California saw a tremendous amount of record-breaking underground storage. The expectation is that the data will show that 2023 will surpass what was achieved in 2017.

The Not-So-Good News...

Ramp Down of the Delta Pumps. The storms generating water into the Delta were so intense and sustained that there was too much water for the system to handle. Specifically, once the surface reservoirs south of the Delta were full and the parties with underground storage received as much water as they could take, the federal and state pumps in the Delta had to decelerate. In a dry year, ramp down is typical due to environmental regulations in the Delta. In a wet year like 2023, ramp down is due to the presence of water in the winter and early spring when irrigation demands are low and a lack of ‘homes’ to store the water south of the Delta.

Implementation of SGMA. Despite the wet weather and some rebounding of groundwater systems, the implementation of SGMA

continues with the goal of achieving groundwater sustainability by 2040. The California Department of Water Resources (“**DWR**”) has ongoing reviews of Groundwater Sustainability Plans (“**GSPs**”) throughout the San Joaquin Valley. In 2023, DWR determined that the majority of the GSPs were incomplete, required more consultation and/or were inadequate. These determinations, along with an unclear process, has created some additional uncertainty around groundwater availability in several regions in California.

Flooding. Last but not least, the wet weather caused flooding in various regions throughout California. Most notably, the media has reported the reappearance of the Tulare Lake, which was once the largest freshwater lake in the Western United States and was dewatered over 100 years ago for farming purposes. The rivers and creeks that naturally flow into the Tulare Lake – particularly those water courses without many controls on them – delivered a tremendous amount of water to the old lakebed causing it to reemerge for the first time since 1997. The result threatened towns and state facilities and inundated farms and dairies. It is expected that it may take up to 2 years for the lakebed to dry out again.



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