

REPUBLIC RANCHES LLC

Our Legacy is in the Land



TEXAS LAND MARKETS REPORT - 3RD QUARTER 2022

ELITE FARM, RANCH AND RURAL PROPERTIES BROKERAGE FIRM

TEXAS | ARKANSAS | COLORADO | LOUISIANA | NEW MEXICO | OKLAHOMA

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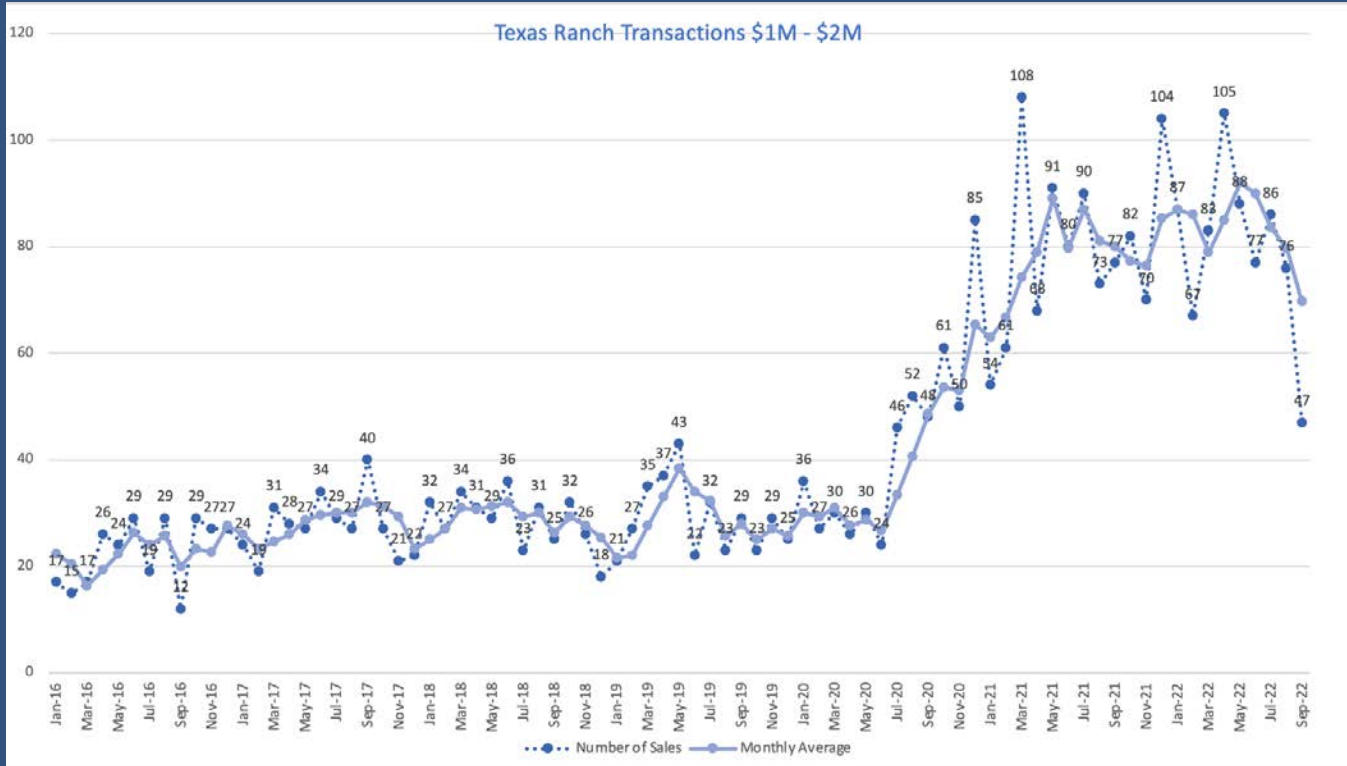




REDTOWN RANCH
7,221 Acres | Anderson & Houston Counties
Buyer Representation
SOLD JULY 2022

SUMMARY

During the third quarter of 2022, we saw some softening in the number of farm and ranch sales in Texas. Overall monthly sales of ranches over \$1M dropped to a monthly average of 120, a drop of 25%. Sales in September were the lowest monthly sales we have seen since November of 2020. As everyone knows, the US is dealing with huge increases in interest rates, continued inflation, stock market volatility and other tail risks that have a lot of investors and buyers sitting on their hands.



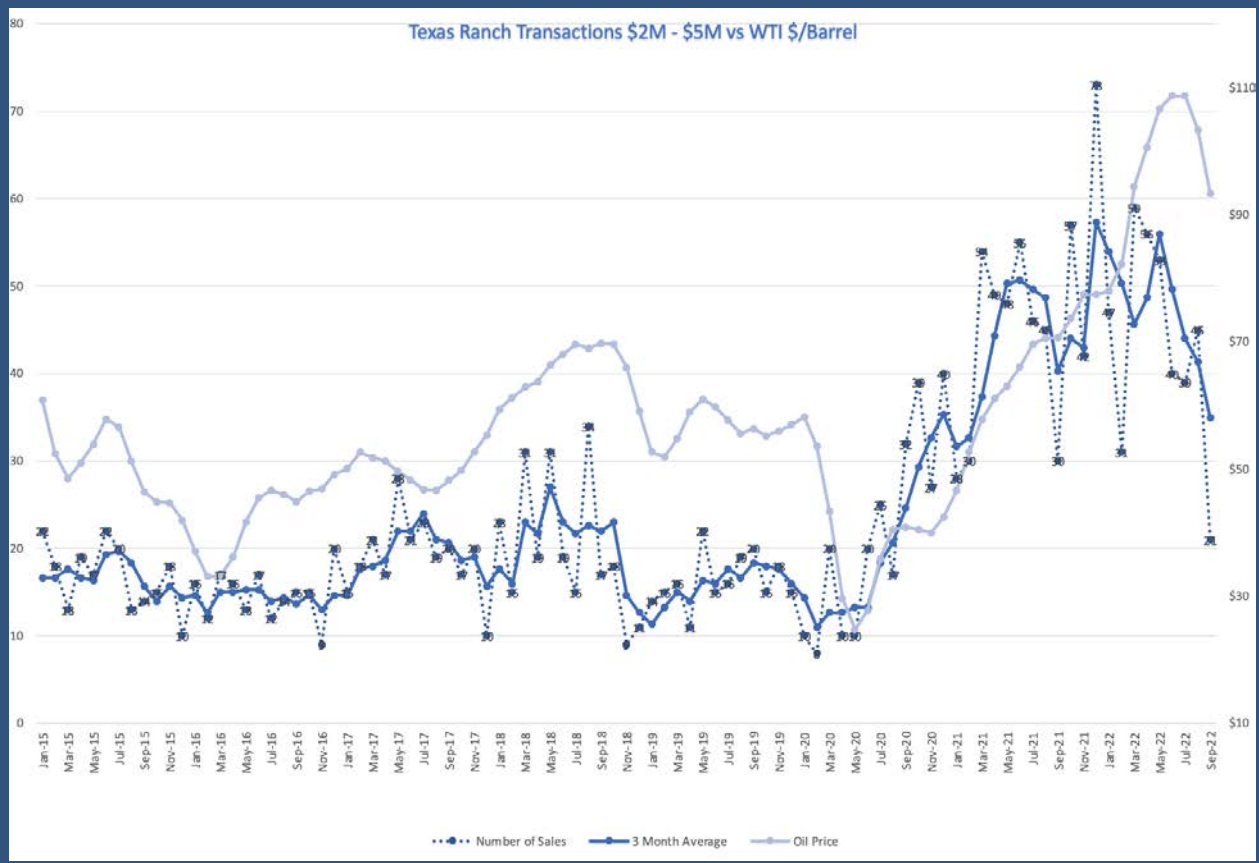
Source: LandsofTexas.com Comparable Sales Program

LOWER TIER SALES (\$1M - \$2M)

Farm and ranch sales in the lower tier saw a significant drop during the third quarter with an adjusted average of monthly sales dropping to 70 per month (a quarterly drop of 22%). It should also be noted that September sales were only 47, the lowest monthly total sales since July of 2020.



INDEPENDENCE RANCH
 120 Acres | Washington County
 SOLD AUGUST 2022



Source: LandsofTexas.com Comparable Sales Program

MID TIER SALES (\$2M - \$5M)

The mid tier range properties saw an even more substantial drop during the third quarter with the moving average sale per month dropping to 35 sales per month (a quarterly drop of 30%). Similar to the lower tier sales, September sales in this category were 21 sales which were the lowest monthly sales in this category since August of 2020. While oil prices remain elevated in comparison to our recent history, there was a substantial drop during the third quarter (although prices have been rising since the end of the quarter as this report was being prepared).

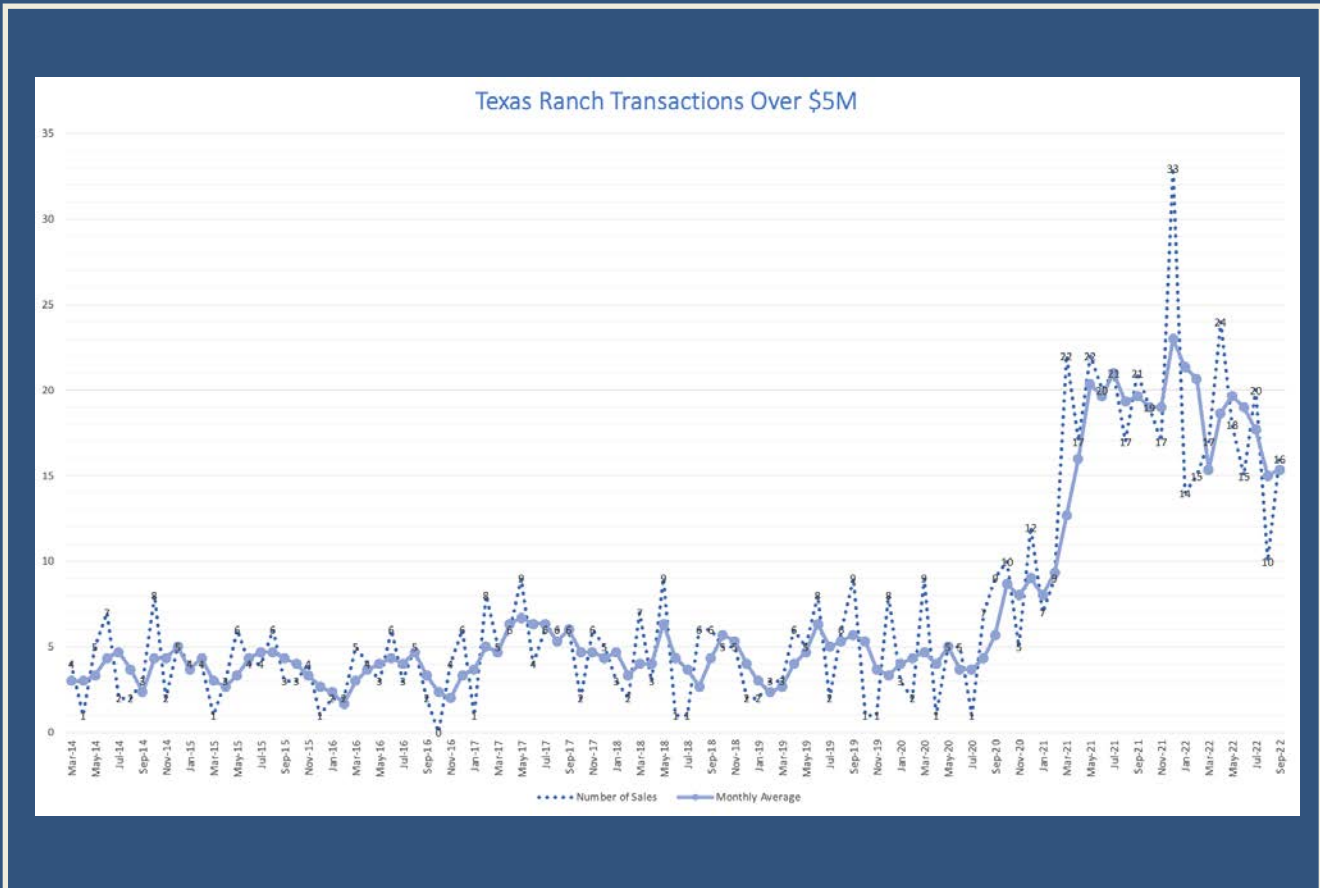
RIO SECO RANCH
799 Acres | Edwards County
SOLD AUGUST 2022



YELLOW GATES RANCH
 720 Acres | Atascosa & Frio Counties
 SOLD SEPTEMBER 2022



© Siggi Ragnar



Source: LandsofTexas.com Comparable Sales Program

HIGH TIER SALES (\$5M+)

The high end of the market saw a more modest drop in comparison to the lower tier sales with the quarterly moving average sales per month dropping to 15 sales (a quarterly drop of 19%). Interestingly, we did not see a drop in sales in September, which came in at 16 sales. This was an increase from 10 sales in August, which were the lowest monthly sales in this category since February of 2021.

OBSERVATIONS OF THE DATA

Clearly, we are experiencing a slowdown in the market now. While sales during the third quarter were still maintaining higher than historical averages, they did see a significant drop overall. Further, while The Real Estate Center at Texas A&M is reporting YOY price increases as of the end of Q2 2022, we have noticed anecdotally that sales price increases started flattening out in the first couple of months of 2022 and have not increased since then.

We are in uncharted territory with slowing sales but still muted inventory. Overall, several major issues will affect land markets in the coming months, both positive and negative.

Negatives:

1. Overall, the economy in the US is slowing down (technically we entered a recession in the first quarter of 2022).
2. Mortgage rates have more than doubled in this calendar year making the use of debt to purchase property significantly more expensive now than when the year began.
3. Existing home sales have dropped faster in the past two months than they did during the great financial crisis of 2009.

Positives:

1. Oil and gas prices have remained elevated during this current financial slowdown. The price of oil and the number of farm and ranch transactions are highly correlated in Texas.
2. The great migration of people moving to Texas continues at a rapid rate, creating further demand in our state for a finite resource: land.
3. The majority of farm and ranch sales in Texas are still made with cash. In the past two years, 56% of the total sales that Republic Ranches has been involved in were cash deals (more significantly, ranches over \$5M were paid for in cash 76% of the time). The fact that most ranches in Texas do not have notes on them and that most carrying costs for ranches are (or can be) minimal makes any major price drops unlikely. As we have discussed before when the market cools prices do not tend to drop but sales tend to drop off.

Unknowns:

1. Despite higher interest rates, inflation remains at high levels. Historically, inflation can be good for raw land sales but it also creates less free cash flow for individuals. Likely, inflation will continue to help land sales as a way to keep up with the degradation of the dollar.
2. The inventory of ranches on the market is still historically very tight. The inventory of ranches in Texas for sale over 1,000 acres increased slightly from 341 at the end of the second quarter to 363 for sale at the end of the third quarter (an increase of 6%).

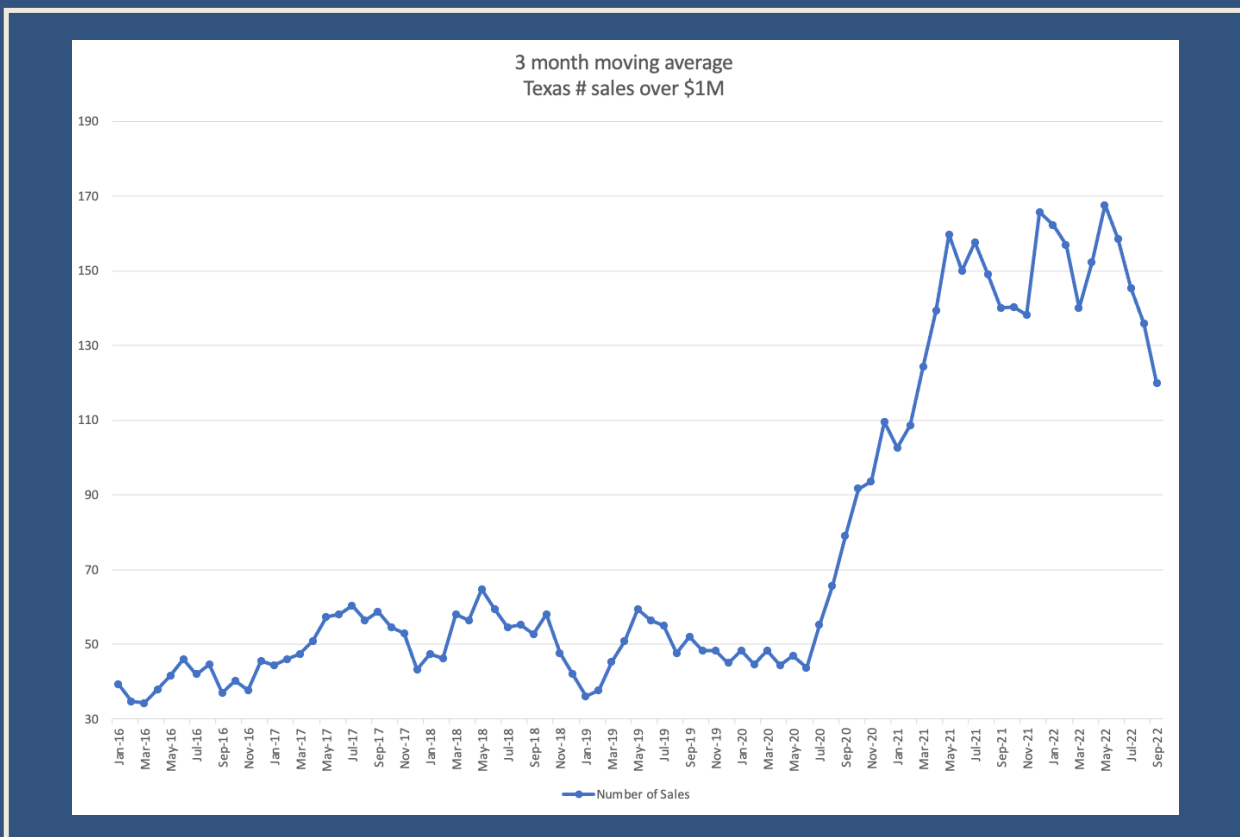
LOGGINS CREEK RANCH
270 Acres | Angelina County
SOLD SEPTEMBER 2022



© Siggi Ragnar

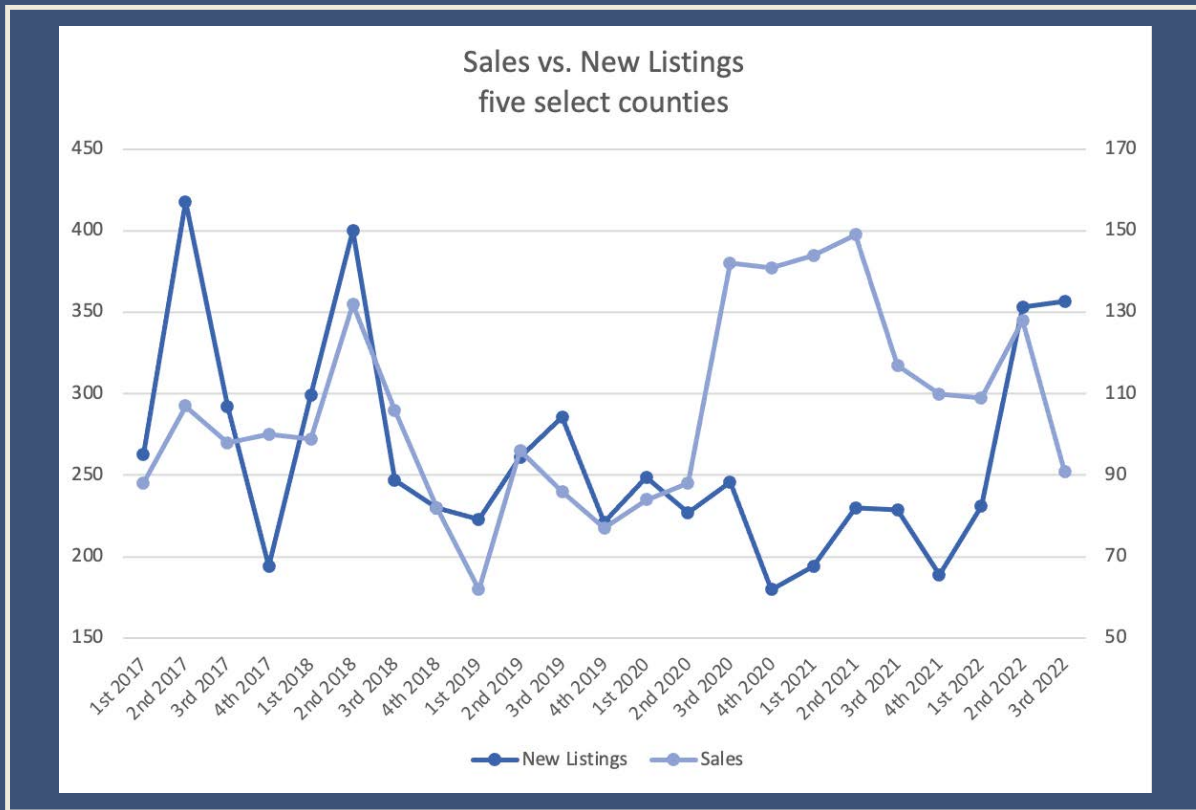
WHAT WE ARE WATCHING

1) As always, we will continue to watch the overall sales data for ranches over \$1M. We have had four monthly drops in a row for total quarterly average sales for the first time since 2014. While the total sales have continued to be well above the pre-covid sales, this bears watching to see if a new normal is being established or not.



Source: LandsofTexas.com Comparable Sales Program

2) We are also watching inventory levels very closely. While we often quote inventories of ranches for sale over 1,000 acres, which has not seen much of an increase this year (as noted above only a 6% increase in these ranch listings), we also are looking at inventory for smaller ranches. Below is a chart of the number of sales vs. the number of new listings for a select dataset of five counties that we track closely. You can clearly see that these adjusted numbers tracked fairly closely until the covid-related increase in sales in the third quarter of 2020 where sales greatly outstripped new listings until the second quarter of 2022 when they matched back up. In the third quarter, new listings were significantly higher than sales for the first time since the second quarter of 2017. This seems to be telling us we are seeing a big increase in inventory overall even if the larger ranch inventory remains muted.



Source: LandsofTexas.com Comparable Sales Program

SUMMARY

In summary, land market activity is slowing down due in part to the macroeconomic variables discussed above and other economic factors impacting market participants. Inventories of certain land products have remained tight to date but there appears to be a shift. The land price increases we have witnessed for the last several years appear to be waning. While we do not predict any drastic drop in market values, we do expect transaction volume to continue to be below the highs as the markets find a new normal.

Our expectations for the coming months are that we will be seeing more inventory, particularly in the sub \$2M ranches, that will be coming on the market. This will slow price increases and we will likely see an adjustment in list prices to be more in line with actual sales prices to get these properties moved. Properties that are listed at prices significantly above what the actual market prices are will likely get much less attention than those properties priced more aggressively. There are still buyers out there but they are becoming much more discreet as they begin to have more options than we have seen in over a year.

High energy prices coupled with the widespread corporate and industrial companies moving to Texas are expected to remain or even increase over the next couple of years. The market is beginning to look like what we saw in 2010 coming out of the financial crises of 2009, with energy leading the way out of slower times. We will likely see this led by an increase in demand for larger farms and ranches in the coming year, with a re-energizing of the smaller farm and ranch demand coming later as the current market works out a new pricing equilibrium.



WESLA RANCH
97 Acres | Frio County
SOLD JULY 2022