

REPUBLIC REPORT

2nd Quarter of 2023



REPUBLIC  RANCHES_{LLC}
Our Legacy is in the Land

LETTER FROM THE PARTNERS

Dear Readers,

Our team at Republic Ranches began tracking farm and ranch sales transaction data in the State of Texas in 2018 after recognizing the limits of the data available for our clients to evaluate market conditions at a given time. While the Texas A&M Real Estate Center does an excellent job tracking rural land sales and pricing trends, their data set has some limitations versus the data we find useful for our clients. Republic Ranches compiles quarterly data from various sources to bring current trend information to clients and professionals that could help them make buying, selling, and pricing decisions.

We recognize that while farm and ranch price trends are important to all of us, the number of sales transactions is a much better tool for gauging the health of the market. Texas is large, with huge variabilities in land prices and the number of transactions clearly correlates with the market health of rural land sales. Over the years we have continued to refine our datasets to try and better present meaningful information that is useful to our clients and helpful in making decisions in the market.

It is our sincere hope that bringing more relevant and up-to-date market information will continue to help the farm and ranch market become a little more efficient and professional moving forward.

Jeff Boswell, Partner

Charles Davidson, Partner

Mark Matthews, Partner

Bryan Pickens, Partner

John Wallace, Partner

Republic Ranches' Statewide Activity Q2 2023





Pine Mountain Reserve / Henderson County

TEXAS LAND MARKETS REPORT

2nd QUARTER 2023 SUMMARY

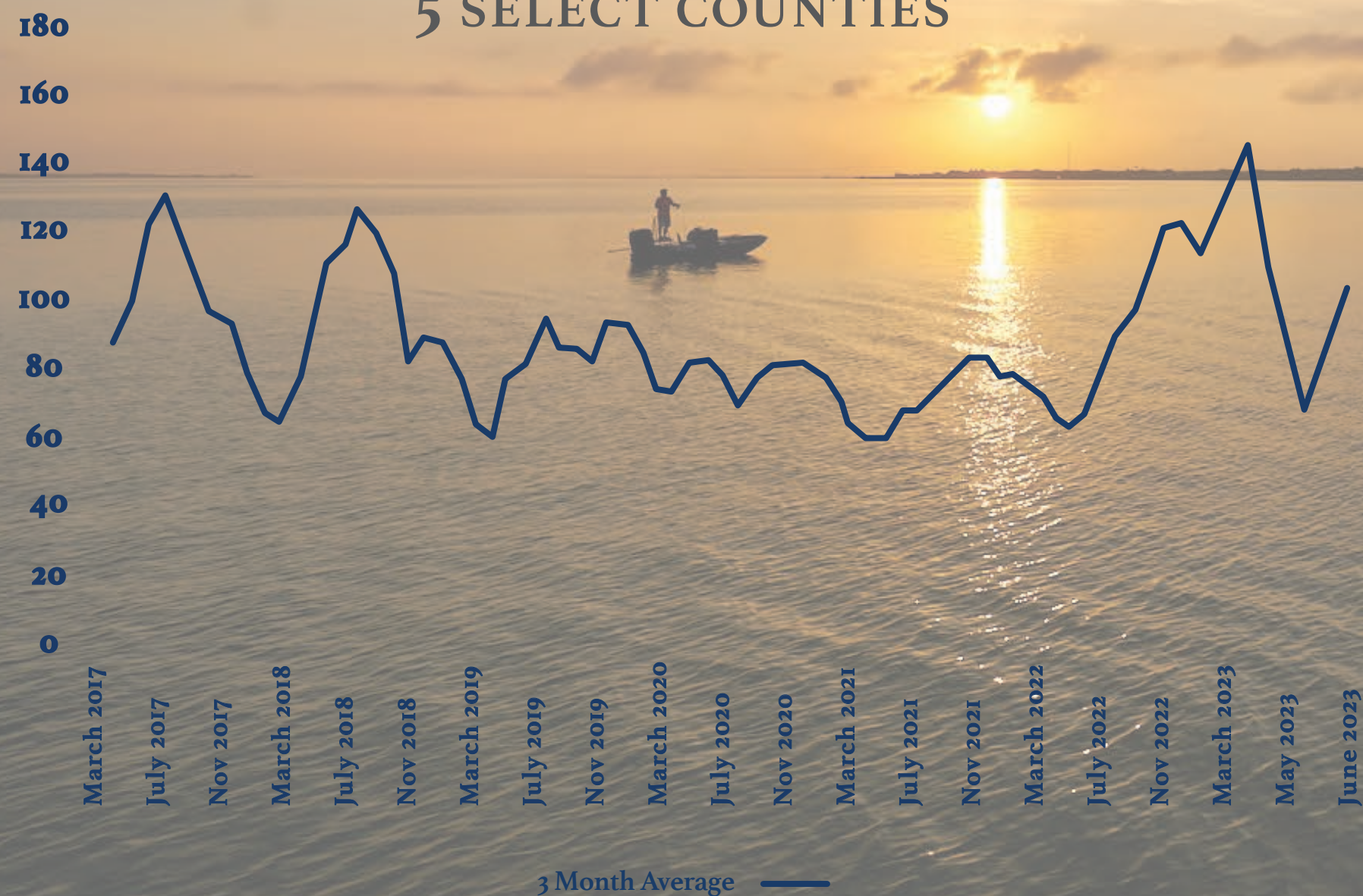
The second quarter of 2023 continued to show modest gains across the three months overall, with four months in a row resulting in increases in the three-month moving average of ranch sales over \$1M. This is happening at the same time we are starting to see a blip up on new farm and ranch listings in the state overall as well. This increase is likely driving more options for buyers and allowing for the increase in sales transactions.

Three Month Moving Average Texas # Sales over \$1M



Sourced: Land.com Comparable Sales Program

MONTHLY NEW LISTINGS 5 SELECT COUNTIES



Sourced: Land.com Comparable Sales Program

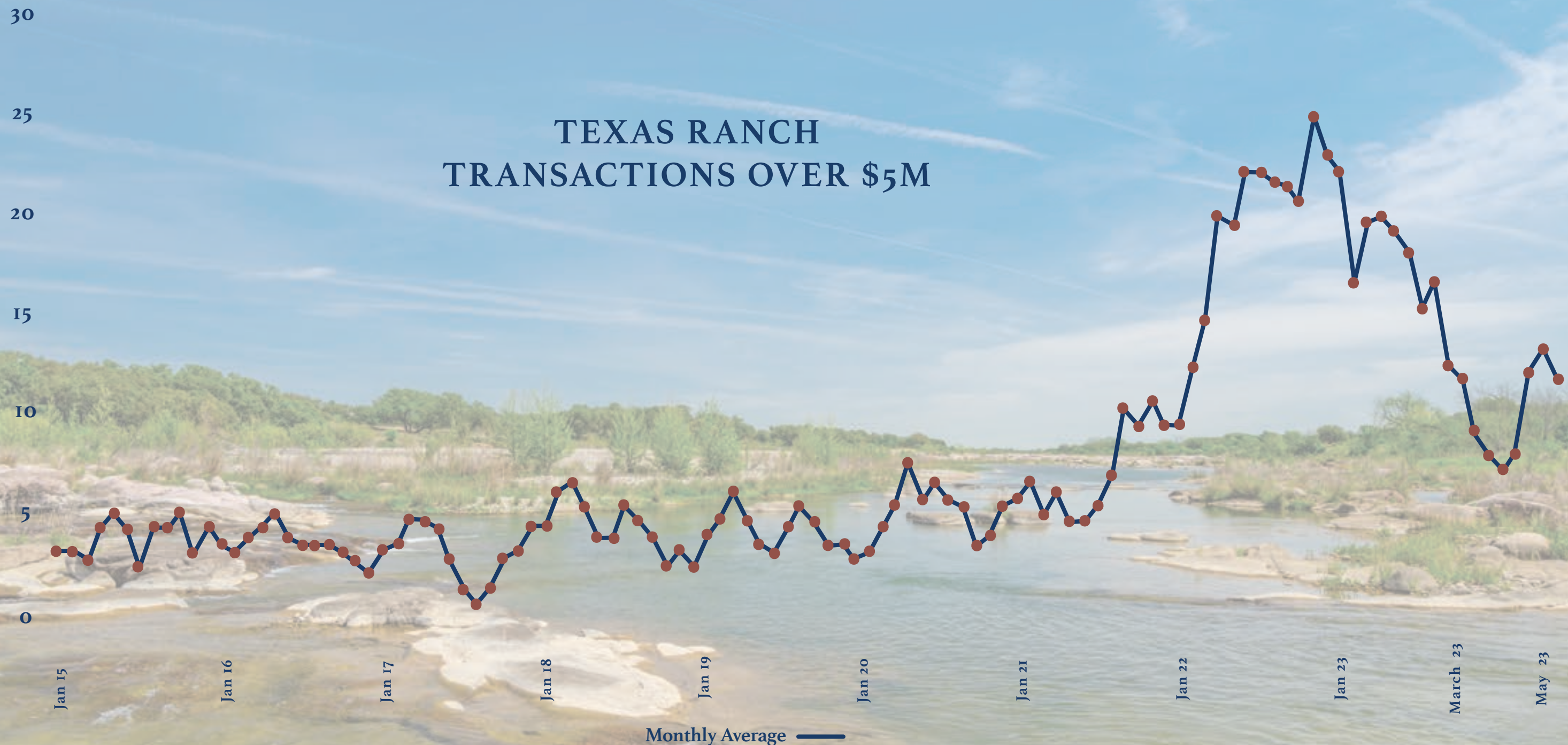
INVENTORY LEVELS

After falling for 4 months in a row, new inventory levels on the 5 select counties that we track closely saw an increase this quarter. It should be noted that listings over 1,000 acres in the state still remain stagnant and at the similar levels they have been since last May 2022. The majority of the new listings appear to be coming from the less than \$3M properties at this time.

SALES BY THE NUMBERS

The 3-month moving averages for all three market segments showed significant increases in the second quarter of 2023. The \$5M+ segment saw a 50% increase in the number of transactions during the quarter; however, this was tempered a bit by June numbers coming in a bit below the trend line. The trending sales average is now significantly above the historical longer-term averages while still well below the extreme transaction numbers during COVID.

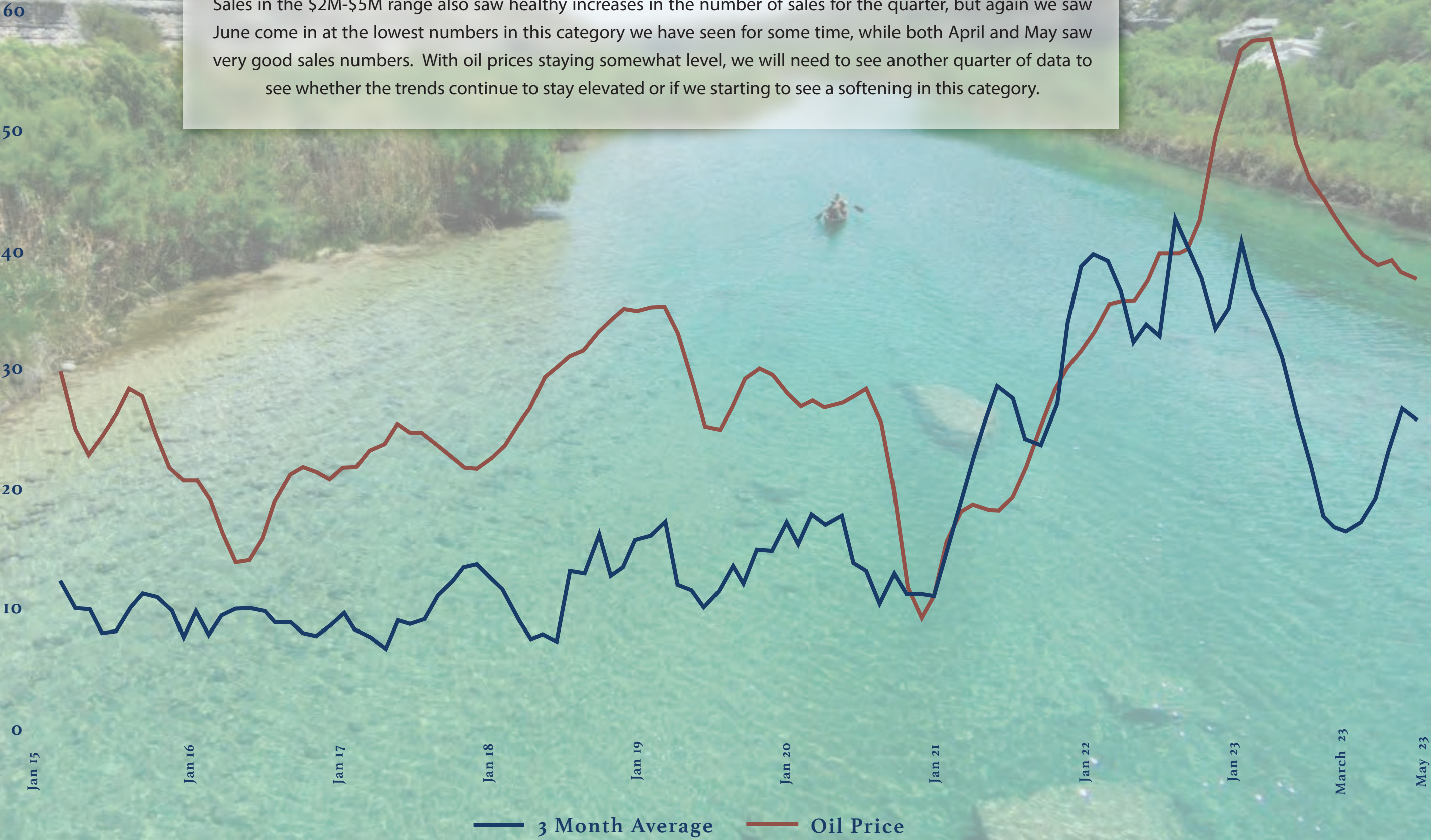
TEXAS RANCH TRANSACTIONS OVER \$5M



TEXAS RANCH

TRANSACTIONS \$2M - \$5M vs WTI \$/Barrel

Sales in the \$2M-\$5M range also saw healthy increases in the number of sales for the quarter, but again we saw June come in at the lowest numbers in this category we have seen for some time, while both April and May saw very good sales numbers. With oil prices staying somewhat level, we will need to see another quarter of data to see whether the trends continue to stay elevated or if we starting to see a softening in this category.



TEXAS RANCH TRANSACTIONS \$1M - \$2M

Sales for \$1M-\$2M saw significant increases for the quarter with the 3-month moving average up over 35%. Also, this category actually saw higher sales numbers in June with our first monthly sales numbers over 40 since last August.



WHAT DOES IT ALL MEAN

Housing data in Texas saw the first drop in days on market in May since last March of 2022 and inventory levels in housing actually saw a continuing drop in the number of homes on the market and overall prices have remained steady or slightly increasing across the state. Pricing for Texas homes has still not recovered to their highest price points just over a year ago, but are trying to get there. Our sense in the farm and ranch market is prices have generally remained flat since the highs were reached in early 2022.

Where we're heading: There are three scenarios that we anticipate are most likely to occur in the farm and ranch market in Texas for the remainder of the year;

MOST LIKELY - We will continue to see slow and steady market growth, with more inventory filling in allowing for modest sales progression. Oil prices remain in the \$70-\$80 per barrel range, inflation continues to come down somewhat, interest rates remain flat, the stock market has modest gains and the Texas economy continues to see stable growth. Farm and ranch prices remain relatively flat, but expect some pricing increases in areas of the State with higher growth rates (Austin, Houston, DFW). A 55% likelihood.

SOMEWHAT LIKELY - Inflation starts to creep back up similar to the 1970s, oil prices rise above \$90 per barrel and the world economy remains stagnant (stagflation) reducing the Fed's ability to raise interest rates further. This future would likely see more aggressive activity in the land markets as investors look to buy land as a safety valve against inflation. This would reduce inventory levels and likely make prices rise in the fall of the year. A 25% likelihood.

LESS LIKELY - A contagion from the slowing Chinese economy begins to slow economic growth around the world, causing oil prices to fall below \$60 per barrel. The US economy goes into recession and the Fed is forced to begin lowering rates in 2023. This scenario would likely see a short-term freeze in the rural land markets as investors sit on the sidelines. This would then cause another big rush into the land market once money began being injected into the economy and inflation comes roaring back in 2024. A 15% likelihood.

TAILING RISKS - A 10% chance none of the top three happen: deep recession for the entire country, war with Russia/China, and other black swan events.



CULTURE & COMMUNITY

STEWARDS OF THE WILD EVENT

For 6 years, Republic Ranches has proudly supported Stewards of the Wild, preserving Texas's wild things and wild places through event sponsorships and board service. Stewards of the Wild have made a direct impact on conservation efforts and outdoor education for young professionals across the state. Join us in celebrating their success in preserving Texas's natural treasures. Check out Stewards of the Wild at <https://www.tpwf.org/sotw/>



Republic Ranches Broker Associate Tallon Martin serving at Wild Night, Stewards of the Wild annual fundraiser.



Republic Commercial Land & Brokerage launch party at Yeti Flagship in Austin.



JUST ADD WATER

By Ross Studer, Sales Associate

Water is one of the most valuable resources on earth, it is essential for all life and there is no substitute for it.

People who rely on the land for their livelihood use water for various agricultural activities playing an essential role in the world's food and fiber production. Aside from the fact that water is a necessity for life to exist, there is an additional value of water from any landowner's perspective.

Depending on the landowner's objectives, the market generally sees higher value in properties with different types of water development or features. These surface and subsurface features include aquifers, rivers, creeks, lakes, ponds, springs, seeps, guzzlers, water wells and distribution. While some of these water features are natural others can be created through various techniques.

There are 171 million acres in the state of Texas with over 93% of those acres being privately owned. Within the 171 million acres Texas has to offer, there are approximately 3,700 named streams and 15 major rivers accounting for over 191,000 miles of waterways. Why am I mentioning this? Besides the fact that this information is super interesting, it guides me to the point that there are a lot fewer natural water properties than land without the natural water component.



Wesla Ranch / SOLD 2022

The scarcity factor when searching for these natural water places plays a significant role in driving additional value to these particular properties. This is consistent with dry land farm values versus irrigated farm values on the production agricultural side. Relocating a farm over a quality aquifer is not possible, on the contrary, a recreational-oriented property that does not have natural water features can be enhanced if you Just Add Water!

Here in many parts of Texas, it is said we live in a perpetual drought with intermittent flash flooding and while we enjoy those big rains (if they aren't too big!) and appreciate their ability to replenish rivers, aquifers, springs, etc., they are infrequent at best and we need the beneficial aspects of water every day of the year. While being cognizant of the semi-finite nature of our water resources, there are things we can do to utilize that resource to benefit the productivity, enjoyment and value of our properties.

Depending on a landowner's objectives and the availability of water resources, simple projects can be completed to improve a property. Projects vary across a wide spectrum depending on landowner objectives, resources and location but could include the following:

- Water wells and distribution to storage and delivery points across the property benefit foraging distribution for planned grazing and wildlife alike,
- Use of guzzlers (rainwater catchment) where groundwater resources are limited (or distribution too complicated) to achieve similar distribution
- Header/spreader dams to slow runoff, improve infiltration, provide surface water or a small wetland



- Lake/pond building to capture runoff in drainages provides the additional benefit of a potential fishery assuming permanence

- Using groundwater (with appropriate permitting as required) to maintain lakes, ponds, etc. for recreational benefits as well as providing water for wildlife and livestock alike

- Using groundwater for irrigation (with appropriate permitting as required),

- Developing and maintaining springs to benefit wildlife and livestock alike

Implementing one, two or all of the projects above can add value to a ranch in several ways. It all hinges on the objective of the landowner;

- If the plan is to hold on to a recreational property for generations there is an emphasis of value on the enjoyment factor of recreational surface water or water features enhancing wildlife management.

- If the ranch is strictly an investment with the objective to implement value-adding water-related projects to re-sell at a premium, then the value is monetized at the time of the sale.

- Similarly, if the value is strictly in the form of improved marketability, water development (if done right) will provide a positive showing experience and directly improve marketability. We find that marketability is an extremely valuable contributor when trying to capture the top end of the value range for a ranch.



Headwaters Ranch / SOLD 2020

- One specific way the distribution of water throughout a property (or other water-related projects) adds value is by utilizing those projects and features as part of a 1-D-1 Open Space Agricultural Valuation for Wildlife Management plan; or in the case of regular 1-D-1 Agricultural Valuation added water can allow for more pasture utilization and an enhanced grazing plan to maintain adequate stocking rates. In both cases, the property has the opportunity to enjoy the property tax benefits of the agricultural valuation.

To a large percentage of landowners in Texas these may seem like obvious water-focused ranch projects; however, there are many first-time ranch buyers that are unaware and possibly apprehensive about these projects mainly due to the cost and knowledge involved in accomplishing them. In our experience, whether the market is an active frenzy or slow as molasses if you Just Add Water you may just see the benefit of value: from a financial perspective, a productivity perspective or simply an enjoyment perspective.



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