

REPUBLIC REPORT

3rd Quarter of 2024



LETTER FROM THE PARTNERS

Dear Readers,

The third quarter of the year saw continued slow activity levels in the number of farm and ranch transactions in Texas, albeit above pre-Covid levels experienced in 2016-2018.

Currently the land markets are sending mixed signals. The overall statewide market data is showing generally flat to slightly lower transaction volume, and inventories and new listings remain stubbornly low. Transactions are still occurring, but the days on market metric is getting back to normal. Thus far price levels are not making major moves up or down from our perspective. Overpriced properties are sitting while high-quality and properly priced offerings are selling. Getting back to normal, if you will.

Interestingly and anecdotally, as Q4 begins, Republic Ranches is experiencing an increase in calls and showings activity, and we have launched quite a few new listings in recent weeks. Time will tell if this internal experience translates to the hard data going forward.

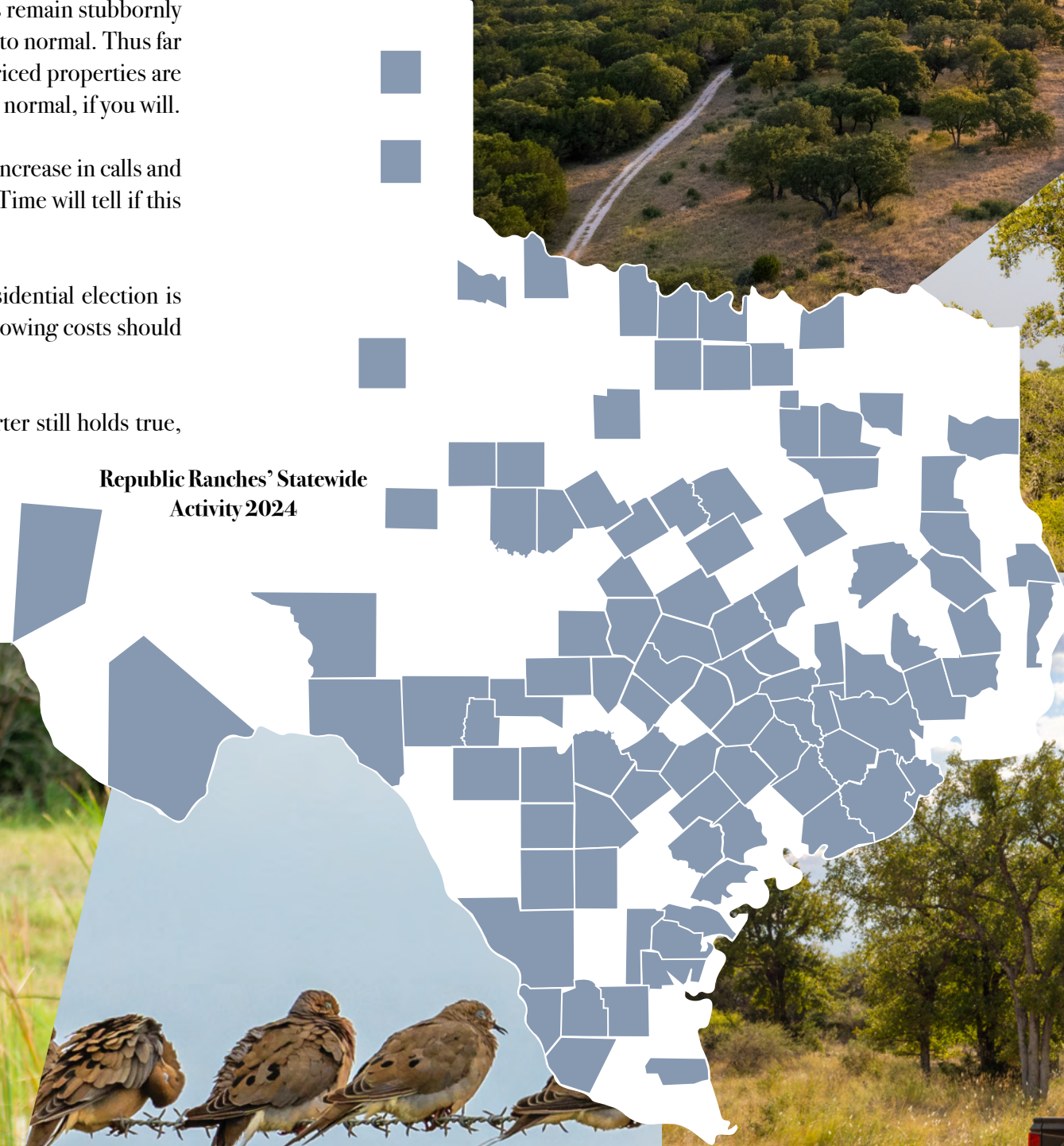
Although elections historically have not moved land markets, the upcoming presidential election is weighing on some buyers and sellers. The recent move by the FED to reduce borrowing costs should have a positive impact on land market activity.

Our earlier expectation regarding transaction levels picking up in the fourth quarter still holds true, although some of those closings may get pushed into Q1 of 2025.

Jeff Boswell, Principal & Partner
Charles Davidson, Principal & Partner
Mark Matthews, Principal & Partner

Bryan Pickens, Principal & Partner
John Wallace, Principal & Partner

Republic Ranches' Statewide Activity 2024





Crestonio Ranch / Jim Hogg & Duval Counties

TEXAS LAND MARKETS REPORT

THIRD QUARTER 2024 SUMMARY

Overall, the third quarter came in at the low end of the range we have been trading at since the COVID run. In an effort to further explain what we are tracking, we are showing the charts differently in this report. Our go-to chart is a 3-month moving average chart of the number of transactions in the farm and ranch market. This chart type is one of the best for visualizing trends in the shorter term. For this report, we are showing an annual line chart where each month shows the total for the prior twelve month period. This type of chart will remove seasonal changes and show longer-term trends in the market. The adjacent chart illustrates that while the decline from the COVID era has flattened, we are still seeing a slight decline overall in the number of sales. Still, the total sales are above what we saw in the 2016 - 2018 period.

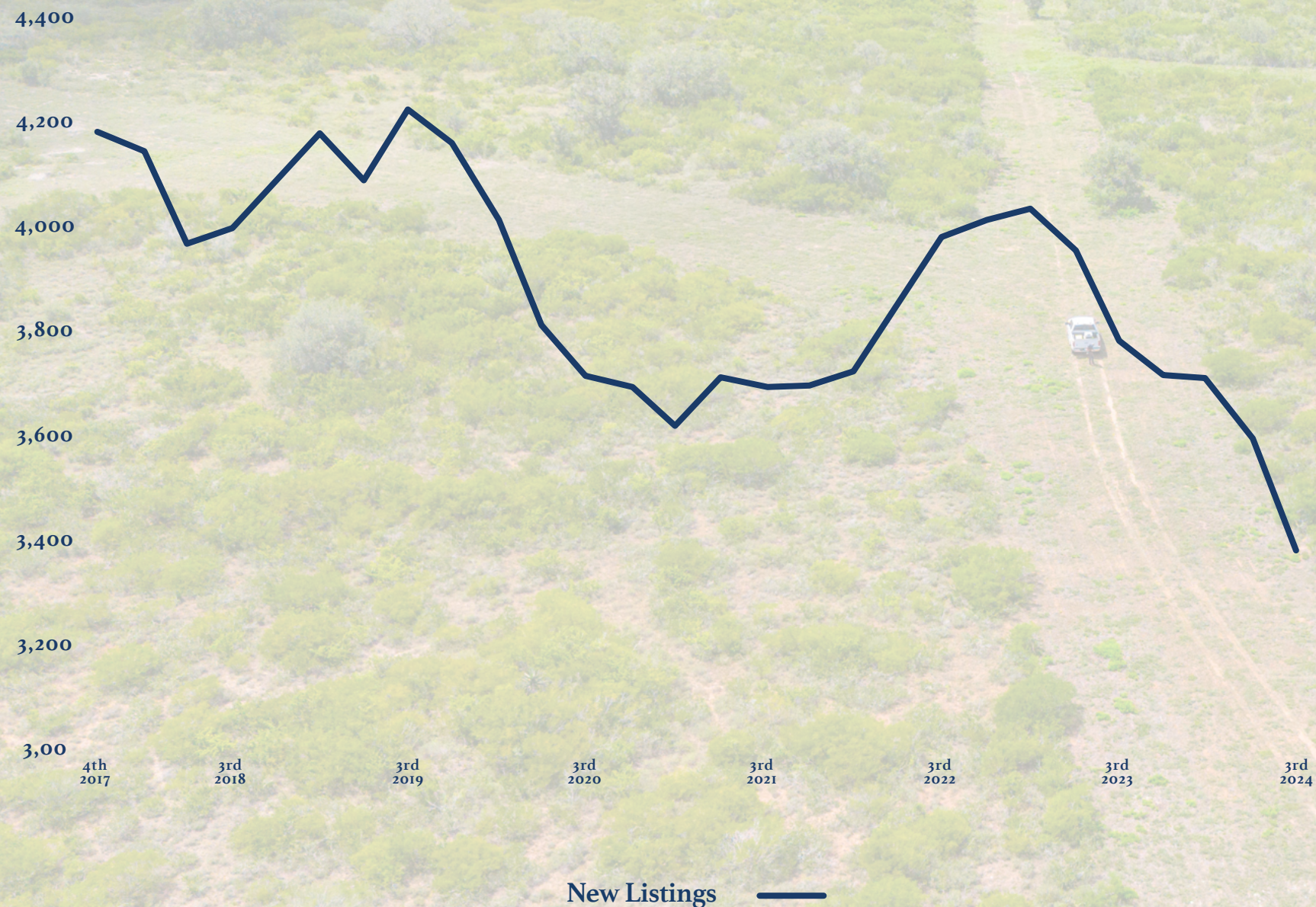
TEXAS # SALES ALL CATEGORIES *Year Over Year (YoY)*



Sourced: Land.com Comparable Sales Program

TEXAS FARM AND RANCH TRANSACTIONS

New Listings *Year Over Year (YoY)*



Sourced: Land.com Comparable Sales Program

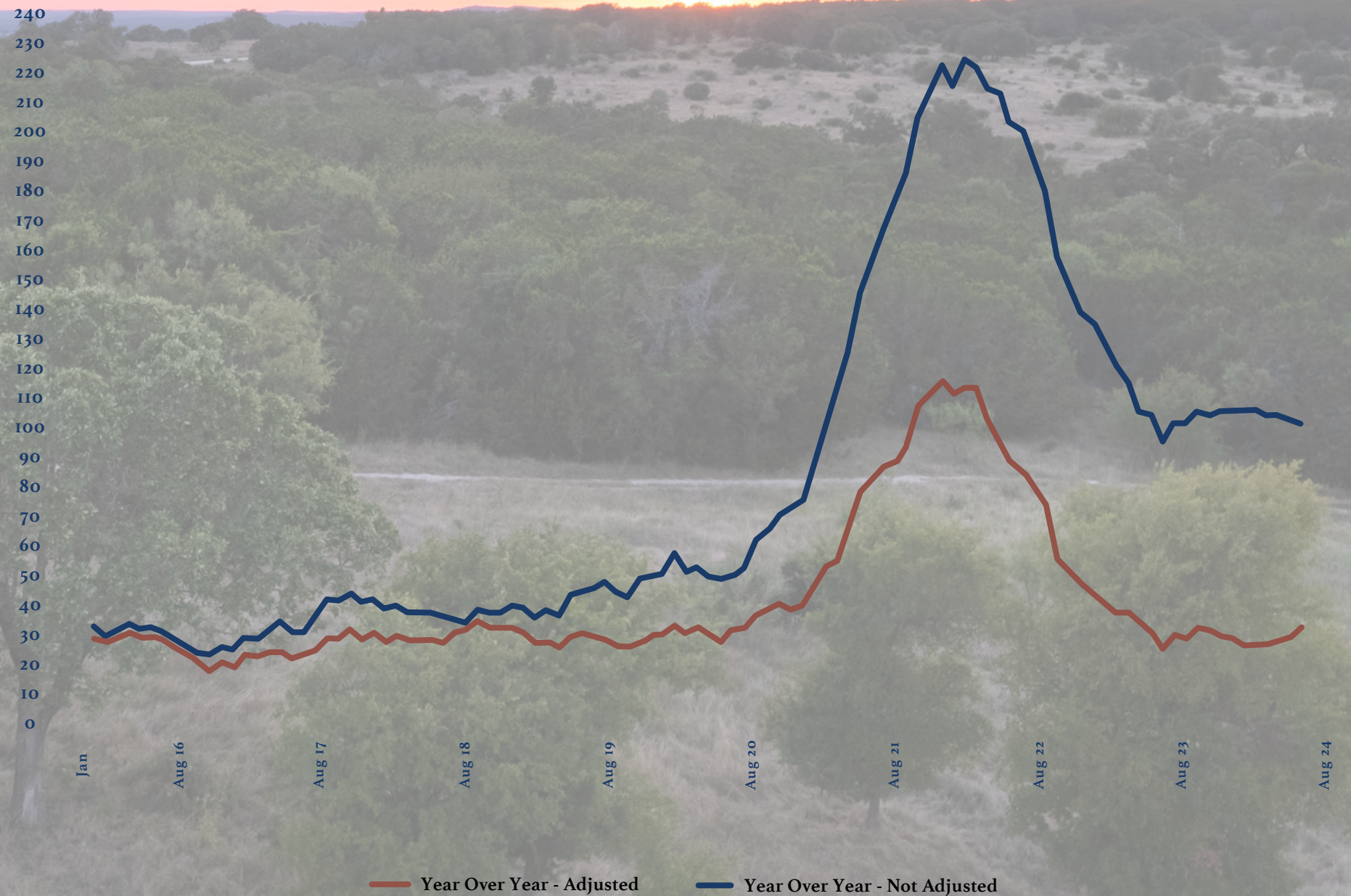
INVENTORY LEVELS

We have modified our “New Listings” chart for this quarter as well. There is a lot of variation in which quarters see the most new listings and the least new listings; second quarters generally have the most new listings and the fourth quarter tends to see the least. We changed the chart to look at a long-term trend by tracking the number of new listings for the past year (each quarter adds up to the last four quarters). As the chart indicates, there has been a significant drop in new listings of Texas ranches since the second quarter of 2023. These are the lowest levels we have tracked in the past eight years.

TEXAS FARM AND RANCH TRANSACTIONS Large Tier

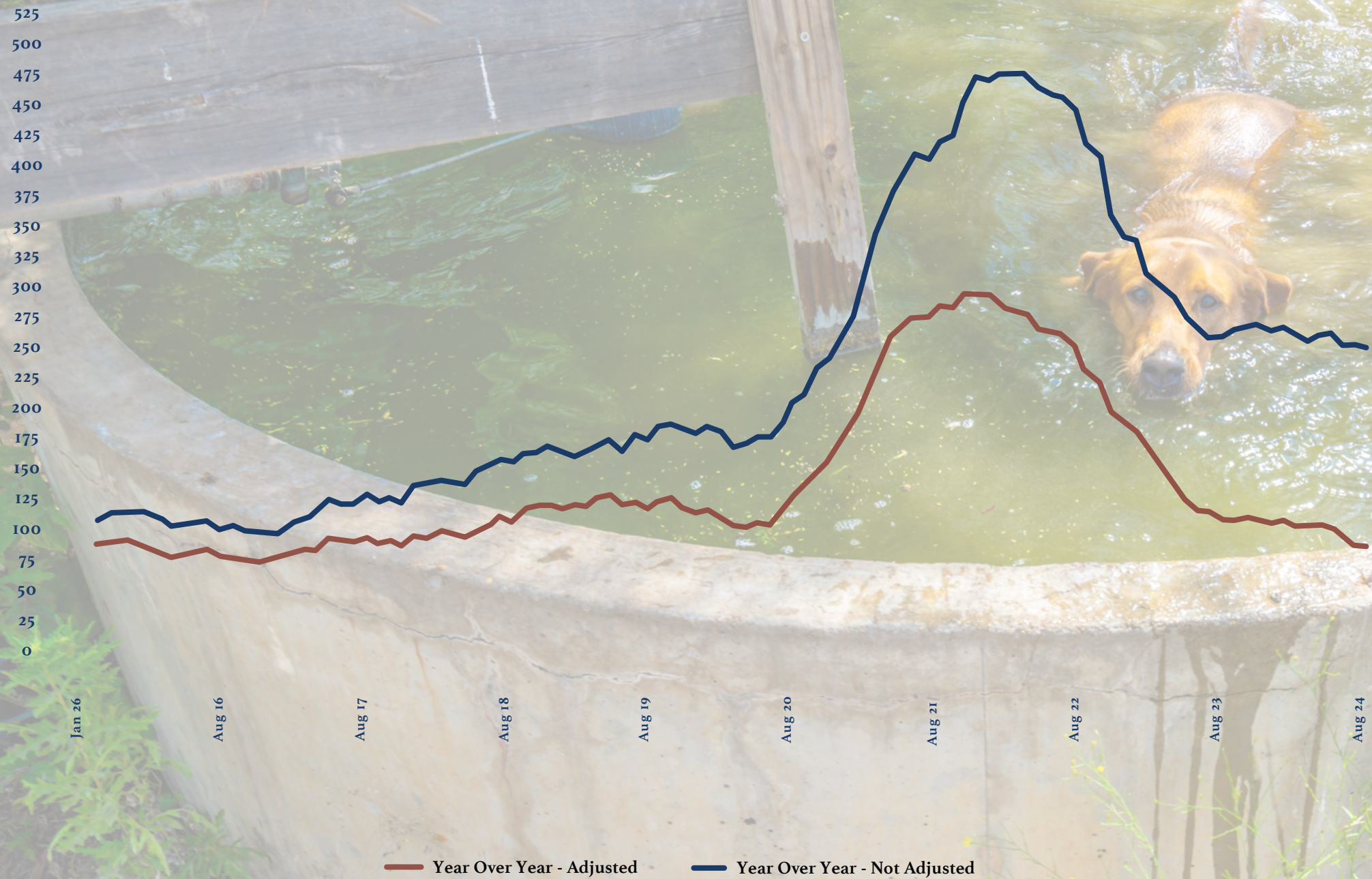
Again, we changed the charts to a longer-term trend by using the last twelve months. We added another line that helps our clients understand what we are tracking. We originally started this process in 2014 when large ranches were considered over \$5M. We have adjusted our models based on the overall price increase in rural Texas land from the Texas A&M Real Estate Center, which tracks rural pricing on land quarterly. This chart for Large Tier Ranches for Q3 2024 shows both total transactions over \$5M and our traditional adjusted pricing for Large Tier Ranches (currently all ranches over \$10.88M).

Large Tier Year Over Year (YoY)



Sourced: Land.com Comparable Sales Program

Mid-Tier Year Over Year (YoY)



Sourced: Land.com Comparable Sales Program

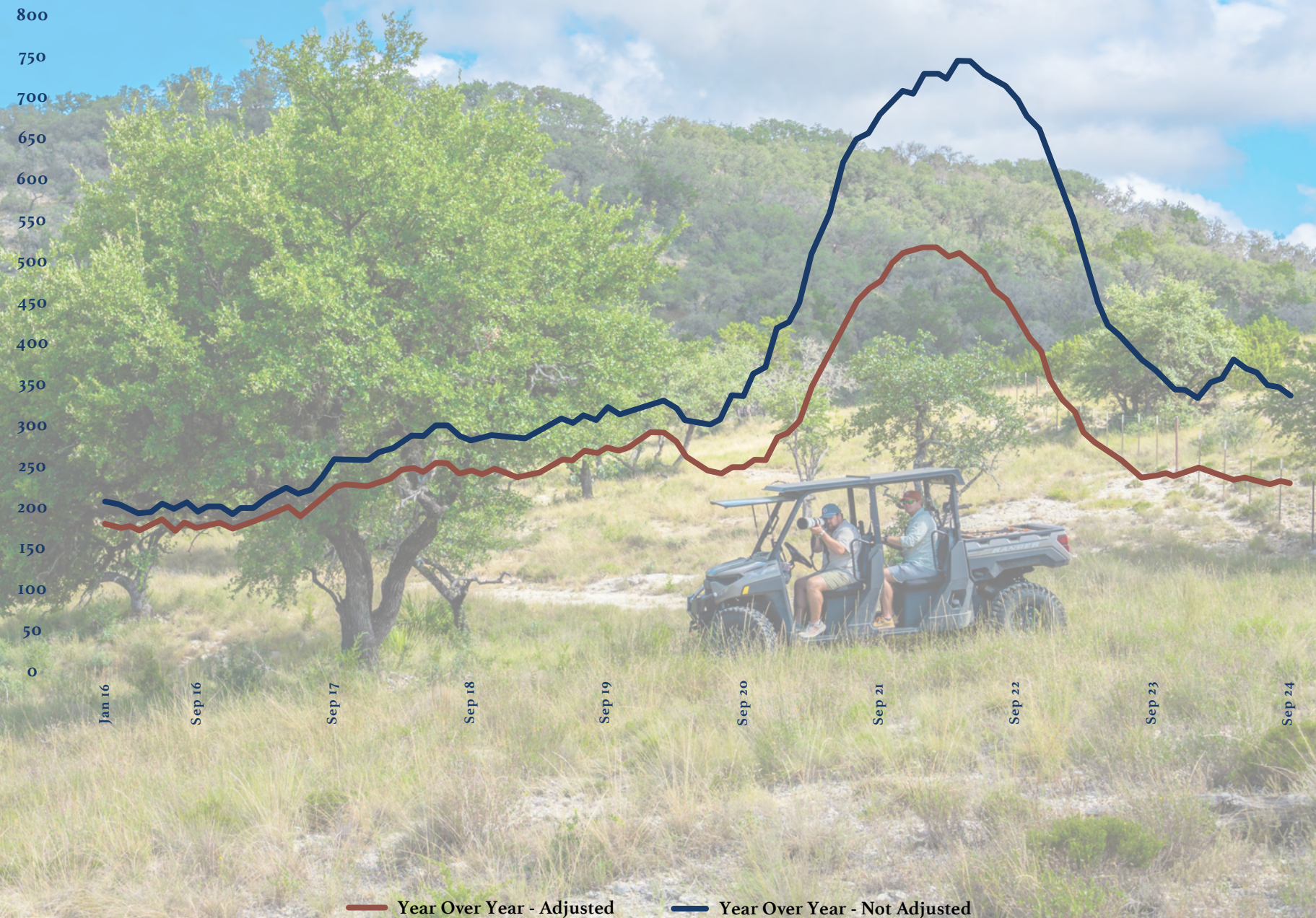
TEXAS FARM AND RANCH TRANSACTIONS Mid-Tier

Here we are doing the same chart for the Mid-Tier properties showing the last twelve months with adjustments and no adjustments on these properties. When we started in 2014, these farms and ranches were those that sold between \$2M - \$5M whereas these ranches are currently \$4.35M - \$10.88M.

TEXAS FARM AND RANCH TRANSACTIONS Small Tier

Small Tier Ranches were originally \$1M-\$2M ranches from our starting point in 2014. The adjusted price range for these ranches is \$2.17M - \$4.35M.

Small Tier Year Over Year (YoY)



MOVING FORWARD

As all of these charts emphasize, we are still showing a very flat trajectory for the ranch sales trends that we track. One of the charts we occasionally follow is Days on Market (DOM), a common metric for the residential real estate market that shows activity levels and the direction of the market. This metric can provide the farm and ranch market with a similar sense of where we are heading. To the right is a chart of the Days on Market for sold ranches over the past eight years.

There are several issues to consider here. It is important to note that farm and ranch properties stay on the market for a much longer period than in the housing market (~350 days on the market this year for ranch properties vs. ~48 days on the market in the residential market). We can see that before the COVID years, the days on market were between 350 and 420 days. During the COVID run, days on market fell to below 300, but that has now increased to 350 days, which is getting into the historic low end of the range from before the 2020 - 2022 market. This reflects the slowing transaction volume in the farm and ranch market over the last two years. We still expect to see the number of transactions to begin to rise going into the fourth quarter. Activity levels on showings have certainly increased over the past month and a half, and we are starting to see others coming in at rates that are the highest we have seen this year.

Since we are seeing more buyers in the market now, the biggest question is what is going to happen with inventory levels and why they remain at historic lows overall. The most obvious answer is that sellers are not motivated to sell right now. We will continue to ponder the reason why, and what exactly will force that to change. The common theme in the residential market is that owners are in low mortgage rates and cannot afford to leave older rates. But while that might have some effect on the rural land market, it is not nearly as influential because so many farms and ranches are purchased with cash (well over 50% of the size we monitor). Other potential reasons for the lack of inventory coming on the market include:

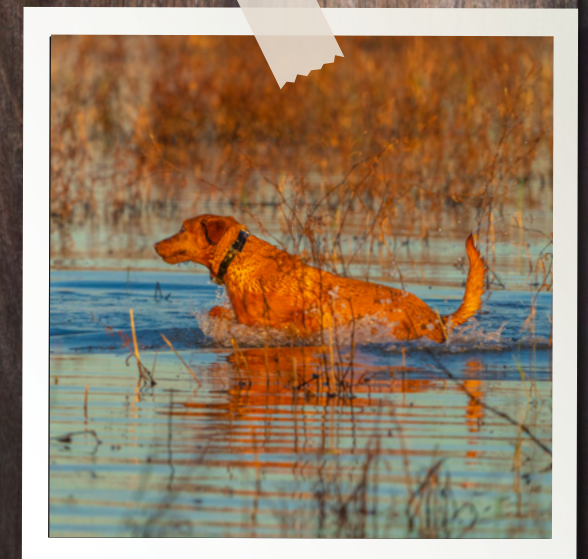
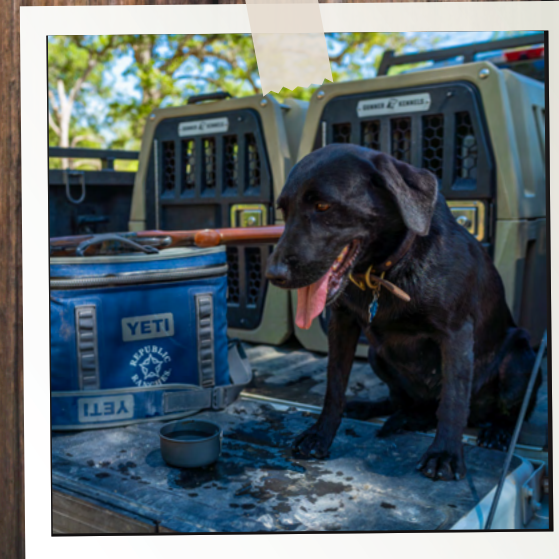
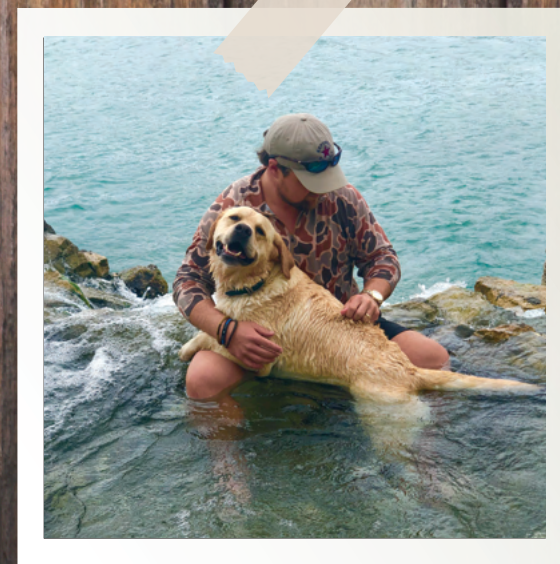
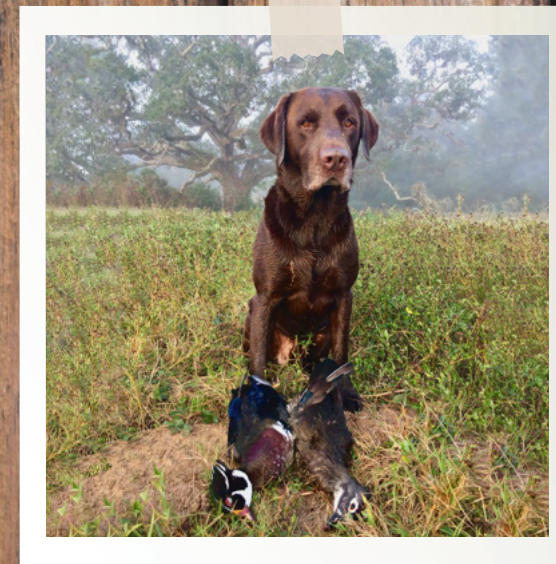
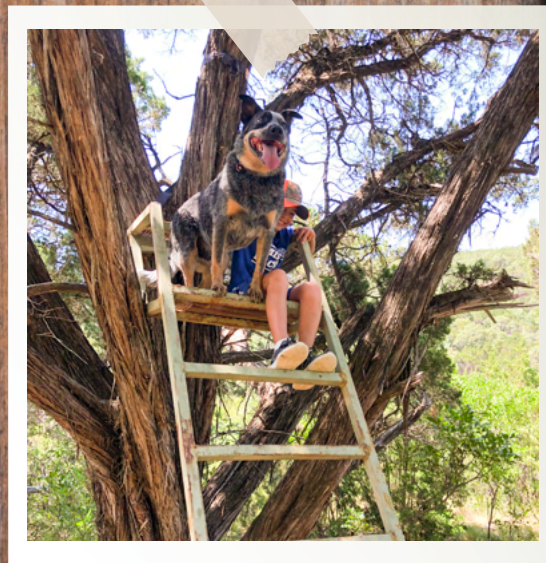
- Fear spurred by turmoil the political arena.
- Expectations that national debt levels will ultimately lower the value of the dollar, making hard assets such as land more valuable.
- Price levels since 2022 have stayed rather flat, and the rash of buyers in the 2020 - 2022 period are not willing to sell until they see prices begin to creep up again.
- The market is still “rebuilding” following the compressed market activity during the COVID period.



CULTURE & COMMUNITY

DOGS OF REPUBLIC RANCHES

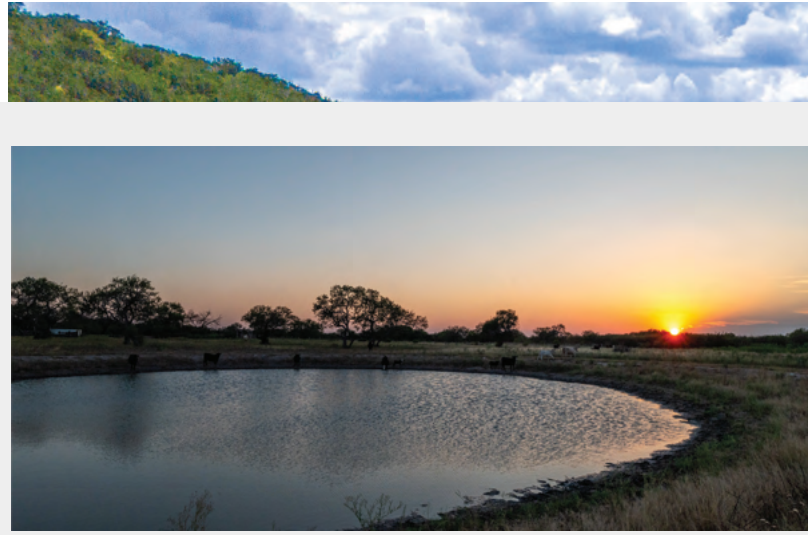
Dogs enhance the memories we create at the ranch. From working together with hand signals to retrieving a game bird to tracking down a wounded deer, dogs are our loyal companions. They are more than just capable tools at the ranch; they keep us company and give us lifelong memories. Here's to the dogs of Republic Ranches!



SURFACE WATERS ADD VALUE TO LAND

By: Jeff Boswell, Principal & Partner

While the entire State of Texas has only one natural lake over 1,000 surface acres, it has the highest overall acreage of surface water of any state in the lower 48. Texans value their surface water, for the state is a relatively dry place overall. As an owner or prospective owner of rural property in Texas, trying to determine what value to place on surface water with respect to the overall value of the land can be critical in determining whether to move forward with building lakes and ponds. In Texas, water laws can be confusing. Groundwater is owned by the landowner (in very general terms), while most surface water is owned by the state, with a few exceptions. Dams may be built to impound water on a person's land (as long as it does not hold over 200-acre feet of water, which requires permitting that is very expensive and difficult to acquire) for the personal use of the landowner, but that water may not be used commercially without a permit. It is also important to know whether the soil on one's land can hold water without seeping, so that a pond or lake won't dry up during the long, hot summers.



Brewington Lake Ranch / Bandera County

Because Texas is a dry state, good surface water has significant value and can add a lot to the price of a property. In studying this over the years, we have come up with some defined values on lakes and ponds and how they increase the overall price of property. While it varies somewhat geographically, we have found some consistent numbers to help landowners and potential land buyers make sound decisions on determining values of these water features. In Texas, the size of a lake or pond has a significant effect on the value placed on it. Generally, the larger the impoundments, the higher value placed on its surface acreage. Ponds under one acre generally do not make a significant value addition to a property, although properties with no ability to have even small ponds can have a negative effect.

Lakes that are between one and 10 acres of surface water tend to carry incremental values of \$20,000 - \$25,000 per surface acre. As you get over a 10-acre lake, the values will begin to increase to a valuation of between \$25,000 - \$40,000 per acre. These valuations are in addition to the general land price beneath the water.

The variation in prices tends to be based on where the property is located and the ability of the lake to hold water levels during the year. Properties in the northeast portion of the state, which are more conducive to building large lakes and holding water, tend to be on the lower end of the valuation. Properties with these water features in central and southern portions of the state tend to be towards the higher end of these valuations, as it is more difficult to build such lakes and hold water annually (this does assume that large water bodies in these areas can retain water and not have seepage). The ability to keep reservoirs full throughout the year, whether through a spring fed water feature or through the ability to use groundwater, allows the valuation to be on the higher end of these values.





Texas has a state law that any reservoir that holds over 200-acre feet of water (an acre foot of water is a surface acre 1' deep) must be permitted with the state. These permits are very difficult to get and only a small number of these lakes are built each year because of the high cost and permitting difficulties. The costs of the permitting can run as high as several million dollars. Because of this lack of supply of such permitted lakes, these impoundments tend to fetch a high premium on the market. There is an exception to the maximum 200-acre foot rule that takes place if a lake does not receive runoff from a water course, but rather is leveed on all four sides and only gets water directly from water wells and rain. These lakes may be built without a permit and still fetch premium prices.

Our overall studies of these properties sold over the last ten years helped us conclude that in almost every case, any lake built in Texas will ultimately bring more value than the cost of building them. While it can be a significant expense, landowners can be confident that the increase in the price of their property will outweigh the price of construction, while providing wonderful recreational opportunities.



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Front Cover:
Mossy Slough Ranch / McMullen County

Back Cover:
Southern Oasis Ranch / Goliad County