

REPUBLIC REPORT

4th Quarter of 2024



REPUBLIC  RANCHES_{LLC}

Our Legacy is in the Land

LETTER FROM THE PARTNERS

Dear Readers,

As the new year kicks off, we are taking a close look at some data to give our clients a clearer picture of the market's direction in 2025. We will present new graphs that include more historical data to explore what we see happening.

We expected the transactional market to improve in the 4th quarter and gain momentum heading into 2025. The data coming in for the 4th quarter did not show any significant uptick in sales. However, based on our internal experiences with rising showings and calls, we still anticipate a shift towards higher sales volumes in the coming year.

Republic Ranches finished 2024 with its second-best year for total volume, behind only 2021. The number of deals was on par with the rest of the state, but fewer than in the prior four years. The average transaction value was up this past year by almost 35%.

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





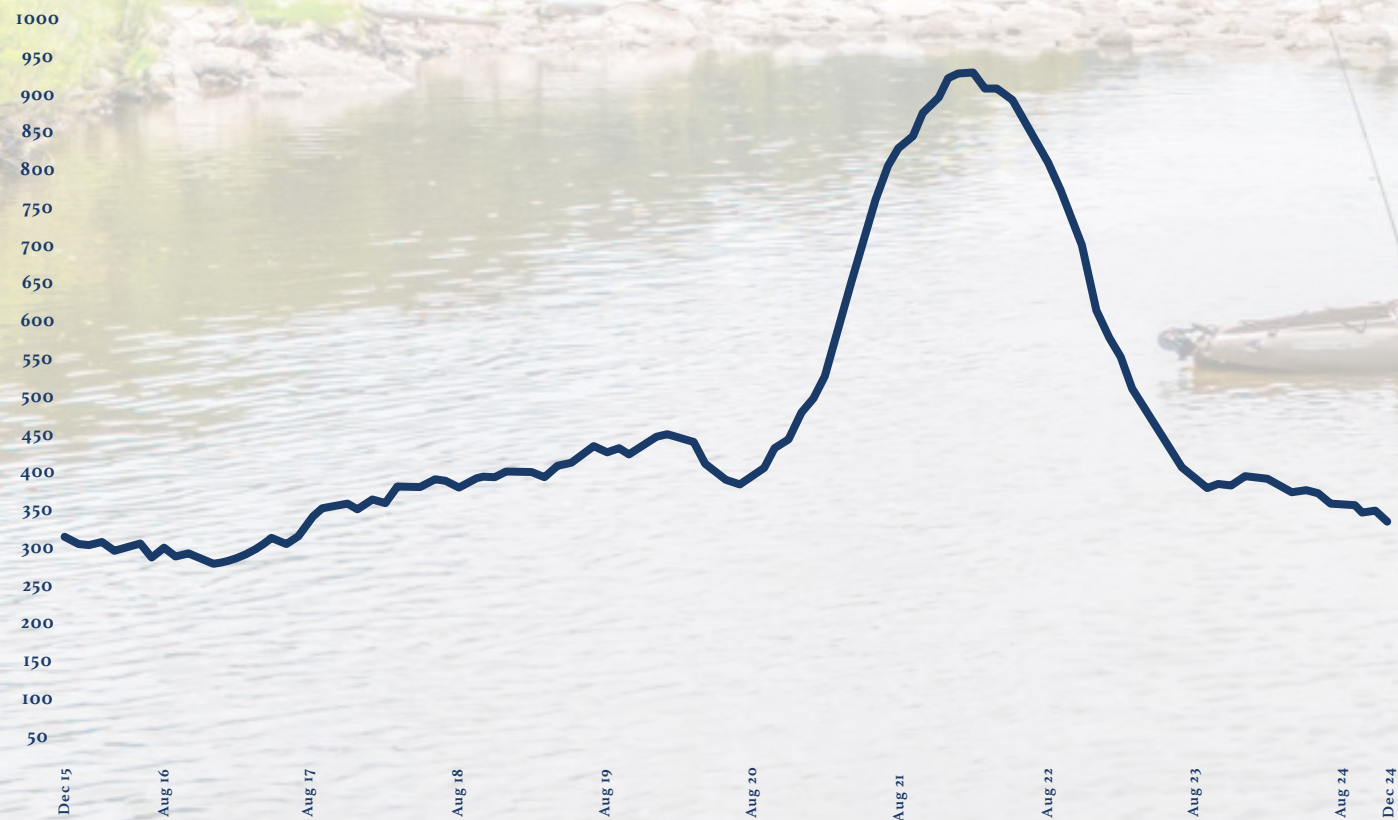
MV2 Ranch / Roberts County

WHERE IS THE FARM AND RANCH MARKET HEADING AS 2025 BEGINS?

FOURTH QUARTER SUMMARY 2024

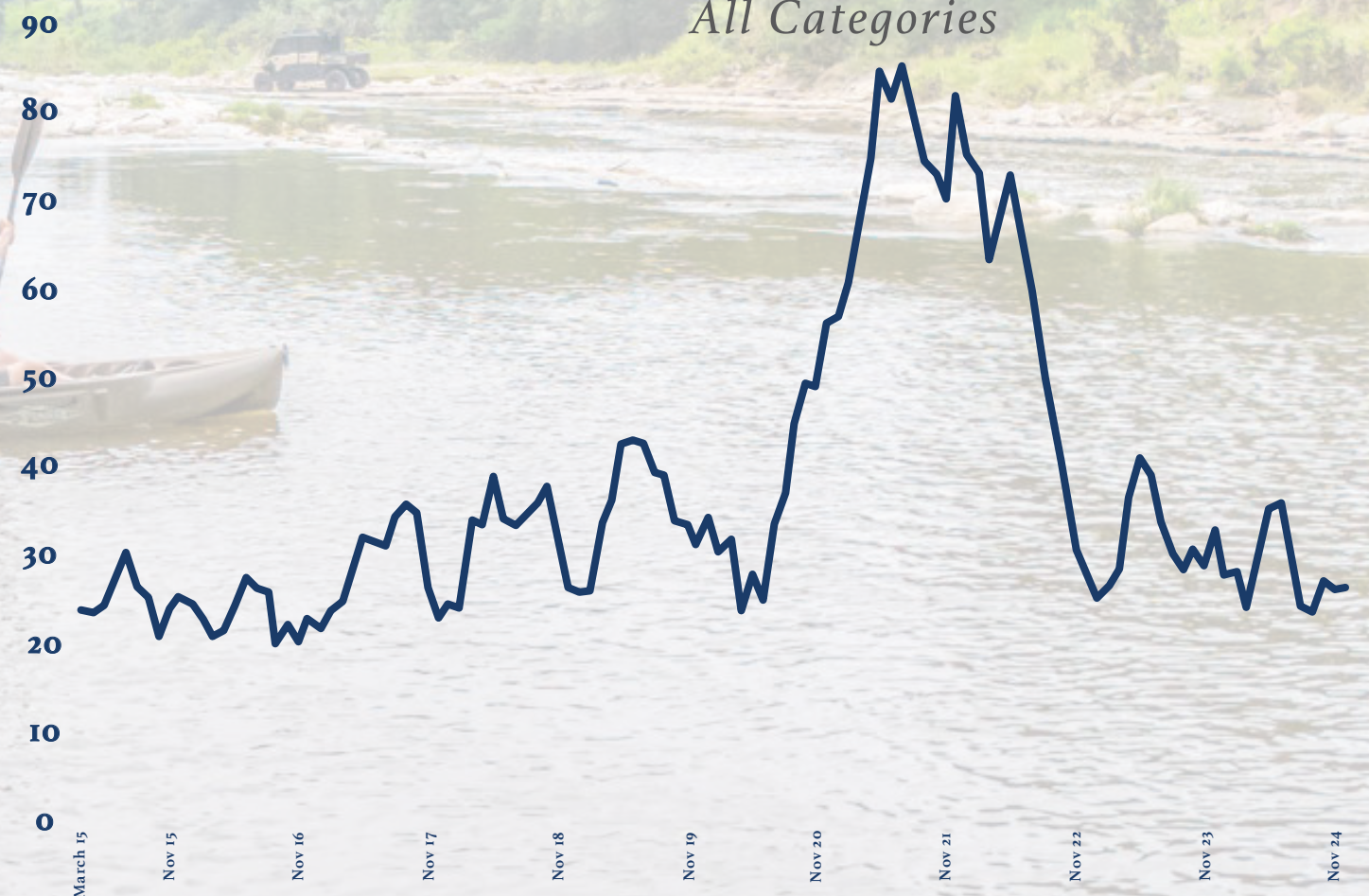
The fourth quarter transaction volume data continued to show very low levels in Texas. Looking at our graphs of overall transactions of the three-tier sales levels, it is apparent from the graphs (Last Twelve Months (Year over Year) & Three Month Moving Average) that the market remained in the recent two-and-a-half-year slump.

TEXAS # SALES
ALL CATEGORIES
*Last Twelve Months
Year Over Year (YoY)*



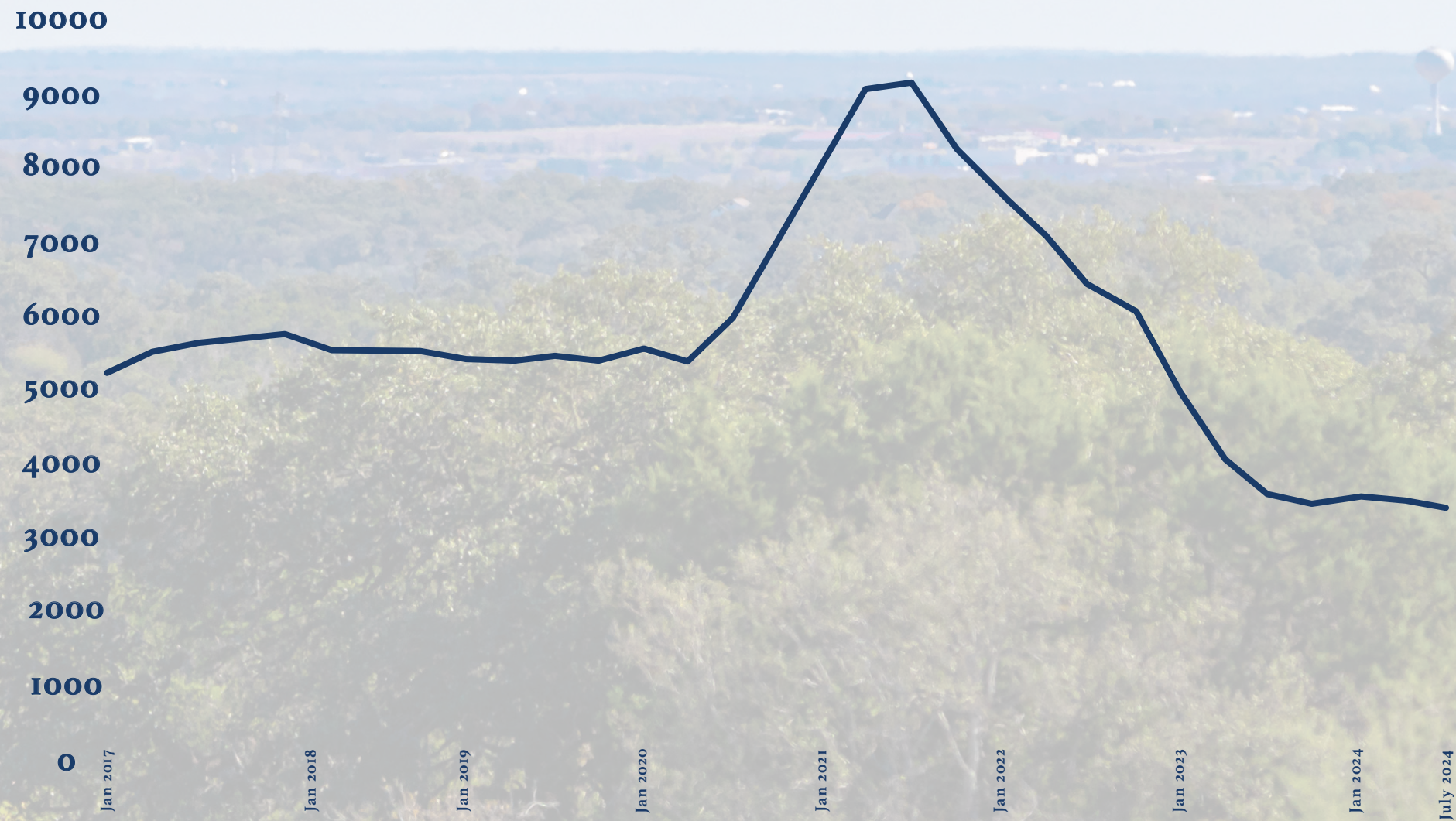
Sourced: Land.com Comparable Sales Program

TEXAS FARM AND RANCH TRANSACTIONS
THREE MONTH MOVING AVERAGE
All Categories



Sourced: Lands of Texas Comparable Sales Program

Last Four Quarters Sales Volume *Year Over Year (YoY)*



Source: Texas A&M Real Estate Center

TEXAS A&M REAL ESTATE CENTER YEAR OVER YEAR DATA

Let's look at the Texas A&M Real Estate Center Rural Sales Data in a Year Over Year graph and see if it provides a hint as to where the farm and ranch market is heading in 2025. As can be seen, the number of farm and ranch transactions in Texas peaked in the first quarter of 2021. While the market remained strong going into 2022, there was a significant slowdown in transactions starting in the second quarter of 2022 that has continued to date. The data through the fourth quarter of 2024 shows transaction levels are still (stubbornly) at their lowest levels in recent times.

At the same time that the data shows a significant drop in the number of transactions, average pricing (per acre) continued to increase; however, the growth rate slowed considerably in 2022 and as of the end of 2024 appears to have flattened out.

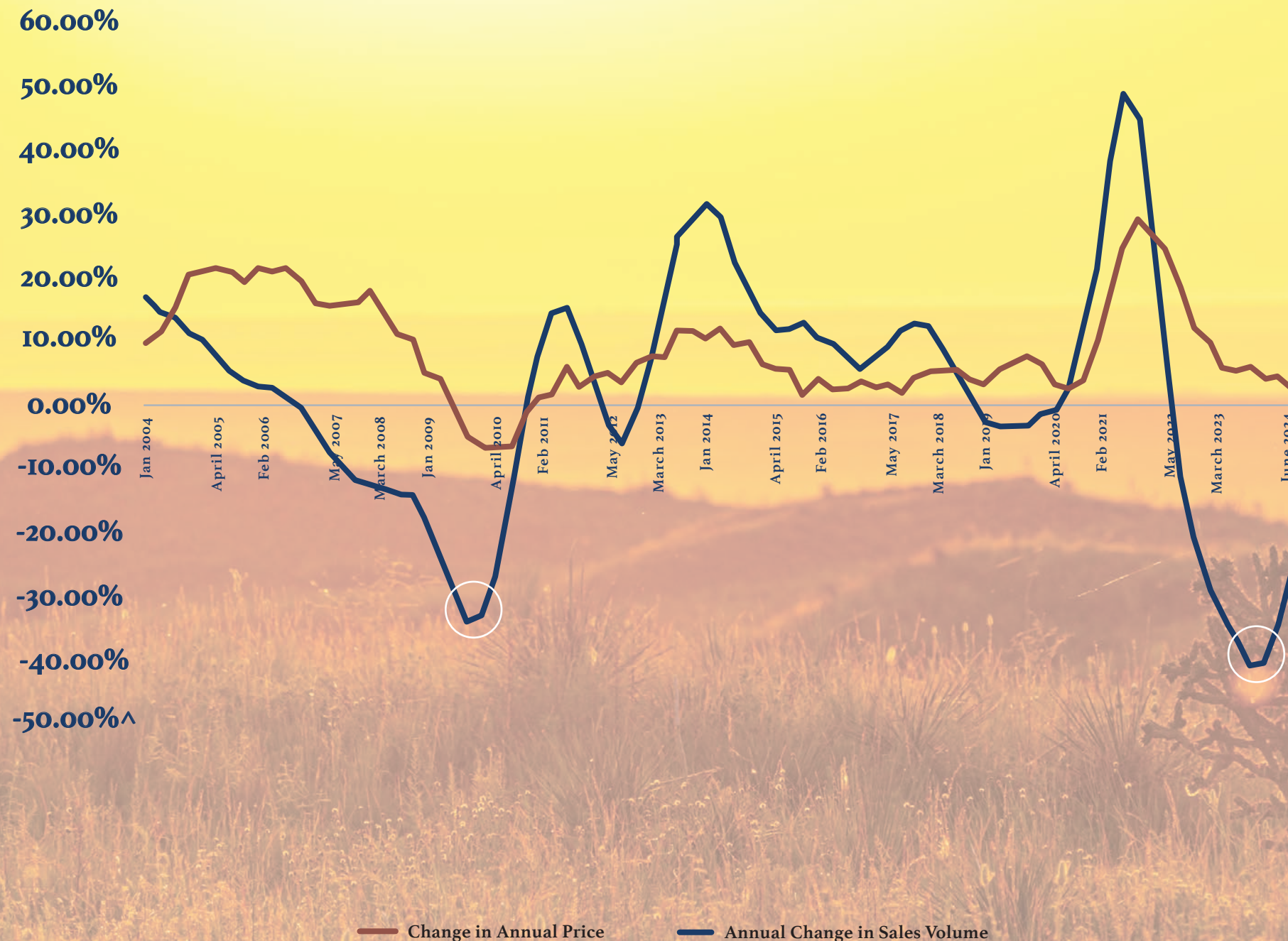
Nominal Price Per Acre *Texas Farms and Ranches*



Sourced: Texas A&M Real Estate Center

ANNUAL CHANGES IN TRANSACTIONS AND PRICING

Annual Changes in Transactions and Pricing *Texas Ranches*



Sourced: Texas A&M Real Estate Center

Several variables are likely behind the major slowdown in farm and ranch transactions over the past two and a half years.

The rash of transactions during the 2020 - early 2022 sales were a result of the COVID effect, low interest rates and then some inflation hedging. The excessive sales volume during the period, in part, resulted in a lack of inventory on the market that has continued to some degree during 2024. Lastly and most importantly, things resulted in different perceptions between sellers and buyers of where the market was heading. On the first issue of so many sales compressed into a smaller time frame than usual during the Covid years, the market simply needed time to “absorb” the compressed activity. We believe we have now gotten to the point where that issue has played out with the lower-than-usual sales over the past several years. As to inventory, it continues to lag behind historical norms, but we are starting to see some increases in inventory levels and believe that 2025 will see increases in inventory, which should help begin to bring up sales transactions. The third issue regarding perceptions of buyers and sellers warrants further examination.

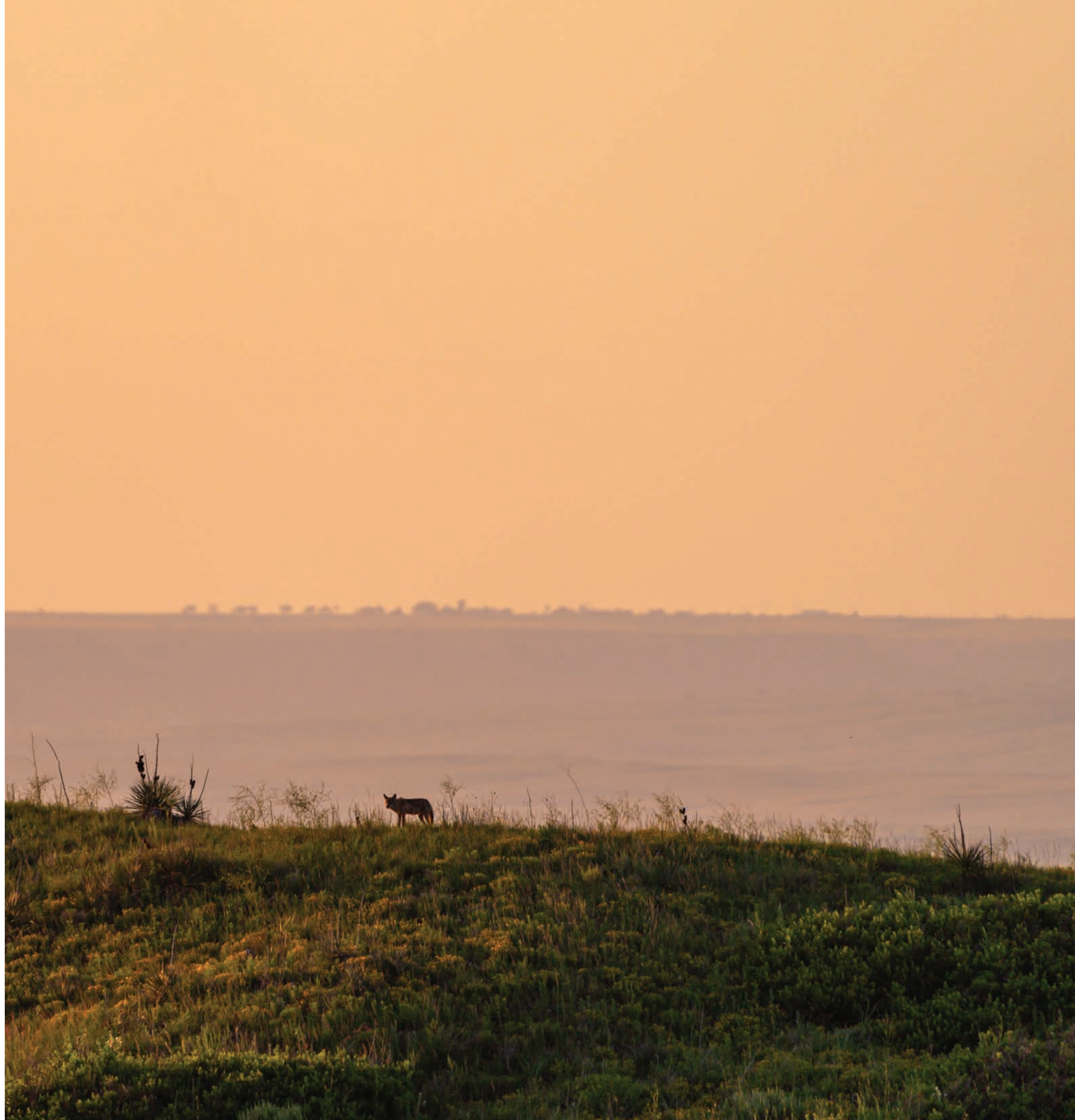
Here is a chart showing the Year Over Year percentage changes in both pricing and transactions in Texas farm and ranch sales.

As can be seen in the graph on the previous page, there have been two major periods of significant annual price increases above 10% over the past 25 years in Texas farm and ranch sales (2004-2008 and again in 2021-2023). Both of these instances resulted in a significant drop in transactions (a less significant period in 2013-2014 also saw a drop in transaction growth, although not nearly as drastic as the other two examples). Transaction levels during the 2004-2010 period did not begin to recover until pricing stopped rising altogether following the financial crisis of 2008. 2024 still showed low volumes but the reduction in volume may have bottomed as shown in the graph.

There are several reasons this plays out. One reason is that sellers wrongly continue to believe that pricing is rising at 10%+ rates annually and list their properties at pricing based on those expectations; while at the same time buyers are fatigued at having watched prices rising so much over a longer period of time. A second reason is that during periods of extremely high transaction volume, a lot of new real estate agents enter the farm and ranch market, and they have not yet built up the experience to recognize the change in the mood of buyers and they encourage sellers to price ranches at levels that will not bring interest from buyers. This will then further erode transactions until we see capitulation on pricing from sellers to encourage buyers back into the market.

It is important to point out here that prices of Texas rural land have only fallen for a couple of quarters in this century so it does not mean that actual sales prices have to go down to get sales moving again; only that pricing has to reflect a level that will encourage buyers to get back into the market. If we compare the data set from the earlier market drop during the 2004 - 2010 period, it appears that we are at the beginning of seeing transaction levels recovering as we head into 2025 (note Annual Change in Sales Volume for the last three quarters). The curves look similar to the changing point in 2010 as compared to 2024.

The expectation for the coming year is to see transaction levels begin to recover from lows set in 2024, and pricing is expected to remain relatively flat during the year on the overall farm and ranch market. There will be some differences between the regions as well. There are some expectations that South Texas may see a pick up in both pricing and transactions with the belief that the border problems will get better with the new administration, and we are already seeing increased activity on those listings now.



CULTURE & COMMUNITY

His big opportunity for boosting rangeland value with soil

REPUBLIC RANCHES

Largest handover of land in history

93 MILLION U.S. range acres changed hands from 2015 to 2019

370 MILLION U.S. agricultural acres to change hands by 2034

New landowners care about:

- making their mark on a legacy
- new revenue streams
- environmental benefit
- biome and habitat improvement
- making a direct impact

EARTHOPTICS

© 2024 EarthOptics

THE RANCHING PARADIGM

Cattle, Carbon, Water & Biodiversity

A night with Jim Blackburn and James Clement III presented by Republic Ranches

On October 10, Republic hosted a packed presentation and reception at the Houston Country Club on “The Ranching Paradigm for the Future: Cattle, Carbon, Water, and Biodiversity.” Jim Blackburn of Rice University’s Baker Institute and James Clement of EarthOptics delivered compelling talks to over 80 attendees, emphasizing the evolving landscape of ranching. Texas Land Commissioner Dawn Buckingham highlighted the vital role of private land ownership, which comprises 92% of Texas, in shaping the state’s future.

ESTATE PLANNING

From a Ranch Real Estate Perspective

Exit Strategies

Land can be an excellent means of transferring wealth to future generations. In the next ten years, Texas will likely see the biggest shift of land ownership from one generation to the next. Inheriting a ranch can be a blessing or a burden. It depends on how the family passes it down and the heirs' goals. At Republic Ranches, we've helped many clients buy legacy ranches, sell land they've inherited, and navigate the complexities of shared family ownership. As a ranch is passed down through generations, the heirs' desires often diverge, leading to friction if family members fail to communicate effectively or if the estate plan is too restrictive. The estate planning landscape is intricate and continuously evolving. We highlight key elements of estate planning that, as real estate professionals, we believe can turn inheriting a ranch into a blessing rather than a burden for all parties.

As we begin this series, one of the most important actions a family can take is to have open discussions about what each beneficiary wants regarding the ranch asset.



Brewington Lake Ranch / Bandera County

Furthermore, what are the wishes of the patriarch upon their passing? Understanding everyone's preferences will help the family set up the estate for a smooth transition and maximize tax benefits that fit their specific plan when the ranch is passed down. When we talked to estate attorneys while preparing for this series, we found that a major obstacle for families is having open and honest conversations when they sit down together. Here's an example of what can happen if wishes do not align. The patriarch may wish to prevent the sale of the ranch and could structure the estate to make it difficult for the beneficiaries to sell their individual interests. The patriarch has good intentions, thinking their wishes will keep the ranch and family together across generations. As the ranch passes from one generation to the next, it may lead to conflicts among the beneficiaries. Factors such as the cost of maintenance compared to individual usage, the rising value of the land, and differing opinions on capital can drive them apart. A beneficiary might want to sell their share, causing family conflict. This could lead to a lawsuit for dividing assets, as per Texas law (Tex. Prop. Code § 23A.007). The will ties beneficiaries together and lacks conflict resolution, often leading to prolonged disputes. In contrast, an upfront agreement could have considered the beneficiaries' wishes by offering a buy-out option or dividing their inheritance from different assets that others may not value as emotionally, such as special bequests of real estate or equalizing amounts in cash, company shares, or other physical assets. We can all agree that family is more valuable than land. Regularly having these essential and sometimes difficult conversations can prevent years, if not decades, of disputes.

Several exit strategies include non-pro rata estate division, buy-sell provision, Rights of First Refusal (ROFR), buyouts, and the ability to partition. For future real estate sales, if financially feasible, consider advantageous options like non-pro rata estate division, buy-sell options, or buyout provisions. These arrangements let





Waterfalls Ranch at Frio Cañon / Real County

beneficiaries manage the assets they prefer, which minimizes the risk of lowering the ranch's value for future resale. We believe that partitioning can be a good way to resolve conflicts, but it can be very tricky. Emotions often influence these splits. For instance, a beneficiary may be emotionally attached to the hacienda and willing to sacrifice road frontage in order to gain access to the home and land they want, which could lead to a negative feature that affects the value of one or all of the resulting partitions. Several factors should be considered when dividing land. These include whether there is enough road frontage to split it equally, and if there are any additional features that could complicate a fair division, such as live water, floodplains, upward

improvements, and the locations of electricity, water, oil, and gas activity, as well as existing easements. Some estate plans may decide to partition during their lifetime for tax purposes or may include a clause about partitioning upon death. If the property is divided after someone dies, it's a good idea to make sure the beneficiaries don't have any objections to the proposed division beforehand. You should also talk to a knowledgeable land broker to understand how splitting the property in the way the family wants will affect its market value when it's time to sell. Additionally, while a ROFR might appear to be a reasonable solution in estate planning, it can obstruct the transfer of a beneficiary's interest if other beneficiaries lack the funds to acquire it. Typically, it requires a patient buyer

willing to risk losing the opportunity since the First Right may be exercised. In our experience, Rights of First Refusal can discourage buyers and limit the market, which reduces competition and negatively affects value. Additionally, the ROFR ambiguity can cause conflicts, particularly regarding how and when offers were communicated, and whether the response time met the ROFR provisions. While we don't particularly favor them in the real estate sales world, we recognize that it might be the best compromise to allow the other beneficiaries to explore ways to secure the necessary capital, knowing they are likely paying a fair market value based on the acceptable offer to maintain the integrity of the ranch.

Navigating the estate planning landscape can be complex and daunting for families. As land professionals, we have witnessed a variety of strategies that we put into action. Families have counted on us to help them decide how to handle inherited land. Through our research in this series, one thing is clear: we are not experts in estate planning or taxation. It was enlightening—and, dare I say, mind-blowing to learn about the innovative tax and transfer strategies available based on family assets and dynamics. This series aims to give you talking points for your next family gathering. It should also help you understand the benefits and challenges of proper and improper planning in our field. At Republic Ranches, the family holds greater significance than land. Our utmost desire is to help clients navigate challenging ownership transitions while preserving strong family bonds and a lasting legacy.





Contact Us:
888-726-2481
info@republicranches.com
republicranches.com

Front Cover:
CJ8 Turkey Creek Ranch / Atascosa County

Back Cover:
Wylie Mountains Ranch / Culberson County