

# WELL GROUNDED

REAL ESTATE



For most farm buyers,  
inflation has only  
an indirect effect

## *FARM REAL ESTATE REMAINS HEALTHY DESPITE INFLATION*

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By **CYNTHIA McFARLAND** / Photos by **ANNE M. EBERHARDT**

**I** **T'S BEEN A** bumpy ride, to say the least. From pandemic to inflation to war to worldwide extreme weather events, headlines over the past year or two could have been pulled directly from the script of a dystopian movie. According to the U.S. Bureau of Labor Statistics, the country's annual inflation rate was 6.4% for the 12 months ended January 2023. Although Federal Reserve chairman Jerome Powell is on record stating that he expects 2023 to be a year of significant decline in inflation, he admits getting there won't be a smooth process and that increased interest rate hikes are likely necessary.

Just how does this impact the farm real estate market? We checked in with equine property agents and brokers in three states to gauge current market conditions and have largely found a resilient market.

## BLUEGRASS TRENDS

“I believe people from other regions have just begun to discover the value of Kentucky real estate, especially Central Kentucky real estate,” said Tom Biederman, owner/broker of Lexington-based Tom Biederman Real Estate, which has been in business since 1994.



Lisa and Tom Biederman

He notes that the soil and climate, in relation to raising a great horse, are the top reasons people move to Kentucky. Lifestyle and favorable state property taxes also are appealing. Biederman credits the Kentucky Horse Park, Keeneland, Fasig-Tipton, the University of Kentucky, and Midway University with bringing business to Central Kentucky, and inspiring people to relocate.

“No one can understate the value of the Kentucky Horse Park and all the people it has brought to Central Kentucky in the last 10 years,” said Biederman, who has been selling Kentucky real estate since 1980.

Beyond Thoroughbreds, he has seen those in the hunter/jumper business, eventing, Saddlebreds, and Quarter Horses move to the area. Biederman says more people from out of state, including as many as half of his clients, are moving to Central Kentucky than ever before. A good number of his clients in the last three years have relocated from California.

Biederman has seen no downside from the rising

interest rates as the majority of his clients are cash buyers. Other than a few commercial breeders, he’s had very few clients in the last several years rely on financing for a farm purchase.

“Mortgage interest rates going up by 2% or 3% is really not much of a change,” he said. “When I got into the business, interest rates were 12% to 15%. Today they are still below 6%, which is still a bargain. The residential market in the \$300,000 to \$800,000 range has slowed somewhat, mainly due to the fact that most of these people are obtaining financing.”

A key factor in the market slowing is not enough supply to meet demand. The strength of the horse industry also plays a role in fewer farms being on the market.

“As long as the horse business is healthy, very few people are selling their farms. There is a finite number of great horse properties, so it’s a supply and demand issue,” he said. “There is some great land down in Boyle, Mercer, and even Garrard counties, but it’s farther away from the world-class services you can get in the central part of Kentucky. When you have all the stallions, veterinary clinics, farriers, and services here, it doesn’t make much sense for people to move an hour away.”

He expects the trend of out-of-state buyers to continue as long as the Thoroughbred industry remains strong.

## SAVVY INVESTING

In addition to horse owners and breeders, Bill Justice of Justice Real Estate, a farm brokerage real estate firm in Lexington, is also seeing institutional investors buying agricultural land.

“In inflationary times, people invest in land, which is a safer and more attractive investment than the stock market,” Justice said.

Rising interest rates did not impact Justice’s business in 2022. He thinks this is due to most of his customers being cash buyers, but he believes it will impact the lower-end market if rates stay up. Although the equine industry isn’t the primary business for many of his farm buyers, if interest rates and inflation impact their primary business, this, in turn, may affect their equine business. He believes that inflation and current world events have caused some to have a “wait and see” approach.

“I think people are still expecting a little downward correction in the farm real estate marketplace, but if it happens, I think it will be a very slight correction,” said Justice, who has been active in Kentucky real estate for 45 years.

Although 2022 was slightly better than 2021, Justice says the current market is definitely slowing. A contributing factor to this could be the low



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OF JUSTICE REAL ESTATE

inventory of farms of 100 or more acres.

“The first eight months of 2022 were outstanding, but the last four months of the year were the slowest I’ve experienced in a long time for people looking at property, whether for smaller farms or high-end farms,” he noted. “The September market is typically our second-busiest market time. We had the Breeders’ Cup here in November and typically, that brings in many buyers and lookers across the board, but the activity slowed considerably last fall.”

He also has noticed more interest from Thoroughbred farm owners in California looking for greater opportunities in Central Kentucky than what exist in the Golden State.

“Purses are up here, and we can race year-round, while in California, their field sizes have decreased and the cost of doing business has substantially increased,” he noted. “Opportunities to be successful in the Thoroughbred business in Kentucky are far greater than in California—for owners, trainers, and breeders across the board.”

Adding a unique twist to the market is an increase in agritourism, including high-end businesses that are combining horses with B&Bs, wedding venues, bourbon, and wine production.

“The winter months from Thanksgiving on are slow, so we won’t get a sense of what 2023 will hold until the spring market gets here. We typically see more inventory come on the market in spring and we start seeing people looking for farms in March and April,” said Justice. “Whatever happens in the horse business, I think we’ll be right on top of the curve. I’m cautiously optimistic because we don’t know what the 2023



Beyond the joys of a horse farm, land can be a hedge against inflation



economy is going to hold. The overall national economy raises some concerns, but everything happening in Central Kentucky now points to the positive.”

## FEWER PRIVATE LISTINGS

Zach Davis, principal broker and president of Kirkpatrick & Co., the Lexington-based firm founded in 1984, said a number of factors have created a tough market for buyers, including those interested in private listings.

“The relative overall health of the horse industry, while positive, has really created one of the toughest buyers’ markets in years,” Davis said. “The availability of developed farms is very low. This is a result of people doing well in the business...We’ve always done private farm listings, but right now even the inventory of private offerings is low.

“In 2022, we represented both the buyer and seller 31% of the time,” said Davis. “Because we’ve cultivated such a portfolio of buyers and sellers, when we have a property come on the market, we generally have a good idea who it will be a good fit for.”

One change he’s observed recently in the farm real

estate market is the advent of Millennials as decision makers—either as principals or as advisers.

Although the market for residential and commercial real estate has slowed because of rising interest rates, Davis says his farm market has not been negatively impacted. In 2022, 92% of Kirkpatrick & Co. sales involved properties of \$1 million or more.

“Our business did not slow at all, but the vast majority of our transactions are cash,” he noted. “Last year 83% of our transactions were cash.”

Going forward, Davis sees demand for farms in Central Kentucky remaining steady.

“We have the Thoroughbred industry and the infrastructure of the Kentucky Horse Park for our sport horse clientele, which remains a significant part of our market,” he said, adding that the area also appeals to “lifestyle” buyers.

“Land has always been a classic hedge against inflation because it’s a safe and consistent investment,” said Davis, noting that he’s seen more people investing in Kentucky farmland in the last year.

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## SUNSHINE STATE

In Florida's horse country, the sizzling farm real estate market has made a huge dent in supply, although demand has not waned.

While interest rates may not affect the purchase of high-end properties, the increase in rates has impacted the real estate market overall, noted Matt Varney of Ocala Horse Properties. For example, Varney has found that a client purchasing a farm may also own two or three other properties and wish to sell one of them first.

"Buyers aren't always able to sell their other properties as easily as before. It doesn't affect their appetite to buy here, but it's undeniable that this is happening," he said, noting that higher interest rates generally tend to affect properties selling for less than \$2 million.

Although some people may have buyer's remorse that they didn't purchase when rates were at 2% or 3%, Varney emphasizes the importance of understanding the history of interest rates.

"When you look at the historical context of interest rates, we are still borrowing money at very reasonable rates. Where we were before—rates being under the rate of any reasonable growth measurement—was just not sustainable," Varney said. "When we look back, that time will be a small blip in what was relatively normal.

"In 2021, all you needed was a pulse and a real estate license to be somewhat successful. In the last year things have certainly settled," said Varney, attributing that change to reduced availability. "This has been a problem in our area going on five years now, well before the uptick in 2021. There are more people wanting properties than there are properties available."

Varney said Central Florida is enjoying growth on the equine side and beyond.

"Ocala is growing and continues to grow in two interesting areas. We have a thriving local

economy and local job market and extensive growth in the equestrian world. We are extremely unique when you look at those two variables," said Varney. "The World Equestrian Center has delivered on everything they said they were going to do. We have the confidence of every discipline

in the equestrian world to purchase here. Ocala was a successful place before WEC, but now that we're in the third year of WEC and it's settled into a real tangible place that buyers have gotten to experience, they continue to flock to this area—from first time amateurs to high-end professionals."

Varney believes in educating his clients about the big picture to give them more opportunities for the long run. He likes to ask, "What will your life look like on this property in three to five years?" He's happy to help clients explore options for fully developing their property so that it will appeal to future buyers should they decide to sell down the road.

"Ocala and the greater Marion County area have such a bright future. There has been so much money invested in this area, and people are here for the long term," he noted. "When people come and spend money for the long term, you have a sustaining community.

I'm proud to live in an area where responsible and exciting growth remain consistent, no matter market conditions."



“THE AVAILABILITY OF DEVELOPED FARMS IS VERY LOW. THIS IS A RESULT OF PEOPLE DOING WELL IN THE BUSINESS...”

—KIRKPATRICK & CO. PRESIDENT ZACH DAVIS

## DEMAND CONTINUES

"We had such a hot market in 2021, people were paying above asking price. If they saw something they liked, they'd write an offer right away or buy it sight unseen. We were having bidding wars for properties," said Joan Pletcher, owner/broker of her own agency in Ocala. "The beginning of 2022 is when we started to see inventory declining. There's a high demand for estates and farms, so the market is kind of picked over now, but someone coming from South Florida or out of state still sees this as a great buy. Our prices are still reasonable to most of





World Equestrian Center, seen here while under construction, continues to drive interest in Ocala area farms

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the buyers moving to Ocala.”

Pletcher’s husband is former trainer J.J. Pletcher and Hall of Fame trainer Todd Pletcher is her stepson. Living in Ocala since 1985 and being closely tied to the Thoroughbred industry have been a boon to her business.

Adding to the issue of supply and demand is the fact that some sellers have become more conservative about putting their property on the market because the decreased inventory makes it challenging to purchase another property if they want to stay in the area.

“We are in the top 10 places to move to in Florida. Our market is slowing because of the unavailable inventory, not because of people not wanting to be here. The most sought-after areas at the current time are those surrounding WEC and our Greenways and Trails area,” noted Pletcher. “We used to be primarily Thoroughbreds, but it’s so diversified now.”

Pletcher routinely deals with both cash buyers and those who use financing.

“A lot of times, the person has the cash but doesn’t want to tie it up so they’ll finance if they can get a

favorable rate,” she said, adding that she’s seeing a number of investors buying properties in the area specifically to lease.

Pletcher says one impact of rising interest rates is that people are more cautious regarding the best place to invest their money. For example, someone who’s active in the stock market has to decide whether to take that money out and invest it in land or a farm.

“Farm Credit of Florida has an interesting program called ‘Loan Price Adjustment’ that allows a loan holder to go in when the interest rates drop and get the lower rate without paying all the fees normally associated with refinancing,” said Pletcher.

Although she sees low inventory continuing to be an issue going forward, Pletcher firmly believes “Ocala-Marion County is still going to be the best place to raise your family, horses, and to call home.”

## CENTRAL TEXAS

From Central Texas north to the Oklahoma border, the demand for equine property has been off the charts for the past three years.

MAVEN PHOTO + FILM



“OUR MARKET IS SLOWING BECAUSE OF THE UNAVAILABLE INVENTORY, NOT BECAUSE OF PEOPLE NOT WANTING TO BE HERE.”

—OCALA, FLA., AREA REALTOR JOAN PLETCHER

“We had unprecedented buying from early 2020 and through the middle of 2022. Everything available was bought with people paying over market value and over asking,” said Rita Freels-Hampton, a real estate broker and agent who sells ranches and horse property of all sizes from the Red River to the Rio Grande.

While Freels-Hampton says the market is slowing in Texas, this is not simply due to rising interest rates, but because inventory has been greatly depleted.

“Interest rates at 7% to 8% is not terrible; it’s just not at 1.5%-2.5%, like it was in 2020. We didn’t have a lot of inventory to begin with, so the increase in rates might help the inventory catch up a little bit,” said Freels-Hampton, whose Rita Freels Realty is located in Stephenville, Texas, 60 miles southwest of Fort Worth.

Horse properties of a house and 10 acres have been in great demand and selling high since the pandemic hit.

“Now prices for these properties have leveled off, but we have hardly any inventory. You can still find land, but it’s not as easy because the seller can’t just go out and replace it,” she said. “Because we’re a big horse community, a builder that specializes in equine is really busy. You have to get on a list for everything just because of demand,” said Freels-Hampton, adding that many custom builders are two and three years out.

Going forward, Freels-Hampton anticipates some changes and expects the market will be slower than the last two years. She also thinks there will be more cash buyers. She sees inventory increasing simply because properties won’t be selling as lightning fast as they did from 2020 to 2022, when listings would sell in less than 24 hours.

“Texas is a great place to invest. After 30 years of selling real estate in this area, I’ve never seen people go backwards in value on land here in the country. It won’t go down; it will just level off and then go up again.” **BH**

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