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Ranchland Economics under the New Trump Administration: An Initial Look.

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Executive Summary

The 2024 Trump policy platform, emphasizing deregulation, tax cuts, domestic energy independence, and aggressive trade policies, is likely to create a ripple effect across the ranchland sector. This commentary evaluates the implications of these policies on key drivers of ranch economics, including land values, agricultural income, and supplemental income opportunities. The discussion incorporates insights on long-term trends, commodity market dynamics, and potential changes in investor sentiment.

Land Values: Trends and Policy Impacts

1. Long-Term Demand for End-Products

The demand for end-products like beef, lamb, and bison remains a crucial driver of ranchland value. Trump's trade and regulatory policies are set to influence this demand in significant ways:

- **Support for Domestic Beef Markets:** Trump's protectionist stance, including tariffs on imported beef, aims to bolster domestic cattle prices by reducing competition from foreign suppliers. This could drive higher demand for U.S.-produced animal proteins, benefiting ranchers focused on sustainable beef production. However, retaliatory tariffs from major trading partners may introduce volatility, impacting export markets and income predictability.
- **Potential Influence of FDA Leadership:** Robert F. Kennedy Jr. has been mentioned as a possible pick for FDA head. His pro-regenerative agriculture stance, including opposition to glyphosate and large-scale commercial farming, may shift consumer preferences towards sustainably produced, chemical-free meat. This shift could increase demand for grass-fed and regenerative ranch products, positively affecting land values for operations aligned with these principles.

2. Acreage Shrinkage and Land Use Trends

- **Accelerated Conversion to Alternative Uses:** Long-term trends indicate shrinking acreage for ranchland due to conversions to cropland, residential construction, and energy development. Trump's emphasis on expanding domestic energy production, particularly renewables like wind and solar, could heighten this trend. While clean energy projects enhance land value through leasing opportunities, increased development pressure may reduce the availability of open grazing land, tightening supply and pushing up prices for high-quality ranchland.
- **Impact of Deregulation:** Trump's platform includes a significant rollback of land-use restrictions, which may incentivize development projects, particularly in resource-rich states like Texas and Wyoming. While this deregulation could increase land value through enhanced development potential, it also poses risks to long-term conservation efforts, potentially reducing the attractiveness of certain properties for eco-focused investors.

3. Tax Policy and Investment Appeal

- **Estate Tax Relief:** Trump's proposed extension of estate tax cuts is expected to ease the generational transfer of ranch properties. This could reduce the financial burden on heirs, allowing more families to retain their ranchland rather than being forced into sales to cover tax liabilities. This increased stability in landownership may decrease the supply of properties hitting the market, supporting land values over the long term.
- **Comparative Tax Disadvantage:** The proposed broader tax cuts in Trump's 2024 agenda could diminish the relative appeal of ranchland as an investment asset. While ranchland currently benefits from unique tax incentives like accelerated depreciation (e.g., Section 180) and conservation easements, sweeping reductions in capital gains taxes and corporate tax rates for other asset classes may outweigh these benefits. As a result, traditional and alternative assets such as equities, commercial real estate, and private businesses may become more attractive to investors seeking tax efficiency, potentially diverting capital away from ranchland.

Agricultural Income: Commodity Market Dynamics

1. Livestock Prices and Market Conditions

The profitability of ranch operations is closely tied to livestock prices, which are influenced by supply-demand dynamics, tariffs, and consumer preferences:

- **Tariff Policies Supporting Domestic Prices:** Trump's reintroduction of tariffs on imported beef is designed to protect domestic producers. This could drive up U.S. cattle prices, benefiting ranchers who focus on local markets. However, the risk of trade disputes and retaliatory tariffs from key partners like Canada and Mexico could disrupt export channels, introducing uncertainty into income streams for ranchers dependent on international sales.
- **Shift Towards Sustainable Production:** The potential appointment of RFK Jr. as FDA head signals a shift towards favoring regenerative and chemical-free agriculture. This could strain supply chains reliant on large-scale, industrial farming methods, pushing demand towards sustainably produced beef. Ranchers practicing regenerative grazing may find themselves at a competitive advantage, able to command premium prices in a market increasingly wary of chemical-laden inputs like glyphosate.

3. Rising Input Costs: Labor as a Key Constraint

- **Labor Shortages from Stricter Immigration Enforcement:** Trump's strict immigration policies are likely to exacerbate labor shortages in the agricultural sector, particularly in states like California, Texas, and Florida, which represent over a third of U.S. ranch operations. Limited access to lower-cost migrant labor could increase wage expenses, affecting the profitability of labor-intensive ranch activities. Ranchers may need to adapt by investing in automation or altering grazing strategies to manage costs effectively.
- **Increased Feed Costs:** Input costs such as hay for winter feed may also rise if energy prices remain high due to shifts in domestic production. Higher fuel prices can impact the cost of harvesting and transporting feed, further straining ranch profitability during the winter months.
- **Technological Innovation:** A fringe impact of Trump's immigration policy could be an acceleration in technological innovations in the agricultural segment, such as precision ag, sensor and drone technology, and digital fencing to name a few. This could create benefits to producers willing to be early adopters of these new technologies, providing advantages in a rising input cost environment.

Supplemental Income: New Opportunities and Risks

1. Clean Energy Leases: Positive Outlook

- **Renewable Energy Development:** Trump's focus on domestic energy production includes an emphasis on expanding clean energy projects like wind and solar. Ranches with suitable land for renewable energy installations could see a boost in value and receive stable, supplemental income from long-term leasing agreements. This aligns well with conservation-focused operations that prefer sustainable land use over traditional energy extraction.

2. Conservation Credits and Mitigation Banking

- **Enhanced Role for Private Conservation Efforts:** With the potential scaling back of federal conservation funding, private sector partnerships may become increasingly important. Ranchers engaged in land mitigation banking and biodiversity projects could benefit from new revenue streams, particularly as developers seek to offset environmental impacts through conservation credits. This shift could provide significant financial incentives for ranches that invest in ecosystem health and habitat restoration.

Other Considerations: Generational Transfers and Asset Comparisons

1. Impact on Generational Transfers

The proposed extension of estate tax relief is likely to increase the number of large ranch owners transitioning properties to the next generation. By reducing the financial burden associated with estate taxes, this policy could help keep family-owned ranches intact, avoiding forced sales and preserving the land for continued agricultural use.

2. Comparative Appeal of Ranchland vs. Other Assets

While Trump's tax cuts could make other assets more attractive, ranchland retains unique tax advantages that may sustain its appeal for certain investors. Accelerated depreciation, conservation easements, and the potential for supplemental income from clean energy and conservation projects provide a strong case for continued investment in ranch properties, even in a shifting tax landscape.

Conclusion

Trump's 2024 policy agenda presents both opportunities and challenges for the ranching community. Policies aimed at deregulation, domestic energy expansion, and tax relief are likely to drive up land values and create new income streams. However, increased labor costs and market volatility from protectionist trade measures may pose risks to traditional ranch operations. Ranchers and investors must adopt a proactive strategy, balancing core livestock activities with diversified income sources like clean energy leases and conservation credits to maximize returns and navigate the evolving landscape.

For ranch operators, the key to success lies in adaptability and strategic planning, leveraging both policy shifts and market dynamics to optimize economic performance and ensure long-term sustainability.

About Ranchland Capital Partners

As a real asset investment manager focused exclusively on large western Ranchlands, we provide clients access to professionally managed, institutional-quality assets. Through our vertically integrated approach, we seek to deliver attractive risk-adjusted returns for our clients while improving the ecosystems in which we operate.

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