A Cyclical Bottom Colliding With a Rising Rate Path

> *Expectations have reversed from cuts to hikes for the balance of 2026, while the ag-equipment market continues to work through a softer cycle. For ag dealers, real estate equity can serve as both a growth lever and a source of balance sheet flexibility, with timing and structure becoming increasingly important as coverage and rate expectations continue to move together.*

WHAT CHANGED

The Federal Reserve held its benchmark at 3.50–3.75% at the June 16–17 meeting, a fourth consecutive hold. Chair Warsh declined to offer forward guidance and reaffirmed an unambiguous commitment to restoring 2% price stability.[1]

The market has moved the same way. Fed funds futures now price no cuts at any 2026 meeting, with roughly a 78% probability of at least one hike by year-end and 65% by the October meeting.[2] The Fed's own June projections agree, with 9 of 18 officials penciling in hikes.[1] At the hawkish end, BofA Securities now calls for three 25 bps hikes, lifting the policy rate to 4.25–4.50%.[3] The question has shifted from when the Fed cuts to whether one hike becomes more.

What flipped the call is inflation that has refused to cooperate, not a softening economy that would hand the Fed a reason to ease. Core PCE, one of the Fed's most closely watched inflation gauges, stands at 3.4%, roughly 70 bps above year-ago levels. For ag dealers, the rate shift is occurring while the cycle is still working to regain its footing: manufacturers guide the North American large-ag market down another 15% to 20% in 2026, dealer profitability has fallen to multi-year lows, used inventory, while moderating, remains elevated, and consolidation and store closures have begun. Manufacturers now call 2026 the cycle bottom.

WHY THIS MATTERS FOR DEALERS

01 Most dealers are already inside the matrix. The earnings pressure reflected on page 3 is already part of the current operating environment. That does not eliminate the opportunity, but it makes timing and structure more important as coverage, sustainable rent, and buyer underwriting continue to move together.

02 Floorplan and working-capital exposure remain important variables. Used inventory pressure has moderated for many dealers, but slower equipment demand, tighter margins, and high financing costs continue to affect cash flow and turnover. On the hawkish path, roughly 75 bps would be added to the carry on floorplan and other floating-rate obligations. Real estate equity can reduce rate-sensitive debt and preserve working-capital flexibility through the trough.

03 Cap rates are anchored to the curve, but execution is asset-specific. Quality, location, credit, and buyer depth drive wide dispersion. Rural or specialized stores with thinner buyer pools price at wider cap rates, where rate widening is felt most directly. Well-located, mission-critical assets with strong credit can still place competitively, making selectivity and pricing discipline critical.

04 Early recovery rewards preparation. Investor selectivity has already reset around coverage, location quality, brand concentration, and residual real estate value. If operating performance begins to stabilize, groups that have already prepared the portfolio can move first into improving sentiment.

BY THE NUMBERS

CURRENT FED TARGET
3.50–3.75%

IMPLIED 2026 PATH[2,3]
+25 bps base case · +75 bps hawkish

CORE PCE
3.4% (+70 bps YoY)

NA LARGE-AG MARKET, 2026
−15% to −20%

COVERAGE COMFORT BAND
2.5–3.0x EBITDAR

PROCEEDS SENSITIVITY

−$13.2M

A 20% decline from the normalized base plus 75 bps of cap-rate expansion cuts proceeds 27.7%, from $47.6M to $34.4M, on a $10M EBITDAR portfolio at 3.0x. Best case (+10% EBITDAR, +75 bps): −0.6%.

SEE EXHIBIT, PAGE 3

Illustrative. Rural ag dealer cap rates vary widely by location and buyer pool. Figures are for directional planning only and are not a quote of terms.

WHY NOW

The ag-equipment cycle is at or near its bottom. Manufacturers now describe 2026 as the trough, with recovery expected to begin in 2027 as low new-equipment inventories and an aging fleet rebuild replacement demand. For real estate, that sets up a specific dynamic: the recovery that would lift earnings, and with them coverage and proceeds, is arriving alongside a rate path that pushes cap rates wider. The exhibit on page 3 quantifies how the two interact. Even a full earnings recovery, paired with the hawkish rate case, leaves proceeds roughly flat to the normalized base, because a wider cap rate offsets much of what the recovery adds.

The right path depends on the balance sheet. For dealers carrying higher leverage, tighter liquidity, a succession event, or an acquisition to fund, there is a case to act now: trough earnings are near their low, so the performance being underwritten is largely known, and executing before cap rates widen helps protect proceeds. For dealers with more flexibility, the measured step is to begin the analysis now and transact when the structure underwrites cleanly, which, given the rate path, may well be sooner than the recovery itself. In either case, the real estate decision belongs on the table today; the question is structure and timing, not whether.

BOTTOM LINE

- **Size the embedded equity.** Value each property against current performance, market conditions, basis, and existing debt to quantify available capital across the portfolio.
- **Protect operating flexibility.** Evaluate real estate equity as a source of liquidity to preserve working capital capacity as earnings normalize.
- **Support the acquisition strategy.** Use real estate capital to fund acquisitions from both sides: monetize existing portfolio equity before a transaction and capitalize real estate within the target acquisition at closing, reducing cash needs without adding additional debt or drawing on existing credit lines.
- **Forward-fund expansion.** Evaluate real estate equity and build-to-suit structures to fund greenfield development and facility upgrades with third-party capital while preserving operating company liquidity.
- **Plan succession and ownership transition.** Direct proceeds to fund the buyout of retiring principals, support generational transfer, and equalize ownership among family members or partners.
- **Pressure-test coverage.** Confirm rent coverage holds through a normalized-margin and higher-rate case, so the structure underwrites cleanly and can withstand a softer operating environment.
- **Engage ahead of the market.** Start the analysis early to define the right structure, maintain control over timing, and execute before rates, earnings, or investor selectivity narrow the window.

STRUCTURE IS AS IMPORTANT AS PRICE

Proceeds matter, but the lease has to support the business long after closing. A strong net lease should preserve long-term control, provide renewal and assignment rights, include reasonable escalators, and be free of ongoing financial or coverage covenants.

The most attractive terms are created through a competitive process that brings multiple capital sources to the table, defines the right lease structure upfront, and establishes leverage around both price and terms. The objective is to raise the right capital on terms that preserve control, protect operating flexibility, and support the business for decades.

THE WINDOW

Institutional capital remains available for ag dealer real estate, but pricing is more sensitive to location, tenant credit, rent coverage, and lease structure as the market adjusts to a higher rate path. At the same time, dealer earnings remain under pressure as the ag cycle normalizes. The opportunity remains actionable, but execution now depends more heavily on timing, sustainable rent, and transaction structure.

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[1] Federal Reserve, June 16–17, 2026. [2] CME FedWatch, July 6, 2026. [3] BofA Securities, as reported June 22, 2026. Ag market data: Deere & Co., CNH, AGCO, and Titan Machinery guidance; USDA, 2026. This material is provided by Surmount for informational purposes only and does not constitute investment, tax, accounting, or legal advice, nor an offer or solicitation with respect to any security or transaction. Rate-path expectations referenced are those of third-party research and the Federal Reserve's June 2026 communications; forecasts differ across sources and are subject to change without notice. Cap-rate, coverage, and proceeds figures are illustrative and do not represent a quote of terms or an appraisal. Recipients should consult their own advisors.

Sale-Leaseback Proceeds Under Varying Earnings and Cap Rate Scenarios

Recovery against rates, quantified: how an improving cycle and a wider cap rate pull against each other.

The matrix models the two forces that set proceeds: earnings (EBITDAR) and cap rates. Earnings set the rent the real estate can support; the cap rate is the yield a buyer requires, so a higher cap rate means a buyer pays less for every dollar of rent. The base case is normalized, through-cycle earnings. The left columns are the current trough and a deeper stall; the right column is an illustrative recovery path. Read down any column for the rate path that works against it.

PORTFOLIO EBITDAR	**$10,000,000**
COVERAGE RATIO	**3.0×**
IMPLIED BASE RENT	**$3,333,333**
CURRENT CAP RATE	**7.00%**
EXPANDED CAP RATE	**7.75%**

Illustrative. Rural ag dealer cap rates vary widely by location and buyer pool. Figures are for directional planning only and are not a quote of terms.

COMBINED IMPACT MATRIX · SLB PROCEEDS BY EBITDAR SCENARIO & CAP RATE

Each cell: Proceeds · Change vs. base ($) · Change vs. base (%)

	−20% EBITDAR	−10% EBITDAR	NORMALIZED (BASE CASE)	+10% UPSIDE CASE
7.00% CURRENT	**$38,095,243** −$9,523,800 · −20.0%	**$42,857,143** −$4,761,900 · −10.0%	**$47,619,043** — · —	**$52,380,952** +$4,761,909 · +10.0%
7.25% +25 BPS	**$36,781,614** −$10,837,429 · −22.8%	**$41,379,310** −$6,239,733 · −13.1%	**$45,977,007** −$1,642,036 · −3.4%	**$50,574,713** +$2,955,670 · +6.2%
7.50% +50 BPS	**$35,555,560** −$12,063,483 · −25.3%	**$40,000,000** −$7,619,043 · −16.0%	**$44,444,440** −$3,174,603 · −6.7%	**$48,888,889** +$1,269,846 · +2.7%
7.75% +75 BPS	**$34,408,602** −$13,210,441 · −27.7%	**$38,709,677** −$8,909,366 · −18.7%	**$43,010,753** −$4,608,290 · −9.7%	**$47,311,828** −$307,215 · −0.6%

Recovery vs. rates: a full 10% earnings recovery after a 75 bps increase in cap rate yields $47,311,828, flat to the normalized base of $47,619,043 (−0.6%). The recovery does not outrun the rate path.

The matrix holds coverage constant at 3.0×. In the recovery column coverage strengthens; in the trough and stall columns it compresses and the buyer pool for rural assets thins, so real outcomes can run outside the cells shown.

Surmount advises dealer groups on real estate equity and debt solutions, portfolio management, lease restructuring, and development financing. Backed by more than $50 billion in closed transactions and deep institutional and private-capital relationships across the net-lease market, we position dealer real estate as a strategic capital asset, not simply a place to operate.

For groups evaluating strategic growth, ownership and liquidity planning, or balance sheet flexibility, a portfolio analysis can quantify the capital available across owned real estate, acquisitions, and development projects, and evaluate potential outcomes against current market conditions, operating performance, and the broader rate environment outlined in this report.

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