Stalcup Ag Service
Today's LAND OWNER
Fall 2016 Volume: XXXVI No 3

Northwest Iowa Progress Report

by: Nathan Deters, AFM

Fall is the favorite time of the year for many people in agriculture, the chance to see the results of a year's worth of effort and investment. This year we have had to wait a little longer to see these results. By late October soybean harvest had progressed at about a ten-day slower than normal pace but was nearing completion. Corn harvest was about one-half done. We have not been without our weather challenges this fall. From early September to early October many areas of Northwest Iowa received 7 to 10 inches of rain, which is over twice the normal amount expected, on top of what was already wet soil. This slowed harvest progress and caused some moderate crop loss in the worst affected areas. The soil profile is saturated and we will likely be dealing with muddy fields through the rest of the fall. Unusually high humidity has also slowed soybean harvest

Harvest results so far show another good year in most areas. Soybean yields are challenging or exceeding last year's outstanding results, which were the best most farms have ever experienced. Corn yields are surprisingly good, given some planting time weather challenges which affected stand development. Corn matured ahead of normal, and has dried well in the field which will keep drying costs low this fall.

Weather in the second half of the growing season is responsible for the positive harvest. We went into July with concerns following a very warm and mostly dry June and what that might portend for the rest of the growing season. Fortunately, normal rains and more moderate temperatures predominated July and August, and the crops responded. We had a week in late July with very warm, humid conditions which caused some concern as corn finished pollination, but August followed with nearly ideal weather. A look at climate maps for June through August show rainfall and temperatures very near long-term averages, and given benign weather, crops are able to perform closer to their genetic potential.

Our experiences in Northwest Iowa were mirrored over a good part of the Midwest this year. While each year has areas with adverse weather, this year these were at the fringes of the main growing area, and the heart of the Corn Belt saw mostly good weather and consequently excellent yields. The latest USDA crop report released October 12th, shows the results of these good growing conditions. Corn yield is projected at a new record of 173.4 bushels per acre for a 15 billion bushel total crop. Soybeans are

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Stalcup Ag Service

Today's LAND OWNER

Stalcup Ag Service, located in Storm Lake, Iowa is an employee-owned partnership that has prospered by serving farm management, real estate, and appraisal needs of Northwest Iowa farm owners since 1942.

Services Offered:

Professional Farm Management
Utilizing:
- *Custom Farming*
- *Modified Crop Share Leases*
- *Cash Rent Leases*

Farm Real Estate
- *Public Auctions*
- *Private Listings*
- *Buyer's Broker*

Rural Appraisals
- *Estates*
- *Family Divisions*
- *Financing*

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TODAY'S LAND MARKET

by: Dennis Reyman, AFM, ARA

Sales activity is picking up as we're into the "land selling season". That's generally the second half of the year with increasing activity each month into mid-December. January to March can also be quite active.

Sales results have been very good for the most part. A number of sales have occurred recently with most of the activity happening to the east or southeast of Storm Lake and also to the northwest. To the east, we've seen a number of parcels, mainly 80's and some 160's, selling in the $8,500 to $9,500 per acre range with a top end of $9,900. These are strong sales for this area, considering the length of the downturn in crop prices. Lower-quality farms are in the $5,000 to $6,500 range.

To the northwest, in the areas of traditionally very strong land values, sales have still topped $13,000 in some cases with an extreme high of $14,400 per acre. It takes the right farm in the really right area to approach this kind of result. Medium-quality farms in other areas of western Iowa have sold for the $6,000 to $7,500 range. Overall, we'd have to call the market for top-quality land steady with earlier activity, although buyers for medium to lower-quality land can be more difficult to find.

Sales activity is picking up as we're into the "land selling season".

Land values remain driven mainly by farmers. Some investors have returned to the market for various reasons, but mainly their belief in the long-term value of land compared to today's prices, which are lower than several years ago. **The overall fundamentals driving land values haven't changed except for the fact that four years of record crop production has driven down crop prices.** Low interest rates, increasing global food consumption, and land as an attractive investment compared to the alternatives remain drivers of value, just as they have been for a number of years now.

Land value surveys recently include the semi-annual Realtors Land Institute survey of brokers' opinions. This survey placed northern and western Iowa land at 3% to 4.9% lower than the previous six months. The feeling from the March survey was that the survey may be in "catch-up" mode with reality. This may be continuing since the decline is stronger than we've measured in recent appraisal activity. Overall, that survey is about 9% lower than one year ago.

The Chicago Federal Reserve Bank's survey of bankers' opinions places "good" western Iowa farmland at 3% lower than a year ago, but places north-central Iowa at 10% lower. Their north-central district coincides closely with the glacial-till area of the state while their western district coincides with the wind-blown soils. USDA's survey was released in August. It placed Iowa farmland at 1.9% lower than a year ago at $7,850 per acre. The annual Iowa State Land Value survey will be released in mid-December.

Below is a table of selected sales of good farmland in our territory, generally one or two sales per county, if available.

Selected Sales of Good Farmland

Date	County	Acres	CSR	$/acre	% Tillable
August	Ida	153.5	57.4	$7,300	97%
August	Cherokee	73.0	61.9	$8,600	93%
August	Greene	80.0	79.4	$8,950	96%
August	Emmet	74.0	65.5	$7,000	99%
August	Monona	74.7	63.2	$9,175	98%
August	Webster	77.0	76.4	$9,600	96%
August	Pocahontas	154.7	79.8	$9,200	95%
August	Palo Alto	80.0	72.9	$9,200	96%
August	Sac	80.0	65.6	$9,850	96%
August	Buena Vista	156.0	78.4	$6,600	78%
September	Webster	80.0	77.8	$9,100	96%
September	Plymouth	80.0	61.5	$13,200	96%
September	O'Brien	155.8	71.0	$7,600	84%
September	Woodbury	133.0	49.9	$6,400	95%
September	Calhoun	80.0	86.9	$9,900	98%
September	Plymouth	80.0	61.8	$13,900	95%
September	Sioux	80.0	65.1	$13,600	94%
September	Lyon	76.2	65.9	$14,400	100%
October	Pocahontas	91.5	77.3	$8,200	98%

Upcoming auctions being conducted by Stalcup Ag Service:

October 25th

80 acres in Garfield Township, Plymouth County. 66.36 tillable, 72.5 CSR, 80.2 CSR2. Bidding will be on the tillable acres only.

November 16th

200 acres in Concord Township, Woodbury County. 184.34 tillable, 40.7 CSR, 49.6 CSR2.

See our website for more details on these auction opportunities.

Northwest Iowa Progress Report continued...

also a record at 51.4 bushels per acre, a significant jump of 3.4 bushels per acre over the previous record achieved just last year, with a total production of 4.27 billion bushels.

Demand a Bright Spot

While record yield numbers present a sobering outlook, demand has been stimulated by lower prices. This is illustrated in the October 12th report. Corn demand is projected nearly a billion bushels higher than last year, while soybeans are forecast to be nearly 200 million bushels higher. This expectation of strong demand is keeping projected price ranges for the coming year from falling off too much. Average farm price for corn is forecast in the range of $2.90 to $3.50 per bushel versus $3.61 actual last year. On soybeans, farm price is forecast in the range of $8.30 to $9.80 per bushel versus $8.95 actual last year.

Summary

2016 is the fourth year in a row of above trend-line crop yields. This has built carryover stocks to well above normal levels, but has also rebuilt our livestock feed and export demand base hurt by high grain prices earlier this decade. Chances for significant price rallies will be limited until a major weather event challenges production.

Drones – A New Technology

by Dan Niemeier and Mason Troendle


Aerial photography has been a farm management and real estate tool for many years. We have occasionally hired local pilots to take flights to check on damage to an area affected by wind storms or excessive rain. We also have taken aerial photos of farm real estate listings with unique features that can best be appreciated from above. Downside to manned flights include being at the mercy of weather and pilot availability. Satellite photos are also available for all farms. These have been an excellent resource, but are low resolution and typically only updated on a yearly basis, and are of limited value for in-season management decisions.

We are now pursuing a better option to expand our view from above. Over the next few months some of our team members will be obtaining a "Remote Pilot's License". This will allow us to legally fly a UAS (Unmanned Aerial System) or Drone. The Federal Aviation Administration finalized rules and a new licensing category this August to allow individuals who do not hold a pilot's license the opportunity to legally utilize drones for commercial purposes. Prior to this, drone users did not need to be licensed, but could only fly for personal use.

Once our team is licensed and a drone purchased, we will have the ability to take high resolution aerial photographs and videos. This will open up new opportunities in our farm management and real estate business.

From the farm management perspective, **drones can be a useful tool for crop scouting**. Having the ability for timely flights during the growing season will allow us to identify crop stress that could come from poor drainage, disease, nitrogen deficiency, or compaction. Many of these issues are amendable, but only if the problem is identified right away.

In real estate, improved photography will upgrade the advertising efforts we provide to our clients, as well as allowing us to give a better look at the features of a farm to prospective buyers from out of the area.

Drones will not replace boots on the ground for scouting, but will make us more efficient by letting us know where problem areas are located. Crop stress in many cases can be identified easier from the air than from the ground.

We are excited by the possibilities that drones can bring to our business. As we implement our new technology, our knowledge of the farms we manage, buy, and sell will grow, and add value for our clients.

Example of Quad-Copter UAV

Example of an in-season field image with drone photos

Lease Alternatives

by: Kent Smith, AFM

When talking lease terms, you generally think cash rent. While cash rent leases are popular with many of our owners, they actually account for fewer than half of the acres we manage. The main attractions of cash rent leases are that cash flow is a known amount, and that there is very little perceived risk. However, the other popular alternatives are a better fit for many clients.

Custom farming arrangements account for about one-third of the acres we manage. These clients are looking to maximize the return from their farmland investment while maintaining control of inputs and conservation practices. Risk is perceived to be higher due to 100% investment in the crop; however, we have studied many of these over the long-term, and income rarely drops down to cash rent income for most farms. Risk can also be managed with crop revenue insurance. The better the farm, the better the fit for this alternative. This is considered **active income** by the IRS and is therefore subject to self-employment tax; however, total income over $118,500 is not subject to the 12.4% SE tax in 2016. There is no income limit on the 2.9% to Medicare or the 0.9% additional Medicare tax.

Modified share leases (80-20 crop-share or 75-25 crop-share) are the next most popular. The owner pays for all crop inputs while receiving 75% to 80% of the crop, depending on a number of factors affecting operating efficiency. The farm operator is basically providing custom-farming services in exchange for 20% to 25% of the crop. This is **passive income** to the owner from an income tax standpoint, therefore not subject to self-employment tax. These leases have nearly replaced all of the traditional 50-50 crop share leases.

The traditional 50-50 crop-share leases on farms we manage are usually the result of leases between family members or long-term relationships with family friends operating the farm. The current division of income and expenses under cash rent no longer reflects a 50-50 split due to reduction of labor per acre and increase of cash inputs per acre. We do have a few leases on a bushel per acre or other types of crop-share splits.

Low grain prices this late summer and early fall are applying heavy pressure on farm operators to generate any profit. This has led to stressful financial situations for some farm operators. Operators in this position may be forced to exit farming or require below market cash rents to continue farming. These situations may allow for a conversation of switching to custom-farming or a modified-share arrangement. This may benefit your farm operator and allow you as the landowner to earn a better return versus below market cash rent.

A lot of the cash rent lease negotiations have been completed for 2017; however, some may be revisited once the operator completes harvest and has a meeting with his/her banker this fall. Our professional farm managers here at Stalcup Ag Service would be happy to visit with you regarding all the lease and operating alternatives that are available.

Corn Market Perspectives *by Dennis Reyman, AFM, ARA*

Our Summer newsletter included an article studying long-term cycles in corn prices. This article will look at more recent trends as prices rise and fall during the ethanol era.

The ethanol era can be traced to October 2006. On September 20, 2006, cash corn price at one of our local elevators was $1.99 per bushel, the last time we've had sub-$2.00 corn. By November 3, 2006, that elevator exceeded $3.00 per bushel and prices have since had few days below $3.00. Most of those sub-$3.00 days have occurred these past several months as the weight of our fourth straight year of record production is coming to fruition. As a reminder, the good old days of October 2005 saw an average cash price of $1.43 (plus LDP's!).

Studying our database of daily cash prices, we've found an ethanol era average price of $4.60 per bushel with a standard deviation of $1.50 per bushel. This tells us that prices should normally find themselves in the range of $3.10 to $6.10 per bushel. To date, prices have been below that range 7.5% of the time and higher than that range 23% of the time in the past ten years. The eight years prior to the ethanol era saw an average cash price of $1.88 with a 31 cent deviation, giving a prevailing range of $1.57 up to $2.19. Prices were lower than that 12% of the time and higher 13% of the time.

Cash prices for this August and September averaged $2.86 per bushel, obviously below the standard range. Current cash bid at that elevator is $3.08 (October 21st). Let's look at historical performance for some idea of what we might expect from here.

We need to keep in mind that during the past ten years, we had three years (2011-2013) where rising demand met with reduced production, resulting in 27 straight months when cash corn never dropped below $5.45 per bushel. That long stretch averaged about $6.50 and topped out over $8.00. It was easy to get used to! Problem is, the hangover lasts a while. We had a $5.00 corn hangover in the 1990's too. It took several years of very low prices to get back to reality.

Reality can be quite surprising. Each of the seven years outside the record window actually saw cash corn drop below $3.00, even if only for a few days. Our memories probably don't include that. The average price during those seven years has been $3.74 per bushel. We've exceeded $4.00 every year except this past year, topping out at $3.90 at this particular site (some places did just exceed $4.00).

So where does all this lead us? Well, we know we're near the bottom of the long-term price trend. We also know that every year in the past ten has given us at least a $1.20 price range from low to high. In fact, the average of the six most conservative years in the past ten gave an average price range of $1.58 from low to high.

We also know that nearly every year gives us at least a 12-15% increase over the October average, and six of those years gave us at least a 30-50% price increase over October. The only time we missed was in 2012 when the October average was $7.36.

So the track record gives us good reason to think that prices won't stay this low. USDA's projected price range is currently $2.90 to $3.50. Today's price of $3.08 needs a 14% increase to hit the $3.50 mark. To look at it another way, the low price of $2.68 on August 31st plus a minimum price range of $1.20 would put us at a $3.88 high, which would be the lowest high of the past ten years.

Actually, this particular location has posted one $4.00 closing bid in the past 569 marketing days! The only other comparable stretch of low prices was 478 days in 2009 and 2010 when we did exceed $4.00 on ten days, or back to 2004-06 when prices were sub-$2.00 for 414 days. Of course, both times price recoveries took off for the races. The cure for low prices is low prices!

Considering that domestic use and exports are strong and that beans will give corn a run for the money on 2017 planted acreage, it certainly seems likely that better days lie ahead for pricing corn. Eventually we'll produce something less than record crops. Speculative funds are always watching for such opportunities, as well, and will help push the market higher when those times come. When that does happen, we'll have a great chance to move back closer to that $4.00 price range, perhaps even higher.

ARC-CO Payments Vary by County

by: Chad Husman, AFM

Payments for the 2015 Agricultural Risk Coverage-County (ARC-CO) were issued in October and were generally lower than last year. Each county has an assigned payment rate per corn and soybean base acre. Surprisingly, rates varied widely from one county to the next. Considering how impactful this payment is in times of low crop prices, it's worth looking at the differences between counties and how payments are calculated.

ARC-CO is part of the 2014 Farm Bill. Farmers could choose between three subsidy programs, and over 98% of Iowa farmers chose ARC-CO. This program was more like additional crop insurance than past programs. Unlike the old Direct Payments program, not everyone gets a check every year.

How payments are calculated

We won't go into the specifics, but the idea is to pay when revenue levels are down. Average county yields and average national prices are used to establish a rolling average revenue. When a combination of prices and yields falls enough below the benchmark, a payment is triggered.

High county yields affect payments

The 2015 crop year payments were issued this October 2016; payments are always a year behind. Northwest Iowa payments varied more than $60 per corn base acre depending on the county. As you can imagine, this is frustrating if your farm was on the short end. For example, Woodbury County was roughly $60 per corn base acre lower than Monona and Ida Counties which adjoin. That may be fair, as long as the county yield figure is accurate and represents your farm's actual yields. Woodbury's 2015 corn yield averaged 39 bushels per acre over its rolling average. Other counties around 30 bushels over.

Where do the county yields come from?

Yields are assigned by the USDA's Farm Service Agency (FSA) with help from its sister agency, the National Agricultural Statistics Service (NASS). They use a survey method to estimate county yields. These surveys ask farmers to voluntarily share yield information by mail or over the phone. As with any survey, the results will vary depending on the participation rate and accuracy of responses.

The current ARC-CO Program will run through 2018 when a new farm bill could potentially change everything again. The ARC-CO payments are likely to be less for 2016 through 2018 crop years, payable through 2017-2019. Each year the Revenue Guarantee will likely become less as we add lower prices to the 5 year rolling average. The last few years of this program could result in no payment for many Iowa counties.

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