

Today's Land Market



Dennis Reyman, AFM, ARA

Fall is selling season for the farmland market, or buying season depending on your perspective. We've often noted that 75% of public land auctions occur during the second half of the year, with volume increasing each month into early December. This year may be an anomaly, given the high volume that sold during the first half of the year; however, volume this fall is still considerable.

Looking strictly at farmland with at least 85% tillable acreage, volume during the 1st quarter of 2022 was similar to the previous four years; however, 2nd quarter sales volume was drastically higher, matching 4th quarter volume from several previous years.

Sales volume across our Iowa trade territory on 85% tillable or higher farmland ran 18,000 to 20,000 acres from 2018-2020. In 2021, that figure exceeded 39,000 acres. Through mid-October, we've tracked over 25,000 acres sold at auction. While 4th quarter volume is high, it will not likely be enough to accumulate 75% for the 2nd half of the year.

Prices

Staying focused on 85% or more tillable land, the average price across the 23 counties in northwestern Iowa has exceeded \$15,000 per acre. Good land in one neighborhood may approach or exceed \$20,000 per acre these days while a similar farm in another neighborhood will top out significantly less. These are still legitimately good results for the given locale.

Speaking of \$20,000 per acre, we've tracked 71 sales at \$20,000 or higher.

What do these farms have in common? Nearly all are located in areas with livestock concentration, and nearly all are located in the Galva-Primghar-Sac soil association of northwestern Iowa.

That being said, there are still numerous farms selling for less than \$10,000 per acre. Each property has reasons for its value as determined by its selling price. Please don't assume your smart phone can provide insight for differences in values.

Lately?

Discussion about the influence of interest rates on land values has been a very legitimate question the past few months. As of October 20th, the prime rate was 6.25% which is the highest rate since early 2008. An article by Dr. Wendong Zhang (Cornell University, formerly Iowa State) published in April predicts that interest rates won't substantially affect land values until later in 2023. In addition to higher cost of borrowing, higher "safe" rates paid on cash in the bank may become a more attractive alternative.

At this time, we're seeing land values basically stabilized at the levels achieved earlier this year. Of course, you can find individual sales which could indicate higher or lower values, but the overall

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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.

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Today's Land Owner

Progress Report

Chad Husman, AFM



This year marked the third drought impacted growing season in a row for much of the Western Corn Belt. This year's drought was more severe than last year for much of Iowa as well as Nebraska and South Dakota. Minnesota and North Dakota improved compared to last year and the Eastern Corn Belt had generally favorable weather. When the drought started in 2020, it was considered a "flash drought" because of how it rapidly went from typical May & June weather to extreme hot and dry in July and August. We were not expecting the dry pattern to stick around this long.

The U.S Drought Monitor uses a five-category system - from Abnormally Dry (D0) to Exceptional Drought (D4). About 80% of Iowa is in one of these categories, including 5% of Iowa in the Extreme (D3) Drought. The extreme drought areas in Iowa are all in Northwest Iowa - Plymouth, Woodbury, Cherokee, and parts of O'Brien, Clay, Buena Vista, Palo Alto, and Pocahontas. What makes this drought significant is not so much its severity in crop loss, but how it has persisted. Most areas had just enough small rain events to make a reasonable crop but not nearly enough to replenish the water table, so the groundwater deficit continues to grow. The Little Sioux River measured in Correctionville, IA is running at or below its lowest water level since 1956. Local lakes, ponds, creeks, and wells also show long-term drought stress.

Harvest progressed rapidly this fall thanks to low humidity, warm temperatures, wind, and almost no rain delays. This was one of the smoothest harvest seasons I can remember. Many farmers were done by mid-October - well ahead of normal. Dry conditions caused dangerous fire hazards in the fields, but on the positive side, dry soil greatly reduced compaction from heavy equipment. The early harvest also allowed more time for field work, fertilizer applications, and other projects.

Crop yields this year, as expected, were all over the board but for the most part better than expected. It is no surprise that rainfall amounts made a big difference on yields. We noted a top to bottom range of more than 5 inches this season accumulated in Northwest Iowa alone. That made a world of difference! Most of the rainfall this season came from "pop-up" storms rather than widespread rain. Many farmers shared in the frustration of regularly missing rain events that may have come within only a few miles of their farm.

Soil quality was equally important as rainfall this year in driving crop yields. A big part of soil quality comes down to water holding capacity which starts with texture (sand, silt, and clay). The soil type classification and the Iowa Corn Suitability Rating (CSR & CSR2) value provide a very good clue of a soils inherent productivity or "soil quality". Soil texture, classification type, depth, and CSR value cannot be changed by farming practices. Not all soil was created equal, and

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Today's Land Market

trend has been steady over the past few months. By that, could you infer that interest rates have affected values? Perhaps, but the market does need to take a breather after two years of such rapid increases.

Bottom Line?

As farm managers, we believe in the value of maintaining land ownership for decades. However, all things have their life cycle which includes ownership of farmland. If that describes your position in life, we see no reason to try to “out-smart” a strong market. If “buyer” describes your position in life, we see ample reasons to be bullish on Iowa farmland ownership. One of the best is its 150-year history of rising values based on increasing demand for our products.

South Dakota

We’ve increased our database of sale results in southeastern South Dakota in 2022. Sticking with highly tillable farmland, we find nearly 3/4 bringing \$10,000 per acre or more, with several advancing past \$15,000 to \$17,000 in the right circumstance.

South Dakota uses Productivity Index as its soil rating, in place of Iowa’s Corn Suitability Rating. The average PI in our database for this analysis was 77.1 with a high of 89.8. Only a few of the highly tillable farms fell into the 50’s on the PI scale. Average size of transaction was \$1.33 million. Southeastern South Dakota shares similar soil types with Iowa along the Missouri River. The Trent-Moody soil association found on the uplands crosses over into the northwestern corner of Iowa.

Following are two tables of selected sales of “good” farmland in Iowa and South Dakota which have sold recently in the region. Stalcup-brokered sales are in bold and highlighted in green.

Selected Sales of Good Farmland- Iowa

Date	Acres	% Tillable	County	\$/Acre	CSR2
October	137.82	98%	Buena Vista	\$19,000	95.0
October	67.78	98%	Buena Vista	\$11,725	86.8
October	50.46	17%	Buena Vista	\$5,400	38.2
October	115.00	99%	Ida	\$16,400	92.8
October	80.00	95%	Sac	\$15,350	83.0
October	72.38	100%	Buena Vista	\$12,800	79.6
October	80.00	99%	Pocahontas	\$14,800	83.9
October	55.00	100%	Plymouth	\$26,250	91.7
October	40.00	98%	Calhoun	\$18,100	86.3
October	156.97	98%	Greene	\$14,100	87.2
September	67.26	97%	Shelby	\$17,300	71.9
September	80.00	95%	Pocahontas	\$13,200	80.3
September	151.37	96%	Lyon	\$15,500	67.5
September	250.00	97%	Plymouth	\$18,200	82.3
September	161.48	98%	O'Brien	\$23,800	96.3
September	80.00	98%	Palo Alto	\$12,400	85.4
September	76.20	99%	Calhoun	\$18,700	87.3
September	36.83	100%	Crawford	\$15,100	78.9
September	88.00	96%	Dickinson	\$18,000	89.6
September	85.46	98%	Osceola	\$20,600	97.2
August	80.29	97%	Sioux	\$26,000	91.3
August	36.00	96%	Woodbury	\$15,000	47.7
August	219.18	97%	Ida	\$23,400	91.9
August	79.00	99%	Webster	\$14,000	81.9
August	80.00	97%	Greene	\$15,500	86.0
August	160.00	94%	O'Brien	\$18,800	92.8
August	31.00	100%	Humboldt	\$13,000	86.1
August	131.00	99%	Carroll	\$13,600	82.9
August	153.30	97%	Crawford	\$12,500	69.6
August	155.00	94%	Plymouth	\$22,200	89.6
August	80.00	96%	Emmet	\$13,500	80.4
August	40.00	98%	Clay	\$18,800	89.0
July	160.00	96%	O'Brien	\$23,500	95.7
July	159.70	94%	Dickinson	\$18,700	87.6
July	80.00	95%	Kossuth	\$15,400	80.3
July	192.93	92%	Monona	\$14,500	90.5
July	160.00	96%	Cherokee	\$23,500	95.1

Selected Sales of Good Farmland- South Dakota

Date	Acres	% Tillable	County	\$/Acre	PI
October	160.00	99%	Union	\$13,000	64.2
October	63.00	100%	Clay	\$11,200	80.7
October	151.28	97%	McCook	\$8,925	79.7
September	60.14	99%	Union	\$14,000	67.0
September	70.00	97%	Minnehaha	\$15,600	84.2
September	54.81	99%	Union	\$16,150	60.7
September	150.30	96%	Turner	\$11,900	76.4
September	307.37	99%	Brookings	\$7,000	52.4
September	62.4	88%	Lincoln	\$15,500	88.8
August	110.93	99%	Turner	\$11,900	80.8
August	76.25	96%	Lincoln	\$10,800	74.6

Stalcup Ag Service

Providing Direction. Delivering Results.

Progress Report

that's a big reason why some farms are worth a lot more than others. It's also why knowing differences in soils is a critical part of evaluating a farm.

There are, however, other soil factors that can be changed over time based on management practices. Fertility is at the top of that list, especially important on dry years. Crops need water to move nutrients into roots, so nutrient concentrations must be adequate within the limited soil water. We monitor soil fertility by grid sampling every four years. Fertility is improved by adding commercial fertilizer, manure, and maintaining the proper pH. Organic matter and crop residue are also very beneficial during a drought. Crop residue slowly builds/maintains organic matter, retains soil moisture, reduces soil temperature, and improves water infiltration during a rain event. Organic matter improves the soil in so many ways including water holding capacity, beneficial microorganisms, improved soil structure, aids in building fertility, and overall improved soil health. Organic matter and residue both increase by reducing tillage, raising crops to the fullest capacity, applying manure / fertilizer, and using cover crops. Changes in organic matter occur very slowly. A realistic goal may be to increase your farms organic matter by 1% over 10 years. That does not sound like much, but a 1% increase in organic matter increases your soil's water-holding capacity by about seven-tenths of an inch of rain along with many other benefits.

Other observations about crop performance this season include:

- Trend favoring fuller season varieties - full season corn and soybeans can take advantage of the long, warm growing seasons we have had recently.
- Hybrids that are bio-engineered to include drought "tolerant" genetics. Seed companies are constantly working to improve drought tolerance.
- Early planted corn and soybeans seem to be performing better in years like this, but there is a fine line when planting too early if it causes the stand quality to suffer.
- Benefit of rotating crops - we have noted continuous corn will take more rain than corn following soybeans. In addition, continuous corn requires more fertilizer.
- Importance of weed control - weeds compete with the crops for water.

• Plant population - reducing plant populations can increase yields when moisture is limited. However, you don't want to limit yield potential on your best producing soils, so variable rate seeding based on soil quality makes sense especially when drought is a concern.

• Fungicide applications - even though plant diseases are usually minimal during drought years, we still see a positive yield impact from fungicide treatments to improved plant health.

We are already worrying about water for next year. Our subsoil moisture reserves are depleted. Quality Iowa soil can hold around 10 inches of water in the top 5 feet of soil. It is unlikely that supply will be replenished before next spring. Eventually the pendulum will swing, and we will get more rain than we can handle. As always, we have to be ready for whatever Mother Nature throws at us.

South Dakota Progress Report

Stalcup Ag Service is working with more farms in South Dakota every year. The primary managers active in South Dakota are Kent Smith, Chad Husman, and Vince Hanson. Vince lives in South Dakota, so he helps keep the rest of us up to date between farm visits. Below is the latest update from Vince:

The I-29 corridor along the east side of South Dakota almost to the North Dakota border had a somewhat good crop. Although the South Dakota Drought Monitor map shows most of this area to be "abnormally dry (DO)" compared to a very large area basically either side of the James River experiencing "moderate drought (D1)" to "severe drought (D2)". The best yields seem to be just north of Sioux Falls depending on soil types. The beans in this area matured very uneven because of September rain showers.

As you move farther west or south the yields fall off dramatically. Most farms had smaller crops than expected, but there were exceptions to that also. On the positive side, more acres were able to be planted this spring than in recent years. After the extreme wet years of 2018 and 2019, basically all acres lost to flooding were planted this year.

Recent land sales remain extremely strong even in the severe drought-stricken areas and especially in and around the Sioux Falls metro area.

Crop Inputs

It seems like everything costs a lot more right now. Inflation has dramatically increased the cost of your everyday needs and unfortunately, crop inputs have also increased. To say that farm input prices are tied to inflation would be difficult to prove. Correlation is not causation in this case. Whenever the farm economy experiences an increase in profitability, input prices are usually not far behind, trying to capture their slice of the proverbial pie.

One point to keep in mind when discussing increases in crop inputs is to differentiate which inputs are the same no matter the seller (commodities) and inputs that differ by seller (such as corn hybrids). Fertilizer, in the traditional sense, is a commodity. It doesn't matter who you purchase anhydrous ammonia (Nitrogen) from, the product is the same. Corn hybrids, on the other hand, are unique by genetic characteristics and trait offerings. Each company providing seed corn will have different products with some overlap, offering different prices.

Fertilizer

Over the last two years, the price of anhydrous ammonia purchased for our farms has been as low as \$390 per ton, all the way up to \$1,520 per ton. The product did not change, just the cost. The lowest prices were seen in fall of 2020, when uncertainty of the global markets was keeping everyone guessing as to what would happen next. Farmers were selling their corn to local elevators for around \$4.00 per bushel that fall; which was the highest we had sold corn in a few years. We were still buying inputs based on sub \$4.00 corn prices.

The cheap prices did not last as demand for corn rebounded in the spring of 2021 and many farmers had a profitable year. By fall of 2021, anhydrous ammonia was being sold for closer to \$700 per ton if you were willing to sign a contract and submit a down payment to guarantee the price. The sticker shock of a 75% increase was real, but farmers were willing to pay it since corn was being sold for prices we had not seen since the early 2010's during the last boom cycle in agriculture. That turned out to be a very good idea as high demand and low supply pushed prices over \$1,500 per ton by the end of fall application season. Spring of 2022 did not provide any relief as prices were still over \$1,000 per ton before planting.

Grant Aschinger, AFM



Fast forward to fall of 2022. Hopes of getting our same early price of \$700 from fall of 2021 did not happen.

The best prices offered to us this fall are over \$1,000 per ton. Those prices have quickly disappeared and increased again.

Nitrogen isn't the only fertilizer product that has seen an increase. Phosphate and potassium are the other two main nutrients applied to grow corn and soybeans. Phosphate has increased from under \$500 per ton in the fall of 2020, to over \$1,000 per ton this fall. Potassium has also seen a dramatic increase from less than \$400 per ton in 2020, up to \$900 per ton this fall.

Seed

Seed is the next most expensive line in the corn production budget. Luckily, there is plenty of competition in the seed market to force competitors to keep prices from increasing as much. Seed differs from fertilizer because the product being sold is unique and not a commodity. This has not kept prices from increasing roughly 25% from two years ago.

Herbicides and Insecticides

Herbicides and insecticides are not nearly as large of percentage of the input budget as fertilizer and seed. That still has not softened the blow when it comes to price increases. The Covid shutdowns are still being felt in the chemical industry as supply has still not caught up to world demand for many products. Prices for chemicals have roughly doubled over the last couple years.

Everyone is very aware of what gasoline prices have done since 2020. Diesel fuel prices have also seen a similar price increase. Nearly every piece of farm machinery used today runs on diesel fuel.

All of these line items in the production budget are much higher. Current cash prices offered for corn and soybeans will manage to offset these increases, but that is unlikely to last. There will be a squeeze coming when prices offered to farmers for corn and soybeans will not be enough to sustain the current prices of these inputs. Right now the sun is shining but at some point it will rain, and not everybody will have saved that rainy day fund.

Lower Yield Estimates Support Grain Markets

A very dry growing season in the western Corn Belt has reduced yields, and it looks like better conditions and yields in the east were not enough to counter the losses.

The latest USDA crop estimates, released on November 9th, pegs corn yields at 172.3 bushels per acre and soybeans at 50.2 bushels per acre. These are 4.4 and 1.5 bushels per acre respectively lower than last year. On the demand side, several headwinds have combined to reduce projected usage, with corn about 6% lower and soybeans 3% lower. These headwinds include a strong dollar reducing exports, concern on a slowing global economy and smaller livestock numbers reducing feed demand.

Still, if final yield numbers come in close to the November estimates, carryover of grain at the end of the 2022/23 marketing year on August 31st are projected at tight levels.

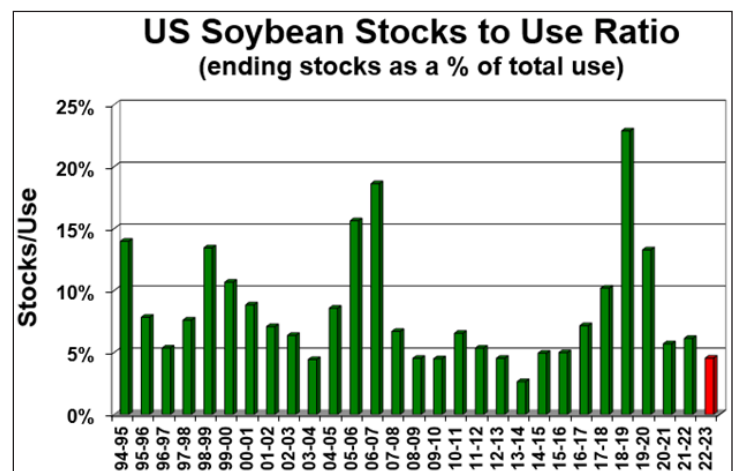
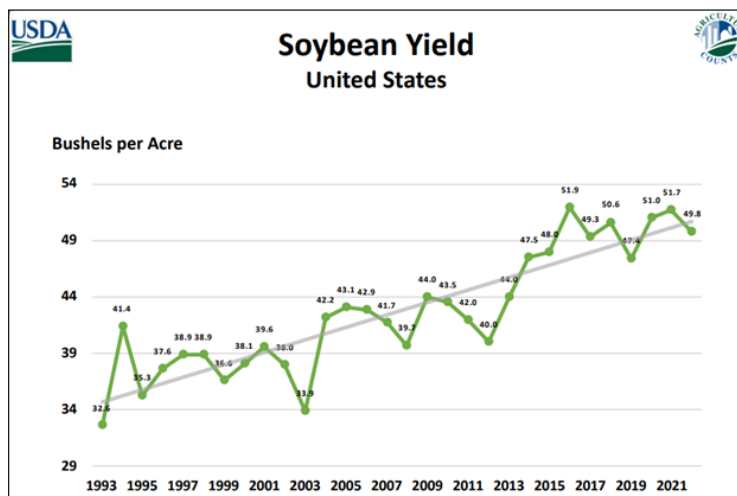
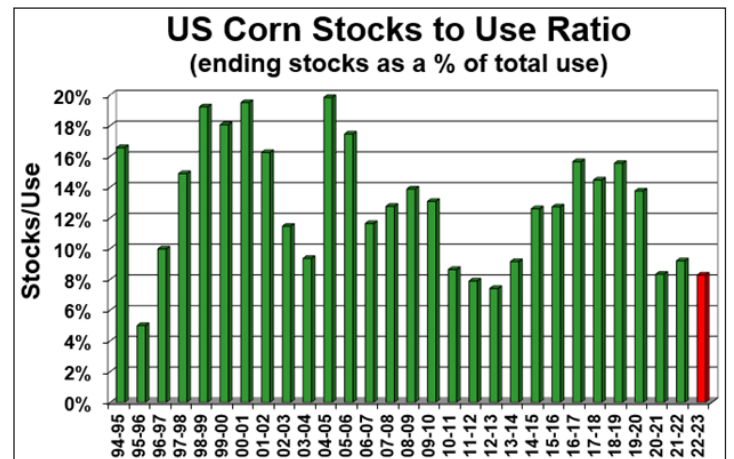
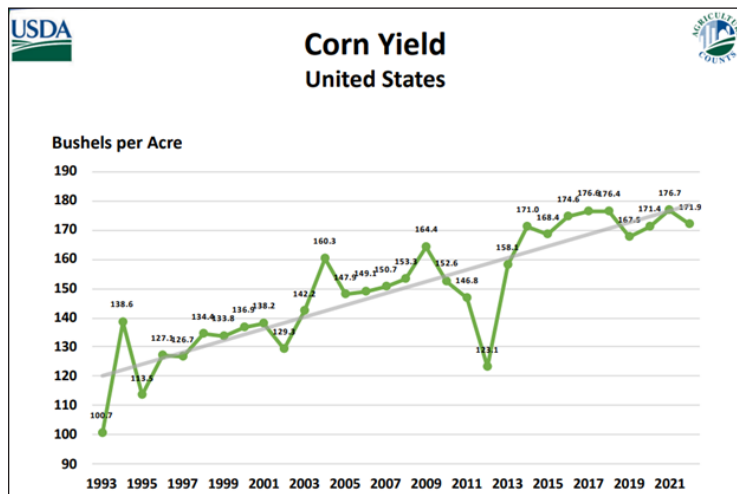
Nathan Deters, AFM



Corn stocks will be at 1.17 billion, down from 1.38 billion and the tightest stocks to use ratio since the drought of 2012. Soybean stocks are projected slightly lower as well, and also at historically tight levels. Market year price estimates are \$6.80 per bushel for corn and \$14.00 per bushel for soybeans, both near current local bids.

The grain trade's attention now turns to the South America crops. Strong grain prices incentivize producers there to increase production, so acres will likely be higher.

Weather is the other leg of the production story. Early conditions are good in a large part of Brazil, but southern Brazil and Argentina are seeing very dry conditions. These areas tend to suffer during La Nina years and with a strong La Nina still in place and uncertainty on when it will begin to dissipate, this will be an important area to watch.



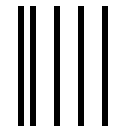
Pearson earns his AFM

We congratulate Luke Pearson on attaining his Accredited Farm Manager (AFM) designation through the American Society of Farm Managers & Rural Appraisers (ASFMRA). Luke received his AFM certificate at the Accreditation Ceremony at the ASFMRA annual meeting in San Antonio on November 9. This brings Stalcup's staff back up to fully accredited, with Kent Smith, Nathan Deters, Chad Husman, Grant Aschinger, and Dan Niemeier all holding AFM's. Travis Nissen holds the Accredited Rural Appraiser (ARA) designation, and Dennis Reyman holds both designations.

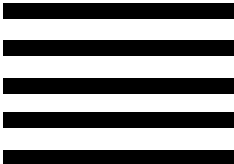


Luke earned his AFM designation by meeting stringent requirements in experience and education, in addition to passing a two-day written exam and abiding by ASFMRA's Code of Ethics. He joins a select 36% of ASFMRA's membership who have attained accredited status and maintain it through ASFMRA continuing education.

Accredited Farm Managers are specifically educated and experienced in agricultural management and understand efficient production and profitable marketing by focusing on procedure, analysis, critical thinking and innovation. Farm Managers have specialized expertise in production, business, environmental issues and government activities. Accredited Farm Managers possess additional specialized expertise and are connected to a national network of professional resources and information.



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Fall Newsletter 2022



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