

NW Iowa Progress Report



Chad Husman, AFM

As we look forward to spring, we can't help but wonder what Mother Nature will have in store for us this year. No one wants to see a repeat of last spring, or the spring of 2018 for that matter. Delayed planting, flooding, and cool temps have been the theme in recent years. Last spring featured historically late planting in more than half the Corn Belt as well as a record 19.4 million acres not planted. Crops remained behind schedule all season which delayed harvest. As of January, the USDA reported 8% of corn and 2% of soybeans still need to be harvested (mostly in North Dakota). Reduced yields, poor grain quality, soil compaction, and nutrient loss are some of the issues that all started with poor spring weather conditions.

Another rough planting season?

It is unlikely planting delays will be as widespread as last year, but unfortunately we are set up for another wet spring.

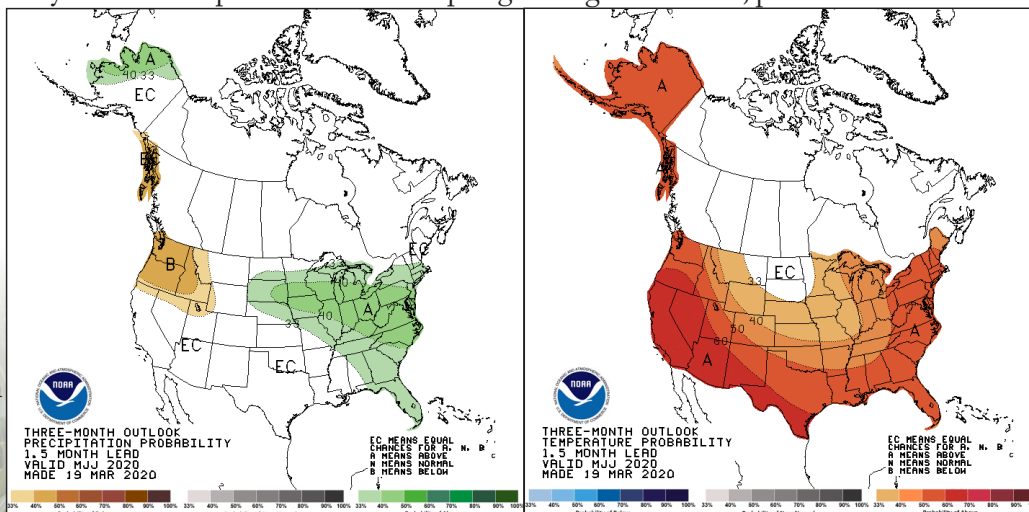
Soil moisture levels are full in the entire upper Midwest and rivers are already running full. The three month outlook for April through June by the U.S. Climate Predic-

tion Center (CPC) shows above-normal precipitation for most of the Corn Belt with mostly normal temperatures.

Dennis Todey, Director of the Midwest Climate Hub with the USDA, spoke at an educational meeting we attended. He said wet springs and wet falls are becoming more common, and we should expect that trend to continue. "The whole Corn Belt has seen increased precipitation within the last century, and that can be both good and bad. Northwest Iowa and the Dakotas in particular have seen more than a 15% increase in precipitation within the last 100 years." We have certainly noticed the trend in our territory of wet springs and falls particularly in the last 10 years.

Dr. William Edwards, a retired Iowa State University Ag Economist, published an article recently that shows

the trend of wetter springs by tracking "suitable field days" which is basically the number of days conditions allow for field work. The graph and summary para-
continued on page 5





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.

Stalcup's Team

- Kent Smith, AFM
- Dennis Reyman, AFM, ARA
- Nathan Deters, AFM
- Chad Husman, AFM
- Travis Nissen, ARA
- Grant Aschinger, AFM
- Dan Niemeier, AFM
- Luke Pearson

Contact Us

Stalcup Ag Service, Inc.
 1705 N Lake Ave
 Storm Lake, IA 50588
 Phone: (712) 732-4811
 Fax: (712) 732-7371

stalcupag.com
 stalcup@stalcupag.com

Today's Land Owner

Today's Land Market

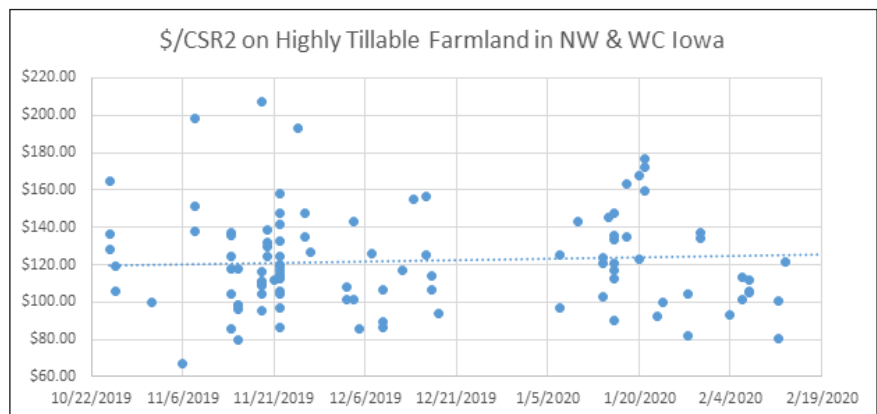
Dennis Reyman, AFM, ARA



The land market this winter has been steady to slightly stronger on good land. Lower-quality land continues to find buyers but at comparatively lower values. We're not just talking about a lower value per acre. There is also a lower value per productivity index.

In Iowa, we go by Corn Suitability Rating, now in its second iteration called CSR-2. CSR-2 has officially been public since February 2014. It is a pretty easy task to divide sale price by CSR or CSR-2 to arrive at a factor. This can be used as a quick and easy guide to value; however, there are many other factors at play. First of all, how many of those acres are tillable? We prefer to divide total sale price by crop acres (assuming little or no non-cropland value is present) then divide by CSR-2. At least that starts comparing apples to apples. If there are improvements or non-cropland which add value, that must be factored out as well.

Is $\$/CSR-2$ the end-all and be-all of Iowa farmland valuation? **No**, but in a simple way, it works if you're comparing correctly. That's the trick. See the chart below. Each dot represents $\$/CSR-2$ on land sales in our trade territory from late October through February. These farms are at least 85% tillable and average 95.7% tillable, so that's not a big variable. CSR-2 averages 79.0 in this dataset but ranges from 38.3 to 98.0. Sale price per acre ranges from \$4,000 to \$16,800 and averages \$9,201.



Which dot represents the $\$/CSR-2$ value for your farm? Notice that most fall between \$100 and \$140. That is still too wide for a given neighborhood. We generally see about a \$10 range in a neighborhood, assuming there are enough sales to analyze. From that, we may need to further discount for irregularities such as inefficient field size or shape, unusal soils, poor drainage, or poor stewardship.

Trade Update

After nearly two years of trade stress in the ag community, early January was a chance to breathe a quick sigh of relief. China and the United States reached a Phase I trade agreement that will obligate China to buy substantial amounts of agricultural products totaling 80 billion over the next 2 years, 36.5 billion in 2020 and 43.5 billion in 2021. If carried through, this will be a substantial increase over the previous high total of 24 billion in 2017 on an annual basis. Details are murky. There are no specific quantities of any products detailed so the market is left to see how purchases unfold. For Corn Belt agriculture, soybeans and pork are expected to be the biggest benefactors, with possibly ethanol and distillers dried grains (a by-product of ethanol production) also seeing some increased business.

Trade relations with two of our best ag customers, Canada and Mexico have been strained as NAFTA has been renegotiated over the last year and a half. In January we reached closure with this issue, with signature of a new North American Trade Agreement. Most accounts say that the new agreement is status quo for agriculture as compared to NAFTA, but just removing uncertainty and keeping competitors out of these valuable markets in our backyard is a big plus.

So, with trade deals completed, we can just sit back and wait for a big jump in prices, right? Unfortunately to date that hasn't been the case. Soybean exports to China have been sharply reduced due to tariffs but also because of a very large reduction in feed demand. Firm numbers from China are always hard to get, but most accounts say that approximately half of their hog herd (by far the largest in the world) has been culled due to African swine fever. This shortfall in demand will mean that big purchases of soybeans are unlikely in the near term, even with improved trade relations. In addition, South America is putting together another large crop and will continue to be a strong competitor for the Chinese business.

Just as these trade deals were done, Coronavirus, emanating from China, came onto the scene. While the

Nathan Deters, AFM



full repercussions are yet to be seen, at a minimum it will put a severe strain on a Chinese economy that was already struggling. This likely won't bode well for a quick pick up in exports, as China may be slow in ramping up purchases while dealing with the Coronavirus issue.

March has been a tough month for the grain markets. On top of uncertainty from the escalating Coronavirus crisis, oil prices have crashed from an all-out production war between two of OPEC's biggest producers, Saudi Arabia and Russia. Low oil prices negatively impact other commodities, and we have seen corn and soybeans drop back to harvest lows. Demand destruction for the portion of our crops that goes into energy use is worrisome. At the time of this writing, corn prices are at \$3.20/bu and soybeans are at \$8.00/bu.

Final U.S. yields for 2019 crops were 168 bu/acre for corn and 47 bu/acre for soybeans. These shorter yields from a wet 2019 growing season, combined with lower acres have helped reduce carryover stocks somewhat in corn and substantially in soybeans. Unfortunately, at this time demand concerns are outweighing the positive news of lower supplies.

Summary

We would like to think that as more normalized trade returns there will be improved prices from the free market. We may not be there yet. With grain prices showing no real sign of significant upturns from the range we have been in over the last 2 years, there is already talk from the President of another trade aid payment in 2020. Stay tuned, it is an election year.

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Today's Land Market

On the other hand, certain locations benefit from competitive bidders, often in livestock intensive areas with long-established family operations. Often, these are building for the 4th or 5th generation. That's quite a lot of steam power, in some cases. The boundaries for this type of competition and price premium can be hard to define for an outsider looking in.

Occasionally, a price will be bid up by a person who is approaching the deadline to complete a Section 1031 exchange. The bidder prefers to roll cash from a sold property into a new property utilizing IRS Section 1031 rather than pay capital gains tax before purchasing the replacement property. He is therefore motivated to keep bidding. 1031 exchanges are less prevalent in this area today than they were during the residential housing boom 15 years ago, but Section 1031 has been part of the IRS Code for around 90 years and is always a possibility in the market.

It is also not uncommon for a neighborhood to refrain from bidding at auction against a long-time tenant. In this case, it may be best for a seller to deal one-on-one with the tenant based upon a good appraisal. All these factors should be understood so you don't base your expectations on faulty assumptions.

Back to the chart, we also notice the trend line is slightly rising. The widely-held belief among farm real estate professionals across the state this winter is slightly stronger values for good land. We can show side-by-side comparisons where certain properties sold today are substantially higher than those sold 6-12 months ago, but that is not the norm at this time. This also charts by date of sale. The "holiday work stoppage" is very evident in the land market. Work continues, but land sales take a break.

Combination Farms

This is a little discussed segment of the farmland market. Values are discussed or published for high, medium, and low quality cropland, pasture, and timber or recreational land. But what about those farms that contain several of these items? Some farms will include all these features.

Nearly always, farms with numerous features will sell for less than if each component were available to be sold individually. In appraisal classes, they'll talk about "puritan" sales. Those are sales with one land type. They are used to determine that component's value. The problem is the puritan usually commands a premium over farms with mixed land types or uses. More accurately, the combination farm will demonstrate a discount compared to the puritan. What we mean by that is, the farm consisting of all top-quality land will sell for more per acre (or /CSR-2) than you can assign to the top-quality land on a mixed use farm, even if factors such as CSR-2 are identical for those components.

Should combination farms be subdivided before selling? Sometimes it's a good idea but often the answer is no. It may not be practical nor sensible. If this is a common farm type for the neighborhood and there are numerous potential buyers who utilize such land, keep it as a unit. It may not be physically desirable to carve up the property. We always advise to not divide a property in such a way that will be regrettable in the future. Survey and legal costs, access, farmability, and resale are all important considerations.

Land sales table is on page 6.

Coronavirus Office Update

Stalcup Ag Service is planning to remain open at this time. However, with the uncertainty of these times, if we would happen to close due to coronavirus, please feel free to reach out to one of the managers via email or their cell phones:

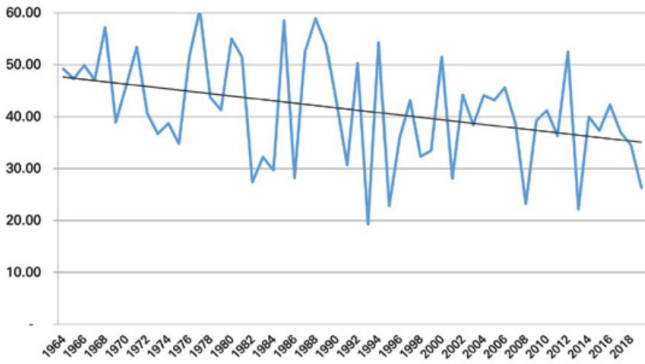
| | |
|-----------------|--------------|
| Kent Smith | 712-299-2091 |
| Dennis Reyman | 712-299-3839 |
| Nathan Deters | 712-299-0234 |
| Chad Husman | 712-291-5631 |
| Grant Aschinger | 712-490-6564 |
| Dan Niemeier | 712-229-7131 |

Thank you for your understanding during this time.

NW Iowa Progress Report

graph below are from his article:

Figure 1. Suitable field days in the spring, Iowa average, April 2 to June 17



The straight line on the graph shows the downtrend in the number of field days over the period 1964 through 2019. The downward slope means that the number of field days has been decreasing over time on average. The trend line has dropped from 48 days to 35 days since 1964, or almost one full day every four years.

Despite this trend of decreasing suitable field days, yield levels continue to increase. Efficiency, speed, and size of farm equipment is improving allowing crops to be planted in shorter windows than ever before. Tile drainage systems have improved greatly over the past 50 years. Tile removes excess water beyond what the soil can hold. Crops prefer soil comprised of almost 50% minerals, 25% water, 25% air, and a few percent organic matter. Without these drainage systems, large areas of the Corn Belt would be saturated and could not be farmed during wet seasons. Our high quality soils are great at storing moisture that can be used by crops during dry times of the season, so more precipitation is often a positive in our area despite the challenges it brings. The key to managing your farm to best handle these wet periods begins with improving drainage systems, but must also include a plan to reduce soil erosion from water runoff, nutrient loss, soil compaction, weed control, and plant diseases that thrive in wet environments.

The grain markets will be watching spring weather very closely this year. If a wet spring develops, it could once

again reduce planted acres and crop yields this year. The USDA released their first 2020 crop estimates at the February Agricultural Outlook Forum. They assume the prevent-plant acres from last year will come back into production this year. 2020 corn planted acres are forecast at 94.0 million (4.8% increase) with an average yield of 178.5 bu per acre. If these numbers were realized, the result would be a record 14.5 billion bushel corn crop. Soybean planted acres are expected to increase to 85 million (11.7% increase) with an average yield of 49.8 bu per acre. These production numbers seem very optimistic considering the spring outlook. A reduction in planted acres or forecast yields should push prices higher, but it will take something widespread to make a big difference.

On the demand side, the USDA forecasts U.S. corn exports will increase 18% and soybean exports will be up 12% from 2019 levels. This increase does not nearly account for China's commitments under the Phase 1 deal, so it seems the USDA is downplaying the impact of this trade deal with China in the near term. Domestic usage for both crops is forecast to increase also. Overall, demand looks to be solid this year, but not enough to outweigh supply increases on corn, meaning ending stocks are projected to increase. On the other hand, soybean ending stocks are projected to decrease, so there may be a positive situation developing for soybeans.

Coronavirus is a wildcard for the markets. It's a major concern worldwide, and may negatively impact U.S. Agricultural exports. At the time of this writing, coronavirus news is getting worse by the day. It's spreading to other countries and the CDC reports more outbreaks are expected. Hopefully by the time you read this article the situation is under control. The Chinese government has not been fully transparent about the severity of coronavirus and there are still a lot of unknowns. World markets including grain markets are watching this situation closely as it's already having a major influence on global economies.

Wilcox Receives Doane Award

Recently retired Stalcup Ag Service farm manager, Rex Wilcox, received the D. Howard Doane Award at the national meeting of the American Society of Farm Managers and Rural Appraisers (ASFMRA) held November 16-22, 2019 in Louisville, Kentucky. This award is given to an individual who has made an outstanding contribution in the field of agriculture with emphasis on farm management or rural appraisal.



Rex spent 46 years as a farm manager with Stalcup Ag Service starting in 1973. From the beginning, he was provided with great education opportunities from both inside and outside of the company through his affiliation with ASFMRA. In acceptance of this award he thanked a number of great professionals who came before him and “paid it forward” in the giving of their time and knowledge to educate the next group of farm management, appraisal, and consultant professionals.

Previous Stalcup Ag Service winners of the D. Howard Doane Award include H.E. “Buck” Stalcup in 1967, Arne Waldstein in 1994, and Terry Argotsinger in 2015.

This table includes sales of “good” land in the area since last fall. Most counties are represented with at least one sale. Stalcup-brokered sales are in bold*.

Selected Sales of Good Farmland

| Date | Acres | County | \$/Acre | CSR2 | %/tillable |
|------------------|---------------|-----------------|-----------------|-------------|------------|
| November | 80.42 | Sioux | \$14,400 | 97.0 | 98% |
| November* | 160.00 | Ida | \$14,000 | 86.8 | 81% |
| November* | 82.69 | Sac | \$10,600 | 86.3 | 99% |
| November* | 82.91 | Sac | \$9,600 | 86.2 | 95% |
| November | 80.00 | Clay | \$12,600 | 94.8 | 97% |
| November | 95.57 | Kossuth | \$7,650 | 78.6 | 93% |
| November | 155.00 | Emmet | \$6,750 | 79.8 | 99% |
| November | 86.13 | Cherokee | \$10,000 | 91.0 | 93% |
| November | 80.00 | Woodbury | \$9,150 | 85.8 | 96% |
| November | 78.72 | Lyon | \$13,000 | 68.4 | 92% |
| November | 80.00 | O'Brien | \$12,700 | 97.0 | 94% |
| November | 160.0 | Greene | \$10,300 | 88.1 | 98% |
| November | 40.00 | Plymouth | \$12,100 | 83.2 | 92% |
| November | 67.30 | Sioux | \$16,800 | 88.0 | 99% |
| December | 80.00 | Clay | \$8,500 | 81.7 | 97% |
| December | 90.46 | Monona | \$11,600 | 91.6 | 100% |
| December | 152.79 | Palo Alto | \$9,175 | 81.2 | 97% |
| December | 113.62 | Carroll | \$10,600 | 81.2 | 84% |
| December | 160.00 | Buena Vista | \$8,000 | 87.5 | 98% |
| January | 54.05 | O'Brien | \$13,100 | 94.9 | 97% |
| January | 76.50 | Osceola | \$11,500 | 96.6 | 99% |
| January | 78.49 | Lyon | \$12,800 | 96.1 | 98% |
| January | 160.00 | Dickinson | \$10,425 | 88.1 | 98% |
| January | 109.94 | Monona | \$8,800 | 75.4 | 95% |
| January | 76.00 | Sac | \$8,900 | 84.9 | 100% |
| February | 111.00 | Pocahontas | \$7,700 | 81.0 | 94% |
| February | 39.50 | Calhoun | \$9,570 | 85.4 | 100% |
| February* | 200.00 | Cherokee | \$5,250 | 73.0 | 62% |
| February | 160.00 | Woodbury | \$7,300 | 55.0 | 96% |
| February | 106.00 | Dickinson | \$8,275 | 85.1 | 99% |
| February | 19.95 | Osceola | \$9,100 | 92.8 | 98% |
| February | 72.26 | Buena Vista | \$7,250 | 86.3 | 100% |
| February* | 160.00 | Wright | \$8,300 | 84.4 | 96% |

Meet Stalcup's Auctioneer



Dan Niemeier

Dan Niemeier graduated from The World Wide College of Auctioneering in 2019. Dan is the auctioneer for all of the real estate auctions that Stalcup handles. He also provides auctioneering services to local service organizations for fundraising activities.

In addition to his auctioneering duties, he also handles real estate purchases for clients and manages land for clients in the southwest part of our territory.

Nissen Earns ARA

Stalcup Ag Service appraiser, Travis Nissen, earned the designation of Accredited Rural Appraiser (ARA) at the annual meeting of the American Society of Farm Managers and Rural Appraisers (ASFMRA) held November 16-22, 2019 in Louisville, Kentucky. Requirements to attain the Accredited Rural Appraiser (ARA) designation through ASFMRA includes:

- Minimum of five years verified rural appraisal experience
- Hold state certified general license in good standing
- Have 4-year college degree
- Numerous classes totaling 121 hours of designated coursework
- Documentation of appraisal work log
- Peer review of several randomly selected appraisals
- Demonstration appraisal report
- Comprehensive two-day written exam plus oral exam

There are about 79,000 licensed or certified appraisers in the US. Some are licensed in more than one state, putting the total licensed at 94,000. Of those, fewer than 30,000 are members of a professional appraisal organization. Less than half of these have achieved professional designation. Iowa has 650 active certified general real property appraisers and 465 certified residential appraisers. There are only 19 ARA's in the Iowa Chapter of Farm Managers & Rural Appraisers that work specifically with farmland.

Becoming an Accredited Rural Appraiser is an accomplishment but more than that, it demonstrates professional knowledge and standards far exceeding the average.



Tim Fevold, past President of the ASFMRA presenting Travis with his ARA Certificate.



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