

## 2014 OUTLOOK

What a difference a year makes. Last year at this time, corn prices exceeded \$7.00 per bushel. A record corn crop of nearly 14 billion bushels in 2013 and a subsequent doubling of ending stocks to 1.48 billion bushels have led to today's price of \$4.60 per bushel. Soybeans have held up better in comparison and currently offer a cash price over \$13.00 per bushel as compared to about \$14.00 per bushel last year at this time. Soybeans have benefitted from continued very strong export demand (mainly China) and some production and logistical problems with Brazil's crop. Looking forward to 2014, October corn bids are near cash price of \$4.50 per bushel. Corn acres are expected to decline this spring and demand will be stronger, helped out by lower prices. October soybeans are trading at a significant discount to cash, currently near \$11.00 per bushel. Soybean acres will be higher this spring and world-wide ending stocks are projected to jump. Of course, it is early yet and planted acres can change depending on weather and prices as we near planting time.

Lower grain prices significantly tighten profit margins. Input costs for 2014 have moderated somewhat, helped mainly by lower fertilizer costs which tend to follow corn prices. Seed, herbicide, and energy costs are

mainly steady to slightly higher. If grain prices stay low, we will likely see some softening of inputs for 2015.

*By Nathan Deters*



### Crop Insurance Provides Revenue Floor

Most producers carry Crop Revenue Insurance to protect against shortfalls in yields and/or prices. In 2013, this coverage provided a good safety net. Large indemnities were paid in many cases for corn due to a significant drop in price between February, when insurance price guarantees are set, and October. Lower grain prices this February means that this safety net will be lower in 2014. Whereas last year an average revenue policy would have offered guarantees of \$825 per acre for corn and \$525 per acre for soybeans, this year's guarantee will be \$680 per acre for corn and \$482 per acre for soybeans, if the same coverage levels are selected.

### Cash Rent Adjustment

With tighter margins, this summer will be an important time to review cash rent lease terms. If your lease has been adjusted higher over the last few years in response to excellent grain prices, some reduction may be appropriate as we prepare for 2015. If

## *In This Issue*

- *2014 Outlook*
- *Today's Land Market*
- *Hamann Family Happy with Stalcup Management*
- *Former Stalcup Ag Partner Passes Away*
- *New Farm Bill Highlights*

your lease has not been adjusted for many years, you may still be under the market and a steady to slightly higher rate may be indicated, depending on your level. Flexible terms with a set base rent can be considered if you and your tenant are willing to work with such an arrangement.

We at Stalcup Ag Service can help you with the decision-making process. We work on a daily basis with the markets and input costs and understand the variance in crop yields and competition for land that factor into determining a suitable cash rental rate.

Our Fall 2013 newsletter described the varying land market across our trade territory, stating that land to the west of Highway 71 was generally holding value a little better than land to the east, depending on individual location factors and quality of each parcel. This continues to be the case, but we have noted a generally steadier market across the board so far in 2014. Value ranges established last fall have been holding mostly steady so far in 2014.

As of March 12th, we've tracked 36 land auctions around the region. In 2013 as of that date, we'd tracked 28, and in 2012 we'd tracked 60 auctions. 2012 was exceptionally high volume all year. The fiscal cliff of late 2012 brought a lot of land to the market late that year and affected the amount of land offered in early 2013. In 2014 it seems that many folks who had been considering selling have done so. Farms offered for sale have been mainly from estates, trusts, and the normal flow of selling for various demographic reasons.

Thirteen of the 36 sales we've tracked this year have met or exceeded \$10,000 per acre with the high at \$15,900 per acre in Sioux County. Eleven of the 36 sales have exceeded \$1 million in total dollars. In 2013 the first 36 sales included 18 over \$1 million with 19 of the 36 selling for \$10,000 per acre or more. The total number of acres involved in those 36 sales each year was 3,207 versus 3,624. In reviewing past newsletters, we noted in the Spring 2012 article that 68 of 322 sales in 2011 met or exceeded \$10,000 per acre.

Now that we've laid out some broad perspective of the market, it is important to note that the method to truly compare changes in land value is head-to-head sales comparisons of similar properties, adjusting for all factors.

Land auctions continue to be the predominant **method of sale**; however, more farms are now being listed with a set asking price than we've seen for some time. The fast rate of appreciation in land values over the past decade made the auction method the easy choice for nearly all land types. However, in today's market we're seeing some auctions result in "no-sale" when the seller's expectations are not met by the competitive nature of an auction. In many cases, a no-sale property is sold shortly thereafter, sometimes within minutes. It takes two bidders to make an auction work. No-sales result when that competition does not surface. Often there will still be one prospective bidder willing to step up and pay the minimum asking price.

### Lower Grain Prices Temper Enthusiasm

**Caution** brought about by corn prices which are \$3/bushel lower than a year ago is affecting the market. Corn yields around the region were 20-30 bushels per acre higher than 2012 (county-wide yields), and crop revenue insurance has provided indemnity payments to many producers in both years for both yield and price loss. However, the feeling of wealth certainly has a lot to do with markets, and prospective bidders are factoring in the expectation of \$4.00 to \$5.00 corn instead of the \$6.00 to \$7.50 that we enjoyed for several years. Some farmers with lower equity and higher living costs experienced their first "trim it" meeting in some time with their banker this winter.

Alternative investments offering better rates of return can now be found as well, making 3% on land appear slightly less attractive than during the 2009 to 2013 time frame. Many prospective buyers are simply waiting, ready to move on the right parcel but patient on others which they may have pursued harder a year or two ago.

**Land value surveys** include the annual Iowa State Land Survey, released in mid-December with November 1st values, which put Iowa farmland at \$8,716 per acre or +5.1%. That increase occurred in the first part of the year when corn still exceeded \$7.00. A closer look shows that the Northwest Iowa district, while being the highest-valued land, was down 3.9% while north-central was up 2.7% and west-central was up 2.5%.

The Chicago Federal Reserve Bank Ag Letter surveys bankers' opinions quarterly. That survey put western and north-central

## Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	Tillable
Nov	Plymouth	160.0	50.6	\$8,300	87%
Nov	Sioux	80.0	65.8	\$15,600	95%
<b>Nov</b>	<b>Sac</b>	<b>80.0</b>	<b>71.4</b>	<b>\$10,000</b>	<b>98%</b>
<b>Nov</b>	<b>Buena Vista</b>	<b>80.0</b>	<b>74.7</b>	<b>\$11,000</b>	<b>97%</b>
Nov	Ida	80.0	66.2	\$10,500	90%
Nov	Pocahontas	83.0	72.1	\$8,050	96%
<b>Nov</b>	<b>Plymouth</b>	<b>157.5</b>	<b>60.0</b>	<b>\$14,300</b>	<b>99%</b>
<b>Dec</b>	<b>Clay</b>	<b>156.4</b>	<b>80.4</b>	<b>\$13,025</b>	<b>96%</b>
Dec	Lyon	196.1	66.9	\$10,300	85%
<b>Dec</b>	<b>Buena Vista</b>	<b>73.3</b>	<b>74.1</b>	<b>\$9,700</b>	<b>88%</b>
Dec	Kossuth	96.0	64.4	\$8,625	98%
Dec	Humboldt	157.0	79.7	\$10,500	97%
Dec	Cherokee	80.0	62.4	\$12,100	96%
Jan	Emmet	148.3	74.2	\$8,700	94%
Jan	Humboldt	80.0	78.3	\$9,850	94%
Jan	Sioux	78.7	66.7	\$15,900	96%
Jan	Ida	160.0	62.7	\$10,500	96%
Feb	Monona	77.0	77.3	\$9,175	100%
Feb	Osceola	80.0	72.1	\$11,000	99%
Feb	Woodbury	117.0	44.9	\$7,000	95%
Feb	Crawford	147.7	57.5	\$8,500	99%
<b>Feb</b>	<b>Monona</b>	<b>153.0</b>	<b>59.7</b>	<b>\$8,000</b>	<b>97%</b>
Feb	Buena Vista	80.0	81.3	\$14,100	98%
<b>Feb</b>	<b>Sac</b>	<b>80.0</b>	<b>71.2</b>	<b>\$10,000</b>	<b>98%</b>
<b>Mar</b>	<b>Harrison</b>	<b>120.0</b>	<b>41.7</b>	<b>\$5,300</b>	<b>96%</b>
Mar	Sioux	68.5	68.5	\$15,350	98%
Mar	Calhoun	120.0	76.9	\$11,650	97%

**Bold denotes Stalcup-brokered sales**

Iowa farmland at -2% and -4% for the 4th quarter, and -2% and -7% for the year as of January 1st. These two surveys, while done two months apart, show differing opinions, which is good evidence of the variability in the current land market.

**In conclusion**, we've gone from a seller's market to one that is more in equilibrium between buyers and sellers. There is still a lot of wealth that prefers to own farmland; however, many farmers have purchased one or more additional farms in the past few years and are willing to digest that for the time being.

Sellers need to be patient and perhaps adjust expectations from the top of the anticipated range to the middle or lower end of that range. Remember that most appraisals are prepared from the perspective of the most likely price that a typical buyer and willing seller would accept. That value is not meant to imply a minimum, nor is it a forecast of future value.

## CSR-2

One item that needs discussion is the new **CSR-2**, released in early February. We included CSR-2 in our Fall 2012 newsletter. CSR-2 was released prematurely by ISU at that

time, then was withdrawn for further study. CSR-2 on your farm may be very similar to the original CSR, or it may vary substantially. We've seen some farms increase by 30 points – still on a scale of 100. Whatever the change is, your farm will not produce one more or less bushel of corn due to it, and that is what creates value. It still comes down to really understanding what each soil is capable of, and that is not always truly indicated by the CSR. Your neighboring farmers are the true market-makers. They understand the capability of soils in their area, have their own opinion of how each farm will produce under their management, and how it fits the economic influences of their area.

CSR and CSR-2 will both be available for some time before CSR fades out and CSR-2 becomes the predominant rating. We expect the market to gradually adapt to CSR-2 with little real influence on final value. If your farm changed substantially in CSR-2, don't automatically assume its worth a lot more or less.

Stalcup Ag Service has conducted a number of land sales in the past few months, both by auction and listing. Check for results at [www.stalcupag.com](http://www.stalcupag.com).

## HAMANN FAMILY HAPPY WITH STALCUP MANAGEMENT

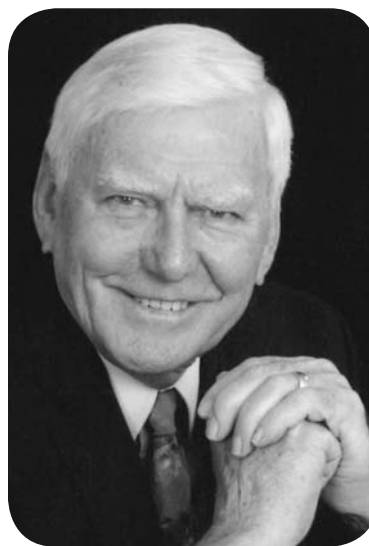
By Travis Olson, Agency Two-Twelve, Sioux Center, Iowa

Herald Hamann, daughter Peggy Adams, and her husband Jerry decided to change farm managers in 2008 on Herald's Woodbury County farmland. After interviewing three farm management companies, they decided to hire Stalcup Ag Service. Herald said, "Making the choice to engage Stalcup Ag as our manager was clear after we met Rex Wilcox (farm manager) in St. Louis."

The farm is operated on a cash rent basis, but obtaining market cash rent was not the only consideration for the farm. Pastureland needed to be converted to cropland to improve returns. Jerry said, "Rex provided initiative and leadership on converting the pasture to cropland and conservation projects. Conservation was always a priority on Herald's farms. Rex has shown excellent skills in working with the operator to improve farming practices, all of which benefitted our farm and operator."

Jerry used the following words to describe Stalcup Ag Service: professional expertise, trust, top-notch, leadership, hands-on, no-nonsense. "I would advise anyone who is looking for a Professional Farm Management Company to assist with the management of their land to consider the Stalcup firm." Herald said, "It wouldn't take long before you recognize they are something very special."

## FORMER STALCUP AG PARTNER PASSES AWAY



Arne Waldstein, AFM, ARA, 89, passed away on February 8, 2014 in Waverly, Iowa. Arne grew up on a Buena Vista County farm and joined Buck Stalcup in 1955. Arne retired in 1999 and he and his wife Marianne moved to Waverly, Iowa to be closer to family.

Arne's leadership abilities impacted many during his career including teaching farm management classes for the American Society of Farm Managers and Rural Appraisers, and representing the ASFMRA and Iowa State University in consultation projects in Turkey and Czechoslovakia. He served in the Iowa State Senate from 1978 to 1986. Arne also published a book called *Water Runs Downhill*, a personal memoir about growing up in rural Iowa in the 1930's and 40's.

Arne was instrumental in helping Buck Stalcup organize the ownership of Stalcup Ag Service. Each farm manager is a partner in the company. Stock ownership transfers from its older members to the younger ones to ensure we provide each client with excellent farm management, appraisal, and real estate services from generation to generation.

The new and much-anticipated Agricultural Act of 2014, aka “the Farm Bill”, was signed into law by President Obama on February 7th. This farm bill contains a considerable amount of change from previous farm bills, probably the biggest changes to the Commodity Title since the 1995 bill which introduced “Freedom to Farm”, which untied base acres and actual production.

Changes include less spending in the Commodity Title, Conservation, Nutrition, and an increased spending to Research, Energy, Specialty Crops, and mostly to Crop Insurance. This bill is projected to save \$16.6 billion over ten years, plus an additional \$6.4 billion via sequestration, according to the Congressional Budget Office.

As we’ve expected for a long time, direct, counter-cyclical, and ACRE payments have been eliminated. In their place we have the choice of Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC). This choice is one-time and is irrevocable for the life of the program. Cotton has a new commodity-specific program called Stacked Income Protection (STAX).

ARC may be based upon your farm (individual) or area (county). If you choose individual ARC, all commodities on the farm must be under individual ARC. If you choose PLC or area ARC, you may then choose to enroll each commodity into the program you deem appropriate.

If you choose PLC, you may then add Supplemental Coverage Option (SCO) to your crop revenue insurance. This is basically the “shallow loss” coverage we’ve heard discussed for several years. If you choose ARC, you are not eligible for SCO. SCO will pay only if the county experiences a 14% loss. (county yield/revenue guarantee vs. actual county yield/revenue).

Conservation compliance is re-attached to purchasing crop insurance, but is forward-looking only. Past issues with conservation compliance will not affect participation in crop insurance.

The Adjusted Gross Income (AGI) test required for annual program participation sets a cap of \$900,000 income for the previous three-year average. Other qualifiers previously associated with AGI have been eliminated. The payment

limitation for ARC and PLC is \$125,000 per individual.

There is currently no change to the “actively engaged” definition but USDA is required to review that within 180 days. Landowners have always been considered “actively engaged” as long as they own part or all the crop. This definition is particularly important to our clientele and is being monitored by ASFMRAs Washington DC representative.

## More on ARC and PLC

PLC is similar to the old counter-cyclical program. Payment is a reference price based on 85% of base acres. In 2014, we will have the opportunity for a one-time yield update, which is 90% of the 2008-2012 average (you may plug in 75% of T-yield if less than 75% of T). The PLC payment will be the Reference Price less the 12-month national average marketing price x yield x 85% of base acres. The reference price for corn is \$3.70 and \$8.40 for soybeans. Let’s work the math: \$3.70 – greater than \$3.70 average price = no payment. \$3.70 - \$3.20 average price = 50¢ x 180 yield x 85% x 100 base acres would = \$7,650 payment.

ARC area will utilize the Olympic average (drop the high and low) of the five most recent years area yield x the Olympic average five most recent years national marketing price (can plug the reference price if that’s higher in any given year). Actual farm revenue will equal the area yield x the national twelve-month average market price. The ARC area payment will be 86% of the benchmark revenue, which is actual revenue x 85% of base acres (not to exceed 10% of the benchmark revenue and payment limit).

ARC individual will work similarly except using your farm production history rather than the area figures (county averages), and instead of 85% of base, this will calculate on 65% of base. ARC also allows a yield plug of 70% of T instead of 75% as in PLC.

There is much to consider in the new program. This space allows only a brief review of the major points. Rules and regulations are still being written for implementation of the program, but now is the time to start understanding the main features.

*Reprinted from Ag Professional Magazine*

## *Since 1942 Our Business Has Been To Improve The Business Of Farming*

- Real Estate Brokers
  - IA, NE, SD, MN
- All types of Sales
  - Public auction
  - Private treaty
  - Sealed bid
- Tax Free Exchanges



1705 North Lake Ave. • P.O. Box 67 • Storm Lake, IA 50588  
(712) 732-4811 • Fax (712) 732-7371  
stalcup@stalcupag.com  
www.stalcupag.com

### **Stalcup’s Team**

Rex Wilcox, AFM  
Terry Argotsinger, AFM, ARA  
Kent Smith, AFM  
Dennis Reyman, AFM, ARA  
Nathan Deters, AFM  
Chad Husman  
Travis Nissen  
Grant Aschinger