Stalcup Ag Service

Today's LAND OWNER

Spring 2023 Volume XLIV No 1

Today's Land Market

Dennis Reyman, AFM, ARA

The market for Midwest farmland, especially prime Iowa farmland, is so widely covered during hot markets that you're no doubt well aware of the major stories. For example, when a property sold for $25,000 last May, it was widely reported. Another parcel fetching $30,000 per acre last November caught even more attention.

I am always reminded of two age-old real estate axioms: "one sale does not make a market" and "location, location, location". Sage reminders that will never become obsolete.

What we're seeing…

Our land auction database covers the northwestern 25% of Iowa, plus surrounding areas. Focusing on Iowa farmland that is at least 85% tillable cropland with no other factors contributing significant value, we find the average parcel size offered during 2022 was 103 acres. The average transaction was $1.6 million and the average value per acre was just over $15,500 per acre. Of these sales, about 20% hit $20,000 per acre or higher while fewer than 10% were under $10,000. Each sale has its own story that goes beyond the $/CSR calculation.

Overall, land values peaked in the 2nd quarter of 2022, then stabilized in the 3rd quarter and slipped slightly in the 4th quarter. We noted a 3% drop in the 4th quarter average after quality is factored in. The famous $30,000 sale was part of the 4th quarter; however, with heavy sales volume, that sale barely affected the overall average.

As we near the end of the 1st quarter in 2023, we note that the total acres offered for sale in this region during the first three months are only slightly less than the past five years. Activity varies considerably by neighborhood. After factoring for soil quality, the overall average land value has been about steady with late 2022.

How about the surveys?

Iowa State University Extension's annual survey reports findings as of each November 1st. This year, the survey was 17% higher for the entire state. Most counties in this region were about 20% higher.

ISU also provides a chart which adjusts land values to 2015 dollars (an inflation adjustment). Today's $11,411 state average adjusts to $9,088 in 2015 dollars. That's a record, besting $8,854 inflation-adjusted in 2013. The 1970's topped at $6,384 inflation-adjusted in 1979.

Farm Credit Services of America releases a semi-annual update of land values based on 21 benchmark farms. As of January 1st, they showed 3.4% higher in the past six months with 12.9% higher year over year. This not exactly comparing apples to apples with the ISU survey. Some of the difference is due to timing, some is due to the survey method versus the benchmark method.

The Iowa Chapter of the Realtors Land Institute releases their semi-annual survey on March 29th, with values as of March 1st. Stalcup Ag Service participates in both the ISU and RLI surveys.

The South Dakota State University Extension land value and cash rent survey will be released in early May.

Land Market Bubbles

On average, Iowa farmland doubles in value about every 15 years. During land booms, it may double in 3-5 years. Currently, the state average is double the 2010 value. Today's averages are about 50% higher than five years ago.

Farmland rarely backs up much in value. Iowa farmland has had a pretty steady upward climb since statehood in 1846. The 2007-2013 ethanol-inspired boom was followed by a 15-20% decline from 2014-2016, then steady until late 2020. Outside of that setback and the crash of the 1980's, Iowa farmland has seen only a few years of minor declines since 1933.

continued on page 3

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.

The Stalcup 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, AFM

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

2023 Outlook

Nathan Deters, AFM

With longer days, plans are kicking into gear for the 2023 growing season. It is a good time to review some of the current topics affecting agriculture.

Weather

After nearly three years of La Nina conditions, we seem to be looking at a change of weather patterns. Most long-range forecasts project rapid weakening of La Nina and either neutral or even El Nino conditions by the time we reach the heart of our growing season. While this is not a guarantee of good weather, historically the odds of hot, dry conditions are lessened as we move away from the La Nina pattern.

On the ground, we are seeing evidence of a pattern change. Northwest Iowa has had above normal precipitation throughout the last 3 months, coming as both rain and snow. While there is a healthy amount of frost in the ground, a decent amount of rain fell pand soaked in prior to the hard freeze. We still have a substantial deficit in groundwater supplies from a very dry late summer and fall, so we will hope for some snowmelt and early spring rains to continue correcting our imbalance. For now, it is at least encouraging to see La Nina leaving and regular fronts bringing moisture that we have not seen enough of over the last few years.

High Input Costs

Costs have gone up! It is true no matter what product or service you are talking about. This year's corn and soybean crop looks to be the most expensive on record to produce. The big-ticket items include fertilizer, seed, chemicals, machinery, and land costs (rent). Each of these categories has gotten more expensive over the past few years. The biggest jump happened early in 2022. This year, prices have stabilized but remain very high. The total cost for corn and soybeans inputs are up at least 40% from 2020.

Last year, there was limited opportunity to lock in prices early on some inputs before the largest price spike. This year no such opportunity existed. Most of the factors causing these high prices have been around for over a year now. The war in Ukraine is a big one because that region of Eastern Europe is a significant producer of fertilizers and components to fertilizer. Russia is the world's top exporter of natural gas used to make nitrogen fertilizer and a major producer of potash fertilizer. Our input prices generally follow the global energy markets, especially natural gas. Other issues carried over from last year include low water levels on the Mississippi River affecting barge traffic and a possible rail strike.

Fertilizer costs have leveled out or softened somewhat this winter, and the supply of fertilizer has slowly improved despite all the global turmoil and supply chain issues. We have no concerns about local fertilizer supply this spring. Looking forward, we expect the fertilizer markets to remain expensive and volatile for at least another year, but it seems the products we need will be available. Choosing when to purchase fertilizer has become more like marketing grain in recent years, with significant upside

continued on page 6

continued from page 1

Today's Land Market

Inflation and higher interest rates

Borrowers enjoyed extremely low interest rates over the past 15 years. That has changed now that the Federal Reserve is maneuvering interest rates in an attempt to manage inflation. Prime rate is 7.75%, the highest since 2007 which is a shock to the under-40 folks who've normally worked with rates at half that. Even older borrowers need to adjust after such a long period of lower rates. Actually, the daily weighted average over the past 75 years is about 6.4%, which includes the extreme rates of the 1980's.

Higher rates obviously raises the cost of renting money. This impacts residential properties quickly, since borrowers typically try to buy as much house as they can afford.

Farmland is a little different since it is an income-producing property that is most often purchased as an add-on to an existing operation. Cash flow from the entire operation subsidizes the land purchase and may be strong enough to offset the effect of higher interest rates for the time being.

Banks and others have been advertising CD rates of 4% and higher. That will keep some money in the bank instead of chasing a 2-3% cash returns in farmland. Of course, CD's don't appreciate in value and in fact suffer erosion of purchasing power during inflationary periods.

What's ahead?

Many family farms have grown to the extent where another parcel can be purchased and covered with the cash flow of the overall operation. Does that make it a sound investment? Since building a farming operation is a generational process, it does make sense over the long run if they can handle the cash flow requirements in the short term.

This does not mean that paying for $15-20,000 per acre land is easy. For example, if one were to borrow $15,000 per acre over 20 years at 6% interest, the payment would be more than $1,300 per acre. Lenders won't approve that because cash flow from the property itself is insufficient. Obviously, one must either be able to either put sizable cash toward the purchase, or include more land as equity for a loan to spread the cost.

All-cash purchases are not necessarily the norm. For example, Farm Credit's annual report shows growth in long-term mortgage loans but steady for production loans and intermediate-term loans. Mortgage loans account for nearly 62% of their total loans compared to 57% in 2019.

Considering that local farmers are the buyers of around 75% of land offered for sale and are most often the winning bidder and/or second bidder at auctions, they are the driving force behind land values. When farmers experience tighter cash flow for long enough and their cash reserves shorten up, they will push bids a little less and today's results will become harder to achieve. We've talked with a number of farmers who would like to buy land but are waiting for some pull back in values.

Short term, softness in the land market could be expected at some point, but no one can exactly foresee the timing. We all understand that while the long-term trend line is upward, short-term realities always include ups and downs.

Bottom line is we believe there is too much equity in Iowa agriculture and too much optimism for the future of farming for land values to crash. Outside economic or geopolitical forces would need to force that to occur. However, some softness in values will likely occur at some point in the next few years, which many will see as a buying opportunity.

Foreign Ownership

Here's another hot topic in the media. South Dakota is working on legislation limiting foreign ownership of farmland. Iowa does restrict foreign ownership to those with permanent residency (green card). Some at the national level are pushing for restriction of foreign ownership of farmland. It is an issue of national security, and it is also a local issue from a sociology standpoint. Will foreign owners care anything about reinvesting locally? If you own land far away, do you send a donation to their local volunteer fire department, hospital, or food pantry? It would be appreciated.

Following are two tables of selected sales of "good" farmland in South Dakota and Iowa which have sold recently in the region. Stalcup-brokered sales are in bold and highlighted in green. See page 5 for the Iowa sales table.

Selected Sales of Good Farmland- South Dakota

Date	Acres	% Tillable	County	$/Acre	PI
January	71.50	99%	Lincoln	$13,600	71.7
December	79.50	100%	Minnehaha	$13,900	71.9
December	233.44	99%	Clay	$7,950	76.8
December	80.00	93%	Lincoln	$13,000	83.6
November	72.64	100%	Lincoln	$16,000	87.9
November	160.00	98%	Turner	$11,500	86.0
November	80.00	99%	Hutchinson	$12,400	85.2
November	151.49	95%	Lincoln	$14,200	80.0

Grain Markets

How much longer can the current bull market last in corn and soybeans? That is, without exaggeration, the multi-million dollar question. This current bull market began during the second half of 2020 and has had impressive staying power since then. Is this run different than in the past or are we bound to repeat history, as we usually are inclined to do.

Grain brokers (and stock brokers) have a disclosure paragraph at the end of their email or newsletter stating that "past performance is not an indication of future behavior" or something similar. This is a dubious statement. Of course past performance can give us insight into future moves, what else gives us a better predictor? Human nature is unchanging and as much as we like to think we have evolved and people change, they don't. Individual people can change, but when everyone is put together (the entire market), history tends to repeat itself.

"Those who cannot remember the past are condemned to repeat it." Whether that quote was from Edmund Burke or George Santayana doesn't really matter for this discussion. It probably just means something different when you apply it toward the grain markets. We can try to predict what will happen to the markets in the future but our best guess is to take all current information into account and apply it to the past.

We recently attended the annual meeting of the Iowa Chapter of ASFMRA. This is a two day meeting when we bring in presenters to talk about a number of topics. One topic that is always important to our group is grain markets. This year's grain market presenter was very entertaining and got a lot of us thinking about the current longevity of our market.

Grant Aschinger, AFM

Grain markets may not be a physical object subject to the laws of gravity but they sure seem to adhere well to the old saying of what goes up must come back down. Another way to say it is that markets tend to return to where they came from. Since the beginning of the ethanol boom in 2007, the comfort zone for the corn market is between $3.40-4.50 per bushel. The market has broken out of that range multiple times since then, but the tendency is for a return back to that range when the supply of corn is not threatened.

The previous bull market started in July of 2010 when we went from $3.73 up to an all-time high of $8.49 in August of 2012. It started dropping in March of 2013 until it was over by September of 2013 when prices returned back to the comfort zone of $3.50-4.50. That was the longest running bull market in the last 40 years. This current run started in August 2020 and broke above the $4.50 range in December of 2020 and peaking at $8.24 in April of 2022. If history is to repeat itself, there is significant risk to the current market dropping back into its previous range by the end of 2023 or early 2024.

Most Recent Data

The most recent supply and demand data from USDA has 2022 crop ending stocks in August of 2023 projected to remain historically small for both corn and soybeans. Corn stocks to use percentage is projected to be 9.1% and soybeans is expected to be 5.2%. While our domestic stocks are low, South America has been harvesting a soybean crop that will be one of their largest ever. The majority of South America's corn is grown as a second crop following soybeans, so their corn crop size will not be known for some time.

USDA's Ag Outlook Forum on February 23rd and 24th provided their first guess at 2023 acres for corn and soybeans. Planted corn acreage is estimated to be 91 million acres and soybeans are expected to be 87.5 million acres. Other than 2021, which was a very dry planting season, this would be the most corn acres planted since 2016 when we planted 94 million acres. Soybean acres would be exactly the same as last year, tied for the third most ever. The most soybeans we have ever planted in the US was 90.1 million back in 2017.

Estimated yields given for 2023 are always a guess

continued from page 4

Grain Markets

at this point since we are more than a month away from planting anywhere in the Midwest during the Forum. The default guess is an adjusted trend line yield. Many analysts disagree with this method but we have to start somewhere.

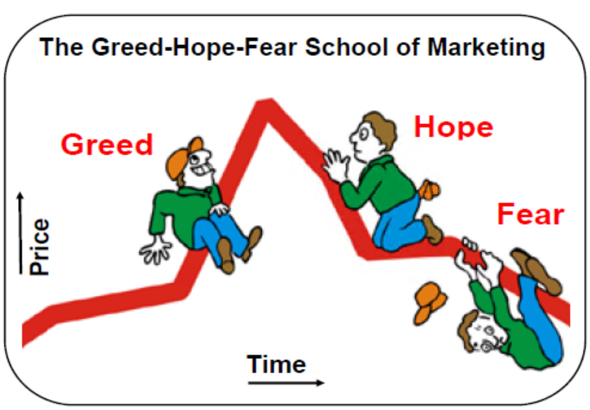
Trend line national corn yield is 181.5 bushels per acre and soybeans is 52 bushels per acre. A corn yield of 181.5 would be 4.8 bushels better than the previous record produced in 2021 when a large part of the Corn Belt had nearly ideal growing conditions. 52 bushels per acre for soybeans would tie the current national record crop grown in 2016.

USDA also provides an estimate of the remaining factors that create the supply and demand tables during the Outlook Forum. Assuming both of these yield scenarios came true and the other import/export and demand estimates are correct, corn ending stocks in August 2024 would expand to 1.887 billion bushels (13% stocks to use) and soybean stocks would also grow to 290 million bushels (6.5% stocks to use). Both corn and soybean prices would drop dramatically if these numbers are accurate. Estimated 2023 crop season average cash prices are $5.60 for corn and $12.90 for soybeans.

Conclusion

The 2023 crop is going to be the most expensive to produce in history. High input prices have pushed breakeven levels to new highs and the risk to producers is very high. That being said, current prices being offered for the 2023 harvest are still profitable and should be protected with either sales or options.

The last time I wrote about grain markets in this newsletter was the Summer 2021 edition and ended the article with a good quote about the grain markets. “The cure for high prices is high prices and the cure for low prices is low prices.” We were hoping that the cure for high prices would be lost for a little while and our wish came true. Now the question is for how much longer?



continued from page 3

Stalcup-brokered sales are in bold and highlighted in green.

Selected Sales of Good Farmland- Iowa

Date	Acres	% Tillable	County	$/Acre	CSR2
February	74.03	100%	Pocahontas	$15,600	86.1
February	40.00	96%	Buena Vista	$15,100	85.3
February	80.00	96%	Woodbury	$15,000	74.3
February	80.00	96%	Palo Alto	$17,750	78.3
February	120.00	98%	Webster	$14,300	71.2
February	79.00	100%	Crawford	$14,500	73.1
February	99.01	96%	O'Brien	$19,100	95.3
January	160.80	96%	Dickinson	$14,900	85.3
January	80.71	96%	Lyon	$20,000	67.6
January	64.12	93%	Woodbury	$15,750	71.5
January	79.56	98%	Pocahontas	$13,800	81.5
January	75.12	90%	O'Brien	$15,500	93.5
January	111.00	98%	Sac	$16,300	86.8
January	80.00	99%	Buena Vista	$17,400	94.6
January	80.00	99%	Clay	$21,700	97.0
December	120.00	98%	Greene	$16,500	87.3
December	**155.18**	**97%**	**O'Brien**	**$16,100**	**92.7**
December	79.53	95%	Plymouth	$21,000	86.8
December	60.00	100%	Sac	$16,700	88.0
December	80.00	99%	Dickinson	$15,100	81.6
December	320.26	99%	Emmet	$13,500	84.1
December	73.37	95%	Sioux	$24,000	96.3
December	61.51	99%	Hamilton	$16,000	80.5
December	80.00	97%	Lyon	$23,450	67.7
December	80.17	95%	Osceola	$15,400	85.9
November	55.05	97%	Calhoun	$16,600	88.3
November	67.67	98%	Sac	$17,900	89.8
November	79.01	100%	Clay	$21,300	96.9
November	73.64	100%	Monona	$14,000	60.1
November	80.00	99%	Humboldt	$16,750	85.5
November	**79.00**	**94%**	**Pocahontas**	**$16,400**	**85.2**
November	73.5	98%	Cherokee	$21,000	97.1
November	80.00	100%	Lyon	$18,500	91.9
November	73.19	99%	Sioux	$30,000	96.6
November	151.91	89%	Osceola	$16,900	85.3
November	148.00	94%	Emmet	$12,200	82.0
November	67.00	96%	Buena Vista	$15,800	87.5
November	40.54	98%	O'Brien	$21,000	95.1
November	320.00	94%	Carroll	$20,000	88.2
November	39.72	98%	Palo Alto	$12,900	86.4

Upcoming Stalcup Land Auctions:

March 22: 306.48 taxable acres Lincoln Township, Plymouth County.
Parcel 1 (NE 1/4): 152.32 taxable acres
Parcel 2 (NW 1/4): 154.16 taxable acres

Check our website for updated sales results and other auctions

continued from page 2

Progress Report

and downside risk. Most retailers now use formal contracts for fertilizer purchases, which is a change compared to how business was done in the past.

Geopolitical Issues

It has been a year since Russia invaded Ukraine. Wheat prices, and to a lesser extent corn, jumped on the supply uncertainty caused by the disruption in this key grain-producing region. What have we learned since? Production has gone down in Ukraine as could be expected, but grain markets have normalized, largely thanks to a U.N. brokered agreement to allow grain exports to flow out through the Black Sea ports despite the ongoing hostilities. Whether this will continue is as uncertain as what phase the war will take, but at this time, it seems likely to continue, as food availability is a humanitarian issue, and Russia's allies are some of the biggest importers of this grain.

China is always a topic for Midwest agriculture industry. They continue to be our largest export market by far for soybeans, and are also a very important destination for our corn, pork, and increasingly, beef. Our relations with China during the previous and current U.S. administrations could be described as tense at best, and these tensions seem to be increasing with the Taiwan issue and China's aligning with Russia in the current Ukraine war.

Their intention is to become a 2nd super power and as such, we will increasingly be facing off in various situations. We can hope that agriculture trade does not become a casualty of these tensions but the possibility is real. In the near term, China's economy will grow as they come out of Covid lockdown, which will be a positive for food demand.

Agriculture and Energy

Agriculture and energy have been part of the same discussion for 15 years. Fully 40% of our corn crop is used for ethanol, and when oil prices go up as they have over the past year, this industry benefits as well. The ethanol industry is mature, however, and is looking for regulatory help in moving blend rates higher to counteract what will likely be lower liquid fuel usage as electric vehicles increase.

Environmental issues are forefront these days, and how "green" your product is perceived is part of the discussion. Towards that end, the ethanol industry is going down the road of carbon capture to improve their green score and hopefully protect long-term ethanol demand. There are currently two projects on the board affecting our trade area. Most area ethanol plants are moving towards capturing carbon and converting it into a form that can be transported by pipeline to permanent underground sequestration sites in either North Dakota or Illinois. The companies building these pipelines are currently in the process of securing easements under private land across the state. While getting easements signed by hundreds of individual landowners is a monumental process, it does seem that there is enough financial incentives (including government infrastructure funds) that the projects will move ahead. A number of our clients are in the path of these proposed pipelines.

The environmental issue is also looking to affect our other major crop – soybeans. The **renewable diesel** market, while just getting going in some states, looks to have huge potential from the trucking, maritime shipping and airline industries as the push comes to replace diesel made from fossil fuels. While diesel can be made out of numerous natural fats and oils, soybean oil is the largest source. This is a big enough story that it deserves its own article in a later newsletter, but it is certainly an exciting time for this new industry, and should provide a solid demand base for soybean producers.

Partner Serves as President of ASFMRA State Chapter

Grant Aschinger, Accredited Farm Manager, was installed as President of the Iowa Chapter of the American Society of Farm Managers & Rural Appraisers at their annual meeting at the FFA Enrichment Center in Ankeny, Iowa on February 1, 2023. Grant will serve a one-year term, then will serve one year as president of the chapter's Education Foundation. He has served on several chapter committees including professional education, scholarship and membership, along with serving on the chapter's board of directors. He previously was presented with the chapter's Early Career Award in 2021. Grant joined Stalcup Ag Service in 2013.

Stalcup Ag Service has a long history of ASFMRA leadership, beginning with H.E. "Buck" Stalcup who held the Executive Vice-President position for 15 years before serving as national president in 1965. Other past and present Stalcup Ag Service partners that have served as Iowa Chapter president include Nathan Deters, Kent Smith, Dennis Reyman, Rex Wilcox, Dwight Young, and Arne Waldstein.

Farmland and IRA's

Dennis Reyman, AFM, ARA

If you've ever wondered about owning farmland with your Individual Retirement Account, the answer is you can. Of course, it's not without strings attached. Here are the considerations:

- You must purchase the land with cash sitting in the IRA.
- You cannot borrow against it.
- You cannot personally manage it. An asset manager, such as a farm manager, must be employed so you are hands-off.
- You do have the choice of leasing alternatives, such as cash rent or custom-farming. As noted, you will be hands-off on the management.
- Profits are re-invested within the IRA.
- It must be valued annually. This can be done by an appraisal or possibly by a cheaper option, a broker's opinion of value.
- You must have a custodian for the overall IRA account.
- You will incur annual fees for the custodian, manager, and valuation.
- At an age designated by IRS (currently 73), you will begin withdrawals as a percentage of the overall IRA value.
    - o For example, a required withdrawal of 5% on a $2 million IRA would be $100,000 per year. That withdrawal may come from your farm operations or from other cash resources held within your IRA account.

The main drawback we see is if you do not have the funds to meet the required withdrawals when that time comes, you will need to liquidate all or part of the farmland to make the withdrawal. Other assets, such as stocks, are easier to sell incrementally.

This seems to work best for those with a diversified IRA portfolio so real estate is not an overwhelming portion, and for those with a longer time line so the non-real estate portion can grow sufficiently to meet future withdrawals.

Bottom line is this can be a good diversification tool for those who prefer to include income-producing real estate within their IRA. For further information, it is best to consult with your tax advisor.

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

BUSINESS REPLY MAIL

FIRST-CLASS MAIL PERMIT NO. 200 STORM LAKE, IA

POSTAGE WILL BE PAID BY ADDRESSEE

STALCUP AGRICULTURAL SERVICE INC
PO BOX 67
STORM LAKE IA 50588-9922

Stalcup Ag Service
P.O. Box 67
Storm Lake, IA 50588
www.stalcupag.com

We hope you enjoy our Today's Land Owner!

If you are:

- Requesting additional information
- Have an address change or correction

Please provide **detailed** information on the attached return card

PLEASE TEAR OUT AND RETURN

STALCUP AGRICULTURAL SERVICE, INC., BOX 67, Storm Lake, IA 50588
1-888-732-4811 – Phone 712-732-7371 – Fax www.stalcupag.com

ALL INQUIRIES ARE CONFIDENTIAL

Check items below you would like additional information on:

Professional Farm Management	Real Estate	Appraisal
______ Management Services	______ Selling	______ Estimate of Market Value
______ Leasing Alternatives	______ Buying	______ Estates
______ Custom Farming	______ Exchange	

Please provide ALL the information below and mail.

NAME ______________________________ FARM LOCATION:

ADDRESS ______________________________ - SECTION ______________

CITY/STATE/ZIP ______________________________ - TOWNSHIP______________

PHONE ______________________________ - COUNTY______________

☐ Please remove name listed above from mailing list (please provide OLD name & address)