Stalcup Ag Service — Today's LAND OWNER

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2015 CASH RENT DECISIONS

By Kent Smith, AFM

The potential for a big crop in 2014 is putting downward pressure on corn and soybean prices. Less revenue is available to cover all costs, including rent. Many farm tenants will try to negotiate lower cash rents for 2015.

Whether you reduce your cash rent or not will depend on what adjustments you have made over the past three years. In reviewing cash rent history on the farms we manage, increases of $100 per acre or more occurred from 2011 to 2012. Corn prices in August and September 2010 were below $4.00 per bushel as negotiations for 2011 rents began. By August and September 2011, corn prices were in the $6 to $7 per bushel range, providing drastically more income potential as rent negotiations for 2012 got underway.

Most rents increased another 3 to 5% or $10 to $20 per acre from 2012 to 2013 as crop prices stayed high but yields were lower due to drought in 2012. Nearly all our cash rents stayed the same from 2013 to 2014. In our case, substantial increases have been made since 2011. Even with higher cash rent, many tenants saw record grain farming profits during this period.

If you did not increase your cash rent, an upward adjustment may be justified for 2015. You owe it to yourself **to be knowledgeable** on your farm's income potential and ask for fair market cash rent.

Landowners who have increased rents over the past few years may need to review their rent based on the market. If your cash rent reflects the income from $6 to $7 per bushel corn, a downward adjustment may be in order. If you were less aggressive with rent increases, you may be able to leave your cash rent steady for 2015.

Let's take a look at what is supporting cash rent even as crop-farming profits decline. The biggest factor is **competition** for land. Large profits over the past few years have driven huge investment into newer and larger farm equipment with state-of-the-art technology which allows farmers to fine-tune inputs on every acre. Depending on the size of the operation, they may need more land over which to spread equipment costs.

We've also noted a large influx of younger folks entering family farming operations. It is great to see young people entering the farming profession. Everything works as long as profits stay large enough to cover all members of the farming family. As margins tighten, these operations may find they need more land to **spread costs**.

Both of these factors provide strong demand for land and provide a competitive floor for cash rent. This demand is evident when land is offered for rent in a public setting or offered to several neighboring farmers in a bidding situation. Each tenant factors these items into his cash rent offer. The high-end cash rents that you hear talked about often come from bidding situations.

Rents negotiated with long-term tenants are often not quite at levels generated by open competition; however, recognition of these market factors supports privately negotiated cash rents as well.

A word of caution if you decide to rent to the highest bidder, or happen to receive a call offering more rent than your current tenant is paying – cash flow in some farm operations is tight. Make sure to get financial information on your tenant or prospective tenant, file your Landlord's Lien with the Secretary of State in Iowa before March 20, and/or get all your cash rent on March 1 to protect yourself.

Summary:

- Cash rent decisions for 2015 will not be easy.
- It is your land, so make sure you are informed before setting your 2015 cash rent.
- Neighborhood competition is a consideration. Understand where you are in the current range.
- Our farm management team can run an income/expense analysis for your farm to provide an idea of where your cash rent range should be.
- The ultimate goal is to arrive at a cash rent which provides the landowner and tenant each an opportunity for a fair return.

In This Issue

TODAY'S LAND MARKET

by Dennis Reyman, AFM, ARA

Our past two newsletters have noted a variable land market in late 2013 and steady to slightly stronger in early 2014. We continue to see steady to somewhat higher results for many of the land auctions we've tracked this spring and early summer. Our database includes 89 auction sale results by June 30, which is nearly an identical number to 2013 and 2011. In 2012, we had 142 results in our database by the end of June.

From April 11 to June 19, we tracked 21 sales with 11 selling for $10,000 per acre or more. Eight of the lower ten sales brought $9,100 to $9,950 per acre. The higher-dollar sales gain the most attention, but it is important to note that only 40% of the sales we've tracked so far this year have exceeded $10,000 per acre. It is also important to note that land with lower-quality soils, more waste land, poor drainage, or more difficult farming features may still sell in the $5,000 to $6,000 per acre range.

We also noted in our Spring newsletter that the recent high in Sioux County was $15,900 per acre. That has been topped by an 80-acre tract near Boyden which sold for $20,400 per acre on June 9. That is not the all-time high but easily the highest sale so far in 2014. The Boyden area is ground zero for $20,000 per acre sales. Record cattle and hog profits have benefitted the livestock-dense Sioux County area more than other parts of the region.

Certainly notable in their own right are sales in southeastern Calhoun County selling for $13,600 and $12,550 per acre, a farm in eastern Crawford County selling for $13,500, and 80 acres in western Cherokee County selling for $14,100 per acre. All of these sales were quite strong for their areas at the time.

It is rare to see full sections offered for sale. A section is one square mile. A full section in southeastern Dickinson County was sold June 12, offered as choice of two parcels. The west half sold for $10,600 per acre and the east half, which was severed by a drainage ditch, sold for $9,950 per acre. The same buyer took the entire unit.

Recent surveys include the Iowa Realtor's Land Institute opinion survey which showed a decline in land values in Northwest and West-central Iowa by about 4%. North-central Iowa was down about 7.2% from September to March. Most of this decline occurred the second half of 2013, as we've noted in previous newsletters. It was not surprising that north-central Iowa showed more softness after two straight years of very challenging weather and reduced corn and soybean yields. The Federal Reserve Bank of Chicago showed a decline of 3% from a year ago for western and north-central Iowa, but the first quarter of 2014 showed a gain of 1% in western and 4% in north-central Iowa. Our analysis of actual sales results agrees with these survey results.

The bankers who responded to the Fed survey mostly expected land to stay steady for 2014, but with growing sentiment that land values could head downward. The quarterly Fed survey also includes credit conditions. It is worthwhile to note that loan demand was up for a second straight quarter compared to a year ago, while loan repayment rates were lower than a year ago. It's the first time in four years that non-real estate loan demand was up two straight quarters. Availability of funds is good and interest rates remain favorable for borrowers.

The projected US and global corn supply as measured by the projected year-end carryover will be vital to land values. A large corn crop with carryover approaching 2 billion bushels of corn would likely put corn prices at lower values than we've seen in five years. If 2015 produces similar results, we'd likely be in for several years of low corn prices which would decrease demand for land. We'd probably see more variability in land values across the region as a result.

Following is our table of selected land sales across the region since March. Stalcup-brokered sales are in bold*.

Selected Sales of Good Farmland

Date	County	Acres	CSR	$/acre	Tillable
March*	**Sac**	**80.0**	**71.2**	**$10,000**	**98%**
March*	**Harrison**	**160.0**	**40.0**	**$5,000**	**97%**
March*	**Harrison**	**120.0**	**41.7**	**$5,300**	**96%**
March	Sioux	68.5	68.5	$15,350	98%
March	Calhoun	120.0	78.8	$11,650	97%
March	Ida	80.0	43.2	$7,100	97%
March	BV	80.0	72.4	$8,700	98%
March	Pocahontas	80.0	81.3	$12,000	97%
March	Woodbury	156.0	46.0	$6,850	82%
April	Plymouth	118.6	57.5	$6,250	98%
April	Monona	146.9	66.2	$8,100	91%
April	Dickinson	80.0	71.2	$10,200	96%
April	Cherokee	80.0	67.6	$14,100	93%
April	Crawford	80.2	61.5	$13,500	99%
April	Calhoun	80.0	81.4	$13,600	98%
May	Dickinson	80.0	75.0	$10,350	92%
June	Carroll	151.7	60.0	$10,250	95%
June	Osceola	76.2	73.4	$9,400	89%
June	Sioux	80.0	76.2	$20,400	98%
June	Dickinson	319.9	70.5	$9,950	96%
June	Cherokee	78.0	57.5	$9,600	97%
June	Lyon	80.0	66.3	$9,100	96%
June	Humboldt	75.0	79.1	$9,200	95%
June	Kossuth	120.0	78.5	$11,700	96%
June	Clay	82.0	80.7	$14,050	97%

***denotes Stalcup-brokered sales**

Upcoming Stalcup Sales/Auctions

Date	County	Acres	CSR
Listing	Greene	150.0	73.8
7-10-14	Woodbury	71.6	49.1
9-25-14	BV	160.0	74.0

Check our website for more information on these land auctions.

TOPICS IN THE AG NEWS

by Chad Husman

Each year, one or two topics get a lot of attention in the ag media. The topics receiving lots of coverage this past year have been drones (unmanned aerial vehicles or UAV's) and cover crops. Let's examine each topic:

Drones have been coming onto the ag scene for at least three or four years, with research going farther back. In the early 2000's the problem of blurry imagery due to wind shaking an airborne vehicle limited the potential of this technology. That problem has been solved and drone imagery is about to take off.

Aerial imagery and scouting have been around for decades, actually for more than 150 years. Hot air balloons were used to scout enemy troop movements in the Civil War. Aerial photography for Iowa farmland from the 1930's and later years is available on the Iowa geographic map server website. Black and white, color, near-infrared, RGB, and other imagery have also been around for decades, all taken from airplane-mounted cameras. In fact, Stalcup Ag Service utilized infrared imagery in the 1980's to try to locate old tile lines. It worked if soil moisture conditions happened to be perfect. The drawbacks of the old ways were many, including expense, timing, weather, lack of clarity, and other obstacles which made such imagery interesting but not always so useful.

Drones, with today's photography technology, will solve those problems. At this time, FAA allows drones to be used by farmers for their own purposes on their own fields with a flight ceiling of 400' and range within eyesight. Charging for drone flights over other fields is currently illegal. This is likely to change at some point as more study is completed.

Imagery is real-time as camera views stream into the laptop computer on the ground. Some models of drones are able to hover over a spot for closer inspection. We know of appraisers in Illinois using drones to inspect high-rise grain-handling systems. All sorts of crop scouting and problem solving will become more efficient with the capability brought about with this technology. Drainage issues, pests, hail or wind damage, even cows in the corn can now be scouted much more efficiently. While on-the-ground inspection will still be necessary, the time savings and greater knowledge gained with images provided by drones will be fantastic.

As with any new technology, purchase cost is high at this time. Professionals expect prices to drop considerably in the next several years as more products and newer technology come on the market. It seems likely that field scouting with drones will become as widespread as GPS-guided steering and other technology adapted by agriculture over the past decade.

Cover crops have also caught a lot of attention. The idea is great – plant a crop late in the season which creates enough growth going into winter to help control soil erosion, increase organic matter, capture soil nutrients within the plant, and perhaps even provide grazing or spring feed for those with cattle.

The very wet conditions which persisted in our eastern territory through early summer 2013 resulted in many fields which could not be planted. Many of those were planted to a cover crop in late summer. Oats, rye, radishes, turnips, and other plants were tried with varying success. These will, of course, help avert "fallow syndrome" which can occur the following year when a crop has not been planted the previous year. Radishes in particular are interesting since the tap root creates channels in the soil profile which help break up compaction and allow for improved water infiltration. As expired cover crops decompose the following year, they release nutrients for crop use. Crop residue from last year's corn and soybeans also provides nutrients as they decompose.

Our growing season at this latitude can be a bit short for good establishment of some cover crops. Early seeding into a standing crop of corn or soybeans requires expensive aerial application and also requires a good rain to engage the seeds into the soil and instigate germination. We also wonder how well it will work if a stand of say, rye is developing in a bean field which then has delayed harvest in very wet conditions like we had in 2009. Since the cutter bar of the combine runs at ground level, having a growth of wet rye grass to cut through may result in a slow, costly, and exasperating harvest.

We strive to improve soil conditions for growing today's crops and those in the future. However, wide-spread adoption of cover crops in this region is still probably a few years away since more experience over a variety of weather conditions really is needed.

IOWA LEASE TERMINATION DEADLINE IS SEPTEMBER 1

The Iowa lease law requires notification from either party, which could be the landowner or farm tenant, in writing **prior to September 1** if changes are to be made to your current lease for the upcoming 2015 lease year, which is March 1, 2015 to February 28, 2016.

It does not matter if your lease is a verbal or a written lease, notification must be in writing from either party by September 1.

Written termination as provided by Iowa Code must be either delivered via certified mail or acknowledged by the tenant's signature **prior to September 1**.

If you need assistance terminating your lease, contact one of Stalcup's farm managers.

NORTHWEST IOWA PROGRESS REPORT

by Nathan Deters, AFM

The 2014 planting season was a welcome return to less stressful conditions after the struggles of 2013. Despite a slow start, corn planting was largely completed by the first week in May, and soybeans were finished by the third week of May. Cool conditions and mid-May frost slowed plant emergence and initial growth, but by late May warmer weather returned and the crops were on a normal pace.

June was another story. Most of the northern part of our territory, which would be the northern 70 miles of Northwest Iowa, saw 200% to 300% of normal rainfall over this period. Sioux City reported record rainfall for the month already on June 22. We entered the spring concerned with low soil moisture levels, and rains early in the month soaked in fairly well. The week of June 14th pushed us over the top, as a widespread 7 to over 10 inches fell across this area. Results of the deluge have varied. Areas near the major rivers flooded, with record or near record levels along the Big Sioux and Rock Rivers. The Little Sioux and Des Moines River basins also saw extensive flooding.

The Missouri River itself has not flooded, but tributaries and drainage ditches have run bank-full for extended periods. Gavins Point Dam in Yankton SD was reduced to minimum outflow to accommodate inflows from downstream tributaries. Crop loss is substantial on the bottoms from Sioux City to Onawa since excess rainfall cannot escape on the poorly-drained clay soils. On the rolling loess soils west of Storm Lake, water has drained away well and crops look good at this time. However, erosion is moderate to severe on some fields. Even some no-tilled fields with terraces and grass waterways suffered unusual erosion in certain areas.

The glacial soils to the east have many areas ponded or saturated. In these areas of the field, crops will either be lost or substantially reduced due to loss of nitrogen and low levels of oxygen in the soil. At the time of this writing in early July, it seems doubtful that very many of the drowned out areas will be replanted to soybeans, which means any production from these acres will be limited.

In general, from Storm Lake south, the rainfall has been more moderate and crop conditions are mostly good with crop development on a fairly normal pace. Accumulation of Growing Degree Units (GDU's) are slightly ahead of the five-year average and well ahead of last year.

Grain Markets

The corn market has moved lower since early May. Once corn planting progress was no longer in doubt for most areas, the market took away any weather premium. New-crop corn prices are currently under $4.00 per bushel. Trend-line corn yield for the US is 165 bushels per acre. If we achieve this or slightly higher yield on an expected 91.64 million planted acres this year, supplies will be quite comfortable. A caveat is that a yield this high has not been reached since 2009, and a nick in yield potential has recently taken place with wet weather and storm damage in northern Iowa, Minnesota, and parts of Nebraska. Nevertheless, grain traders rarely worry about too much rain. Unless the problem spreads or an extended period of very hot weather locks into the Corn Belt, any near-term rallies are likely selling opportunities.

Low corn prices benefit end users and strengthen long-term demand. Exports have rebounded more sharply than expected from last year's record lows. Livestock prices are at very high levels, which should spur expansion and increased feed usage going forward. Ethanol margins are also good, and recently a weekly production record was set.

New crop soybean prices are currently under $11 per bushel. Old-crop prices are supported by strong exports and very tight supplies. The market is trading a record new-crop yield of 45 bushels per acre and record 84.8 million planted acres. We are starting to become skeptical of such production considering the wet start to the year in many areas.

A long growing season remains for soybeans, and we expect a lot of price volatility depending on the weather. A swing in production of just a few bushels per acre can mean the difference between a large carryover and lower prices into next year, or a repeat of very tight stocks and better than anticipated prices, as we have this year.