

## 2017 Lease Considerations

by: *Nathan Deters, AFM*



**Late summer brings along thoughts on possible lease changes for next year.** As always, the factors needed to evaluate a change are a moving target. A brief review of these factors is in order as we approach the mid portion of the growing season.

### Grain Markets

Just when the trade thought the grain markets were dead in late winter, circumstances changed and led to a strong rally into late spring. The earlier conventional wisdom was that last year's huge crops, a very good start to the South American crop, a strong dollar, and Chinese economic weakness would all combine to keep crop carryovers high and limit any price strength. Things started to change with problems late in the South American growing season, both too dry in Northern Brazil and too wet in Northern Argentina. Soybean and corn production estimates started working lower. At the same time, Brazilian political turmoil led to significant strengthening of their currency versus the dollar, which made our exports to China more competitive.

China has continued to buy soybeans and our export pace has exceeded predicted levels. Shorter South American supplies and improved Chinese demand led the USDA in April to reduce soybean carryover estimates by 25% to 300 million bushels, which helped contribute to the longest bull run in soybeans in 43 years and a cash price improvement of nearly \$3.00 per bushel. Corn was pulled along by the strong soybean market with a price increase of \$.70 per bushel. Carryover estimates are more comfortable for this crop at over 2 billion bushels.

Both crops had price peaks in mid-June at nearly \$11.00 per

bushel for soybeans and \$4.00 per bushel for corn (new crop bids) before improving near-term weather forecasts led to a quick correction lower, sending corn prices from its high to its low in 10 days. Price volatility is likely not over as we are approaching the critical corn pollination period in mid-July and soybean reproductive stage in early August. There are some concerns as we enter this period coming off a very warm and dry June in many areas. A continuation of June's weather over the upcoming 6 to 8 weeks would lead to reduced yields and significant tightening of supplies. A switch to a more benign weather pattern would likely result in a repeat of last year's record yield results.

### 2017 Plans

What has the market rally of this spring taught us? It has been a reminder that in today's agriculture things can change in a hurry. We have been fortunate to have had large crops in most major growing regions over the last few years, but with ever increasing world demand any disruption in supplies can lead to a quick jump in prices. Before deciding on lease terms for 2017, it is important to be aware of how things can change and to take a number of factors into account. Among these are the following:

- Grain prices and likely yields
- Input price trends for 2017
- Where is your rent level compared to the area, and when was it last adjusted
- Neighborhood competition for land

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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

## 2017 LEASE CONSIDERATIONS continued...

Every farm's circumstances are different and more information is always better. At Stalcup Ag Service we work with grain marketing, input purchases, the local land market, and farm operators on a daily basis and can help you accumulate the information you need as you contemplate plans for 2017. **Is this the year to consider a change in operating methods to a modified share lease or custom farming?** We can help you with this decision as well. This year is a good reminder that operating methods where the owner participates in crop production allows them to reap the benefits that the jump in grain prices provide.

A misperception that we often run into is that lease terms for the following crop year needs to be set by September 1. While it is important to remember that if you want to make a change in an existing lease, a written termination must be served to the operator by August 31st; **there is no deadline for having new lease terms in place.** Taking more time to assess the finish of this year's crop and price trends is beneficial to the goal of having the most information possible before settling on terms for next year.

## A Satisfied Client

One of the highlights of our job is the chance to work with some very interesting clients. One of our real estate clients, Ken Erickson, was kind enough to send this letter after the completion of the auction sale of a farm owned by Ken and his sister-in-law Carol in Emmet County and the exchange of Carol's share of the proceeds towards the purchase of Ken's share of a jointly owned farm in Buena Vista County.

*Hello Nathan,*

*My attorney's office called a few days ago to say the Buena Vista County farm sale has been completed. I have never been really concerned about it, but actually it is a big relief to me to have both Emmet County and Buena Vista County farms concluded. I will be forever grateful to you for your complete and professional handling of all the transactions. This began with property appraisals, lease termination notification, personal evaluation, property sale, and closing arrangements. All we needed to do was sit back, relax, and let you do your job. That is certainly comforting for a couple of absentee landowners!*

*In going through some of my files recently, I discovered this letter from you dated July 8, 2003. Nathan, it may have taken twelve years for a response, but I first met you in August 2015. I hope it was worth the wait for you. It certainly was for me!*

*Best wishes to you and Stalcup.*

*Ken Erickson*

# Today's Land Market

by: Dennis Reyman, AFM, ARA



The past few months have been quiet for land sales activity in most areas, but there has been some activity when we consider the entire region. Overall, we've tracked results of fewer than twenty public auctions from early April to late June. It is normal for activity to begin increasing as we move into mid-summer and continue to increase each month into early December.

There has been more land offered for sale by listing by brokers, which is consistent with the past several years. Since the land market cooled off in 2014, some sellers prefer the listing method although most non-family transactions continue to utilize the auction method. Both are effective methods if expectations are appropriate.

In recent sales activity, we've seen only five farms sell in double digits, with three of those being in Sioux County. Another was south of Remsen in Plymouth County at \$10,000 per acre which is near Sioux County. This is not due to lower land values, more a factor of quality and location of these farms. We need to keep in mind that a \$9,000 farm is often excellent quality. At the highest point, half the farms sold under \$10,000 per acre.

Of the sales we monitored, only one exceeded \$1.4 million in total purchase price. This is an important consideration for sellers when farmer's profit margins have been tight for some time. It is one thing to spend \$10,000 per acre on 80 acres, quite another for most people to spend that on 200 acres. Land buyers with deep pockets or a sizable paid-down land base can absorb such purchases, but the number of potential buyers can diminish rapidly when the down payments and total payments get larger.

It is also important to note that the index for non-real estate ag loan demand trended lower from 2006 to 2014 but has risen to the highest point since the index began in 1981. Meanwhile, the index for loan repayment is the lowest since 1981. **Loss of working capital has been a major issue for farmers in 2015 and 2016.** It is very fortunate for borrowers and landowners that interest rates remain low.

All that said, we do see some strength in the land market. Several sales have brought better than expected results, including some medium-quality land. The May-June rally in grain prices provided an opportunity to finish up old-crop sales and sell some new-crop at profitable prices, always helpful to the psychology of even the saltiest land buyers.

**It seems to us that the downtrend in land prices has stopped and we may be seeing the beginning of some price improvement.** Several recent appraisal projects which required a prior date of value and a current date of valuation did show slight improvement in value for the current date. Of course, many factors play into this including quality, location, size, extent of land improvements, specific demand issues, and others.

Since our last newsletter, several land value surveys have been published which both support and refute our report here. The quarterly Ag Letter from the Federal Reserve Bank of Chicago

places good north-central Iowa farmland at +2% for the first quarter but western Iowa at -2% for that period.

The March survey from the Realtors Land Institute placed the western and north-central districts at -4% to -6% from September to March. We and others believe this was a "catch-up" that was needed to bring earlier survey responses in line with today's reality.

Just as with grain markets, the direction of the land market may look substantially different in 3-6 months. **There is money out there which desires to own land.** An improved profit outlook may bring more competition into the land market than we now expect. We do know that a considerable retracement in values has occurred and been recognized, and that there are many who are capable and desire to own more farmland. Those looking for a continued downtrend in good farmland may be disappointed.

Below is a table of selected sales of good land in our region:

## Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	% Tillable
March	Crawford	155.3	60.6	\$7,150	95%
March	Ida	134.7	65.8	\$8,450	87%
March	Cherokee	149.0	54.7	\$7,200	94%
March	Monona	38.5	64.6	\$8,000	100%
March	Woodbury	101.8	54.6	\$5,400	96%
March	Greene	160.0	82.7	\$8,500	99%
March	Guthrie	150.0	80.8	\$9,150	97%
March	Sioux	154.3	61.1	\$10,500	94%
March	Pocahontas	162.0	76.8	\$8,000	97%
March	Dickinson	35.8	72.0	\$8,850	99%
March	Osceola	80.0	73.5	\$11,400	98%
April	Webster	92.5	74.2	\$7,300	99%
April	Calhoun	77.7	74.9	\$6,200	99%
April	Plymouth	80.0	44.3	\$8,200	97%
April	Sioux	80.0	67.7	\$17,100	99%
May	Crawford	76.0	56.9	\$7,150	95%
May	Sioux	80.0	68.0	\$13,200	96%
June	Pocahontas	80.0	72.0	\$8,050	96%
June	Plymouth	156.9	57.5	\$10,000	97%
June	Pocahontas	80.0	74.0	\$8,600	99%
June	Buena Vista	120.0	74.1	\$9,425	83%

# A Historical Look at Corn and Soybean Markets

by: Dennis Reyman, AFM, ARA



Recent grain price movement, finally to the upside just when all indicators pointed otherwise, gives us reason to consider the markets from the longer-term perspective. One of the more valuable quotes of all time may be “those who cannot remember the past are condemned to repeat it.” So let’s take a look at corn and soybean price history. First corn...

USDA was founded in 1863 and began publishing the average price of corn in 1866. While the accuracy of those numbers may be debatable from a local perspective, it does provide a standardized look at historical markets. What we found was a 150-year history of repeating cycles, generally about 33 years in length.

**From 1866 to 1900, corn prices averaged 42 cents per bushel.** They ranged from a high of 78 cents in post-Civil War 1867 to a low of 21 cents in 1896. The late 1890’s were not a good time for corn prices, staying in the .20’s. Prices spent most of their time between 30 and 50 cents. However, 1901 was a hot summer, yields were reduced by about one-third and prices responded to 60 cents per bushel, the start of a new era thanks to major advances in transportation.

**From 1901 to 1941, prices averaged 67 cents per bushel,** mostly between 45 and 80 cents. World War I brought a famous boom to farm country with corn hitting \$1.45 in 1918. 1931 and 1932 witnessed the depths of the Great Depression with 29 cent corn. My grandfather told of selling corn for 10 cents in 1932. Others burned corn since it had more value as a heat source than for sale. Significant price recovery occurred for those who had corn to sell during the major drought years of 1934 and 1936. All in all, prices during this 40-year stretch averaged **60% higher** than the previous 35 year period.

World War II brought on the next advance in corn prices, bringing prices permanently over \$1.00 by 1943 and hitting \$2.16 in the short crop year of 1947. Prices remained in the \$1.50 range through the Korean War period, but tailed down to the \$1.00 range by 1960. This is why a farmer yelled at John Kennedy on the 1960 campaign trail, “We’re starving!” Prices continued in the low \$1.00 range until rising in 1972. Overall, **the 1942-1972 period averaged \$1.25 per bushel, an 87% improvement** from the early part of the century. The price range was mostly \$1.00 to \$1.60.

The Oil Crisis of 1973 and booming exports spurred by the historic wheat sale to Russia inspired the next leg up in the markets, again helped along by a short crop in 1974 when prices jumped up to \$3.02 per bushel. Average prices stayed above \$2.00 per bushel from 1973 to 1986 when over-production and the extremely high-valued dollar resulted in

huge surpluses, plunging prices back to \$1.50. However, government price supports aided corn income so, despite tremendous financial pressures during that time, at least low corn prices triggered price support from USDA programs. Prices generally ranged from \$1.80 to \$2.60 with occasional spikes over \$3.00 per bushel. **The period from 1973 to 2005 averaged \$2.34 per bushel, another 87% increase** from mid-century.

That brings us to the current era, which we call the “ethanol era”. Local harvest price in 2005 was about \$1.40 but a year later rose to \$3.00 and never looked back. We’ve had occasional short-term price dips back to \$3.00 but also saw the all-time high over \$8.00 in August 2012, again fueled by historic drought coupled with increased demand. We enjoyed a long run of corn prices in the \$6 and \$7 range from 2011 to 2013. **We’re now ten years into this price cycle with a \$4.50 average,** which is a **92% increase** over the previous period.

The trend has been that every third of a century, a major event occurs which moves corn prices to a new plateau. “New plateau” is a term which is often over-used and ridiculed, but it is a real occurrence. Wishful thinking probably calls for “new price plateaus” more often than is reasonable. When it does happen, typically the old average high becomes the new average low. Within that range, during the 33-year period, prices can drop 50% below the average and spike 50-100% above the average.

With this in mind, we think \$3.00 corn is the practical new low, just as \$1.50 was previously. Sure, there were times when prices dropped lower but they didn’t hold that low for long. And just as corn would occasionally spike to \$3.50, it can now spike to \$7, or even \$8 in extreme circumstances, just as corn hit \$5.00 briefly in the 1990’s. But corn topped out at \$2.50 to \$3.00 more often than not, so expect the \$5.00 to \$6.00 range to be the upper end of most major rallies. Actually, price volatility (percentage-wise) has been no worse recently than in previous periods, we’re just dealing with more dollars so it seems more dramatic.

**Soybeans** have reacted very similarly, not lockstep with corn but without much lag. USDA’s soybean records began in 1924 when the country averaged 11.0 bushels per acre x \$2.50 per bushel. That \$2.50 was actually the high of the pre-WWII period, dropping to 48 cents in 1931 and **averaging \$1.28 per bushel**. The war and post-war period to 1971 brought prices up to an average of **\$2.36, an 85% improvement**.

The latter third of the century, starting in 1972 saw soybeans **average \$5.92 per bushel, a 150% price increase**. Prices hit an

average of \$7.60 in 1980 and \$7.83 with the short crop of 1983, but dropped to a low of \$4.38 not that long ago in 2001.

Beginning with the ethanol boom in 2006, we've seen more double-digit bean prices than not, topping with a \$14.40 average in 2012 and dropping to a low of \$8.80 in 2015. Local cash prices hit \$17.75 in August 2012 and sank briefly below \$8.00 this winter but held there, just as \$4.00 provided a bottom during the previous period. Local bean prices dipped as low as \$3.70 in July 1999 but that didn't last long either. For the past ten years, **soybeans have averaged \$10.62 on USDA's price chart, a 79% improvement.** Based upon our theory, prices should spend most of their time in the \$8 to \$15 range during this cycle with \$10-\$13 being most common.

Again, soybeans have shown a similar price plateau jump as corn. The **corn-soybean price ratio** is a calculation often considered by the grain trade. That ratio since 1924 has averaged 2.22 and has averaged 2.40 since 2006 (soybean price/

corn price = 2.40). It has exceeded 3.0 a few times and dropped under 2.0 a few times since 1973. Simply put, the world needs both corn and soybeans and both are grown in the same areas. If the price of one gets out of whack with the other, acreage would shift so the other crop price must get in line to maintain adequate production.

This history was recently shown to hold up when soybeans continued to bounce along near \$8.00 in late winter, dipping below or above that mark but failing to make much change. Just when some in the trade decided bean prices were dead and headed lower, the market turned and headed straight upward, hitting the \$11.00 mark by June. Corn prices headed higher as well, despite having large amounts in storage, especially in the western Corn Belt, and large intended acreage for 2016.

When the markets become more difficult than normal to understand, it can help to have some historical perspective.

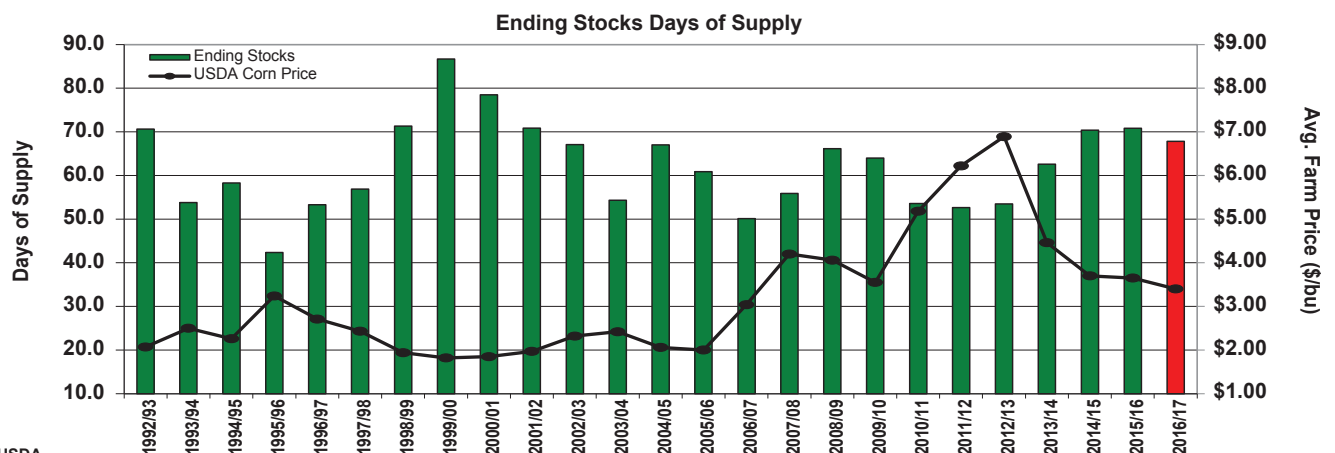
## June 30th USDA Acreage Report

USDA Report Day is known for producing exciting reactions in the grain markets, both positive and negative. The most recent report didn't disappoint in that regard.

2016 corn acreage exceeded expectations by 1.2 million acres at 94.15 million acres. Soybeans were very near expectations at 83.69 million acres. As usual on report day, the way the market is leaning makes all the difference. The trade was expecting lower corn and higher soybean acreage due to the sharp run up in soybean prices since early spring, given that it was still possible to change cropping plans. The report proves an old adage: given good spring weather, farmers would rather plant corn than soybeans.

The markets diverged sharply on report day. New-crop corn dropped 12 cents per bushel to the lowest level since early this spring, while new-crop soybeans closed up 40 cents a bushel, nearly regaining the top of the spring rally. The market will now go back to trading summer weather forecasts. While the increase in corn acres was a surprise, it is important to remember that a decline in average yields of just 3 bushels per acre would decrease the ending inventory to levels expected earlier. USDA is currently using an average yield of 168 bushels per acre for their estimate. On the soybean side, any kind of yield-reducing weather may send prices sharply higher, considering the tight carryover stocks in that crop and continued strong usage. USDA is using 47 bushels per acre for their initial yield estimate. The graphs on this page and page 7 illustrate the corn and soybean situation.

### World Coarse Grains



SOURCE: USDA

# Northwest Iowa Progress Report

by: Chad Husman, AFM



Record rainfall last December filled the soil profile setting the stage for saturated conditions this spring. Warm weather and surprisingly good soil conditions in mid-April encouraged farmers to start planting early, but cool and wet weather followed in late-April and May. The planting season turned into a long struggle for many farmers, especially in Northwest Iowa. We were fortunate to get a few small windows of warm, dry weather in May, during which most of the corn and soybeans were able to be planted. The wet spots were planted or replanted in late-May and early June.

**June temperatures were well above average with 14 days over 90 degrees.** That makes it the hottest June we've seen in 22 years. Heat pushes crops to grow quickly, but it also greatly increases the crop's need for water. The good news - we have plenty of soil moisture reserve below the top foot or so. The bad news - most roots are shallow and underdeveloped. We often see root issues when wet springs turn hot and dry. The wet and compacted soil tends to get hard when dried, and the shallow roots struggle to penetrate deep to follow moisture.

Areas with light, sandy soil can't hold as much water and are already showing heat stress. Considering the difficult planting season, crop conditions are fairly good in most of the region. Poorly drained or light soils are the exception. Once again the best crops are found on high quality soil with good drainage.

**The warm June was mostly favorable to crops, but trouble is brewing if the hot pattern continues into late summer.**

The National Weather Service and private forecasters are predicting above-normal temps across the country July through September. Yields will be cut significantly if we have very hot

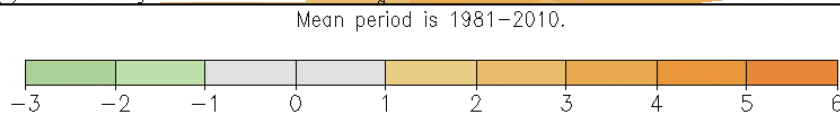
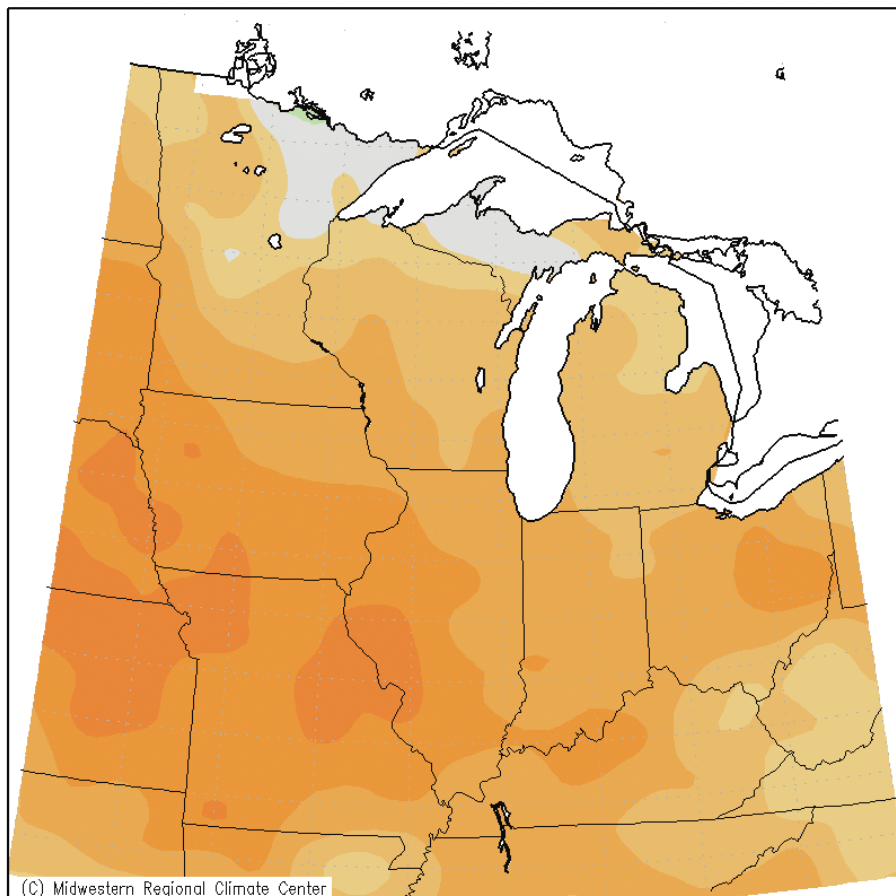
temperatures during corn pollination season in mid-July. Weather patterns have changed from a strong El Nino over the past three years (typically good crops) to neutral, and it may move to the opposite end of the spectrum, La Nina (typically bad for crop yields). La Nina weather patterns have negatively impacted crops in 1983, 1995-96, 2007-08 and recently 2010-2012.

Most of the major crop growing areas of the U.S. are rated "good" to "excellent" by the USDA. Northwest Iowa has good crop potential overall, but not as good as last year. We have reasons to be optimistic and worried at the same time. Good subsoil moisture will help carry the crops through dry periods, but extreme heat can

damage crops regardless of available moisture. As always, you never know when Mother Nature will throw a curve ball and prove all the forecasters wrong.

If you want more current information on local crop conditions check out our website [Stalcupag.com](http://Stalcupag.com)

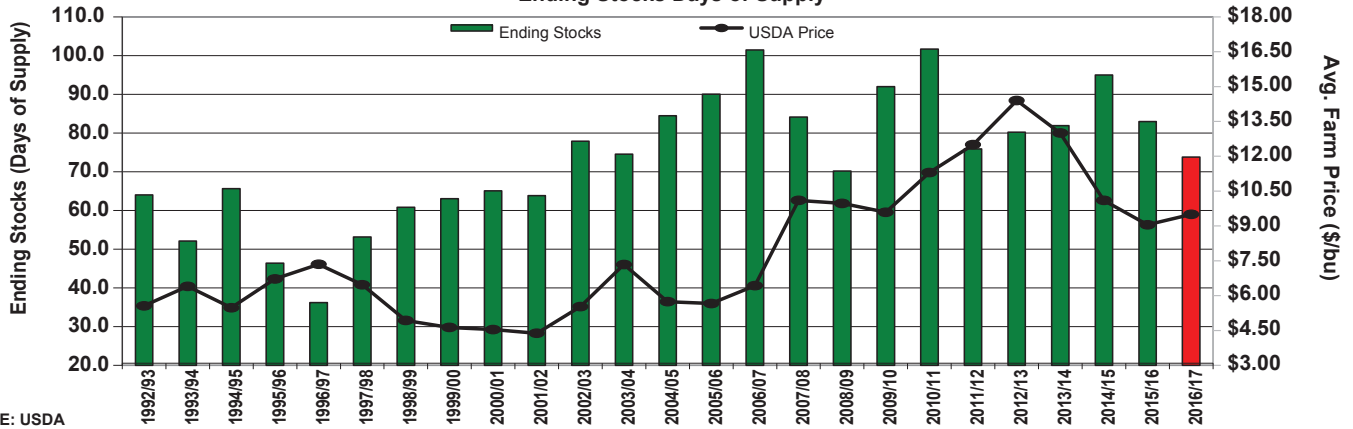
Average Temperature (°F): Departure from Mean  
May 28, 2016 to June 26, 2016



Midwestern Regional Climate Center  
Illinois State Water Survey, Prairie Research Institute  
University of Illinois at Urbana-Champaign

# World Soybeans

Ending Stocks Days of Supply



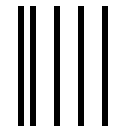
SOURCE: USDA

## Iowa Lease Termination Deadline Is Prior To 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 2017 lease year which is March 1, 2017 to February 28, 2018. **You do not have to have a new lease in place prior to September 1, just notification by either party if they want to change lease terms.**

It does not matter if your lease is a verbal or a written lease, notification must be in writing from either party prior to September 1. Written termination as provided by Iowa Code must be either served 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.



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Check items below you would like additional information on:

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List items particular to your farm you would like to discuss with a professional farm manager:

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**Stalcup Ag Service Today's LAND OWNER**

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