

2013 OUTLOOK

By Nathan Deters, AFM

Making grain market predictions is an inexact science at this time of year. One needs no further reminder than a look back to last spring when sub \$5 per bushel corn at harvest seemed likely. It's amazing what the worst drought in 25 years can do to predictions. The drought of 2012 had repercussions we are still dealing with and will be for a while yet.

Drought Lingers

West of the Mississippi River, the 2012 drought is not a memory but continues. Very little soil moisture recharge took place before freeze-up last fall. At this time subsoil moisture is extremely low. Good quality soils can hold 10 to 12 inches of the 22 inches of moisture needed to produce an average crop.

With very little in the tank over large areas of the Corn Belt, it is easy to see how critical timely rains will be this year. Recent weather has been hinting at a change in the dry pattern. The driest areas have received some good snows as Gulf of Mexico moisture has worked north. The critical time however, will be March and early April, when moisture will be able to soak into the ground after the frost has left.

Short Crop Affects Demand

With a national average corn crop of 123 bushels per acre in 2012, something would have to give in order for supplies to stretch until the fall of 2013. That something is exports, which are on pace for the lowest total since the early 1970's. Corn for ethanol use has also declined as plants in areas most affected by drought have temporarily closed or reduced hours because of trouble sourcing corn

supplies. Feed demand remains strong with usage staying above predicted levels.

On the soybean side, the export picture is much brighter. China and other Asian countries continue to purchase large amounts of soybeans to feed growing livestock herds. Overall, both corn and soybean cash prices continue to reflect very tight supplies that look to be with us until harvest. Prices have trended in a range since harvest of low to mid \$7's on corn and high \$13's to high \$14's on soybeans.

New Crop Prices at a Discount

2013 crop harvest delivery prices on both corn and soybeans are about \$2.00 per bushel lower than current cash prices. Why the big spread? Foremost is the idea of reduced demand. The export markets lost by high priced 2012 corn were filled by other countries and in some cases, other grains such as wheat and barley. These markets will not come back overnight. High prices are a great incentive for other countries to gear up to plant more. We will likely be dealing with increased export competition for quite some time into the future.

Expectations of higher yields are also keeping new crop prices down. USDA outlooks released in February call for a return to trendline yields of 163 bushels per acre for corn and 44 bushels per acre for soybeans on very large planted acres. Most in the grain trade are skeptical that such yields can be achieved given the moisture deficits in over half of the Corn Belt. For corn, given our reduced demand base, even a return to a sub-trend national yield of 150 bushels per

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acre would double our current carryover and could lead to lower new crop prices. The soybean price outlook is better, given our continued strong exports, but a record South American soybean crop currently being harvested looks to keep prices from moving significantly higher.

While the stage seems set for lower prices, weather will be the wild card. A repeat of anything close to 2012 weather would send new crop prices shooting higher, but at the cost of reducing more of our long-term demand base. More so than ever, successful marketing in 2013 will involve accessing as much information as possible to make informed decisions.

Late 2012 saw the largest flurry of farm real estate activity in recent memory. Nearly 450 parcels were logged into our database of public auction results for NW Iowa in 2013. Almost 60% of that activity occurred during the last four months. The prospect of tax law changes coupled with record high land prices caused many owners to pull the trigger on selling land. See the adjacent article for more on tax code changes.

It is amazing that with the increased amount of land on the market, it continues to be absorbed at increasing prices. The transactions in our database exceeded \$230 million for September-December. Over half the sales exceeded \$10,000 per acre. Many were in the \$13,000 to \$16,000 range, and a few in the right areas were \$20,000 or close to that.

The highest-quality land continues to sell at a premium to less desirable parcels. Lower-quality soils, irregular field configurations, lack of drainage, or other blemishes typically receive a considerable market discount, all things considered. Neighborhood factors always play an important role. Some factors which seem obvious, such as CSR, configuration, or lay of the land, must be taken in context of what is normal for each area.

Iowa State University Extension's Land Value Survey was released in mid-December with values as of November 1st. Nineteen counties in our twenty-three county primary trade area now show an average value higher than \$10,000 per acre. O'Brien County was rated highest at \$12,862 per acre. Changes in value for each county in the area were 20-35%.

The Federal Reserve Bank of Chicago's quarterly survey of bankers indicated an increase in value of 5-7% for the last quarter of 2012 in western and north-central Iowa. It also showed an increase of 20-22% for all of 2012.

It is important to remember that these surveys are based upon the opinions of those in the business of farm real estate, not on actual transactions, per se. ISU's survey is based upon regional opinion results and interpolated into county values. The results are generally very reflective of the overall market but should not be used for a specific property valuation.

We expect 2013 will see a lower or perhaps more normal flow of land being offered for sale. Tax law changes are in place and should not be such a driving force in the market. It seems most tax-driven sales have probably already occurred for the present time. Buyers remain highly interested in quality land. Leverage is believed to be under control. Anecdotal information indicates lenders have raised lending limits in the past year for qualified borrowers. Interest rates remain low and incentivize both cash purchasers and borrowers to pursue land.

It will be interesting to see the reaction of the land market if we indeed grow a large national corn crop with correspondingly lower prices. If total farming revenues remain strong and the amount of land being offered remains somewhat limited, we expect land values will remain stable. It seems it would take at least several factors converging to drive land prices lower.

Following is a table of more than 30 land sales in the region over the past few months. Many counties had a multitude of sales, while several counties had very few. You can spot those counties since a few show only one sale of lower-quality land.

Stalcup-brokered sales are in bold.

Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	% tillable
Oct	Ida	152.0	73.4	13,200	94%
Oct	Emmet	160.0	76.5	10,500	95%
Oct	Cherokee	237.0	47.6	7,000	58%
Oct	Ida	187.6	54.4	8,550	96%
Oct	Dickinson	132.0	64.5	8,600	97%
Nov	Poc	120.0	74.6	11,500	97%
Nov	Calhoun	160.0	76.1	10,900	97%
Nov	Crawford	230.0	58.2	10,000	98%
Nov	Humboldt	152.9	77.7	14,000	99%
Nov	Plymouth	228.7	56.7	15,300	99%
Nov	Osceola	238.7	50.1	5,980	85%
Nov	Sioux	160.0	66.3	15,850	95%
Nov	Greene	150.0	77.8	11,600	98%
Nov	O'Brien	160.0	73.8	12,450	96%
Nov	Sioux	80.0	84.9	20,000	98%
Nov	Palo Alto	93.0	77.4	10,400	92%
Nov	Lyon	151.0	63.6	14,800	96%
Nov	Emmet	125.0	74.9	9,825	97%
Nov	Carroll	120.0	59.0	10,900	98%
Nov	Sioux	160.0	57.0	15,600	91%
Nov	Webster	38.0	79.8	12,000	99%
Nov	Webster	106.0	76.3	9,000	98%
Nov	Woodbury	120.0	56.3	11,250	98%
Nov	Woodbury	212.0	52.9	9,800	98%
Nov	Monona	32.0	53.8	6,800	94%
Dec	Kossuth	160.0	68.3	11,250	95%
Dec	Buena Vista	77.0	71.9	10,700	98%
Jan	Monona	108.5	56.1	10,800	100%
Jan	Clay	160.0	80.5	14,000	97%
Jan	Clay	126.6	76.0	9,100	81%
Jan	Buena Vista	83.7	76.3	14,800	99%
Feb	O'Brien	40.0	76.5	14,900	93%
Feb	Woodbury	160.0	46.1	8,000	95%
Feb	Clay	138.0	73.8	10,800	98%
Mar	Humboldt	90.0	78.5	12,400	97%

Current Stalcup Listing:

121.27 Acres, Lizard Township, Pocahontas County

95.1 Acres tillable, 16.7 Acres CRP

78 CSR, Asking Price \$7,900/ac

Log on to our website at www.stalcupag.com for listings and upcoming auctions

TAX CODE CHANGES AFFECTING REAL ESTATE

by Terry Argotsinger, AFM, ARA

As noted in Today's Land Market, a good share of the real estate activity in 2012, especially late in the year, was induced by concern over anticipated changes to the tax code as part of the "fiscal cliff".

In addition, a great number of family or related-party transactions occurred late in the year as the "fiscal cliff" neared. The prospect of estate tax exemptions dropping from \$5 million to \$1 million with a 55% tax rate over that, plus higher capital gains taxes and the 3.8% Affordable Care Act surtax, created substantial alarm as December 31st neared without a resolution. Attorneys, lenders, brokers, and appraisers specializing in farm real estate had all the activity they could take on, and then some. As it turned out, on January 2nd a reasonable compromise was reached and signed into law. However, we all need to take the opportunity to make

our legislators aware that we cannot continue to be pushed into having to make life-altering personal decisions due to politically-motivated crises and deadlines. Here are a few of the highlights of the new code:

- 0% capital gain tax if income (AGI) is below \$146,400 (if married filing jointly)
- 15% capital gain tax on AGI over \$146,400 but under \$450,000 (if married filing jointly).
- 20% capital gain tax if over \$450,000 AGI
- Medicare surtax of 3.8% above \$250,000 AGI
- Estate taxes set at 40% with \$5,250,000 lifetime exclusion, indexed for inflation
- Portability of unused exemption between spouses
- Gift tax and Generation-skipping transfers (GST) are both taxed at 40% with a \$5,250,000 lifetime

exclusion (indexed for inflation)

- Iowa remains at 8.98% capital gains and 8.98% estate tax for unrelated parties



The permanent extension of current estate, gift, and GST tax rates are projected to save tax payers \$396 billion in tax liability over the next ten years. Some estate planning techniques could still be on the negotiating table. Intra-family discounting, grantor trust installment sales, GST dynasty trust duration limitations, and Grantor Retain Annuity Trust term and gift limitations have all been mentioned as negotiable items.

CROP INSURANCE FOR 2013

by Chad Husman

Choosing the correct multi-peril insurance policy is always an important aspect of risk management. Most operators choose a Revenue Protection policy which guarantees a set level of revenue per acre for each crop. These levels vary by farm and are determined by historical yields, new crop price levels set in the month of February, and each producer's risk tolerance. Most choose to insure between 75 and 85% of historical yields. This year's insurance price levels are \$5.65 per bushel for corn and \$12.87 per bushel for soybeans. The fall price option allows for higher prices if October averages more than spring prices. This was the case in 2012 and made a big difference to those who collected.

The deadline of March 15th to make

changes to insurance policies has passed by the time you read this article. With dry soils as we enter the 2013 growing season, in many cases an increase in coverage level was a prudent choice. Multi-peril insurance allows producers to confidently forward price crops at opportune times during the growing season knowing that insurance will cover crop shortfalls which may prevent delivery at harvest.

A new product on the market in 2012 was Total Weather Insurance, introduced by The Climate Corporation. This product utilizes a computerized weather model customized to your farm. Soil characteristics, slope, long-term climate conditions, hybrid maturity, and other factors are customized to your field boundaries utilizing

Geographic Information Systems. Data from the National Weather Service is

coupled with your crop's development stages to determine crop stress. Key perils covered include drought, daytime and night-time heat stress, excessive moisture, low heat units, and early frost. There is no claims process, simply a computer-generated payment based upon the determined amount of yield-limiting crop stress. Premium rates are normally higher than federally-subsidized multi-peril insurance. More information on this insurance product is available at www.climate.com/growers/faq.



Following is an article which appeared in the December 2012 edition of *Wallaces Farmer* magazine. It was written by L.S. Leonard who attended the Crowl auction held in Holstein on October 19th. The auction was listed, conducted, and closed by Stalcup Ag. Service. Here is the article, reprinted with permission of the magazine and the author:

A new record was set for farmland sold at auction in Ida County this fall when Dan Kluver and uncle Don Kluver bought 152 acres at \$13,200 per acre. The parcel fit well with their turkey and grain operation near Galva.

Like anyone contemplating that kind of investment, the Kluvers had devised a strategy going into the auction. "We agreed we'd go to 12," Dan says.

Auctioneer Brian Drzycimski, with Stalcup Ag Service in Storm Lake, had started the bidding at \$8,000. With 65 people at the community center in Holstein, Dan coolly nodded his intention each time the bidding climbed.

There were four contenders – all neighbors – bidding on the parcel. And then there were three. At \$11,900 the auctioneer announced the first recess, to give folks time to think, ask questions, make phone calls, and hopefully from the seller's standpoint, spend a little more money. The auctioneer didn't beg or cajole. This was serious business, and there was serious money involved. Drzycimski wanted to give people time, and he wanted to do right by the seller, but he wasn't going to drag this out. After the break, he returned to the



Nathan Deters and Chad Husman

microphone and stated, "We paused at eleven-nine. I was taking bids from three gentlemen, all from the floor. I will now ask for \$11,950". And he got it. The bidding crept higher and Dan, reconsidering, shook his head "No," the next time the auctioneer gave him the "ask".

But Don had a different idea and stuck to the plan. This highly productive parcel adjoined Kluver land, and he wasn't ready to give in. It would be the ideal addition to their operation, located within a quarter-mile of their turkey buildings and across the road from grain storage. Don raised his hand. Twice, just to make his intention clear. The Kluvers had the bid when the auctioneer went around the room, three times, giving everyone their last opportunity. First

call, second call, third call, "SOLD!"

Dan and Don bought the parcel of gently sloping, primarily Galva and Colo silty loam soils, with a CSR of 73.4 (CSR2 of 77.8) and easy access to multiple markets.

The Kluvers were smiling, knowing they'd never regret the purchase. Most everyone in the room seemed satisfied with the result of the auction as people walked up to congratulate the Kluver family, grab another cookie and drain their coffee cups. Eventually folks filtered out, talking about how dry it was, what their neighbors were paying for cash rent, and when the next farm sale would be held.

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