

Summer 2024 Volume XLVII No 2

## Progress Report

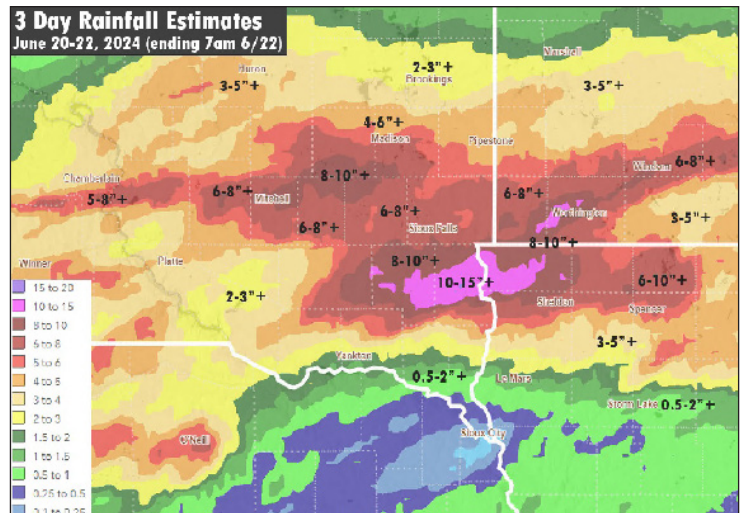
Nathan Deters, AFM



The northern two tiers of counties in Northwest Iowa and nearby areas of South Dakota, Nebraska, and Minnesota were hit with devastating flooding in late June. The record-setting flooding reached levels above the infamous 1993 flood on multiple rivers including the Little Sioux, Big Sioux, Rock, Ocheyedan, West Des Moines, and others. There were too many communities affected by flooding to list. Many people had to evacuate their homes and businesses as flood waters rose very quickly. Thousands of acres of cropland were flooded, and many roads and bridges were closed. It all started from extreme rainfall over a large area stretching from west of Sioux Falls to more than 150 miles east along the northern edge of Iowa and southern Minnesota. Much of this area received more than ten inches of rain in two days. To make matters worse, the same area was already saturated from above average rainfall starting in April. The heavy runoff quickly flooded every river in the area as the flood water flowed south. Flood plain crops are severely affected even in areas to the south where recent rainfall was not excessive.

Before the major flood event, this area already had a challenging spring with planting delays and replanting because of wet conditions. Most farms were able to get everything planted by mid-June only to have the wet spots and flood prone areas drowned out again. The most recent crop losses from flooding are unlikely to be replanted again this season.

As we move south in our territory, crop conditions generally improve. Outside the wet areas, most crops are in good condition as of early July despite the challenging planting season. The best crop conditions are found on rolling loess soils with natural drainage or pattern tilled farms away from



rivers, streams, or low-lying areas. In both cases, excess water was able to drain away. The corn and soybeans on these well drained farms have very good yield potential so far.

The wet spring may impact final yield results in a variety of ways. The next concern may be a shift to hot and dry later this summer. After a wet spring, that's problematic for crops with shallow, underdeveloped roots. The climate pattern known as LaNina is expected to arrive by mid-summer, which would make hot, dry weather more likely in this region. The combination of shallow corn roots and wet conditions will likely cause nitrogen deficiency this summer because some of the nitrogen fertilizer was lost from excessive rain. It's common to see yellow corn following excessively wet soil environments because of poorly developed roots and nitrogen

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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.

### The Stalcup Team

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# Progress Report

deficiency. High winds this season could also be an issue for corn fields with shallow roots making root lodging more likely.

The good news is that for the first time in four years, we finally have plenty of soil moisture reserves. Most crops are right on schedule for size and growth thanks to warmer than average June temperatures. Corn and soybeans benefit from heat up to 86 degrees prior to the reproductive crop stages starting in July. Warm weather through the first half of the growing season gives crops the benefit of a full growing season and helps crops reach maturity before the first freeze. After pollination, a cool off in late July and August is beneficial because it slows down the grain fill process which improves grain quality and yield. I have a feeling the second half of the growing season will bring more surprises, but somehow this area always seems to grow a respectable crop despite all the weather challenges.

### Grain Markets

While crop prospects in much of our area took a hit from the extreme rainfall over the last 2 months, most other areas of the Midwest have had a very good start to their growing season. One of the most common adages in the grain market is "Rain makes grain", and rain has been abundant to this point in the growing season. The Drought Monitor shows the lowest level of drought in over 4 years, giving the grain markets little to worry about at this time. This can certainly change if the expected hotter than normal summer causes issues later in July and August, but currently a mostly low stress growing season has led the cash crop prices to the low side of their recent range, and new crop prices to contract lows, and the lowest levels since the start of the pandemic in 2020.

While growing supplies are part of the price equation, stagnant demand is another. Exports are meeting lowered expectations this year, but are off to a very slow start for the new crop. Domestic demand is unlikely to make up the difference, continuing the trend of increasing carryout supplies.

The chart below illustrates the increase from last year in the supplies of our major crops.

**U.S. Quarterly Grain Stocks (billion bushels) - Released June 28th**

	USDA June 2024	Average Trade Est.	Range of Trade Est.	USDA June 2023
<b>Corn</b>	4.993	4.873	4.675-5.013	4.103
<b>Soybeans</b>	0.97	0.962	0.861-1.015	0.796

Source: USDA, Reuters

# Today's Land Market



Travis Nissen, ARA

The volume of sales after a very active real estate market in 2022 & 2023 has dropped back to a more normal flow. We looked at results of "cropland only" land sales from the first of the year through the end of June. These parcels were 85% or more tillable with no substantial building improvements within our trade territory. It showed 9,049 acres were sold so far in 2024 compared to 11,727 acres at the same point in 2023. It is typical to see most land auctions occur in the second half of the year.

Staying focused on 85% or more tillable land, there were 102 sales which met this criteria. Of those sold so far this year, we found the average sales outcome to be \$14,390 per acre with a standard deviation of \$4,000. That would place most sales between \$10,000 and \$18,000 per acre. We've noted seven sales of \$20,000 per acre or higher with the highest at \$29,600 in Sioux County. Most of these occur in far northwestern Iowa or places which have historically shown exceptional strength in land values.

## Land value Surveys

The most recent land value survey is the semi-annual report released by the Realtor's Land Institute in mid-March (values as of March 1st). This survey of brokers and appraisers' opinions divides the state into the nine crop reporting districts designated by USDA. The six-month change in land values ranged from 2.1 to 4.7% lower around the region. The state was 3.1% lower.

The Federal Reserve Bank of Chicago's latest survey placed western and north-Central Iowa at +4% to -7% for the first quarter of the year.

South Dakota State University Extension land value survey was published in May. This year, the survey was 12.1% higher for the entire state. The southeastern region was 13.6% higher.

Following are two tables of selected "good" farmland in South Dakota and Iowa which have sold recently in the region.

## Selected Sales of Good Farmland - Iowa

Date	Acres	% Tillable	County	\$/Acre	CSR2
June	75.93	98%	Pocahontas	\$12,500	83.9
June	159.00	94%	Ida	\$14,400	85.0
June	36.69	95%	Sac	\$20,000	86.5
June	128.97	99%	Kossuth	\$13,500	73.3
June	41.26	96%	Wright	\$12,700	82.6
June	115.00	96%	Franklin	\$13,800	86.0
June	77.53	96%	Buena Vista	\$11,500	82.4
June	80.11	97%	O'Brien	\$15,800	94.0
June	80.00	99%	Osceola	\$14,800	96.8
May	37.07	94%	Pocahontas	\$13,250	86.6
May	76.90	98%	O'Brien	\$16,000	98.4
May	80.00	99%	Webster	\$14,800	70.9
May	38.00	94%	Palo Alto	\$13,400	83.6
April	80.09	96%	Sioux	\$16,500	86.9
April	57.48	97%	Calhoun	\$12,750	88.7
April	80.00	94%	Osceola	\$16,800	87.7
April	56.00	91%	Woodbury	\$11,100	53.5
April	81.00	100%	Pocahontas	\$13,650	82.8
April	40.00	97%	Lyon	\$22,200	66.0
April	77.65	96%	Buena Vista	\$14,100	85.3
April	155.54	97%	Kossuth	\$13,800	72.3
April	80.00	95%	Hamilton	\$12,200	84.4
March	140.00	100%	O'Brien	\$18,100	95.9
March	76.83	95%	Sioux	\$26,500	99.0
March	117.00	94%	Woodbury	\$10,200	56.9
March	77.14	94%	Lyon	\$14,750	64.2
March	138.60	99%	Monona	\$8,000	70.5
March	75.24	100%	Webster	\$12,100	71.2
March	149.00	98%	Palo Alto	\$11,200	77.8
March	47.00	100%	Webster	\$14,400	87.7
March	40.00	100%	Plymouth	\$18,100	84.0
March	74.41	96%	Sioux	\$27,750	94.5
March	80.00	96%	Crawford	\$12,900	77.2

## Selected Sales of Good Farmland - South Dakota

Date	Acres	% Tillable	County	\$/Acre	PI
April	55.77	98%	Lincoln	\$21,000	85.2
March	137.53	96%	Turner	\$11,300	86.5
March	233.91	98%	Turner	\$10,000	79.1
March	146.68	95%	Moody	\$15,500	86.1

### Land For Sale Offered by Stalcup:

Douglas Township, Sac County, IA  
80 +/- acres  
N 1/2 SE 1/4 of Section 15-89-35

*Check our website for new listings and upcoming auctions.*

# Cash Rent or Custom Farming



Chad Husman, AFM

Landowners have several options when considering what to do with their farmland. Fixed-cash rent, flexible cash rent, crop share, and custom farming are the main types. The fixed-cash rent and custom farming are complete opposites from an owner involvement standpoint, but they are also the two most popular choices among our clients. Flexible rent and crop share leases are harder to compare because they can be arranged in a variety of ways depending on the owner's goals and the quality of the farm, so the results vary widely depending on the details. In this article we compare fixed-cash rent with custom farming.

First, we should define the two options:

**Fixed-cash rent** is a set dollar amount agreed to between the landowner and the farm tenant for conditional farm use of the land depending on the terms of the lease. The rental rate is typically renegotiated every year. The crop is owned 100% by the farm operator along with any USDA farm program payments and federal crop insurance. Lease terms typically include things like payment dates, fertilizer and lime requirements, soil sampling, and records to be shared with the owner. The farm operator makes all the decisions on farming practices within the parameters of the lease terms.

Why the popularity of cash rent?

- \* Simple to calculate
- \* Simple to understand
- \* Lower risk
- \* Scheduled payment(s)
- \* Considered "passive income" for tax purposes

Disadvantages of cash rent:

- \* No upside in good years.
- \* Lower income than other lease methods.
- \* Less control of operations and purchasing.

**Custom Farming** gives the owner full control of how their land is farmed. This method is not a lease, but an agreement with a farm operator. The crop is owned 100% by the landowner, so any USDA farm program payments stay with the owner. The owner is eligible to buy subsidized federal crop insurance the same as any other farmer. Owners pay all the crop expenses

including custom farming rates to a local farm operator who completes the field operations. In the case of our clients, the farm manager directs all field operations with the farm operators, purchases all farm inputs, and markets the grain on behalf of the owner/client. Our landowner clients can have as much or as little input in farming practices, grain marketing, and any other decisions as they want. Many of our clients want more control over things like soil conservation, fertility, weed control, production records, and many other aspects.

Advantages of Custom Farming:

- \* Control over farming operations, such as minimum or no-till.
- \* Control of input purchases
- \* Tax planning possibilities
- \* Higher income potential

Disadvantages of Custom Farming:

- \* Start-up costs
- \* Less predictable distributions
- \* Considered "earned income" for tax purposes
- \* Higher Risk

**So, which one is better for you?** Every farm is unique and so is every landowner's situation, so it depends on the people involved and their goals. We are often asked which method provides the most economic return, which can vary from year to year and from farm to farm. We compare lease types every year in a variety of ways, looking at past performances and projecting ahead to next year. It's an important way for farm managers to analyze cash rental rates for the upcoming year. Generally, we find custom farming will generate the highest net income for landowners, especially on high quality land. But there is somewhat more variability year to year.

We took a deeper look into the long-term deviation between cash rent and custom farming with a 15-year internal study of 30 managed farms (half custom farmed, and half fixed-cash rent). We carefully selected

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# Cash Rent or Custom Farming

medium to high quality farms throughout our territory. We recorded each farm's net profit per acre including all expenses for the past 15 years. The chart below summarizes the results.

As you can see, custom farming shows a 22% higher net return compared to a fixed cash rent over the 15 years. However, cash rent yielded similar or higher profits at times. It comes down to the cycle of farm incomes, we generally see a few good years followed by a few bad years.

When grain prices are trending lower for an extended period, cash rents tend to be very competitive to custom farming. On the flip side, custom farming is best during periods of sustained rising grain prices.

Cash rents tend to lag during shifts in farm profitability cycles, so they tend to be too high or too low by the end of the season. The challenge is rental rates are typically set for the next year around the termination deadline of September 1st in Iowa. On average, September is a poor time in the grain markets because it's just before harvest when new crop bushels become available. It's a time of great uncertainty for farmers looking ahead to the next year while still not knowing how the current year will turn out. This combination often puts landowners at a disadvantage negotiating rents.

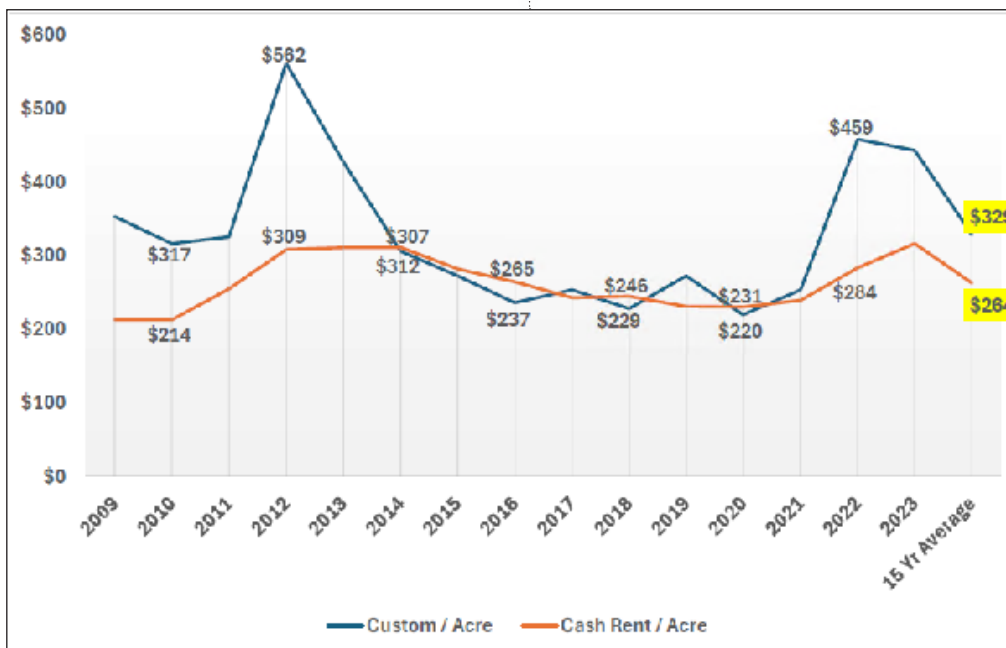
One of the biggest takeaways from this 15-year study is the top end potential of custom farming. On one hand, there are years when cash rent provides a slightly better

return than custom farming, but the good years more than make up the difference on average. For example, in 2011 to 2013 and 2021 to 2023 we saw a 36% higher net income from custom farming compared to our competitive cash rents on average. However, in 2014 to 2019 the two options were essentially dead even.

## Why is custom farming more profitable?

Custom farming is more profitable over a long period of time because, from an economic point of view, it must be. If farmers cash rented ground at break-even prices for a long period of time, they would eventually all be bankrupt. Profits are needed to put food on the table and provide a reasonable standard of living for the farm operator. They must also replace older, worn-out equipment from time to time. The person willing to take the risk of planting the crop should also be the one reaping the reward when good yields and/or prices produce a profit.

Despite the financial advantages, custom farming is not for every landowner. The biggest challenge is getting started during the first year with the capital needed to purchase the crop inputs like seed and fertilizer. The cost to grow corn and soybeans is well above average this year. Corn expenses totaled around \$600 per acre, and soybeans were about \$450 per acre. Not all those expenses need to be paid before harvest, around a third of that can be paid with crop income from the fall harvest. Generally, you can figure it takes about a year of cash rent



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# New Soybean Processing Plant Opens in NW Iowa

After several years of planning and construction, Platinum Crush, LLC has begun operations west of our office in Storm Lake, Iowa. With this new processing facility comes another outlet for the soybeans we produce in Northwest Iowa. Our hope is this new outlet will provide our local soybean market with the same type of opportunities as the ethanol industry provided to the corn market 15 years ago.

The entire Stalcup Ag Service staff was able to tour this facility before going online late this spring. We were shown the process of how a bushel (60 pounds) of soybeans grown in Iowa is turned into approximately 11.5 pounds of soybean oil and 44 pounds of soybean meal. Soybean meal is used as feed in livestock production. Soybean oil is shipped out via rail car to another facility for numerous other uses. Some of the uses are food production and paint. The most recent developing market for soybean oil is producing renewable diesel fuel. This newsletter had an article last summer devoted to the different types of diesel fuel, how they are produced, and their uses.

Renewable diesel produced from soybeans is a direct and complete replacement for petroleum derived diesel fuel and does not require any blending. This makes processing soybeans a new method to produce a cleaner transportation fuel and also gives the American farmer a new market for their homegrown product instead of relying on exporting to foreign nations.

Here are a few interesting statistics we learned during our tour:

- 5,000,000 bushels of soybean storage capacity on site
- 60,000 bushels per hour of unloading capacity. (60 semi-trucks per hour)
- 1,200 bushel unloading pits. (Can hold an entire semi-truck load)
- Plan to unload 600 semi-trucks per day during harvest season
- Will process 120,000 bushels of soybeans per day
- 42 million bushels processed annually

Grant Aschinger, AFM



To put the 42-million-bushel amount in perspective; Buena Vista County (where the plant is located) produced 8,768,000 bushels of soybeans in 2023 according to the USDA's National Ag Statistics Service. This facility needs every soybean grown in Buena Vista County and 4 other similar sized counties just to operate. Obviously, they will not receive every soybean grown in Buena Vista and surrounding counties, so the reach of this new facility will be very widespread and hopefully have a positive impact to the soybean market in Northwest Iowa.



## Smith Recognized for 40 years of Membership

The American Society of Farm Managers and Rural Appraisers recognized Kent Smith for being a 40-year member of this professional organization. Kent began his Professional Farm Management career in 1983 after receiving his B.S. degree in Agricultural Economics. He joined Stalcup Ag Service in 1987 and currently serves as President of the company.



Kent Smith, AFM

# Cash Rent or Custom Farming

income to get started custom farming. There are financing options available to get started if that's required. Typically, once a custom farming operation is up and running after the first year, the new farm account is self-sustaining, so no additional capital is needed from the owner.

Another concern landowners may have with switching to custom farming is the risk of major crop loss and falling grain prices. These risk factors are very real and will impact custom farming profitability. However, much of this risk is mitigated through Federal Crop Insurance and USDA farm programs. I would argue landowners have the risk of lost opportunity in a fixed cash rent, especially when rental rates are established during times of low grain prices.

From the farm operator's perspective, custom farming is a safe way to spread out equipment costs. There is no crop loss or grain market risk to the custom farm operator. The fixed returns are especially helpful to young and beginning farmers. Some well-established farmers that own most of their land are not interested in custom farming because it takes away time for them to farm their own ground. When grain prices are up, profits to the custom farmer are much less than under a fixed-cash rent, but that's the tradeoff for less risk. We find most growing farm operations already have the equipment and labor needed to add custom acres into their current operation. These farmers are eager to add acres and a guaranteed cash flow.

Which method is best for your farm? The simple answer, it depends.

## Iowa & South Dakota Lease Termination Deadline is Prior to September 1

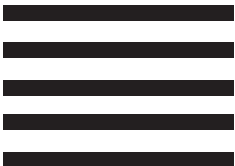
The Iowa & South Dakota lease laws require notification from either party, which could be the landowner or farm tenant, in writing prior to September 1 if changes are to be made to your current lease for the upcoming 2025 lease year which is March 1, 2025, to February 28, 2026. You do not have to have 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 verbal or written. Proper notification must be in writing from either party prior to September 1. Written termination as provided by Iowa & South Dakota 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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**We hope you enjoy our Today's Land Owner!**

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Summer Newsletter 2024



Checkout what's new in this issue!