

TODAY'S LAND OWNER

REVIEW LEASE OPTIONS TO INCREASE INCOME

By Kent K. Smith



The rapid rise of corn and soybean prices with about a \$2.00 per bushel increase in both corn and soybeans since the beginning of the 2006 harvest season will have a substantial impact on lease terms. Per acre gross income will likely increase \$200 or more per acre on a farm rotated between corn and soybeans when compared to the last few years. Landowners should analyze their current lease terms or new options to be sure they realize the full advantage of this dramatic increase in income potential. Below are brief descriptions on various lease types to review as you consider alternatives to meet your goals:

-Cash Rent

Rent should increase 30 to 40% depending on your current rate. This is the simplest, lowest risk lease which has provided relatively good levels of income the last few years. However, it may be difficult to negotiate new rates that match current income potential.

- Cash Rent Plus Bonus

There is a lot of interest in developing leases with a base cash rent and a bonus payment based on either price, yield, or both. This type of lease has the advantages of providing upside potential for the landowner and risk-sharing for the operator since they pay more if extra profit is available.

This type of lease will be somewhat difficult to negotiate since the base rate and bonus rate will vary according to the quality, productivity, and rental demand of each farm. In addition, it is questionable how FSA will interpret this type of lease. If this type of lease is considered a cash lease, the operator receives all the government payment. If the lease is classified as a "share" lease, the owner must receive a share of the government payment. The discussion is ongoing. We would expect clarification on how to handle this situation before next fall.

continued on page 3.....



LAND PRICE INFLUENCE OF BIO-FUELS

By Dennis Reyman

Agricultural production of renewable fuels has emerged as an important part of our national energy policy. President Bush outlined a goal calling for 20% of gasoline usage to be replaced with renewable fuels by 2017 in his January 23rd State of the Union address.

Based on projected demand growth, a 20% replacement factor by 2017 would require **35 billion** gallons of ethanol. For perspective, 2007 ethanol production will be approximately **5 billion** gallons.

Industry comments indicate that 35 billion gallons may not be realistic, but the message is clear - ethanol is the renewable fuel of choice. Farm producers, industry, university research departments, and the government need to combine resources to get the job done.

Corn Ethanol Dominates Near Term

Corn based ethanol production will dominate the next few years. Crop producers are gearing up to produce more corn to satisfy growing ethanol plant demand.

continued on page 2.....

Bio-Fuel and Future Land Price....continued from page 1

Most estimates of realistic long-term corn based ethanol production capacity are at about 12 billion gallons.

Although corn acres and yields will continue to grow, food, feed, and high value industrial uses will also increase and demand their share of corn produced. To the credit of this young industry, there have been continuing increases in ethanol yield per bushel. A common projection two to three years ago was 2.7 gallons of ethanol per bushel. With improved ethanol production technology and corn hybrids bred for ethanol yield, 3 gallons per bushel may be common in the next few years.

Cellulosic Ethanol Could Fill the Gap

Corn based ethanol will continue to be a substantial part of the industry. However, reaching the 35 billion gallon goal will require a new feedstock. The best prospects are cellulosic plant material such as corn stalks and switch grass. Cellulosic ethanol production is receiving major research and development dollars, but is at least a few years away from full-scale production.

The U.S. Department of Energy committed \$385 million in research grants to six companies in March. Locally, the Broin Company received \$80 million to assist in continued development of a cellulosic plant they started last fall in Emmetsburg, Iowa, about 60 miles northeast of Storm Lake. Broin is targeting an operational date of 2009 for the plant, which will use corn stalks and leaves left after grain harvest.

Switch grass ethanol plants will likely be located in areas with lower quality soils, which are better suited to grass production instead of corn.

Once the production processes are mastered, the next challenge will be figuring out a production and infrastructure system to harvest, store, and deliver large quantities of quality bio-mass material. The machinery required will be completely different than present grain production machinery. Farmers will need to invest in new machinery and provide more labor.

Growing Bio-Diesel Demand for Vegetable Oil

Bio-diesel is another factor in renewable energy in this region. There are numerous plants coming on-line in the next twelve to twenty-four months. The main feedstock in the market will be vegetable oil from soybeans. Soybean oil demand will make soybeans more valuable and also force other users of soybean oil to pay more.

Land Price Implication

A large percentage of feedstocks for renewable fuels will come from agriculture. The demand for most of the crops used as feedstocks will increase prices. Farm earnings will increase substantially the next few years.

There is a definite relationship between crop profits and farmland prices. Anticipation of higher income will continue to push land prices higher. In recent years the appreciation of land prices has exceeded the increase in rental rates. Net rental returns are generally 3.5% to 4%.

Part of the bio-fuels increase is already evident in rising farmland values, but it is hard to judge how much. The Iowa State University land price survey released in December showed an 11.5% increase from the 2005 survey. The Chicago Federal Land Bank Agricultural newsletter reports a year-to-year increase of 16%. The Realtors Land Institute survey as of March 1st showed 10.5% to 20% higher in the past six months. Northwest Iowa has one of the higher appreciation rates in the Cornbelt, which can be partially attributed to a higher level of bio-fuel production than most areas.

If you are interested in learning more about real estate values and prospects in the area of your farm and the real estate processes of buying or selling, contact one of the Stalcup partners for more information.

Following on the next page is a list of representative sales from our trade area:



Selected Sales of Good Farmland

<u>Date</u>	<u>County</u>	<u>Acres</u>	<u>CSR</u>	<u>%Tillable</u>	<u>Per Acre</u>
Nov	Sac	131	66.8	93%	\$3,800
Nov	Carroll	139	63.9	91%	\$3,850
Nov	Crawford	156	60.0	79%	\$4,250
Nov	Calhoun	80	77.5	93%	\$3,840
Nov	Clay	120	80.1	99%	\$5,175
Nov	Plymouth	149	70.4	84%	\$5,220
Nov	Monona	40	44.8	86%	\$2,950
Nov	O'Brien	320	70.0	91%	\$4,459
Dec	Lyon	141	72.0	98%	\$5,620
Dec	Greene	80	73.0	98%	\$3,500
Dec	Buena Vista	77	69.0	100%	\$4,600
Dec	Cherokee	58	62.8	100%	\$4,520
Jan	Sioux	160	67.6	90%	\$5,200
Jan	Palo Alto	153	80.0	99%	\$5,125
Jan	Pocahontas	334	70.3	92%	\$4,000
Jan	Woodbury	160	52.9	95%	\$3,500
Feb	Emmet	160	75.3	99%	\$4,650
Mar	Dickinson	200	50.5	76%	\$3,725
Mar	Kossuth	40	73.0	96%	\$4,425
Mar	Woodbury	250	55.0	98%	\$3,700

Review Lease Optionscontinued from page 1

- Share Leases

The number of 50-50 share leases continues to decline, replaced by new alternatives which more closely reflect the relative value of the contributions of the landowner and operator. The current trend in share terms call for the owner to pay all variable crop input expenses and receive 70% to 80% of the crop. (We have used this type of lease for over twenty years, under the classification of 75-25 custom share). This leasing method yields a good level of profit, shares some of the production risk with the operator (operator receives a share of the crop for his labor and machinery expense), but requires a high level of crop production knowledge and on-farm management to be successful.

-Custom Farming

The landowner pays all crop input expenses, pays the operator for field operations, and receives 100% of the crop. Disadvantages of this method are: intense on-farm management, maximum amount of operating capital, and high risk because of the increased operating capital requirements. **However, over a period of years, custom farming has produced the highest per acre profits of any method we use for our clients.** The extra risk, which is caused by below average yields, can be substantially offset by multi-peril crop insurance.

In addition to the high level of profits, custom farming also provides maximum control of farming practices.

September 1 Lease Termination Deadline

The first step toward a new lease is terminating your current lease.

September 1 is the Iowa deadline to terminate a farm lease for the coming year. There are several different ways to end a lease; each one has specific procedures that must be followed precisely to be sure the lease is properly terminated.

There is not a date requirement for a new lease for your land. The only practical deadline is the timeline an operator needs to arrange crop plans.

Summary

In the next few months farm owners have important leasing and operating alternative decisions to make that can substantially increase income for several years.

Contact us if you want to learn more about leasing or terminations. You may want to review the advantages of working with a farm manager to take full advantage of the higher levels of income available. An investment in farm management will pay substantial dividends.



AG TRENDS

By Nathan Deters



Weather/Soil Moisture

Winter weather varied from good rains in December, near record warmth in January, sub-zero temperatures in February, and a three day, fifteen inch blizzard in mid March. Spring soil moisture levels are good.

Marketing

Robust demand estimates for corn based on increasing ethanol and export demand, pushed lead corn options over \$4.00 in early March. Corn acres will likely increase about 10% this year as farmers respond to higher prices, diverting acres from soybeans, wheat, and cotton. Even with a good USDA trend yield of 152.8 bushels per acre, September 2008 carryover will decrease over 100 million bushels. Any crop production problems will cause substantial rallies.

Soybeans will tend to ride the coattails of corn. The 2007 November contract traded over \$8.00 in early March. With the loss of acres (about 8%) to corn and increasing soybean oil needs of bio-diesel plants, soybeans have a moderately bullish case for higher prices.

The next several years look promising for grain prices. The forecast for a significant increase in bio-fuel production is providing the basis for optimism.

2008 Farm Bill

A new farm bill will be debated this summer. Hopefully a consensus is developed before presidential and 2008 election politics take center stage. Following are some items that appear likely to be enacted:

- Direct payments, which are acceptable in world trade negotiations, will likely increase.
- Counter Cyclical payments, rated as trade distorting, could be eliminated.
- LDP's may only be available when crops are sold, eliminating claiming the LDP at low prices and holding for a price increase.
- **Conservation Security Payments (CSP)** type payments will increase. Senator Harkin from Iowa, who is the main proponent of CSP, now is an Ag Committee chair and will use his position to pass this program.
- A \$200,000 adjusted gross income means test has been proposed by Ag Secretary Johanns, eliminating payments to many profitable farmers and higher income landowners.

Farm Bill Summary

Our best estimates are:

- Direct payments will increase slightly.
- Conservation Security type payments will be added.
- LDP and Counter Cyclical payments will be reduced or eliminated.
- There may be a means test, but the income limit will be much higher than \$200,000.

USA in 1905

- Iowa had more population than California
- The average life expectancy was 47
- The average worker made \$200-\$400 per year
- 95% of U.S. births occurred at home

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