

TODAY'S LAND MARKET *By Dennis Reyman*

As of this writing (October 13th), land sales in our trade area have held up well despite the world-wide decomposition of equity markets over the past month that have brought commodities along for the downhill ride. Since this is typically the busiest time of year for land auctions, the farmland market is being tested several times in the region on most days. There will be variations from area to area, as always. Low quality farms would be the first affected by any decline in value.

There are several reasons for land values to hold up in times of great uncertainty. First and foremost, land is not going away. At worst, the value and income from the land may decline but will not disappear. For investors with substantial cash or other assets, farmland makes sense as a portfolio stabilizer. For farmers in solid financial shape, the need to continue growing will remain strong. There is still a lot of cash and other equity around. Iowa's ag banks are solid and credit for agriculture is considered a "safe" haven at the moment. Farmers with a strong equity base are still in position to add land that makes sense for their operation. Farmers are the main buyers but investors are also participating in the market. It is important to note that USDA estimates agriculture's debt-to-asset ratio at only 9%, an all-time

low. Farm debt is growing but not as fast as the value of farm assets.

While farmland has risen rapidly the past six years, it is easy to ask if the "bubble" is about to burst. An important component to a value "bubble" is a distorted relationship of current prices to income potential and repayment capacity. A quick check of capitalization rates from appraisals done in 2001 shows the same range of cap rates is used today as was used at that time when appraised values were running in the low to mid-\$2,000's. A cap rate is net income divided by value. This is strong evidence that income and prices have not changed their relationship over the past seven years. In the housing and tech stock bubbles, income was given low priority in financing and price, resulting in prices that were out of whack with historical relationships. Farmland's income-producing ability has been a major reason for rising values.

Farmland Compares Favorably to Stocks

Let's also take a look at farmland's performance during the last two major Wall Street fall-outs. In



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October 1929, the Dow Jones lost 23% of its value. Meanwhile, the ISU Land Value Survey posted a 20.4% gain from November 1, 1929 to November 1, 1933. Following the 2002 tech stock melt-down, the ISU survey showed an 8.2% gain for 2002 and 9.2% in 2003. Following the Asian financial crisis of 1997-98 which dramatically impacted ag exports, farmland basically treaded water, losing about 2% of value in 1998 and 1% in 1999 before resuming its uptrend in 2000.

Volatility of farmland investment is substantially less, historically, than the Dow Jones average. When comparing the two, both income and change in value are included. Since 1950, the Dow has averaged 12.2% return with Iowa farmland close behind at 11.4%. However, farmland endured only seven years of declines (five in the early '80's), while stocks had thirteen losing years. Farmland returns are more evenly split between income and appreciation while stocks are heavily weighted toward appreciation with small dividends.

Another important feature of farmland investment – there are very few people involved in your investment and you can talk to them directly whenever you want. Typically, the owner, the tenant, and perhaps a farm manager are the only people directly impacting the operation of a farm. You can also walk across your investment and perhaps shoot a pheasant or deer or catch a fish on it.

The reasons for a strong future in farmland still exist – the world's population is growing and demand for food will be strong, and the US remains the safest and most reliable producer of the world's food supply. While the value of the dollar affects global trade, supply/demand tables on corn and soybeans indicate a need for greater production acres of each crop in 2009. It seems very likely that the anticipated price rally in corn and soybeans will still happen this winter. Predictions of sub-\$4.00 corn at harvest were being made by some analysts before the Wall Street problems came to light, so current grain prices do not come as a total surprise.

Technology Improvements Boost Values

Corn yields continue to increase rapidly through technological advances in genetics and especially in research capacity. Yields have historically improved by about 1.5% annually. Numerous tours of major seed research facilities and test plots indicate this trend will continue or even speed up. Soybeans, after lagging corn improvement for years, are now beginning to show higher yields. Both crops will have more options for specific traits in a few years. One of the drivers behind growth in land values is greater production from an acre of land. This is one reason why land purchased 40 years ago may rent today for nearly its original purchase price. Will this trend continue? Despite the non-agricultural financial troubles of the day, we can't help but think that land purchased for the long-term will continue to be a solid investment.

The semi-annual Realtor's Land Institute survey, released in mid-September, put Iowa farmland at +6.6% for the March 1 to September 1 period. Our trade area showed increases of 4.6% to 8.2% in this survey. The Federal

Reserve Bank of Chicago's third quarter survey of ag bankers will be released in November and the annual Iowa State University land value survey will be released in mid-December.

The table of recent sales includes those from July through early October. A trendline on these and about fifty other sales reveals a slightly rising market for the period. This holds true if one looks at straight sale price or if one looks at \$/CSR on tillable acres.

Following is a list of land auctions on the calendar for Stalcup Ag Service. Check our website for sale results.

- **Oct. 16, Buena Vista County - 378.2 acres in 4 parcels in Washington Township**
- **Oct. 28, O'Brien County - 222.11 acres in 3 parcels in Lincoln Township**
- **Oct. 28, Osceola County - 80 acres in Allison Township**
- **Oct. 30, Calhoun County - 141.96 acres in Logan Township**

Following are representative recent sales from our trade area. Stalcup-brokered sales are shown in **bold** *.

Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/Acre	% Tillable
July	Dickinson	75.5	71.3	\$5,460	98%
July	Sac	155.0	76.4	\$5,750	100%
July	Plymouth	202.3	59.4	\$5,600	98%
July	Sioux	149.4	65.0	\$6,900	95%
July	Clay	78.3	77.0	\$5,400	90%
July	Greene	119.0	80.6	\$6,950	95%
July	Pocahontas	160.0	73.9	\$5,200	96%
Aug	Buena Vista	215.2	70.0	\$4,400	99%
Aug	O'Brien	130.7	53.5	\$4,175	92%
Aug	Sioux	80.0	66.2	\$10,000	95%
Aug	Monona	77.6	66.0	\$5,000	100%
Sept	Crawford	160.0	52.2	\$4,300	83%
Sept*	Emmet	320.0	75.7	\$6,165	96%
Sept	Greene	160.0	83.4	\$5,425	97%
Sept	Clay	152.0	81.5	\$7,150	100%
Sept	Palo Alto	295.5	75.0	\$5,200	91%
Sept	Webster	160.0	78.9	\$7,000	98%
Sept	Woodbury	80.0	42.1	\$3,500	77%
Sept	Lyon	80.2	57.4	\$6,000	98%
Sept	Calhoun	39.2	79.4	\$6,500	93%
Oct	Cherokee	120.0	70.1	\$6,350	94%
Oct	Ida	160.0	60.2	\$5,400	94%

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

BIO-FUELS IMPACT ON FOOD PRICE IS MINIMAL

By Terry Argotsinger

Being located in the heartland, we tend to be insulated from some of the negative press that is generated about bio-fuels. In Iowa, bio-fuels are viewed positively and are considered a boon to our local economy. They are looked at as a good way to keep our fuel dollars in the United States and out of the hands of the hostile oil producers in the Mideast. However, it only takes a few conversations with our clients on the coasts to find out how badly bio-fuels have been treated by the press, receiving blame for everything from the demise of the South American rain forest to the high cost of beer.

While common sense would indicate that these claims are overblown, it is good to pass along solid refutation of

one of the most persistent beliefs – that increasing bio-fuels production causes food price inflation. United States Department of Agriculture Chief Economist Joseph Glauber has recently gone on record as stating that on the Consumer Price Index (CPI) for food, bio-fuel production is only responsible for 10% of the total inflation in food prices over the last year. “While the effect of high grain prices is much higher on individual products, such as vegetable oil and high fructose corn syrup, the value of these products is fairly low relative to the overall cost of food at the retail level” states Mr. Glauber. As a counter to this low level of extra consumer expense related to bio-fuel production, it is important to remember the positive impact that increasing availability of bio-fuels has

on gas prices.

While this has certainly been a painful year at the pump, studies have shown that retail gas prices would have been as much as \$.40 per gallon higher without the growth in ethanol production.

The Grocery Manufacturer’s Association has spent a lot of money lobbying against bio-fuels. A legitimate question for them and other naysayers who blamed bio-fuels for high grocery prices is this – corn and soybean prices have dropped over 40% from their June highs. Have grocery prices followed suit?



CHALLENGING TIMES PRESENT OPPORTUNITIES

By Nathan Deters

The recent Wall Street crash serves as a painful reminder of how interconnected we have become as a global economy. What started as a United States sub-prime mortgage fiasco has quickly snowballed into a world-wide banking and credit crisis. An agricultural economy that seemed healthy and immune to trouble from the outside economy has not escaped the damage. Grain traders and commodity funds needed to raise cash and exited the commodity markets en masse. The result is a steep drop in grain prices that has little to do with fundamentals. We expect a more normal trade to resume in the grain markets once this year’s harvest is put away and supply and demand considerations come

back to the forefront. However, a re-established sense of confidence in our general economic position will have to take place first. While things look bleak at present, it is important to remember that in agriculture, we provide vital products – food, fuel, and fiber – that a growing world needs in increasing amounts. Only a short time ago the popular story was how agricultural production could not grow enough to satisfy world demands. It seems hard to believe these fundamentals have changed overnight.

These unsettled times make setting cash rental rates for 2009 a challenge. While grain prices have come down substantially, input costs are slow to

follow, and it will likely take well into 2009 to see much relief.

In this environment negotiating an equitable flat rental rate will be hard, and a flexible cash rent lease may be a good alternative. We have developed a flexible lease framework that sets a base rate while still allowing for an improved rent level if grain prices improve as we move further into 2009.

We would be glad to discuss whether flexible cash rent lease options would be a good fit for your farm.



NORTHWEST IOWA CROP PROGRESS AND MARKETS

By Kent K. Smith

The last half of the growing season returned to a normal rainfall pattern. Crops relied on subsoil moisture reserves from the first half of the year to produce above average crops in most areas. Warm temperatures in September and early October helped mature crops that have been one to two weeks behind due to the cool, wet start.



good but probably not the record yields received in 2004. The challenge will be the waiting game as corn dries versus stalk degradation and the threat of winter, which normally waits until late November but can begin early in the month.

Most of the soybeans are harvested. Yields ranged from the low 40's to the mid 60's. Farms with heavy, wet soils produced mostly average yields while high yields came mostly from more rolling terrain with good natural drainage, which are typically better soybean producers. Soybean aphids were a major problem in nearly every field. Most were treated with insecticide, and some fields required two treatments. Early yield reports indicate a 10-20 bushel per acre advantage to aphid treatment. Fungicide on soybeans also resulted in improved yields in many cases.

Corn harvest will occur from mid-October to mid-November as corn needs time to dry naturally in the field. High energy costs have caused an increase in drying charges at most elevators. Farm storage and on-farm drying facilities will pay big dividends again this year. Yields will be very

volatile best describes our grain markets. After a cash price range through winter and spring of low to upper \$5's on corn and \$11-12 on beans, the floods in eastern Iowa and the eastern Corn Belt propelled prices \$1.50 per bushel higher in corn and soybeans \$4.00 higher. The high in the local cash market for corn occurred on June 18th at \$7.06 per bushel. Soybeans reached \$15.74 per bushel. As flood waters receded and crop concerns faded, prices fell back as well after the 4th of July. Current prices are about \$3.50 corn and \$7.75 beans. The reason is two-fold – global economic problems have caused commodity funds to liquidate their positions and convert to cash; and the seasonal trend is for a harvest low at this time. For perspective, prices in October 2007 averaged \$3.15 and \$8.64 per bushel, and October 2006 averaged \$2.64 and \$5.36. Of course, production costs have risen greatly, requiring substantially higher prices to maintain profit margins. Supply and demand still indicates higher prices this winter as corn and soybeans both need high

production numbers in 2009.

Farm Bill Update

The Food, Energy, and Nutrition Bill of 2008 (the “farm bill”) was finally passed in June. Rules and regulations are still being written at this time. What is important to note is that this bill accounts for about one-half of 1% of the Federal budget, and that 72% of the bill is geared toward social programs including school lunches and food stamps. Most of the 28% spent towards agriculture is divided between conservation, crop insurance, and commodity programs. The farmer's share is relatively quite small. Direct payments to operators and participating land owners will be reduced very slightly due to an 83% payment calculation instead of the old 85% rate.

A major decision will be made for each farm this winter when details of the ACRE program become available. This will essentially allow each farmer or landowner to consider a trade-off of lower Direct payments in exchange for higher ACRE payments when prices are low, replacing the old counter-cyclical payments, or maintaining the current payment system. At present, USDA is considering which years to use in the payment calculation. More details of this program will be discussed in our spring newsletter.

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