Stalcup Ag Service

Today's LAND OWNER

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2011 LEASING DECISIONS

By Kent Smith

We are halfway through the 2010 crop year. It is time to start reviewing current lease terms and making decisions for 2011. These decisions may include adjusting cash rental rates.

Cash Rent Factors for 2011

While cash rent leases have been popular, a downside is finding an equitable rate that treats both owner and operator fairly. A number of factors go into the rate setting decision. Grain prices are the most visible factor, as they are broadcast each day and accessible to everyone. Currently new crop grain bids are at $3.50 per bushel and $9.00 per bushel respectively for corn and soybeans. While these prices are quite a bit below what we saw in 2008 and 2009, input costs have moderated as well, led by fertilizer and fuel. Outlook for 2011 fertilizer prices are similar to 2010, which is about half of the cost we saw to produce the 2009 crop. Seed and herbicide prices will likely be steady to slightly lower.

Other factors certainly play a role in determining cash rent levels. Location is a big one. Certain neighborhoods have a higher percentage of more aggressive operators looking to expand their land base. Areas with high livestock numbers also tend to have higher rental rates. In these areas, crop fertility costs are reduced by the availability of organic fertilizer. Operators tend to be more aggressive to procure a land base for feed supplies and location to spread manure.

Technology has also played a role in how aggressive operators are in pursuing land. Over time, farm equipment continues to increase in size allowing each operator to cover more acres. Many farmers now have semi trucks and grain trailers, which allows them to more easily farm further away from their home base and expands marketing options for their grain. Global positioning and auto steer technology is becoming more prevalent, allowing for more precise field operations and making it easier to expand the day during the critical spring and fall seasons. All these factors have allowed many operators to farm more acres and keep competition for land high.

Summary

Profitability outlook for 2011 remains similar to 2010 with corn in the mid $3.00 per bushel area and soybeans in the $9.00 per bushel range. Input costs have moderated with little prospect of a return to the run-up we saw in 2008 and 2009. At this time, we do not see a reason to drop cash rental rates from 2010 levels. Some leases may need to be adjusted upward if below market rates. Continuing strong demand for farmland should support rental rates into 2011.

Stalcup Ag Service managers know the market well and would be glad to work with you if you are considering a lease change for 2011. Feel free to give us a call.

Remember, if you plan to make any changes to your current lease terms, you need to notify your current operator in writing prior to September 1, 2010 in order to make changes to the 2011 lease.

Typically, the second quarter of each year has a limited number of land sales. Farmers (the most likely bidders/ buyers) are busy with field work, cash is tied up in production expenses, and harvest is an unknown that is five to six months away. However, this year the number of land sales since late winter has picked up after a year and a half of fairly limited activity. Many potential sellers sat back while the global economic engine sputtered and re-started. Now that some general confidence has returned, some of those potential sellers have started moving off the sidelines.

During that slow period estates remained as sellers, but most others, including some with holdings from estates, chose to keep their money in farmland. Now it is becoming common to see land with multiple owners come onto the market. This is generally part of estate planning for the owners (sellers), as they desire to divide joint holdings before these assets pass to the next generation, which could multiply the number of people involved in many cases.

Most sales are occurring at public auction, but the number sold by private listing is still higher than a few years ago when almost all sales were by auction. The return to more public auctions is also a sign that confidence has returned as sellers seek to maximize sale price via auction. What we've noticed lately, however, is that auctions with multiple parcels may drop off in price as the last parcels are sold (land quality and other factors taken into consideration). This indicates the number of active bidders in a given area may not be sufficient to absorb all the land at the highest prices. During late '08-early '09, there were a number of auctions that went "no sale". "No-sales" have been few in 2010. Buyers are mostly farmers but with substantial investor interest and buying activity as well.

Taxes Affecting Farmland

The future of estate taxes remains an unresolved issue at this time. The 2009 exemption was $3.5 million per spouse with a 45% tax rate over that amount. In 2011 that exemption is scheduled to return to $1 million with a 55% tax rate. Despite considerable lobbying and stated good intentions to continue the $3.5M exemption, Congress has not moved to update the law. Also, there is no step-up in cost basis in 2010.

Potential change to capital gains tax rates is another issue that concerns sellers. Most are intent on closing prior to the end of 2010, figuring they will benefit from current tax rates. These issues warrant serious consideration by potential sellers. We recommend a discussion with your tax professional before planning a land transaction.

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 2.5% to 4.4% higher around the region.

This survey places "high-quality" cropland in the mid to upper $5,000's for each district. As you can see on the adjoining table of land sales, "high-quality" land varies substantially around the region.

The Federal Reserve Bank of Chicago's latest survey placed western and north-central Iowa at steady to +1% for the first quarter of the year.

Neither of these surveys provides an indication of sales activity since early spring when more farms came on the market. Our conclusion is the land market is continuing to strengthen, as evidenced by over 30 sales including our land auction on June 29th at $6,450 per acre on a farm overlooking the (at the time) flooded Maple River valley.

Some of the factors influencing land buyers to pursue more farmland include:

- having the cash available to invest after a number of good crop years
- anticipation of future earnings due to world demand and improving yields
- lack of suitable investment alternatives offering similar stability plus dividends
- low interest rates
- need to increase acreage to lower fixed costs and perhaps expand acreage needed for manure application from livestock operations
- land is a savings vehicle that has historically provided an inflation hedge
- infrastructure advantages of US, and particularly Iowa, farmland

To the right is a survey of land sales across the region. Several Stalcup sales are featured in **bold***. We've sold other parcels at private treaty which will close later this year. If you are considering selling or buying farmland, contact one of the farmland professionals at Stalcup Agricultural Service.

ANATOMY OF A FARM AUCTION

By Nathan Deters

The decision to sell a farm that has been in the family over 100 years is not an easy one. Timing of the sale, sale method, and expected price are all questions that an owner must contemplate. For brother and sister Fred Hoyt and Deborah Eisenhard, the help of Rex Wilcox and Stalcup Ag Service with these decisions led to a successful sale of their 80 acre Cherokee County Iowa farm.

The Hoyt and Eisenhard farm had been passed down from their mother's family, and both siblings had memories of visiting the farm where their mother was born. After their mother died in the early 2000's, Fred helped his father with the decisions involved in operating the farm. Fred and Deborah's father passed away in 2005, and at that time they started giving thought to selling the farm. Over the past few years, Fred was in contact with Rex Wilcox, who gave him advice on leasing and kept him up-to-date on the land market. Rex manages numerous farms in the area, and Fred was appreciative of the knowledge he passed along over the years.

After watching the land market work higher, Fred and Deborah decided that this year was a good time to sell. They contacted Rex again for advice on the selling process and decided to list their farm for sale with Stalcup Ag Service.

Selected Sales of Good Farmland

Date	County	Acres	CSR	$/acre	% tillable
Mar	Ida	149	56.5	$5,300	89%
Mar	Osceola	148	69.0	6,150	98%
Mar	O'Brien	74	71.9	7,600	94%
Mar	Monona	174	56.4	3,425	98%
Mar	Greene	160	83.2	6,675	96%
Apr	Dickinson	80	69.6	4,960	91%
Apr	Clay	155	80.7	7,500	99%
Apr	Clay	81.3	81.1	7,000	97%
June	**BV***	**160**	**74.0**	**5,413**	**93%**
June	Sac	158	76.9	5,650	96%
June	Kossuth	153	75.3	6,300	97%
June	**Cherokee***	**80**	**69.0**	**6,450**	**97%**
July	Lyon	160	69.1	6,800	98%
July	Ida	80	69.0	7,225	90%
July	Clay	154	80.0	7,135	98%

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

A public auction was decided upon as the preferred method of sale. For the owners the advantages of a public auction were apparent. The sale date and closing date were determined eliminating uncertainty of timing. Theirs was a quality farm located in a strong neighborhood where few farms typically come onto the market, and it was likely that there would be active bidding by local farmers. Under this scenario, a public auction has tended to provide the best sales result for the owners. A sale date of late June was chosen, with the thought that holding the sale later in the fall could lead to a poorer result if economic conditions would worsen. Rex gave the owners a general range of expected sales prices based on his knowledge of the area and research of comparable sales. This helped the owners feel comfortable in their decision to sell.

Exposure to the Market a Key

Once the farm was listed for sale advertising efforts were initiated, starting with the creation of a sales flyer listing pertinent information on the farm, along with a sales resume with more detailed information. The flyer was mailed to over 290 residents in the area of the farm. Flyers were also mailed to our investor list and to absentee land owners with property near the farm. Ads were run in local newspapers, and the sale details were listed on our website. Signs were placed on the farm and personal contacts were made between Stalcup managers and likely bidders. By sale day everyone was confident that the farm had been exposed to as many potential bidders as possible.

Sale Day – June 29th

The venue for the sale was the community building in Aurelia, about 4 miles north of the farm. On sale day a mix of bidders and spectators totaling about 40, arrived about one-half hour before starting time. Three Stalcup managers were in attendance along with our auctioneer, Brian Drzycimski. Two of the managers were on cell phones with potential bidders that could not be at the auction. After Rex announced the terms of the sale, Brian started the auction at $4,500 per acre. After a slow start, the first bid was received at $4,600, and the price quickly rose by $100 increments up to $6,400 per acre. After a short pause the bidding resumed, but stalled out at $6,450 per acre. Since this price had exceeded the owners' objective, the farm was offered to all bidders a final time, and "sold" was then announced. The buyer was a local farmer who owns land across the road from the sale farm. Two local farmers also participated in the bidding. The process was completed in about a half hour.

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NORTHWEST IOWA PROGRESS REPORT

By Lyn Berkland

2010 has been a year of weather extremes. After a winter of record snowfall, spring turned dry with very little precipitation in March and early April. The break in precipitation was welcome as it allowed an orderly melt of the snow pack and an early start to the planting season. Most corn in our area was planted by May 1st, while virtually all soybeans were finished by mid May. After a dry period in late May, precipitation returned with a vengeance. This June was Iowa's wettest on record, with a statewide average of 10.45 inches. Of course, many areas of the state received more than this. Southern Iowa was particularly hit hard throughout the month, but areas of Northwest Iowa received some very heavy rains the third week in June.

Variable Crop Conditions

The results of the heavy June rains are becoming apparent. Low areas of soybean fields held water long enough to drown out or severely stunt the crop. Corn plants in these low areas have taken on a yellow color from poor rooting conditions and lack of nitrogen, and in the worst cases have died as well.

While damage is significant in some areas, it is by no means uniform. The rain totals have been variable, and farms that have missed the heaviest amounts and those with good slope or tile drainage have excellent crops this year. Temperatures have been nearly ideal, and the progress of the corn crop is ahead of normal in the better areas as of this writing in early July. We have abundant soil moisture and are set up for a good crop. The soybeans appear to have suffered more from the excess moisture and lack the height and uniformity we would like to see by this time; however, August weather makes the bean crop.

Grain Market Comments

As usual, grain markets have proved interesting this spring. After peaking in early May, the markets declined as it became apparent that crops throughout most of the Cornbelt would be planted in a timely manner into good soil conditions. Outside market factors were no help, with the European debt crisis, stronger dollar, and weaker U.S. stock market all pushing commodity prices lower. The grain markets bottomed in late June with 2010 crop corn at $3.00 per bushel and new crop soybeans in the mid $8.00 per bushel range. A fundamental change hit the grain markets on June 30th with the release of the quarterly grain stocks and acreage reports. These reports surprised most analysts, with planted corn acres well below expectations and usage of the 2009 crop significantly higher than expected. The implications of these two reports are significant. Even if a record crop is produced this year, it will still not exceed 2010-2011 corn usage and will lead to lower carryovers. Since the release of these reports, corn prices have rallied 50 cents a bushel. The reports were not as friendly for soybeans, but usage and exports have stayed strong, and weather worries have crept into the market with the perception that excess moisture in many places in the Cornbelt and hot, dry conditions in the Delta region is becoming detrimental to soybean yield prospects. Late July and August weather will be very important this year, as anything less than record yields for both crops will be looked at as bullish to the markets.

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Fred Hoyt was quite complimentary of the sales experience. The final sale price exceeded his and his sister's expectations, and they were pleased with the ease of the whole process.

A satisfied seller is always our primary goal. If we can be of help as you contemplate a farm sale, please give us a call.