

2010 LEASE DECISIONS

By Kent Smith



It is that time of year to start thinking about what changes you want to make to your current

lease. **Iowa's lease termination deadline is September 1st.** Now is the time to review your current arrangement to make sure you are getting the return you deserve for your farmland asset. Cash rents have increased significantly the past four years. Depending when you last negotiated your cash rent terms, you may be entitled to an increase.

The high grain prices of summer 2008 were factored into cash rents negotiated before the 1st of October. Those leases need to be reviewed for 2010. Leases signed during the winter are likely more in line with current economic conditions but still need to be reviewed.

Current conditions to consider for setting 2010 cash rents:

- Were you at market cash rent level in 2009?
- Grain prices are higher than the average of the past five years but less than in 2008.
- Fertilizer prices for this fall and next spring are about half of last

year's prices.

- Seed cost will likely increase in 2010.
- Herbicide costs will be about the same.
- 2009 crop yields are yet unknown, but currently Western Iowa is the garden spot of the Corn Belt.
- The largest factor is very strong demand for land from operators of all ages.

Alternatives to Cash Rent

While cash rent leases are common and desirable for many landowners, other operating alternatives should be considered as well. Over time, custom farming or custom-share leases have provided the highest returns. Under these operating methods the owner pays all input expenses and the operator is paid for each field operation on a per acre basis (custom) or a share of the crop (custom-share). There is no added work for the landowner under these operating methods as the farm manager handles all input purchases, cropping decisions, crop scouting, and grain marketing.

An advantage of these operating methods is being able to maintain more control of how your farm is operated and to fully benefit from improvements in technology over time. Grid soil sampling, variable

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rate fertilizer spreading and seeding, GPS yield mapping, and genetically modified crops resistant to herbicides and insects are just some of the changes we have seen over the past decade that have dramatically improved agriculture productivity. The pace of change will not slow as we go forward. Seed companies are predicting average corn yields increasing 40% over the next ten to fifteen years from improvement in water and nitrogen utilization. Soybean

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The economic turmoil of the past nine months has had several effects on the land market. First of all, there has been much less land on the market, especially since the first of the year. Public auctions have been few and far between with more sales being handled by private listing with a set asking price. Secondly, the market has experienced some volatility but not similar to that shown in other markets. Thirdly, farmers and investors continue buying in roughly the same percentages as we've normally seen. Here are further thoughts on these three subjects:

Our Spring newsletter discussed fewer sales, fewer offerings, and fewer public auctions than we've normally seen. That trend has continued into early summer; however, April and May are normally the slowest months of the year for farmland transactions. Some auction activity normally starts up again in June and July and increases monthly until after harvest. This year we've seen most sales occurring by listings through brokers. This method eliminates the price risk that is inherent with an auction and can give the seller a sense of more control over the process. In an unstable market, that method took some of the anxiety out of the process for the sellers.

With few sales, it is difficult to gauge the market. However, as noted in the Spring newsletter, the market feels stable to slightly higher but still with volatility. One public auction in Ida County on June 16th exceeded expectations at \$6,500 per acre for 83.5 acres that was cut into three fields. A private listing sold by Stalcup Ag Service sold recently for 10% over last winter's expectations. Several other private sales in the area have sold for prices that are higher than would have been expected in mid-winter. As usual, the market varies by area. Better grain prices, moderating fertilizer prices, and a feeling that the general economy has found some footing have been positive factors. Farmland is viewed as an inflation hedge, and the possibility of an inflationary economy makes farmland worth a look to some investors.

Farmers have generally purchased about 75% of the land in any given year. A few years back when suburban development was hot, land swaps were bringing investors into the market in heavier numbers, but they have generally accounted for 20-40% of purchases with 25-30% being typical. It seems that would still be a good estimate of investor activity. The fact that farmers are still the primary buyers indicates their belief that

farmland is a relatively safe investment with a bright future. Credit is still readily available, although requirements are more stringent, as would be expected.

We expect the land market will show some improvement through the balance of the year. Crops in our trade area are mostly in good to excellent condition, grain farming economics have improved, interest rates remain moderate at this time, and there is a feeling that agriculture is one of the better investments around. However, severe losses in the livestock sector bear watching as hogs, cattle and dairy have all experienced serious deterioration in equity over the past year or more. Reduction in the livestock herd would reduce corn and soybean consumption by our best grain customer, the livestock producer. Ethanol producers have rebounded into some profitability with the increase in oil prices. While cellulosic ethanol gets attention as the next big thing, it will be years before corn-based ethanol is dethroned as long as the renewable fuels standard calls for increasing ethanol usage.

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Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/Acre	% Tillable
Mar	Dickinson	240.2	67.4	\$3,800	96%
Mar	Monona	76.0	59.6	\$4,200	100%
Apr	Cherokee	160.0	63.1	\$4,325	74%
Apr	Buena Vista	81.0	75.8	\$4,325	95%
Apr	Emmet	263.0	68.0	\$3,210	95%
Apr	O'Brien	160.0	71.9	\$4,750	94%
* Apr	Sac	80.0	74.0	\$6,150	96%
Apr	Sioux	149.5	67.0	\$7,650	97%
Apr	Woodbury	53.8	72.6	\$5,700	100%
June	Ida	83.5	61.9	\$6,500	87%

* includes 2 wind towers

Current Stalcup listings are:

160 Acres	O'Brien County	\$5,500/Acre
74 Acres	Sac County	\$4,800/Acre

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

Long-term, increasing world population and improving standards of living in many developing countries increase the demand for food from a relatively unchanging amount of arable land. Research and development of crop genetics and production practices continue to improve yields at faster rates than we've seen in the past. This leads us to believe that farmland is an investment that will continue to grow for you.

STALCUP AG SERVICE WELCOMES NEW FARM MANAGER



We are pleased to announce Andrew Phillips as the newest addition to the Stalcup staff. Andrew is a December 2008 graduate of Iowa State University where he majored in Agronomy. Andrew grew up just outside of Lake View, Iowa on a sizable family farm where he was active in all phases of a corn, soybean, and beef cow operation. He continues to live on the home farm. Andrew is currently learning all phases of Stalcup Agricultural Service business, concentrating on farm management and real estate.

STALCUP PARTNER NAMED CHAPTER PRESIDENT

Dennis Reyman was installed as President of the Iowa Chapter of the American Society of Farm Managers and Rural Appraisers at the state chapter's last annual meeting. The Iowa Chapter has about 190 members throughout the state. The American Society has about 2,200 members. Its mission is to provide top-notch educational offerings, professional recognition of accredited members, government representation, and business networking.

Dennis has been active in state board

of director's activities over the years and has participated on several state committees, including chairman of the state government relations committee. From that role, he has also participated on the national Government Relations committee and currently serves as co-chairman. In that role, he works with the ASFMR's lobbyist on issues affecting landowners, Farm Service Agency regulations, and helps coordinate the annual Leadership Institute in Washington DC.

Dennis follows a long line of state

and national leadership at Stalcup Agricultural Service. Several partners in the company have



served as state presidents over the years, have chaired national committees, and developed and taught national courses. Networking with fellow professionals over the years has been invaluable in solving everyday issues for our clients.

ACRE PROGRAM SIGN UP

USDA's new Average Crop Revenue Election (ACRE) program deadline for 2009 participation is August 14th. Enrollment can be made for 2009 or during any year up to 2012; however, once a farm is enrolled in ACRE, it stays in for the duration of the existing farm program, slated to expire in 2012.

ACRE participants will receive 20% less Direct Payment annually, meaning the average farm will forfeit around \$5 per acre each year. In addition, government sealing loan rates are reduced and counter-cyclical payments are eliminated. Counter-cyclical is basically a non-issue since ACRE payments should kick in before CC payments would. Participants

will need to prove yields which can be done a variety of ways. Crop insurance records will provide acceptable yield history.

Without going too deep into calculations, which are pure speculation, ACRE payments can be triggered by a drop in yield or a drop in price. However, a state-wide revenue loss must kick in before any farm will be eligible for an ACRE payment. If the state is triggered and your farm's revenue trigger kicks in, you would receive an ACRE payment.

There have been years where the ACRE payment could have exceeded \$100 per acre; however, most years would see no payment. Crop revenue insurance is still

available and may be a more reliable source of protection for your farm. One benefit to the ACRE calculation is that the price trigger cannot deflate by more than 10% in one year, so a serious drop in average grain prices could result in a large ACRE payment.

There is no set answer to whether ACRE is right for your farm. As of this writing, actual ACRE sign-ups have been very few. Weigh the advantages and disadvantages, consider crop prices as we approach August 14th, and consider whether giving up 20% of the Direct Payment is acceptable on your farm. Landowners will need to sign off on ACRE sign-ups.

NORTHWEST IOWA CROP PROGRESS AND GRAIN MARKETS

By Rex Wilcox

The first portion of the 2009 growing season has been favorable in Northwest Iowa. Corn planting kicked off early into good soil conditions. Most corn was planted by late April, and planting was completed by the first week of May. Soybean planting followed closely behind and was largely finished by May 20th. May precipitation was below normal while June has seen rainfall between four and six inches, which is near normal for the month. The rain fell in moderate amounts, leaving very few drowned out areas. Temperatures in June have been on the cool side of normal but with enough heat and sunshine to encourage crop development. Overall, crops are in very good condition with few problem areas.

Grain markets have fluctuated on a number of factors over the last few months. After bottoming in late winter, the soybean market moved higher as reduced soybean production from the record drought in Argentina became apparent, and China ramped up imports from the United States. At the same time, corn prices were boosted by delayed planting due to very wet conditions in the eastern Corn Belt and by improving margins for ethanol from a significant increase in crude oil



prices. Both grains benefited from a weaker dollar and from the perception that the worst of the economic meltdown is past. After peaking in early June, the markets have dropped back. The USDA

planted acreage report released June 30th estimated corn planted acreage at 87 million acres, the second highest number since 1946. This was a surprisingly high number, as most analysts predicted that a wet spring would lead to less corn acres. Soybeans will be planted on a record 77.5 million acres, which is still slightly less than the market was expecting.

An interesting trend is that high corn and soybean prices have changed the mix of crops planted in the United States. While total crop acres have dropped over the last decade by about 9 million acres, corn and soybeans have gained nearly 15 million acres in the same period, largely at the expense of cotton and wheat acres. Improved seed genetics and market forces have moved the corn and soybean belt north, west, and south. A classic example of supply expanding to meet demand.

As usual, weather will be the determining factor as we move through the end of the growing season. With large acreages confirmed, a continuation of the current favorable

weather conditions will likely lead to weaker prices. Conversely, a switch to hot and dry conditions will get the market's attention since world grain stocks are still low on a historical level. Crops east of the Mississippi River could suffer quickly from hot/dry conditions due to poor rooting conditions this spring.

For weekly updates on crop conditions and local prices, check our website www.stalcupag.com. Click on Ag Updates, then Crop Conditions, and choose the geographic area in which you are interested.

2010 Lease Decisions continued

genetics continue to improve as well. The best way to see the full benefit from these changes is by participating in the production under a custom or custom-share operation. All Stalcup Ag Service farm managers own or are part of farming operations where custom farming is used exclusively. Why? Because this alternative provides the highest return on our investment.

Please call us for a no-obligation evaluation of your lease terms for 2010.

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