

WHAT PROFESSIONAL FARM MANAGEMENT CAN DO FOR YOU

By Kent Smith

Corn Belt agriculture is experiencing some of the most interesting times in its history. Volatile markets, world economics, cheap interest rates, record profit margins, competition for additional land, and a solid agricultural economy all add up to opportunities for landowners. Landowners need to understand the current economics of production agriculture. We've rapidly advanced from top end yield potential of 160 bushel per acre corn at \$2.00 per bushel 10 years ago to 200 bushels per acre potential at \$5.00 to \$7.00 per bushel today. The amount of profit potential has changed immensely over the past 5-6 years.

Professional farm managers know the economics of production agriculture and understand that landowners are entitled to a fair market return on their assets. A typical high quality farm with a corn-soybean rotation capable of producing 190 bushels per acre corn and 55 bushels per acre soybeans will see gross income of approximately \$850 per acre at today's prices. We are projecting input costs for 2012 (including machinery expense) to average \$375 per acre. This leaves \$475 per acre to be divided between the landowner and operator.

It is the responsibility of the farm manager to explain available options and help determine the best plan to meet the client's goals for their farm. Return from custom operated and custom-share leases are at record

levels this year. Cash rents are increasing \$100 per acre for 2012 in many cases, depending on what level they were in 2011. While most cash rents are negotiated with existing operators, competitive situations will usually bring rent offers to new highs.



Custom-farming has provided the highest return over the long-term, along with maximum control of your asset. Cash invested in crop production provides an excellent return on investment. We have had several clients change from a cash rent lease to custom farming for 2012. You may want to consider the agronomic and financial management benefits that a professional farm manager brings to a custom-farming operation.

What can a professional farm manager provide you as a landowner?

- Evaluation of lease terms
- Operator evaluation
- Written lease or custom agreement
- Input purchases
- Grain marketing
- Monitor conditions on your farm
- Crop development reports
- Individual bank account for farm business

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Professional management fees can usually be offset by increased income from the changes made to an operation the first year. That savings continues each year along with additional savings over time. Stalcup managers work to build long-term relationships with our clients and represent their interests while treating farm operators fairly.

Please call one of our professional farm managers if you would like more information about our professional farm management services.

Farmland sale prices continue to move higher, particularly on the best land and that situated in the most competitive neighborhoods. A new high sale mark was set in early October when 120 acres in Sioux County, sold for \$16,750 per acre or \$2,010,000. The public seems to enjoy shaking its head and wondering how that can be. Simply put, that is competition at its finest in a very strong area, competing for farmland that is some of the highest quality, consistent in production, and easily farmed. The bidders in that area are financially capable of pushing the market to new heights.

High sales capture the headlines, but what is the land market doing as a whole? Sales of the better farmland around the region are ranging from \$9,000 to \$12,000 per acre depending on location and features of the farm and neighborhood. There have been at least ten sales exceeding \$13,000 per acre, all in the northwestern part of the area (Sioux, O'Brien, and Lyon Counties).

Generally, sales of the best land in the glacial till soils east of Storm Lake have ranged from \$9,000 to \$11,000 per acre while the loess soils to the west have sold for \$1,000 to \$2,000 per acre more. Sales of medium-quality land or farms with irregularities will generally sell 10-25% below the highest quality. Lower-quality land has shown the least amount of price improvement as many buyers prefer to wait and deploy their capital on more desirable parcels. Lower-quality land may sell in the \$4,000 to \$6,000 range.

Sales of recreational land (timber or non-pastured grassland) are variable but generally have not regained the strength they had prior to September 2008. This is the case across the country. A higher percentage of those buyers are more affected by the stock market or global economic concerns and buyers have not returned to the land market with as much enthusiasm as in 2007-08.

The September semi-annual Realtor's Land Institute opinion survey placed top-quality Northwest Iowa cropland at \$9,685 or +18.2% from March 1st to Sept 1st. West-central Iowa was second-highest at \$9,085 per acre or +11.3%. The survey reports the state of Iowa as a whole at +32.6% over the past year.

The amazing part of the 2011 land market story is not only the jump in values, but also the fact that considerably more farms have been placed on the market and sold at rising prices. Even with much more land available, buyers still outnumber sellers for good farmland. So far this year, our database of sales around our region totals almost \$188 million on more than 200 sales. Last year, our database totaled about \$113 million on about 180 sales for the entire year. A tremendous amount of money has changed hands so far in the Northwest Iowa land market and the market has absorbed it with vigor.

At this time, the rise in land values is supported by the increase in its income producing capacity. Return on land as derived by the Income Capitalization Approach in appraisals has remained steady at 3-4% over the past decade. This is the "annual dividend" yield.

What threats are on the horizon? Grain prices will most likely work lower over the next few years. Wide-spread weather problems over the past two growing seasons have pushed grain prices to current historic levels. High prices encourage more production. If we see more global acreage devoted to the major grains, combined with more reasonable growing conditions, we'll see tight grain inventories increase and the need to bid up for scarce bushels will also shrink. Federal farm programs will most likely take a hit. This is not considered a big threat in the Corn Belt, but considering that the average direct payment (the most likely payment to disappear) averages about \$20 per acre, it does add up. Farm groups in DC are focused on retaining crop revenue insurance. Remember that 76% of the "Farm Bill" goes toward nutrition spending (food stamps, school lunches, etc.) which will be cut very little, if at all. Most of the balance is conservation, direct payments, and crop insurance.

Along with direct payments, ethanol subsidies will likely be cut. The focus of renewable fuel groups and corn producers is to maintain the mandated blend rate for ethanol. As long as usage is mandated by law, it is believed the industry has matured enough to withstand market cycles.

Interest rates – although lenders are prudent on lending standards, cheap interest rates do help land purchases in two ways. Borrowing costs are very inexpensive; and, those with money on deposit find farmland returns more attractive than bank rates. A return to 4% deposit rates and 8% borrowing rates would likely influence the land values. It may not create a drop in values, but may slow the rate of growth. Higher interest rates would strengthen the dollar, and put a damper on exports.

Overall, the land market is very strong, supported by a tremendous amount of capital and the expectation of continued strong earning potential. It has become a "safe haven" investment with inflation protection and will likely maintain that status for some time.

With the amount of land changing hands, it is obviously the right time for some to sell and the right time for others to buy. It is a personal decision, really not comparable to buying or selling a stock. If you're considering buying or selling farm property, please give the farm real estate professionals at Stalcup Ag Service a call. We've purchased and sold a good number of farms for clients over the past several years. Put our expertise to work for you!

Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	% tillable
Jun	Cherokee	78.2	72.0	\$10,600	98%
*Jun	Pocahontas	80.0	80.2	\$8,980	95%
*Aug	Ida	237.1	63.4	\$8,800	93%
*Aug	Sac	80.0	72.9	\$8,270	78%
*Aug	Clay	195.5	76.8	\$8,600	98%
Aug	Greene	152.9	73.0	\$8,400	96%
Aug	Monona	151.5	50.8	\$7,175	88%
Aug	Emmet	80.4	73.0	\$7,700	100%
Aug	Pocahontas	150.0	80.5	\$8,400	96%
*Aug	Dickinson	80.0	65.2	\$7,250	96%
Sept	Osceola	200.0	68.7	\$8,500	96%
*Sept	Buena Vista	171.0	74.0	\$9,175	98%
Sept	Crawford	83.6	60.0	\$7,750	88%
Sept	Calhoun	160.0	80.9	\$9,650	94%
Sept	Webster	152.7	77.9	\$9,150	94%
Sept	Lyon	102.3	57.3	\$10,850	98%
Sept	Kossuth	119.0	75.5	\$11,000	99%
Oct	Sioux	120.0	70.0	\$16,750	97%
Oct	Kossuth	40.0	68.5	\$9,350	96%
Oct	Plymouth	160.0	68.8	\$10,200	99%
Oct	Palo Alto	40.0	72.1	\$8,300	92%
Oct	Woodbury	80.0	49.4	\$7,650	94%

Upcoming Stalcup Brokered Auctions *

Date	County	Acres	Tillable	CSR
11/15/2011	Plymouth	153	52.0	95%
11/16/2011	Buena Vista	137	74.0	90%

LYN BERKLAND RETIRES

Lyn Berkland announced his retirement, effective July 1, 2011 after thirty-five years with the firm. Over the years Lyn has worked effectively with many farm owners in adopting the best management and conservation practices with the goal of leaving the farm better than he found it.

Lyn and his wife, Diana will continue to live in Storm Lake, and will stay busy with a variety of interests and two grandchildren. We thank Lyn for his years of service and wish him the best in retirement.

TECHNOLOGY USED FOR BETTER FARM MANAGEMENT

By Chad Husman



Farmers across the country are adopting new precision technology. Some of this technology has been around since the early 90's but hasn't taken off until recent years. Advances in technology along with record high commodity prices and high input costs are driving this movement.

Today many tractors are operated by a touch screen monitor and GPS. Combines now come standard with monitors used to map yield and moisture. Also any crop input product that goes on the field can be variable rate applied. Everything that goes into or comes out of the farm is mapped every year. Soil samples are mapped, (grid sampled) every four years usually on a 2 1/2 acre grid.

The possibilities for this new technology are endless, but just getting all the data in one place to analyze is hard work because it's generated from multiple sources and locations. This is why most producers and retailers are not fully utilizing the data available. For example, many producers have several years of yield map data they looked at once but never actually used for anything. We know the amount of data created from precision farming is valuable when it is pieced together and looked at as a whole.

At Stalcup Ag Service our goal is to get all the "GPS Data" created for each field managed. We take our own grid soil samples, do extensive record keeping, and download the yield, planting, and application data from farmers and retailers when available. Then recommendations are made specific to not only each field, but each spot in each field. For example, we can use multiple years of yield data to create a very accurate production zone map to use in combination with our soil test map to create a fertilizer or planting recommendation map. We also use the data to pick out trends in tillage practices, herbicide programs, fungicides, insecticides, foliar feeding, planting population, row spacing, and more.

Early on, the goal of precision farming was to bring the whole field to the same soil test level and hope to get equal production levels. We now recognize that it is impossible to do so and may be wasteful to try. We instead want to identify where we can "push the yield" and where we should be more conservative with inputs. Although efficiency and smart placement of costly inputs is still the key, never have the rewards for pushing yield been so high.

Stalcup Ag Service will be hosting an open house for the community to tour our new facility on November 17, 2011 from 4:30 to 6:00 p.m. Guests are welcome.

For the second year in a row, farmers in Northwest Iowa have enjoyed a rapid harvest. Starting in late September with soybeans, the harvest progressed for a month nearly uninterrupted. At the time of this writing in late October, all of the soybeans and virtually all of the corn has been combined. The only real obstacle this fall has been several very warm, windy days when fire danger was extreme. There were numerous combine and field fires in the area this fall, and on the worst days some farmers chose to delay harvest rather than risk starting a fire.

Soybean yields have been quite variable this year. The early maturity varieties did quite well in most areas, with some farms seeing their best soybean yields ever. The area received a killing frost on September 14th, three weeks earlier than normal. The later maturity and later planted soybeans lost yield from this event. In addition, many of the later soybeans were essentially microwaved by temperatures in the 80's, combined with high winds at harvest. Soybean moisture was at a record low. Overall, it was a respectable but not outstanding soybean year in the area.

Corn yields have been a little better than expected. Although we had little rain the last half of the growing season, the plants were able to pull from soil moisture to finish out the ear, and benefited from moderate August

temperatures to help make a heavier kernel. Maturity was pushed ahead by near record heat in July, and a warm, dry fall has allowed most of the corn to be harvested below 18% moisture, which means very low drying costs this fall.

A concern we have going into 2012 is very low soil moisture levels. Since early July, our area has received roughly 25 to 50% of normal precipitation. Our subsoil moisture has been largely depleted. Without some rain before the ground freezes (usually late November), we will be very dependent on timely rains in 2012 to make a crop. The good quality soils in Northwest Iowa can normally hold enough soil moisture at full capacity to provide about one-third of the water needed to grow a crop. Without this soil moisture cushion, crop production becomes riskier next year.

The grain markets have taken a substantial correction after peaking in late August, although fundamentals have not changed dramatically. The most recent USDA crop report released in early October forecasts national yields this year at 148.1 bushels per acre for corn and 41.5 bushels per acre for soybeans. This is the low estimate for the year. Domestic usage has stayed strong with good margins being seen by the main users of our grains - the

livestock and ethanol industries. The culprit for the decline likely lies with outside market forces.

The on-going European debt crisis has taken investors away from the euro and into the perceived safe haven of the dollar, making our grain exports more expensive to foreign buyers. In addition, a general feeling of uncertainty in the strength of the world economy has taken away enthusiasm for investments in nearly all commodities, as witnessed by the substantial drop in gold prices.

Going forward, we feel grain prices should strengthen post-harvest, barring a major economic disruption or a surprise increase in yields. Many farmers have booked early sales at good prices and are not in need of further sales for cash flow needs. Once harvest of this year's shorter crop is put away, it will take price improvement to induce further sales. We are sitting at near-record low stocks of corn and soybeans, and weather in South America starting late fall and in the U.S. next spring, will be closely watched and traded by the markets. Finally, it should be recognized that grain prices, even after the recent drop, are still at record levels for harvest delivery (\$6.00 bushel plus for corn and \$11.50 per bushel for soybeans at this writing). It will be a very profitable year for most farm operators.



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