

## TODAY'S LAND MARKET

By Kent Smith

It may sound like an old story, but the land market continues to work its way higher despite having a LOT of land on the market. Our database now contains nearly 400 sales scheduled so far this year compared to about 325 for all of last year and about 180 for all of 2010. These are mainly advertised public auctions and include few private transactions. The same method of capturing sales data has been used throughout these years.

We're seeing most good land sell for \$9,000 to \$14,000 per acre. Neighborhood factors, soil types, lay of the land, and drainage will always be major influences on values. A \$10,000 farm here may bring \$13,000 in another area. A \$13,000 farm may bring \$16,000 in the right geography. While no one can exactly predict the outcome of every land auction, those neighborhood factors must be fully understood when developing an expected range of value for a property.

Many farm properties now exceed \$1 million in total value. Our database shows that nearly 50% of the transactions exceed that amount, compared to about one-third last year and one-sixth in 2010. Is there enough cash and equity to continue absorbing the land being offered? At this point, it seems so; however,

we do note that large parcels are sometimes purchased by two or more buyers throwing in together and dividing up later.

This tends to happen more when the purchase price approaches \$2 million. When selling farmland, it is important to consider offering it in a way that is most conducive to making the best sale.

The trend is higher. We've noted an overall increase of at least 10-12% during 2012; however, certain areas are closer to steady due to this year's weather situation, while other areas have increased at a faster pace. Last November's \$20,000 per acre sale near Boyden in Sioux County was exceeded on October 25th by an 80 south of Boyden which sold for \$21,900 per acre. There are also a greater number of sales in that area exceeding \$15,000 than a year ago. Keep in mind, certain areas of Sioux County have their own level of land values that cannot be duplicated in other parts of Northwest Iowa.

The September survey by the Iowa RLI Chapter placed Northwest Iowa farmland at +10.3% for the past six



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months, West-central Iowa at +7.9%, and North-central Iowa at +7.0%. State-wide values increased +7.7% for the past six months. The previous six months was about 11% higher.

The July 1 survey of bankers' opinions by the Chicago Federal Reserve Bank placed western Iowa farmland at +3% for the second quarter and +19% from July 1, 2011 to July 1, 2012. 2011 was increasing at a faster pace than 2012.

### NEW CSR'S

Corn Suitability Ratings (CSR's) are

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a soil rating system unique to the state of Iowa. They were developed by Dr. Thomas Fenton of Iowa State University in 1971. Throughout the years, CSR's have come to be heavily relied upon by most everyone involved in agriculture, including buyers, sellers, professional farm managers, appraisers, agronomists, farmers, and county assessors. They've been used as a basis for valuation, tax assessment, rent negotiations, and even yield goals for developing fertilizer maps in Geographic Information Systems.

CSR's are popular and heavily relied-upon because the soil scientists did a very good job of developing a comparative system. However, it is not appropriate to compare CSR's in say, northwestern Iowa to those in central Iowa. When comparing within the neighborhood, they are much more reliable than comparing across the state. For example, a 65 CSR farm in Northwest Iowa may be just as productive year in and year out as a 75 or even 80 CSR in another part of the state.

With this in mind, Dr. Lee Burras of Iowa State undertook the task of developing an updated version of CSR's, called CSR-2. Dr. Burras presented his ongoing work to the Iowa Chapter of Farm Managers and Rural Appraisers on several occasions; however, specific CSR-2's were not available at that time. CSR-2 was formally released on October 1st, although it has actually now been available to the public for several months.

Over the entire state, CSR-2 has little variance from CSR. However, on a soil-by-soil basis or on a farm-by-farm basis, we've noted some very considerable changes. While some have not changed much, we've seen some soils change by as much as 20-30 points, both up and down. Sometimes whole-farm average CSR's have changed by 10-12 points, both up and down.

Your farm may have a CSR-2 that is very similar to its original CSR. Both numbers will be available for some time, but eventually CSR will fade away. It will take some time for CSR-2 to be fully absorbed and adopted by the market. In the meantime, we have begun tracking both in our sales database and in our individual farm analyses.

The goal of CSR-2 is to make the calculation more transparent. It may still be a work in progress, depending on public reaction. The important thing for you to keep in mind when talking CSR's is to ask: is this CSR or is it CSR-2? Preferably, ask for both numbers.

The table shows one or two sales of "good" farmland for most counties in the region (Stalcup-brokered sales are **bold\***).

### Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	Tillable
<b>*Aug</b>	<b>Sac</b>	<b>152.5</b>	<b>77.5</b>	<b>\$10,900</b>	<b>97%</b>
Aug	Crawford	76.8	61.0	\$11,600	100%
Aug	Webster	141.8	81.3	\$11,900	96%
Aug	Cherokee	152.2	60.1	\$8,000	95%
Aug	Emmet	75.0	64.5	\$9,800	98%
<b>*Aug</b>	<b>Sioux</b>	<b>40.0</b>	<b>72.4</b>	<b>\$15,100</b>	<b>94%</b>
<b>*Aug</b>	<b>Pocahontas</b>	<b>114.5</b>	<b>76.4</b>	<b>\$12,500</b>	<b>94%</b>
Aug	Humboldt	158.0	79.1	\$9,600	97%
Sept	Plymouth	120.0	54.9	\$9,950	91%
Sept	Greene	160.0	80.9	\$10,225	96%
Sept	Calhoun	160.0	81.0	\$11,100	100%
Sept	O'Brien	140.0	77.3	\$14,700	96%
Sept	Woodbury	156.0	73.4	\$11,200	98%
Sept	Osceola	80.0	67.5	\$10,200	97%
Sept	Monona	134.8	58.1	\$6,250	98%
Oct	Buena Vista	160.0	78.3	\$12,700	98%
Oct	Kossuth	80.0	74.7	\$12,300	95%
Oct	Clay	143.0	80.2	\$13,950	97%
Oct	Lyon	80.0	62.0	\$14,300	95%
<b>*Oct</b>	<b>Dickinson</b>	<b>116.5</b>	<b>70.3</b>	<b>\$9,900</b>	<b>99%</b>
Oct	Palo Alto	80.0	78.5	\$11,600	94%
<b>*Oct</b>	<b>Ida</b>	<b>152.0</b>	<b>73.4</b>	<b>\$13,200</b>	<b>94%</b>
Oct	Carroll	159.0	66.4	\$14,000	89%

#### Upcoming Stalcup-brokered Auctions:

Date	County	Acres	Crop Acres	Tillable	CSR
10-30-12	Emmet	160.0	152.3	95%	76.5
11-7-12	Sac	120.0	112.2	94%	68.5
11-9-12	Humboldt	154.91	152.0	98%	77.7
11-13-12	Sioux	160.0	151.4	95%	66.3

## Farm Bill

The 2008 farm program expired September 30th. Congress left town by the middle of the month, not to resume business until after the election. Having a farm program expire before a new one is enacted is not unusual; in fact, it has happened that way more often than not in recent decades. Generally, a short-term extension has been signed into law and the existing farm bill continues on until a new one is passed. No extension has been signed at this time.

One of the major points of contention is cuts to nutrition spending, which accounts for 80% of the farm program. The Senate cuts nutrition spending by \$4B over ten years while the the House cuts \$16B over ten years. The Senate's cut represents half of 1%. The House version represents a 2% cut. Compromise should be easy on that, right? Not so, with some on both sides thinking those

cuts are either way too much or not nearly enough. Basically, House leadership deemed it too risky to put some members' votes on the line prior to election.

So what happens with the farm program having expired? Right now, not a lot. Farm program payments for 2012 are due in early October and will be paid, since they are paid in arrears of the actual program year. Nutrition spending continues as is, since that is considered mandatory spending. Some conservation programs are halted; for example, no new CRP contracts are written after September 30th, but existing contracts continue to be paid.

Expect the new farm program to rely heavily upon crop revenue insurance in place of direct payments. Despite this year's extensive drought, there has been little call for disaster relief. Crop insurance has become a popular

product. Over 90% of Iowa farmers are enrolled. This will provide a decent revenue floor despite some poor yields. Another Federal program called SURE is designed as disaster relief but does not make payments until more than a year has passed.

Professional farm managers are active in federal farm legislation. The American Society of Farm Managers and Rural Appraisers (ASFMRA), in which Stalcup Ag Service has been heavily involved for many decades, maintains a presence on Capitol Hill with a full-time lobbyist. This is the only voice on the Hill that solely represents your interests as an absentee landowner.



# TAX PROVISIONS UP IN THE AIR

by Terry Argotsinger

Numerous tax provisions will expire December 31, 2012, and return to tax provisions in place prior to 2001 with some exceptions. 47 tax code sections identified by the Center for Agricultural Law and Taxation at Iowa State University are affected.

The most common income tax rate used is 28%. It will still be in place, but fewer deductions will make it easier to be bumped up to a 31% or 36% bracket.

Capital gains tax rates will move up from 15% to 18% for most transactions (20% for an asset owned less than five years).

One of the largest tax obligations will be in settling estates. Currently the estate tax is 35% of taxable amounts

above \$5,120,000. The rate will increase to 55% for estates above \$1,000,000.

This and the increase in capital gains taxes are the two major items that must be managed in an estate plan. Be sure to meet with your attorney or estate planner to review your plan. Also keep abreast of Congressional action. When Congress reconvenes after the election, there will likely be changes made to the code.

Here are other changes that are coming - The current 2% reduction on employee contribution to social security tax will expire and go from 4.2% back to 6.2%. The employer contribution stays the same at 6.2% so the total in 2013 will be 12.4%. Medicaid/Medicare will increase

from 2.9% to 3.8% for self-employed individuals. There is also a new tax of 3.8% on passive income such as interest, dividends, capital gains, royalties, and cash rent. When you combine the three, the new "social" tax on active income will be 20% on AGI of \$250,000 or more if filing a joint return.

If you sell a farm in 2013 with a \$1,000,000 capital gain that was owned for more than five years, the tax on the gain will be 18% plus Iowa's 8.98% plus the new 3.8% tax for a total of 30.78% tax or \$307,800.

Watch for Congressional action and then visit with your tax advisor to adjust your estate plan.

Hot, dry weather and fast-paced crop development allowed harvest to begin in late August and was largely completed by mid-October in Northwest Iowa, at least three weeks ahead of normal. Growing degree units (aka heat units) accumulated quickly all year, putting crop development well ahead of normal. Both corn and beans dried rapidly in the field, nearly eliminating drying costs. Corn harvested below 15% moisture and beans below 13% cost producers money since the full complement of allowable water weight is not delivered to the market. Many corn fields came out at 12-14% and beans at 7-8% as harvest wrapped up. Hot windy days with low humidity dry crops faster than they can be harvested.

The best words to describe crop yields this year is extremely variable. Results depend on location and soil type. Seed variety and fertility are also important factors. Throughout our area, soils with the best water-holding capacity had by far the best crops. Combine yield monitors told the tale; when making one pass through a corn field it was not unusual to see yields change 150 bushels per acre when traveling from heavy, low ground to hilltops with light soils.

In general, the northern parts of our area had better than expected yields while western and southern areas had poorer results. Parts of O'Brien, Clay, and Palo Alto counties were fortunate to receive a good rain in late July, and some farms

in these areas saw their best yields ever. At the other extreme, areas in western Plymouth and Sioux counties were very dry and saw yields at one-third or less of normal. Parts of Calhoun, Carroll, and Greene counties also saw very poor corn yields from a combination of drought and severe lodging from a late-July windstorm. Generally speaking, yields are 10 to 20% below normal in the region. While disappointing, these are better results than expected considering the near-record heat and drought.

## Markets

Anticipation of drought-reduced yields led to a price peak in early September. Once harvest got underway, while still low, yields were in many cases a little better than expected across the Cornbelt, pushing prices lower. Rapid harvest pace also contributed to the drop. Corn prices have held up relatively well, dropping about 80 cents from the peak. Prices are back to the mid \$7.00 per bushel range. Local demand remains strong since users want to control supplies, giving hope for further strengthening into early winter.

Soybeans have dropped harder, losing over \$2 per bushel from the peak. Local bids are in the lower \$15 per bushel range. The upcoming growing season in South America will be watched very carefully. World stocks of soybeans are tight, and the market is expecting a big jump in acres and production in South America to help ease the situation. Any

sign of production problems will send soybean prices back higher. *El Nino* is an important factor in South American weather. The latest prediction is for a weak and short-lived *El Nino*, which would make growing conditions more volatile.

The October 11<sup>th</sup> USDA Crop Report estimated the national corn yield at 122 bushels per acre, the lowest average yield since 1995 and a 36% cut from last spring's forecasts. Soybean yields are estimated at 37.8 bushels per acre, which is 4.7 bushels lower than last year, but up 2.5 bushels per acre from what the market was anticipating earlier this fall.

Grain traders have a lot to consider as they balance thoughts of supply and demand. On the corn side, there is some demand destruction occurring with very low exports recently and some signs of reduced usage for livestock feeding and ethanol. Soybean exports have remained strong, showing higher prices have not slowed demand yet, although a slowing of the Chinese economy (our largest customer) could be a concern.

On the supply side, much of the Cornbelt is in some stage of drought, with northern and western areas most severely affected. Rivers and streams are as low as any time in memory. It is looking more likely that we will enter winter with very low subsoil moisture supplies in many areas. This is concerning as we try to rebound to more normal production levels next year.

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