

Fall 2021 Volume XLIV No 3

Today's Land Market

Dennis Reyman, AFM, ARA



Each day, Paul Harvey would say, "You know what the news is... now you're going to hear..... the REST of the story!" You already know how the land market is behaving in 2021, it's higher!

The September survey from the Iowa Realtor's Land Institute (broker's opinions, including ours) placed the past six months at 14% to 22% higher, depending on the area of the state. No one would quarrel, except perhaps they think it's higher than that. In certain areas it actually is, and that's based on a good number of sales. However, let's look at the land market as a whole, including all the counties in the northwestern part of Iowa, from Lyon to Kossuth along the MN border, down to Greene and over to Monona along the Missouri River. That's 23 counties which comprises much of our trade territory.

We normally find 75% of the land sales occurring in the second half of the year. This year appears to be no different, tracking that percentage almost exactly; however, we find that more sales occurred in the 3rd quarter than normal. The number of total transactions has been well above normal, so moving sales ahead on the calendar is an effort to sell while the market has the liquidity to absorb it. What we mean is that certain areas have had an extraordinary number of offerings.

How much more money is left in those areas when the financial commitment to buy land is usually more than \$1 million? We wonder, but so far there does not appear to be a shortage of buyers in those neighborhoods. No, it isn't all paid for with cash, not even close. The average

transaction so far in 2021 has been \$1.3 million compared to \$940,000 in 2020.

There is a limit to how much land a person can financially absorb at one time. Not everyone in the countryside is a land buyer. Lack of desire is never the issue, but rather the financial requirements to fund the purchase. Timing is always key.

How much higher? Looking at the overall average \$/acre prices, the 2021 market (to October 13th) is running 24% higher than 2020. However, if we look a little closer at the \$/CSR-2 on the tillable land value, 2021 (so far) is actually running 19% higher than 2020. What's the difference? The 2021 dataset includes a higher percentage of tillable land, so the rise in value isn't quite as steep as the straight \$/acre comparison indicates. We expect the percentage change in value to increase as we draw toward year-end. We've found that 74% of the highly-tillable land sales so far have sold for \$10,000 per acre or more, as compared to 43% in 2020.

Now, you say you know the market is higher than that? We can find areas that show a 50% increase in value based on a good number of comparisons. For example, if a \$9,000 neighborhood suddenly adjusts up to \$13,500, you have a 50% increase. These are neighborhoods with pent-up demand due to fewer offerings in the past number of years. Will that hold up as more land becomes available? It makes it tricky for appraisers.

What's driving this dramatic increase in values?

Stimulus funds have come in various forms, from direct

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Stalcup Ag Service, located in Storm Lake, Iowa is an employee-owned partnership that has prospered by serving farm management, real estate, and appraisal needs of Northwest Iowa farm owners since 1942.

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Today's Land Owner

NW IA Progress Report

Chad Husman, AFM



Drought was the number one fear of farmers in the Midwest this growing season. Last year's late summer "flash drought" left soil moisture reserves below normal. There was enough rain and snow in the fall of 2020 and early spring 2021 to recharge the topsoil but deep soil moisture was low. According to Iowa State University's benchmark data in April this year, the depth to water table in the northwest district was a record 2 feet below normal and nearly 3 feet below the spring of 2020. The extended drought persisted through early spring, hitting peak severity in June which is typically our wettest month of the year. At that point, season cumulative rainfall amounts were 50% to 80% below normal. To make matters worse, temperatures were well above average nearly every day in June. It seemed the crop was in real trouble.

Conditions finally started to improve in July with some very timely rains and moderate temperatures. However, the rainfall was inconsistent with some areas getting very little. The big improvement started August 20th and into September. For the first time in several months, our entire region had above average rainfall. The crops were able to finish strong and farms began to rebuild soil moisture for next year. Currently most of Iowa is still in a drought as classified by the U.S. Drought Monitor, but the overall drought picture finally improved.

Despite the extended drought, most farms in this region turned out amazingly good yields. This crop seemed to be right on the brink of disaster a few times this season, but conditions always managed to improve just in time. This year had the potential for a much worse outcome than the last major drought in 2012, but yields actually turned out to be average or better in most cases. So what happened? There certainly was a lack of rainfall throughout most of the season, but there's a lot more to consider than rainfall alone.

These factors reduced drought severity in Northwest Iowa and surrounding areas:

- Timing** – Drought conditions peaked mid-June, rainfall slowly improved after that. Water demand by corn and soybeans is fairly low from April to mid-June, it increases rapidly late June and even more so in July.

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Today's Land Market

payments (payroll protection payments, etc) to even lower interest rates. Rates in the low 3% range keep borrowing costs near all-time lows. Also, the dramatic rise in grain prices. This one's a bit of a consternation, since a LOT of grain was sold out early in the rally and nowhere near the eventual highs. Bids for next year's crop are good. Anticipation of higher income is a stimulant. One of the biggest drivers appears to be fear of inflation. I don't recall this kind of inflation fear since the '70's. Does this mean we're in for a repeat of the '70's and 80's? While history does repeat itself, it usually doesn't repeat in exactly the same way. At this stage, it seems that farmland lending practices remain disciplined. That was not necessarily the case by the late '70's.

1970's?

From 1973 to 1976, the land market increased by 25% to 32% each year! The 1970 state average of \$419 reached \$2,066 by 1980 (per ISU survey). That's 17% per year for ten years! Couple that with the prime lending rate of 9% in August 1973, which rose to 12% by July 1974, then dropped but rose back to 13% by late 1979 on its way to 21.5% by December 9, 1980.

We're nowhere near this type of scenario now, but a reminder never hurts. Today's prime rate sits at 3.25% and has not exceeded 5.5% since March 2008. That's long enough to lull us to sleep. A rise back to 8%, such as it was in June 2006, would be a pretty harsh adjustment for public and private borrowers.

Your farm?

If you're considering a sale, please don't just look at your cell phone or computer and figure its providing reliable answers. Get professional advice from someone who is analyzing your market area on a regular basis. There are always nuances to consider for each farm and each neighborhood. If you're in the 23 counties mentioned above or surrounding areas, Stalcup Ag Service is happy to assist.

Following is a table of land sales of "good" land from around the region. Stalcup-brokered sales are marked in green.

Selected Sales of Good Farmland

Date	Acres	% Tillable	County	\$/Acre	CSR2
October	321.20	98%	Plymouth	\$14,250	88.4
October	71.53	97%	Plymouth	\$14,650	91.3
October	120.00	97%	Sioux	\$17,100	90.0
October	157.67	95%	Lyon	\$12,500	95.5
October	116.48	100%	Sac	\$15,000	92.6
October	320.00	96%	Woodbury	\$9,663	63.2
October	176.50	99%	Plymouth	\$17,800	90.0
October	156.61	96%	Sioux	\$14,200	84.6
September	70.55	93%	Buena Vista	\$14,200	84.6
September	144.56	96%	Sac	\$16,700	96.5
September	139.00	93%	Buena Vista	\$11,050	85.1
September	160.00	97%	Clay	\$16,200	96.4
September	177.91	97%	Sioux	\$14,600	86.6
September	144.71	100%	Crawford	\$10,600	82.9
September	243.38	100%	Carroll	\$16,700	84.6
September	71.44	98%	O'Brien	\$12,800	92.6
September	120.00	98%	Dickinson	\$14,000	86.7
September	138.94	95%	Sac	\$9,825	76.5
September	80.12	95%	Sac	\$9,425	70.1
September	120.00	99%	Webster	\$14,750	83.8
September	80.00	97%	Calhoun	\$13,400	83.8
September	106.72	94%	Pocahontas	\$13,800	86.4
September	189.50	99%	Clay	\$16,000	94.8
September	342.88	96%	Kossuth	\$13,200	85.9
September	40.00	95%	Humboldt	\$14,300	84.8
September	70.00	94%	O'Brien	\$15,200	97.8
September	152.65	97%	Ida	\$13,400	85.5
September	160.00	95%	Humboldt	\$15,200	84.5
September	79.55	95%	O'Brien	\$11,800	87.5
September	115.27	95%	Monona	\$6,800	56.2
September	140.00	98%	Kossuth	\$13,300	66.8
September	40.00	96%	O'Brien	\$15,000	95.0
August	160.00	97%	Calhoun	\$14,000	82.6
August	80.00	99%	Carroll	\$18,300	79.7
August	160.00	93%	Buena Vista	\$10,050	82.2
August	148.00	98%	Emmet	\$11,700	84.7
August	157.29	98%	Monona	\$9,700	81.9
August	58.00	93%	Emmet	\$11,750	81.9
August	144.00	98%	Calhoun	\$10,900	85.0
August	120.00	99%	Sac	\$8,500	83.3
August	80.00	92%	Osceola	\$12,500	83.8
August	80.00	90%	Clay	\$13,475	95.6
August	148.40	97%	Dickinson	\$12,100	82.1
August	78.00	100%	Plymouth	\$15,100	79.3
August	231.00	87%	Cherokee	\$10,900	85.0
August	106.00	98%	Carroll	\$13,200	84.4
August	155.00	98%	Kossuth	\$14,400	84.2
August	80.00	98%	Monona	\$10,200	47.0
August	80.00	76%	Calhoun	\$12,750	88.5
August	160.00	87%	Calhoun	\$9,850	86.4
August	314.30	96%	Dickinson	\$15,200	86.2
July	69.44	100%	Ida	\$14,500	84.5
July	110.05	99%	Kossuth	\$13,500	87.3
July	167.37	94%	Carroll	\$12,500	74.7
July	157.17	96%	Ida	\$12,000	90.2

Grain Markets

Grant Aschinger, AFM



Is it worth trying to store the 2021 corn crop if you don't own grain storage? This is a common question during harvest. It's not a simple yes or no answer as there are a number of factors that must be considered.

One question that must be answered is the timing of sales and income. Producers who do not have adequate storage for all of their crop (most farmers) sell a portion of their production throughout the 12 or more months leading up to harvest. This avoids storage costs and still allows flexibility to receive the income shortly after delivery or defer the income into January of the following year, which is a common tax planning strategy. We usually need to receive income at harvest to begin paying for the next year's crop inputs as some fertilizers can be applied following harvest.

Another factor is current prices being offered compared to prices being offered in later months, also known as the carry in the market. Most often, the carry in the market is very close to the costs of commercial storage to retain ownership until a later date. Not a coincidence. If that is not the case, the market is usually trying to tell you that they need the bushels now and are willing to pay for them now and not wait until later. In this case, the cost of storage discourages holding the grain.

So if storage costs to store the crop are similar to the carry in the market, why would anyone hold the crop instead of just selling as it is delivered? Now is when the seller must begin to speculate on what they think will happen to the market in the future. Storage costs are published by each grain buyer, so the costs to hold the crop are known. If we think the market will increase more than the carrying costs of storage, then there is incentive to hold for a better price. If we believe the market will not increase, we are better off selling now and not accumulating the extra cost of storage.

A potential hedge against storage costs is building your own on-farm grain storage in the form of a grain bin.

Advantages of grain bins include:

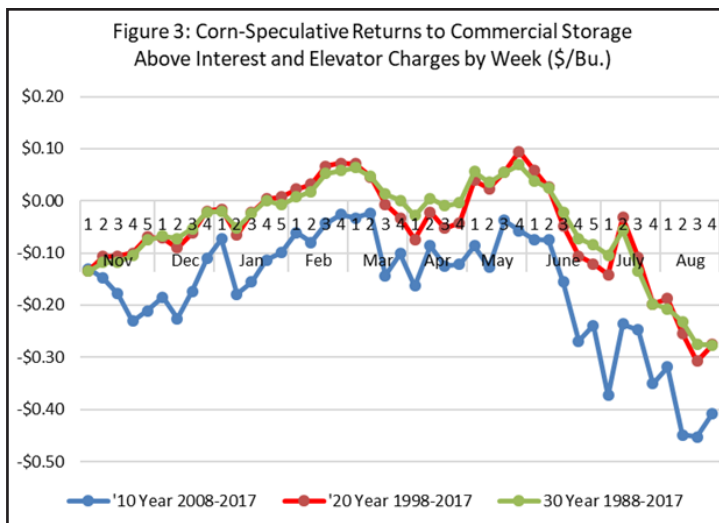
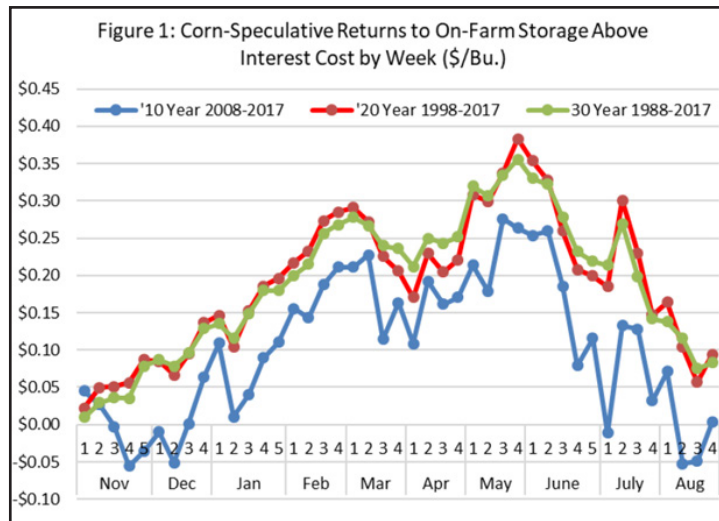
- Improved harvest efficiency by eliminating wait times to empty trucks.
- No closing time at the end of the day forcing harvest to stop.
- Drying costs per point of moisture are lower.
- Better marketing opportunities available after harvest.
- Eliminate monthly storage fees.
- Capture the carry in the market.

The USDA offers Farm Storage Facility Loans at very competitive interest rates. Currently a 7 year loan has a fixed rate of 1.125% with 15% down payment on the finished cost of the project. Taking all of the decreased expenses and improved selling prices makes building a grain bin cost-neutral during the years of the loan. After the bin loan has been paid there is positive cash flow for the remaining lifespan of approximately 50 years. There are occasional repair costs associated with owning a bin that must also be factored into long-term planning. Some common repairs and replacement of parts include the electric motors, fan bearings, and other electrical repairs.

Current costs to build a grain bin are \$2.00-2.50 per bushel of storage capacity depending on bin size and features. These prices have increased over the last few years as the price of steel has gone higher.

Storing soybeans is a much different set of factors that generally do not make building on-farm storage advantageous. The payback period is much longer due to the elimination of several major factors figured into the equation for corn. Soybeans also don't have as many bushels to store, which brings cost of storage per acre down dramatically.

Purdue University has produced a chart showing returns to on-farm storage of corn by week. This chart also indicates the traditional seasonal trends in the corn market.

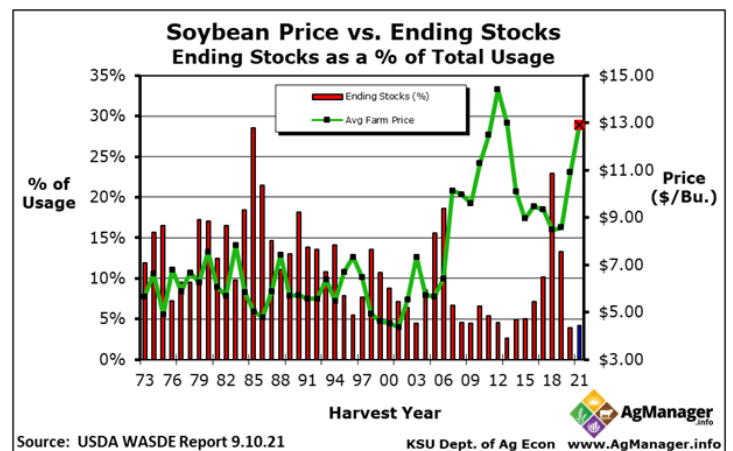
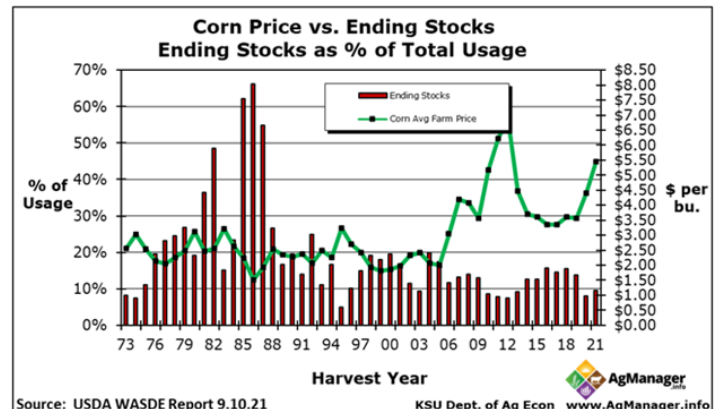


Supply and Demand Update

The latest update provided by USDA on current supply and demand of corn and soybeans showed the “final” ending stocks from the 2020 crop on August 31st at 1.236 billion bushels (8.3% stocks to use) for corn and 256 million bushels of soybeans (5.7% stocks to use). These are the bushels being carried into the supply at the beginning of the 2021 crop marketing year. The corn carryover was slightly more than expected but the soybean amount was quite a shock to both the market and professional traders alike as the average trade guess was much lower at 174 million bushels. You may recall in the last article written in this newsletter that USDA’s 2020 soybean ending stock number was much smaller at 135 million bushels equaling a stock to use ratio of 2.9%. The near doubling of stocks to use ratio will likely have long lasting effects going forward as 2021 crop ending stocks

next August were already expected to increase. This surprise change gives quite a lot more wiggle room in the supply side of the market and could have a dramatic effect on prices through winter and into spring planting season.

Kansas State University produces the following charts showing historical corn and soybean ending stocks and corresponding price.



South America is expected to increase soybean acres again this year and produce another record crop. This will likely also produce record export levels. A La Nina is currently building in the Pacific Ocean again this year and history has shown these events to be detrimental to South American yields. The increased acres will, however, allow for some decrease in per acre production while still producing a possibly record large overall crop.

Prices being offered right now of \$5.45 per bushel for corn and \$11.90 per bushel for soybeans are still very profitable with 2021 crop input prices. Input prices for the 2022 crop will not be nearly as affordable and are likely going to cut into profit margins next year. Nathan Deters covers this topic at length in his article.

2022 Crop Input Prices

Nathan Deters, AFM



2021 crop margins will be very good, thanks to excellent crops in most areas, combined with some of the best grain prices we have seen in many years. 2022 may be more of a challenge. Why? Higher input costs are on the way.

We will start with fertilizer. The primary macro nutrients for corn and soybean production are phosphorus and potassium (potash), along with nitrogen, which is necessary for corn production. All three products are facing price spikes from a confluence of factors. First off, an increase was already expected, as fertilizer prices always follow grain prices higher. On top of this came logistic concerns. The covid pandemic has stressed supply lines and dramatically increased shipping rates. Since fertilizer is a world commodity, and much of our products come from overseas, these costs are passed on. Hurricane Ida has compounded the logistics issue, as it damaged fertilizer manufacturing and shipping facilities at the mouth of the Mississippi.

Higher energy prices are also playing a big role. Fertilizer manufacturing is an energy intensive process. Natural gas is the primary feedstock for making nitrogen fertilizer. With prices shooting to near record levels, this has led to rapid spikes in fertilizer cost at the farm level. Since natural gas is also a widely used heating fuel, prices are unlikely to move lower until the market sees how the winter season pans out. Finally, China is a major supplier of phosphate, roughly 30% of the market, and is considering tariffs to keep more product at home for their own use.

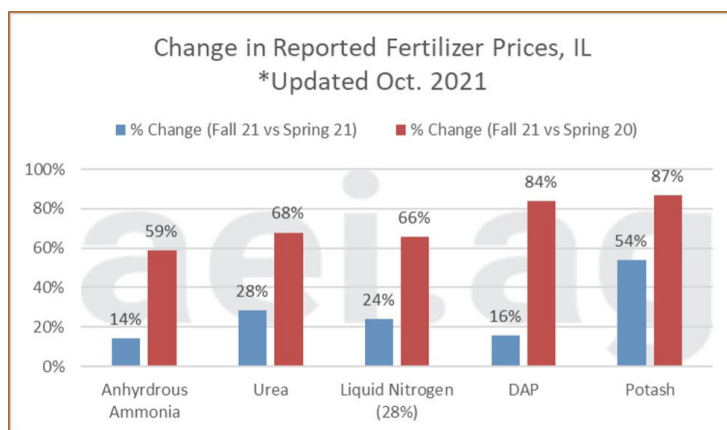
Put all together, crop budgets for next year need to build in a significant increase in fertilizer cost, possibly up to double what was factored for 2021, depending on the farm and fertility levels. Higher fertilizer prices will eventually work to increase supplies, but at this time that looks to be further down the road into 2022. In the meantime, a lot of fertilization will be planned for this

fall, and we'll hope that the weather cooperates. There may be problems getting product in some cases, and if a lot of application has to wait until spring, it will only make logistics and prices worse. Communicating with your fertilizer suppliers yet this fall is important.

Fertilizer is not the only input issue for 2022. Chemical costs will also be on the rise, due to the same issues: shipping costs, raw material supplies, and energy prices. Availability of a few widely used herbicides will likely be a problem in 2022. Since GMO seed decisions are based on the herbicide platform they are paired with, it will be important for farm operators to communicate with seed and chemical dealers this fall and early winter to lock in the package of products that they want.

Seed prices will also be somewhat higher for 2022. The seed companies had an excellent production year, but will take the opportunity of higher grain prices to increase prices on some of their newer genetics, while older products will be steady to somewhat lower. There is still good competition in the seed industry which helps to temper price increases.

We have become used to stagnant fertilizer, energy and chemical prices over the last several years, just as we were with grain prices. Going forward protecting margins from input price risk will become more important.



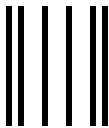
Source: USDA MAS and aei.ag

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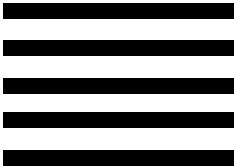
- Temperatures** – Crop stress from drought is rapidly accelerated by heat. We did have heat in June, but more importantly July and August temperatures were normal. We had very few high wind speed, high temperature days this summer. I don't think we ever got above 90 degrees after June.
- Humidity** – There was enough humidity in the air this summer to slow evaporation from the soil and water loss from leaves. There was heavy dew on crop leaves nearly every morning. I think the effect of humidity on crops is really underestimated by most.
- Early planting** – Nearly all crops were planted by the first week of May. This gave crops a head start to reach full canopy, deep roots, and reproductive stages earlier in the season before most of the summer heat.
- Reduced tillage** - We see an ongoing trend of fewer tillage passes or no-till. The old rule of thumb is every tillage pass evaporates one inch of water. Residue cover on the soil surface also keeps the soil cooler holding in more moisture.
- Seed Genetics** – Plant breeders continue to develop more drought resistant crops either through traditional breeding methods or biotechnology traits. Seed companies provide drought tolerance ratings for products, so farmers and managers can select genetics capable of handling drought better than crops in the past.

Soil quality made a huge difference this year, which is typical of dry years. Top quality soils have higher organic matter, higher CSR2 ratings, good drainage, and high fertility. These top-end soils can simply hold more water without becoming saturated. Some of those factors listed are inherent with the soil type, like texture and CSR2 rating, so you are stuck with what you have on the farm. Other factors can be slowly improved on a farm with proper management - factors like fertility, structure, organic matter, and drainage will make your farm more drought resistant.

Looking forward to next year, soil moisture is still a concern. Our subsoil moisture reserves are not fully recharged. High quality soil can hold 10 inches of moisture or more in the top 5 feet. Ideally, we'd like to be nearly full by planting time next year. The only thing we know for sure about next year's weather and crop conditions, they will be different than this year.



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