Stalcup Ag Service

Today's LAND OWNER

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Today's Land Market

Dennis Reyman, AFM, ARA

Mark Twain might have been talking about the land market when he said, "Rumors of my demise have been greatly exaggerated!" Despite ongoing low grain prices which have reached the chronic stage, demand for good Iowa cropland remains strong. Part of the strength can be attributed to generally few offerings in a given locality over the past several years.

With the wrap of another year, we examined our land sales database to see if the actual sale results agreed with the opinion surveys and other sources of land value information. Here is what we found in our 2016 to 2017 comparison:

- Total number of offerings: 246 in 25 counties in '16 versus 247 in 26 counties in '17.
- Total number of "cropland-only" sales: 147 in '16 versus 156 in '17.
- Total acres of "cropland-only" sales: 18,194 in '16 versus 15,267 in '17.
- Total dollars per transaction: $1,098,326 in '16 versus $921,450 in '17.
- Average acres per transaction: 123.8 acres in '16 versus 97.9 acres in '17.
- Average $/acre on the "cropland-only" sales: $8,874 in '16 versus $9,415 in '17.

That last line represents a **6.1% increase** in value. Whoa, that's not what the survey said. What is skewing the result here? Must be more of those Sioux County sales. We show 15 sales in Sioux County over $10,000 per acre in 2016 versus 17 sales in 2017. How about those really high sales? We show $17,100 per acre as the high sale in 2016 versus $17,050 in 2017. What about higher quality land? We show the average CSR-2 on this dataset to be 79.2 in 2016 and 80.9 in 2017. That puts the $/CSR-2 at **3.95% higher** from 2016. That's a little closer to what's been reported. Please note that we're not quoting an actual $/CSR-2 number here. That's because it is only useful when comparing apples to apples, and there is a wide standard deviation on that metric. We also show that overall, 29% of the "cropland only" sales were at $10,000 per acre or higher in 2016 versus almost 34% in 2017.

So generally speaking, we can conclude that this dataset totaling about 150 transactions per year of "good" farmland in the northwestern part of Iowa is about **4% higher** in 2017 than 2016. Our appraisal assignments which require an update of values each year have usually agreed with this range when doing head-to-head sales analysis and conclusions.

What have the surveys said? The annual ISU survey placed the Iowa average at 2% higher. Most counties in this territory were 1-3% higher. The Federal Reserve Bank of Chicago's survey of bankers' opinions placed Iowa farmland at 3% higher as of year-end.

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Today's LAND OWNER

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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A Look Back at 2017

by: Chad Husman, AFM

The 2017 growing season was one that we will not soon forget. Weather was far from perfect across the Corn Belt. Back in July and early August many "experts" were saying the U.S. corn and soybean crops were in the worst condition since the drought of 2012. It seemed that achieving an average crop was unlikely at best, so who could have predicted that we would have the nation's highest yielding corn crop on record at **176.6** bushels per acre. Soybean yields were at **49.1** bushels per acre - that's 2.9 bushels below 2016's record yield but increased acres resulted in the largest soybean crop ever at 4.39 billion bushels. It was an impressive crop nationally. Locally we saw lots of variability, but generally Northwest Iowa also had a very good crop in 2017.

So what happened? Spring started out cold and wet which saturated the soil and delayed planting. A nice stretch of weather in early May helped us finish corn planting. Mid to late May stayed cool and damp. Soybean planting was finished in early June. We needed warm, dry weather after soybean planting, and that's exactly what we got. By the end of July much of the Corn Belt was in various stages of drought. Most of Northwest Iowa received less than one inch of rain in July. Hot temperatures caused visible crop stress, especially on the glacial soils. The first half of August was also very dry, but temperatures fell below average. Plenty of rainfall and below average temperatures continued through September.

With all the weather challenges, where did the record crop come from?

- Soil moisture levels started the season full. That's a big deal because good Iowa soil can hold about 10 inches of water in the top 5 feet which is about how deep the roots typically go. We need over 20 inches total to raise a good crop.
- Corn emergence, plant stand, uniformity, and populations were excellent. The first half of May was ideal for planting and early corn growth. A good start for corn is extremely important.
- Most of the heat stress was prior to corn's grain fill period. Heat is actually a good thing (up to 86° F) before pollination. Heat speeds up the development process, which was needed after the slow start.
- Cool, wet grain fill period of August to September was a game changer for last year's crop. Slowing down grain fill also extends it, which is essentially more days to feed the crop. Late season kernel growth was exceptional.
- Seed genetics are improving every year through advanced plant breeding technology. The crop seed we buy today can handle stresses like drought, disease, and insect feeding better than seed from just 10 years ago.

The goal is to apply the lessons learned each year to better predict how crops will perform going forward, but one thing is for sure - every year is different. 2018 will bring a whole new set of challenges and hopefully another great crop in Northwest Iowa.

2018 – Glimmers of Hope in the Markets

By Nathan Deters, AFM

We ended the 2017 crop season like we ended 2016, on a low price note. Local cash corn prices bottomed at $2.90 per bushel and soybeans at $8.70 per bushel. October 2017 prices for both corn and soybeans averaged within pennies of October 2016 levels at just over $3.00 per bushel for corn and just under $9.00 per bushel for soybeans. Prices since harvest have acted remarkably similar as well. Current corn prices near **$3.40** per bushel and soybeans near **$9.80** per bushel are close to last year's levels at this time.

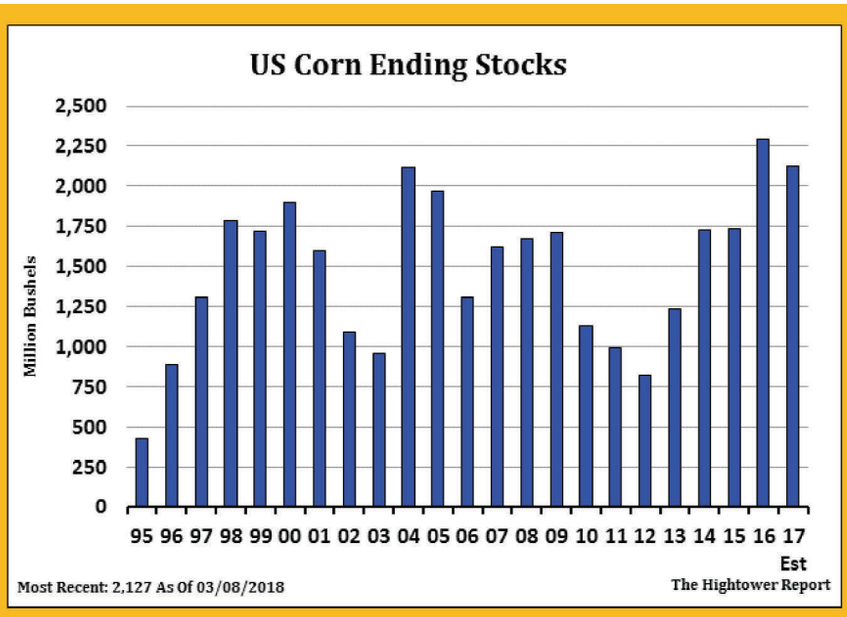
Given the higher domestic carryover numbers illustrated on the accompanying charts, this price action is actually encouraging. Why the strength? We are in the midst of a South America weather market. Most of Argentina's grain belt has been locked in a hot, dry pattern over the last six weeks. Crop production estimates are starting to drop.

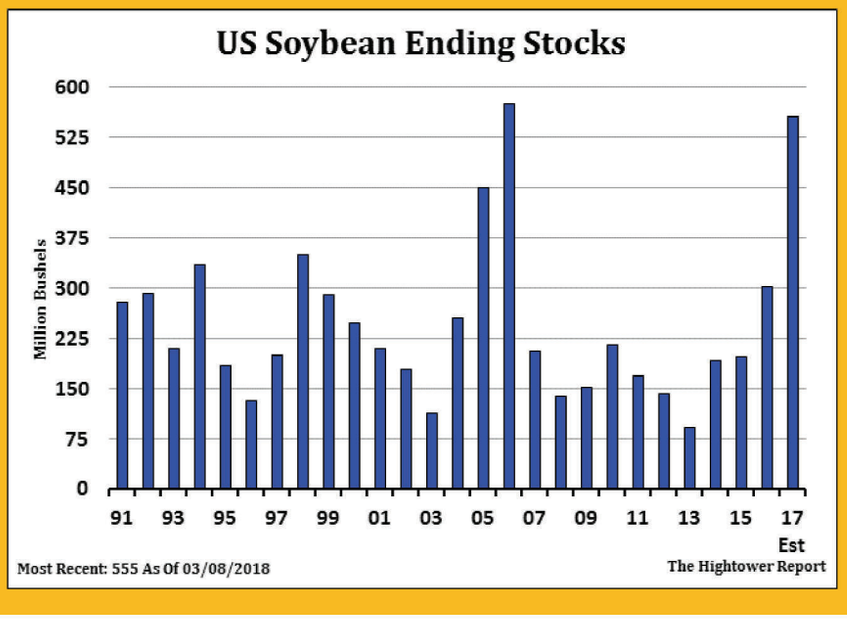
In Brazil, too much rain in some areas has been the problem. While soybean yields may be affected, a bigger implication may be delayed soybean harvest and subsequent planting of the Safrinha (second crop) corn, which is the biggest share of Brazilian production. Current estimates project a 10% reduction in total South American corn and soybean production and these estimates may work lower if adverse weather continues. These yield reductions are the first step in what could be a positive story for markets this year.

Cash grain prices reached their yearly peak last February until they retraced that peak on July 10th and 11th. Will our markets do a repeat this year? Weather and planted acres will answer that. Once South American weather moves to the back burner, our weather takes over. Very dry conditions in the Wheat Belt and western Corn Belt are a concern. A good portion of the Midwest has lower than normal subsoil moisture levels, a condition that could be yield-limiting if not recharged before early summer. Last year, ample soil moisture supplies carried many areas through two months of dry conditions.

USDA will give us an estimate of crop acres in late March. Early guesses are that soybean acres may actually overtake corn acres this year, an occurrence that has only happened one other time (1983). The recent rally in soybean prices on South American weather makes this an even more likely outcome. Corn usage (feed, ethanol, exports) has stayed very strong, and the question is will there be a minor bidding battle between crops to bring more acres back to corn?

Bottom line, any rallies from this point are sales opportunities. With large carryover of both crops, upside gains will be limited on anything short of a major weather event this summer. Looking back, sales made in the upper one-third of the annual USDA cash price range estimates are usually good sales. Current ranges are **$3.15 to $3.55** per bushel for corn and **$9.00 to $9.60** per bushel for soybeans. These ranges are confirmed or modified on each monthly report.





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Today's Land Market

on average, there are only about ten offerings per county each year, and only about six are good "cropland-only" parcels, so competition remains keen. Also, the total size and dollars involved per transaction is down about 16% which becomes a little more digestible for some prospective bidders to maintain participation. However, even neighborhoods with numerous land offerings in a short time frame have held up well.

In most cases, those capable of participating in the land market have a strong land base under them with relatively low debt, or a source of non-farm funds. Farmers with high land costs are not readily able to participate in the market at this time, as maintaining "working capital" is more of a concern for many operations with this prolonged period of low profitability. As with most things, timing is everything. Investor desire for Iowa farmland also seems to have increased in the past year. The term "investor" in this case usually refers to persons with existing ties to Iowa agriculture.

The past three years have provided considerably higher crop yields for both corn and soybeans in most of our territory compared to prior years. Overflowing bins is always a plus for the individual; however, low prices occur when everyone's bins overflow. Those in strong financial position have been able to plow some of those funds from crop yields into land, perhaps while incurring fewer machinery purchases compared to the high income years.

Where is the market headed? Positive factors supporting the market include low interest rates, high crop yields, relatively few parcels for sale, and some folks who lack interest in alternative investments. That last factor will not change. In theory, lower yields will raise crop prices, but if Northwest Iowa yields poorly while other areas thrive in crop production, prices will be affected little compared to the hit taken in local revenues. The number of capable land market participants would be further reduced. We know the Fed continues to consider higher interest rates. That not only raises borrowing costs, but could pull funds aside into CD's or other monetary investments. Of course, trade is a major factor which could go either way, favorable or unfavorable. It seems that unfavorable trade developments would be short-lived, but the effects could linger much longer.

Iowa ranks #1 in pork production (3x more pork than the #2 state), #1 in ethanol production (26% of national production, or nearly 2x the #2 state), and #5 in cattle feeding. Good soils, livestock, and ethanol make a terrific circular environment for corn and soybean production. Those entrenched in Iowa agriculture will continue to pursue ownership of that parcel next door or down the road.

Long-term outlook: The 50-year trend in Iowa farmland values has averaged nearly 6% higher while the 25-year trend has exceeded 7%. The 10-year trend is near the middle of that range at 6.3%; however, with lower values from 2014-2016. From $43 per acre in 1900 to present day is about 4.5% increase annually.

Going back to 1968, the national corn yield ranged from about 75-85 bushels per acre. The past four years have averaged 168.4 to 176.6 bushels per acre, or a gain of about 1.5% per year for 50 years. Even ten years ago, our national yield averaged about 150 bushels per acre, showing that corn yields have continued that 1.5% increase in recent years, despite corn's expansion onto more acres which are less productive. Vastly improved technology in

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Wilcox Recognized

Rex Wilcox, AFM, along with four other members of the Iowa Chapter of the American Society of Farm Managers and Rural Appraisers, were recognized for 40 years of membership at the national meeting in Savannah, Georgia, last November and again at the Iowa Chapter meeting in Ames on February 1. Wilcox taught many Advanced Farm Management classes and served as chairman for both the Management Education and Accreditation committees at the national level. Rex also served as president of Stalcup Ag Service for 20 years.

the lab and in the field allow producers to grow better crops in more variable conditions. Also consider the corn acres situated on aquifers such as the Ogallala in the western Corn Belt, or in other highly-sensitive environmental areas which face increasing restrictions, providing another factor underpinning the long-term outlook for the value of Iowa farmland.

Conclusion: Our bias is that the land market will continue to reflect the expectation of increasing world-wide demand for our crops with Iowa's competitive edge in soils, climate, and infrastructure, along with exceptional usage of corn and soybeans within this state.

Following is a table of recent sales of good farmland in the territory. Stalcup brokered sales are in **bold***. If your county is omitted, we did not find recent activity.

Selected Sales of Good Farmland

Date	Acres	County	$/Acre	CSR	CSR2	% tillable
October	160.0	OBrien	$13,400	72.9	94.5	95%
October	80.0	Ida	$7,750	77.1	81.9	87%
***November**	**160.0**	**Cherokee**	**$10,700**	**68.4**	**91.1**	**95%**
November	157.0	Humboldt	$8,600	80.8	86.4	86%
***November**	**240.0**	**Woodbury**	**$5,300**	**40.9**	**66.4**	**97%**
November	100.0	Calhoun	$12,600	80.5	85.2	95%
November	152.0	Clay	$12,000	80.0	96.0	96%
November	110.0	Sioux	$13,700	68.5	95.0	91%
November	80.4	Lyon	$10,600	56.1	73.8	98%
November	172.0	Buena Vista	$8,400	70.4	81.0	98%
November	120.0	Cherokee	$11,300	72.9	95.1	98%
November	156.0	Osceola	$10,600	79.1	94.7	94%
November	79.6	Pocahontas	$9,500	77.1	83.4	99%
November	80.0	Plymouth	$13,500	68.8	93.7	98%
November	115.9	Sac	$9,900	77.4	92.1	96%
***November**	**156.0**	**Ida**	**$7,100**	**54.6**	**68.7**	**69%**
December	75.4	Crawford	$9,000	66.0	69.5	96%
December	40.0	Calhoun	$10,000	83.9	88.2	96%
December	160.0	Buena Vista	$9,125	80.0	87.0	97%
December	75.5	Sioux	$15,000	74.5	99.9	96%
December	160.0	Osceola	$12,400	82.3	97.3	98%
December	164.3	Buena Vista	$9,250	77.6	87.1	98%
December	152.3	Ida	$7,000	57.6	74.4	97%
***December**	**154.9**	**Woodbury**	**$8,000**	**65.9**	**84.7**	**97%**
December	145.0	Clay	$9,200	67.0	88.2	99%
December	72.6	OBrien	$12,800	82.3	97.3	95%
January	138.6	Monona	$6,000	49.2	70.4	99%
January	138.0	Humboldt	$7,200	72.9	72.4	95%
January	81.6	Lyon	$12,250	65.4	92.5	98%
February	155.0	Pocahontas	$8,600	82.8	74.7	95%
February	78.1	Plymouth	$11,450	59.6	88.0	98%

*** denotes Stalcup-brokered sales**

Tax Law Changes for 2018

by Kent Smith, AFM

Changes are coming with the new tax law. Rules and regulations are being written to implement the many changes. The item that looks to benefit most in agriculture is in **IRC Section 199A** in regard to income earned from other business activities.

The two main things are **Deductions for Qualified Business Income** and **Deductions for Qualified Cooperative Dividends.** The latter of the two deductions is under considerable scrutiny. It was put in the bill at the last minute and gives cooperative members a 20% tax deduction for sales to a cooperative. This gives cooperatives an unintended advantage in buying products from producers versus non-cooperative users of our commodities. We are told that a "fix" is coming for this portion of the provision. Some private companies are exploring becoming coops in response to this legislation.

We will be monitoring developments as it relates to this section of the new tax law, as well as other provisions in the bill and the impact it may have on you as owners of farmland.

Selling Your Farm

If you are considering selling your farm, contact us to discuss our sales/auction procedures and reasonable commission rates.

We work with buyers and sellers of farm real estate on a daily basis and would welcome the chance to review how our services can help achieve a satisfactory result for you.

In the past six years, Stalcup Ag Service has sold over $100 million in farm properties, ranging from highly desirable all-tillable land in far Northwestern Iowa to timbered land in far Eastern Iowa. We are also licensed in South Dakota, Minnesota and Nebraska.

We also act as a buyer's agent and can assist in your search for a farmland acquisition.

Upcoming auction being conducted by Stalcup Ag Service:

March 28th: 70 acres in Avery Township, Humboldt County. 69 acres tillable, 80 CSR, 89 CSR2.

See our website for more details on this auction.

Stalcup Partner Receives Early Career Award

Chad Husman, AFM received the Early Career Award sponsored by the Iowa Chapter of the American Society of Farm Managers and Rural Appraisers (ASFMRA) at the annual meeting on February 1, 2018. Chad's involvement with the ASFMRA includes serving on state level committees, as a member of the Board of Directors of the Education Foundation, and as a delegate to the Leadership Institute. Chad has dedicated service to these chapter functions on top of his busy schedule of responsibilities in farm management and farm real estate sales. We congratulate Chad for this honor.

Iowa Chapter President Jim Jensen, ASFMRA presenting Early Career Award to Chad Husman.

Long Range Agriculture Outlook is Positive

By Grant Aschinger, AFM

Winter is the season for seminars and we have attended a number this year. A common theme is that the long-term outlook is good for Midwest agriculture. While recognizing that the last four years have been a challenge and that it may take a few more to work through our current grain surpluses, a couple of developing trends are worth noting.

One is the recent decision of the Chinese to add 10% ethanol to all of their gasoline by 2020, with the main feedstock being corn. The motivation for this change is two-fold. The Chinese have very large stocks of corn (about half of the world's ending stocks) as a result of government price support policies that until 2016 were paying corn producers twice the international price. Much of this corn is of questionable quality and ethanol production is the best way to utilize it. At the same time, air pollution in China is a huge problem, and committing to a clean-burning fuel in the world's largest auto market is a step toward improving this situation.

China has been a big importer of ethanol from the United States since 2015, although high tariffs imposed in 2017 reduced imports somewhat. If the Chinese ethanol industry and usage ramps up as fast as forecast, their corn carryover stocks will be depleted in two years and the country will become a significant importer of ethanol and/or the corn needed to make it. In either case, the Corn Belt stands to benefit. We've become wary over time of basing too much hope on future Chinese demand being the savior of our markets, but it is certainly a story worth watching.

A positive world economic outlook and its implications for growing protein consumption is another hopeful trend. As incomes grow, populations first tend to spend disposable income on improving their diets by adding protein. An increasing move towards urbanization in the developing world reinforces this trend. Iowa (and Iowa farmland owners) are in a unique place to benefit. We

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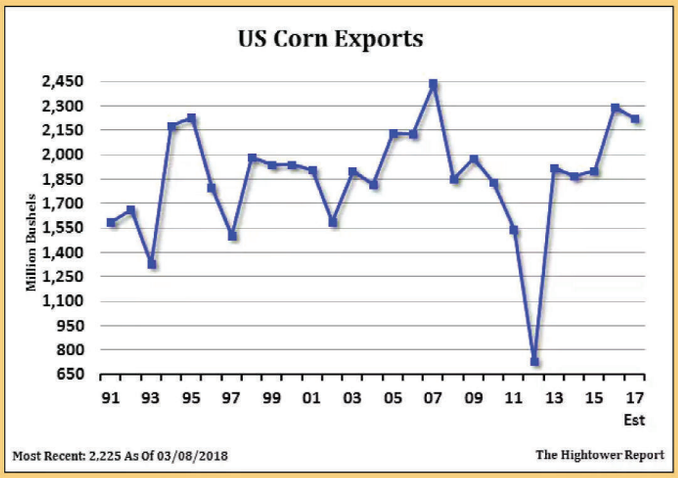
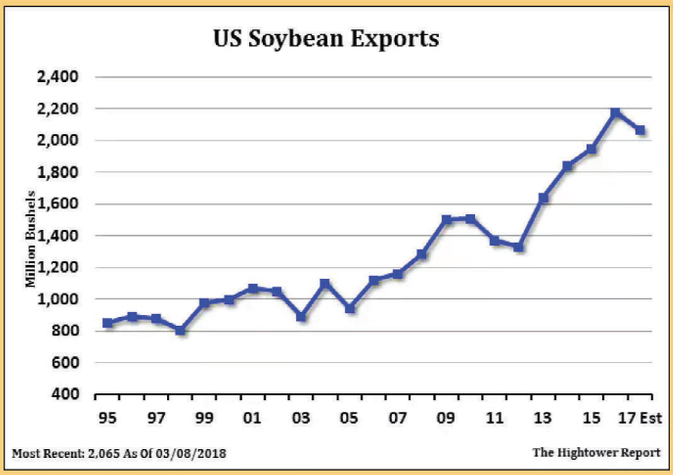
Long Range Agriculture Outlook is Positive

are a leading producer of pork, beef, eggs, turkeys, and milk, along with the feed grains that produce these products.

A theme common in all presentations this winter is how important trade is to United States agriculture. As an example, over 50% of the soybeans and 25% of the pork we produce is exported. Agriculture is on the positive side of the U.S. balance of trade ledger (we sell more than we buy). Through our advantages in technology, infrastructure, and geography, we are positioned to be a dominant agricultural exporter into the future, but only if restrictive trade policies are not enacted that tie our hands. A trend towards protectionism is a worrying cloud on an otherwise upbeat outlook. The agriculture industry has and will need to continue to be proactive in stating its case for fair and open markets.



Corn exports fell sharply during the drought of 2012 but quickly recovered when supplies increased.



Soybean exports nearly double over the past 10 years.

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