

Spring 2022 Volume XLII No 1

## Today's Land Market

Dennis Reyman, AFM, ARA



The past six months have seen the continuation of rapidly rising land values which began in the Fall of 2020. Well-known surveys have documented double-digit gains in a short period of time. For example, the Chicago Fed's Ag Letter posted their survey of banker's opinions which showed a 14% gain in the value of good western Iowa farmland in the 4th quarter. We had a specific appraisal assignment to update an early October appraisal in early January. The result, based on a good set of recent comparable sales both times, was 16% higher.

We sorted our land sale database for all sales in our 23-county territory which were at least 85% tillable cropland. Between January 1, 2021 and March 23, 2022 we found 412 sales that met that criteria with no other substantial items contributing to value. We found the average sale outcome to be just over \$13,000 per acre with standard deviation of \$3,500. That would place most sales between \$9,500 and \$16,500 per acre. The average transaction size was \$1.4 million with 75% being \$1 million or larger. 88% sold for \$10,000 per acre or more.

Of course, in the right area you can find sales at \$20,000 per acre or higher. We found 25 sales which met or exceeded \$20,000 per acre. Most of these occur in far northwestern Iowa or places which have historically shown exceptional strength in land values. They are often contained to fairly small areas and may not be reflective of land values only a few miles away. Strong livestock production history in the area is usually tied to the highest land values.

The annual Iowa State University Land Value Survey showed the state average as of November 1st to be \$9,751 which was 29% higher. Most counties in our trade territory were 30% or more. The combination of surprisingly strong crop yields plus very good prices along with low interest rates, fear of inflation, and government stimulus generated strong desire to invest in farmland.

There has been a lot of talk about how this historic time in land values compares to the past. Each business cycle is different, of course, and the future is always unknown. What are our past comparable periods?

### Ethanol Boom

2007-2013 was the ethanol boom coupled with interest rates which dropped from 8% in May 2006 to 3.25% by December 2008, then remained in the 3-5% range. Corn prices moved from \$2.00 per bushel in 2006 to \$7.00 by July 2008. The years 2011-2013 saw corn prices between \$5 and \$8 per bushel most of the time. Land values moved from \$3,200 per acre in November 2006 to a state average of \$8,700 by November 2013, a gain of 172%.

We did a number of appraisals in 2015 which updated appraisals completed during 2012 and 2013. The result consistently showed a 15-22% decline in values. It took the surveys a while to catch up with this, but by 2016 the ISU survey was 17.5% below the peak of 2013.

### 1970's

The 1970's are remembered for overall high inflation;

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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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## World Events Influence Grain Price

Nathan Deters, AFM



One of the advantages (and sometimes exasperations) of working in agriculture is that each day and season brings a set of news to take into account when making production and marketing decisions. Few times in recent memory has the news cycle been more volatile than the last several months. On top of the usual catalyst of weather, this year also has brought the highest inflation since the late 70's and most recently a war in the Ukraine. All these factors have been very supportive of grain prices, with current cash bids up to the levels seen at the peak of last spring's rally, and new crop levels exceeding last year's top prices.

Poor growing conditions in South America led off the fireworks. Starting last fall, dry weather in southern Brazil and Argentina set in for an extended stretch of their growing season. While conditions have improved recently, the damage has been done. Estimates of around a billion bushels of soybean production are lost, with significant losses of 1st crop corn production as well. The 2nd corn crop (Safrinha), is now growing under generally favorable conditions, but still has a ways to go. With reduced soybean production, major importer China will be forced to come to the United States sooner for supplies. Their usage has remained strong as they have fully rebuilt their hog herd from African swine fever losses a few years ago. Soybean acres are expected to increase in the U.S. this spring, but will not be able to fully compensate for the South American shortfall. Even with record yields last year, carry-over has not increased much, given strong world usage.

The theme of low stocks carries over into corn and wheat as well. Prices were already high this winter, thanks to a short wheat crop last year and strong ethanol margins helping corn usage. The war in Ukraine has thrown in a huge degree of uncertainty. Ukraine and Russia have been large producers of wheat for a long time, and Ukraine has become an increasingly important corn exporter over the last several years. Together, Russia and the Ukraine produce approximately 25% of world coarse grain exports, along with significant quantities of sunflowers and rapeseed oil. While much could change in a short period of time, at this writing in late March, it seems increasingly likely that planted acreage and exports of grain from these two countries will take a significant hit this year, something that the grain markets have taken into account on their last leg up. Forecasts predict up to 1/2 of the Ukraine crop acres unavailable for

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# Today's Land Market

however, interest rates were also much higher than now. People forget the prime interest rate was high in the '70's, even before the Volcker Fed raised rates through the roof in late 1979. The prime rate ran 7-9% after May 1973 and even hit 12% in July 1974. Of course, that paled compared to 21.5% in December 1980.

Grain prices stepped up to a new price plateau in the early '70's, jolting to extreme highs in 1973 and 1974, but settled back to the \$1.75 to \$3.25 range. This was nearly double the average prices prior to 1973. Soybeans went from \$2.90 state average in January 1972 to \$10.10 in June 1973 before setting back into the \$5-\$7 range. Average land prices rose from about \$400 per acre in 1970 to over \$2,000 per acre by 1980, with some trading at \$3,000 to \$4,000 per acre. The increase from \$419 per acre in 1970 to \$2,147 in 1981 was 412%!

## WWII and WWI

Two other times of great land value gains were the WWII era and WWI era. The state average in 1941 was \$88 per acre. By 1951, the average was \$212 per acre, a gain of 140%. Income per farm jumped by about 50% from 1945 to 1947 and 1948.

The state average in 1910 was \$96 per acre. By 1920, it had risen to \$227 per acre, a gain of 136% or very similar to the 1940's gain. It's interesting to note that 1920 posted a higher state average land value than 1951. The long-term gain from 1900 at \$41 per acre to 1951 at \$212 was about 3.3% per year but with some euphoric gains and harsh losses incurred along the way.

## Conclusion

What does all this mean? We've just witnessed a gain of 30% or more in the market from values of the late 2010's, even as much as 50% in some areas. That fits with the 1910's and 1940's gains. It seems likely the market will continue to climb in 2022 and probably 2023. If we gain 172% from the 2020 value like we did a decade ago, that indicates a state average of \$13,000 and extreme highs about double that. Is that hard to envision right now? No, our local averages already show that. We're just waiting for the rest of the state to catch up! What if we

gain 412% like the 1970's? You can do the math on that one, but we're far from it right now!

Below is a table of selected sales of "good" farmland which have sold recently in the region. Stalcup-brokered sales are in bold and highlighted in green.

### Selected Sales of Good Farmland

Date	Acres	% Tillable	County	\$/Acre	CSR2
<b>March</b>	<b>43.00</b>	<b>95%</b>	<b>Ida</b>	<b>\$13,953</b>	<b>87.5</b>
<b>March</b>	<b>151.00</b>	<b>95%</b>	<b>Ida</b>	<b>\$11,403</b>	<b>81.3</b>
<b>March</b>	<b>63.03</b>	<b>95%</b>	<b>Woodbury</b>	<b>\$16,750</b>	<b>88.0</b>
<b>March</b>	<b>13.27</b>	<b>92%</b>	<b>Woodbury</b>	<b>\$17,500</b>	<b>92.0</b>
<b>March</b>	<b>134.95</b>	<b>98%</b>	<b>Woodbury</b>	<b>\$15,000</b>	<b>65.3</b>
March	36.83	96%	Sioux	\$25,500	96.0
March	160.00	99%	Greene	\$14,050	85.4
March	150.00	97%	Calhoun	\$12,200	74.8
February	100.09	100%	Pocahontas	\$13,200	81.9
February	65.76	100%	Monona	\$16,000	70.3
February	125.57	100%	Plymouth	\$20,075	86.3
February	79.29	98%	Woodbury	\$16,000	78.7
February	79.80	98%	Lyon	\$18,500	97.2
February	83.00	99%	Kossuth	\$13,200	77.1
February	79.98	97%	Sioux	\$20,750	90.0
January	80.52	98%	Dickinson	\$14,300	85.2
<b>January</b>	<b>79.00</b>	<b>89%</b>	<b>Crawford</b>	<b>\$13,600</b>	<b>68.3</b>
January	77.20	99%	Cherokee	\$17,800	86.3
January	80.39	98%	Ida	\$21,300	91.7
December	77.00	97%	Plymouth	\$19,100	88.5
December	143.33	100%	Crawford	\$11,500	64.8
December	80.00	96%	Emmet	\$11,850	85.2
December	155.10	97%	Clay	\$13,700	87.4
December	68.50	98%	Sioux	\$24,300	96.5
December	153.63	98%	O'Brien	\$13,500	94.1
December	93.71	97%	Lyon	\$20,500	94.5
December	80.00	95%	Dickinson	\$14,000	85.7
December	74.80	96%	Calhoun	\$15,975	83.4
November	76.68	96%	Palo Alto	\$10,050	79.0
November	80.00	96%	Cherokee	\$16,000	86.7
November	92.99	96%	Lyon	\$20,400	95.0
November	160.00	97%	Sac	\$16,800	93.8
November	80.00	100%	Plymouth	\$18,600	91.0
November	74.80	98%	Pocahontas	\$14,600	85.2
November	80.21	98%	Dickinson	\$16,000	89.8
November	80.01	99%	Emmet	\$15,100	82.4
November	114.10	97%	Osceola	\$17,000	96.6
November	79.00	100%	Crawford	\$18,500	85.9
November	80.00	96%	Clay	\$17,500	94.4
November	113.24	98%	Carroll	\$16,900	84.7
November	78.90	99%	O'Brien	\$17,700	97.0
November	160.00	99%	Kossuth	\$11,500	79.3
November	54.95	97%	Webster	\$12,500	81.7

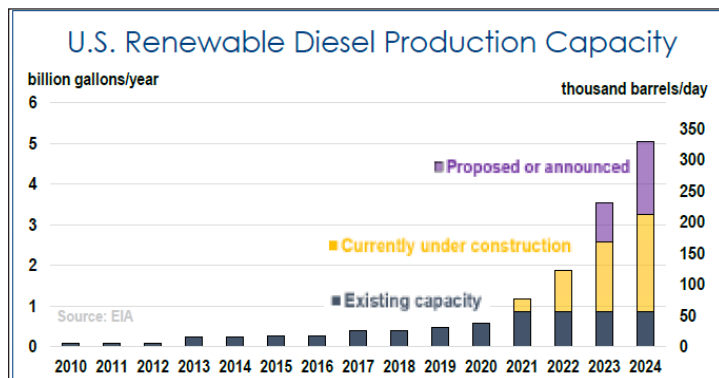
# Is Renewable Diesel the Next Big Thing?

Grant Aschinger, AFM



Anybody who has been involved in corn production knows the role ethanol has played in helping corn farmers be more profitable. Now it appears that soybeans may have found their renewable fuel market as well. Demand for renewable fuels is building with the biggest push coming from west coast states. California has the Low-Carbon Fuel Standard, which pushes the use of fuels with lower greenhouse gas emissions. Washington and Oregon also look to be early adopters.

Renewable diesel is not the same as biodiesel, although they do share some of the same feed stocks. Biodiesel can only be blended with petroleum based diesel at a 20% rate according to the Energy Information Administration. Renewable diesel can be blended with petroleum based diesel at any level, giving it more flexibility and potential upside when it comes to demand.

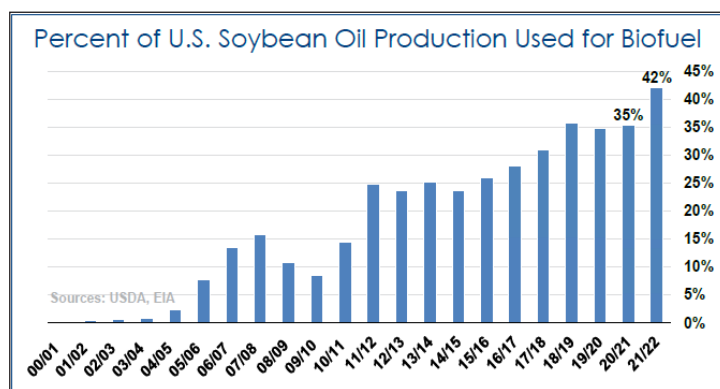


Many of the large grain processing companies, like ADM and Cargill, are investing in expanding existing facilities or building new soybean crush plants to fulfill the needs of this emerging market. Soybean oil is not the only product that can be used to produce renewable diesel. Animal fats and vegetable oils can also be turned into renewable diesel but supplies of both are limited without a lot of chance for domestic expansion. That is where soybeans can hopefully fill that need for refiners while giving the American soybean farmer another reliable domestic market less vulnerable to international conflicts. Roughly 50% of US soybeans are exported with two-thirds of those going to China (barring any trade conflicts). Increased domestic production of renewable diesel fuel makes us less reliant on overseas oil producers as well. Recent

world events have made it very clear how important it is to be less reliant on countries that are not fond of the United States.

Projections for the Energy Information Administration put current renewable diesel production capacity at 600 million gallons per year in 2020. That number is expected to increase to 3.3 billion gallons per year with the expansion projects already under construction. Proposed projects could add another 1.8 billion gallons of production capacity by 2024 if they are all built, bringing production capacity up to 5.1 billion gallons per year. Some industry experts (Rabobank) expect production capacity to reach 6.1 billion gallons by 2030.

If every project currently announced or under construction was built and online by 2024, we could produce enough renewable diesel to replace between 8-9% of current diesel consumption in the US. At a soybean yield of 52.0 bushels per acre (2022 trend line yield) that would require more than 36 million acres of soybeans to meet demand.



The United States is projected to plant between 88-90 million acres of soybeans in 2022. USDA data says we planted 87.1 million acres in 2021. This would be either the largest or second largest acreage ever planted to soybeans in our country. 2014 was the first time we planted more than 80 million acres of soybeans, so any dramatic expansion of soybean acres has mostly already been done. Additional acres of soybeans planted is likely coming at the expense of another widely grown crop like corn, wheat, or cotton; all of which also need as many

# Renewable Diesel

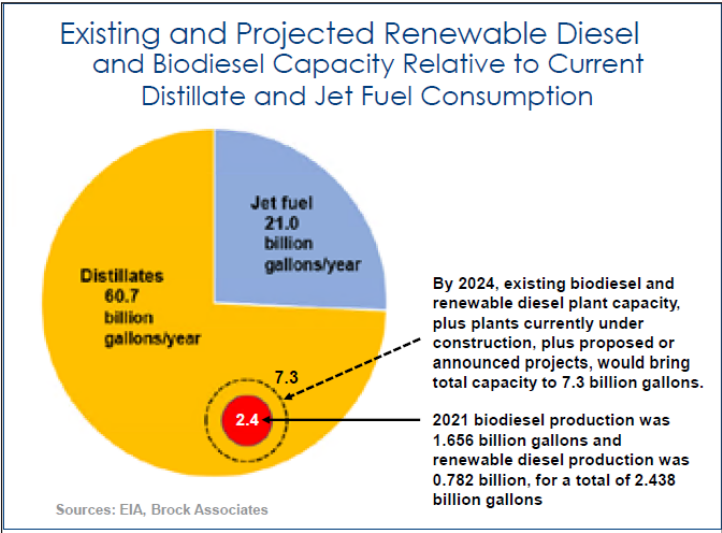
acres as possible right now.

It is unlikely that 100% of the proposed production facilities will be built, but a good percentage of them surely will be completed. We also cannot assume that soybean oil will be the only feedstock used in production of renewable diesel at these facilities, but previous data would indicate it will likely account for at least half. That is still millions of acres of soybeans that would be needed to fill the demand with limited additional acres available domestically to fulfill the increased needs.

### Closer to Home

Last fall, Platinum Crush LLC announced a proposed soybean crush plant to be built between Storm Lake and Alta. The \$350 million project is expected to be in operation by March of 2024. They expect to crush 38.5 million bushels of soybeans annually, or about 110,000 bushels per day. The facility will produce 847,000 tons of soybean meal per year to be used in livestock feed. It will also produce 450 million pounds of crude soybean oil, some of which will likely be used to produce renewable diesel.

We don't truly know the potential renewable diesel has for those of us that produce soybeans in the Midwest but the potential to produce a cleaner fuel from domestically grown soybeans sure looks like it has excellent potential, especially with current world events.



# World Events

spring planting this year. Volatility has been extreme, especially in wheat, with the market reacting sharply on a daily basis. Because of the importance of this region to global wheat exports, there are concerns of food shortages in food importing countries, mainly in the Middle East and North Africa. While the supply situation looks bleak now, a peace settlement in the near term would likely lead to a sharp reversal in prices for all grains, given the lofty levels they are currently at.

### Summary

With the losses in South America and assuming continued unrest in the Black Sea region it is very important for the U.S. to have a good crop this year. Acres will be somewhat higher, but not enough to counter lost bushels if weather problems develop. World stocks of per capita coarse grains and oilseeds are forecast to be at the lowest levels in a decade. It will be a very interesting growing season.

# Stalcup Announces Acquisition

**Stalcup Ag Service is honored to announce the acquisition of Dunlap Appraisal & Agri Management of Sioux Falls, South Dakota.**

Dunlap Appraisal & Agri Management was founded by James Dunlap in 1975, specializing in the appraisal of agricultural properties and farm management in Eastern South Dakota. Dunlap has a well-known reputation of expertise and first-rate customer service. Former Dunlap Agri Management farm manager, Vince Hanson will continue serving clients alongside Chad Husman, Dennis Reyman and Kent Smith.

Stalcup Ag Service has a growing footprint, employing 13 people, managing over 100,000 acres of farmland plus appraisal and farm real estate in Western Iowa, Northeast Nebraska, Eastern South Dakota, and Southern Minnesota. This acquisition opportunity signifies a greater commitment to serving South Dakota landowners.



Every spring we look forward to the growing season thinking about what lies ahead. Just like every year, there will inevitably be areas in the country with great crops and areas with poor crops. Forecasting crop results this time of year with any accuracy is impossible, but there are several factors we take note of.

- Drought is **again** a major concern this year. NOAA's Spring Outlook predicts prolonged drought in the Western U.S. The drought map below looks very similar to last year at this time.

- La Nina is the current weather pattern, but it's showing signs of shifting to neutral by this summer. La Nina conditions tend to increase the odds of dry weather in our region. This is basically the same situation as last year.

- Local soil moisture levels are drier than usual, but actually healthier than last year at this time. Our soil has capacity to absorb average spring rains, so early planting is once again a strong possibility.

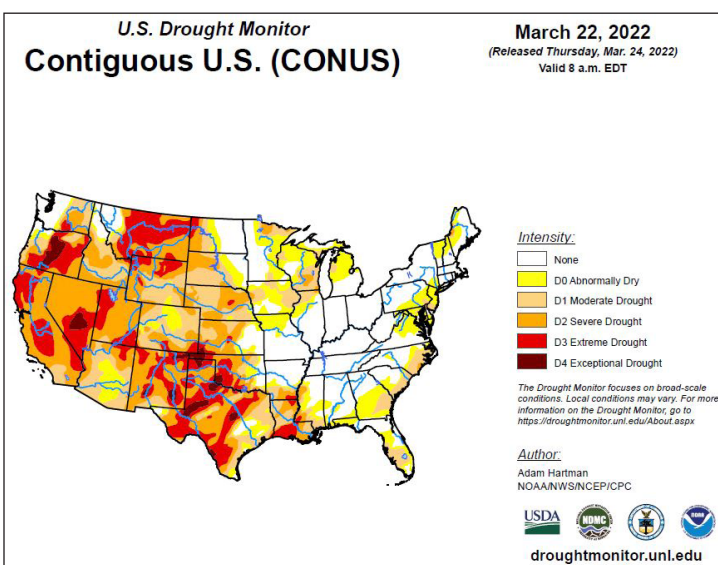
moderate summer temperatures to maintain crop health and yield levels. Last year showed the resilience of high quality soil, modern seed genetics, and best management practices.

## Rising Cost of Production

Input costs are up considerably in 2022 and potentially even higher for 2023. Anhydrous ammonia (nitrogen fertilizer) costs around \$1,500 per ton this spring, up from about \$750 last fall, and up from about \$420 per ton in the fall of 2020. Other inputs like seed and herbicides are also higher but not nearly as much as fertilizer. There's a strong correlation between nitrogen cost and natural gas prices as well as the price of corn and demand for the products for pushing prices.

The war in Ukraine is also pushing fertilizer prices higher (along with other commodities). That region of Eastern Europe is a significant producer of fertilizers and components to fertilizer. Russia is the world's top exporter of natural gas used to make nitrogen fertilizer and a major producer of potash fertilizer.

Fortunately, most of the 2022 crop inputs were locked in before the latest price spikes. Even with the higher input costs, the 2022 crop is set up to be potentially one of the most profitable crops on record as long as grain prices remain high. I believe the bigger concern is looking forward to input costs for the 2023 crop. Just like every year, there's reasons to be optimistic and worried at the same time. We believe the opportunity to provide reliable grain crops to the growing world market will outweigh the negative effects of rising input costs in the long term.



Considering the similar weather outlook and field conditions compared to last spring, could we have a repeat of 2021 weather? If so, watch out for drought in the western U.S. and wet weather in the eastern U.S. Crops in our region turned out really good last year, but they seemed to be on the verge of disaster all season. Fortunately, most of our area had just enough rain with

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# Accreditation

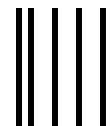
You may notice the Stalcup team carries the initials AFM or ARA behind our names. Those stand for Accredited Farm Manager and Accredited Rural Appraiser, which are professional designations that can be earned through the American Society of Farm Managers & Rural Appraisers (ASFMRA). Basically, these designations can only be earned by those who are fully active in the respective businesses, have met experience and educational requirements, and subscribe to a high ethical standard. What does that all really mean?

**Experience:** AFM requires four years experience (at least 1,600 hours per year) providing professional farm management for clients, or relevant documented work experience. ARA requires five years experience (1,600 hours per year) providing appraisal services. Work logs and other documentation are part of the process of proving one's experience.

**Education:** a four-year degree (or equivalent) plus the required accreditation curriculum offered by ASFMRA. For AFM candidates, this involves four multi-day classes taught by experienced and credentialed farm managers, passing a test on each, plus an ethics course; submit a Farm Management Plan which is graded by the national Education/Accreditation Committee; pass the final two-day exam which involves multiple choice, true-false, and case studies. Oral interviews must be passed, as well. The ARA process is similar except that five years experience is required, the applicant must hold a state certified general appraiser license in good standing plus pass five classes above the state licensing, and must submit six appraisal reports in addition to the Demonstration Appraisal. Once the accreditation has been earned, the newly minted AFM or ARA is presented their pin and plaque on stage at the national meeting. However, stringent continuing education must be documented and submitted for each three-year cycle. The ethics class is required every other cycle. The process is not easy nor should it be.

**What does this mean to you?** Your farm manager or appraiser who has taken considerable time, effort, and expense to become professionally designated has demonstrated their commitment to the highest level of professionalism. You can rest assured that once the accreditation process is completed, your farm manager or appraiser has been exposed in an educational setting to the best in the business across the nation. They've also gained entry into an amazing network of like-minded professionals who are more than willing to share professional knowledge and insights.

ASFMRA is a remarkable organization. Stalcup Ag's involvement goes back to our founder, Mr. H.E. Stalcup, who was instrumental in the earlier days of ASFMRA. In fact, ASFMRA awards an Excellence in Education Award each year in the fields of farm management and appraisal. That award carries Mr. Stalcup's name.



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## Spring Newsletter 2022



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