Stalcup AgService

Today's LAND OWNER

Summer 2015 Volume: XXXV No 2

2016 Leasing Decisions

by: Nathan Deters, AFM

Late summer/early fall is traditionally the time when the topic of cash rent for next year comes up. With the very narrow profit margins we have experienced over the last two years, we expect this year will be busy with rent discussions. There are a lot of considerations that need to go into the rental rate decision. Following are a few of them:

-What are realistic grain prices for next year? This is the toughest question, and is always a moving target. At the time of this writing in late June, we are 1 ½ years away from the harvest of 2016. A lot can happen between now and then. Current bids offered for harvest 2016 are in the upper $8 per bushel range for soybeans and upper $3 per bushel range for corn. These are the lowest prices seen in several years. We have dropped to these levels mainly due to a succession of good crops in the United States and throughout most of the major grain producing areas of the world. High carry over inventories are expected into this harvest season. Demand has not been an issue, as low prices are doing their job of stimulating usage. Rather, our capacity to produce given good weather conditions has led to current surpluses. Will this continue? It all depends on weather. We are one short crop away from turning our current surplus situation into something more interesting. Of the two crops, corn seems to have a tighter supply and a better chance to rally.

-What are realistic costs of production and yield levels for your farm? When formulating an equitable cash rent, it is important to include the production side in the equation. All farms are not created equal. Using realistic crop yields is vital in this process. Input costs are another factor to consider. Seed, fertilizer, and herbicide expenses all moved higher along with the higher grain prices but have been slow to come down. We expect some softening of fertilizer prices this fall but do not know the extent at this time. Lower fuel prices should help. Seed companies have invested heavily in biotech advances and are reluctant to reduce prices. Many producers have shifted to hybrids with fewer "traits" to cut cost per acre. We expect more of this to occur. Smaller seed companies with more pricing flexibility will be in good position to gain market share.

-What influence does crop revenue insurance and government payments have? With lower grain prices, the safety net of crop revenue insurance and government payments become a bigger consideration in budgeting. Crop revenue insurance provides a floor of income, although at a lower level recently since it follows grain prices which are set in February each year. The new farm program is designed to make bigger payments in periods of lower prices; however, that will also trend lower with lower grain prices in later years of the program. While insurance and government payments are certainly no windfall, it is important to know how they factor into the equation.

The new farm program is designed to make bigger payments in periods of lower prices; however, that will also trend lower with lower grain prices in later years of the program.

continued on page 2

2016 Leasing Decisions
Topics to consider in negotiating rent
Page 1

Today's Land Market
Low grain prices reduce land values
Page 3

Farm Improvements Affect Your Bottom Line
Conservation while improving farm productivity
Page 4

Northwest Iowa Progress Report
Crops off to a good start
Page 5

Stalcup Ag Service

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.

Stalcup's Team

Rex Wilcox, AFM
Kent Smith, AFM
Dennis Reyman, AFM, ARA
Nathan Deters, AFM
Chad Husman, AFM
Travis Nissen
Grant Aschinger
Mason Troendle
Dan Niemeier

Contact Us

Stalcup Ag Service, Inc.
1705 N Lake Ave
Storm Lake, IA 50588
Phone: (712) 732-4811
Fax: (712) 732-7371

stalcupag.com
stalcup@stalcupag.com

2016 Leasing Decisions continued from page 1

-How does your current rent compare to the market? If your rent was not increased during the good income years, it may be that a downward adjustment is not needed now. Conversely if your rent was at competitive levels, then a move down may be warranted.

If your rent was not increased during the good income years, it may be that a downward adjustment is not needed now.

Stalcup Ag Service can assist with your leasing decisions. We work on a daily basis with the grain markets and can give you a realistic assessment of 2015 yields and grain market potential as we move into the fall. We also work extensively with fertilizer and seed procurement, and can give you an updated reading on input costs for 2016. Our farm management territory encompasses all of Northwest Iowa, and we understand the neighborhood factors, soil quality, and how it relates to cash rent levels for your area.

A new crop year may also be the time to consider a new farm operating alternative. Over time, custom farming and modified crop share leases continue to provide competitive returns to the landowner. In addition, the farm owner maintains complete control over the farm practices and crop inputs with these operating methods and can take full benefit of added improvements such as drainage tile.

Feel free to contact us about your 2016 lease. We will provide you with a lease analysis for your farm comparing your current returns to other leasing alternatives.

IOWA LEASE TERMINATION DEADLINE IS SEPTEMBER 1

The Iowa lease law requires notification from either party, which could be the landowner or farm tenant, in writing prior to September 1 if changes are to be made to your current lease for the upcoming 2016 lease year which is March 1, 2016 to February 28, 2017.

It does not matter if your lease is a verbal or a written lease, notification must be in writing from either party by September 1. Written termination as provided by Iowa Code must be either delivered via certified mail or acknowledged by the tenant's signature prior to September 1.

If you need assistance terminating your lease, contact one of Stalcup's farm managers.

Today's Land Market

by: Dennis Reyman, AFM, ARA

The easy question of the day is: Has the land market gone down? Yes. The harder question is: How much? We've answered that question a good number of times in recent months with our appraisal work, where we've been asked to provide updated values for appraisals completed in 2013 or 2014. Some of these have been for estate settlements with IRS where the executor can elect to utilize the six-month alternate date of value. Lower land values six months later can save money on taxes due. Of course, IRS will scrutinize the appraisal to make sure all claims are justified.

As always, appraised values are based upon the best and most recent comparable sales, which are adjusted for various factors which affect value to make them as similar to the subject property as possible. The methods work in rising as well as falling markets. The appraised value is as solid as the quality of the sales data and the appraiser's skill in analyzing and understanding each market. Of course, even the best appraisal will miss the mark when two bidders duke it out at auction, which we've seen numerous times. The mark of a good appraisal is really whether it will stand up to professional review, which may be in court, with IRS, bank examiner, or other government reviewer.

So, what have we seen in the market? Depending on time points, land quality, locational factors, and other factors, we've seen land values off by 10-20% from the peak, and in some cases a little more than 20%. Most have fallen into the -15-18% range. Again, this is comparing from peak in 2013. This means that land which may have sold for $13,000 may now sell for $10,000 to $11,000. Land which may have sold for $10,000 is now between $8,000 and $9,000. It is important to remember that even at the peak, "only" half the land sales in our database hit $10,000 per acre or more.

Looking at the two main land value surveys in Iowa, this fits pretty well. The annual ISU survey put high-quality Northwest Iowa farmland at $11,404 as of November 1, 2012. A year later, it was at $10,960, and last November 1st it was down to $9,615 per acre. That is an overall decline of 15.7%. The Realtor's Land Institute survey has shown semi-annual declines since March 1, 2014 and shows a total decrease of 16.2% from the September 1, 2013 high point. These are opinion surveys which are filled out by active real estate professionals.

We've always felt that the land market would eventually find its way back to its long-term trend line. In 2000, the Iowa average was $1,857 per acre. By 2010, it was $5,064 (+10.6% annually), and by 2013 it was $8,716 (+12.6% annually from 2000, and +19.8% annually from 2010 to 2013). Long-term studies generally show around a 6% annual increase. A 6% average annual increase from 2000 to 2025 would put future land values around $8,000, which is just about where the state average is today. We doubt a flat-line scenario for the next ten years; however, it does seem likely that double-digit percentage increases will become a rarity, just as it was from 1989 to 2003 when only 1996 produced a double-digit increase in value. That year was our first time experiencing $5.00 corn.

Some analysts are now questioning the prediction of a new price plateau, which was popular when corn was $7.00. We believe we are still at the new plateau but that we're at the bottom of the price cycle for that new plateau. Demand for our products continues to grow. Since we won't grow record crops every year, there will be times again when demand threatens supply and prices increase. Prices cycle, and with it do optimism and pessimism. Those capable of managing the cycles put themselves in position to profit. We've noted several astute investors either acquiring large tracts or showing interest lately. Perhaps their timing is good.

Bottom line here is that we haven't provided a prediction except to say that long-term, we are bullish on farmland. Hopefully we've provided some food for thought as you consider your own opinion. Remember that Iowa farmland has had many more years of setting new record highs than it has seen a decline in values over the past 100 years. We like that track record.

Below is our list of selected sales of "good" farmland in the region. Sales activity has been slow the past few months, and some counties have been very quiet. Stalcup-brokered sales are in **bold***.

Selected Sales of Good Farmland

Date	County	Acres	CSR	$/acre	%Tillable
March	Plymouth	163.3	60.6	$9,000	100%
March	Clay	39.0	66.0	$7,550	99%
March	Lyon	80.0	68.0	$14,700	98%
March	BV	133.4	75.2	$10,725	98%
March	Calhoun	163.2	77.5	$8,100	98%
March	Pocahontas	80.0	70.7	$7,700	96%
March	Lyon	94.9	58.1	$13,500	95%
March	Palo Alto	154.0	75.7	$8,725	96%
March	BV	156.3	75.1	$8,525	98%
April	Crawford	137.0	70.2	$7,500	100%
April	Dickinson	150.0	69.4	$9,000	98%
April	Woodbury	92.1	70.5	$8,000	100%
April	Plymouth	80.0	63.1	$8,800	90%
April	Osceola	60.0	67.3	$9,000	99%
April	O'Brien	39.7	78.1	$14,350	92%
May	Sioux	50.3	67.2	$16,800	99%
May	Sioux	160.0	73.1	$15,500	99%
May	Clay	93.0	80.1	$10,300	98%
May	Crawford	122.1	83.0	$9,050	86%
June	Clay	115.0	80.7	$11,300	99%
June	Osceola	80.0	83.1	$13,100	96%
June	Greene	148.2	73.8	$8,100	96%
June*	**Tama**	**80.2**	**84.8**	**$10,350**	**99%**

Farm Improvements Affect Your Bottom Line

by: Kent Smith, AFM

Several land improvement items have proven their worth time and again over the years. Years ago, **terracing** was one of the first things one thought of in regards to land improvement. Today's modern equipment is capable of doing a much better job of planting into reduced tillage and no-till soil environments. Many old terrace systems are now removed as being obsolete for the width of modern equipment. New terrace installations are now less common even though many acres might still benefit from some terracing. Terraces should still be considered on some areas of some farms.

Grassed waterways are another old conservation technique that should be installed or revamped on many farms. The drive to farm every square inch has narrowed some waterways down to a fraction of what's needed to control erosion. Many have even been totally eliminated. Terraces and waterways are something that may not affect your immediate bottom line, but erosion control is in the long-term interests of the value of your property.

Tile installation in Plymouth County

Tile drainage has long been considered the most beneficial investment over the years on many of the heavier, flatter soil types. Some of these tile systems are now 75 or more years old. The main tile systems that were set up by counties have been fed by privately installed laterals over the years, which have overloaded the entire system. If your property has direct access to a drainage outlet such as a ditch, you have some advantage over your neighbors since you can add lateral lines without the concern that you might still have to wait until the main line drains your upland neighbors.

Yield monitors in combines have sold a lot of drainage tile in the past 10-15 years. Monitors can quantify the amount of yield loss that actually occurs in a poorly drained area. Armed with this information, one can make an informed decision on how much tile should actually be installed and what the return on that investment will likely be. Yield monitor information has proven what knowledgeable farmers already knew – tile pays for itself quickly, not only in yield but also in operating efficiency.

Some areas may benefit as well from **surface drainage**, sometimes in conjunction with tile drainage. The very flat Missouri River bottoms would be unproductive without extensive surface drainage systems. LIDAR topographic maps are accurate to about an inch with the right software. Combined with very accurate GPS equipment, these maps give one the capability to plan and execute an extensive surface and tile drainage system.

Grain storage is another top improvement to consider. Yields keep climbing, which puts a strain on grain handling facilities during harvest. On-farm grain storage solves problems by improving harvest efficiency along with maintaining control of the grain. You maintain marketing flexibility of not only when you sell but where you sell.

With more marketing alternatives due to ethanol plants, and more hauling capacity due to farmers owning semi-trucks with grain trailers, one can benefit from improved marketing opportunities due to on-farm grain storage. There is more handling due to the in and out of the grain and maintaining grain condition, but that is generally offset by lower drying costs.

A grain bin investment would be expected to both increase revenues and reduce some costs; however, some other costs such as insurance, interest, electricity, and handling would increase.

Precision agriculture provides ample opportunities to fine-tune your farming operation. First of these is utilizing GPS for soil sampling and variable-rate fertilizer application based on those sampling results. Stalcup Ag Service undertook its own GPS-based soil sampling program in 2000. The past fifteen years have proven the merits of the system with greater improvements in yields and more efficient use of the fertilizer investment. Other advanced farming systems such as narrow corn rows and variable-rate planting are more in your farm operator's hands than yours as landowner, but you can control the fertility program if you participate in the crop production on your farm.

These are some of the farm productivity factors we try to influence as professional farm managers. Please give us a call or e-mail if you have questions about farm improvements you are considering.

Northwest Iowa Progress Report

by: Chad Husman, AFM

Most corn in Northwest Iowa was planted on time in late April or early May. Soybean planting was extended because of wet conditions, but the majority of farms were planted by June 1st, which is not unusually late. Crops generally look good throughout most of Northwest Iowa, but the season has not been without some challenges. A cold spell in May slowed crop development. Excess rain in some areas caused:

- delayed planting
- uneven stands
- delayed weed control
- nitrogen loss
- increased risk of crop disease

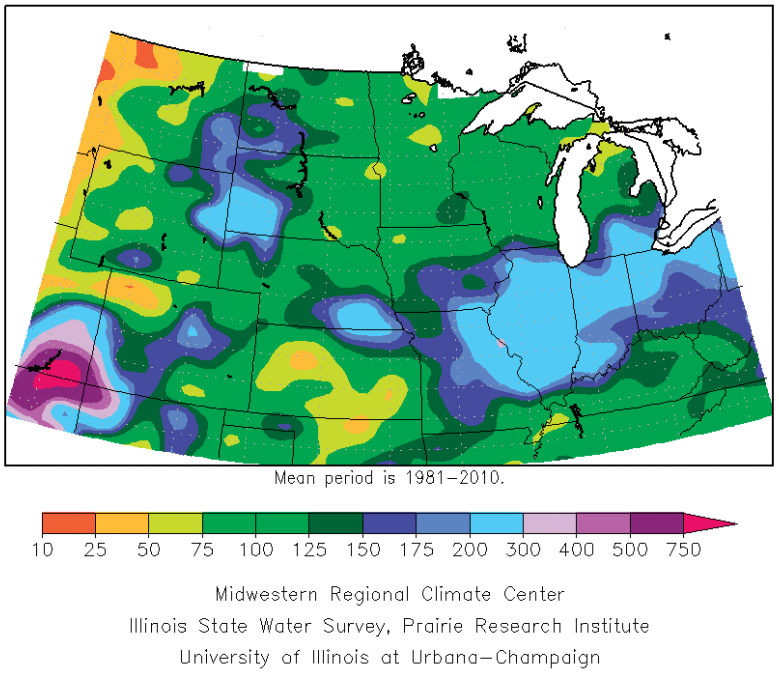
Northwest Iowa has fared better than Southwest Iowa and the Southern plains, where heavier rains have caused problems. Our rainfalls have been frequent but have come in more moderate amounts. Farms with good natural or artificial drainage will once again have an advantage this season.

We are in the midst of an El Nino pattern, which when it has occurred in the past, has tended to lead to milder temperatures and adequate rainfall over much of the Midwest.

Looking ahead, corn should pollinate at the "normal" time frame in mid-July, and we will enter mid-summer with ample soil moisture, a combination that usually results in good yields. Soybeans can have a harder time in wet springs than corn, as wet soil conditions can set the crop up for disease later. The most critical weather period for soybeans is August when the plants are setting and filling pods, so yield potential is difficult to estimate before then. Vegetative growth in the first half of the growing season creates a larger factory, but not always more beans.

We are in the midst of an El Nino pattern, which when it has occurred in the past, has tended to lead to milder temperatures and adequate rainfall over much of the Midwest. Time will tell if that plays out this year.

Accumulated Precipitation: Percent of Mean
June 1, 2015 to June 29, 2015



Bird Flu Impacts Local Agriculture

The U.S. poultry industry was hit hard by the worst bird flu (avian influenza) outbreak in history killing more than 38 million birds. Iowa is the number one egg producing state in the country and a significant turkey producer as well. Northwest Iowa has seen some of the worst outbreaks, since we are a concentrated area of both egg and turkey production. Bird flu is having an effect on local grain bids, but so far it's not having much of an impact on the futures market or the overall supply and demand picture. Demand remains strong from other sources, such as hog and cattle producers and ethanol plants.

For now warm summer weather is the best medicine to fight the spread of the virus, and new cases have dropped off. The long term effects of bird flu are still unknown. Since the disease is spread by wild waterfowl, there is apprehension about the disease resurfacing when these birds migrate back south this fall. Work is ongoing for a vaccine to control the virus, but so far nothing has been approved.

June 30 USDA Report Summary

by: Grant Aschinger

The June 30th Acreage and Stocks Reports showed lower than expected planted acres and grain stocks. Planting intentions for corn acres dropped 302,000 acres from March to June and total just short of 89 million acres. This is the smallest corn acreage number since 2010. Soybean acres are still projected record large at over 85 million, but not as overwhelming as were predicted earlier in the year.

One thing to keep in mind - these numbers are planting intentions from June 1st when planting soybeans still had good yield potential. These numbers also do not take into account the acres that are damaged from excessive rains in the southern Corn Belt and also acres that were intended, but were unable to be planted due to the wet June conditions. This is likely the highest acreage estimate of the 2015 crop year. Several states including Missouri, Kansas, and Arkansas will be re-surveyed in July.

Current grain stocks also failed to meet trader expectations as lower prices have sparked higher usage than predicted in both corn and soybeans. Current corn stocks are seen at 4.447 billion bushels and soybeans at 625 million bushels. Both were lower than trade estimates but significantly higher than the previous year.

The bullish news for both acres and stocks prompted large upward moves in both the corn and soybean markets. Corn gained roughly $.30 and soybeans improved more than $.50 at the market close on report day. New crop bids have gained over $1.25 per bushel on soybeans and over $.75 per bushel on corn since the late spring lows, which matched the lows of early October.

Going forward, the market will focus on weather and yields. Early outlooks are for a continuation of cool and wet conditions into July. While this is normally a positive forecast for corn pollination, it will not be what is needed for areas that have been very wet since May.

June USDA Quarterly Grain Stocks & Acreage

USDA June Acres (mln acres)

	USDA June 2015	Average Trade Est.	Range of Trade Est.	USDA March 2015
	88.897	89.292	88.450-91.742	89.199
	85.139	85.171	83.760-86.760	84.635

USDA U.S. June 1 Quarterly Grain Stocks (bln bu)

	USDA June 2015	Average Trade Est.	Range of Trade Est.	USDA June 2014
	4.447	4.555	4.419-4.700	3.852
	0.625	0.67	0.604-0.707	0.405

"The land belongs to the future. We come and go, but the land is always here. And the people who love it and understand it are the people who own it for a little while."

WILLA CATHER, 1913

Stalcup Partner Retires

Terry Argotsinger retired June 30, 2015 after thirty-seven years with Stalcup Ag Service and forty years as a Professional Farm Manager. Terry started his farm management career in Illinois following graduation from Iowa State University and four years in the U.S. Navy. He attained the Accredited Farm Manager and Accredited Rural Appraiser titles through the American Society of Farm Managers and Rural Appraisers, and served the state and national organizations in several prominent capacities.

Terry and his wife Barb will continue to make Storm Lake their home for their retirement years. They have three married daughters with seven grandchildren. They look forward to spending more time with family.

Terry also has a collection of antique John Deere tractors and enjoys tractor rides in the summer around the Midwest.

Terry and grandchildren enjoying a tractor ride

When asked about his career at Stalcup Ag Service he said, "It has been very satisfying and humbling to have so many friendships across the country and especially in Northwest Iowa. The interaction with many farm owners, farm operators, vendors, and other professionals serving agriculture enriched my life."

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO. 200 STORM LAKE, IA

POSTAGE WILL BE PAID BY ADDRESSEE

STALCUP AGRICULTURAL SERVICE INC
PO BOX 67
STORM LAKE IA 50588-9922

Stalcup Ag Service
P.O. Box 67
Storm Lake, IA 50588
www.stalcupag.com

PRSRT STD
US POSTAGE
PAID
SIOUX CITY IA 511
PERMIT 138

STALCUP AGRIGULTURAL SERVICE, INC., BOX 67, Storm Lake, IA 50588
1-888-732-4811 – Phone 712-732-7371 – Fax www.stalcupag.com
ALL INQUIRIES ARE CONFIDENTIAL

Check items below you would like additional information on:

Professional Farm Management
_____ Management Procedures
_____ Leasing Alternatives
_____ Custom Farming

Real Estate
_____ Selling
_____ Buying
_____ Exchange

Appraisal
_____ Estimate of Market Value
_____ Estates

List items particular to your farm you would like to discuss with a professional farm manager:

_____

_____

NAME _____ FARM LOCATION:

ADDRESS _____ - SECTION _____

CITY/STATE/ZIP _____ - TOWNSHIP _____

PHONE _____ - COUNTY _____

☐ **Please remove name listed above from mailing list**