

## Grain Markets Questions:

*If Democrats take the White House, what is there ag policy and how will it affect markets?* - Charles

The current farm bill, which was passed in 2018, has a term of five years. In the event there is a change in the White House, there should not be a change to the provisions of this legislation. The only policy change that may occur may be a different approach to trade issues in terms of whether we will be more collaborative or combative. There is enough diversity in Congress for those who represent Midwestern states that I would not expect a huge change in overall ag policy.

*In the longer term, is Brazil depleting its soils or do their practices conserve its fertility into the future?* - Jay

Most soils in Brazil have a history of low fertility, especially when they are first placed into production. It takes anywhere from five to ten years to build soil fertility after the land is placed in production. In addition, it takes three to five years to increase the pH to acceptable levels for corn, soybean, and cotton production.

*How were Europe and SE Asia able to increase purchases of US soybeans?* - Fredrick

The European Union and Southeast Asia switched some of their soybean buying to the United States, primarily because Brazil was shipping large quantities to China during the period when high tariffs were in place.

*Where are you expecting corn and soybean prices to go in 2021?* - Chris

Corn and soybean prices will likely move lower as we move into the harvest of 2020. We then expect these prices to increase seasonally as we move into early 2021, given the assumption that demand continues to increase. Seasonally, we typically see highs in corn and soybean markets during the summer growing season.

*I attended the Iowa State 2020 Farmland Leasing meeting yesterday. They said projected average 2020 corn price at \$3.35 and if you had PLC then it would be \$3.70. Did the corn prices on your slide include government payment? Iowa State is also projecting a decrease in corn stocks at the end of 2020. Down from previous 2 years.* - David

The prices in the slide presented during the webinar did not include any government payments for corn or soybeans. Iowa State University is expecting a decrease in corn ending stock for the 2019 crop, which ends September 1, 2020. They also anticipate that the 2020 crop ending stock number will increase based on current estimates.

*Will China ever produce its own grains?* - Janet

China currently is the #2 producer of corn in the world and is the #4 largest producer of soybeans. Currently, they are utilizing all their production domestically and still importing a huge quantity of soybeans. China currently uses 1/3 of the world's soybean production. Given their limited land base it appears that China will continue to be a strong importer of soybeans, and the future also appears bright for future corn use.

*Where can I find information on Iowa County average lease price per acre?* - Charles

You can find the information by county in terms of 2020 Iowa cash rental rates at the following link:

<https://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-10.pdf>

## Farmland Leases Questions:

*Do you think that Iowa State's Custom Lease rates are fair and accurate. Our Custom Rates from Iowa State keep increasing, and our crop prices have decreased. From the first of your comments today, you remark that no downward pressure for Custom contracts but there would be down pressure on cash lease. Help why Iowa States rates do not reflect this. Thank you.*

- Thomas

The Iowa State Custom Rate Survey that is published each year is determined by taking a survey of landowners, farm managers, and farm operators that are involved with either hiring or providing custom operations. The average custom rates provided in the survey have been trending higher most years despite downward pressure on commodity prices and farm income levels. Many farm operators will say the cost of their equipment and the necessary repairs continue to go up each year as well. It is important to use this survey as a guide and rates can be adjusted based on your individual situation. Regarding the second part of your question, my comment was that participating leases such as crop share and custom arrangements adjust automatically to changes in commodity prices and crop yields without having to negotiate changes to those arrangements. So with lower commodity prices, you could expect revenue from those participating arrangements to also decline unless the crop yields are high enough to make up for the lower prices, or there is additional income from other sources such as the farm program (ARC/PLC) payments, CFAP assistance or MPCI revenue payments.

*Is the tenant typically responsible for making revenue claims and/or participating in Covid-related benefits?*

*Related, are tenants pursuing specialty contracts? Or would that come from ownership? - Jake*

It depends on the lease arrangement. For a cash rent lease, the farm operator would need to be interested in seeking out the specialty contracts since they are at risk and most likely making the crop input decisions. For participating leases, the landowner will have more involvement and may want to seek those opportunities if available. To secure a seed corn contract, the farm would need to be located in a growing area for the seed company and in most cases, the farm operator would need to have experience growing seed corn or a previous working relationship with the seed company. Specialty contracts certainly need to be mutually beneficial for all parties involved.

*30% to 40% is a wide range - how do you understand where you fit within there?*

As I mentioned during the webinar, the quality of farmland varies tremendously by area and across the Midwest. Farms that command the highest rent are farms with great soils that are highly productive. They are highly improved with excellent drainage, perhaps even pattern tiled, so production is more consistent each year and top-end yields are 235-260 bushels per acre for corn. Farms that will rent at the lower end of the range have lower-quality soils with lower overall yield potential under 190 bushels. This might also include poorly drained farms or river bottom farms that are subject to flooding occasionally. Better farms will command higher rental rates.

*So when IS a good time to meet with renters and set rent for the upcoming year? Can you give a time period? - Scott*

There will be much more known about crop yields for the 2020 crop and perhaps some of the other income that might be received after harvest is complete. We will most likely try to make progress with lease negotiations from October through early December.

## Farmland Leases Questions (con't):

*Our tenants want to know what the next year contracts is going to be in September/October so they can take advantage of prepay discounts. What do we tell them? - David*

They could be referring to fertilizer which they may want to apply in the fall after the crops are harvested. The tenants can always go forward with the prepayment of inputs prior to application. However, we would not recommend applying fertilizer until a lease agreement has been finalized.

*Your chart shows the average, what is the range of cash rents?*

Ranges vary from state to state and year to year. We do not have that information readily available, but if you let us know which state you are interested in, we can get you a link to the survey information we use. In general, the ranges are going to be 10% of the expected revenue wide. For example, if revenue is expected to be \$700 you would expect the range of rents to be roughly \$70 wide, with the average in the chart being somewhere in the middle of the range. Unfortunately, it is really difficult to know how your farm compares to the “average” farm for the survey. If you would like some help determining where your farm fits in the rent range, feel free to give us a call. While we may not be able to tell you exactly what your farm should rent for, we can help you understand if it belongs in the top, bottom or middle of the range.

*Just to confirm—what is driving the downward pressure on rates over the past 4 years? Is that just grain prices? Production levels? Trade implications? - Lisa*

The largest reduction in cash rental rates occurred from 2013 through 2017 as commodity prices fell from record high price levels from 2012-2013. Ending stocks were extremely tight during those years which drove commodity prices higher. Once the supply increased and demand dropped due to high prices, carryout levels increased to more comfortable levels and commodity prices fell. Farm income levels, cash rental rates, and farmland values all dropped in unison following the record prices. Cash rental rates have been fairly stable during the last four years.

*Has it been better to custom operate or rent given commodity prices the last few years? - Jay*

We have been in a cycle during the last several years where cash rents have outperformed custom arrangements. This is unusual and can be attributed to the slow adjustment of cash rents to move lower despite reduced commodity prices and farm income levels. Cash rents typically move slower and lag the market compared to custom arrangements. We also saw that as farm income levels increased rapidly from 2007 through 2013. Cash rental rates lagged the market going up and owners on custom arrangements saw income levels increase rapidly. Agriculture has always gone through cycles and it is nearly impossible trying to move from one lease arrangement to another to capture the highest income as conditions change. We recommend selecting the lease type that best suits your goals and objectives and staying with it long term. This would be similar to trying to time when to enter and exit the stock market which rarely works.

## Farmland Leases Questions (con't):

*Flex Lease: if one uses this, is that always one year, minimum, in arrears? - Lisa*

Many flex cash rent leases are structured so the flex portion is determined after harvest when yields and prices are known with any additional payment typically paid in December. Most farmland owners and farm operators don't want to extend the flex period beyond the current year.

*To improve the quality of land is it best to require in a lease no till or ground cover? - Mary*

There is much research being done on how to improve soil health properties. Reduced tillage and cover crops certainly help to reduce erosion and these practices are showing benefits to soil health as well. There are other ways to improve the quality and productivity of the land depending on the limitations of a particular farm. Installing drainage tile on farms in parts of the corn belt that get too much rain can have huge benefits including higher yields and reduced erosion just like irrigation can improve production in the drier areas of the western corn belt. We suggest communicating with your farm operator to determine the farm's limitations and working together to address those issues will not only improve productivity and quality but create a win-win situation for everyone long term.

## Farmland Values Questions:

*Looking longer term (5 to 10 years), what do you expect for farmland prices? Will they continue to rise? - James*

I do expect that farmland values will continue to rise, over time. The trend will not be a straight line up, of course, because year-to-year variables impact the marketplace, and farmland values can certainly fall. However, the asset class continues to attract both new participants and current owners when properties are available, because as an asset, its long-term performance has been very solid when compared to other investment alternatives. How much upside there may be in the broad market will also depend on a variety of factors including worldwide demand for crops, commodity market levels, interest rates, inventory of farms for sale, government support, tax policy, etc.

*Is it possible to join an online auction as an observer? I'm particularly interested in a farm(s) being sold in Mitchell County. Thanks so much for the webinar. Stay well....stay safe! - John*

Yes, any and all of our online-only auctions will be open to the public to observe via their PC or through our phone app. Likewise, we stream many of our live public auctions through Facebook live on our Facebook page. I encourage you to keep an eye out for all upcoming auctions by regularly visiting our auctions page on the Hertz website ([www.hertz.ag/real-estate/auctions](http://www.hertz.ag/real-estate/auctions)).

## Farmland Values Questions (con't):

*What effect is the climate change debate having on buying decisions of longer term farm land buyers?*

I see little, to no, impact on the Midwestern farmland market because of the climate change debate.

*Do you have any thoughts about how global climate change will effect our farms and what we might be able to do to mitigate it? What do you think of keeping cover crops on land to improve soil health? - Andy*

There are many opinions on the topic of climate change. It is difficult for any one individual to have a meaningful influence, but collectively it is important we each manage responsibly so as to do our part to maintain and improve our environment.

There are many studies that highlight the benefits of cover crops. Cover crops do cost money, however, and their practicality depends on timing, the weather, and generally how far north a farm is located. Case in point... Harvest does not always conclude before a killing frost occurs in northern areas, so many parts of northern Iowa (and beyond) struggle to seed cover crops following harvest.

*Can you calculate the value (to the landowner) in adding new grain bins to a farm? Is there a formula or rule of thumb you can share that illustrates the added value to farmland with the addition of a grain bin? - Scott*

The actual tangible value of on-farm grain storage will vary year-to-year. The value will depend on your location, your grain marketing decisions, and the success you have in storing and marketing grain on-farm versus hauling it directly to a local elevator, ethanol plant, or river terminal and paying for commercial drying and storage. In many cases, on-farm storage can add substantial marketing flexibility... and it can often pay for itself in 5-10 years.

If you were to rent an existing grain bin that already sits on your farm to a local farm tenant, a grain bin will often rent for somewhere between \$0.10 and \$0.20 per bushel, depending on size and condition of the bin and the facilities that accompany it (e.g., unloading system, in-bin dryer, etc.).

In terms of adding market value to a farm, the details of the grain bin(s) matter (e.g., access, dryer, size/capacity, location relative to end-user/elevator). For example, a 30-year old, 12,000-bushel capacity, grain bin with an aeration fan adds little to no contributory value to the farm it sits on. However, a newer 50,000-bushel grain bin could add \$25k+ in sale price of a farm (e.g., \$0.50/bushel+), again, if it's a well-kept, newer, modern grain bin. Just know that there are many variables to consider, and people are generally motivated to build grain bins more because they allow added flexibility and options in their grain marketing efforts versus being motivated to add contributory value to the farm it sits on.

*How would the loss in step up in basis or increased capital gains impact values if there is a change in tax laws?*

- Janet

Loss of the step-up in basis would be painful to anyone who inherits a farm. The current step-up treatment presents an advantage/opportunity for a huge capital gains tax advantage for heirs who inherit land and then move to sell it.

Likewise, an increase in capital gains could prove painful to anyone who has experienced an increase in underlying capital asset value. Such a move higher was threatened several years ago, and a flurry of sales activity occurred just ahead of the deadline... basically, anyone who had considered selling pulled the trigger for fear the tax pain would be higher in the future.

Tax policy by nature ends up having marketplace/behavior implications. The larger the share of tax that the government takes, the less valuable the underlying asset becomes.

## COVID-19 Update on Agriculture

*Will Hertz qualify this for attorney CLE?* - Keith

Unfortunately, the seminar is too short to qualify for CLU. No.

*Also with the Biden proposal to increase renewables as part of a 2 Trillion job program, can Ag land participate with solar and wind at the local levels given that Mid America and Alliant control most electric transmission?*

It is difficult, and complex, as the PTCs (Production Tax Credits) are important to making them viable, and the payment for the electricity is far below the retail price. It may work better if electricity is provided to a user of electricity to reduce their electricity cost.

*Will drone technology effect farming uses soon and how will Hertz use that?*

Yes, drone technology is valuable today. Hertz has over 30 commercial drone pilots, and we provide drone pictures and videos for visualizing farmland for purchase, sale, and management.

*How is the livestock industry bouncing back?* - Richard

The livestock industry is disrupted with COVID, and the supply chain is moving back to more normalcy. It will probably take our economy and exports to get back to normal before the livestock industry is fully healed from the disruption caused by COVID.

*With all of the institutional buyers and passive ownership of farmland in Iowa, what will happen to all the local institutions that need people?* - Charles

Local farmers and especially younger farmers depend on renting and operating land they do not own, to get started and make a living. Farmland is expensive, and farmers being able to operate some land they do not need to buy, allows them to spread their labor and machinery expenses over more acres, making a win-win opportunity.