

AgUpdate

Timely information for a select group of farm owners and investors

Winter '20

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A Valuable Legacy for the Next Generation

It was a picture-perfect day to be on the farm. Blue skies, seventy degrees, a nice gentle breeze with the sounds of harvest running in the background. But it wasn't just the nice weather and picturesque day that made spending time on this farm one to remember. It was listening to Steve Schomberg express his passion for both farmland and his family.

We last visited Steve in the Summer of 2015 where he discussed making the most out of his farmland that he owns with sisters Judy and Nancy, and the importance of preserving family heritage. While these values remain the same, it's these principles that have enabled him and his family to continue to have a successful farming operation full of diversity, conservation practices, and new projects.

Using the Landscape as an Advantage

Owning over 1,300 acres of farmland in Muscatine County, IA, is bound to create some challenges, especially when it comes to landscape. Steve



Steve Schomberg standing next to bedding made from miscanthus.

One thing you need to know about Steve, is he is very strategic in his thinking...

often takes a 'what can we do' approach to these problems, turning obstacles into opportunities.

"One thing you need to know about Steve, is he is very strategic in his thinking," explained Hertz farm manager Jim Rebhuhn. "He is always looking ahead and embracing new ideas to help make the most of his land. He collaborates well with his sisters and they make a great team."

It was this methodical way of

thinking as well as his change-embracing attitude that led Steve to take a deeper look at the topography and landscape of his farms. Steve said that the farmers who farm the land tell him that while in the combine, they watch areas where the yield monitor would drop, look at an area where the topography of the land would change, and examine spots with more fragile soils or wet areas. "Those were the areas that I paid attention to and tried to come up with alternative options," said Steve.

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“Profitability is important, but there’s also something to be said about preserving the land.”



Steve Schomberg and Jim Rebhuhn standing in front of a miscanthus field.

Whether it’s putting in drainage tile or trying something completely different like planting the alternative crop miscanthus, Steve likes to find ways to make his land profitable while still preserving the natural balance of the land.

“Profitability is important,” explained Steve. “But there’s also something to be said about preserving the land in its natural state. We want to make it as sustainable as possible.” To that end, Steve and his sisters have improved the timber and planted prairie where row crops weren’t a good fit. With a dual mindset of profitability and sustainability, Steve became interested in the possibilities that came with the alternative crop—miscanthus.

What is Miscanthus?

Miscanthus is a warm season, high yielding, perennial grass used for energy, bedding and building material, according to Iowa State University. The alternative crop tends to grow okay in poorly

drained soils, which Steve and Jim decided would work well for a few areas of the farms.

Back in 2013 when Steve first started with miscanthus, he only farmed about 15 acres for the alternative crop. Today, Steve farms 48 acres leased to the University of Iowa to use as an alternate fuel in its power plant. In addition, their family has planted 15 acres that are not under contract with the University of Iowa, but are being utilized in the manufacture of erosion control socks and in some cases providing a superior product for livestock bedding.

Steve recalled that the first couple of years were challenging, as it takes a couple of years to create a harvestable yield for miscanthus.

However, since he was an early adopter of the crop, Steve is starting to see more of a market for miscanthus. “I think that market will continue to grow,” he said. “It’s still a delicate balance between supply and demand. You want

enough product for people to use, but not too far out of the market.”

“Miscanthus has proven to be a smart investment that’s profitable and sustainable,” added Jim.

Diversifying the Farms

While miscanthus is one of the more unique alternative crops that Steve has invested in, it’s not the only diversity he has on his farms. Corn, soybeans, prairie, pasture, CRP, seed corn, building restoration, and timber also make up sections of the family’s farmland.

“It’s definitely one of the most diverse properties I manage,” explained Jim. “It makes my job really fun to see all these different types of land evolve and change over the years, and it’s exciting to have owners like Steve and his sisters who are always interested in implementing and trying new ideas.”

Steve’s partnership with his farm manager Jim, has helped him expand the diversity of his farms while also satisfying his natural curiosity for agriculture. “I’ve really appreciated how Jim is willing to work with me to implement what makes sense for the best use of the land,” said Steve. “I like trying new projects and ideas, and Jim is always up for the task.”

While Steve enjoys the diversity on his farm from a more economic and educational approach, it’s also had an unexpected impact on the members of his family. “Whether it’s photography, hunting, conservation, sustainability,

grandkids playing in the creek, or even just driving the ATV's around, each family member engages with the farms a little differently," says Steve. "The diversity of the land has allowed that. It's a real joy to see them getting involved in their own unique way."


Passing on Values to the Next Generation

The diversity of the farms have certainly allowed for the family to become engaged, but that's not the only way Steve gets his family involved. "Everyone receives the quarterly and annual reports that Hertz sends out. It's a great way to spark conversation and keep everyone up to date on the operation," said Steve.

Of course, Steve also feels that having the right financial structure and team in place is incredibly important, especially when it comes to passing down a family legacy like farmland. "Jim and Hertz have helped us establish a plan. They know who to reach out to for help," said Steve.

Besides tangible reports and a team of people to help keep the farm legacy going, Steve also expressed the importance of passing down values to his children and grandchildren. "You want to pass on values, without restrictions," he explained. "Guide and teach but give them room to explore what those values mean for themselves."

And what are some of those values that Steve tries to pass on to his family? Well, it all boils down to his vision for the farm: "Foster a legacy and preserve a multi-generational

farming heritage by practicing good stewardship and land conservation, resulting in a profitable farming enterprise." 

More on Miscanthus

Miscanthus can help mitigate soil erosion and other nutrients from streams and rivers, which dovetails Steve's love for agriculture with protecting the environment.

"I take a long-view approach to improve the overall quality of the farm with the goal of passing it on to the next generation who were not raised on the farm," explained Steve.

Other Uses of Miscanthus Include:

- **Biomass fuel** to supplement coal and natural gas
- **Erosion control** on construction sites both on the surface as well as for erosion socks and blankets
- Poultry and cattle/goat **bedding** – Highly Absorbent
- **Mulch** for gardens and foundation plantings

What's another unexpected use of miscanthus?

It makes a **great wildlife habitat** for various birds. "You should see the pheasants that fly out of the miscanthus fields," said Steve. "It's quite a sight."



Steve also feels that having the right financial structure and team in place is incredibly important.



Steve talking with Kayse Jenkins and Jim Rebhuhn at the farm house.

Hertz Farm Management continues to hire the best and the brightest, to serve the ever changing needs of our clients.

Hertz Professionals Update

New Members

Hertz welcomes **three new members** to our team:



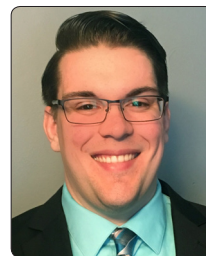
Rebecca Frantz

Rebecca joined Hertz Farm Management in June 2020 as a Real Estate Salesperson in Mt. Vernon, IA.



Brandon Yaklich

Brandon joined Hertz Farm Management in Summer 2020 as a Farm Manager in Geneseo, IL.



Dalton Hamm

Dalton joined Hertz Farm Management in October 2020 as an Appraisal Trainee in Mason City, IA.

Accreditations

We are pleased to announce that we've had three professionals become accredited farm managers! **Spencer Smith** out of our Monticello, IL office, **Elizabeth Heaton** out of our Geneseo, IL office, and **Justin Bahr** out of our Cedar Falls, IA office have all earned their accreditations.

The **AFM designation** is given through the American Society of Farm Managers and Rural Appraisers (ASFMRA) and is awarded to those individuals that demonstrate experience and complete a rigorous education program to enhance professional skills and knowledge of land management and production agriculture.



Spencer Smith, AFM



Elizabeth Heaton, AFM



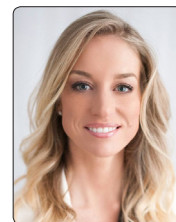
Justin Bahr, AFM

ALC Designations

Hertz is proud to announce that **Matt Vegter** out of our Nevada, IA office and **Rachelle Heller** out of our Washington, IA office, have earned their **ALC designations**. The REALTORS® Land Institute confers the esteemed **Accredited Land Consultant (ALC) designation** to only those individuals who have achieved the highest level of education, experience, and professionalism.



Matt Vegter, ALC



Rachelle Heller, ALC

Ryan Kay, AFM

Hertz is proud to announce that Farm Manager **Ryan Kay** has been appointed president of the REALTORS® Land Institute (RLI) Iowa Chapter. Ryan joined Hertz in January of 2013 at our Mt. Vernon, IA office, and has served several leadership positions on many state committees as well as the American Society of Farm Managers and Rural Appraisers (ASFMRA).



Ryan Kay, CCA

Farmland Value Update

Doug Hensley,
President of Hertz Real Estate Services,
Nevada, IA

Throughout much of the 2020 calendar year, our nation has been seeking a sense of normalcy, as it seems everything has been turned on its head. COVID-19 concerns, school and business shutdowns/closings, the challenges that come with isolation, social unrest, and an intense election season to top it off. Without question, it has been a very difficult year. However, in spite of all the craziness in our society, it probably won't surprise you to learn that Midwestern farmland has held true to its stable reputation, both as an asset and as a personal sanctuary to owners who needed an outlet to be with nature.

Iowa Farmland Holds Firm

Beyond the difficulties mentioned above, the State of Iowa also faced an increasingly serious (and wide-spread) drought late in the 2020 growing season, in addition to a ferocious early-August storm system that devastated several million acres of crops in the heart of Iowa. However, Iowa farmland is standing firm. According to the Iowa Chapter of REALTORS® Land Institute September 2020 Land Trends and Values Survey, Iowa cropland values are flat for the March 2020 to September 2020 reporting period. And early fall sales have actually indicated a tenor of strength in the Iowa land market.



Illinois Farmland Remains Steady

Similar to Iowa, stability is also the name of the game in Illinois. A webinar hosted by the University of Illinois and the Illinois Society of Professional Farm Managers and Rural Appraisers in early September, noted that there had been very little change in farmland prices across the state since January. In discussions with producers across the State of Illinois, the 2020 crop is going to be a significant improvement over the production struggles of 2019. As a result, there is an apparent appetite for both new farm purchase and rental opportunities.

Nebraska Farmland Edges Up

For the first-time since 2014, Nebraska reported the first year-over-year increase in farmland values. The 2020 Farm Real Estate Report, published by the University of Nebraska-Lincoln, showed a 3% average increase in land values compared to the prior year. In discussion with our Nebraska office staff, it was noted that the 2020 growing season has

not been perfect, but it has been favorable in many ways including a relatively smooth growing season and less need for full-season use of irrigation when compared to past years.

How has Farmland Remained Stable in 2020?

In each of these regions, there are slightly different local factors in play, of course. However, several common macro-themes have helped to support a stable Midwestern farmland market, including rock-bottom interest rates, continued federal government program payments, and a very limited amount of land on the market when compared to historical standards. And as an added bonus here in the early fall, the land market is taking in and enjoying a legitimate rally in the commodity markets, which should further reinforce farmland values. So, yes, the world in 2020 has been a crazy, unstable place. But farmland owners have enjoyed a resilient stability that few other assets have been able to deliver. 🌾

...the land market is taking in and enjoying a legitimate rally in the commodity markets, which should further reinforce farmland values.

Mitigating Disaster Risk

Craig Welter,
Farm Manager, Nevada, IA

The August 10 derecho storm caused destruction at a scale that many Iowans had never seen. Straight line winds exceeded eighty, and in some cases one hundred, miles per hour for nearly thirty consecutive minutes across entire counties. Most corn was severely damaged in areas that the storm hit the hardest. Many fields were essentially laying completely flat. Grain bins and parts of machine sheds were crumpled and thrown into neighboring fields. The aftermath left us wondering: **what happens next?**

Fortunately, there are ways that we can help mitigate risk that our clients are exposed to in the event of weather disasters. **The most significant protection from financial damage is federal crop insurance.** Most of our clients carry 80-85% revenue protection, multi-peril crop insurance, on their farms to protect against low yields, decreases in price, or a combination of both. Revenue is guaranteed based upon:

- The farm's actual production history (APH) yield
- Level of coverage (typically 80-85%)
- Owner's share in production
- Fall vs Spring Prices

The price is established in the Spring to provide a guaranteed level of coverage. Actual revenue produced on the farm is calculated following harvest using the actual final yield and a Fall price. The two revenue figures are compared to

determine if there was a loss on the farm. If so, a claim is made, and the producer receives a payment of the difference. With yield expectations diminished in the storm area, many claims are expected after harvest, if they have not been made already. Some crop insurance companies called fields "mechanically unharvestable". Those fields are given a zero yield and farmers have begun tilling the crop under.

Other variations of crop insurance insure against county-wide loss of production or revenue, provide margin protection, or individual yield protection (leaving the revenue portion out). Crop hail or wind insurance can also be purchased to protect against those perils, although those plans can be expensive, depending on the area. Weighing the level of risk that you are willing to take, and the expense of carrying additional policies, are important considerations to make.

Another key component of protecting against risk is crop input selections. Although no corn hybrids were able to fully withstand the derecho winds, some were able to handle it better than others due to superior stalk strength and root development. Certain hybrids also perform better in drought situations or disease environments. Keeping the crop healthy is an important factor for its response to challenging conditions. Monitoring soil fertility and applying appropriate amounts of fertilizer help ensure good crop vigor. Fungicide applications improve crop health while protecting against disease pressure and insecticide applications can help defend the crop from pest

intrusions. Careful selection of crop inputs on a farm-by-farm basis is essential for keeping production potential as high as possible amid difficult circumstances.

On-farm structural improvements were also widely damaged or destroyed during the storm, including over 140 of our clients' grain bins. **Carrying property insurance provides those clients the financial support to rebuild or repair the lost bins, or other property, at total replacement cost or take the undepreciated covered cost as a payment.** We also recommend that newly constructed bins be built with enhancements such as stiffeners or wind rings, to provide better structural integrity. Preventing rust from building up on the bin can also make it less vulnerable. Proper selection of equipment and maintenance over time will help preserve your investment.

While this year's harvest season was certainly a challenge for much of Iowa due to the derecho, we are fortunate to work with a resilient group of clients and farm operators. Agriculture is an inherently risky enterprise. Although we cannot guarantee that earnings will be as good as they should have been when disaster hits, taking the proper steps to best mitigate your risk can help ensure that the farm will be capable of funding itself in the event of crop or property loss. The derecho was an extreme example of what Mother Nature is capable of and is a good reminder of the importance of having protection against potential adverse events. 🌾

Most of our clients carry 80-85% revenue protection, multi-peril crop insurance, on their farms to protect against low yields, decreases in price, or a combination of both.

Grain Prices Rally Into Harvest

Kirk Weih AFM,
Farm Manager, Mt. Vernon, IA

The October 9, USDA WASDE Report indicated reduced harvest acres for corn and soybeans. Currently the USDA is projecting a national average corn yield of 178.4 bushels per acre with the harvested area reduced by 946,000 acres, compared to the September estimate. The soybean yield is projected at 51.9 bushels per acre with a reduction of 731,000 harvested acres from the prior month. Combined, these two estimates continue to support the market rally that began in mid-August. Chinese demand for both corn and soybeans, is the primary demand driver that is fueling strength in the grain markets. In addition, dry weather in Brazil in early October has delayed their planting of soybeans. This delay in planting soybeans also delays the

Safrinha corn crop, which is planted after soybeans are harvested.

Corn prices rallied in early July with pollination stress, but quickly fell back to their early summer lows during August. Dry weather in August sparked a rally that has continued through harvest with a gain of over \$1.00 per bushel.

Soybean prices rallied in early July due to weather concerns. They then retreated into mid-August, when the dry weather then sparked a rally that has continued through harvest with a gain of nearly \$2.50 per bushel.

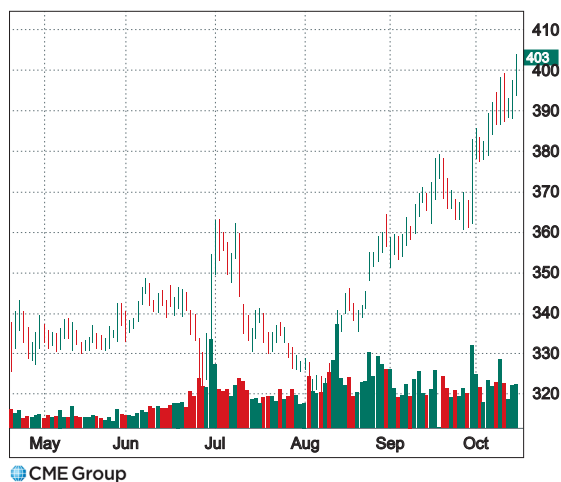
In addition to the widespread growing season challenges, the derecho windstorm that occurred August 10 has dramatically reduced corn yields across the midsection of the Midwest, but primarily in Iowa.

Overall, declining supply, and increasing demand, has provided underlying support to the grain markets. Commodity funds have fueled this rally as they continue to buy. The commercial grain companies continue to sell as producers market their crop. The spread between these two positions is widening and at near historical levels. Grain markets will need continued bullish news to sustain this rally.

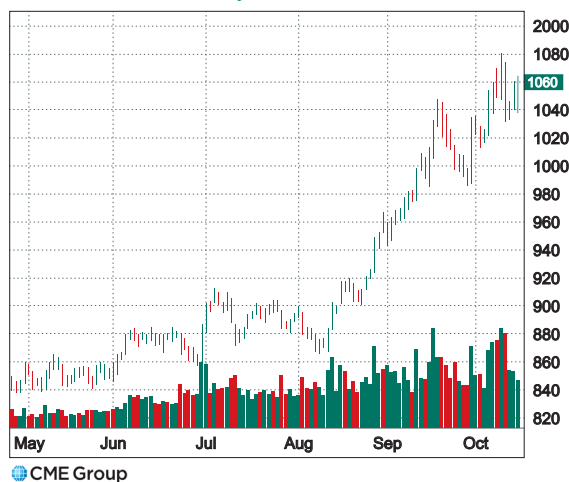
Over the past 50 years our historical low in the corn and soybean market has occurred in the August to October time period. This counter seasonal rally has provided us an excellent opportunity to make additional sales in 2020. 📈

China has consistently purchased soybeans since August which continues to fuel this rally.

2020 December Corn Futures



2020 November Soybean Futures



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Indiana Office

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Hertz Online Educational Webinar



To keep everyone safe and healthy during the time of COVID-19, we have decided to move our **winter 2021 seminars online**. The webinar will focus on grain markets, farmland values, leases, and current issues in agriculture.

If you are planning for the next generation, you're encouraged to invite your children to listen/ watch with you.

Three easy steps to register:

1. visit www.Hertz.ag/Seminars
2. Complete Online Registration
3. Click the link in your confirmation email on the day of the webinar

Date and Time:

Thursday, February 18, 2021
10:00 AM – 1:00 PM CST