

FARM MANAGEMENT NEWSLETTER

Welcome to the inaugural issue of the Ohnward Farm Management Newsletter. We plan to use this newsletter as a way to keep in communication with our clients and friends. In future issues we will provide you articles of general interest, investment strategies, and highlights about services from Ohnward Farm Management.

We will also tell you about real-life clients in eastern Iowa who have benefited from our hands-on farm management expertise. Your feedback is always important to us, so please call or stop in if we can be of assistance. Thank you for your business and we hope you enjoy this newsletter.

Our Philosophy Ohnward Farm Management

In 1970 our parent company, Ohnward Bancshares, began offering complete farm management including annual planning, consulting, marketing strategies, real estate, rental appraisals and farm record keeping.

Today's complex agriculture business involves ever-increasing amounts of capital and risk. This combination means the management of the business becomes a more critical factor every year. More disparity is showing up each year in the financial well-being of farm operations strictly as a result of the capability of management. Outside professional management can mean the difference between being a strong survivor and not surviving at all.

Since everyone has different reasons for owning land, their management objectives will differ. Our management representatives will sit down with you to discuss your specific objectives and outline a realistic management plan to achieve those objectives. These plans may include landlord tenant arrangements, cash rental agreements, custom farming operations and others.

Iowa Farmland Values Increase After Three Years of Decline

ISU Land Value Survey shows 2.0% increase statewide since 2016

After having fallen in each of the three previous years, the average value of an acre of farmland in Iowa saw an increase in 2017. The average statewide value of an acre of farmland is now estimated to be \$7,326. This represents an increase of 2.0 percent, or \$143 per acre, from the 2016 estimate.

Land values were determined by the 2017 Iowa State University Land Value Survey, which was conducted in November by the Center for Agricultural and Rural Development (CARD) at Iowa State University and Iowa State University Extension and Outreach. Results from the survey are consistent with results by the Federal Reserve Bank of Chicago, the Realtors Land Institute, and the US Department of Agriculture. Dr. Wendong Zhang, Assistant Professor of Economics at Iowa State University, led the annual survey.

The \$7,326 per acre estimate, and 2.0 percent increase in value, represents a statewide average of low-, medium-, and high-quality farmland. The survey also reports values for each land quality type, crop reporting district (district hereafter), and all 99 counties individually.

Starting in 2004, several factors, including the ethanol boom and historically low

Iowa Farmland Values *(continued)*

interest rates, drove five consecutive years of double-digit growth in average farmland values, culminating in an historic peak of \$8,716 per acre by 2013. Average farmland values then began an immediate decline, dropping 8.9 percent, 3.9 percent, and 5.9 percent, in the following three years. Those declines were the first time since the 1980s farm crisis that farmland values had declined three consecutive years.

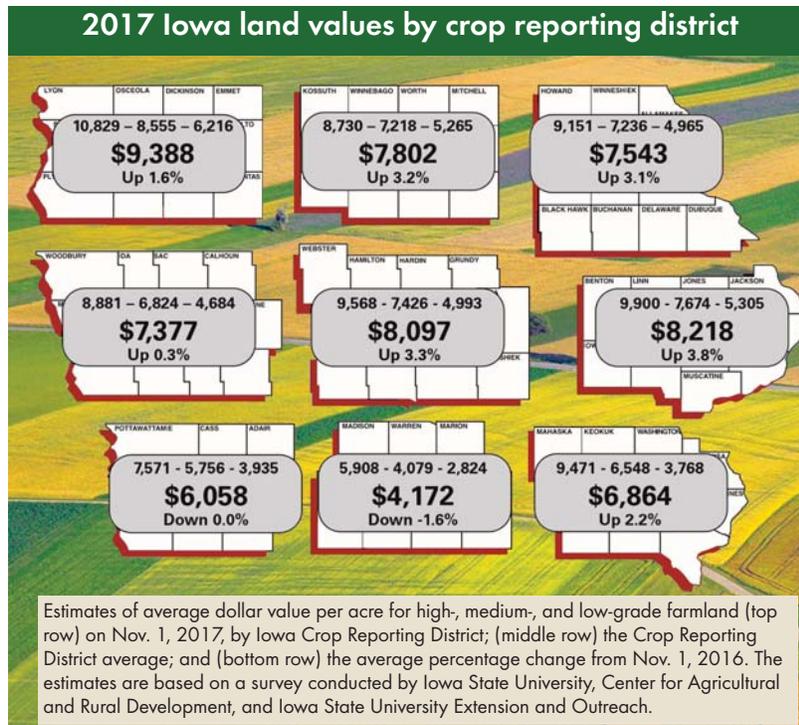
Dr. Zhang said that limited land supply is the main factor driving this year's increase in farmland values. "Commodity prices and farm income are still stagnant," Dr. Zhang said. "I would not consider this a turn of the land market. Given the rising interest rates and stagnant farm income, I would not be surprised to see a continued decline in values in the future. This, to me, is a temporary break in a downward adjustment trajectory."

Only four of Iowa's 99 counties—Fremont, Mills, Montgomery, and Page—reported lower land values this year. Each of those counties reported a decline in value of 0.3 percent. For the fifth year in a row, Scott and Decatur counties reported the highest and lowest farmland values, respectively. Decatur County reported a value per acre of \$3,480, a gain of \$37, or about 1.1 percent, from last year's report. Scott County reported a value of \$10,497, an increase of \$162 per acre, or about 1.6 percent.

Dubuque County reported the largest dollar increase in value with a gain of \$335 per acre, and Allamakee and Clayton Counties reported the largest percent increase in values, 4.7 percent. Of the four counties that reported a decrease in value, Mills County had the largest dollar decrease in value, losing about \$25 per acre.

Land Values by District

Of the nine crop reporting districts, only the South Central district reported a decrease in average value, with values falling from \$4,241 per acre in 2016 to \$4,172 in 2017, a loss of 1.6 percent. The Northwest district again showed the highest overall value—\$9,388 per acre, up from \$9,243 per acre in 2016, a gain of 1.6 percent. The East Central district showed the largest percentage gain in value, 3.8 percent, bringing average value there to \$8,218.



Land Value by Quality

Statewide, high-, medium-, and low-quality farmland values increased 2.0 percent, 2.2 percent, and 0.5 percent, respectively. High-quality farmland saw the largest increase in value in the East Central district, 4.2 percent, and the largest decrease in the South Central district, 1.2 percent. Medium-quality farmland increased the most in the Southeast district, 4.2 percent, and the decreased the most in the South Central district, losing 1.2 percent. Low-quality farmland gained the most value in the Northwest district, 3.3 percent, and decreased the most in the Southwest district, where it fell 6.1 percent.

Factors Influencing Land Values

The most common positive factors influencing land prices noted by survey respondents were favorable interest rates, strong crop yields, limited land supply, strong demand, and the availability of cash and credit. The most commonly cited negative influences were lower commodity prices, cash or credit availability, high input prices, weak cash rental rates, an uncertain agricultural future, and strong alternative (stock market, economy).

The ISU land value survey was initiated in 1941, the first in the nation, and is sponsored annually by Iowa State University. The survey is typically conducted every November and the results are released mid-December. Only the state average and the district averages are based directly on the ISU survey data. The county estimates are derived using a procedure that combines the ISU survey results with data from the US Census of Agriculture.

The ISU Land Value Survey is based on reports by agricultural professionals knowledgeable of land market conditions such as appraisers, farm managers, agricultural lenders, and actual land sales. It is intended to provide information on general land value trends, geographical land price relationships, and factors influencing the Iowa land market.

CARD offers a web portal at <https://www.card.iastate.edu/farmland/> that includes visualization tools, such as charts and interactive county maps, allowing users to examine land value trends over time at the county, district, and state level.

Cash Rental Rates for Iowa 2018 Survey

The cash rental rate information presented in this publication is from a survey of farmers, landowners, agricultural lenders, and professional farm managers. They supplied information based on their best judgments about typical cash rental rates for high, medium, and low quality cropland in their counties, as well as for land devoted to production of hay, oats, and pasture. Information about rents for individual farms was not collected. The rental rates summarized in this publication do not include the value of any buildings or storage structures, manure application contracts, or seed production contracts.

The cooperation and assistance of the landowners, farmers, and agribusiness people who responded to this survey are greatly appreciated. The distribution of the 1,596 responses was 47 percent from farm operators, 29 percent from landowners, 9 percent from agricultural lenders, 13 percent from professional farm managers and realtors, and 2 percent from other professions. Respondents indicated being familiar with over 1.8 million cash rented acres across the state.

Additional survey information about cash rental rates by county is available from the USDA National Agricultural Statistics Service.

Overall Average of Typical Cash Rents 2014-2018 Corn and Soybean Acres (\$/tillable acre)

	2014	2015	2016	2017	2018
District 1	\$270	\$259	\$248	\$234	\$237
District 2	270	254	243	218	225
District 3	277	273	250	241	244
District 4	288	265	245	231	236
District 5	284	261	239	228	237
District 6	273	255	242	231	235
District 7	249	242	220	206	207
District 8	202	187	183	180	174
District 9	229	217	203	204	203
State	\$260	\$246	\$230	\$219	\$222

Find complete details for each district at <https://www.extension.iastate.edu/agdm/wholefarm/html/c2-10.html>

Determining Cash Rents

This summary can be used as a reference point for determining an appropriate cash rental rate for a particular farm. The following may justify a higher or lower than average rent in specific cases:

- Small size or unusual shape of fields
- Terraces or creeks that affect the time it takes to plant and harvest crops
- Difficult or restricted access to fields
- High or low fertility levels or pH index
- Existence of contracts for growing seed or specialty grains, or manure application
- Above-average local grain prices due to proximity to biofuel plants or feed mills
- USDA program variables, such as crop bases and assigned yields
- Longevity of the lease
- Other services performed by the tenant

Resources for further details on rental agreements can be found on the Ag Decision Maker Leasing page, located under Whole Farm, Leasing (www.extension.iastate.edu/agdm/wdleasing.html).

Did You Know?

- As of July 2017, nine percent of all cropland in Iowa was reported to be under a crop share agreement, which represents 17 percent of all leased cropland.
- The area under crop share agreement declined by three percentage points from the 13 percent reported in 2012 and 22 percent in 1992. The typical 50-50 crop share is still the predominant form of crop share leased acres.
- The vast majority of crop share acres (89 percent) split both the corn crop and the soybean crop equally between landowners and tenants.
- Similarly, 88 percent of all acres under a crop share arrangement split costs of inputs such as seed, fertilizer, herbicides, and insecticides equally between landowners and tenants.

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Greg Bopes is Farm Manager and Assistant Trust Officer for Ohnward Farm Management, a subsidiary of Ohnward Bancshares Inc. Bopes, a Maquoketa native and 2010 graduate of the University of Wisconsin-Platteville, has been involved in farm related professional activities since graduation. He worked as Plant Manager and Crop Specialist at AgVantage FS in Maquoketa and has been involved in numerous community activities including the Maquoketa Fire Department and Rescue Squad.

Bopes' Notes

As harvest has started for some and is nearing for others, this is also a great time of year to have conversations with your tenants. If termination was given by September 1st, there are some decisions that you will need to make in the coming months.

Many times, we choose for harvest to be complete before any new lease decisions are made. By allowing harvest to be completed, both the landowner and tenant can evaluate crop yields and have a better idea about commodity markets for the coming year. This year, there seems to be a level of uncertainty concerning our trade situation and the impact on the coming year.

When sitting down with tenants to draft a new lease, we like to have a few tools in the toolbox such as the Iowa State University Farm Rental Rate Survey in addition to updated farm maps including CSR2 values. While these are only a few tools we use, they provide a great place to start the conversation on establishing the new lease.

Other items to keep in mind are the farm's soil fertility and any projects that may need to be completed to help improve the farmland you own. These conversations between landowner and tenant are not always easy, but we have found that through communication and collaboration, agreeable lease terms can be found.

We are happy to visit at no cost with landowners who may have questions about navigating a new lease with tenants. There are many different options landowners have in selecting the right the type of lease depending on the situation.

Greg Bopes, Farm Manager and Assistant Trust Officer
Ohnward Farm Management