

Midwest Farmowner

News & Information from Soy Capital Ag Services

Considerations for 2016 Lease Negotiations

Negotiating lease arrangements is one of the most important tasks of a farmland owner. The wide fluctuation that has occurred over the last four years in gross income potential and the cost to produce corn and soybeans will likely make lease decisions for farmland owners and farm operators more difficult for the 2016 crop year. Soy Capital farm managers can help.

“Gross farm revenue improved dramatically from 2011 through the summer of 2013. Corn and soybeans prices moved to historic highs based on strong demand and supply problems created by the drought of 2012,” says Steve Burrow, regional manager in Soy Capital’s Peoria, Ill., office. “During that time, many farmland rents rose dramatically with higher revenue generated by high grain prices, increased yield potential and crop insurance protection. Grain prices began to retreat following the 2013 crop, and have continued a downward trend with the bumper crop of 2014. Corn prices have dropped 50 percent and soybean prices 40 percent since 2013. The decrease has reduced potential farm income to 2007 through 2011 levels.”



Kevin Meiss, farm manager in Soy Capital’s Bloomington Ill., office adds that production input costs increased from 2011 to 2014. “The cost of fertilizer, chemicals and particularly seed technology improvements increased total production costs,” he says. “Often fluctuations in grain prices precipitate the same in input costs. But costs have not come down with grain prices this time. They have remained nearly flat since 2014.”

The scenario of lower revenue and flat input costs is reducing net income per acre. As such, Burrow and Meiss say landowners negotiating lease terms for 2016 must consider several questions:

1. What are my goals for the farm?
2. What type of lease do I have? Most crop share lease arrangements will adjust for the lower grain prices. However, many cash rent leases will not.
3. If I am using a cash rent lease arrangement, am I due for a cash rent increase or do I need to consider a decrease? This depends on how much you have increased rent during the past several years compared to the going rate.
4. Will crop input costs remain flat or will they decrease in 2016?
5. How will the new government program impact my lease negotiations? Program payments for the 2016 farm program will not be determined until October 2017, so how can those income safety net programs be considered in 2016 lease negotiations?

Some of these questions are easier to answer than others and will vary from farm to farm. Soy Capital Ag Services farm managers are willing to consult with landowners regarding individual situations and can provide direction and rent recommendations based on farm investment goals. Contact Steve Burrow at 309-687-6008 or sburrow@soybank.com, or Kevin Meiss at 309-665-0056 or kevin.meiss@soybank.com to discuss lease consultation and farm management services. **MF**

Inside: Learn How the Nutrient Loss Reduction Strategy Affects Farms

Aaron Benoit Joins Kankakee Office

Aaron Benoit joined Soy Capital's Kankakee, Ill., office farm management team in June. Benoit was born and raised on a grain farm just south of Kankakee, and is a business management graduate of Southern Illinois University at Carbondale.

"With my agriculture background and experience in grain market consulting, I hope to help landowners accomplish their goals and generate high returns," he says.

Benoit has more than six years of experience in working with agricultural commodities, having consulted with more than 30 farm operations in grain marketing and other business management decisions. Benoit can be reached at 309-936-8978 or abenoit@soybank.com. **MF**



Aaron Benoit

A Look Back at Corn and Soybean Production

	2014	2013	1972	1960
Illinois average corn yield (bushels/acre)	200*	178	110	68
Illinois average soybean yield (bushels/acre)	56*	50	34	25
* Record yield in 2014. Localized areas exceeded 260 bushels/acre for corn and 70 bushels/acre for soybeans.				
	2014	2013	1972	1960
U.S. average corn price (per bushel)	\$4.11	\$6.15	\$1.17	\$1.02
U.S. average soybean price (per bushel)	\$12.48	\$14.07	\$3.30	\$1.98
	2014	1982		
Typical price of seed corn planted by a farmer (80,000 kernels/bag plants about 2.35 acres)	\$325	\$50		
Typical price of soybean seed planted by a farmer (typically plant one acre of soybeans)	\$65	\$11		
<i>Note: These are actual prices received and costs paid unadjusted for inflation. Source: USDA</i>				

Farmland Values Continue to Look for Direction

Summer typically provides for a slower period of farmland availability to the marketplace, and 2015 is no different. The reduction in supply of high-quality available farmland has provided some stability to a market that must rely on incorporating lower future income streams from agricultural production into farmland values.

"In general, farmer participation in the current land market has been muted by lender concerns over cash flow projections. Investors that waited on the sidelines the past four years have become active once again, looking for opportunities to step in while interest rates are still historically low," says David Klein, managing land broker for Soy Capital Ag Services.

Klein says several key factors will provide direction for farmland values into fall. Grain prices and interest rates are key components. "The early July run-up in grain prices gave producers a chance to lock in profitable sales levels. This should help both cash returns and future rents. Economic troubles in Europe may delay planned interest rate hikes in the U.S. Both are positive or stabilizing factors for farmland values," he says.

Possible negative factors this fall could include regional oversupply of farmland on the market, poor sales method selection for the current environment by sellers, regional crop production problems, or a lack of adequate market exposure. Klein says many of the potential pitfalls can come with a seller's lack of knowledge regarding the local marketplace or poor guidance.

Soy Capital farm managers continually monitor local markets throughout Illinois for various land characteristics. Klein says periods of uncertainty can best be met with professional assistance and good advice. Contact any of Soy Capital's farm managers or real estate associates if you are considering selling or buying farmland in the current changing market. **MF**

Farm Managers Look Ahead to Nutrient Loss Reduction Strategy Guidelines

Water quality is a significant topic of debate at local, state and national levels, including discussion surrounding the Illinois Nutrient Loss Reduction Strategy (NLRs).

“We are seeing excess nitrogen and phosphorus entering lakes, rivers and streams. In extreme cases this has jeopardized drinking water and underwater ecosystems,” says Justin Wheeler, farm manager based in Soy Capital’s Decatur, Ill., office. “The Gulf of Mexico Hypoxia Zone shows how damaging nutrient runoff can potentially be to water systems.”

The U.S. Environmental Protection Agency (EPA) created the 2008 Gulf Hypoxia Action Plan to address water quality issues in the Gulf of Mexico. The plan requires 12 states in the Mississippi River Basin, including Illinois, to develop strategies to reduce the amount of nitrogen and phosphorus entering water sources from both point and non-point sources.

“The Illinois Nutrient Loss Reduction Strategy is Illinois EPA’s response to the Gulf Hypoxia Action Plan,” explains Wheeler. “The current draft strategy outlines several best management practices that may be implemented on the farm to reduce nutrient loss. The NLRs is a diverse plan that involves a lot of time, effort and research.”

Soy Capital farm managers will evaluate which management practices fit individual farms best. For example, Wheeler says farm managers may recommend how and when to apply fertilizer or put in buffer strips around drainage ditches that run through a farm. The ultimate goal of the NLRs is to reduce nitrogen and phosphorus loss into water systems by 45 percent.

Wheeler emphasizes that agriculture is not the only source of excess nutrients entering water sources. “Often agriculture gets a bad rap when it comes to nutrient loss, but there are significant contributions made by the industrial sector, such as wastewater treatment plants,” he adds. “There is not an easy or quick fix, but we have to start somewhere.”

Finalization of the Illinois Nutrient Loss Reduction Strategy is expected this summer. For more information about the plan or how it may affect your farm, contact Justin Wheeler at 217-421-9615 or jwheeler@soybank.com. *Midwest Landowner* will revisit the topic in the fall newsletter. **MF**



Photo credit: Natural Resources Conservation Service

Trees and shrubs act as buffers to protect streams from runoff.

Soy Capital Corn Yield Checks Guide Management Decisions

As the summer months progress, every farmowner, grower and manager asks the same question: “What will corn yield this year?”

For more than a decade, Soy Capital has tried to shed some light on that answer for farms in McLean County. Throughout August, farm managers from the Bloomington, Ill., office walk fields, pull samples and calculate an estimated yield for roughly a hundred farms scattered across the county. Farms chosen for the yield survey are ones that are representative of the area.

“Through this data, it is possible to assess the success of agronomic practices and individual hybrid performance, as well as the effect planting date, timing and amount of rainfall each has on yield. All of these factors help our team make the best recommendations for future client management decisions,” says Ross Perkins, farm manager in the Bloomington office.

The process is conducted by pulling 10 consecutive ears, counting the number of kernels in a row and the number of rows around each ear. That delivers the average number of kernels per ear. Once the average number of kernels is calculated for 10 ears, that number is multiplied by the average number of ears found in a 17'5" area or

1/1000 of an acre. The total number of kernels per 1/1000 of an acre is divided by how many thousands of kernels it would take to make a bushel. Here’s an example calculation:

$$\frac{16 \text{ rows} \times 34 \text{ kernels long} \times 32,000 \text{ ears/acre}}{83,000 \text{ kernels per bushel}} = 209 \text{ bushels/acre}$$

“This is where judgment comes into play on how big or small the kernels may be and how the weather will affect the rest of the grain fill portion of the season,” says Perkins.

Since beginning yield checks in 1998, Perkins says Soy Capital has averaged within four percent of the actual yield on the county level. Yields are further broken down into township averages since crops can vary throughout the area. Once harvest is complete, actual yields are compared to the estimates to check the precision of the team.

Soy Capital will post its yield estimates during the latter part of August on the website, www.soycapitalag.com. For more information regarding the yield survey process, contact Ross Perkins at 309-665-0059 or rperkins@soybank.com. **MF**



Natural Resources Conservation Service

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Inside This Issue...

- Soy Capital Corn Yield Checks can Enhance Decision Making
- Farm Managers Evaluate Outlook for 2016 Farm Lease Negotiations
- Aaron Benoit Joins Soy Capital's Kankakee Office

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