

Ag Update

Timely information for a select group of farm owners and investors

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Hertz Provides Steady Hand Through Decades of Change

Ralph and Alice Butler own seven Franklin County, IA farms, all managed by Cal Dickson, Accredited Farm Manager and Certified Crop Advisor out of the Hertz Mason City, IA office.

“Our relationship with Hertz began back

when mom was trying to manage the farm on her own,” says Alice. Mom called Hertz Farm Management for assistance in 1965 and Jim Frevert (past president of Hertz) started managing the home farm that fall.

Frevert turned over the operation of the farms to Dickson in 1986, when Frevert was named president of Hertz.

The acreage Hertz Farm Management oversees continued to grow as the Butlers’ interests in farmland ownership grew. The original 160 acres left to them by her mother was augmented by another 160-acre inheritance. Then, during the farm crisis of the 1980s, they purchased another 240

acres over the course of two years.

In 1998, they bought another 80 and followed that with another 120 acres in 2003 and yet another 80 acres in 2004. Hertz has been very involved in all the purchases, and today, all farms have been paid for except the two most recent additions.

The last three purchases resulted from the farm having once been the residence of other family members,

including one from an aunt and another from grandparents.

Ralph Butler explains the additions to the farmland ownership. “We’ve tried to perpetuate the idea behind the people who gave this land to us, or who kept it in the family. We tried to match in acreage what we inherited from the family. That was our idea.”

Despite the fact they live in Michigan and they’re both retired, the Butlers are active in farmland ownership, management and improvement. “We try to get to Iowa every year,” says Alice. “We really like to come in the fall when we can actually see the crops.”

Since they’ve inherited or purchased their land, improvements have been non-stop. They’ve tiled fields to improve crop yields and reduce soil erosion, resided and reroofed dwellings and garages, built grain bins and moved them to strategic locations, negotiated leases, rents and mortgages, razed old buildings, sold an acreage, converted ground to tillable acreage and established conservation reserve program (CRP) acreage.

But, improving the land is only part of farm management. Dickson has purchased all the crop inputs, selected the custom operators, secured adequate insurance coverage, negotiated farm purchases and dwelling leases to renters. Finally, he was able to persuade the Butlers to change their lease type from 50/50 crop share to custom operation. It’s a subtle joke between the farm manager and the Butlers.

“Today, I’d acknowledge that custom operation is the only way to go,” laughs Ralph. “There is no comparison. Cal had been trying to get us to change to a custom operation for 10 years before we finally agreed. We were concerned about problems, but the resistance



Ralph and Alice Butler are working with son Brinton on succession planning of the farms.

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to it occurs at the changeover. But Hertz readily managed the discomforts of change.”

He grins when he looks at Cal and says, “Sometimes, we don’t make up our minds very quickly, do we?” Dickson just laughs and good-naturedly responds, “I didn’t say it, Ralph.” One can tell these three are part of a team.

The Butlers were drawn out of the area when they married and moved to Michigan in 1945. Ralph accepted an offer to become the superintendent of a dairy production facility.

Alice’s father died in 1962 and her mother moved to Washington, IA in 1970. That’s when Ralph and Alice became involved with working with Hertz Farm Management.

Today, the Butler’s son, Brinton, says, “I think it’s neat to come and see the farms. Hopefully, they’ll trust me to carry on someday with the farms and the farm managers. I see some obstacles down the road. It’ll be difficult to get everyone in my generation to be on the same page. I want to make concrete, coherent decisions. Hertz Farm Management has helped point us in the right direction,” he concludes in reference to the succession planning offered by Hertz.

“People have different interests,” says Alice, “and there’s nothing wrong with that. In fact, it’s probably healthy. We’re looking to keep these farms in the family, particularly the Centennial Farm



Conservation tillage maximizes surface residue and minimizes erosion.

and those we inherited,” she explains. “Our seven children are growing in their knowledge and appreciation of what will someday be their inheritance. Even our grandchildren are getting interested in the farming business,” says Alice. The Butlers trust Cal to oversee all functions, decisions and inputs for their farms. The positive emotions of farmland ownership are supported by the right blend of compassion and professional management offered by Hertz. Cal has established a crop rotation that maximizes yields, increased planting populations, added 24,000 bushels of grain storage, landed a seed soybean growing contract,

implemented pattern tiling and managed all marketing through cash sales, forward contracts and hedge-to-arrive contracts. The farms are profitable.

“We have an interest in having Hertz stick around because we don’t know what we’d do without them,” Ralph concludes. “We really don’t.”

“We have complete trust and faith in Hertz and in what they’re doing,” adds Alice. “They really have our best interests at heart and they really investigate their work.”

It all began with a phone call. There will be, perhaps, hundreds more in the future generations of the Butlers and future Hertz farm managers. The solidity of the heartfelt relationship between Hertz Farm Management and the Butlers wears well beyond the decades of change dating back to the Cloverleaf Farm of 1926. That farm featured a hand-painted cloverleaf on the front of a big barn that proudly looked out over Franklin County. Perhaps that good luck sign was indicative of the relationship between owner, operator and manager.

Through the turbulent times, the ups and downs, the tough economic times and even the future succession times, the steady hand of Hertz Farm Management will continue to be there.

Hertz Adds Strawberry Point Location



Hertz Farm Management has added an office location in Strawberry Point, IA after acquiring the assets of the former Pro Ag Corporation. Marlin Schminke, owner of Iowa Pro Ag, and Julie Meyers, office administrator, join the Hertz staff and will work out of the Strawberry Point office.

Schminke joined the firm in August of 1969, and purchased the company in 1976. He changed the name to Iowa Pro Ag in 1981. Loyd

Brown, president of Hertz, said one of the primary considerations in Schminke’s decision to join Hertz was to provide enhanced services to his company’s clients.

The acquisition of Iowa Pro Ag brings the number of Hertz office locations to 14 strategically located throughout Iowa, Illinois, Indiana and Nebraska. Hertz was founded in 1946 and today, offers professional farm management, farm real estate sales, auctions, acquisitions, farm and commercial appraisals and agricultural consulting.



The Land Market Push...How Long Will it Run?

By Randall V. Hertz, ALC, AFM, CFP



Land prices have been up 10% to 20% or more the last couple years. A March 1 survey shows land values up another 6.5% over the last 6 months.

What is propelling the land market? In the long run, asset values are determined by income and market returns. Most landowners enjoyed record yields and excellent commodity prices last year, and the livestock sector has been profitable. The housing market has indirectly boosted demand for farmland, through high prices for land “in the path of progress” with sellers reinvesting in farmland through 1031 tax free exchanges.

An example of the domino effect of the housing market is an auction we conducted for a client who owned two farms near the Iowa/Illinois Quad Cities. One parcel was 160 acres, located near town, but probably not developable for decades. The second farm, 200 acres, was mostly inside city limits, but still a couple years from being developed. Upon our recommendation, they decided to have us auction their farms.

Auctions provide sellers a unique set of benefits:

1. Sellers set the terms, conditions, and closing date of sale. The buyers only compete on price.

2. Buyers come prepared to buy. The property sells with no financing contingencies.
3. A sense of urgency is created. The auction brings interested parties to a point of decision.
4. Maximum exposure is focused on the property auctioned. A properly structured and promoted auction will funnel prospective buyers to create increased competition for the property. It will “freeze” activity on other properties for sale.
5. Buyer benefits include knowing the seller is committed to sell, they are paying a fair market price and the negotiating time is reduced
6. Sentimental and emotional value is realized. Buyers can get caught up in the auction process.

Our clients chose to auction the farms because of the strong market, and their belief an auction would provide them the best sale. The results paid off nicely. The 160 acres sold for \$6,250 per acre to the tenant, and the 200 acres sold to a development company for \$10,000 per acre.

Our auction process is a system. We determine an opinion of market value, and if appropriate a reserve price. Facts and details about the property are inventoried. A marketing plan is developed and implemented. An informational marketing brochure is assembled and provided to prospective buyers and decision influencers. The property is extensively advertised, promoted, and

included on our web page. Our goal is for every potential buyer to know the property will be auctioned.

On auction day, our professional auction team executes a well-organized, energized and competitive auction. At the conclusion of the auction, details are handled to assure the closing happens in a timely manner.

While the above properties were influenced by their location near a metropolitan community, the high selling prices are an indication of the current strong land market.

Looking ahead, there are changes occurring that may take the strength out of the market. First, the housing market may cool, and negatively impact land prices. There are some spots of housing market weakness appearing.

Second, interest rates are rising. An increase in rates would negatively impact land values.

Third, commodity prices globally, including energy, food and metals, have rallied the past four years. As higher prices filter through the world economy, the markets may adjust.

Fourth, government farm program payments may be reduced.

Good investments are hard to find. The recent decline in stock market prices does nothing to attract money to stocks or give investors confidence. While there are some clouds on the horizon, Midwest farmland should continue to be a solid investment.



Factors Driving Lease Changes



By Loyd Brown, President, AFM, ARA, ALC, Certified General Real Property Appraiser

In recent years, there has been a dramatic shift away from the traditional 50-50 crop-share lease to cash rent, modified crop share or custom arrangements on land in Iowa, Illinois and Indiana. Lease terms have also changed on the dry land farms in Nebraska, but not as dramatically due to the lower rainfall and lower crop yield potential. There has been a significant transition away from the traditional 50-50 crop-share lease on irrigated land in Nebraska to modified crop share and custom. Regardless of the geographic area or the lease type, we will typically have 10 to 20 excellent operators interested in renting each farm when it becomes available.

Factors driving the strong demand to rent land include the following:

1. A farm operator's ability to handle more acres. With today's larger farming equipment and less tillage, it takes less than one hour per acre per year to grow and harvest a corn or soybean crop. It is not uncommon for a farmer to plant 200 to 300 acres and harvest 100 to 200 acres per day.
2. Most farm operators are well established and own their own home base operation, and have expanded the circle of their farming operation to a 10 to 20 mile radius or more. They are interested in leasing more land even with a marginal per acre return as each additional acre adds to their net income for the year.
3. Farm operators are interested in growing and controlling more acres. They know if they do a good job on each parcel they farm, they can maximize the return and increase their opportunity to rent more land.
4. Farming more acres allows an operator to utilize the latest technology. They can spread their costs over more acres to make the technology more affordable.
5. Fewer farmers are involved with livestock production. The farmers that do have livestock typically have people specializing in livestock production allowing the farm operators to focus on crop production. Farmers don't have to stop field work to do chores.
6. Higher crop yields mean more bushels to sell on a per acre and a per hour basis. Mother Nature is still the most important factor in determining crop yields, but there are a number of production practices that have helped boost crop yields in recent years. These include better genetics, seed treatments, improved planters that provide better seed placement, less field loss with better designed combines, higher plant populations for corn, balanced fertility, improved drainage and better herbicides. Today, over 80% of the soybeans are sprayed with a glyphosate product, such as Roundup, which is a contact/non-residual herbicide. This herbicide does not carry over and reduce corn yields the following year.
7. Higher base yields for crop insurance. Landowners and farmers are able to use their actual production history, which has been increasing, to establish higher guaranteed base yields for their crop insurance. Crop insurance can be purchased for up to 85% of the farm's actual production history.
8. Participation in the current government program provides a safety net with target prices of \$2.63 per bushel for corn, \$5.80 per bushel on soybeans, and \$3.92 per bushel for wheat.
9. Many of the large operators own semi trucks and sell their grain directly to a river terminal market or a grain processor, adding an extra \$.05 to \$.10 per bushel. Extensive livestock operations and numerous new ethanol plants are adding \$.05 to \$.10 per bushel to corn prices in areas where they are located.
10. Technologies such as GPS grid soil testing, variable rate fertilizer and lime applicators, yield monitors, GPS yield maps and auto steer systems allow farm operators, farm managers and landowners to know more about their land, and apply an additional level of management to get the most from every acre. Computers make it possible to collect, analyze and store a wealth of information.

It is an exciting time to be involved with agriculture. Today's leases need to be updated to take advantage of the above driving factors. There is no substitute for good communication and sharing of information. We strive to know our landowner's goals and objectives and structure a lease that fits their situation and farm.

We would welcome the opportunity to visit with you about your farm, goals and objectives. Please contact us.



Ag's Renewable Fuels Future Is Bright

By Timothy E. Fevold, AFM

Agriculture has long been characterized as an energy dependent industry. Vast amounts of energy are required to produce



commercial fertilizers, power the machinery, dry the grain, transport the grain to markets, etc. Now the tables are starting to turn. The agriculture industry is becoming a producer of energy and the potential for future growth is mind boggling. The Ag Energy Working Group, sponsored by the Energy Future Coalition, predicts that by 2025, agriculture will provide 25% of the total energy consumed in the United States. Ethanol, distilled primarily from corn, accounts for 2.4% of the 140 billion gallons of gasoline used annually in the United States. Bio-diesel, made primarily from soybeans and animal fat, makes up less than 1% of the 35 billion gallons of diesel consumed in the United States annually. However, the production of bio-diesel increased from 100,000 gallons in 2000 to over 20 million gallons in 2004.

Until recently, ethanol was considered primarily a replacement for methyl tertiary butyl ether (MTBE), used as an additive to help gasoline burn cleaner. However, MTBE dissolves easily in water and has been detected in 1,861 water systems in 29 states. It has a powerful turpentine-like taste and odor making water virtually undrinkable. As little as one part per billion is all it takes to make water unsuitable for consumption. It is also a potential human

carcinogen. Just to replace the MTBE being added to gasoline across the country would require 8 billion gallons of ethanol. Last year the United States produced 3.4 billion gallons.

The potential market for ethanol as an additive is clear. However, the real potential for renewable fuels such as ethanol and bio-diesel is as fuel replacements, not additives. The United States imports 65% of its crude oil needs. In addition, we import almost 14 billion gallons of refined gasoline. It would seem logical that if we can produce a similar amount of fuel from a

“...the real potential for renewable fuels such as ethanol and bio-diesel is as fuel replacements, not additives...”

renewable resource like corn, it would reduce our dependence on foreign sources of energy and create better markets for our own producers.

The potential is there. Five years ago, approximately 5% of the nation's corn crop was used for ethanol production. Last year, ethanol consumed 13% of a record corn crop. Within five years, ethanol may consume 20% of U.S. corn. According to the USDA, ethanol production has had a 35% efficiency improvement during the past 4 years. The cost to produce a gallon of ethanol is now \$1.00 per gallon and dropping. Efficiency is being improved through the use of new production techniques, new enzymes that break down the corn starch into ethanol and new corn hybrids with highly fermentable starch that improve the yield of ethanol. With crude oil at over \$50 per barrel and gasoline and diesel

prices at over \$2 per gallon, it is becoming more and more difficult for the oil industry to ignore renewable fuels.

Renewable fuels have provided investment opportunities for farmers and landowners throughout the Midwest. Many of the ethanol and bio-diesel facilities in operation or under construction have been financed by local equity. The production of renewable fuels will also provide more competition for the crops we grow, which should ultimately result in higher average commodity prices. Areas in north-central Iowa with high concentrations of livestock have

seen a 5¢ to 10¢ per bushel improvement in corn prices. We anticipate the proliferation of

ethanol and bio-diesel facilities will have a similar impact on corn and soybean prices.

The potential for renewable fuel goes far beyond ethanol made from corn and bio-diesel made from soybeans. In Brazil, ethanol is made from sugar cane and bagasse, the fiber portion of sugar cane. The entire cane plant is harvested and processed. There is similar potential for products such as cornstalks, wheat straw, switchgrass and animal waste products like chicken and turkey litter.

Two things are virtually certain. First, the internal combustion engine and our appetite for all forms of energy is not likely to wane in the near future. Second, fossil fuels, primarily crude oil and natural gas, are in finite supply. Something has to give and we anticipate renewable fuels will become the fuel of choice.



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Summer Landowner Educational Seminars Scheduled for Midwest Farmland Owners

Hertz Farm Management is presenting another series of its ever-popular Landowner Educational Seminars this coming July and August. The seminars are designed for landowners who don't actively farm. The upcoming seminars feature an update on technology, current issues affecting land ownership, leases, government farm programs, crop outlook, grain markets, land values, and client services. A local attorney or CPA will also discuss estate planning and agriculture tax issues. To register, please send in the attached card, call Deanna at 515/382-1500 or register online at www.hfmgt.com/seminars.php. The cost is \$15 per person or \$25 per couple with the fee waived for current clients. Registration includes the noon meal.

Date	Time	Place
Tuesday, July 12	9 am-3 pm	Cedar Rapids, IA
Thursday, July 14	9 am-3 pm	Bloomington, MN
Tuesday, July 19	9 am-3 pm	Moline, IL
Wednesday, July 20	9 am-3 pm	Sycamore, IL
Tuesday, July 26	9 am-3 pm	Lafayette, IN
Thursday, July 28	9 am-3 pm	Monticello, IL
Tuesday, August 9	9 am-3 pm	Okoboji, IA
Wednesday, August 10	9 am-3 pm	Des Moines, IA
Thursday, August 11	9 am-3 pm	Omaha, NE

