

Gannon Real Estate & Consulting

December 2022 Newsletter

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With over 35 years of experience, we here at Gannon Real Estate & Consulting pride ourselves on delivering premium, individual service to ensure our clients receive the advice and leadership they deserve. Whether it's in land sales, appraisals, land management or even expert witness testimony, you deserve a professional team on your side.

We are not the average farm real estate firm as we strive to make a difference in Iowa farm real estate and going to bat for our landowners. Our management is systems-based upon working with good operators that provide information to prove clients that their land is well maintained and as productive as possible for the both the operator and owner.

The well rounded experience and expertise sets us apart from many real estate sales, appraisers and managers that are not licensed in the other areas of farm real estate. We have sold over 60,000 acres in the last 20 years and manage over \$120 million in farm ground throughout Iowa.

We welcome any questions or conversation you would like to discuss about your land or any issue with farm real estate. Please let us know if you would like a complimentary CSR2 report or drone flight for your land when we are in the area of your land.

Current Listings/Auctions

Pottawattamie Co. 303 acres

Excellent return with depreciation advantages.

Story Co. 84.27 acres

Unique property with the combination of CRP acres and creek pasture close to Ames.

Recent Sales

Guthrie Co. 80 acre Auction

- Tract 1, 80 a. @ \$5,100/a
- Tract 2, 80 a. @ \$12,600/a

Butler Co. 303 acre Auction

- Tract 1, 154 a. @ \$12,500/a
- Tract 2, 80 a. @ \$9,000/a

Pottawattamie Co. 400 acres

-\$6,500/a

Hamilton Co. 78 acres

-\$15,960/a

Jasper Co. 120 acre Auction

- Tract 1, 40 a. @ \$9,500/a
- Tract 2, 80 a. @ \$7,600/a

Land & Real Estate Q&A

Land Management

1. What should my rent have been in 2022?
2. What should my rent be in 2023?
3. What should my yields be?
4. How come I can't get good farm data?
5. What can I do to help my tenant and the overall health of my farm?
6. How much Phosphorus & Potassium is needed for my farm?

Real Estate

1. How do I know what my land is worth?
2. Why are land values increasing so dramatically?
3. Does the CSR2 make a difference? What other factors are part of the formula?
4. Lots of farms are selling at auction. Why is that and is that the best method for all land sales?
5. What is the correlation between the land price and the corn price?

Gannon Real Estate & Consulting has been providing farm real estate, farm management and appraisals in central Iowa since 1990. We work on a professional basis that focuses on open communication and making the land better for both the owner and operator. We look forward to assisting you someday.

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Mark Gannon

Broker/Farm Manager/Appraiser



Adam Daniel

Farm Management Coordinator



Patrick Gannon

Creative Director & Real Estate Consultant



Margaret Gannon

Administrative Officer

New Website

We are excited to announce the launching of our new website! This new site will allow our clients to experience a better streamlined, intuitive, mobile-friendly, and overall improved experience. Look for it at gannonre.com!

Land Management Questions & Answers

by Adam Daniel & Mark Gannon

1. What should my rent have been in 2022?

Our formula for rent is based around the idea that the owner should receive 33% of the gross income on corn and 40% on soybeans. These are traditional numbers decided upon from past experience and an ISU publication¹. If you know the 2022 yields then you can figure a rate. We calculated an average of \$6.45/bu for corn and \$13.91/bu for soybeans in 2022. The average cash rent for Central Iowa in the last ISU Cash Rent Survey was \$271/acre. You can do the math, but using the average corn price of \$6.45/bu would equal a 126/bu corn yield and using \$13.91/bu on soybeans then a 48 bu/acre soybean yield would fit the \$271/acre cash rent. Most farms beat that significantly and the owners using the survey may be underestimated a fair rental rate.

1. Plastina, Alejandro. "Computing a Cropland Cash Rental Rate." *Ag Decision Maker*, May 2021.

2. What should rent be for 2023?

First, you need to know your expected yield and expected prices as noted above. This could be a good base for a flex lease or the total cash rent. Most of our owners don't want risk so this formula can set a solid base rent plus leave the top side open for good market conditions and yields.

Getting paid a fair rate should not make you feel guilty especially when the operator is doing well also. I am sure the surveys will be up in 2023 but your rent could already determined from the 2022 survey so now you will be two years behind.

The world changed in 2021 and you need to pay attention or be left behind. That is where we can help.

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Land Management Questions & Answers (cont'd)

3. What should my yields be?

The short answer is as good as they can be. So far in 2022 we have seen yield ranges from 140 - 275 bu/acre per for corn and 45-75 bu/acre for soybeans. On our managed land we are seeing a lot more 240+ bu/acre corn yields and 70+ bu/acre soybean yields every year. The main factors are improved genetics, better machinery, soil quality, rain, base fertility and annual fertilization, weather and timeliness. A study done a couple years ago showed that the CSR2 is about 35% of the expected corn yield. The rain and other weather factors are not controllable but fertility (from a soil test), fertilization (annual applications) and timeliness are controllable. The weather can limit the ideal timeliness but if your operator has too many acres to plant within a short window then you might be last and have a less than ideal yield. The yield history strongly affects the rental value and resale value especially if they are below average. Farms that are set up with good fertility, good drainage with an effective operator will be at the top of the yield curve.

4. How do I get good farm data?

Most of what you need should come from your tenant and should be required in your lease. At a minimum you want soil test info, annual fertilization receipts, crop insurance reports and confirmed yield information. You can get your own soil test but most operators get them every 4-5 years and should supply to you.

5. What can I do to help my tenant and the overall health of the farm?

Take a new look at everything and be willing to invest in tiling, conservation practices, & fertility to get the farm to optimum. Many owners are expecting good rents but not willing to invest in the farm to help justify the higher rents due to the farm's yields being improved.

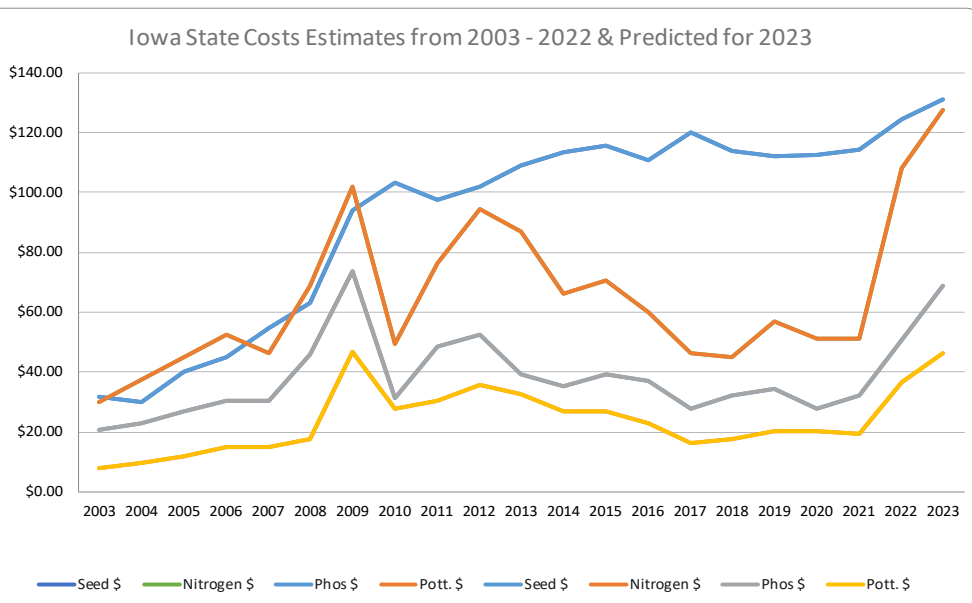
6. How much Phosphorus (P) & Pottassium (K) is needed or removed with a 200 bu/acre Corn Crop or a 65 bu/acre Soybean Crop?

Corn Removal
P - 70 bu/acre
K - 50 lb/acre

Soybean Removal
P - 47.45 bu/acre
K - 78 lb/acre

If these amounts are not applied in some manner the farm is going backwards. If more is applied then the land is gaining fertility. This is another reason the owner should know the yields of his property.

Much is made about the cost of fertilizer and seed. Consult the chart to the right for previous and predicted cost estimates.



Source: <https://www.extension.iastate.edu/agdm/crops/html/a2-11.html>

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Real Estate Questions & Answers

by Patrick & Mark Gannon

1. How do I know what my land is worth?

There are many salesman and land value services now but none of these know your land, your neighbors, the production history or any individual aspects of your property. A certified appraisal is probably the best estimate of value; we here at Gannon Real Estate & Consulting have over 32 years of State Certified appraisal experience and would love to help.

2. Why are land values increasing so dramatically?

In our opinion it is because farm income is much higher due to elevated commodity prices and good yields. If you can raise 250 bu/acre of corn and sell for \$7/bu with low debt over many acres then that is a very profitable situation and that translates to higher land values. The same can be said for soybeans but not as dramatically as corn; corn is what farmers prefer and can raise corn on corn if they want or need to, much better now that they previously could. Many farmers and outside buyers have a lot of cash and borrowing power and see land as a solid investment. We are having food shortages, world turmoil and energy issues which means land is a “safe” place to have your funds as anything. Corn and soybeans are not just feed and food but renewable energy that will likely always continue to grow.

3. Does the CSR2 make a difference? What other factors are part of the formula?

CSR2 does make a difference but studies have shown it is not predictable; for example, currently the price per dollar per CSR2 may range from \$100-\$225/CSR point. CSR2 will always be a factor since that is all we have to rate properties, but if you rely solely on this then you could get burned. CSR2 assumes average drainage, fertility, management and production. If this is not the case then the CSR2 is much less accurate. Mind you, it can go the other way too and a 70 CSR2 farm might perform better than a poorly drained and managed 90 CSR2 tract.

Corn Suitability Ratings and Land Sales

Below is a summarized chart detailing the results of 72 auctions from the “October 2022 Iowa Land Auction Results” by Jim Rothermich (MAI, ARA, ALC) of Iowa Appraisal Areas of Iowa.

	# of Sales	Avg CSR2	Avg \$/ CSR2	Range	Avg \$/A
Under 60 CSR2	18	49	\$151	\$102-\$231	\$7,328
60-79 CSR2 (Avg. 73.5)	22	73	\$158	\$109-\$217	\$11,607
80-89 CSR2 (Avg. 85)	23	85	\$176	\$141-\$237	\$14,972
90-99 CSR2 (Avg. 93)	9	93	\$202	\$179-\$234	\$18,910
Overall	72	74	\$168	\$102-\$234	\$12,525

The conclusions are that the higher the CSR2 the better the overall higher value per acre. The real lesson for valuations from this set of data (even though informative) is the wide range of sale prices per CSR2 point; caution should be used in using \$/CSR2 to value individual tracts of land, especially your land. There are many other factors that affect land prices. Some of the sales in the data were different tracts on the same auction that had a significant range in sale prices per CSR2 point that could not be easily explained. That is where a professional with experience is needed to analyze all sales and correlate to the subject property.

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Real Estate Questions & Answers (cont'd)

4. Lots of farms are selling at auction. Why is that and is that the best method for all land?

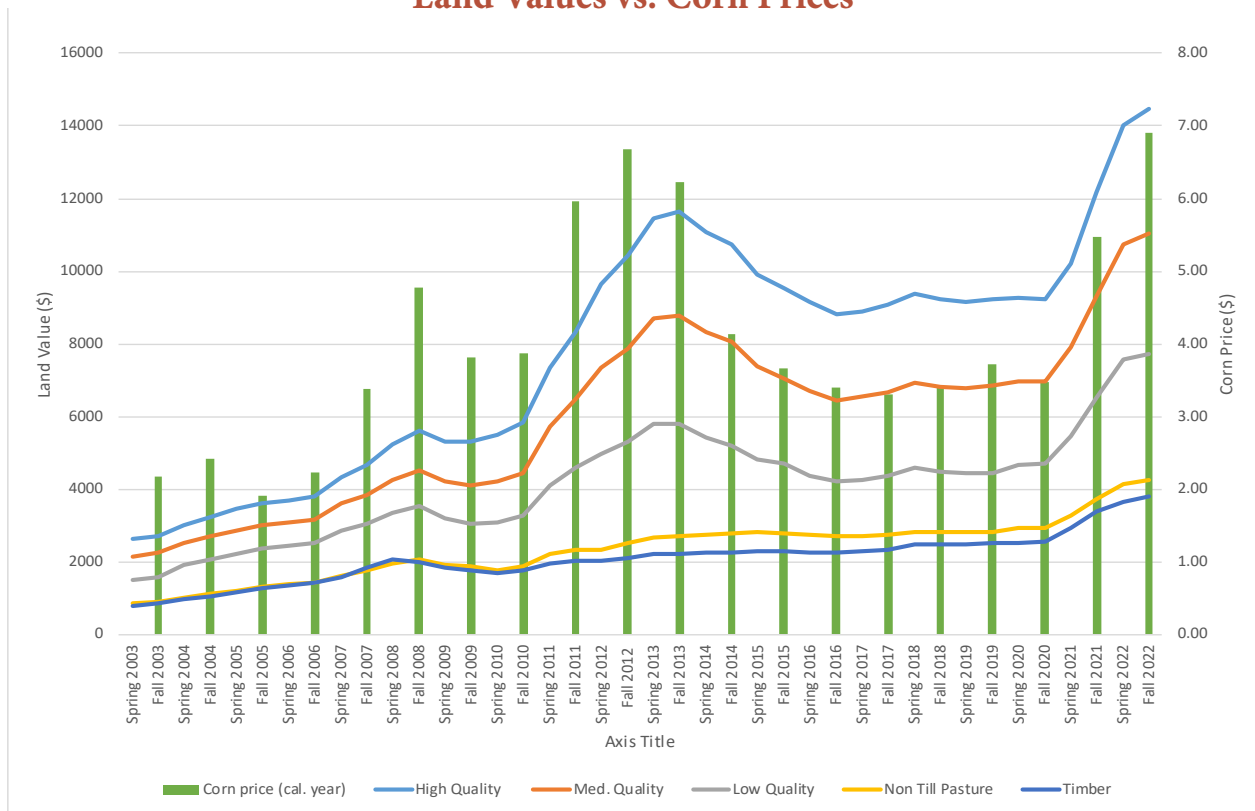
Auctions have always been a major seller of land and works well in a strong market and a poor market but can be iffy in a sideways market, which is the direction we are likely headed. In a strong market they can sometimes sell better than predicted and in a poor market you can sell something quickly that may take a long time to sell. It causes immediacy to act, forces buyers to commit, but also can fall flat and label a tract as a failed sale that may be harder to sell in another manner. Covid really jump started the online auctions and it works well in many cases. Many auctions now utilize both live and online methods. All methods of selling from listings, sealed bids and auctions have many versions and a definite role for different owners, properties and other considerations. An auction is not the best for all properties. Many owners don't like the pressure, want to be more private and want to take their time making a decision. Some buyers don't like them due to past poor experiences, tight time frame, prefer to negotiate and also like to be more private in their dealings. We will work with you to find the best solution and strategy for your situation.

5. What is the correlation between the land price and corn price?

These normally move together fairly well. Please see the chart below with land prices scale on the left and corn on the right. The correlation is pretty clear; you can see corn prices drive land prices and if history is any indicator and you can predict corn prices then you can predict land prices. While land value prices may be leveling off a bit (possibly by increased interest rates, 2023 Input Prices/Margin Compression) we are still seeing a net positive overall with strong commodity prices and limited land for sale.

In terms of actual Land Value you can see that overall land values remained healthy, despite a recent slowdown in increased prices.

Land Values vs. Corn Prices



Source: <https://www.extension.iastate.edu/agdm/crops/html/a2-11.html>

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Fertilizer Management for 2023

by Adam Daniel

As we finish harvesting it's time to start thinking about fertilizer decisions for next year. With the higher fertilizer prices it's particularly important this year to have up-to-date and accurate information on the nutrient levels in your soils moving forward. Traditional soil sampling is still the best tool we have available to collect accurate soil data. Using this tool the operator can then make decisions on how to maximize the return on investment to any fertilizer that we are applying for the coming crop next year.

Below is a chart showing historic fertilizer prices. Corn prices back in June of 2008, June of 2011 and July of 2012 corn hit some short-lived highs from \$7.50 to over \$8 per bushel. During that same time period fertilizer increased modestly compared to the corn price. Fertilizer prices today have taken a sharp increase beyond previous year highs with Anhydrous Ammonia, DAP (phosphorous) and Potash (potassium) having more than doubled in price from 2020, while corn is only reaching highs of around \$8/bu.

One factor that has spurred the fertilizer increase is the surge in demand for natural gas and coal for energy production, which in turn has reduced manufacturing production for fertilizers. Fertilizer export countries have also put limitations on exports thus limiting product on the market.

The use of grid sampling soil tests and grid spreading instead of the use of a blanket spread can actually save money for operators since they only apply where it is needed. Most cash rented farms have inconsistent fertility with more needed in the low test areas and less on higher areas.

Figure 1. Fertilizer Prices per Ton in Illinois From 2008 to 2022



Source: <https://farmdocdaily.illinois.edu/2022/07/nitrogen-fertilizer-outlook-for-2023-decisions.html>

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Top Ten Items for Landowners and Operators to Consider in 2022

1. We are in unprecedented times so it is time to make sure your house is in order, debt paid down and ready for a future that may not be as favorable.
2. Landowners need to recognize the opportunity that is available to them. If they are thinking of selling in the next 10 years then now would be an advantageous moment to do so. Some of us were around in the 1980s and remember the optimism of the 1970s.
3. Fertilizer prices are high but so are commodity prices so now is not the time to skimp on keeping fertilization up. I hate to say it, and many people don't believe me, but in my over 35 years of managing land I have never taken over a previously cash rented farm to manage that was at or above optimum fertility.
4. Older operators should seriously consider helping a younger or beginning farmer. Most of you received help from someone in your past and maybe it is time to give someone else a chance. It is good for the family, the community, and the soul.
5. Conservation and water quality may not seem to affect you but it affects us all. We have many good stewards but many are too busy to manage their land correctly. We all have a responsibility in this area. Please take a hard look at your property and how it can be improved for you and the whole community. In spite of what you may hear we are not making the overall needed progress in this area here in Iowa.
6. We live in a wonderful state and local communities. Please help out where you can. Many landowners and operators have been fortunate beyond compare and don't pass it down.
7. Take time to help a kid or someone in need wherever they are. Many people didn't grow up in the families we did or have the opportunities we enjoyed. I know we worked hard to get where we are but someone else can too with a little boost. It's worth a try.
8. We may own land and we can puff out our chest now but it for fleeting moment in time. Please leave it better than you found it. I guarantee you can't take it with you.
9. Our great grandmothers and grandmothers were a blessing of love and support to their husbands and their kids, no matter how hard it was. We know they beared a lot of the burden, held the family together, work as hard as some of the men, and we appreciate that. Many are angels now and deservedly so. You never quite understand the concept of angels until your mother passes away.
10. Have some fun. Life has gotten too serious. A good belly laugh is the best medicine for anything. I need to remember that myself.

-Mark Gannon



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