Ag Leasing

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Topics
- Cash rent update
- Factors influencing cash rents
- Communications needed for landlords and tenants
- (For good lease arrangements)
- When and how you use a Farm Management Professional (Carrie)
- Other topics as time allows

Trends in Leases
- Crop Share - 40-60, 50-50; 30-70
- Cash Rents
  - More popular in Eastern vs. Western Nebraska
- Bushel leases
- Base rent plus bonus
- Flexible cash leases
  - Flex on yields, price or both (portion of gross income)
- Custom Farming

University of Nebraska–Lincoln
Renting Farmland
Cash Leases
Current Value Trends

Be aware of the numbers out there!
- NASS - USDA - National Agricultural Statistics Service
  - Survey in the summer
  - Results in early to Mid-September
- UNL - Ag Econ Survey - by Dr. Bruce Johnson
  - Surveys went out 3 weeks ago
  - Preliminary results - Mid-March
  - Ag Professionals are surveyed - (Ag land managers, Ag loan officers, for example)
  - Third set of numbers!
  - Usually the highest - available almost every day

Know how. Know now.
### Reported Cash Rental Rates: Dryland Cropland

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<thead>
<tr>
<th>Region</th>
<th>Average</th>
<th>% Change from 2011</th>
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Source: 2012 UNL Nebraska Farm Real Estate Market Developments Survey
Note: Insufficient number of reports for some regions.
### Reported Cash Rental Rates:
#### Gravity Irrigated Cropland

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Source: 2012 UNL Nebraska Farm Real Estate Market Developments Survey
b: Insufficient number of reports

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### Reported Cash Rental Rates:
#### Center Pivot Irrigated Cropland

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Source: 2012 UNL Nebraska Farm Real Estate Market Developments Survey
b: Insufficient number of reports
Reported Cash Rental Rates: Pasture

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Source: 2012 UNL Nebraska Farm Real Estate Market Developments Survey

Cash Rent Summary

- Note Differences in numbers
  - NASS survey
  - UNL Cash Rent survey
  - Coffee Shop
- Cash rents clearly up recently – but don’t always trend with land values (10% vs 30+%)
- When does the ‘up’ trend end?

Review – three sets of numbers for cash rents!

- Not a fan of surveys (comparing apples to oranges?)
- Not a fan of the coffee shop information
  - “Fish” stories, “topper” stories
  - Perfect ground/perfect situation
  - Making a decision on hundreds of thousands if not millions of dollars of asset
- Based on information discovered at coffee shop?
- Base cash rent decision on productivity of the land!
Estimating Cash Rent

- To get to the right ball park (one simple way)
- 25-30 % of gross corn revenue per acre
- 200 bu/acre times $6.00 per bushel ** = $1200
- $1200 times .3 (30%) = $360 (estimated rent)
- 30 – 33% of gross soybean revenue per acre
- 60 bu/acre times $12.50 ** equals $750 per acre
- $750 times .33 (33%) = $248 (estimated rent)
- Estimated rent about $304 per acre – right blend for this farm
  (Assuming 50% corn and beans – averaging $360 and 248)

** local elevator price for fall ’13

Lease Communications

- The numbers are CRAZY – greed leads to less communication
- Build based on common set of goals
- For the long-term good of the land resource
- To have adequate return from the investment
- For both the landlord and tenant
- Understand who is taking the risk – and the reward or consequence of taking that risk
- Have to develop and cultivate Trust!
- For Trust - Tell the truth! (yield monitor story)
Lease Communications

- The numbers are CRAZY – greed leads to less communication
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- Have to develop and cultivate Trust!
  - For Trust - Tell the truth! (past rental story)

Lease Communications

- What do we want to communicate? (as tenants)
- Landlord "types" and Communications style
  - As Tenant:
    - Date planted – cost of seed
    - Disease or insect pressure
    - Moisture updates
    - Yield
    - Expenses incurred (seed, tires, repairs, fuel, pricing for '13)
    - Price received
    - Report to landlord once/month during growing season
  - (suggested)

Lease Communications – What to communicate

- As Landlord:
  - How your expenses have changed?
    - Land taxes, other land expenses
    - Be clear with expectations for the land
    - Tillage (tell about operator)
    - Mowing (tell about ditches)
    - Fences
    - Weeds

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Other Expectations (landlord/tenant discuss)

- Grid soil sampling
- Stalks (crop residues)
- Grazing
- Baling
- Allowing manure to be applied

Lease Provisions

- Landlord expenses
  - Non-crop weed control
  - Soil work, terraces, waterways, etc.
  - Volunteer Tree control
  - Fencing
  - Building maintenance
- In many cases, the tenant will cover the costs associated with the above expenses (especially relatives)
- If the above mentioned expenses are borne by the tenant, the lease can be adjusted

Have lease in Writing

- Include all the communications
- Include who is paying for what
- Include termination date
- Remember that you are putting the next generation in peril with out a written lease (hay rent example)
If you are bidding for a lease
As a tenant:
- Sell yourself as a tenant and as a farmer
- Brochure
- Video
- Know your market
- Have valid, current references (farm managers)

Relatives!
- Can’t live with them, can’t live without them!! (Ha!!)
- If there are other (non-farm) heirs involved in any way, be careful of ‘sweetheart’ deals
- Each situation will be different
- Understand differences in generational values
- What is your commitment to the future of your community? The ‘future of Rural Nebraska’?

When does a farm manager get hired?
- Multiple heirs
- Absentee owner
- Investors
- Deteriorated landlord/tenant relationships
- When farm will be developed, i.e. when it is converted from rainfed to irrigated
Drought and Cash Rents

- Depends on if it continues or not.
- Hope for the best—but Plan for the worst.
- Pasture leases for 2013 are impacted! (more in a second)
- Think through:
  - Possible restrictions on drilling wells
  - Possible restrictions on water use
  - What happens if well goes dry and you need to re-drill?

Miscellaneous Topics

- Pasture Rents
  - Paid per acre/grazing season, or paid per cow/calf pair per month, (or cents per pair per day)
  - Assumes 5 month grazing season (typical)
  - Current land survey says: (Eastern District)
    - $41 per acre/year
    - $38.25 per cow/calf pair per month
  - Fence maintenance and labor are landlord costs
  - But in many cases—the tenant covers—so rent adjustment is needed.

Pasture Rents – continued

- Plan for adjustments based on 2012 drought
  - Start of grazing likely delayed
  - Agronomically—need to adhere to good grazing mgt.
  - Good for the desirable grass population
  - Provision—in case of weed flush?
  - Provisions for shortened grazing season
  - Provisions in case regular water (pond or creek) is dry
  - Will you be able to agree—or will you need to identify someone to provide mediation?
Thank You!

Ag Leasing

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