Profits & Risk: Cropland Rental Rates & Flex Leases for 2022

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Nebraska Farm Real Estate Survey

- Annual survey conducted since 1978 of Nebraska agricultural appraisers, professional farm managers, and bankers engaged in the land industry.
- Preliminary results for land values and rental rates published the second week of March.
- Full report published in June.
- Nebraska Farm Real Estate website full access to these resources: http://cap.unl.edu/realestate

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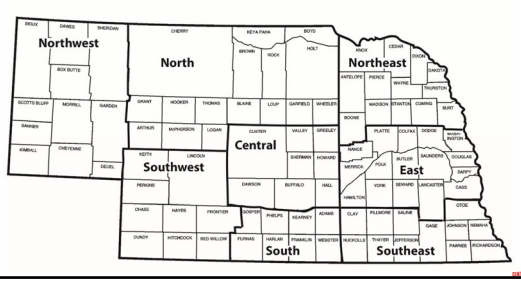
Nebraska Agricultural Statistics Districts



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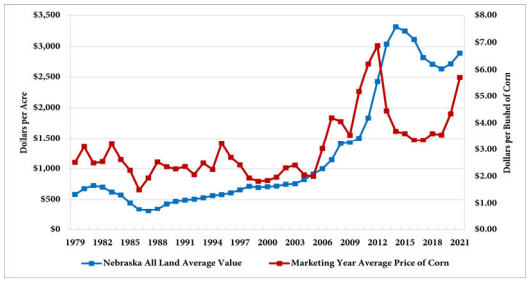
Nebraska Average Land Value and Corn Price, 1979-2021



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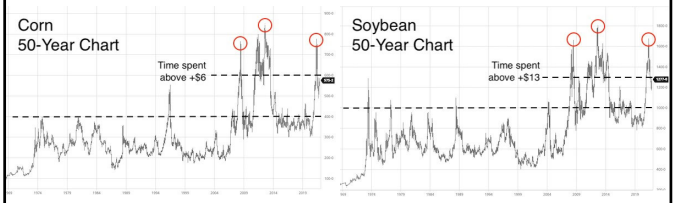
Historic Corn and Soybean Prices, 1969-2021
Source: The Van Trump Report, November 18, 2021



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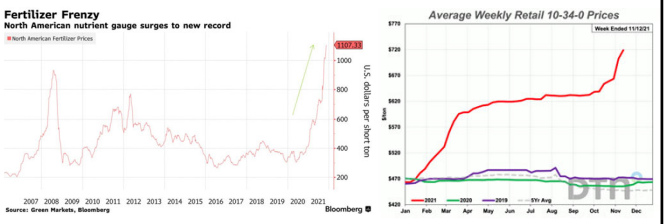
"World Fertilizer Prices Continue to Soar"…
Source: Keith Good, Farm Policy News, November 21, 2021



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Nebraska Cash Rental Rates

Dryland Cropland

Rental Rates

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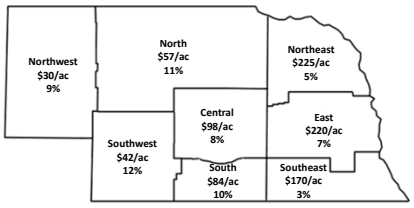
Dryland Cropland
Average Rental Rates – 2021 Season



Source: Nebraska Farm Real Estate Market Development Survey, 2021.

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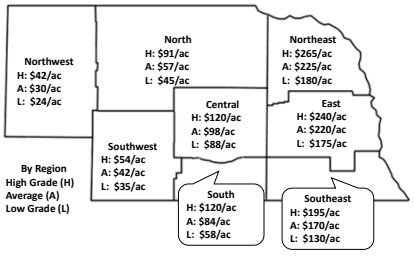
Dryland Cropland
Rental Rate Ranges – 2021 Season



Source: Nebraska Farm Real Estate Market Development Survey, 2021.

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USDA-National Agricultural Statistics Service Cash Rent Survey

- Biennial survey conducted by the USDA-National Agricultural Statistics Service (NASS) of farmers and ranchers
  - Survey starts in late-winter and conducted through mid-summer of odd-numbered years (some even-number yeas as well)
  - Analysis published around the second week of September
- Nebraska county estimates in addition to other resources may be found at: www.nass.usda.gov/Statistics_by_State/Nebraska/Publications/County_Estimates/

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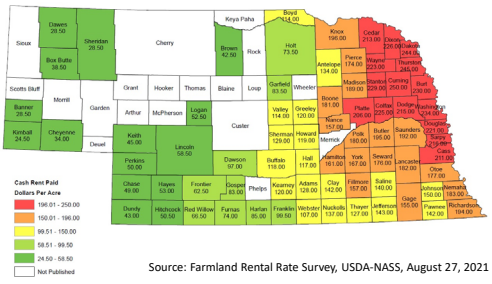
Dryland Cropland Rental Rates – 2021 Season



Source: Farmland Rental Rate Survey, USDA-NASS, August 27, 2021

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Nebraska Cash Rental Rates

Irrigated Cropland
Rental Rates

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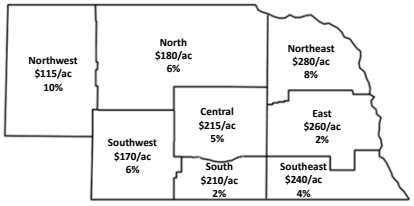
Gravity Irrigated Cropland
Average Rental Rates – 2021 Season



Source: Nebraska Farm Real Estate Market Development Survey, 2021.

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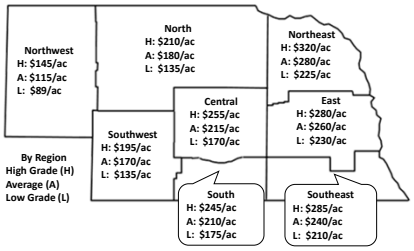
Gravity Irrigated Cropland
Rental Rate Ranges – 2021 Season



Source: Nebraska Farm Real Estate Market Development Survey, 2021.

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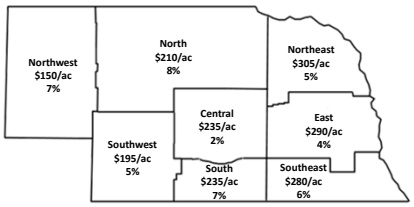
Center Pivot Irrigated Cropland
Average Rental Rates – 2021 Season



Source: Nebraska Farm Real Estate Market Development Survey, 2021.

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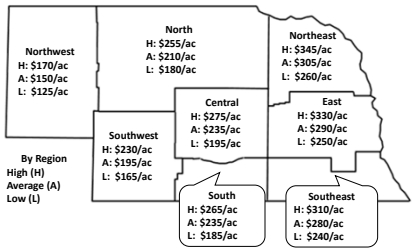
Center Pivot Irrigated Cropland Rental Rate Ranges – 2021 Season



Source: Nebraska Farm Real Estate Market Development Survey, 2021.

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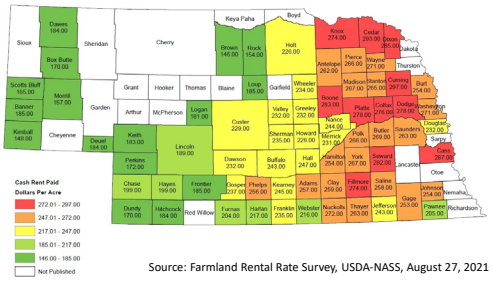
Irrigated Cropland Rental Rates – 2021 Season



Source: Farmland Rental Rate Survey, USDA-NASS, August 27, 2021

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Agricultural Flex Lease Arrangements

Alternative Farmland Leases for 2022

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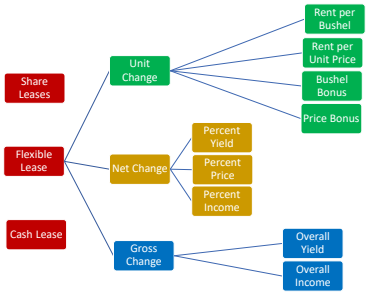
Agricultural Land Lease Arrangements



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Establishing the Base Rental Rate

- Methods for estimating the base rental rate:
  - Adjusting survey data
  - Cash equivalent from crop share
  - Return on investment
- *What I am willing and able to accept and tenant is willing and able to pay?*
  - Tenant: What is the maximum I can pay?
  - Landlord: What is the minimum I am willing to accept?

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How will the flex lease be Adjusted?

- Compare expected farm performance against actual crop yield, price, or revenue
  - If performance is better than expected, more rent is paid
  - If performance is less than expected, less rent is paid

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Limiting Risk Exposure

- Set upper and lower limits for your contract
- Do not expose yourself to unlimited upside and downside risk
- How do you do that?

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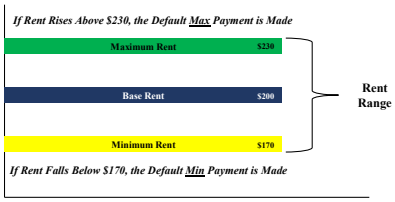
Establishing the Ceiling and Floor



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USDA Farm Bill Requirements

- USDA-Farm Service Agency regulations on farm program payments mandates that a cash lease include:
  - Any specific guarantee of price or division of crop within reason for the region
    - If an alternative lease guarantees a minimum payment of $300 per acre, is this requirement met?
    - What about if the guarantee is only $50 per acre?

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When is the payment made?

- As the tenant and landowner, you need to decide on when payment is made
- Final yield unknown until after harvest
- Decide on when a minimum is due

Minimum Payment Due – one time or split it up over the season?

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Adjusting the Base Cash Rent

Flexible Cash Lease Arrangements

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Variable Rent by Yield Adjustment

Farm Base Rent	
Rental Rate	$200/ac.
5-yr Farm APH	150 bu.
Percent Change in Yield	
Actual Production	135 bu.
Difference (135 bu. - 150 bu.)	-15 bu.
Percent Change $\frac{[135 \text{ bu.} - 150 \text{ bu.}]}{[150 \text{ bu.}]} \times 100$	-10.0 %
Final Rent	
Rental Rate	$200/ac.
Percent Decrease in Rent ($200 x -10.0%)	-$20/ac.
Final Rent	$180/ac.
In this example a farmer produced 90% of the APH, meaning the landowner will receive 90% of the negotiated base rental rate.	

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Variable Rent by Yield Adjustment

Farm Base Rent	
Rental Rate	$200/ac.
5-yr Farm APH	150 bu.
Percent Change in Yield	
Actual Production	165 bu.
Difference (165 bu. - 150 bu.)	15 bu.
Percent Change $\frac{[165 \text{ bu.} - 150 \text{ bu.}]}{[150 \text{ bu.}]} \times 100$	10.0 %
Final Rent	
Rental Rate	$200/ac.
Percent Increase in Rent ($200 x 10.0%)	$20/ac.
Final Rent	$220/ac.
In this example a farmer produced 110% of the APH, meaning the landowner will receive 110% of the negotiated base rental rate.	

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Variable Rent by Crop Price

Farm Base Rent	
Rental Rate	$200/ac.
5-yr Farm APH	150 bu.
Planting Time Price Guarantee	$4.90/bu.
Harvesting-Time Price Increase	
Actual Harvest Time Price Guarantee	$5.35/bu.
Difference ($5.35/bu. - $4.90/bu.)	$0.45/bu.
Percent Change $\frac{[\$5.35/\text{bu.} - \$4.90/\text{bu.}]}{[\$4.90/\text{bu.}]} \times 100$	9.2 %
Final Rent	
Rental Rate	$200/ac.
Percent Increase in Rent ($200 x 9.2%)	$18/ac.
Final Rent	$218/ac.

Farm Base Rent	
Rental Rate	$200/ac.
5-yr Farm APH	150 bu.
Planting Time Price Guarantee	$4.90/bu.
Harvesting-Time Price Decrease	
Actual Harvest Time Price Guarantee	$4.45/bu.
Difference ($4.45/bu. - $4.90/bu.)	-$0.45/bu.
Percent Change $\frac{[\$4.45/\text{bu.} - \$4.90/\text{bu.}]}{[\$4.90/\text{bu.}]} \times 100$	-9.2 %
Final Rent	
Rental Rate	$200/ac.
Percent Decrease in Rent ($200 x -9.2%)	-$18/ac.
Final Rent	$182/ac.

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Variable Rent by Crop Revenue

Farm Base Rent	
Rental Rate	$200/ac.
Expected Yield	150 bu.
Expected Farm Price	$4.70/bu.
Expected Farm Income*	$705/ac.
Harvesting-Time Price Increase	
Actual Yield	140 bu.
Actual On-Farm Price	$5.45/bu.
Actual Farm Income*	$763/ac.
Difference ($763/ac. - $705/ac.)	$58/ac.
Percent Change $\frac{[\$763/\text{ac.} - \$705/\text{ac.}]}{[\$705/\text{ac.}]} \times 100$	8.2 %
Final Rent	
Rental Rate	$200/ac.
Percent Increase in Rent ($200 x 8.2%)	$16/ac.
Final Rent	$216/ac.

Farm Base Rent	
Rental Rate	$200/ac.
Expected Yield	150 bu.
Expected Farm Price	$4.70/bu.
Expected Farm Income*	$705/ac.
Harvesting-Time Price Decrease	
Actual Yield	165 bu.
Actual On-Farm Price	$4.15/bu.
Actual Farm Income*	$685/ac.
Difference ($685/ac. - $705/ac.)	-$20/ac.
Percent Change $\frac{[\$685/\text{ac.} - \$705/\text{ac.}]}{[\$705/\text{ac.}]} \times 100$	-2.9 %
Final Rent	
Rental Rate	$200/ac.
Percent Decrease in Rent ($200 x -2.9%)	-$6/ac.
Final Rent	$194/ac.

*Expected and actual farm income do not include any safety net payments or crop insurance indemnity.

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Upcoming Landlord & Tenant Cash Rent Meetings
For more information web page: cap.unl.edu

December 2021

- **Lincoln**: Dec. 1, 10:30 a.m.-2 p.m (Lancaster County Extension Office, 444 Cherrycreek Road, Suite A), 402-441-7180
- **West Point**: Dec. 14, 1-4 p.m. (Nielsen Center, 200 Anna Stalp Ave.), 402-372-6006
- **Wayne**: Dec. 15, 9 a.m.-noon (Wayne Fire Hall, 510 Tomar Drive), 402-375-3310
- **Bloomfield**: Dec. 15, 1-4 p.m. (Community Center, 101 S. Broadway St.), 402-254-6821
- **Syracuse**: Dec. 20, 1-4 p.m. (Fair Center, 135 Plum St.), 402-269-2301
- **Beatrice**: Dec. 21, 9 a.m.-noon (Gage County. Ext., 1115 W. Scott St.), 402-223-1384

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Upcoming Landlord & Tenant Cash Rent Meetings
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January 2022

- **Kimball**: Jan. 10, 2:30-4:30 p.m. (Kimball County Fairgrounds, High School St. & 6th St.), 308-235-3122
- **Sidney**: Jan. 11, 9 a.m.-noon (Security First Bank, 1205 Jackson St.), 308-254-4455
- **Alliance**: Jan. 11, 1-4 p.m. (Alliance City Library, 1750 Sweetwater Ave., #101), 308-762-5616.
- **Scottsbluff**: Jan. 12, 9 a.m.-noon (Panhandle Research, Extension and Education Center, 4502 Ave. I), 308-632-1230
- **Burwell**: Jan. 18, 9 a.m.-noon (Senior Citizens Center, 411 Grand Ave.), 308-346-4200
- **O'Neill**: Jan. 18, 1-4 p.m. (Holt County Extension Office, 402-336-2760), 402-336-2760
- **Ashland**: Jan. 31, 1-4 p.m. (Round the Bend, 30801 E. Park Highway), 402-267-2205

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Upcoming Landlord & Tenant Cash Rent Meetings
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February 2022

- **Broken Bow**: Feb. 1, 1-4 p.m. (Custer County Fairgrounds, 4-H Building, 44100 Memorial Drive), 308-872-6831
- **Kearney**: Feb. 2, 9 a.m.-noon (Buffalo County Extension Office, 1400 E. 34th St.), 308-236-1235
- **McCook**: Feb. 2, 1-4 p.m. (Red Willow County Fairgrounds, 4-H Building, W. 5th St.), 308-268-3105
- **Grant**: Feb. 3, 9 a.m.-noon (Perkins County Extension Office, 6025 Road 329), 308-352-4340
- **Fullerton**: Feb. 7, 1-4 p.m. (Nance County Fairgrounds, 406 N. Ida), 308-536-2691
- **Geneva**: Feb. 8, 9 a.m.-noon (Fillmore County Fairgrounds, Ag Hall, 641 N. 5th St.), 402-759-3712

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Upcoming Webinar: *Ag Land Mgt. Quarterly*
February 21, 2021 at 12:00 PM CDT

- **Topics**
  - Recent Trends in Nebraska Cash Rental Rates
    - Trends in cash rents for 2021-2022
    - Calculating cash rental rates to reflect market prices or farm yields
  - Updating Agricultural Leases for the 2022 Production Season
    - Considerations for landlords and tenants entering the new growing season
    - Aglease101.org - free lease resources
  - Ask an Expert
    - Review of submitted questions and from meeting participants
    - Upcoming land management workshops and publications

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Questions?

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