CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

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Cash Leasing With Integrity

Market Report	Yr Ago	4 Wks Ago	3/4/11
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$89.44	$105.50	$112.78
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	124.54	149.05	151.00
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	102.00	126.32	128.00
Choice Boxed Beef, 600-750 lb. Carcass.	150.34	172.40	172.67
Western Corn Belt Base Hog Price Carcass, Negotiated.	72.26	80.09	81.68
Feeder Pigs, National Direct 50 lbs, FOB.	*	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	74.93	88.95	91.19
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	*	*	184.50
National Carcass Lamb Cutout, FOB.	266.78	347.71	370.64
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.84	7.87	7.44
Corn, No. 2, Yellow Omaha, bu.	3.54	6.55	6.84
Soybeans, No. 1, Yellow Omaha, bu.	9.12	13.91	13.62
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	5.64	10.95	11.46
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.26	4.15	3.83
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	135.00	140.00	140.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	87.50	72.50	72.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	*	*	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	101.00	197.50	201.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	38.00	67.25	76.00
***No Market**			

The widow lady was calling from her retirement care facility. Her tenant of over 20 years wanted to finalize the cash rent agreement for 2011, and she was wondering, "What should I do?" With a lease rate that hadn't seen an increase for several years, her per-acre rent payments in 2010 were not even half the average for the area. Even when her tenant said he could "raise it a few dollars per acre for this year," the 2011 payments would fall even further behind the area average.

The out-of state land owner was following national media coverage of the strong agricultural economy and wanted to raise the rent on his irrigated land to $450 per acre. This was a big jump from the $250 per acre level in 2010, which was more than fair since the tenant was providing both the center pivot and irrigation motor. But because the land owner had heard of some people in his state netting over $400 per acre last year with a crop share lease, he was determined to get a big increase.

The retired gentleman was easy going and certainly not someone who would drive a hard bargain. He had grown up when farming with four-row crop equipment was considered large. But having been away from farming for nearly six decades, he had little understanding of today's farm economy and what cash rent levels had moved to in 2011. He was renting his inherited family farm for $90 per acre; and thought it to be "too big of a jump" to raise it to $100 in 2011, out of concern for his tenant. In reality, the rent should have been between $150 and $175 per acre just to be on par with rents in the area.

The young University of Nebraska graduate and his new bride had rented a piece of land back home for the 2010 crop year from a former neighbor who thought it would be good to "*give the kids a chance to get started.*" Even though they paid the going cash rent, the young couple had a profitable year - raising a good crop and marketing effectively. So after harvest, when they delivered the second half of the rent payment to the landlord, they had included a significant cash bonus. When the surprised landlord hesitated to accept it, the couple insisted, thanking him for the opportunity to farm his land and simply saying, "*It's the thing to do.*"

These stories - all true - provide quite a contrast of what is going on in today's rental market. To be sure, we have a leasing culture that works well most of the time. There is an element of trust and responsibility that leads to fair, win-win situations. But in these very turbulent times of rapidly changing economic conditions, it is especially critical that both landowner and tenant work to keep their agreements current. In fact, even though the parties may agree to a multi-year rental contract, it is best that rental rate levels be negotiated annually.

As we enter into the 2011 crop season with commodity prices at record high levels, here are some things to consider for sound and ethical leasing.

- Tenants need to keep their landowners informed. Even when leasing on a cash basis, it is no more than right that they share information about the farm during the crop year as well as sharing the harvest yield outcomes.

- Landowners can't rely on "coffee shop talk," where market perceptions are based on who can top the latest cash rent high. Many times those reported highs get distorted in the reporting process, and even if they are true, they represent "outliers" that are not a good reflection of the market.

- The year 2011 is staging to be a record income year for crop producers, in large part because of surging commodity prices in just the past few months. Many 2011 cash leases were already negotiated before these surges. And while tenants have the legal right to maintain leases as negotiated, certainly the economic considerations alone may lead tenants to voluntarily raise their rental payments should the income windfall turn out as it now appears. Such a step on the part of the tenant can do much to establish a mutually-beneficial leasing relationship for years to come. But beyond the economic factors, there is also a moral consideration to treat landlords fairly. Just as our young tenant couple in the story above gave a bonus in 2010, many other tenants this year may want to do likewise, simply because *"it's the thing to do."*

- The volatility of the times means that landowners should not think that 2011 is just another step in an ever-upward income trajectory. Since the cash rent tenant carries essentially all the risk, landowners need to heed the fact that negotiated rents need to be able to move in **both** directions, in order to be fair. It's a two-way street, and rents in 2012 and beyond may need to be reduced.

- In cases where cash leases have been left unchanged for several years and are lagging considerably behind the current rates, the landowner and/or the tenant often hesitates to consider a substantial upward adjustment. That involves some confrontation, which neither party may be very anxious to do. But the longer the economic distortion continues, the greater it becomes. If landowners do not feel comfortable discussing a leasing realignment with the tenant, then it may well be time to seek the services of a professional farm management company. As for the tenant, who does not want to take any initiative to get current on their rents "because they can't afford to pay a higher rent," perhaps it's time to find another vocation. Bottom line: If there ever was a time to realign distorted cash rental rates, it is now.

- The landowner needs to give due consideration to the land stewardship responsibility that the tenant bears. With wise and conscientious management practices, most tenants do farm leased parcels very responsibly. In fact, previous University of Nebraska-Lincoln research suggests that most of them farm rented land the very same way as their own land. With land increasingly valuable, landowners certainly need to factor the value of this tenant-provided service into the negotiated lease.

A final thought: we have amazing agricultural land resources and an efficient land market system that allows diverse ownership and contractual arrangements that can, and usually do, work to the benefit of all concerned. But we've moved far beyond the times when a simple *gentleman's agreement* and a handshake will suffice indefinitely. Even within family arrangements, the substantial values of the land assets involved as well as the complex dynamics of the economic forces suggest the need for a far more deliberate business protocol that is current and in writing. This will do much to assure **cash leasing with integrity**.

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