



Cornhusker Economics

Negotiating Cash Rent: What It Takes to Negotiate Like a Pro

Market Report	Year Ago	4 Wks Ago	2-13-19
Livestock and Products,			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	*	125.50
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	192.36	177.98	179.94
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	152.48	150.98	148.63
Choice Boxed Beef, 600-750 lb. Carcass.	208.46	215.75	216.86
Western Corn Belt Base Hog Price Carcass, Negotiated	69.04	49.84	48.91
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	75.83	68.52	64.31
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	131.14	134.55	132.63
National Carcass Lamb Cutout FOB.	372.34	386.15	373.85
Crops,			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	4.14	4.53	4.44
Corn, No. 2, Yellow Columbus, bu.	3.42	3.52	3.47
Soybeans, No. 1, Yellow Columbus, bu.	9.21	8.13	8.01
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.63	5.75	5.59
Oats, No. 2, Heavy Minneapolis, Mn, bu.	3.03	3.24	3.23
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	166.25	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	90.00	103.00	105.00
Grass Hay, Large Rounds, Good Nebraska, ton.	82.50	87.50	85.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	147.00	155.00	141.00
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	48.25	53.00	55.50
* No Market			

Introduction

The number one question I receive is about cash rent prices. Many landlords and tenants are working to find an equitable arrangement before February 28, 2019. Given the constraints on both sides, real estate taxes and the farm economy finding that arrangement is difficult. Becoming creative in how you analyze and value different cash rent options is necessary. Before sitting down face to face, here are some suggestions and preparations I recommend that can help maximize success.

Identify the facts

Cash rent has numerous variables, and ground that is just a mile down the road could command vastly different amounts of rent. Researching cash rent provides a needed understanding of market conditions. Both the [USDA](http://nass.usda.gov)¹ and [University of Nebraska-Lincoln](http://agecon.unl.edu/realestate)² provide survey results for cash rent rates across Nebraska. These provide a useful start, but they are far from accurate enough to use as a base for an entire negotiation. Contacting your local ag bank loan officer, ag real estate professional, or professional farm manager may provide additional information. To truly drill down those results into personalized information for the given negotiation, adjustments normally should be made. Those adjustments are fairly straightforward. One way is to take the county rental rate

¹ nass.usda.gov

² agecon.unl.edu/realestate

from the USDA survey divided by the county yield to obtain a county rent per bushel. Take the calculated county rent per bushel times the average production history of the farm in question and you have one estimate for farm level rent.

Another point worth investigating is a farm's suitability rating. Calculating a corn suitability rating, CSR2, can help narrow down the farm in question. The USDA NRCS provides a [Web Soil Survey](#)³ and a detailed instruction [guide](#)⁴ was created by Ann Johanns with Iowa State University. This information is useful if access to production history is limited.

Some negotiations involve land held solely for investment purposes. To calculate a return on investment, take the land value per acre times a rate of return. A step to include in this is comparable investment returns. Stopping by your local financial planner's office or bank would be a great place to begin this search. Having what market rates of returns for savings accounts, T-bills, certified deposits, bonds, and some mutual funds provides a much-needed comparison base during discussions.

There are some that are in the process of negotiating a previous crop share arrangement into a cash rent arrangement. For those in this process, calculating the crop share equivalent and/or the tenant's residual will provide a glimpse of a status quo arrangement under the cash rent method.

Discover your and their interests

Negotiations are not one-sided conversations. It is vital that you take time to understand what the other party's interests are as well. As mentioned earlier, maybe the property is nothing but an investment. It could be that it is a family homestead that has deep-seated sentimental value. Is it being rented so that the landowner can travel and take more vacations? By analyzing this you can start to piece together strategies for the actual negotiation. If it is an investment-type property, what is their risk tolerance? They may be interested in flex leases that provide upside opportunities by assuming more risk.

³ websoilsurvey.nrcs.usda.gov/app/

⁴ extension.iastate.edu/agdm/wholefarm/html/c2-87.html

Outline the options

Everyone loves it when a plan comes together, but what happens when it falls apart? Going into a negotiation with one plan of action leaves very little room to rebound. Many parts of a land lease negotiation are negotiable outside of price. Consider repairs on irrigation equipment or grain bin usage. Both of these are commonly found on properties, but a defined standard on rental is anything but common. A [2014 survey](#)⁵ indicated 31percent of leases include the use of grain storage in the lease. Forty percent rented the grain storage for an additional charge. This is an option worth preparing for during a negotiation. One might be willing to give an extra \$20 per acre for the use of the grain storage since without the use of those facilities, they would have paid the elevator a storage fee of a similar amount. Other factors, such as hunting rights and the timing of payments, all can factor into a created value that may help reach an agreement.

In addition to finding value from within a cash rent negotiation, don't forget to include a flex lease as a backup option. These agreements allow for most of the simplicity of cash rent, with a flexible component that allows risk and profit opportunities to be shared. The two most common are a flexible lease that focuses on a share of gross revenue and a flexible lease that has a base rent plus bonus. [Calculators](#)⁶ can provide quick demonstrations during the negotiation showing dynamic *what if* possibilities that can lead to agreements. Understand that while talking about a flex lease, a response of, "that won't work," is not a denial of the possibility, but an opening to discuss changes to the formula that would make it more appealing.

Define the zone

In every negotiation, identifying the potential zone of possible agreement (ZOPA) or to put it simply, a bargaining range, is important. Identifying the seller's desired price and walk away price, and the buyers desired price and walk away price outlines the ZOPA, see Figure 1.

⁵ agecon.unl.edu/documents/2369805/10452540/2014%20NE%20Farm%20Real%20Estate%20Report.pdf/aa346e43-5aaf-401d-9cad-f5e08accf520

⁶ agecon.unl.edu/publications/flex-cash-l

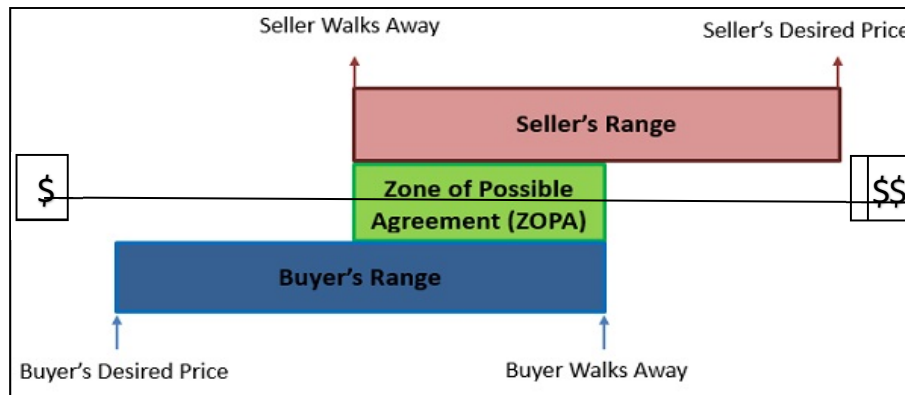


Figure 1. - Zone of Possible Agreements, "ZOPA"

When using a ZOPA, understanding the type of negotiation will provide guidance on how to proceed. The traditional bargaining method and a value creation method are the two most common negotiation methods. A key distinction with the traditional bargaining method is that it is nothing but a battle over money. A high and low anchor price is set and both sides battle to claim more of the difference in between. The problem with that method in current agricultural circumstances is that a large number of negotiations never find that middle ground due to absolute bottom/top dollars not overlapping. Under the traditional bargaining method that leads to no deal. That is where negotiating using the value creation method has a distinct advantage. If you can create value, you can close that gap. Consider an irrigation system that is on the fence line to a farm you already own. You may be willing to pay more than you normally would for cash rent if there is an opportunity to benefit from having the irrigation system do a full rotation. This would turn acres that were nonirrigated into irrigated acres. Maybe the landowner would rent for less if a bonus were established that is based on commodity prices hitting a certain level.

Communicate

The top two reasons that appear in my conversations with producers as to why negotiations fail are

1. lack of preparation and
2. lack of communication.

Many misinterpret being in control of conversation as being the one doing all the talking. There is greater

strength in listening to others. Active listening allows you to discover their interests and find creative solutions. Give the person who is speaking your undivided attention. Show that you are engaged through body language. Provide feedback that works to understand what they are saying. Defer judgment and avoid trying to lead them. Remember, the goal of active listening is to gain information and perspective, not to attack.

Summary

There will always be circumstances where the lack of a negotiated agreement comes down to dollars and cents. Too often many waive off potential opportunities because of unseen value. Take time to prepare through investigation and research. Be proactive and utilize communication skills. You will find that some aspirations that appeared out of reach might have actually been within your grasp the whole time.

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