Agricultural Land Management Quarterly Presenters

Archived Programs: agecon.unl.edu/landmanagement

Jim Jansen
Agricultural Economist
University of Nebraska-Lincoln
jjansen4@unl.edu
402-261-7572

webpage: agecon.unl.edu/realestate

Allan Vyhnalek
Farm & Ranch Succession and Transition
University of Nebraska-Lincoln
avyhnalek2@unl.edu
402-472-1771

webpage: agecon.unl.edu/succession
Upcoming Webinar: Monday, May 18, 2020 at 12:00 PM CDT

• Trends in Nebraska Cash Rental Rates
  • Trends in Nebraska cash rental rates for 2020
  • Financial implications for changing commodity prices and adjusting cash rents

• Proper Communication and Decision Making for Agricultural Land
  • Improving communication between landlords, tenants, and family members
  • Short and long-term decision making for agricultural land

• Ask an Expert
  • Review of submitted questions
  • Upcoming land management workshops and publications
Trends in Nebraska Cash Rental Rates for 2020

PRESENTED BY JIM JANSEN
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: https://agecon.unl.edu/realestate
Nebraska Dryland Cropland Rental Rates 2020
Preliminary Estimates

Northwest: $28/ac, 2%
North: $51/ac, 3%
Northeast: $220/ac, 7%
Southwest: $37/ac, -3%
South: $80/ac, 10%
Central: $92/ac, 9%
East: $205/ac, 2%
Southeast: $165/ac, 6%
South: $80/ac, 10%
Nebraska Dryland Cropland Rental Rates 2020
Preliminary Estimates

By Region

North
- High Grade (H): $86/ac
- Average (A): $51/ac
- Low Grade (L): $42/ac

Northwest
- High Grade (H): $38/ac
- Average (A): $28/ac
- Low Grade (L): $23/ac

Southwest
- High Grade (H): $56/ac
- Average (A): $37/ac
- Low Grade (L): $30/ac

Central
- High Grade (H): $105/ac
- Average (A): $92/ac
- Low Grade (L): $72/ac

Southeast
- High Grade (H): $195/ac
- Average (A): $165/ac
- Low Grade (L): $130/ac

Northwest
- High Grade (H): $38/ac
- Average (A): $28/ac
- Low Grade (L): $23/ac

South
- High Grade (H): $115/ac
- Average (A): $80/ac
- Low Grade (L): $58/ac

Northeast
- High Grade (H): $250/ac
- Average (A): $220/ac
- Low Grade (L): $170/ac

East
- High Grade (H): $235/ac
- Average (A): $205/ac
- Low Grade (L): $165/ac
Nebraska Center Pivot Irrigated Cropland Rental Rates
2020 Preliminary Estimates

Northwest
$140/ac
-3%

North
$195/ac
5%

Central
$230/ac
7%

South
$220/ac
9%

Norththeast
$290/ac
4%

East
$280/ac
-2%

Southeast
$260/ac
4%

South
$220/ac
9%

Nebraska Center Pivot Irrigated Cropland Rental Rates
2020 Preliminary Estimates

Northwest
$140/ac
-3%

North
$195/ac
5%

Central
$230/ac
7%

South
$220/ac
9%

Norththeast
$290/ac
4%

East
$280/ac
-2%

Southeast
$260/ac
4%

South
$220/ac
9%
Nebraska Center Pivot Irrigated Cropland Rental Rates
2020 Preliminary Estimates

By Region

North
High Grade (H): $235/ac
Average (A): $195/ac
Low Grade (L): $175/ac

Northwest
High Grade (H): $185/ac
Average (A): $140/ac
Low Grade (L): $100/ac

Southwest
High Grade (H): $210/ac
Average (A): $185/ac
Low Grade (L): $160/ac

Central
High Grade (H): $265/ac
Average (A): $230/ac
Low Grade (L): $185/ac

Northeast
High Grade (H): $330/ac
Average (A): $290/ac
Low Grade (L): $245/ac

East
High Grade (H): $320/ac
Average (A): $280/ac
Low Grade (L): $245/ac

South
High Grade (H): $255/ac
Average (A): $220/ac
Low Grade (L): $180/ac

Southeast
High Grade (H): $300/ac
Average (A): $260/ac
Low Grade (L): $220/ac
Nebraska Cow-calf Pair Monthly Rental Rates 2020
Preliminary Estimates

Northwest
$37.45/pair
5%

North
$60.55/pair
3%

Central
$54.95/pair
5%

South
$49.55/pair
7%

Northeast
$57.70/pair
10%

East
$51.30/ac
6%

Southeast
$51.40/pair
9%

South
$49.55/pair
7%
Nebraska Cow-Calf Pair Monthly Rental Rates 2020
Preliminary Estimates

By Region

North
- High Grade (H): $69.30/pair
- Average (A): $60.55/pair
- Low Grade (L): $50.75/pair

Northwest
- High Grade (H): $44.85/pair
- Average (A): $37.45/pair
- Low Grade (L): $30.90/pair

Southwest
- High Grade (H): $59.50/pair
- Average (A): $49.90/pair
- Low Grade (L): $42.85/pair

Central
- High Grade (H): $64.90/pair
- Average (A): $54.95/pair
- Low Grade (L): $42.85/pair

South
- High Grade (H): $56.25/pair
- Average (A): $49.55/pair
- Low Grade (L): $38.40/pair

Southeast
- High Grade (H): $58.80/pair
- Average (A): $51.40/pair
- Low Grade (L): $36.20/pair

Northeast
- High Grade (H): $72.15/pair
- Average (A): $57.70/pair
- Low Grade (L): $45.50/pair

East
- High Grade (H): $63.00/pair
- Average (A): $51.30/pair
- Low Grade (L): $44.10/pair

South
- High Grade (H): $56.25/pair
- Average (A): $49.55/pair
- Low Grade (L): $38.40/pair

Southeast
- High Grade (H): $58.80/pair
- Average (A): $51.40/pair
- Low Grade (L): $36.20/pair
Financial Implications for Changing Commodity Prices and Adjusting Cash Rents

PRESENTED BY JIM JANSEN
K.C. Federal Reserve Tenth District Farm Income and U.S. Commodity Prices

Source: KC Fed, Ag Credit Survey, May 14, 2020
Consider Using Flex Leases Due to Uncertainty in Prices or Yield

- Flexible cash leases vary the rent paid for land based upon the actual performance of the crop yield, pasture, or livestock.
- The actual rent paid flexes with a predetermined range to more equitably divide the financial returns from the property or asset.
  - Higher than expected performance results in a final rental rate higher than the agreed upon base rate.
  - Lower than expected performance results in a final rental rate lower than the agreed upon base rate.
**Flexible Crop Lease**

- Flexible crop lease where corn prices decrease and increase

<table>
<thead>
<tr>
<th>Farm Base Rent</th>
<th>Farm Base Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rental Rate</strong></td>
<td>$175/ac</td>
</tr>
<tr>
<td><strong>5 yr Farm AHP</strong></td>
<td>150 bu</td>
</tr>
<tr>
<td><strong>Planting Time Price</strong></td>
<td>$3.50/bu</td>
</tr>
<tr>
<td><strong>Actual Harvest Time Price</strong></td>
<td>$3.05/bu</td>
</tr>
<tr>
<td><strong>Difference ($3.05/bu - $3.50/bu)</strong></td>
<td>-$0.45/bu</td>
</tr>
<tr>
<td><strong>Percent Change</strong></td>
<td>12.9%</td>
</tr>
<tr>
<td><strong>Final Rent</strong></td>
<td>$153/ac</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Final Rent</th>
<th>Final Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rental Rate</strong></td>
<td>$175/ac</td>
</tr>
<tr>
<td><strong>Percent Decrease in Rent ($175 x -12.9%)</strong></td>
<td>-$23/ac</td>
</tr>
<tr>
<td><strong>Final Rent</strong></td>
<td>$153/ac</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Rental Rate</strong></td>
<td>$175/ac</td>
</tr>
<tr>
<td><strong>Percent Increase in Rent ($175 x 12.9%)</strong></td>
<td>$23/ac</td>
</tr>
<tr>
<td><strong>Final Rent</strong></td>
<td>$198/ac</td>
</tr>
</tbody>
</table>
### Flexible Cow-calf Pair Lease

- Flexible pasture lease based on feeder cattle futures where prices moves down

<table>
<thead>
<tr>
<th>Current Pasture Rent ($/Pair)</th>
<th>$275.00/pair</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Feeder Cattle Futures</td>
<td>$145.00/cwt.</td>
</tr>
<tr>
<td>Actual Feeder Cattle Futures</td>
<td>$135.85/cwt.</td>
</tr>
<tr>
<td>Percentage of Change</td>
<td>7% Change in Price Down</td>
</tr>
<tr>
<td>[ \frac{(135.85 - 145.00)}{145.00} ]</td>
<td>7% Change in Price Down</td>
</tr>
<tr>
<td>Drop Pasture Rent by 7%</td>
<td>-$19.25/pair</td>
</tr>
<tr>
<td>Final Rent ($/Pair)</td>
<td>$255.75/pair</td>
</tr>
</tbody>
</table>
Flexible Cow-calf Pair Lease

- Flexible pasture lease based on feeder cattle futures where prices moves up

<table>
<thead>
<tr>
<th>Current Pasture Rent ($/Pair)</th>
<th>$275.00/pair</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Feeder Cattle Futures</td>
<td>$145.00/cwt.</td>
</tr>
<tr>
<td>Actual Feeder Cattle Futures</td>
<td>$155.15/cwt.</td>
</tr>
<tr>
<td>Percentage of Change</td>
<td></td>
</tr>
<tr>
<td>(155.15 – 145.00) / 145.00</td>
<td>7% Change in Price Up</td>
</tr>
<tr>
<td>Increase Pasture Rent by 7%</td>
<td>+$19.25/pair</td>
</tr>
<tr>
<td>Final Rent ($/Pair)</td>
<td>$294.25/pair</td>
</tr>
</tbody>
</table>
Should Agricultural Leases for the 2020 Production Season Be Adjusted?

PRESENTED BY ALLAN VYHNALEK
Communications Will be the Key to Successful Leasing

• Both landlord and tenant need to communicate effectively on needs related to leases
• The key to success will be how well you LISTEN
  • Seek first to understand, before you can be understood
  • Ask clarifying questions
• Everyone is calling these unprecedented times
  • Maybe same applies to lease – need to do something out of the ordinary
  • Data does show very large drop in prices for all commodities and livestock in last six weeks
Communication - Considerations for Tenants

• During the growing season – consider reporting to landlords regularly
  • Moisture – rainfall amounts
  • Weed pressure
  • Disease or insect pressures
  • Other pertinent issues
    • Current crop prices & farm economy
• Remember – communication is critical even for cash leases!
  • Make sure the landlord views the land – in person or virtually
Communication - Considerations for Landlords

• During the growing season – consider visiting with tenants
  • If feasible, consider visiting the land and look around – what events are influencing the property in 2020?
  • As for reports from tenants – if the operators are not communicating regularly
    • Express expectations on:
      • Weed control
      • Other management issues or concerns
• Remember – communication is critical even for cash leases!
Adjustments to Leases by Type

• Do crop share leases need to be adjusted?
  • Typically not – production risk usually shared between landlords and tenants
  • Price risk also shared between landlord and tenant

• Flexible leases may not need to be adjusted depending upon the lease provisions

• So, would cash leases need to be adjusted?
  • Possibly, but what does the lease say?
    • Legally, a change to the terms of the lease or payment rates may not be required.
  • What about professional relationships with business partners under financial stress?
Cash Lease Adjustments

• Adjusting the lease due to COVID-19 events will be a joint landlord/tenant decision
  • What one party “thinks” should happen does not necessarily matter, but what can be mutually agreed upon

• Consider the gross crop revenue per acre compared to the cash rental rate

• Example: consider center pivot irrigated cash rental rate at $300/acre
  • Expected corn yields of 240 bushels/acre and price $2.85/bushel
  • Gross crop revenue is: 240 bushels x $2.85 per bushel = $684 per acre
    • Rent comprises 44% of gross revenue (typically in the 25 to 35% range)
    • Depends on area of Nebraska
Cash Lease Adjustments – Cost of Production

• Let’s look more at the $684 gross income per acre
  • According to the 2020 UNL Crop Budget for center pivot irrigated corn
    • Total expense to the operator for producing the crop is $510 per acre
      • $141 of expense comes from field operations
      • After expenses: $174 remains to pay expenses
    • The main point – if the tenant thinks rent is too high – this is why!

• The rallying cry: We are all in this together and everyone will have pain!
Having a Written Lease is Imperative!

- Not your grandpa’s farm anymore
- Handshake lease agreements may be ended at anytime
- Termination notice must be given by September 1 (previous year)
- Handshake leases for farmland start on March 1
- Fill-in-the blank written leases may be found at: www.aglease101.org
AgLease101.org – Free PDF Leases

• AgLease101.org – Free PDF leases for landowners and operators

Ag Lease 101 helps both land owners and land operators learn about alternative lease arrangements and includes sample written lease agreements for several alternatives. Ag Lease 101 was created by and is maintained by the North Central Farm Management Extension Committee.
AgLease101.org – Free PDF Leases

Document Library

Lease Publications

- Fixed and Flexible Cash Rental Arrangements For Your Farm (NCFMEC-01)
- Crop Share Rental Arrangements For Your Farm (NCFMEC-02)
- Pasture Rental Arrangements For Your Farm (NCFMEC-03)
- Rental Agreements For Farm Buildings and Livestock Facilities (NCFMEC-04)
- Purchasing and Leasing Farm Equipment (NCFMEC-05)
- Beef Cow Rental Arrangements For Your Farm (NCFMEC-06)

Leases Forms

- Cash Farm Lease (NCFMEC-01A)
- Crop-Share Farm Lease (NCFMEC-02A)
- Pasture Lease (NCFMEC-03A)
- Farm Building or Livestock Facility Lease (NCFMEC-04A)
- Farm Machinery Lease for Non-commercial Transactions (NCFMEC-05A)
- Livestock Rental Lease (NCFMEC-06A)

Fillable PDF Forms

Agricultural Economics
Ask an Expert

PRESENTED BY JIM JANSEN & ALLAN VYHNALEK
Land Management Questions

**Question:** What should you do when you have no faith in your current lawyer and need to draw up an estate plan and will?

**Answer:** Find a different lawyer! Website: agecon.unl.edu/succession – article recently completed on how to select a lawyer for estate planning

- You can interview potential lawyers
- You can ask about their charges before you incur them
- Be prepared when you go see the lawyer
  - Have a detailed balance sheet completed
  - Write out what you’d like to have happen to your assets
Land Management Questions

• **Question:** If a tenant does not pay a landlord in accordance to terms of the lease agreement (amount or when due), does the lease continue until the termination date?

• **Answer:** Depending upon the provision in a lease for late payment, a landlord may have grounds for possibly evicting or dismissing a tenant.
  - Certain states have specific provisions that allow for a landlord to demand the rent within a set period of time and a tenant may be evicted or a lien placed on the growing crop if rent has not been paid by the end of that period.
  - Suggested to use an attorney to communicate with the uncooperative tenant and follow the proper procedure for dealing with late payments.

*** Consult with an attorney for legal advice ***
Land Management Questions

**Question:** What is a fair rate for use of grain bins? Is the rate charged per month or annually? Should this be included in the cash rent for the property?

**Answer:** Depends on the size and type of structure of the grain storage facility.
- Consider renting on an annual basis and charging a flat rate between $0.10 to $0.20 per bushel (monthly charge leaves landlord little options if grain removed early)
- Tenant pays the full utility bill for the grain bins
  - Rental fee charged for bins reflects the use of the grain bins and utilities
  - Suggested having a separate metered hook-up when possible
Land Management Questions

• Question: Online participants may now submit their questions.
• Answer: Review of questions and answers will be based upon remaining time available.
Recorded Landlord & Tenant Cash Rent Meeting
For more information - web page: farm.unl.edu

- Managing Agricultural Land in 2020 and Beyond
  - Topics include current trends in real estate markets, lease negotiation strategies and provisions, and strategic considerations for land succession & transitions.
- Recorded February 3, 2020 meeting from Lancaster County may be found online
- Short clips may be found at: https://go.unl.edu/agland2020
Upcoming Webinar: Monday, August 17, 2020 at 12:00 PM CDT

Topics:

• 2020 Nebraska Farm Real Estate Survey and Report Estimates
  • Agricultural land values & cash rental rates
  • Special feature report on addressing disaster in leases
• Landlord & Tenant Communication
  • Communicating crop progress on leased land
  • Terminating verbal leases and approaching deadline
• Ask an Expert
  • Review of submitted questions
  • Upcoming land management workshops and publications