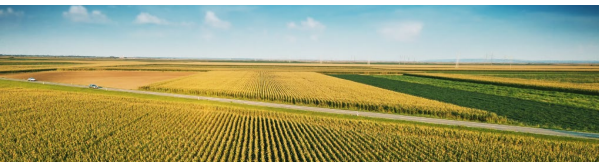




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- **Farmland Sales & Acquisitions**
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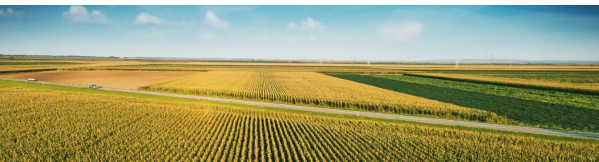
Farmland Leases

Speaker:

Jeff Troendle

President of Farm Management

JeffT@Hertz.ag

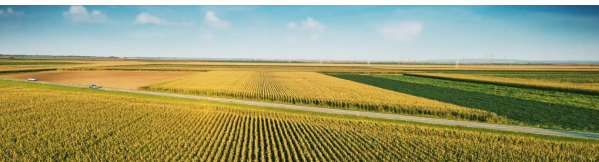




Caring for You and Your Farm®

Spring 2022

Farm Lease Trends/ Leasing Alternatives

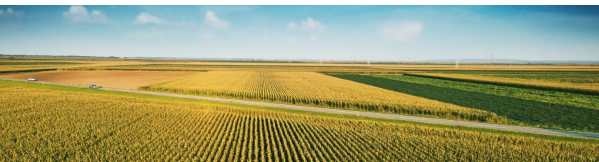


Purpose of a Lease

To define the split of income, expenses,
and responsibilities of farm owner and
farm operator

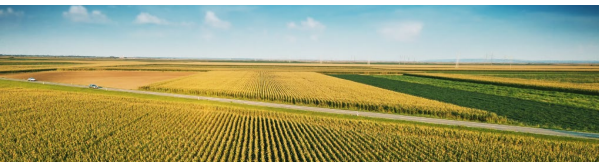
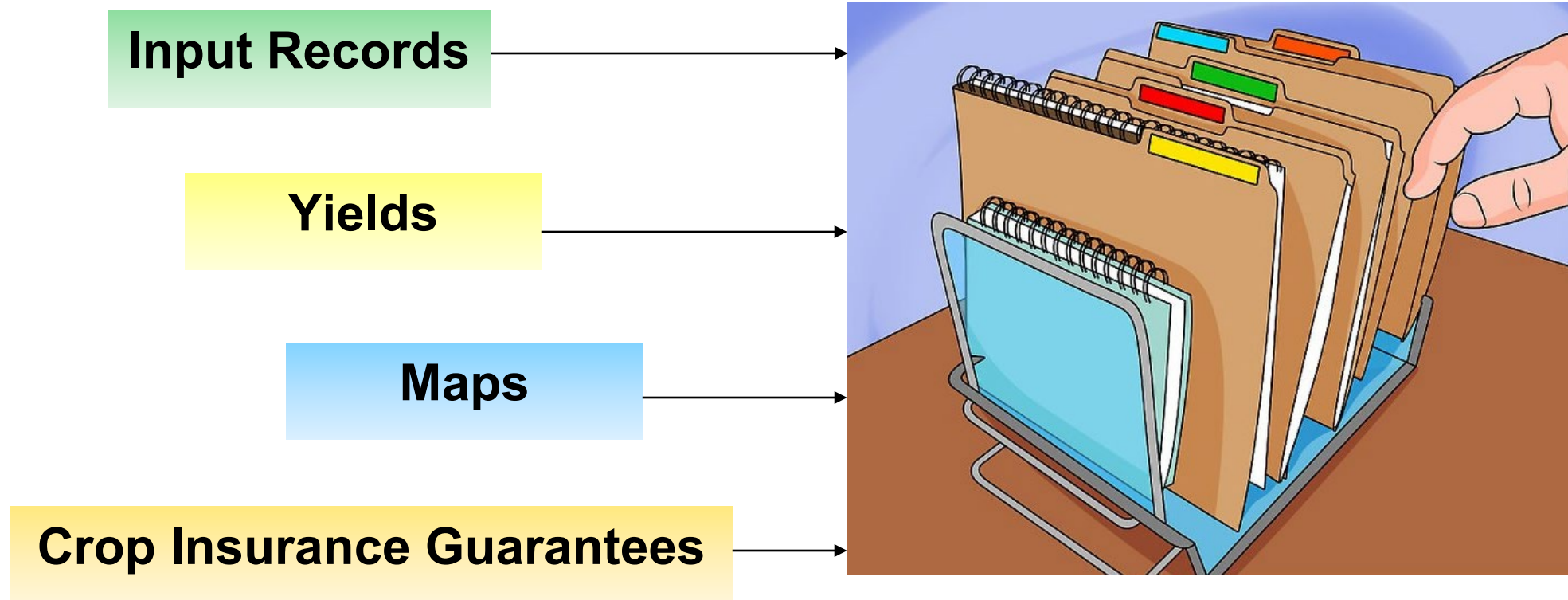


LEASES ARE IMPORTANT FOR EXPRESSION OF EXPECTATIONS:



Information

Access and ownership of input records, yields, maps, crop insurance guarantees



Factors to Consider

1. **Owner's Goals and Objectives**
2. **Net Income Projections**
3. **Land Quality/Productivity**
4. **Capital Requirements and Cash Flow**
5. **Risk versus Rewards – Crop Insurance**
6. **Effects of Bio-Fuels and New Technology**
7. **Control**
8. **Landowner's Other Income**
9. **Improvements**
10. **Tax Implications**



Factors to Consider

Tax Implications

- **§179 Deductions**
- **§168(k) Bonus Depreciation**
- **Social Security Ramification**
- **Estate Tax Ramifications**
- **Deductibility of Certain Expenses**
- **QBI Deduction**



Crop Income

2021 Corn

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
200	\$5.25	\$1,050

2022 Corn

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
200	\$6.50	\$1,300

Difference

<u>\$</u>	<u>%</u>
\$250	23.81%

2021 Beans

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
60	\$12.50	\$750

2022 Beans

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
60	\$14.00	\$840

Difference

<u>\$</u>	<u>%</u>
\$90	12.00%

Average \$900

\$1,070

\$170 18.89%



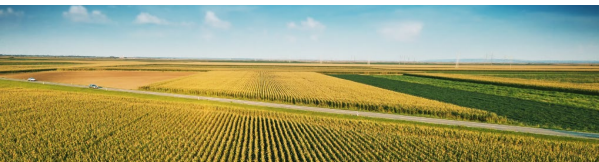
Crop Expenses

	<u>2021 Corn</u>	<u>2022 Corn</u>	<u>Difference</u>	
<u>Input</u>	<u>Cost/Acre</u>	<u>\$/Acre</u>	<u>\$</u>	<u>%</u>
Seed	\$115	\$125	\$10	8.70%
Fertilizer	130	255	\$125	96.15%
Chemicals	60	75	\$15	25.00%
Custom Hire	130	145	\$15	11.54%
Crop Insurance	18	24	\$6	33.33%
Drying & Storage	45	60	\$15	33.33%
Total/Average	<u>\$498</u>	<u>\$684</u>	<u>\$186</u>	<u>37.35%</u>



Crop Expenses

	<u>2021 Beans</u>	<u>2022 Beans</u>	<u>Difference</u>	
<u>Input</u>	<u>Cost/Acre</u>	<u>\$/Acre</u>	<u>\$</u>	<u>%</u>
Seed	\$65	\$72	\$7	10.77%
Fertilizer	53	105	\$52	98.11%
Chemicals	80	102	\$22	27.50%
Custom Hire	90	100	\$10	11.11%
Crop Insurance	20	27	\$7	35.00%
Drying & Storage	5	6	\$1	20.00%
Total/Average	<u>\$313</u>	<u>\$412</u>	<u>\$99</u>	<u>31.63%</u>



Changes 21-22

<u>2021 Corn</u>			<u>2022 Corn</u>			<u>Difference</u>	
<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>	<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>	<u>\$</u>	<u>%</u>
200	\$5.25	\$1,050	200	\$6.50	\$1,300	\$250	23.81%

<u>2021 Beans</u>			<u>2022 Beans</u>			<u>Difference</u>	
<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>	<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>	<u>\$</u>	<u>%</u>
60	\$12.50	\$750	60	\$14.00	\$840	\$90	12.00%
Average		\$900			\$1,070	\$170	18.89%

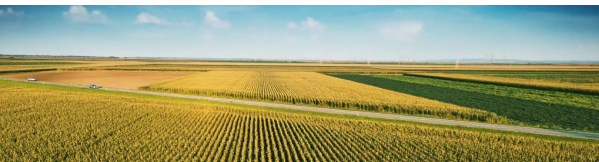
<u>2021 Expenses</u>		<u>2022 Expenses</u>		<u>Difference</u>	
<u>Crop</u>	<u>Cost/Acre</u>	<u>\$/Acre</u>	<u>\$</u>	<u>%</u>	
Corn	\$498	\$684	\$186	37.35%	
Beans	313	412	\$99	31.63%	
Average		\$406	\$548	\$143	35.14%



Farm Lease Alternatives

- 1. Traditional 50/50 Crop Share**
- 2. Variation to 50/50 Crop Share**

- Operator pays more of the inputs**
- Operator pays a cash rent in addition to one-half of the inputs**



Farm Lease Alternatives

3. Custom Operation

Landowner: 100% of Income and Expenses

Guarantees Landowner control

Owner maximizes return from their land, improvements, and management

Helps large farming operations stay below government payment limitations

Helps young farmers spread costs without more risk



Farm Lease Alternatives

4. Modified Crop Share

Landowner receives a negotiated percentage of the crop and government payments and pays 100% of the seed, fertilizer, and herbicides

Typical range is 75-80% to Landowner

Operator receives the balance percentage in return for machinery and labor

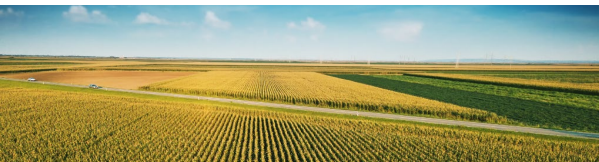
Each party pays their respective share of crop insurance, drying, and storage



Farm Lease Alternatives

5. Net Share

- **Owner receives a specified percentage of crop (usually 30% to 40%)**
- **Farm operator pays all input costs**
- **Owner pays for crop insurance, drying, and storage on owner's share of crop**



Farm Lease Alternatives

6. Cash Rent

- **Guaranteed Income**
- **Less Control**
- **Lower Risk ? ?**
- **UCC-1**
- **Rent Collection in a Challenging Growing Season**
- **Fertilizer–Requirements**
- **Tax Treatment**



Farm Lease Alternatives

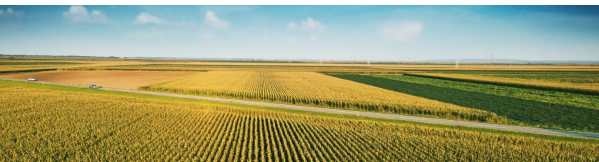
7. Flex/Variable Cash Leases

- Cash rent lease with a variable component
- Shares risks without actively participating
- No “locked-in” rental rate
- Landowner can be guaranteed a base rent, plus a potential flex payment
- Landowner receives the actual yields on the farm



Types of Flexible Leases

- Based on Crop Yield Only
- Based on Prices Only
- Based on Gross Income (Yield and Price)
- Based on Net Income (Yield and Price minus Inputs)
- Based on Crop Insurance Parameters



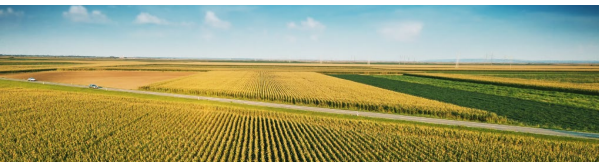
Flex Lease Example

- APH = 190
- Spring Price = \$5.90

APH x Spring Price x 35% = Rent

190 x \$ 5.90 x 0.35 = \$392/Acre

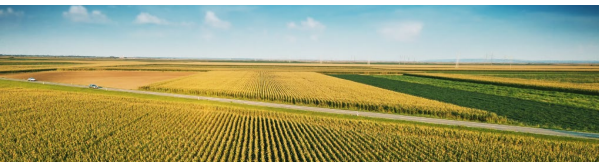
190 x \$5.90 x 0.32 = \$358/Acre



Flex Lease Example

- Base Rent \$250
- Flex = 35% over \$750/Acre on Corn
40% over \$550/Acre on Soybeans

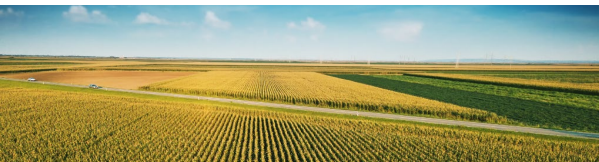
Corn			Soybeans		
Yield		Price	Yield		Price
220		\$6.50	65		\$14.00
220 x \$6.50 = \$1,430			65 x \$14.00 = \$910		



Flex Lease Example

	CORN	SOYBEANS
GROSS INCOME:	\$ 1,450	\$ 910
PRICE/ACRE:	- \$ 750	- \$ 550
TRIGGER INCOME:	\$ 700	\$ 360
	x 35%	x 40%
BONUS RENT:	\$ 245.00	\$ 144.00
BASE RENT:	+ \$ 250.00	+ \$ 250.00
TOTAL RENT:	\$ 495.00	\$ 394.00

Average Rent \$445/Acre



Flex Lease Example

- Base Rent \$250
- Flex = 35% over \$900/Acre on Corn
40% over \$625/Acre on Soybeans

Corn			Soybeans			
Yield		Price		Yield	Price	
220		\$6.50		65	\$14.00	
220 x \$6.50 = \$1,430				65 x \$14.00 = \$910		



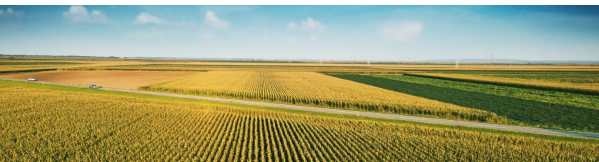
Flex Lease Example

	CORN	SOYBEANS
GROSS INCOME:	\$ 1,450	\$ 910
PRICE/ACRE:	- \$ 900	- \$ 625
TRIGGER INCOME:	\$ 550	\$ 285
	x 35%	x 40%
BONUS RENT:	\$ 193.00	\$ 114.00
BASE RENT:	+ \$ 250.00	+ \$ 250.00
TOTAL RENT:	\$ 443.00	\$ 364.00

Average Rent \$404/Acre



So, now what?





2022 LEASE COMPARISON

High Producing Farm

200 Acres in Midwest Region

ASSUMPTIONS:

	Cropland Acres	200.0	Corn Base	100.0	Bean Base	100.0
<u>CROP</u>	<u>ACRES</u>		<u>YIELD</u>	<u>\$/BU</u>		
Corn	100.0		220	\$6.50		
Soybeans	100.0		65	\$14.00		
Crop Insurance Payment	0.0					
Government Program Pmt/A	0.0					
Cash Rent/Tillable Acre	\$400		Buildings	\$0		

INCOME

		CUSTOM	MODIFIED CROP SHARE	50/50 CROP SHARE	40/60 NET SHARE	CASH RENT
	\$/Acre					
Corn	1430	143,000	114,400	71,500	57,200	
Soybeans	910	91,000	72,800	45,500	36,400	
Government Program Payment	0	0	0	0	0	
Crop Insurance Payment						
Cash Rent - Land	400					80,000
Building/CRP/Pasture		0	0	0	0	0
TOTAL INCOME		\$234,000	\$187,200	\$117,000	\$93,600	\$80,000



		80/20 MODIFIED CROP SHARE	50/50 CROP SHARE	40/60 NET SHARE	CASH RENT	
EXPENSES	\$/Acre					
Corn - Seed	125	12,500	12,500	6,250	0	
Fertilizer	255	25,500	25,500	12,750	0	
Crop Insurance	24	2,400	1,920	1,200	960	
Dry and Store	60	6,000	4,800	3,000	2,400	
Custom Hire	145	14,500	0	0	0	
Pesticide	75	7,500	7,500	3,750	0	
Soybeans- Seed	72	7,200	7,200	3,600	0	
Fertilizer	105	10,500	10,500	5,250	0	
Pesticides	102	10,200	10,200	5,100	0	
Custom Hire	100	10,000	0	0	0	
Crop Insurance	27	2,700	2,160	1,350	1,080	
Storage	6	600	480	300	240	
Property Taxes		5,000	5,000	5,000	5,000	5,000
Repairs	500	500	500	500	500	500
Management Fees		17,550	16,848	11,700	9,360	6,400
Int. on Operating @ 6%	6%	3,854	3,303	1,652	0	0
Insurance - Liability	100	100	100	100	100	100
- Property		0	0	0	0	0
TOTAL EXPENSES		\$136,604	\$108,511	\$61,502	\$19,640	\$12,000
NET INCOME		\$97,396	\$78,689	\$55,499	\$73,960	\$68,000
NET INCOME/TILLABLE ACRE		\$486.98	\$393.45	\$277.49	\$369.80	\$340.00

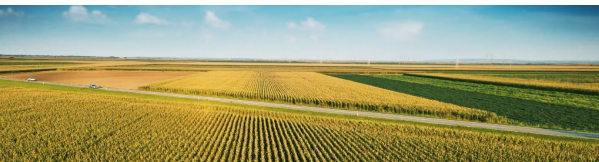


Where are rents headed?

- **Competition – Rent paid by neighbors**
- **Commodity Prices (Expectation)**
- **Government Farm Program**
- **Input Costs**
- **Past Yields**
- **Drainage/Irrigation**
- **Soil Productivity/Farmability**



Thank You!



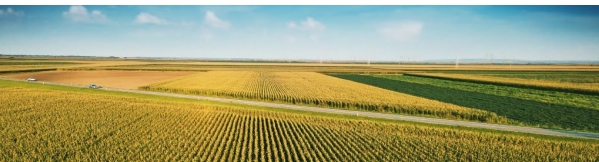
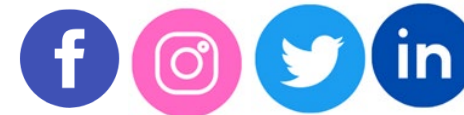


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