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Caring for You and Your Farm®

**Landowner Educational Seminars
Summer 2022**

**Farm Lease Trends/
Leasing Alternatives**



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Ag Trivia

How many gallons of ethanol are produced from 200 bushels of corn?



Ag Trivia

2.7 gallons of ethanol per bushel or a total of 540 gallons.



Ag Trivia

How many microbes are in a single tablespoon of soil?



Ag Trivia

Up to 50 billion microbes



Ag Trivia

**What is the most intelligent
Midwest farm animal?**



Ag Trivia

A pig.



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:

Appearance

Access

Maintenance

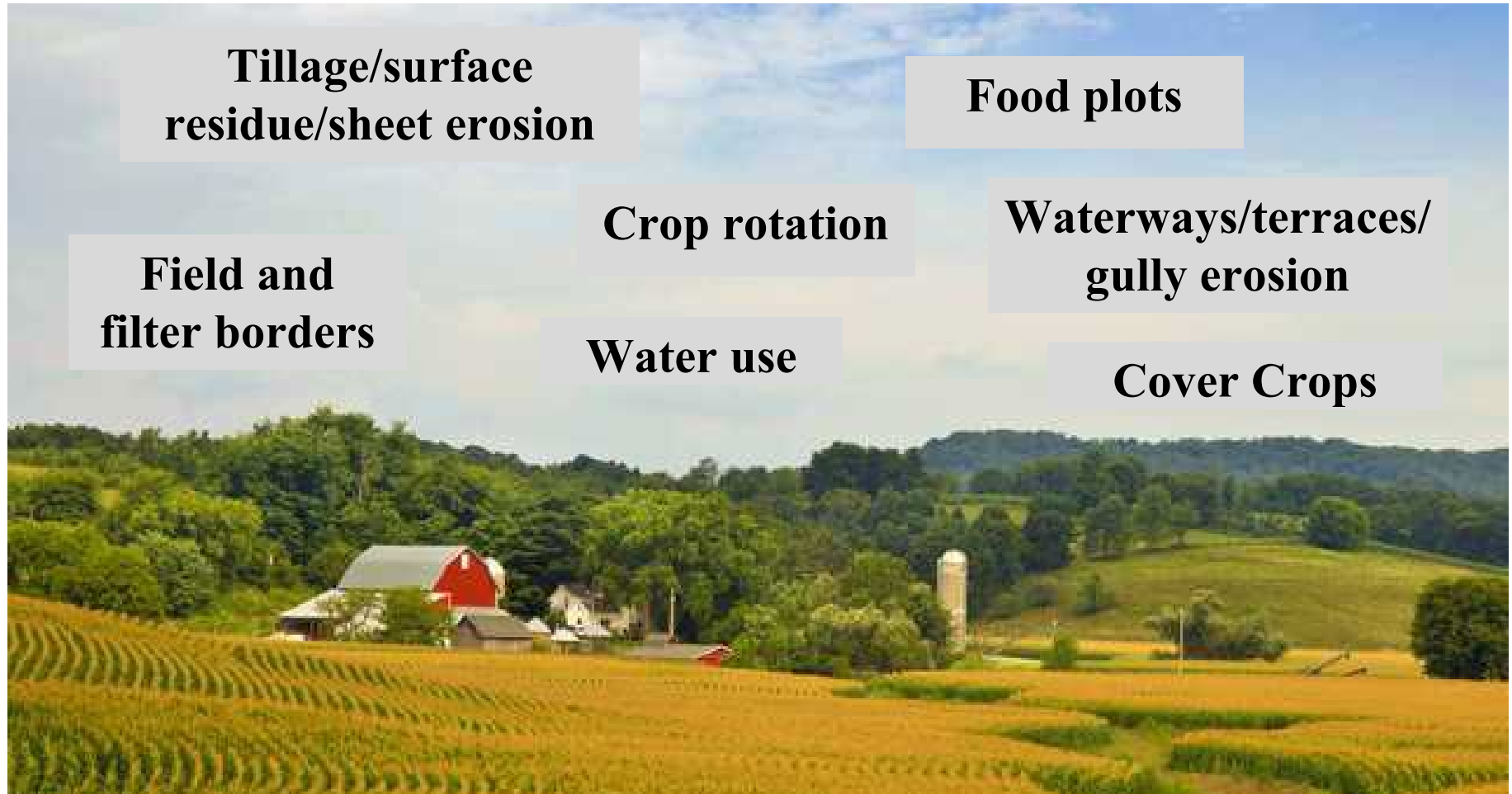
Chemical Practices

Conservation & Maintenance

CRP/CSP

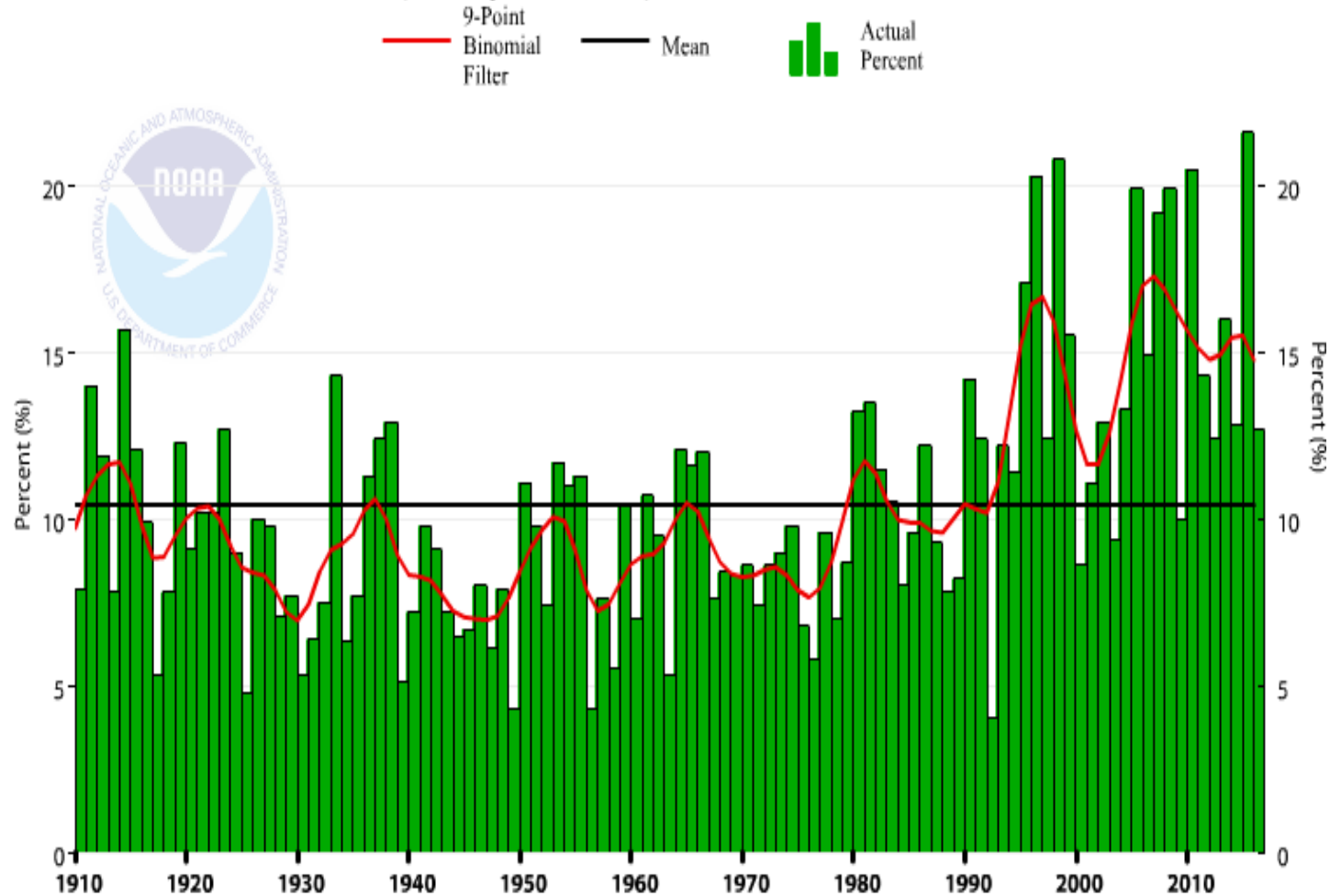


Conservation & Maintenance



Extreme Precipitation

Contiguous U.S. Extremes in 1-Day Precipitation (Step 4*)
Annual (January-December) 1910-2016



Erosion



Cover Crops

Who Should Pay the Cost?



Who Receives the Benefits?



Waterways



CRP/CSP



- Conservation reserve
- Conservation stewardship
- Transferability of contracts and income
- Who is receiving the payments?
- Who is responsible for maintenance?



LEASES ARE IMPORTANT FOR EXPRESSION OF EXPECTATIONS:

Fertilizer Balance

Fences

Improvements

Information

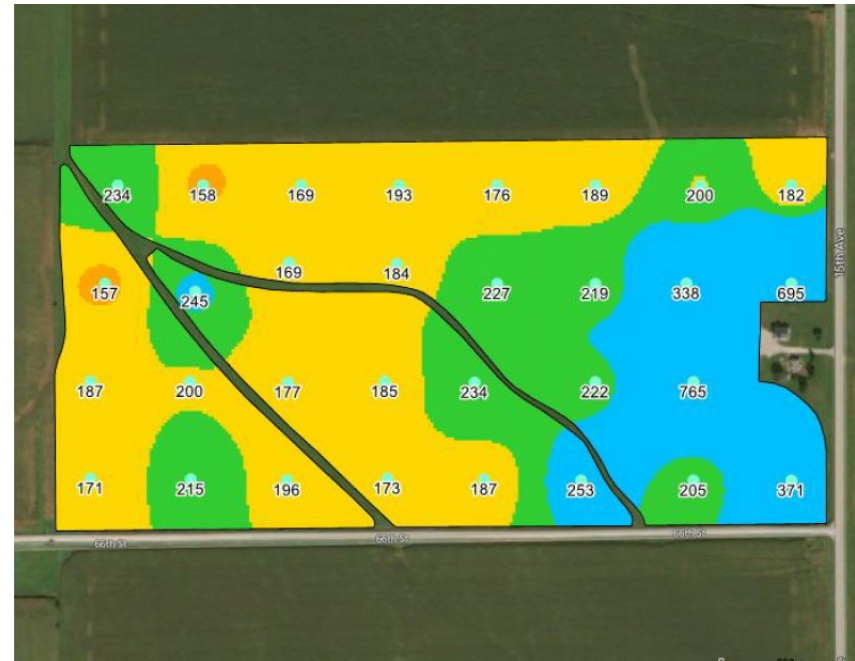
Insurance

Carbon Credits



Fertilizer Balance

Soil testing & crop removal rates

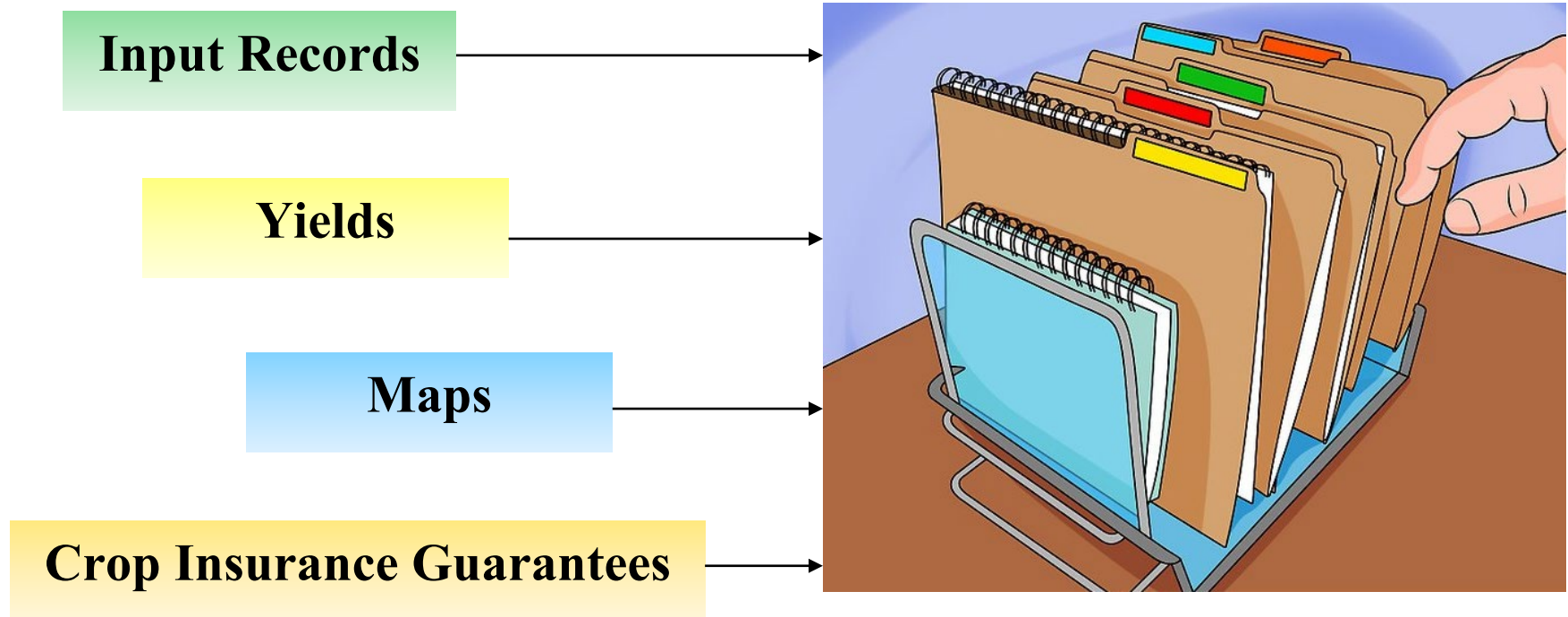


Variable Rate Application



Information

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



Carbon Credits



Source: Morningagclips.com

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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

Owner's Goals and Objectives

- Immediate income and cash flow versus making improvements that will enhance income long-term and market value**
- Long-Term versus Short-Term Ownership**
- Will the farm be retained by the next generation**
- Conservation**
- Maintaining Family Heritage (Buildings)**



Factors to Consider

Land Quality/Productivity

The higher the quality of the land, and the more improvements the greater advantage to having a share of the crop



High-quality



vs

Low-quality



Farm Improvements



Factors to Consider

Tax Implications

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



Financial Considerations



Source: pascoedc.com

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Crop Income

2021 Corn

Yield	Price	\$/Acre
200	\$5.25	\$1,050

2022 Corn

Yield	Price	\$/Acre
200	\$6.50	\$1,300

Difference

\$	%
\$250	23.81%

2021 Beans

Yield	Price	\$/Acre
60	\$12.50	\$750

2022 Beans

Yield	Price	\$/Acre
60	\$14.00	\$840

Difference

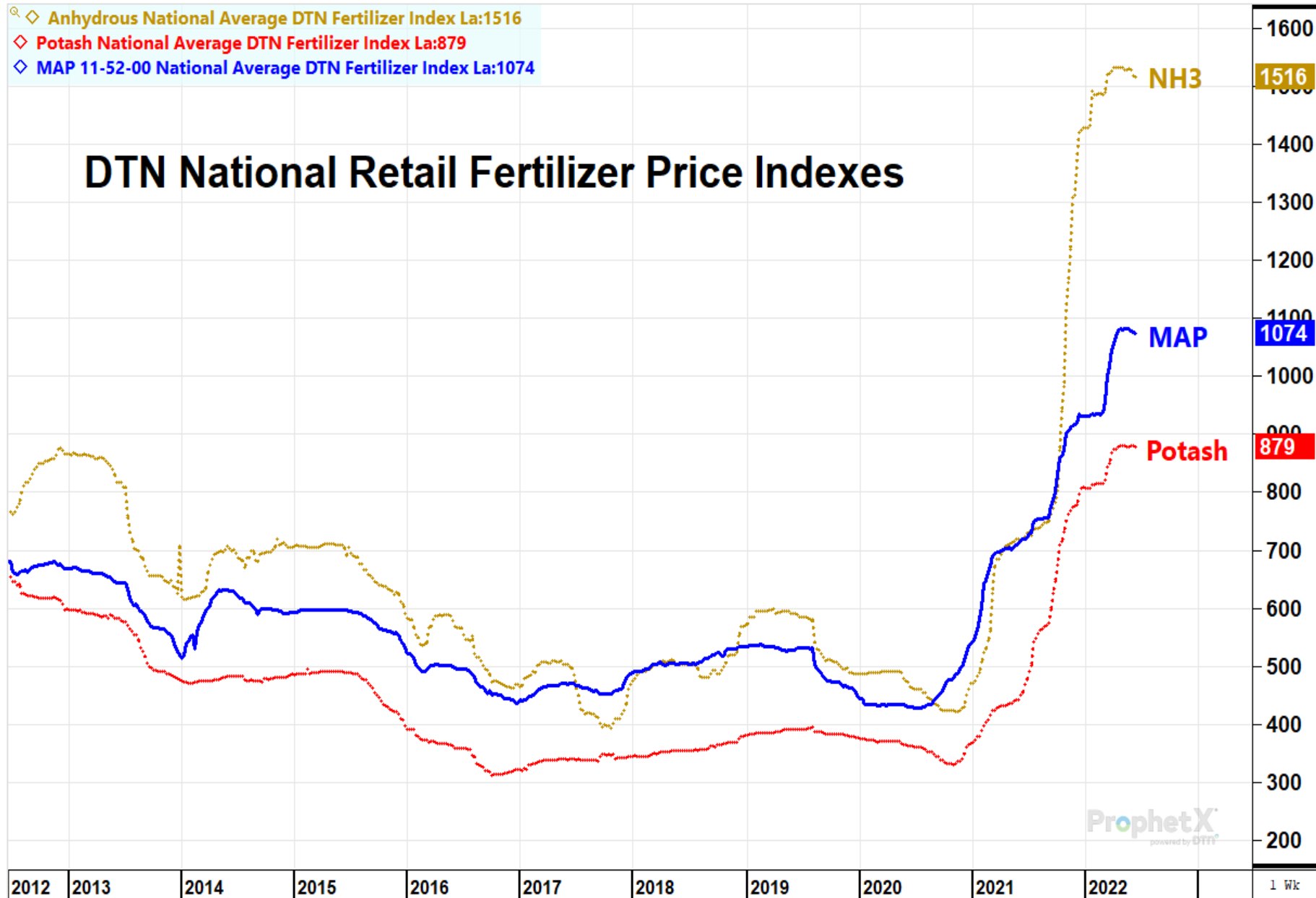
\$	%
\$90	12.00%

Average \$900

\$1,070

\$170 18.89%





Source: Brock Associates

www.Hertz.ag



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	\$498	\$684	\$186	37.35%



Crop Expenses

<u>2021 Beans</u>		<u>2022 Beans</u>	<u>Difference</u>	
Input	Cost/Acre	\$/Acre	\$	%
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	\$313	\$412	\$99	31.63%



Changes 2021-22

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

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



Lease Termination Deadlines:

- Iowa** – September 1st
- Illinois** – November 1st
- Indiana**
 - Oral lease: 3 months prior to end of lease
 - Written lease: 3 months prior to end of lease or as specified in the lease
- Minnesota** – Same as Indiana
- Missouri** – 60 days prior to end of lease
- Nebraska**
 - Oral lease: September 1st
 - Written lease: September 1st or as specified in the lease
- Wisconsin** – October 1st



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

UCC-1

- Iowa, Minnesota, and Nebraska landowners must file a UCC-1 with the Secretary of State to secure deferred rent payments.
- Illinois landowners have a statutory landlord's lien and are not required to file a UCC-1. However, prospective grain buyers must be notified of the landowner's lien.



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

- $APH = 200$
- Spring Price = \$5.90

$APH \times \text{Spring Price} \times 35\% = \text{Rent}$

$200 \times \$5.90 \times 0.35 = \$413/\text{Acre}$



Flex Lease Example

- Base Rent \$275
- Flex = 35% over \$750/Acre on Corn
40% over \$550/Acre on Soybeans

Corn				Soybeans		
Yield		Price		Yield		Price
200		\$6.00		62		\$14.00
200 x \$6.00 = \$1,200				62 x \$14.00 = \$868		



Flex Lease Example

	CORN	SOYBEANS
GROSS INCOME:	\$ 1,200	\$ 868
PRICE/ACRE:	- \$ 750	- \$ 550
TRIGGER INCOME:	\$ 450	\$ 318
	x 35%	x 40%
BONUS RENT:	\$ 157.50	\$ 127.20
BASE RENT:	+ \$ 275.00	+ \$ 275.00
TOTAL RENT:	\$ 432.50	\$ 402.20

Average Rent \$417.35/Acre



So, now what?





2023 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	\$6.00		
Soybeans	100.0	65	\$14.00		
Crop Insurance Payment	0.0				
Government Program Pmt/A	0.0				
Cash Rent/Tillable Acre	\$340	Buildings	\$0		

INCOME

		CUSTOM	80/20 MODIFIED CROP SHARE	50/50 CROP SHARE	40/60 NET SHARE	CASH RENT
	\$/Acre					
Corn	1320	132,000	105,600	66,000	52,800	
Soybeans	910	91,000	72,800	45,500	36,400	
Government Program Payment	0	0	0	0	0	
Crop Insurance Payment						
Cash Rent - Land	340					68,000
Building/CRP/Pasture		0	0	0	0	0
TOTAL INCOME		\$223,000	\$178,400	\$111,500	\$89,200	\$68,000



		CUSTOM	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	250	25,000	25,000	12,500	0	
Crop Insurance	25	2,500	2,000	1,250	1,000	
Dry and Store	40	4,000	3,200	2,000	1,600	
Custom Hire	155	15,500	0	0	0	
Pesticide	85	8,500	8,500	4,250	0	
Soybeans- Seed	75	7,500	7,500	3,750	0	
Fertilizer	100	10,000	10,000	5,000	0	
Pesticides	100	10,000	10,000	5,000	0	
Custom Hire	130	13,000	0	0	0	
Crop Insurance	20	2,000	1,600	1,000	800	
Storage	10	1,000	800	500	400	
Property Taxes		5,000	5,000	5,000	5,000	5,000
Repairs	500	500	500	500	500	500
Management Fees		16,725	16,056	11,150	8,920	5,440
Int. on Operating	7%	4,607	3,859	1,929	0	0
Insurance - Liability	100	100	100	100	100	100
- Property		0	0	0	0	0
TOTAL EXPENSES		\$138,432	\$106,615	\$60,179	\$18,320	\$11,040
NET INCOME		\$84,568	\$71,785	\$51,321	\$70,880	\$56,960
NET INCOME/TILLABLE ACRE		\$422.84	\$358.93	\$256.60	\$354.40	\$284.80



Farm Lease Summary

PRICE RANGE	CORN	SOYBEANS	CASH RENT
HIGH	\$7.50	\$17.00	\$400.00
MEDIUM	\$6.00	\$14.00	\$340.00
LOW	\$4.50	\$11.00	\$280.00



Farm Lease Summary

Net Income Per Acre					
PRICE RANGE	CUSTOM	80/20 MODIFIED CROP SHARE	50/50 CROP SHARE	40/60 NET SHARE	CASH RENT
HIGH	\$665	\$550	\$375	\$449	\$340
MEDIUM	\$423	\$359	\$257	\$354	\$285
LOW	\$180	\$168	\$138	\$260	\$230



Where are rents headed?

- **2022 Crop Yields**
- **Commodity Prices**
- **Crop Input Costs**
- **Government Payments**
- **Farm Improvements**



Questions?



Thank You





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