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Professional Services for Farmland Owners and Investors:

- **Professional Farm Management**
- **Farmland Sales & Acquisitions**
- **Farmland Auctions**
- **Trusted Farmland Appraisals**





Caring for You and Your Farm®

**Landowner Educational Seminar
Summer 2024**

**Farm Lease Trends/
Leasing Alternatives**



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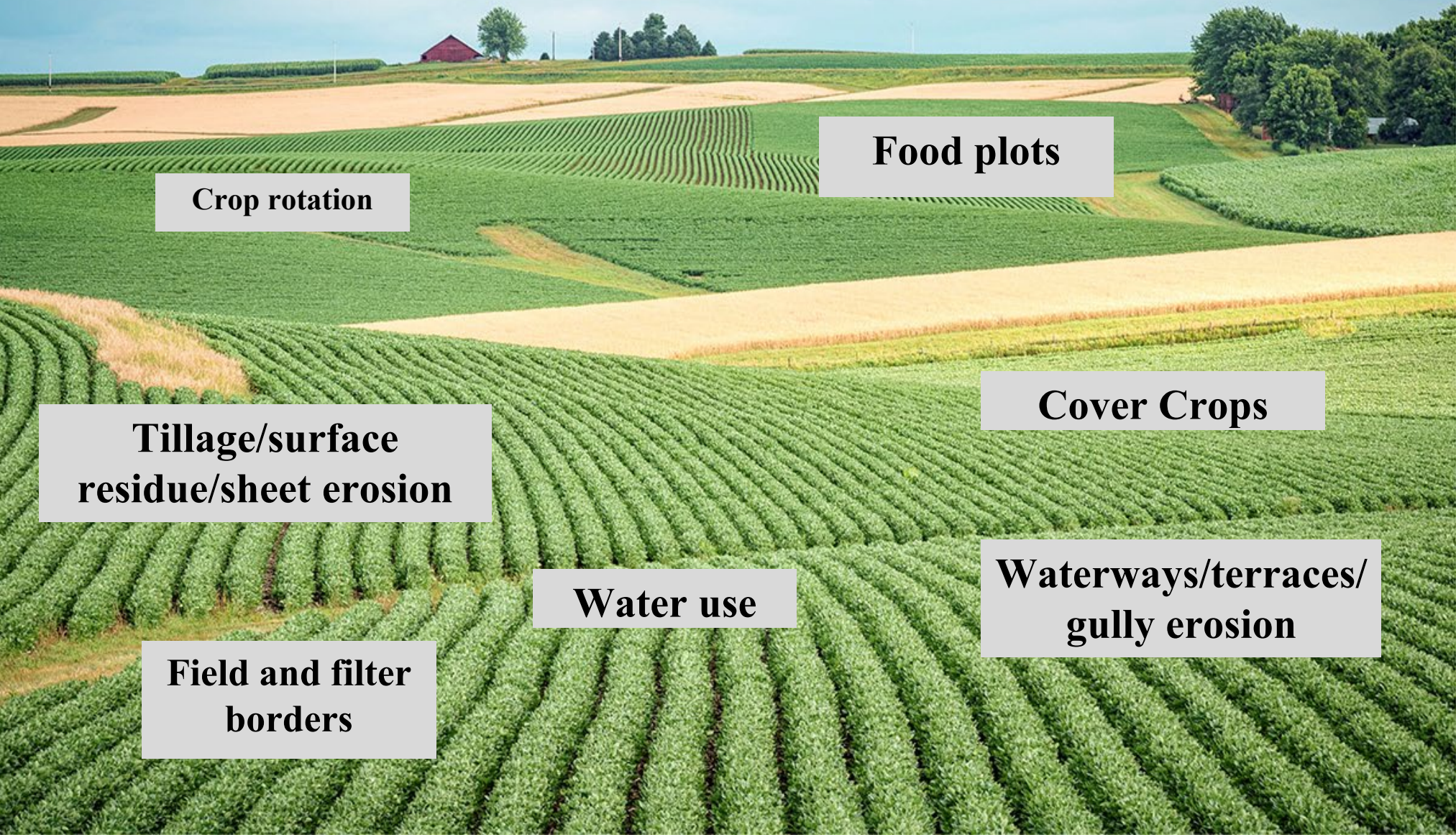


Purpose of a Lease

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



Conservation & Maintenance



Crop rotation

Food plots

**Tillage/surface
residue/sheet erosion**

Cover Crops

Water use

**Waterways/terraces/
gully erosion**

**Field and filter
borders**



Photo courtesy of Iowa Soybean Association

www.Hertz.ag



Expression of Expectations

- Appearance
- Access
- Maintenance
- Chemical Practices
- Conservation
- Maintenance
- CRP/CSP



Erosion



Waterways



Cover Crops

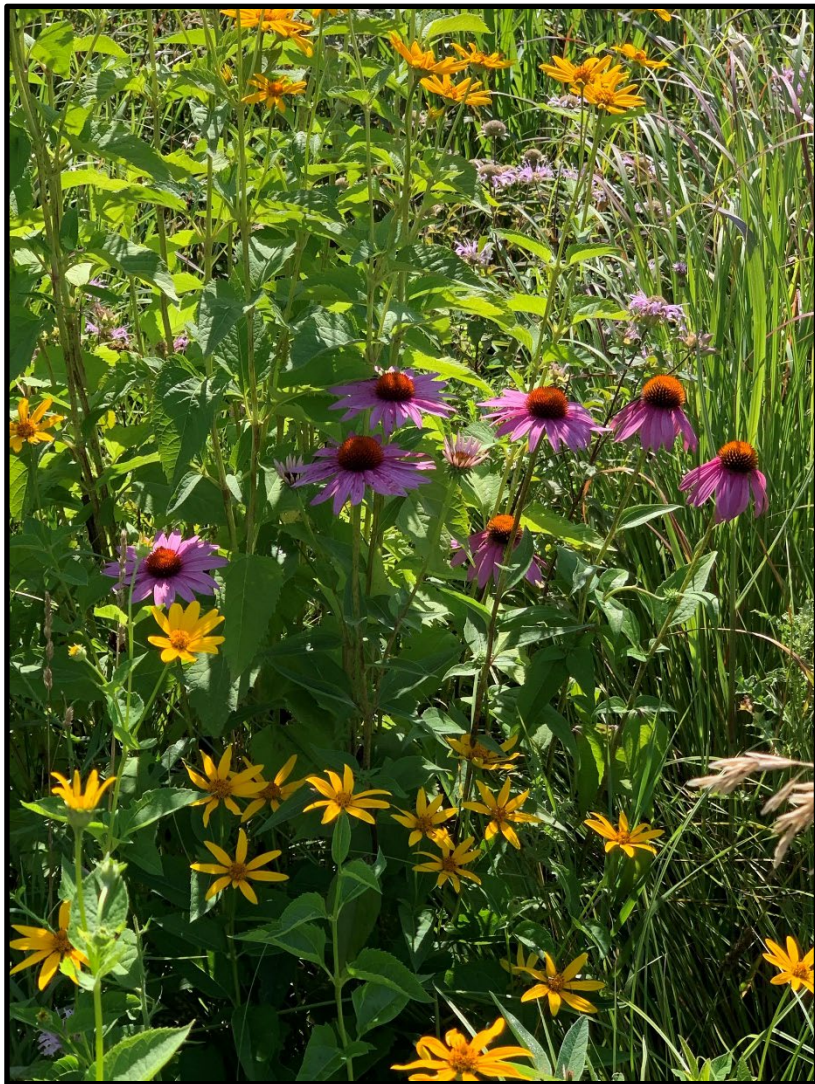
Who Should Pay the Cost?



Who Receives the Benefits?



CRP/CSP



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



Expression of Expectations Cont'd:

- Fertilizer Balance
- Fences
- Improvements
- Information
- Insurance
- Carbon Credits



Fertilizer Balance

Soil testing & crop removal rates

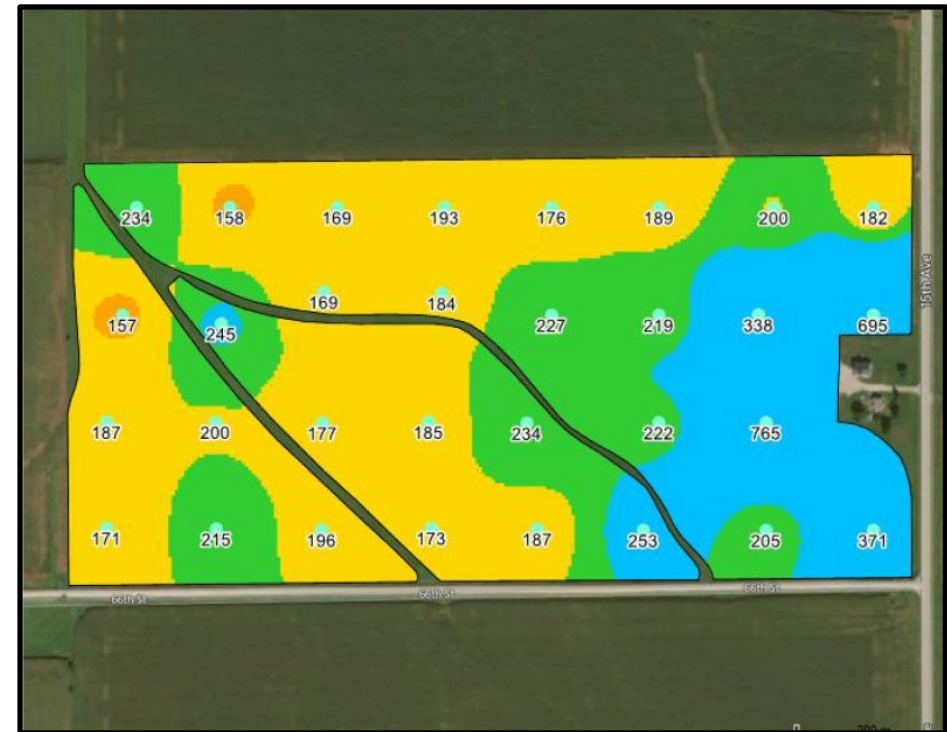


Photo courtesy of serc.cartleton.edu

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Fertilizer Removal Rates - Corn

Corn Yield (bu/ ac)	Phosphorus (P)			Potassium (K)	
	P Removed in Grain (# of P ₂ O ₅)	MAP (11-52-0)	DAP (18-46-0)	K Removed in Grain (# of K ₂ O)	Potash (0-0-60)
125	40	77	87	28	46
150	48	92	104	33	55
175	56	108	122	39	64
190	61	117	132	42	70
200	64	123	139	44	73
210	67	129	146	46	77
220	70	135	153	48	81
230	74	142	160	51	84
240	77	148	167	53	88
250	80	154	174	55	92
275	88	169	191	61	101
300	96	185	209	66	110



Source = Pioneer
www.Hertz.ag



Fertilizer Removal Rates-Soybeans

Soybean Yield (bu/ac)	Phosphorus (P)			Potassium (K)	
	P Removed in Grain (# of P ₂ O ₅)	MAP (11-52-0)	DAP (18-46-0)	K Removed in Grain (# of K ₂ O)	Potash (0-0-60)
30	22	42	47	36	60
40	29	55	63	48	80
45	32	62	70	54	90
50	36	69	78	60	100
55	40	76	86	66	110
60	43	83	94	72	120
65	47	90	102	78	130
70	50	97	110	84	140
75	54	104	117	90	150
80	58	111	125	96	160
90	65	125	141	108	180



Source = Pioneer
www.Hertz.ag



Maintaining Fertility

	P_2O_5	K_2O
Corn	80	55
Soybeans	50	80

- Operator to maintain PH of 6.2-6.7
- Lime will be depleted 25% each year
- Undepleted lime will be refunded to operator at the termination of the lease



Communication of Farm Information

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

Input Records

Yield Maps

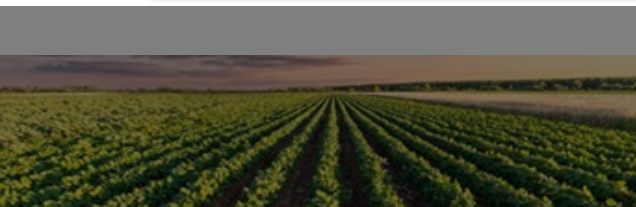
Soil Test Data

Crop Insurance Guarantees



Carbon Credits

Are they right for your farm?



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)



Multi-Year Leases

Owner Advantages

- **Locked in rental rate when market is softening**
- **Tenant longevity**
- **Eliminates the need to negotiate lease terms each year**

Owner Disadvantages

- **Inability to make changes if tenant is not performing to your standards**
- **Decline in market value if a farm is sold with a lease in place**
- **Unable to increase rent when the market is appreciating**
- **Less control**
- **One way street**



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

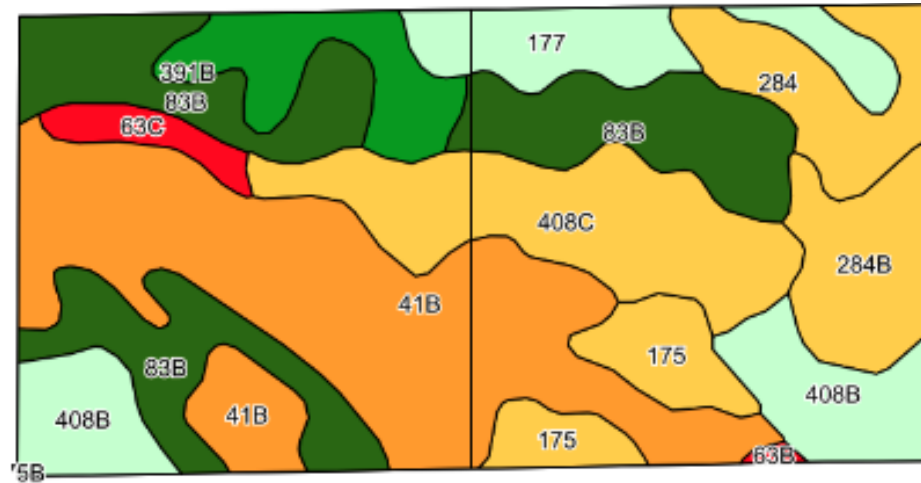


Productivity & Variability

**Highly Productive
Low Variability**



**vs. High Variability
Lower Productivity**



Farm Improvements



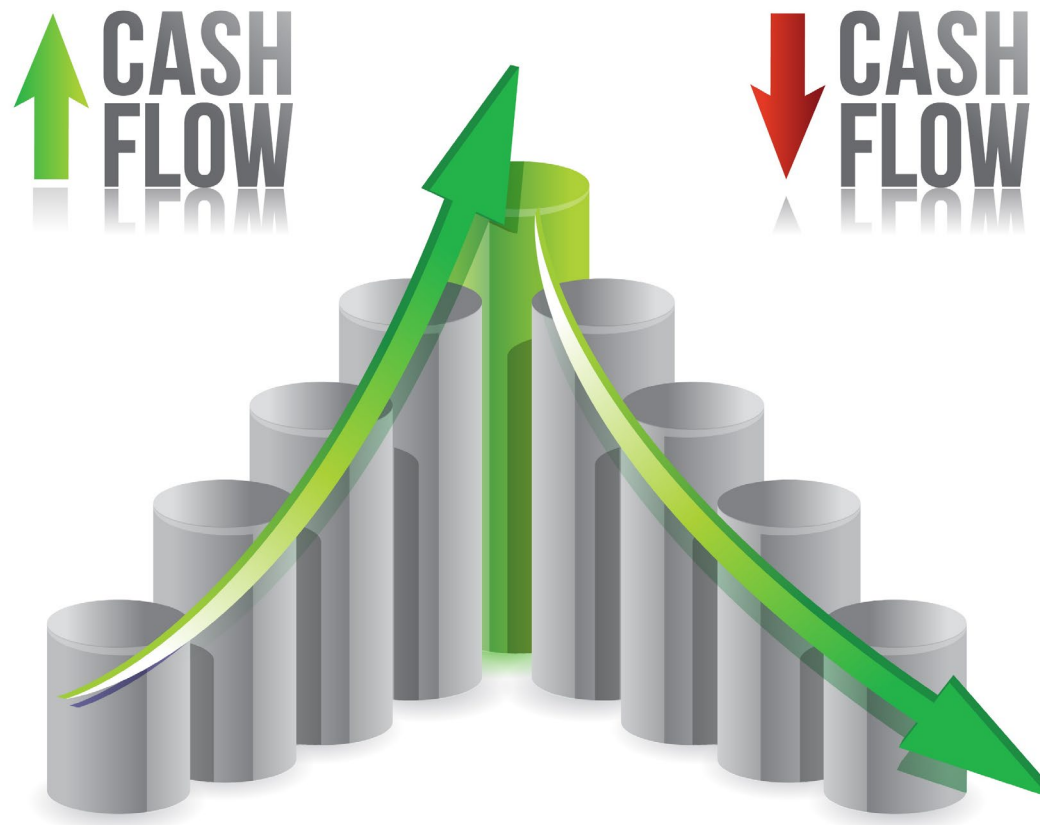
Factors to Consider

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

www.Hertz.ag

Crop Income



2024 Corn

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
230	\$4.75	\$1,093

2025 Corn

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
230	\$4.50	\$1,035

Difference

<u>\$</u>	<u>%</u>
-\$58	-5.3%

2024 Beans

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
65	\$11.50	\$748

2025 Beans

<u>Yield</u>	<u>Price</u>	<u>\$/Acre</u>
65	\$11.00	\$715

Difference

<u>\$</u>	<u>%</u>
-\$33	-4.3%

Average \$920

\$875

-\$45 -4.9%



Crop Expenses



2024 Corn

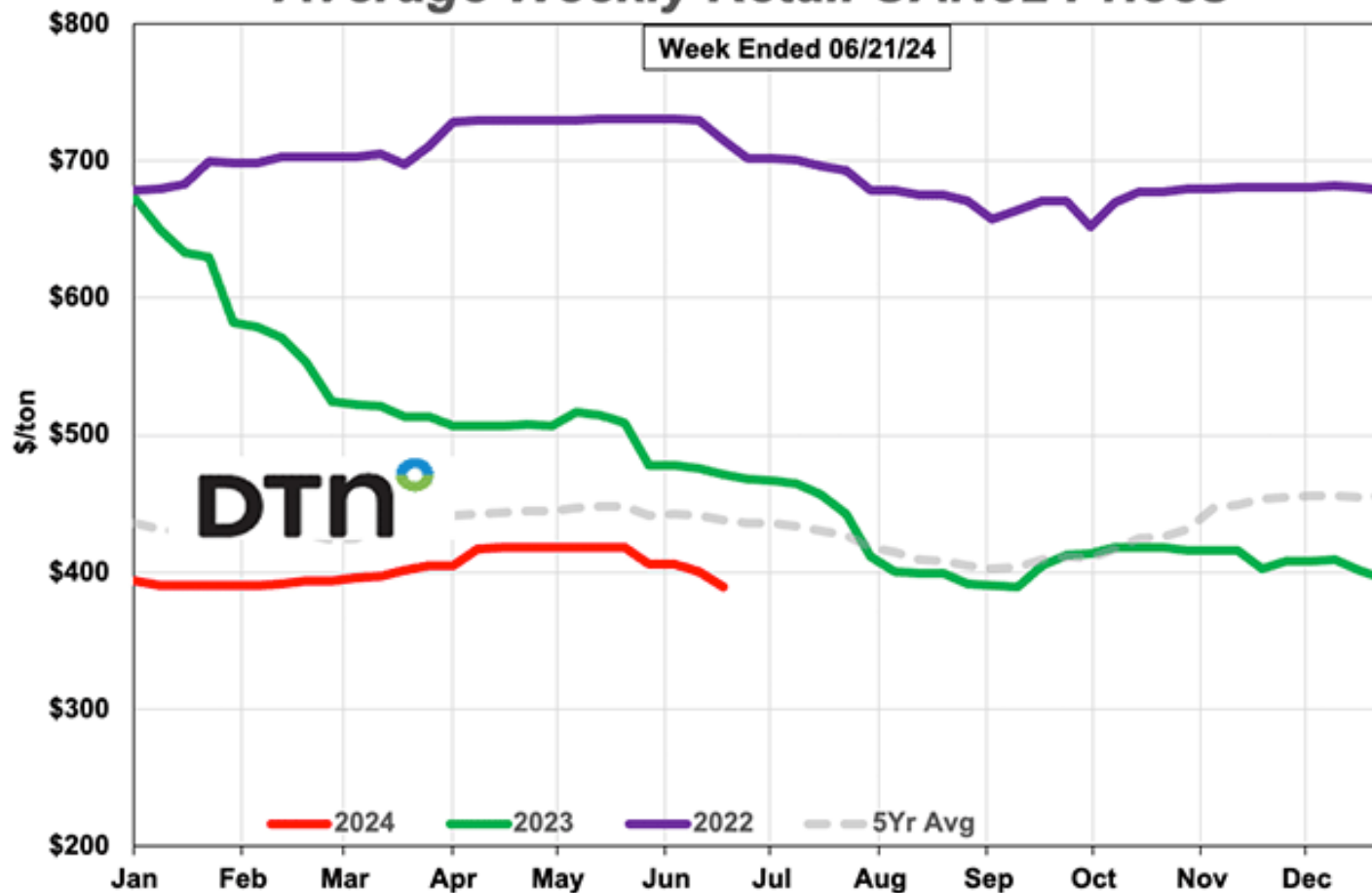
2025 Corn

Difference

Input	Cost/Acre	\$/Acre	\$	%
Seed	\$125	\$125	\$0	0.0%
Fertilizer	210	200	-\$10	-4.8%
Chemicals	90	90	\$0	0.0%
Custom Hire	160	160	\$0	0.0%
Crop Insurance	25	25	\$0	0.0%
Drying & Storage	50	50	\$0	0.0%
Total/Average	\$660	\$650	-\$10	-1.5%



Average Weekly Retail UAN32 Prices



Source: www.dtnpf.com

www.Hertz.ag



Crop Expenses



2024 Beans

2025 Beans

Difference

Input	Cost/Acre	\$/Acre	\$	%
Seed	\$85	\$85	\$0	0.0%
Fertilizer	125	120	-\$5	-4.0%
Chemicals	95	95	\$0	0.0%
Custom Hire	145	145	\$0	0.0%
Crop Insurance	22	22	\$0	0.0%
Drying & Storage	10	10	\$0	0.0%
Total/Average	\$482	\$477	-\$5	-1.0%



Changes 2024-25



<u>2024 Corn</u>			<u>2025 Corn</u>			<u>Difference</u>	
Yield	Price	\$/Acre	Yield	Price	\$/Acre	\$	%
230	\$4.75	\$1,093	230	\$4.50	\$1,035	-\$58	-5.3%

<u>2024 Beans</u>			<u>2025 Beans</u>			<u>Difference</u>	
Yield	Price	\$/Acre	Yield	Price	\$/Acre	\$	%
65	\$11.50	\$748	65	\$11.00	\$715	-\$33	-4.3%
Average		\$920			\$875	-\$45	-4.9%



<u>2024 Expenses</u>		<u>2025 Expenses</u>		<u>Difference</u>	
Crop	Cost/Acre	\$/Acre	\$/Acre	\$	%
Corn	\$660	\$650		-\$10	-1.5%
Beans	482	477		-\$5	-1.0%
Average	\$571	\$564		-\$8	-1.3%



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

- Base Rent \$275
- Flex = 35% over \$935/Acre on Corn
40% over \$757/Acre on Soybeans

Yield		Price		Yield		Price
230		\$4.75		65		\$11.50
230 x \$4.75 = \$1,092.50				65 x \$11.50 = \$747.50		



Flex Lease Example

	CORN	SOYBEANS
GROSS INCOME:	\$ 1092.50	\$ 747.50
PRICE/ACRE:	- \$ 935	- \$ 757
TRIGGER INCOME:	\$ 157.50	\$ -9.50
	x 35%	x 40%
BONUS RENT:	\$ 55.12	\$ 0
BASE RENT:	+ \$ 275.00	+ \$ 275.00
TOTAL RENT:	\$ 330.12	\$ 275.00

Average Rent: \$302.56 / acre



Flex Lease Example

- APH = 210
- Spring Price = \$4.66

APH x Spring Price x 33% = Rent

210 x \$4.66 x 0.33 = \$323/Acre



Where do we go from here?





2025 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		230		\$4.50	
Soybeans	100.0		65		\$11.00	
Crop Insurance Payment	0.0					
Government Program Pmt/A	0.0					
Cash Rent/Tillable Acre	\$330		Buildings	\$0		

INCOME

		MODIFIED	50/50	40/60	
	CUSTOM	CROP SHARE	CROP SHARE	NET SHARE	CASH RENT
	\$/Acre				
Corn	1035	103,500	82,800	51,750	41,400
Soybeans	715	71,500	57,200	35,750	28,600
Government Program Payment	0	0	0	0	0
Crop Insurance Payment					
Cash Rent - Land	330				66,000
Building/CRP/Pasture		0	0	0	0
TOTAL INCOME		\$175,000	\$140,000	\$87,500	\$70,000
					\$66,000



		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	200	20,000	20,000	10,000	0	
Crop Insurance	25	2,500	2,000	1,250	1,000	
Dry and Store	50	5,000	4,000	2,500	2,000	
Custom Hire	160	16,000	0	0	0	
Pesticide	90	9,000	9,000	4,500	0	
Soybeans- Seed	85	8,500	8,500	4,250	0	
Fertilizer	120	12,000	12,000	6,000	0	
Pesticides	95	9,500	9,500	4,750	0	
Custom Hire	145	14,500	0	0	0	
Crop Insurance	22	2,200	1,760	1,100	880	
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		13,125	12,600	8,750	7,000	5,280
Int. on Operating	8%	5,205	4,290	2,145	0	0
Insurance - Liability	180	180	180	180	180	180
- Property		0	0	0	0	0
TOTAL EXPENSES		\$136,710	\$102,630	\$57,675	\$16,960	\$10,960
NET INCOME		\$38,290	\$37,370	\$29,825	\$53,040	\$55,040
NET INCOME/TILLABLE ACRE		\$191.45	\$186.85	\$149.13	\$265.20	\$275.20



Farm Lease Summary

PRICE RANGE	CORN	SOYBEANS	CASH RENT
HIGH	\$5.50	\$12.50	\$380.00
MEDIUM	\$4.50	\$11.00	\$330.00
LOW	\$3.50	\$9.50	\$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	\$343	\$306	\$223	\$324	\$321
MEDIUM	\$191	\$187	\$149	\$265	\$275
LOW	\$40	\$68	\$75	\$206	\$229



Where are rents headed?

- **2024 Crop Yields**
- **Commodity Prices**
- **Crop Input Costs**
- **Government Payments**
- **Farm Improvements**
- **Impacts From 45Z Tax Credit**



Where are rents headed?

Average Cash Rents by State

Year	Illinois	Iowa	Minnesota*	Nebraska**
2024	340	279	N/A	220
2023	353	279	245	230
2022	322	256	243	225
2021	265	232	223	238
2020	270	222	208	226
2019	263	219	206	225
2018	260	222	208	210
2017	260	219	210	220
2016	283	230	222	234
2015	295	246	226	247
2014	323	260	240	260
2013	339	270	232	280

*Average for Southern 1/3 of Minnesota

**Average for Center Pivot Irrigated Southwest Region cropland

Sources: Iowa State University, University of Minnesota, University of Nebraska, and ISPFARMA



Questions?



Thank You





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