



Caring for You and Your Farm®

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
Winter 2024**

**Farm Lease Trends/
Leasing Alternatives**



www.Hertz.ag

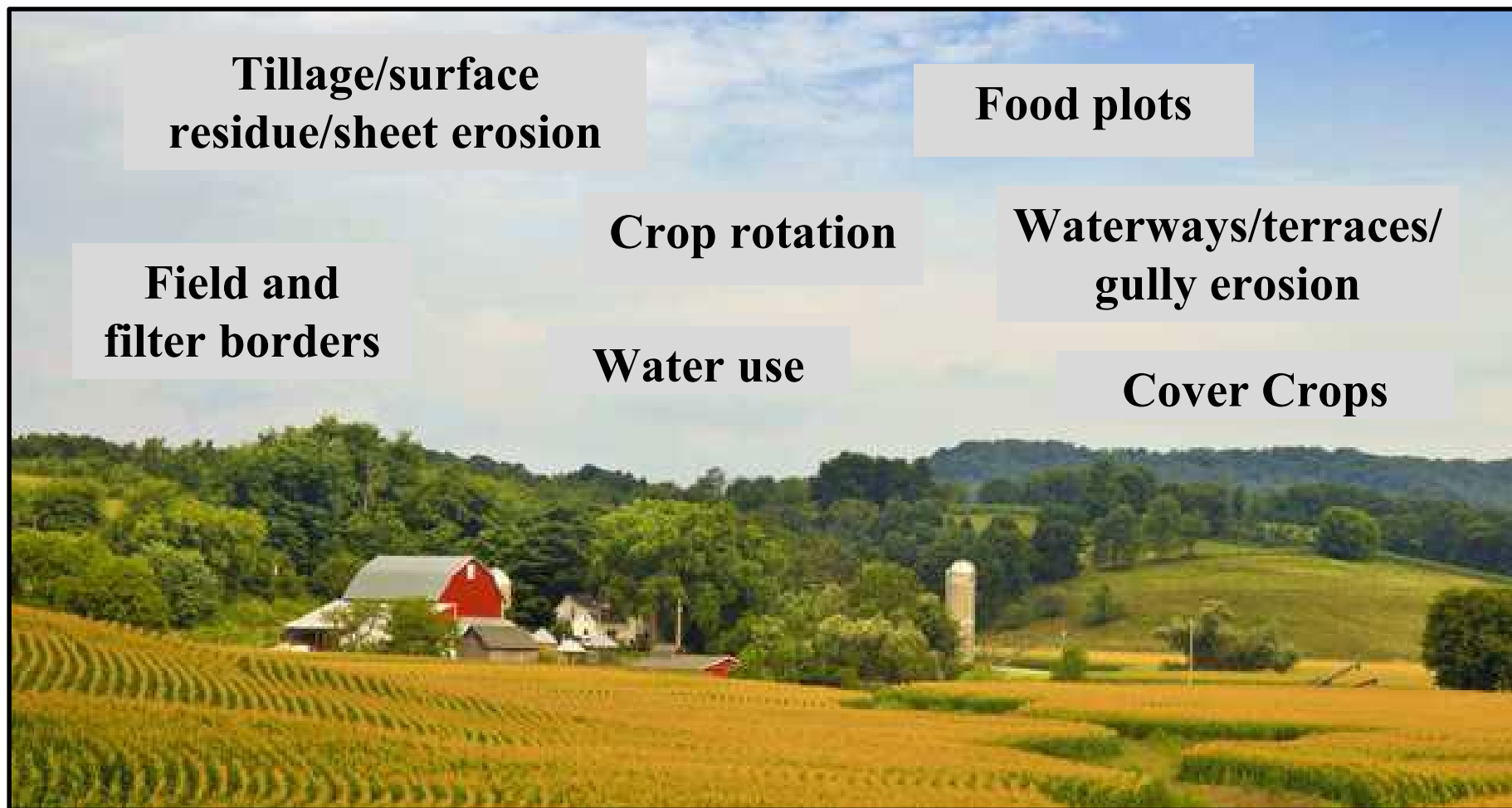


Purpose of a Lease

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



Conservation & Maintenance



LEASES ARE IMPORTANT FOR *EXPRESSION* OF *EXPECTATIONS*:

Appearance

Access

Maintenance

Chemical Practices

Conservation & Maintenance

CRP/CSP



Extreme Precipitation



Erosion



Waterways



Cover Crops

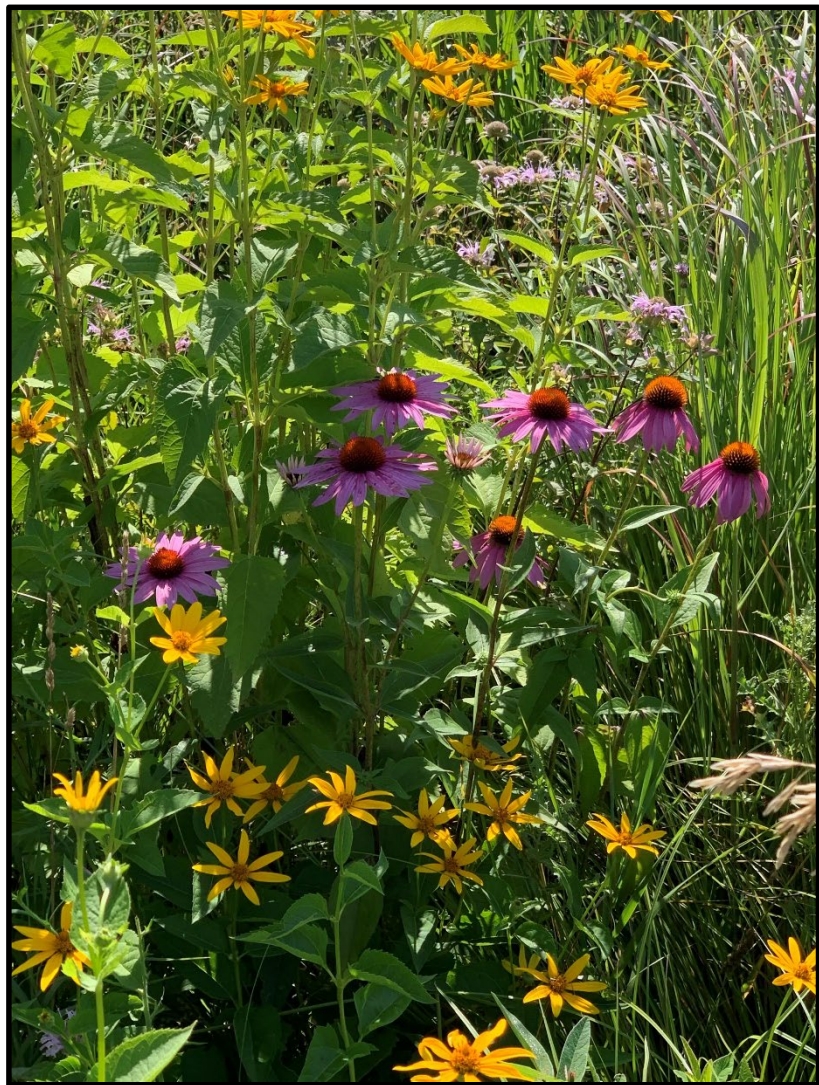
Who Should Pay the Cost?



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?



LEASES ARE IMPORTANT FOR EXPRESSION OF EXPECTATIONS:

Fertilizer Balance

Fences

Improvements

Information

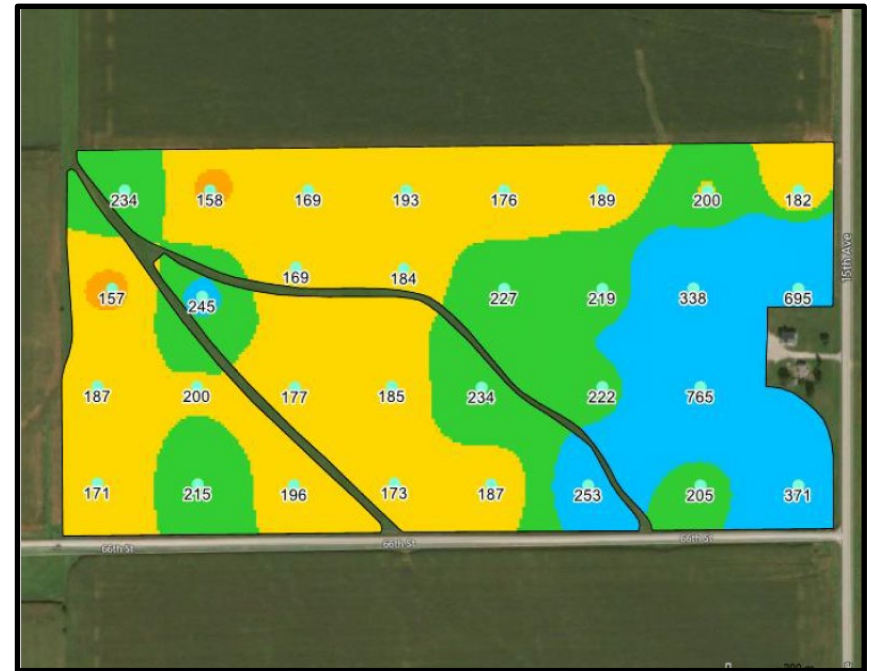
Insurance

Carbon Credits



Fertilizer Balance

Soil testing & crop removal rates



Fertilizer Removal Rates - Corn

Corn Yield (bu/ ac)	Phosphorus (P)			Potassium (K)	
	P Removed in Grain (# of P_2O_5)	MAP (11-52-0)	DAP (18-46-0)	K Removed in Grain (# of K_2O)	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

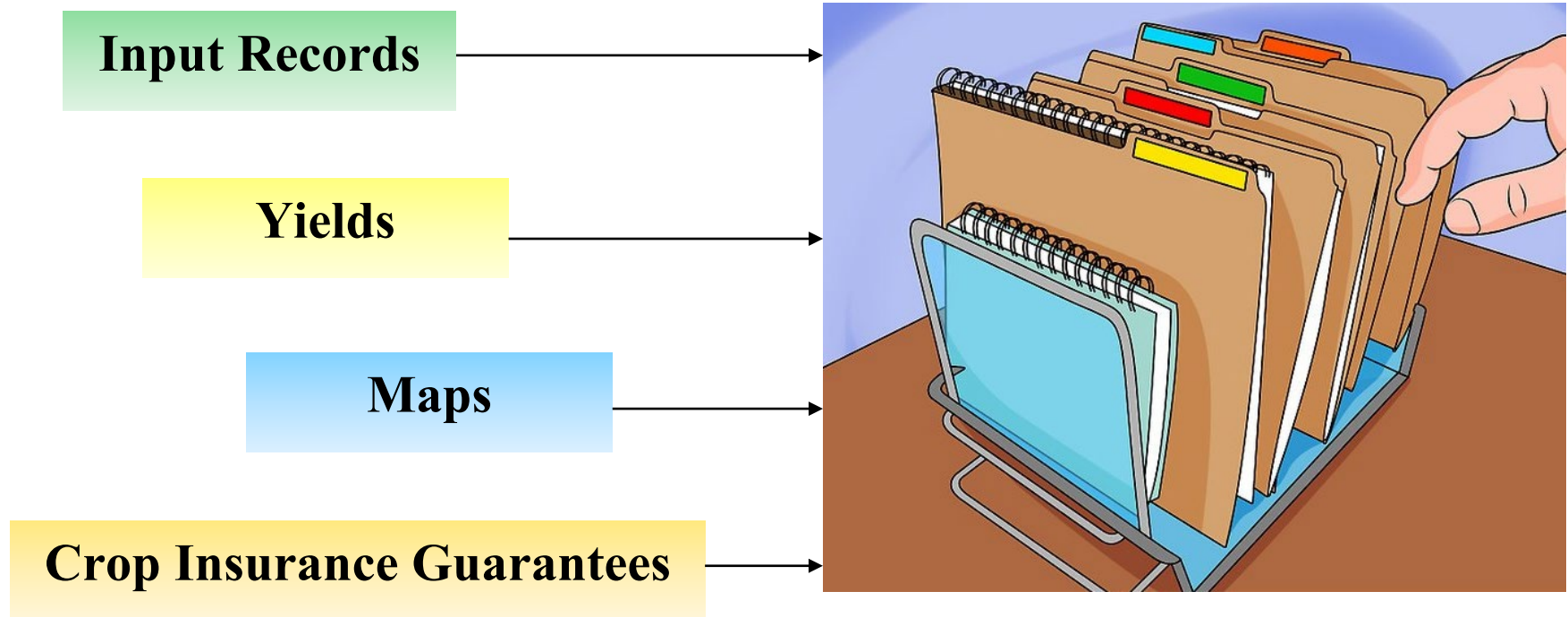


Variable Rate Application



Information

Access and ownership of input records, yields, maps, 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



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

www.Hertz.ag

Crop Income

<u>2023 Corn</u>			<u>2024 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>
230	\$5.75	\$1,323	230	\$5.00	\$1,150	-\$173	-13.04%
<u>2023 Beans</u>			<u>2024 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>
65	\$13.50	\$878	65	\$12.50	\$813	-\$65	-7.41%
Average		\$1,100			\$981	-\$119	-10.80%

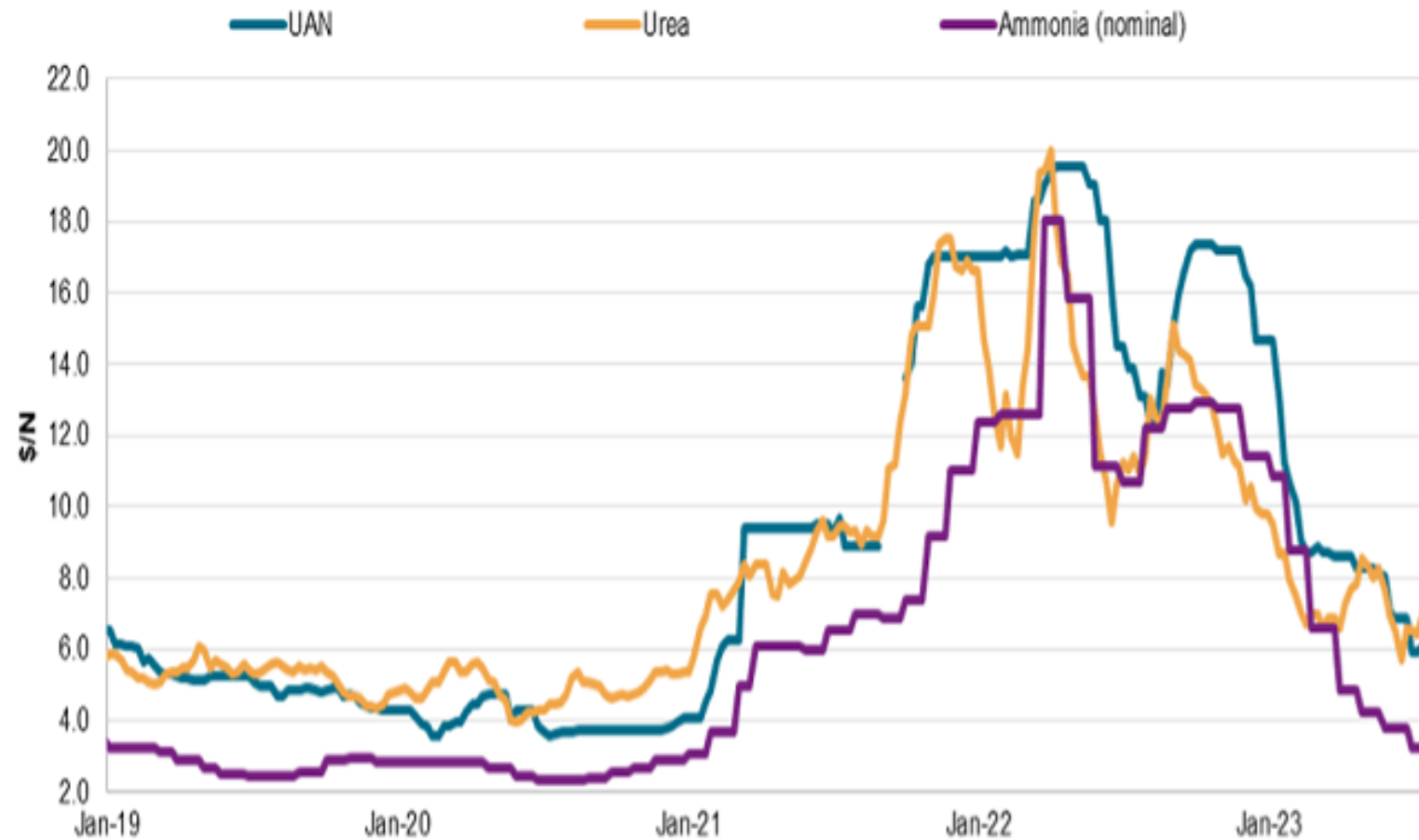


Crop Expenses

<u>2023 Corn</u>		<u>2024 Corn</u>	<u>Difference</u>	
Input	Cost/Acre	\$/Acre	\$	%
Seed	\$125	\$125	\$0	0.00%
Fertilizer	280	220	-\$60	-21.43%
Chemicals	95	85	-\$10	-10.53%
Custom Hire	160	160	\$0	0.00%
Crop Insurance	27	25	-\$2	-7.41%
Drying & Storage	55	50	-\$5	-9.09%
Total/Average	\$742	\$665	-\$77	-10.38%



\$ per unit of Nitrogen - NOLA fob



Data compiled July 13, 2023.

Source: S&P Global Commodity Insights.

© 2023 S&P Global.



Crop Expenses

<u>2023 Beans</u>		<u>2024 Beans</u>	<u>Difference</u>	
Input	Cost/Acre	\$/Acre	\$	%
Seed	\$85	\$85	\$0	0.00%
Fertilizer	140	105	-\$35	-25.00%
Chemicals	105	95	-\$10	-9.52%
Custom Hire	145	145	\$0	0.00%
Crop Insurance	22	20	-\$2	-9.09%
Drying & Storage	10	10	\$0	0.00%
Total/Average	\$507	\$460	-\$47	-9.27%



Changes 2023-24

<u>2023 Corn</u>			<u>2024 Corn</u>			<u>Difference</u>	
Yield	Price	\$/Acre	Yield	Price	\$/Acre	\$	%
230	\$5.75	\$1,323	230	\$5.00	\$1,150	-\$173	-13.04%

<u>2023 Beans</u>			<u>2024 Beans</u>			<u>Difference</u>	
Yield	Price	\$/Acre	Yield	Price	\$/Acre	\$	%
65	\$13.50	\$878	65	\$12.50	\$813	-\$65	-7.41%
Average		\$1,100			\$981	-\$119	-10.80%

<u>2023 Expenses</u>		<u>2024 Expenses</u>		<u>Difference</u>	
Crop	Cost/Acre		\$/Acre	\$	%
Corn	\$742		\$665	-\$77	-10.38%
Beans	507		460	-\$47	-9.27%
Average	\$625		\$563	-\$62	-9.93%



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 = \$5.00

$APH \times \text{Spring Price} \times 33\% = \text{Rent}$

$200 \times \$5.00 \times 0.33 = \$330/\text{Acre}$



Flex Lease Example

- Base Rent \$275
- Flex = 35% over \$940/Acre on Corn
40% over \$735/Acre on Soybeans

Corn			Soybeans		
Yield		Price		Yield	Price
230		\$5.00		65	\$12.50
230 x \$5.00 = \$1,150				65 x \$12.50 = \$813	



Flex Lease Example

	CORN	SOYBEANS
GROSS INCOME:	\$ 1,150	\$ 813
PRICE/ACRE:	- \$ 940	- \$ 735
TRIGGER INCOME:	\$ 210	\$ 78
	x 35%	x 40%
BONUS RENT:	\$ 73.5	\$ 31.20
BASE RENT:	+ \$ 275.00	+ \$ 275.00
TOTAL RENT:	\$ 348.50	\$ 306.20

Average Rent \$327.35/Acre



So, now what?





2024 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	\$5.00		
Soybeans	100.0	65	\$12.50		
Crop Insurance Payment	0.0				
Government Program Pmt/A	0.0				
Cash Rent/Tillable Acre	\$350	Buildings	\$0		

INCOME

		CUSTOM	MODIFIED CROP SHARE	50/50 CROP SHARE	40/60 NET SHARE	CASH RENT
	\$/Acre					
Corn	1150	115,000	92,000	57,500	46,000	
Soybeans	813	81,250	65,000	40,625	32,500	
Government Program Payment	0	0	0	0	0	
Crop Insurance Payment						
Cash Rent - Land	350					70,000
Building/CRP/Pasture		0	0	0	0	0
TOTAL INCOME		\$196,250	\$157,000	\$98,125	\$78,500	\$70,000



		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	220	22,000	22,000	11,000	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	85	8,500	8,500	4,250	0
Soybeans- Seed	85	8,500	8,500	4,250	0
Fertilizer	105	10,500	10,500	5,250	0
Pesticides	95	9,500	9,500	4,750	0
Custom Hire	145	14,500	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
Repairs	500	500	500	500	500
Management Fees		14,719	14,130	9,813	7,850
Int. on Operating	7%	4,554	3,754	1,877	0
Insurance - Liability	180	180	180	180	180
- Property		0	0	0	0
TOTAL EXPENSES		\$137,453	\$103,464	\$58,369	\$17,730
NET INCOME		\$58,797	\$53,536	\$39,756	\$60,770
NET INCOME/TILLABLE ACRE		\$293.98	\$267.68	\$198.78	\$303.85



Farm Lease Summary

PRICE RANGE	CORN	SOYBEANS	CASH RENT
HIGH	\$6.00	\$14.00	\$400.00
MEDIUM	\$5.00	\$12.50	\$350.00
LOW	\$4.00	\$11.00	\$300.00



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	\$445	\$387	\$272	\$363	\$340
MEDIUM	\$294	\$268	\$199	\$304	\$294
LOW	\$143	\$148	\$125	\$245	\$248



Where are rents headed?

- **2023 Crop Yields**
- **Commodity Prices**
- **Crop Input Costs**
- **Government Payments**
- **Farm Improvements**



Where are rents headed?

Average Cash Rents by State

Year	Illinois	Iowa	Minnesota*	Nebraska**
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 ISPFRMA



Questions?



Thank You





www.Hertz.ag

- Farmland For Sale
- Auctions and Auction Results
- Ag Links
- Request Weekly Farmland Email

Follow us on Social Media

@HertzAgLand



www.Hertz.ag

