



**Kansas State
UNIVERSITY**

Department of Agricultural Economics



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General Trends and Issues Related to Leasing Land

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Agricultural & Applied
Economics Association

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AAEA Extension Section Webinar
May 16, 2012 – 2P EDT (1P CDT /12 Noon MDT/11A PDT)

*Delivered via a partnership between the AAEA Extension Section
and the Western Extension Committee – Ag In Uncertain Times*

Land Leases: Share, Cash, and Flexible Arrangements in Changing Times

Presenters William Edwards-Iowa State University, Ray Massey-University of Missouri and Kevin Dhuyvetter-Kansas State University will cover land leases in changing times for agriculture. Specific topics include:

- 1) Alternative types of leases for crop land (crop share, fixed cash, and flexible cash), how rates are determined, and information available for use in education;
- 2) Pasture leases versus crop leases – additional considerations to think about in the negotiation process when considering pasture leases; and
- 3) General trends and issues related to leasing land (e.g., lease types, land tenure, relationship between landowner and tenant, etc.).

AG In Uncertain Times...
<http://AgInUncertainTimes.FarmManagement.org>



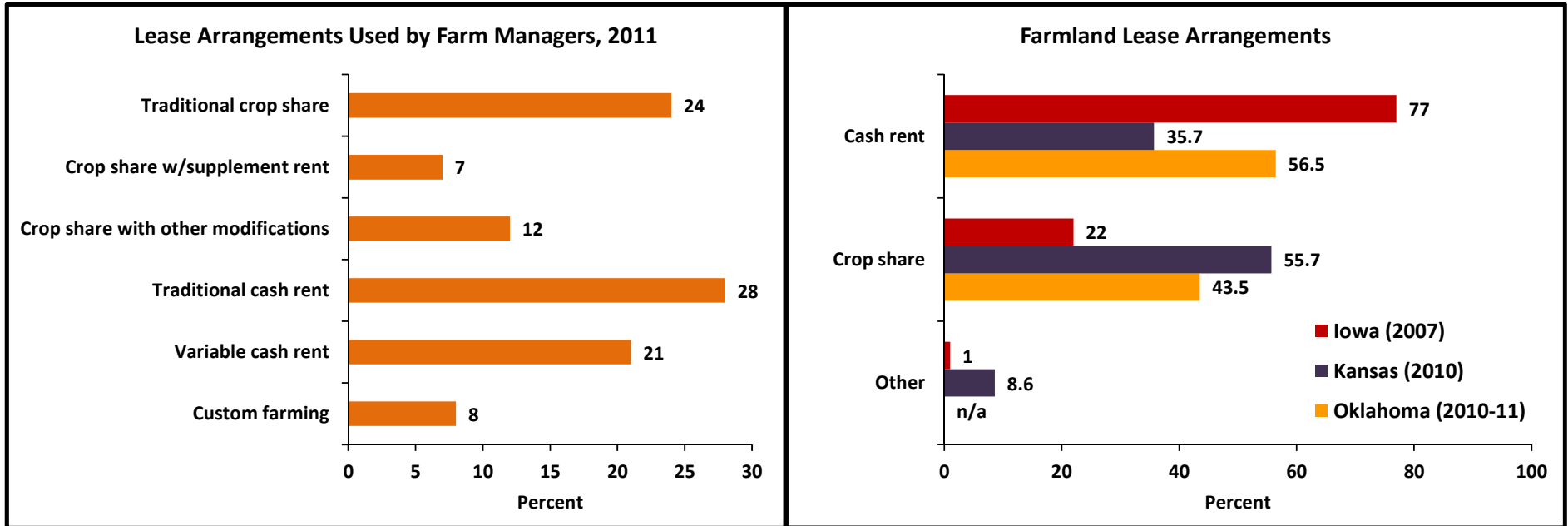
Types of leases on crop land

- **Crop-share:** Landowner receives a share of annual revenues (grain sales and government payments) and shares certain production costs
 - Yield risk, price risk, and input (e.g., fertilizer) price risk are shared
- **Net share:** Landowner receives a share of annual revenues (grain sales and government payments), but pays no production costs
 - Yield risk and price risk are shared
- **Fixed cash rent:** Landowner receives a fixed annual cash payment (Landowner has no yield or price risk)

Types of leases on crop land

- **Combination share / cash rent:** Landowner receives a fixed annual cash payment but has upside potential through a share of the crop (may or may not share inputs)
- **Cash rent – flex on price:** Landowner receives cash payment that is based upon crop price (bushel rent)
- **Cash rent – flex on yield:** Landowner receives cash payment that is based upon crop yield
- **Cash rent – flex on revenue:** Landowner receives cash payment that is based upon crop revenue (i.e., yield x price)
- **Cash rent – w/bonus:** Landowner receives cash payment and ad hoc bonus at tenant discretion

Distribution of crop leases by type of lease...



Sources: IL – Schnitkey; IA – Duffy, et al.; KS – Schlegel and Tsoodle

- Corn Belt generally has a higher percentage of cash rent
- Trend is towards more cash rent most everywhere – why?
- The use of “non-traditional” leases is increasing (speed of adoption varies considerably regionally)

Length of cropland leases in years...

State	Share	Cash	All
Iowa (2007)	18.1	9.5	11.4
Kansas (2010)	n/a	n/a	18.6
Oklahoma (2010-2011)	17.0	14.0	15.3

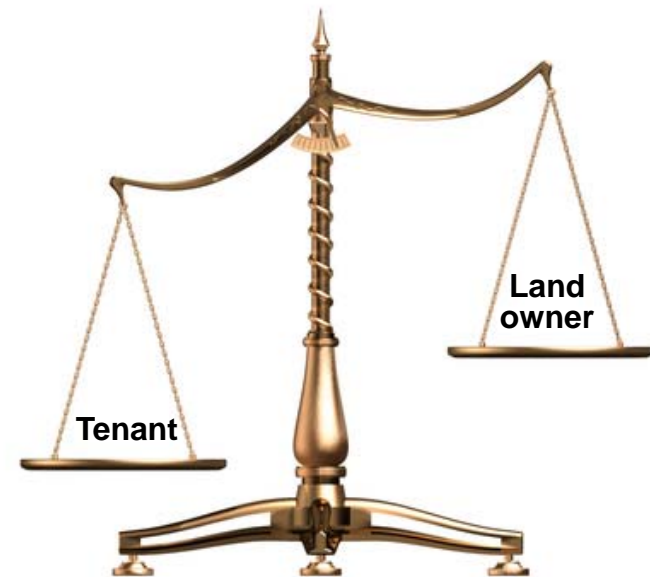
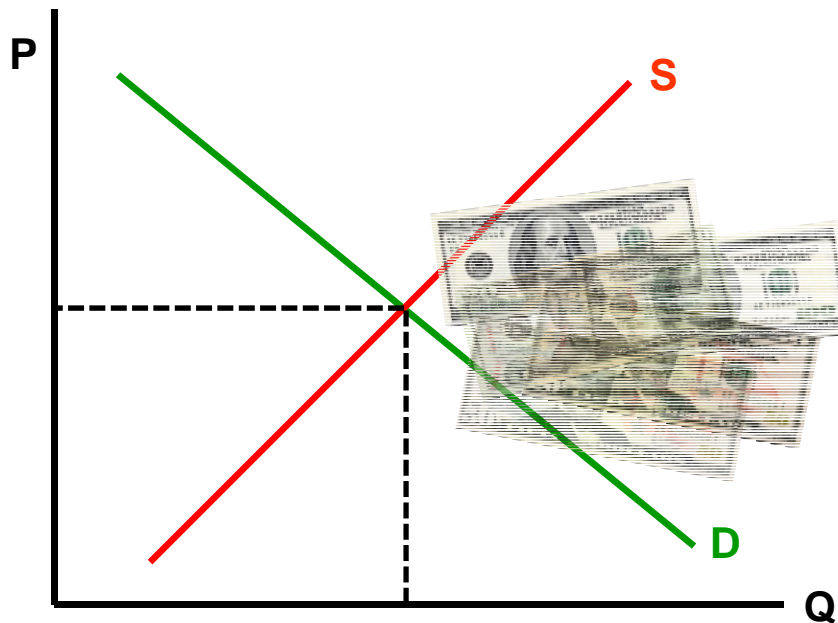
Sources: IA – Duffy, et al.; KS – Schlegel and Tsoodle; OK – Doye and Sahs

Producers tend to lease land from the same landowner for a relatively long time.

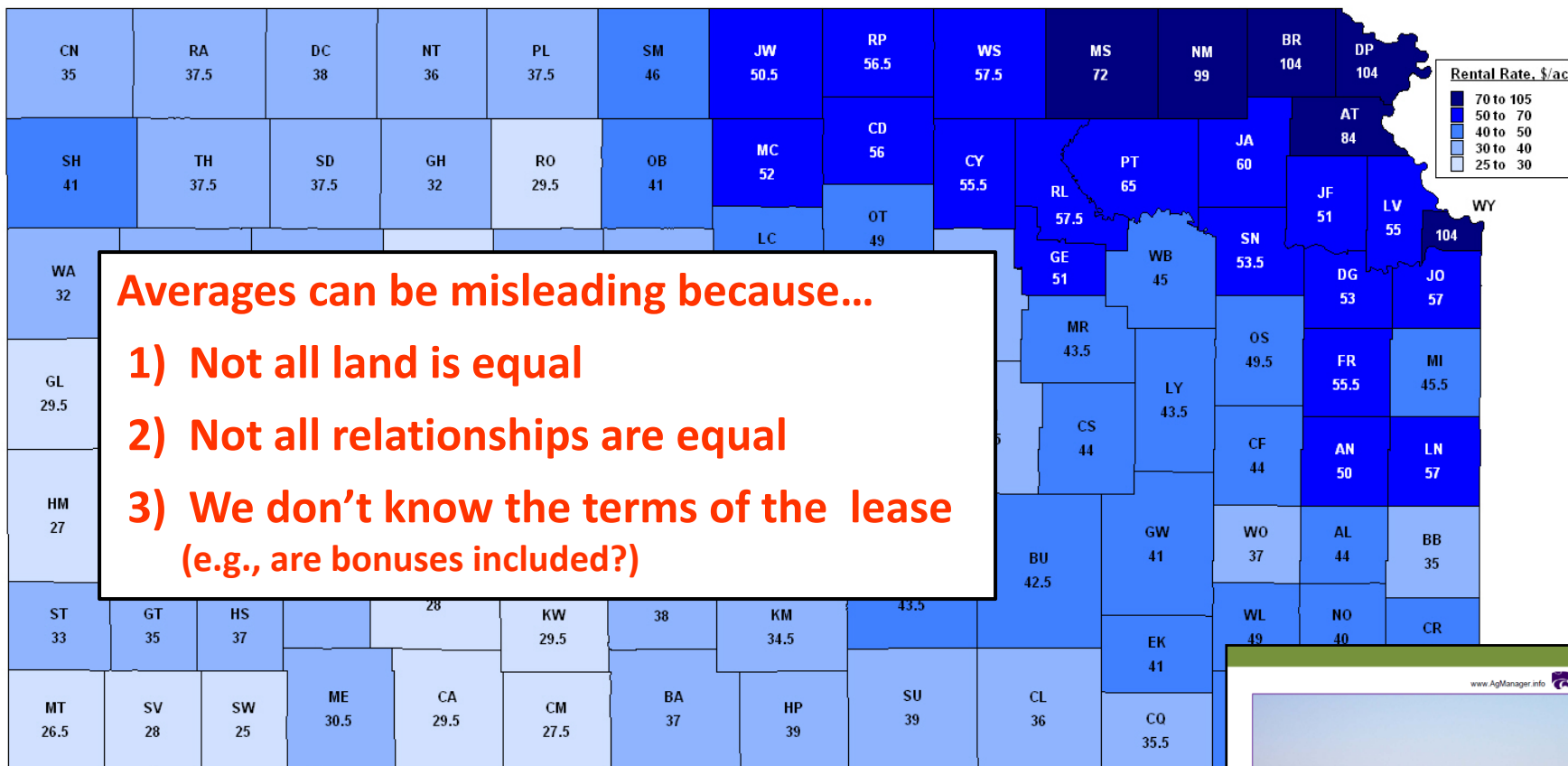
Long-term relationships can be good or bad...

Determining the terms of a lease...

- How are cash lease rates or the terms of crop share leases established?
 - Short answer is “the market”
 - That is, the terms of a lease are determined by Producers (demand) negotiating with Landowners (supply)



Kansas Nonirrigated Cash Rents, 2011*



* Cash rent values as reported by USDA NASS and Kansas Agricultural Statistics (KAS).

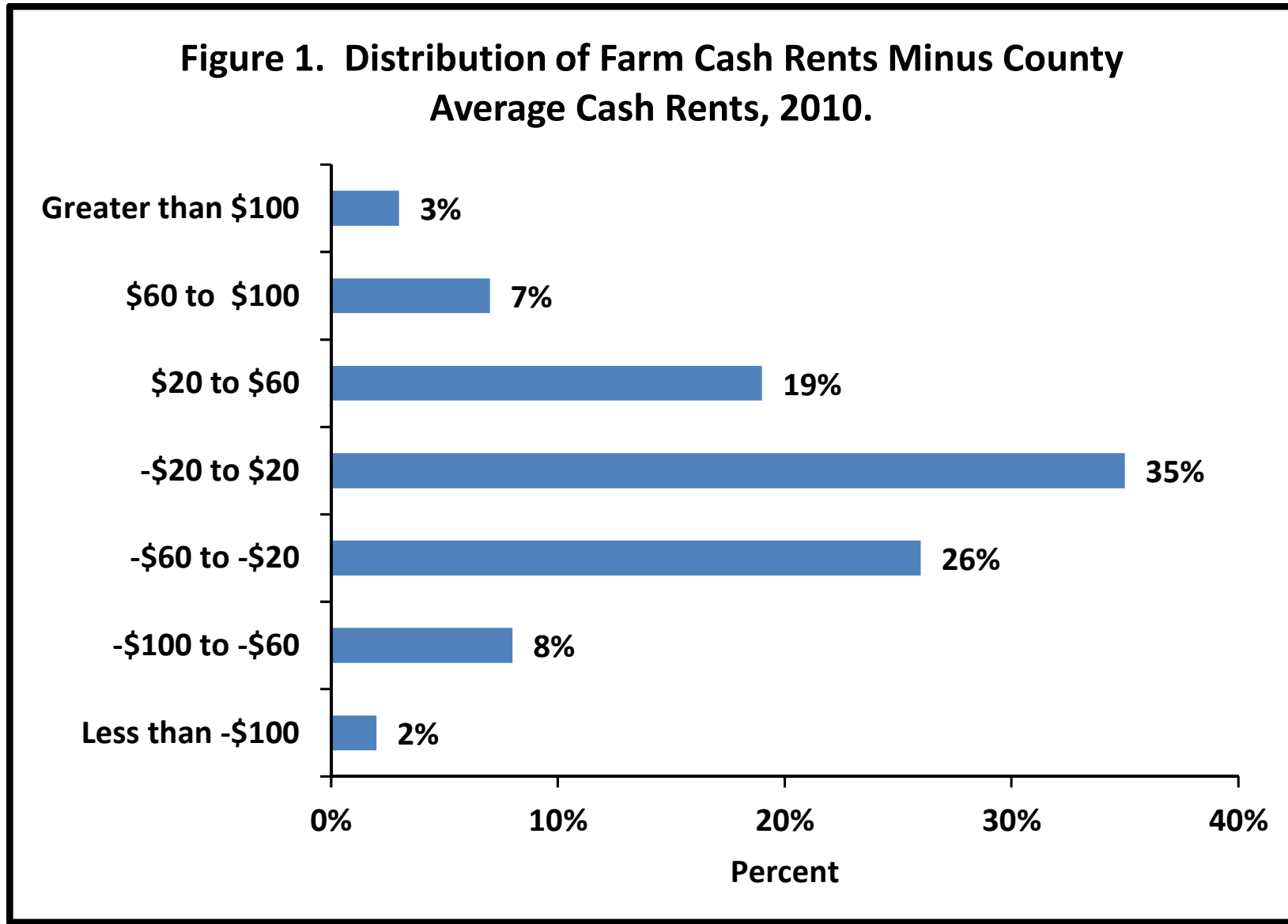
KAS did not report values for BR, DP, GT, KE, RA, TH and WY counties – values for these counties were filled in with multi-county averages.

State average = \$44.00 compared to \$43.50 in 2010 (+1.1%)

2011
 Kansas Land Values and Cash
 Rents at the County Level

October 2011 (available at www.AgManager.info)
 Kevin Dhuyvetter, K-State Ag Economics, (785) 532-3527, kcd@ksu.edu
 Mykel Taylor, K-State Ag Economics, (785) 532-3033, mtaylor@ag econ.ksu.edu
 Department of Agricultural Economics, Kansas State University

Wide variability in rents exists...



Source: FEFO 11-21, Schnitkey, Department of Agricultural and Consumer Economics, University of Illinois.

Large differences in observed/reported rents...

- Partly due to land quality differences
- Big portion due to relationships
- Landowners and tenants are generally aware of differences that exist and much of these differences are consistent with their desires

Implications...

- Average cash rents are not a good indication of what it takes to acquire land
- High cash rents we hear about are not an indicator of average rents

Source: FEFO 11-21, Schnitkey, Department of Agricultural and Consumer Economics, University of Illinois.

Determining the terms of a crop lease...

- How are cash lease rates or the terms of crop share leases established?
 - Short answer is “the market”
- When market reported rates are not sufficient to answer the question at hand, what do we do?
- While landowners and tenants (i.e., the market) ultimately determine terms of crop share and cash leases, we use the equitable concept to arrive at a starting point for negotiations – and to better understand the market.

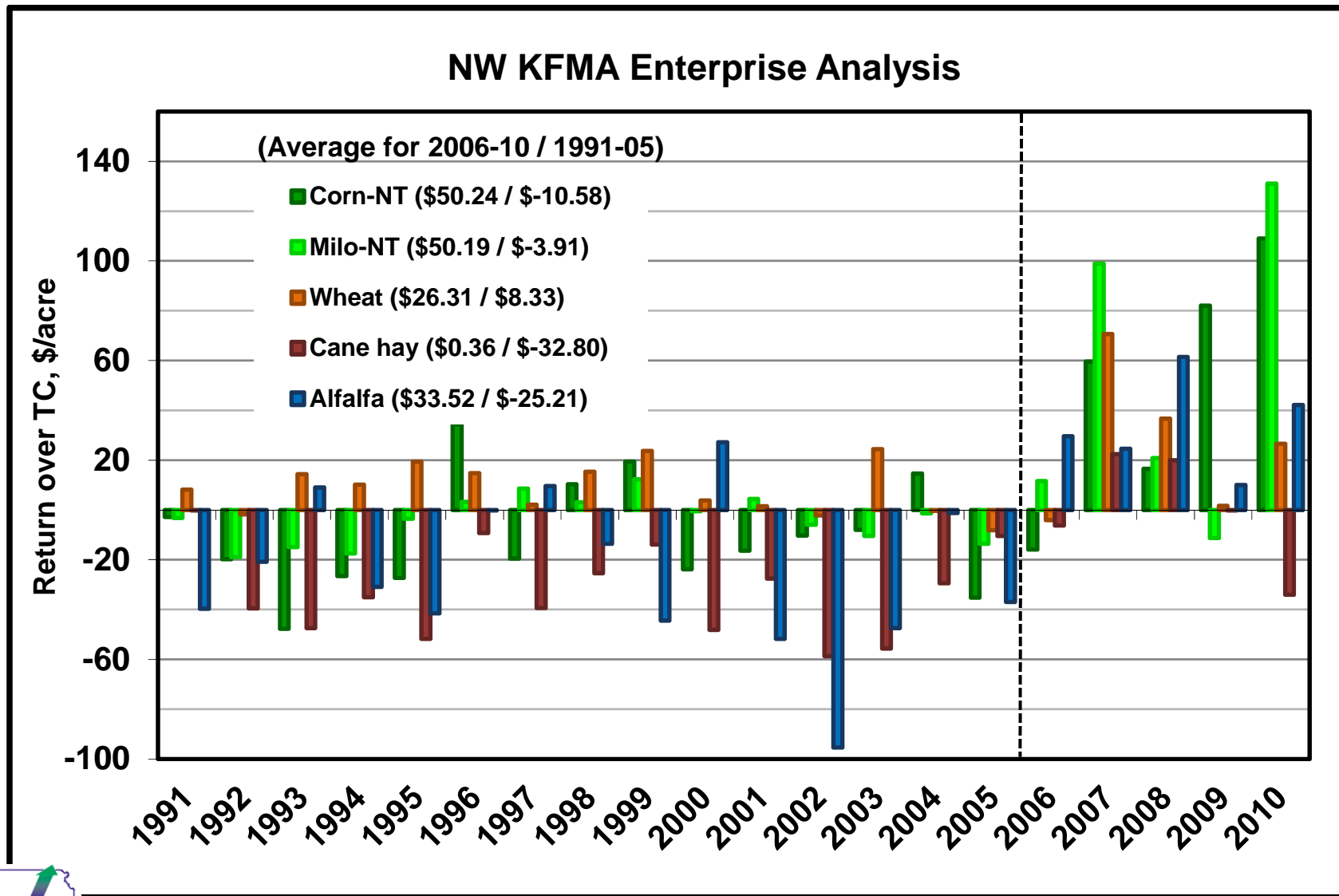


Principles embodied in an equitable lease...

- Profit maximization (MR=MC)
 - Economic profits (expected profit = 0*)
 - Opportunity costs
 - Risk across lease types
 - Equal rates of return on annual investment
(if economic profit = 0, then return on *annual investment* = 0)
-

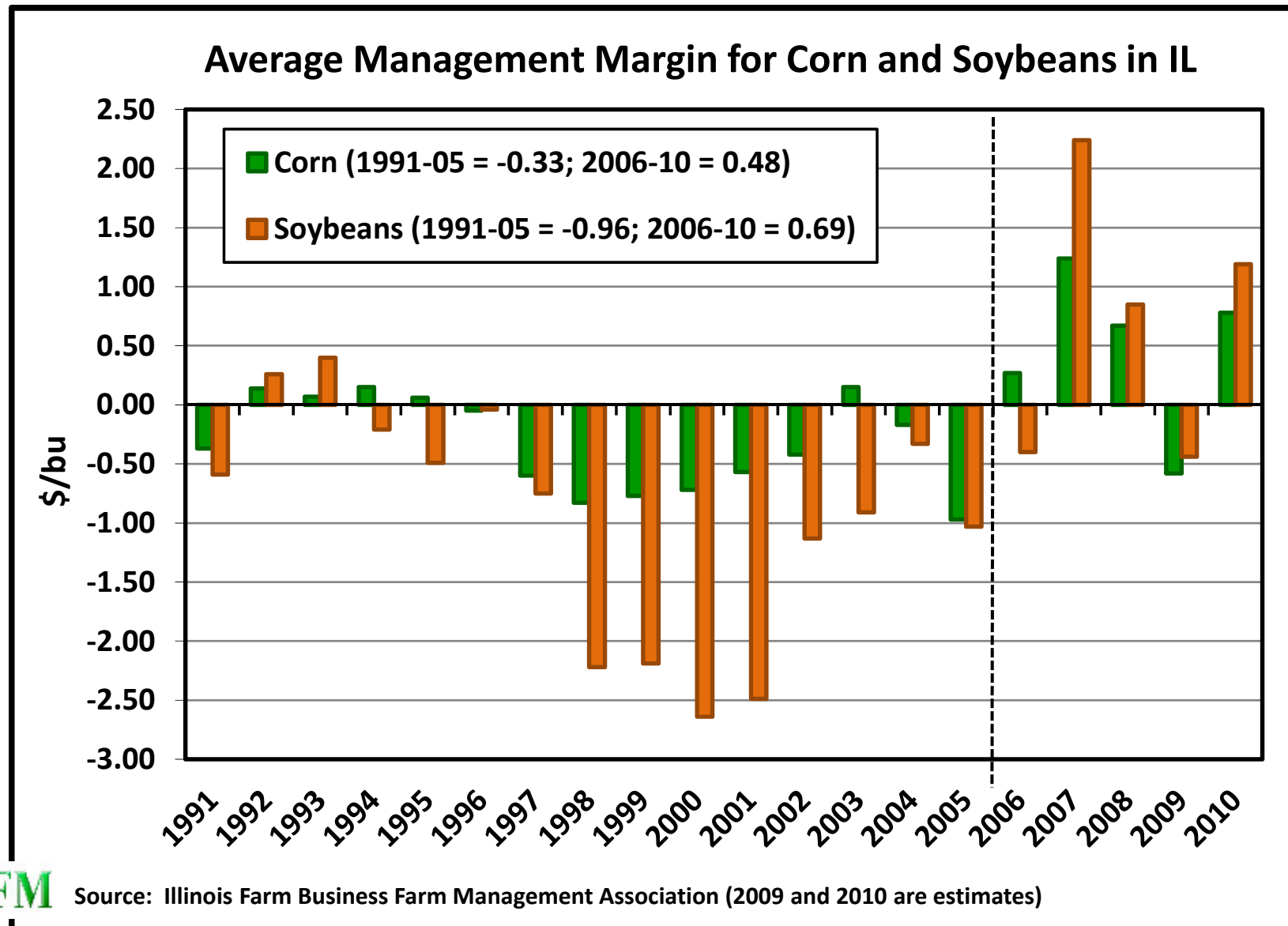
* On average, in the long run

On average, we seldom cover total costs. Why?

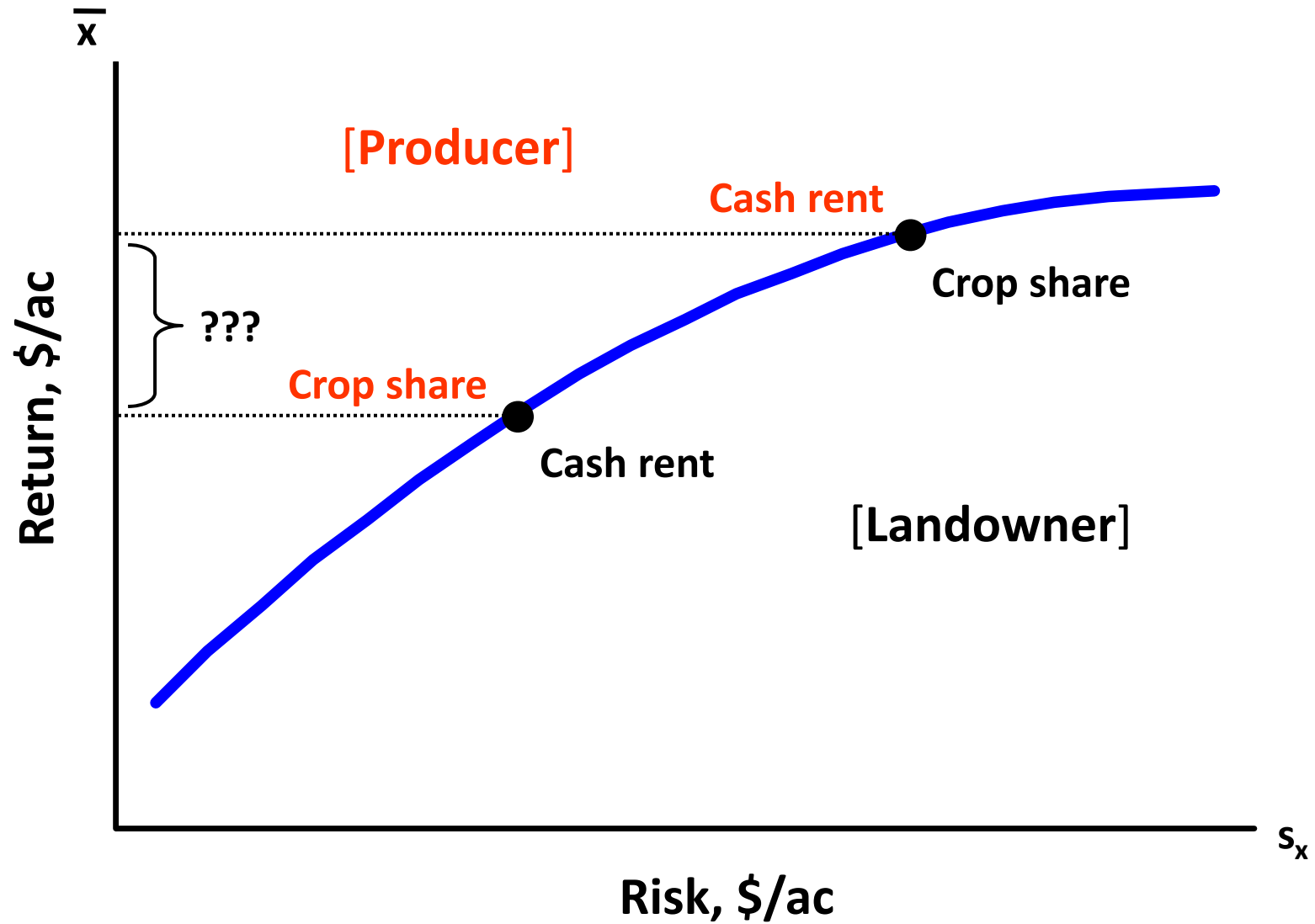


Source: KFMA Enterprise Analysis Report

On average, we seldom cover total costs. Why?

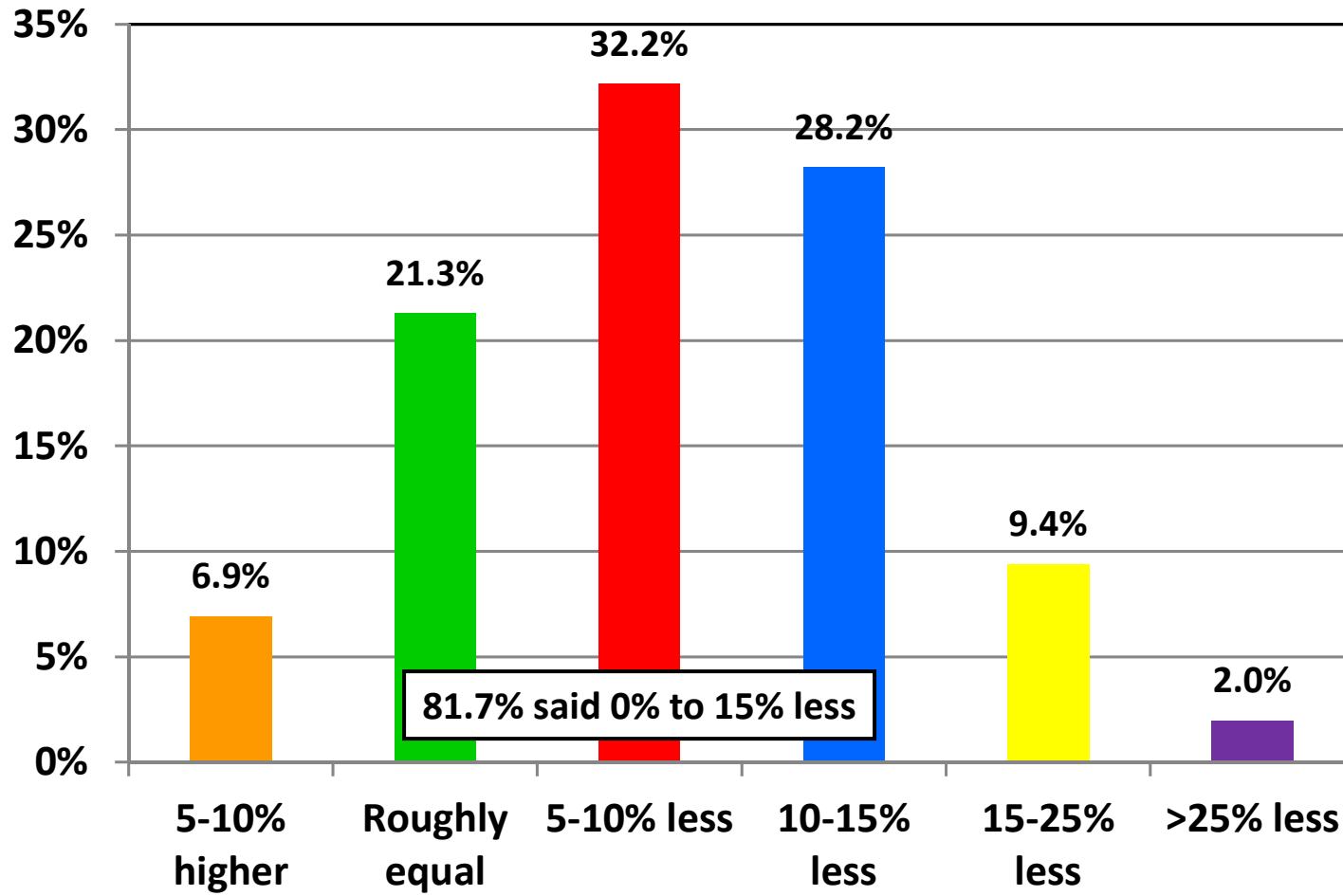


Landowner/**producer** risk-return tradeoff



What folks told us about the risk premium...

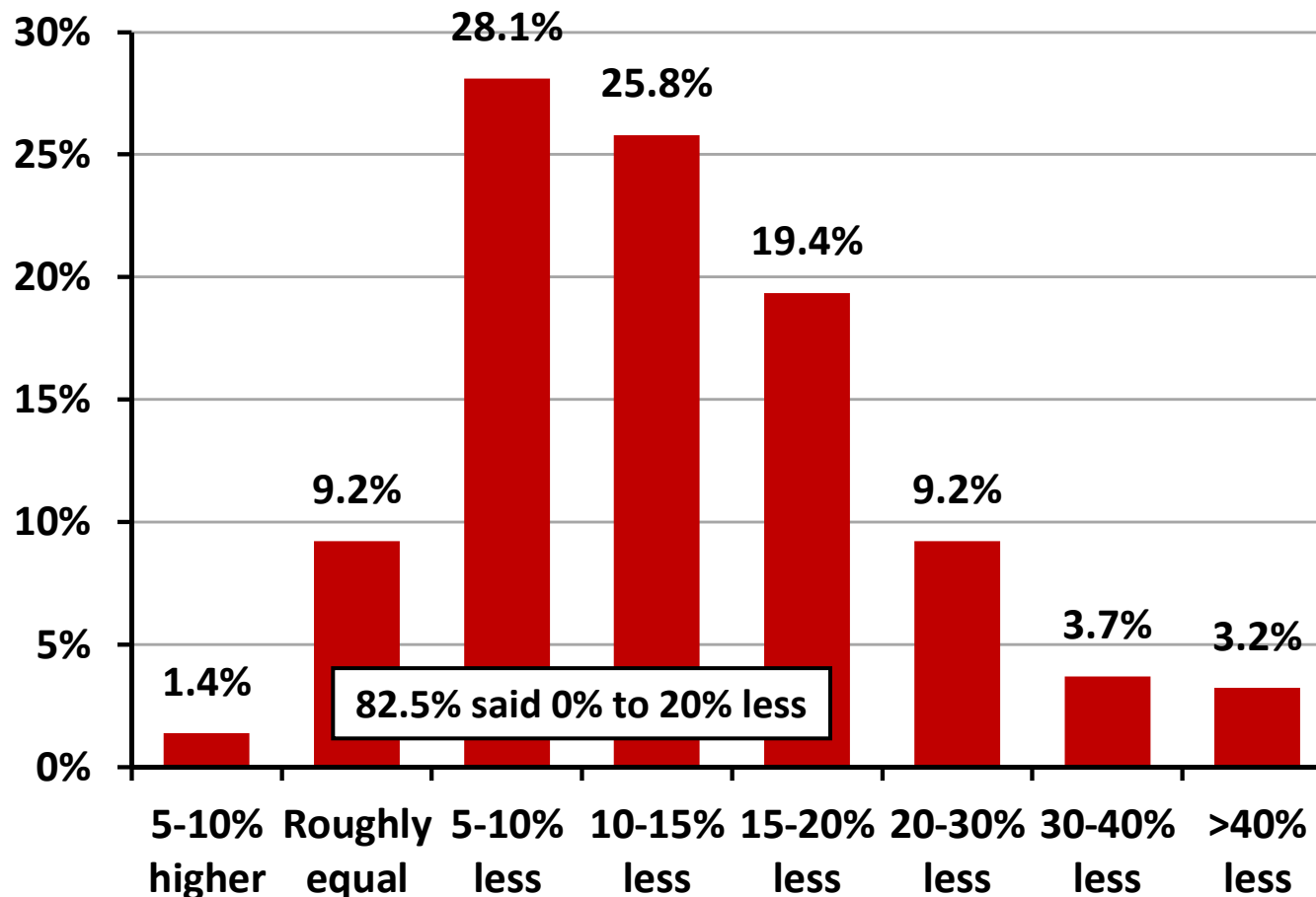
How should cash rent for non-irrigated land compare with expected returns from equitable crop share...



(responses at 2010/11 Winter Lease Meetings in Kansas, n=202)

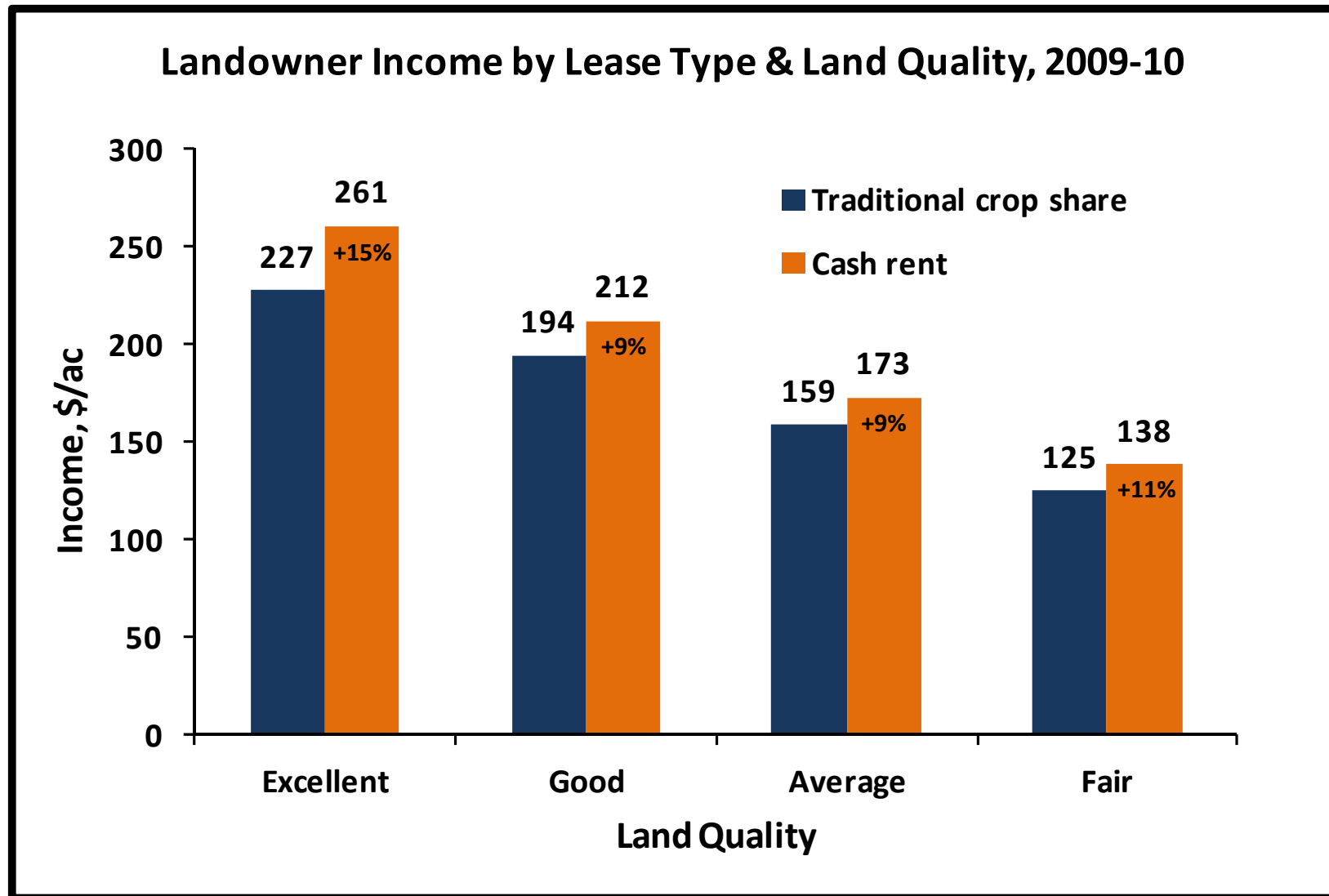
What folks told us about the risk premium...

How should cash rent for non-irrigated land compare with expected returns from equitable crop share...



(responses at 2011/12 Winter Lease Meetings in Kansas, n=217)

Comparison of landowner income by lease type...



Source: Schnitkey, G. University of Illinois

Why might producers pay a higher rent with a cash lease than crop share?

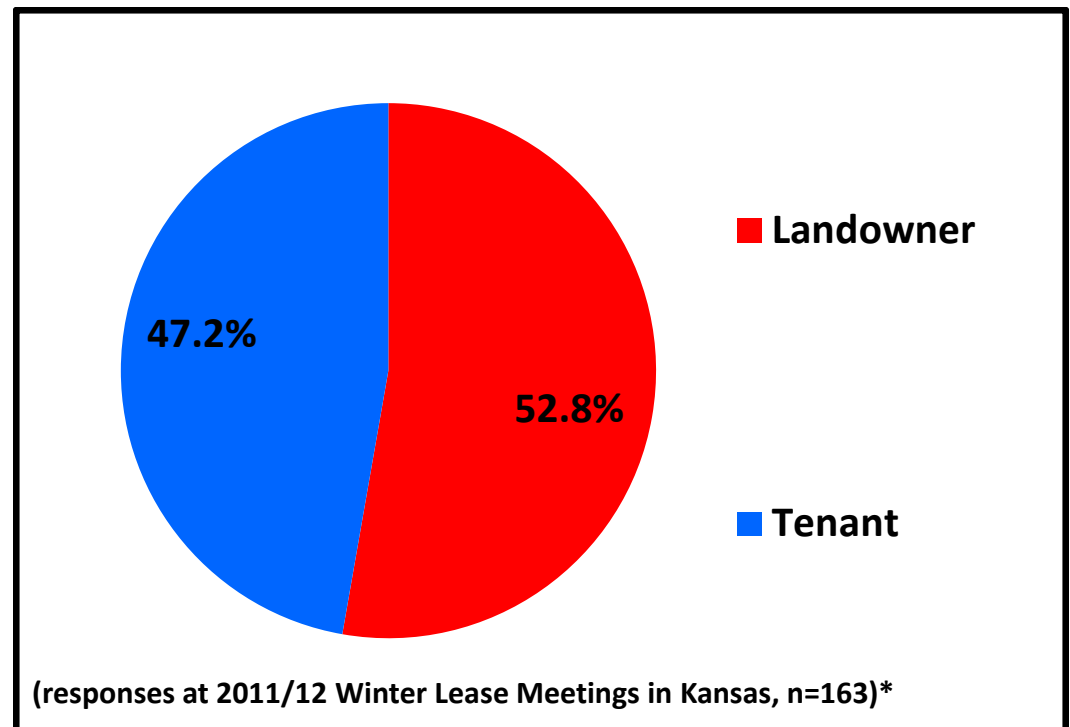
- Lower costs (easier to manage)
- Increased production flexibility
- Ability to manage risk with crop insurance
- Easier method of expansion
- Timing of when rates were negotiated
- Other???

Responsibility for rental rates...

Whose responsibility is it to see to it that a landowner's cash rental rate is "fair and equitable" considering current conditions?

1. Landowner
2. Tenant

Who typically has better information?



* Participant breakdown: 41.5% tenants, 45.7% landowners, and 13.0% other

One solution -- cash rent auctions...

*Per year
\$ / Acre
Year
Up Front
475
525
525*

CASH RENT AUCTIONS
Over 3,300 acres in 24 tracts in 3 days @ 4 different locations, February 2nd, 3rd, & 4th, 2012

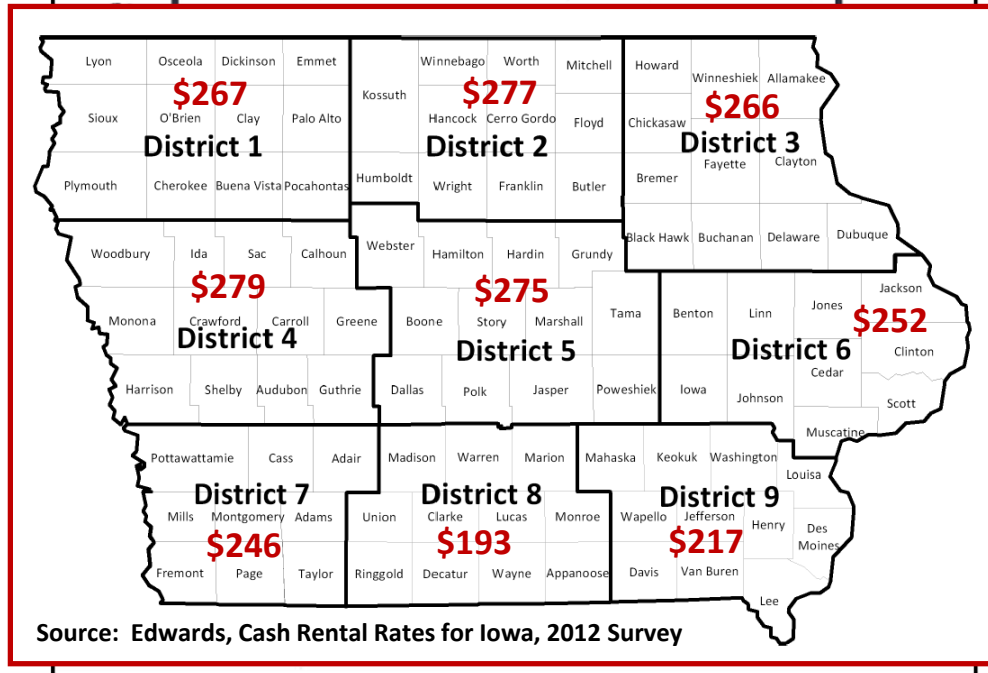
Auction location: Guthrie Center, Iowa, Feb. 2nd, 10:00 a.m.,
 Guthrie Center Activity Center, 209 State Street

Tract 1: Cass County, Benton Plat, Sec 10, T77N, R35W, 132.6 tillable acres
 Tract 2: Guthrie County, Dodge Plat, Sec 36, T81N, R31W, 153.4 tillable acres
 Tract 3: Guthrie County, Dodge Plat, Sec 35, T81N, R31W, 167.0 tillable acres

Auction location: Eldora, Iowa, Feb. 2nd, 5:00 p.m.,
 Hardin County Fairgrounds, 301 11th Avenue

Tract 4: Hardin County, Pleasant Plat, Sec 23, T87N, R20W, 78.1 tillable acres
 Tract 5: Hardin County, Clay Plat, Sec 31, T88N, R19W, 59.60 tillable acres
 Tract 6: Hardin County, Eldora Plat, Sec 6, T87N, R19W, 101.3 tillable acres
 Tract 7: Hardin County, Eldora Plat, Sec 20, 21 & 28, T87N, R19W, 113.3 tillable acres *90+ CSR*

Auction location: Osage, Iowa, Feb. 3rd, 1:00 p.m.,
 Cedar River Wellness Center, Lower Lobby of Auditorium
 809 Sawyer Drive



Cash Rent Auctions in Iowa -- Feb 2-4, 2012 2-Year lease (2012 and 2013) -- Money up front for 2012

Ac-wtd avg	\$486	3347.7	71.0	\$6.72	
Average	\$476	139.5	73.5	\$6.52	
Min	\$325	52.1	51.8	\$5.57	
Max	\$530	421.1	92.5	\$8.15	
Corr with \$/acre		0.362	0.748	0.072	
Tract	County	\$/acre	Acres	CSR	\$/CSR
1	Cass	\$475	132.6	79	\$6.01
2	Guthrie	\$525	153.4	81.5	\$6.44
3	Guthrie	\$525	167.0	76.3	\$6.88
4	Hardin	\$520	78.1	77.9	\$6.68
5	Hardin	\$460	59.6	78.6	\$5.85
6	Hardin	\$510	101.3	83	\$6.14
7	Hardin	\$530	113.3	92.5	\$5.73
8	Franklin	\$520	108.4	76	\$6.84
9	Franklin	\$425	102.1	67.8	\$6.27
10	Franklin	\$425	199.4	59.6	\$7.13
11	Franklin	\$490	170.3	70.7	\$6.93
12	Franklin	\$475	53.9	73.1	\$6.50
13	Franklin	\$495	139.7	81.1	\$6.10
14	Franklin	\$490	252.7	68.9	\$7.11
15	Franklin	\$445	60.2	77	\$5.78
16	Franklin	\$460	52.1	82.6	\$5.57
17	Franklin	\$325	62.1	51.8	\$6.27
18	Butler	\$435	121.7	67.7	\$6.43
19	Butler	\$520	421.1	71.6	\$7.26
20	Cerro Gordo	\$490	145.0	72	\$6.81
21	Cerro Gordo	\$500	148.0	71.4	\$7.00
22	Hancock	\$450	214.3	55.2	\$8.15
23	Mitchell	\$530	221.0	86.1	\$6.16
24	Mitchell	\$400	70.4	62	\$6.45

Cash rent auction in NW KS ...

LAND LEASE AUCTION

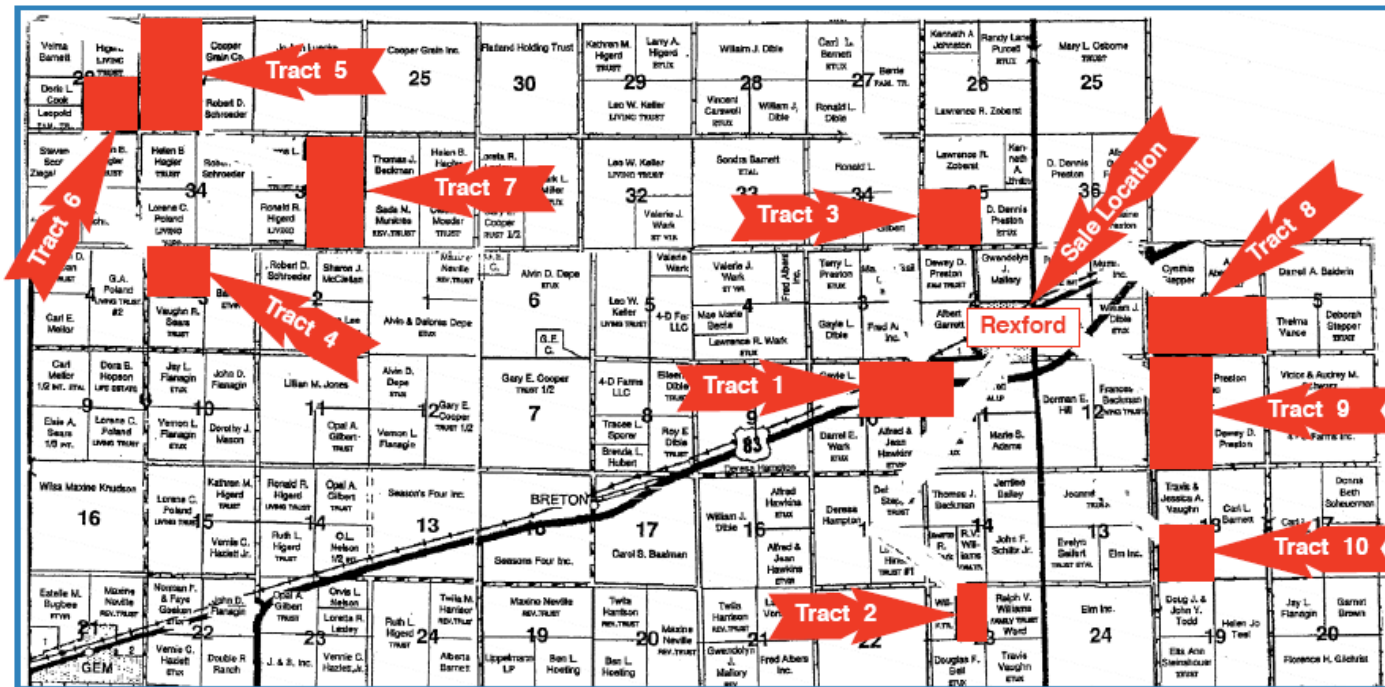
2150 Acres +/-

Located in Sheridan and Thomas County,
Kansas

Saturday, January 15, 2011 • Time: 2:00 p.m.

Owner: Ward J. Munkres

Sale Location: Shepherd's Staff building,
225 Main St., Rexford, KS



Cash rent auction in NW KS ...

Munkres cash rent auction, January 15, 2011

	Cropland	\$/acre	Annual	Wheat	Corn	Milo	Govt	Govt pymt	Avg %	PPM
Tract	acres (FSA)	rent	dollars	stubble a	stalks a	stalks a	payments	per acre	org matter	soil test P
1	214.0	\$110	\$23,540	108.0	106.0		\$3,255	\$15.21	2.00	37.50
2	79.7	\$90	\$7,173		79.7		\$586	\$7.35	1.50	15.00
3	153.1	\$105	\$16,076		153.1		\$597	\$3.90	1.80	17.00
4	160.9	\$135	\$21,722	160.9			\$1,776	\$11.04	1.70	15.00
5	314.6	\$140	\$44,044	226.4	88.2		\$3,638	\$11.56	1.60	23.00
6	156.0	\$140	\$21,840		156.0		\$1,747	\$11.20	1.70	21.00
7	308.7	\$130	\$40,131	240.0	68.7		\$3,441	\$11.15	1.74	24.55
8	305.9	\$125	\$38,238			305.9	\$3,847	\$12.58	1.80	24.00
9	299.0	\$135	\$40,365			299.0	\$5,465	\$18.28	2.00	20.00
10	156.3	\$120	\$18,756		78.2	78.2	\$1,709	\$10.93	1.65	21.00
Total	2,148.2		\$271,884	735.3	729.9	683.1	\$26,061			
Overall per acre values			\$126.56					\$12.13	1.75	21.80
Correlation of cash rent with above columns>								0.51	0.14	0.04

Only marginal differences in farmability and land quality across tracts, except that tract 2 had several acres in a lagoon.

All land is non-irrigated, fairly flat, little erosion, and has good road and grain market access.

All land is open, i.e., no growing wheat.

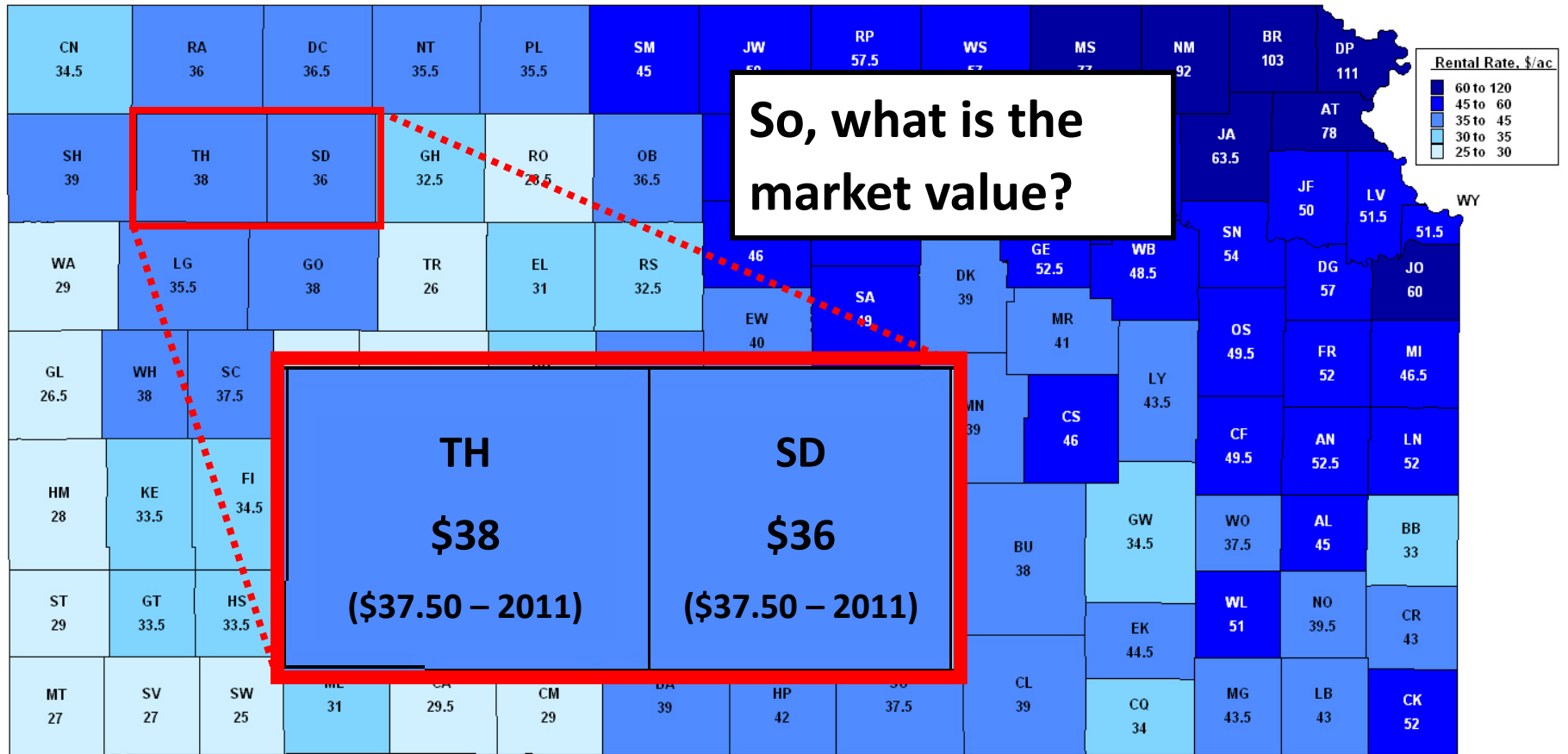
Land leased for 5 years and tenant must ensure no loss of soil fertility during lease term, i.e., must reimburse

landowner at end of lease for any reduced fertility (both N and P), as judged by before & after soil tests.

Land located near Rexford and Gem in both Thomas and Sheridan counties, Kansas.

Pre-auction expectations likely were centered around \$80/acre.

Kansas county-level non-irrigated crop cash rents...

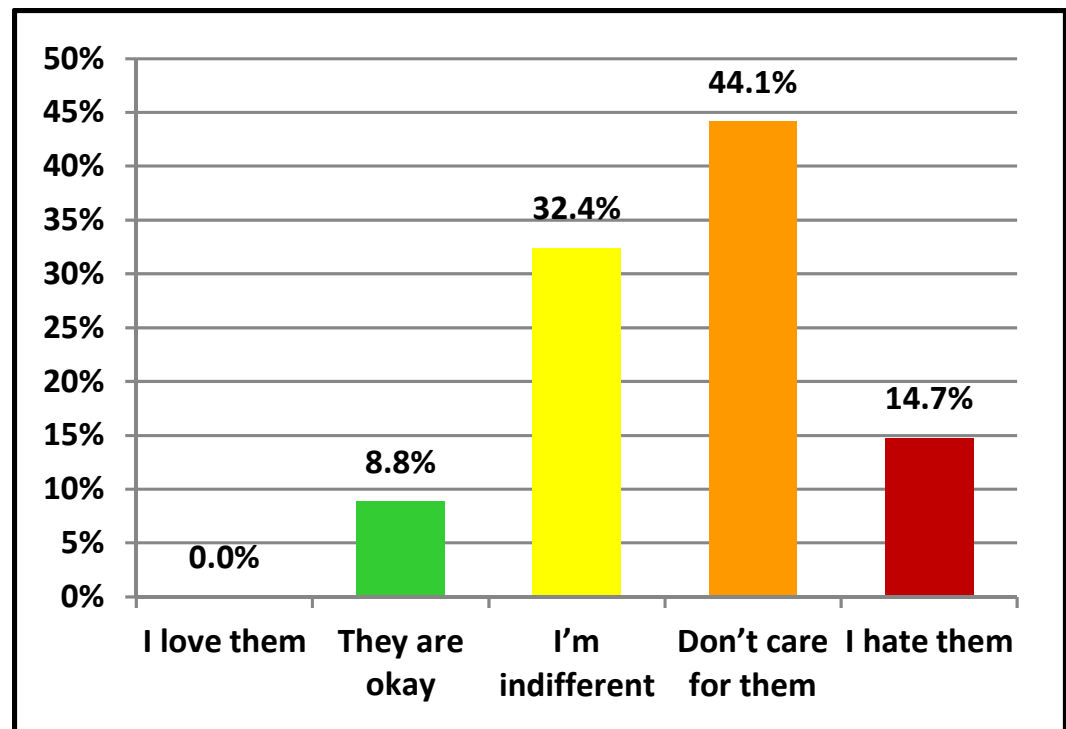


* 2010 Cash rent values as reported by USDA NASS and Kansas Agricultural Statistics (KAS).

Cash rent auctions...

Whether you have participated in them or not, what is your opinion of cash rent auctions?

1. I love them
2. They are okay
3. I'm indifferent
4. Don't care for them
5. I hate them



(responses at 2011/12 Winter Lease Meetings in Kansas, n=34)



Going. Going. GONE.

Auctions raise the roof on cash rents for farmland.

BY ELIZABETH WILLIAMS

This past February, nearly 300 people crammed into a motel meeting room to attend the first cash rent public auction in the Mason City, Iowa, area. About 25 active bidders raised hands or nodded heads as two-year leases for more than 2,250 tillable corn/soybean acres in 14 tracts went up for grabs. After the final "going once, twice, sold," the tillable-acre winning bids ranged from a low of \$325 for 78 acres (62 tillable, subject to flooding) to \$520 for 108 acres (all tillable).

Most of the winning bids ranged from \$425 to \$490 per tillable acre, rates that left onlookers somewhat stunned. After all, farmers in Iowa's most expensive cash rent county only paid an average of \$235 an acre in 2011, according to USDA.

The Mason City event was the fourth cash land lease auction in three days for the owners, Charles E. Lakin Enterprises, out of Omaha,

Neb., a family business enterprise that had expiring leases on 3,336 tillable acres in Iowa. The Lakins' farms are scattered over eight counties in western, central and north-central Iowa.

"We weren't sure what the cash rent market was, and we didn't know how to set a fair price, so we thought we'd try an auction," explains Chuck Lakin, son of Charles E. Lakin. "It worked out great."

NO SECRETS. Farmland tenants generally dislike public lease auctions for two reasons: 1) They remove the traditional, personal relationship bond between the owner/tenant and reduce it to a numbers game; and 2) It publicizes actual cash rents so all the landlords in the area can compare how their leases stack up.

Even if you are the highest bidder and get the ground, you may not want your other landlords to know you are willing to pay that much

for land. In fact, one of the current tenants (who won the highest bid on ground he had been farming) had a proxy at the Lakin farm lease auction and came in after the auction to sign the papers and write the check.

For the landowner, an auction "takes away the stress from negotiating with the tenant and gives the land the potential to reach its fair market value," says Allan Hughes, who conducted the Lakins' lease

auction. "These leases are structured so good husbandry is required," Hughes explains. A five-page lease requires the tenant to keep the ditches free and clear; and to provide soil tests, fertility input records and yield information on each farm.

PAYMENTS DUE. Winning lease holders locked in a two-year lease for the 2012 and 2013 crop year. Twenty-five percent of the 2012 payment was due within an hour after the auction,

and 75% was due March 1, 2012. Next year, a quarter of the rent must be paid by January 15 and the rest on March 1, 2013.

Bidders ranged from a father with his 20-something son toting his Mountain Dew to gray-haired, 60-year-old-plus farmers sipping Folgers regular roast from a Styrofoam cup. Several bidders were snowbirds in Texas, Arizona and Florida, bidding live during the auction on the Internet through <http://proxibid.com>.

Hughes, located in Glenwood, Iowa, has conducted several cash lease auctions each year since 2009. "The commodity market is the driving force [behind lease auctions]. Commodity prices are at levels we've never seen before. It's pretty stressful for a landowner to negotiate rents. He doesn't want to be unfair to the tenant, but he's not sure what to charge. An auction doesn't necessarily take the land away from the current tenant; it gives everyone a chance to bid in an open market," Hughes adds.

In November 2011, Hughes auctioned cash leases on a 160-acre tract and a 240-acre piece in the hills of western Iowa's Mills County for \$465 and \$480 per acre. He tagged those parcels onto a land auction for 420 acres in Adams County that sold for \$5,500 an acre.

"And I've got several calls this morning about cash rent auctions, so there will likely be a few more lease auctions before planting time this spring," Hughes says.

DETERMINE WHAT'S FAIR. Besides public auction, other farmland experts are helping landowners find a "fair" price. "We've converted a lot of cash leases to flex leases in the past couple years as commodity prices have soared," says Mark Gannon, of Ames, Iowa.

Gannon also offers lease appraisals for around \$400. "Sometimes the owner wants to keep the same tenant. Realizing every farm is different, the landlord wants an outside, informed

opinion on what is fair for the farm. Some owners have fiduciary duties for other members of their family, and they want to get a fair cash rent," Gannon explains.

"You can't always go by CSR [corn suitability rating] to determine the land's productivity," he continues. "I can point to two Story County, Iowa, farms across the road from each other. One has a CSR of 70 and yielded 208 bushels per acre of corn. The other has a CSR of 85 and only yielded 143 bushels. Fertility, drainage, operator

management and weather can have a bigger influence on yields."

Gannon also offers farmland leases on the Internet through his web site at www.usfarmlease.com.

The sealed cash lease bids are confidential, and the owners can look at the resumes of all the bidders and decide which operator to choose, even if he's not the highest bidder.

"At the end of the day, we're trying to find what's fair for both the operator and the landowner," Hughes says. ●

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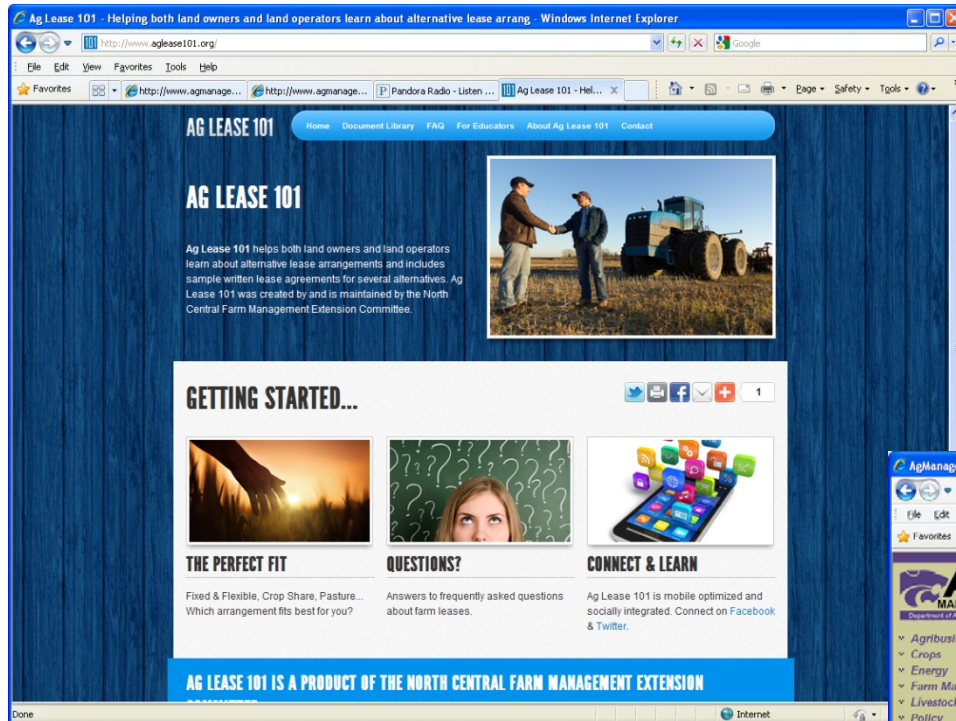
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Article about land cash rent auctions in Iowa
(The Progressive Farmer / April 2012)

Summary

- **Trend away from crop share leases will likely continue – increases the importance of communication for tenants**
- **Likely will see an increased number of “hybrid” leases in the future (makes lease evaluation/comparisons more difficult)**
- **Average rents reported in surveys have limited value for setting rates of individual parcels for numerous reasons**
- **Use of cash rent auctions likely will increase as a means of “leveling the field” with respect to information (tenants are encouraged to be pro-active in sharing information)**
- **Lease-related problems that exist are often associated with non-business like behavior (family often the worst)**

Resources...



← www.aglease101.org
(lease-related information developed as part of a North Central Region project)

www.agmanager.info →
(Kansas State University Ag Econ information related to land and crop and livestock production and marketing, and more...)





For more information and decision tools related to farm management, marketing, and risk management go to www.AgManager.info

If interested in receiving weekly *AgManager.info Update* or any of our other Ag Econ newsletters via email, please contact Kevin Dhuyvetter or Rich Llewelyn. (Kevin: kcd@ksu.edu -- 785-532-3527 or Rich: rwl@ksu.edu – 785.532.1504).