

Farmland

IN PERSPECTIVE

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MANAGEMENT • REAL ESTATE • CONSULTING
INVESTMENTS • LAND AUCTIONS

Lease Dates to Remember

As landowners review a lease with their tenant(s), they will want to be aware of important lease dates. In many states, the tenant's lease is reinstated automatically "as is" unless the tenant is notified by a certain date. This date should be specified in a written lease. If a verbal lease exists, the accompanying traditional dates may apply. Consult your farm manager or attorney.

State	Traditional Verbal Lease Year*	Traditional Verbal Notification Date*
Arkansas	Jan. 1 – Dec. 1	July 1
Illinois	Mar. 1 – Feb. 28	Oct. 31
Indiana	Mar. 1 – Feb. 28	Nov. 30
Iowa	Mar. 1 – Feb. 28	Sept. 1
Minnesota	Not well defined. Consult your farm manager.	Not well defined. Consult your farm manager.
Mississippi	Jan. 1 – Dec. 31	Oct. 31
Missouri	Jan. 1 – Dec. 31	60 days before end of term
Nebraska	Mar. 1 – Feb. 28	Sept. 1
Wisconsin	Mar. 1 – Feb. 28	Dec. 1 (90 days advance notice is required to terminate a verbal lease)

* Traditional lease year and notification date for verbal leases. In some states, the lease continues unless notified by a specified notification date. Lease years and notification dates may vary based on the terms of a written lease. Consult your farm manager or attorney for confirmation.

Farmland Leasing: Where are We Going?

by Nick Paulson and Gary Schnitkey

Farmland that is rented by a landowner to a farmer is a significant portion of the land farmed in the US. Nearly 60% of the land used in corn, soybean, wheat, and sorghum production is rented. The proportion of rented land used for peanut and cotton production exceeds 60%, and is greater than 80% for rice. Higher proportions of rented land are also associated with younger farm operators, as well as larger family and non-family farms.

USDA data collected in 2014 shows that fixed cash rent agreements are used on more than 70% of total rented acres. However, the prevalence of lease types varies by region and also has changed over time. In most regions, fixed cash leases have been increasing in use relative to share rent leases. Flexible cash leases, while used on a relatively small proportion of rented acres, are becoming more prevalent. In addition, along with other production expenses, cash rent levels for cropland across most of the US have been on the rise during the past 30 years, reaching peak levels in 2014. During the past two years, average cash rent levels have declined moderately due to lower commodity prices and lower farm income projections.

Lease Types

The three major lease types used for U.S. farmland:

- **Fixed Cash Rent Lease.** Under a fixed cash lease, the farmer pays the landowner a fixed amount. This amount is typically negotiated before field work begins and is paid to the landowner. The timing of rental payments vary. For example, some have the lease payment due in spring before planting begins. Other leases use two payments: one typically paid in the spring and the other in the fall. The major advantages of a fixed cash rent lease are its simplicity and the known level of payments. The primary disadvantage is in negotiating the cash rent. As economic conditions change, adjustments to the cash rent amount may be required, and determining the change can be difficult, particularly when economic conditions suggest decreases in cash rents.
- **Share Rent Lease.** Under a share rent agreement, the landowner and tenant share in gross revenues and direct costs. Specific terms of share rent contracts vary, but a 50-50 share lease has been historically typical in highly productive areas. In a 50-50 share lease, 50% of the harvest revenue and government payments are shared between the landowner and farmer. The landowner and tenant would also typically share 50% of the direct input (seed, chemical, fertilizer, etc.) expenses. In areas where crop yields are lower, the

Continued on page 2

farmer's share may increase. For example, a 75% farmer and 25% landowner share contract (with the farmer paying all the seed costs) is also a common example. The need for ongoing negotiations might be lower with share leases since the share rates automatically adjust the return received by the landowner and farmer as economic conditions change. However, the landowner bears some risk and lease payments will be unknown until after the crop is marketed.

- Variable or Flexible Cash Lease.** Under a flexible cash lease, the farmer typically pays the landowner a fixed base cash rent along with a bonus. The base rent is usually lower than what the rent level would be under a fixed cash rent agreement. The bonus may then be tied to price or production levels, such as a percentage of actual gross revenue received. Flexible cash leases offer the advantage of a minimum fixed return for the landowner, while also offering the potential for a larger return under good economic conditions. Flexible cash leases also provide some risk sharing benefits to the farmer.

Lease Use and Trends

Current use of the three major lease types varies across the Midwest. In the Midwestern states, fixed cash rent agreements are the predominate lease type. According to data from the U.S. Department of Agriculture (USDA), fixed cash rent leases were used on nearly 60% of rented land in Illinois and Indiana, and nearly 70% of rented land in Missouri. Fixed cash rent leases account for nearly 80% of the rented land in Iowa, Michigan, and Ohio. In Minnesota and Wisconsin, fixed cash rent leases are even more dominant.

Following fixed cash rent leases, share rent leases are the next most commonly used in the Midwest. However, the percentage of farmland controlled by share rent also varies considerably across states. In Illinois and Missouri, for example, share rent leases account for more than 30% of the farmland. The share rent percentage is much lower in Michigan (9%) and Minnesota (less than 4%).

In Arkansas, share rent leases are the most common, being used on 53% of rented acres compared

Figure 1: Proportion of rented acres in major lease types by state

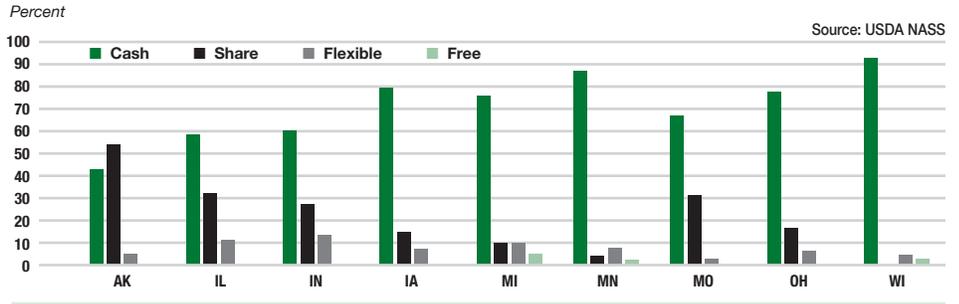


Figure 2: Land tenure position for grain farms in Illinois, 1997 to 2015

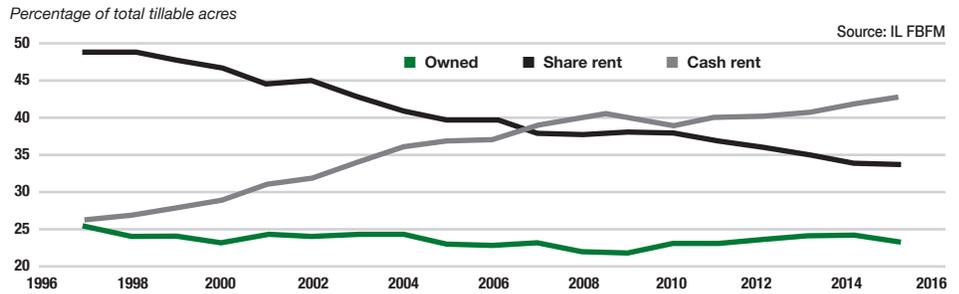
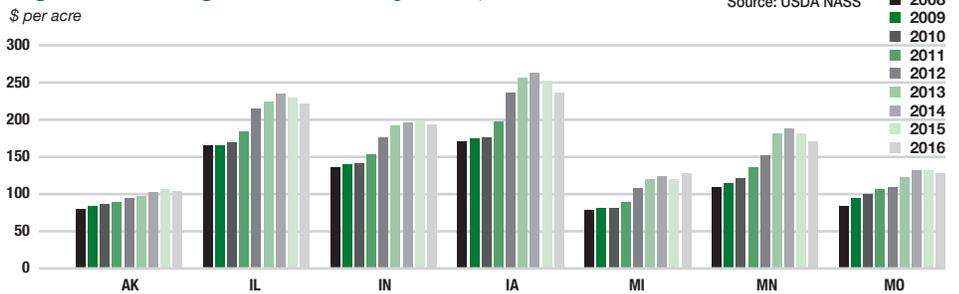


Figure 3: Average cash rents by state, 2008 to 2016



with just 42% of rented acres controlled under fixed cash lease agreements. Compared with other states in the South region, Arkansas has a much higher proportion of acreage controlled under share rent agreements. In general, fewer acres are controlled under fixed cash rent leases in the South as compared to the Midwest.

Flexible cash leases currently account for a relatively small proportion of leases in both the Midwest and Arkansas. With the exception of Indiana, less than 10% of rented farmland is controlled with flexible cash leases in states in the Midwest region. Less than 5% of rented farmland in Arkansas is controlled with a flexible cash lease.

Trends

Over time, one of the major trends in lease types has been the movement away from share rent leases to fixed cash leases. This is illustrated in Figure 2 using data from farms which are members of the Illinois

Farm Business Farm Management Association (IL FBFM). Since 1997, there has been a steady increase in the proportion of total acres controlled by farm operators under cash rent agreements while the land ownership rate among farm operators has remained relatively constant.

One of the most likely reasons for this trend is that fixed cash leases are very easy to administer once the cash rent amount is agreed upon. The landowner earns a fixed return and is not required to monitor production or be involved with any complicated input purchase or marketing decisions. The fact that the percentage of landowners who are not farm operators, and therefore less familiar with these types of farm management decisions, has increased over time further contributes to this trend.

Changing Economics

The cash rent lease's simplicity has also become its Achilles' heel. Over the past three decades, economic

conditions have supported a continual increase in average cash rent levels, providing consistently increasing returns to landowners. Increases in cash rents were even more significant from 2008 to 2014 (see Figure 3). However, commodity prices declined in 2013 reducing farmer returns and putting downward pressure on cash rent levels.

One of the major advantages of the variable cash lease is that it does provide some automatic adjustment when farmer returns are lower through the lower base rent and bonus design. In contrast, the bonus component and overall rent payment will become larger as prices, yields and/or revenues increase, providing the landowner with greater upside potential for their land returns. As shown in Figure 1, use of flexible cash leases remains relatively small, but there is evidence of increased use in recent years.

Summary

The majority of farmland in the US is controlled under some type of rental agreement. Fixed cash, share rent, and flexible cash leases are the three most common lease types currently in use. The proportion of acres controlled by each major lease type

varies considerably by region. In the Midwest, at least 50% of rented acreage is controlled under a fixed cash lease, but in some states this may be as high as 80% or more. In the south, the proportion of acres controlled under fixed cash leases is lower. In Arkansas, for example, share rent agreements are the dominant lease type. In both the Midwest and Southern regions, flexible cash leases represent a relatively small percentage of rented acreage but their use is increasing.

In general, the use of fixed cash leases has been increasing over time while share rent agreements have become less popular. This trend has been attributed to the relative simplicity of the fixed cash rent agreement as well as increasing rent levels. Average cash rent levels have consistently increased over much of the US since the late 1980s, with larger increases experienced from 2008 to 2014. Since 2013, agriculture returns have been coming down, putting downward pressure on cash rent levels. Flexible cash leases provide tenants with an alternative which provides some risk sharing while also allowing for large rental payments to the landowner if and when conditions improve.



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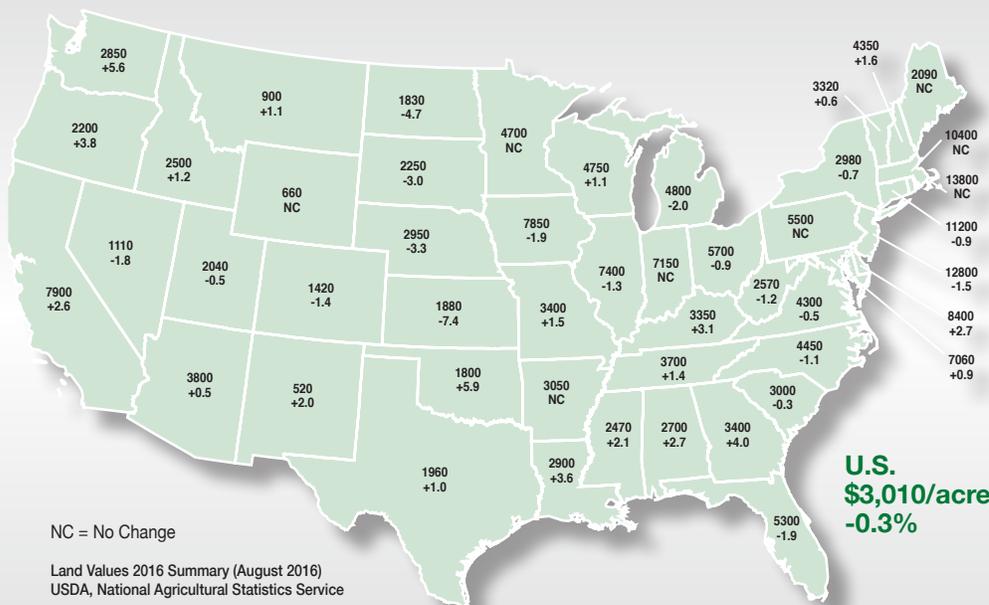
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SOURCES

Bigelow, D., A. Borchers, and T. Hubbs. 2016. U.S. Farmland Ownership, Tenure, and Transfer. Economic Information Bulletin 161, Economic Research Service, United States Department of Agriculture. Available online at: <http://ers.usda.gov/media/2133230/eib161.pdf>
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2016 Farm Real Estate Value by State

Dollars per acre and percent change from 2015



The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged \$3,010 per acre for 2016, down \$10 per acre (0.3%) from 2015 values, according to the Economic Research Service of the U.S. Department of Agriculture. Regional changes in the average value of farm real estate ranged from a 3.3% increase in the Pacific region to 4.3% decrease in the Northern Plains region. The highest average farm real estate values were in the Corn Belt region at \$6,290 per acre. The Mountain region had the lowest average farm real estate value at \$1,110 per acre. The average United States cropland value decreased by \$40 per acre (1.0%) to \$4,090 per acre from the previous year. In the Southeast region, the average cropland value increased 4.0% from the previous year. However, in the Northern Plains region, average cropland values decreased by 5.4%.

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