

Types of Farmland Leases and National Trends

Presented by...

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Tackling the Subject

- **The evolution of the farm lease**
- **A review of common lease terms**
- **Who owns the land**
- **Who is buying and selling**
 - **How this affects rental arrangements**
- **A look ahead**



The Evolution of Farm Leasing

- **My Dad . . .**
 - **Started farming in 1937 on a share lease with horses**
 - Share leases led the market into the 1980s
- **Today, cash rent is king for many farm operators**
 - **Multiple landlords, complicated record keeping**
 - **Large machinery and large fields**
 - Technology driven – GMOs – Herbicides – Less labor/acre
 - **Easier to compete on cash rent**
 - Share crop . . . Out farm the other guy!
 - Cash rent . . . A bigger pile of cash or a good banker!
- **Other operating alternatives give some options to younger farm operators and smaller farmers**
 - **Hard to compete with more cash**

Current Lease Types Utilized on 4,700 Managed Farms

Trend

44% Cash Rent



36% Crop Share



20% Blended and Custom



***Based on a combination of the
farm's potential and owner's goals***

Today's Operating Alternatives

- **Direct Operations**
 - Owner assumes all risk of both production and prices
 - Pays all input costs
 - Employs labor and owns equipment
 - May own livestock
 - Receives all crop and livestock revenue and government payments
 - May also do recreational leasing

Profit varies by operation

Best Returns . . .

- **Custom Farming**
 - Owner assumes all risk of both production and price
 - Landowner pays all input costs
 - Landowner hires all operations completed
 - Landowner receives all crop revenue and government payments
 - Popular with investors

Can Work Well for Young Operators

Blended Custom

Enhanced sharing of production and price risk

- **Landowner pays all crop input costs and receives 80% to 90% of the crop**
- **Operator provides labor, machinery, fuel, and receives 10% to 20% of crop and government payment**
- **Operator is motivated to produce well**
- **Owner is rewarded for additional investment in crop inputs**

Lost Favor in the 1980s

- **Bushel Leases**
 - **Negotiated bushels per acre regardless of yield and price**
 - **Share risk and reward of price**
 - **Not eligible for government payments**
 - **Gaining popularity due to higher commodity prices**
 - **Attractive to some larger operators**

Gaining in Popularity

- **Cash Rent**

- **Typically no risk in production or price**
- **A fixed amount based on:**
 - **Your farm's production potential**
 - **Price outlook for commodities**
 - **Government payments**
 - **Competition for land in your area**
 - **Any improvements**
 - **Houses, buildings, grain storage**
 - **Irrigation equipment**
 - **Tiling**
 - **We recommend payments in advance for the full amount.**

New Trend...

Cash Rent-*Plus*

Base rent regardless of price or production

Plus...

Additional rent if prices rise or production is above average

Example:

Base rent of \$300 per acre (regardless of yield or price)

Plus

Additional rent of 33% of actual yield

X

Average of spring and fall crop insurance price

Less

Base Rent

An Example:

200 bushels per acre corn yield

x \$6.50 per bushel

= \$1,300

x 33%

= \$429 per acre

\$429 total rent

- \$300 base rent

= \$129 pre acre extra rent

A Quick Look at Rents

- **2012 cash rents increased from 25% to 40% across our key crop growing territory.**
- **Most cash rent is paid up front on March 1.**
- **Many variable rate cash rents are now in use**
 - **Based on a percentage of the actual crop**
 - **Base cash rent near the market, up front**
 - **Average crop price determined by RP Insurance**
- **We expect cash rents to increase 5% to 10% for 2013**
 - **Revenue was protected with insurance in 2012**

Participatory Leases

- **Custom leases increasing in popularity**
 - **Higher returns than cash rents**
- **Predominate share lease is 50/50 in Iowa, Illinois, Indiana, and Ohio**
 - **Modified with less expenses to owner or a supplemental cash rent of \$25 to \$50 or more**
- **Some Bushel leases**
 - **Vary from 33% to 40% of average or estimated yield**



Sample Farm Income Analysis

- **160 acres, 156 tillable**
 - **Cash rent - \$350 per acre**
 - **Corn yield – 192 bushels per acre**
 - **Soybean yield – 60 bushels per acre**
 - **Average sales price per bushel**
 - **Corn \$6 Soybeans \$13**
 - **No seed costs to the owner on the crop share lease**
 - **Custom costs**
 - **Corn \$85 per acre and soybeans \$60 per acre**

Investment Analysis Summary

FARM: 160 acres x \$8,500 per acre = \$1,360,000 Value of Farm

INCOME	100% CUSTOM FARM OPERATIO N	80% BLENDED CUSTOM LEASE	50% CROP SHARE LEASE	35% NET SHARE LEASE	CASH RENT LEASE
1. Crop Sales	\$151,710	\$121,368	\$75,855	\$53,099	
2. Government Payment	\$ 1,808	\$ 1,446	\$ 904	\$ 633	
3. Supplemental/Bonus Cash Rent	NA	NA	\$ -	NA	\$ -
4. Cash Rent					\$54,600
5. TOTAL CROP INCOME	\$ 153,518	\$122,814	\$76,759	\$53,731	\$54,600
6. TOTAL CROP EXPENSES	\$ 85,141	\$ 63,553	\$27,719	\$ 9,459	\$ 4,368
7. *Estimated RP Coverage at: 75%	\$ 82,880	\$ 66,304	\$41,440	\$29,008	NA
* The Revenue Protection guarantee is based on the ACTUAL PRODUCTION HISTORY					
8. NET INCOME/TILLABLE AC	\$ 438	\$ 380	\$ 314	\$ 284	\$ 322
9. Misc. Farm Income (Pasture, bldg., etc.)	0	0	0	0	0
10. Misc. Farm Expense (taxes, liab., etc.)	\$ 4,680	\$ 4,680	\$ 4,680	\$ 4,680	\$ 4,680
11. Total Management Fee	\$ 12,209	\$ 10,988	\$ 7,631	\$ 5,341	\$ 4,368
12. Net Farm Income	\$ 63,697	\$ 54,581	\$44,360	\$39,592	\$45,552
13. Return On Investment	4.7%	4%	3.3%	3%	3.4%

Expense Analysis for Custom Farm Operation

	PER ACRE		
	OWNER'S SHARE	CORN	SOYBEANS
1. Crop Sales	100%	1,152.00	793.00
2. Seed	100%	85.00	40.00
3. Fertilizer & Insecticide	100%	171.75	75.50
4. Herbicide	100%	37.00	37.00
5. Lime	100%	40.00	40.00
6. Irrigation	100%	0.00	0.00
7. Trucking	100%	28.80	9.15
8. Drying	100%	28.80	0.00
9. Storage	100%	14.40	7.63
10. Harvesting	100%	25.00	0.00
11. Custom tillage	100%	60.00	60.00
12. Crop Insurance	100%	50.00	50.00
13. Return to Management	100%	92.76	63.77
14. Other Expenses	100%	0.00	0.00
15. TOTAL CROP EXPENSES		633.51	383.04
16. Cost to produce 1 bu.		3.29	6.38
17. NET CROP INCOME			
Per acres planted		518.49	409.96
		Net Income with farm program payments	
18. TOTAL GOVT PAYMENT	100%	1,166	641
19. NET INCOME/ENTERPRISE		\$533.44	\$418.18

Cash Rent Ranges

Area	Cash Rent Range (per acre)
Illinois - Central and Northern	\$250 to \$550
Illinois – Southern	\$125 to \$300
Missouri – Eastern	\$150 to \$275

- Many cash rent leases switch to some form of flex/bonus payment.
- Biggest factors are variability in quality and how farm is exposed to the market.

Cash Rent Ranges

Area	Cash Rent Range (per acre)	Comments
Indiana – west-central	\$225 to \$400	High demand for quality soil
Indiana – southern	\$150 to \$275	Soil drainage, water retention important variables
Indiana – northern	\$175 to \$300	Drainage is important in tighter soils

Today's Farmer

- **Two thirds of farmers classified residential**
 - **Average size – 160 acres**
 - **Account for only 6.5% of farm revenue**
 - **Three of four operations lose money**
 - **Average loss is \$7,000 per year**
 - **Average off-farm earnings top \$82,000**
- **Commercial farms account for 93.5% of farm revenue**
 - **Average 1,600 acres**
 - **10% of commercial farms earn 80% of farm revenue**
 - **Total earning at \$182,000**
 - **Nearly all of this income is from the farm**

Aging Landowners ...

- **Current farm operators**

- **Average age over 55**
 - More “kids” are going home after college to farm (1970s?)
- **Most rent on retirement**
 - Few sell the land
 - Land will go to non-farm kids who become non-operating landowners
 - Most will hold the land for a period of time
 - 3% to 5% sell (FNC)



The Silent Majority ...

- **Non-operating landowners**
 - **75% over age 65**
(FNC survey)
 - **Pass land to heirs**
 - **Some will gift the land**
 - **Most cash rent**
 - **This is the group who sells**
 - **Own over 55+% of the land**
 - **95% of our sales**



The Land Market Today

- **Land values drive rents . . .**
 - **High-quality farms and ranches still in high demand**
 - **Highest prices are at auction**
 - **Returns have dropped by 35% to 40%**
 - **Historically low cap rates from 3.25% to 4%**
 - **Affects yearly rents**
 - **More demand for lesser-quality land**
 - **Buyers are attracted to the better returns**
 - **Prices are starting to increase on the lower quality units**

Who's Selling?

- **Today's land seller**
 - **Non-operating landowners make up over 90% of the market**
 - **Individuals and families who have inherited the land**
 - **Most over the age of 65**
 - **Trusts and non-profits**



Who's Buying

- **Two types of investors in the market**
 - **1. Those who currently own land and like the asset**
 - Add on acres, generally low leverage
 - Cash lease or custom
 - **2. New investors**
 - Bullish on ag
 - Will leverage – 50%
 - Plan to hold for 10 years
 - Often little ag knowledge
 - Initially 5% - now 3.5% to 3.75% returns
 - Mostly cash lease their land
- **3. Farmers are spending profits and expanding**
 - They are spending cash, but some are also leveraging land they already own
 - Estimate 30% – 40% of sales have leverage
 - The margins are getting thin
 - Very high operating costs
 - Little margin for error
 - Less operating debt

The Dominate Buyer . . .

- **FNC sold 850 units, \$640 million in 2012**
 - **Active farmers dominate the buy side of the market taking 70% to 75% of the sales**
 - **They buy most of the auctioned properties**
 - **New high prices are generally set by farmers at an auction**
 - **A new phenomenon -- the 80+ year old cash buyer!**
 - **Investors purchased between 25% and 30% of the properties**
 - **Highest east of the Mississippi and Mid South**
 - **Traditional investors buy approximately half**
 - **More likely to bid/buy at auction than non-traditional**
 - **Non-traditional new investors have been purchasing the other half**

A Long -Term Play ...

- **Farmers**
 - **Own for a lifetime and beyond**
 - **Using a lot of cash**
 - **Average their cost over other land**
- **Investors are still basing purchases on return – 10-year window**
 - **Very focused on the return**
 - **Adjusted expectations downward to get something bought**
 - **Some price resistance**
 - **Some are using \$4.50 corn to evaluate cap rates**

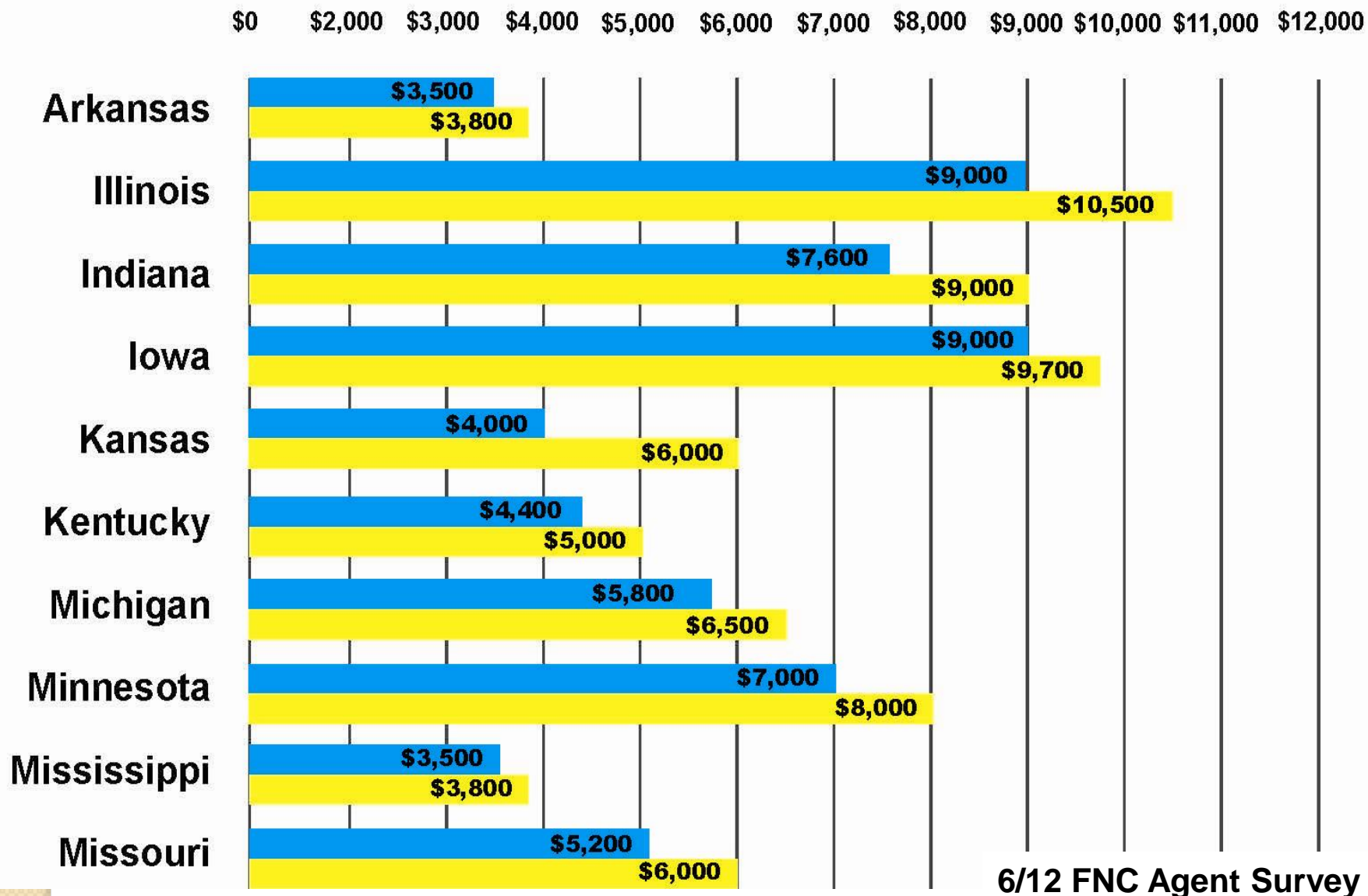
New Money in the Market

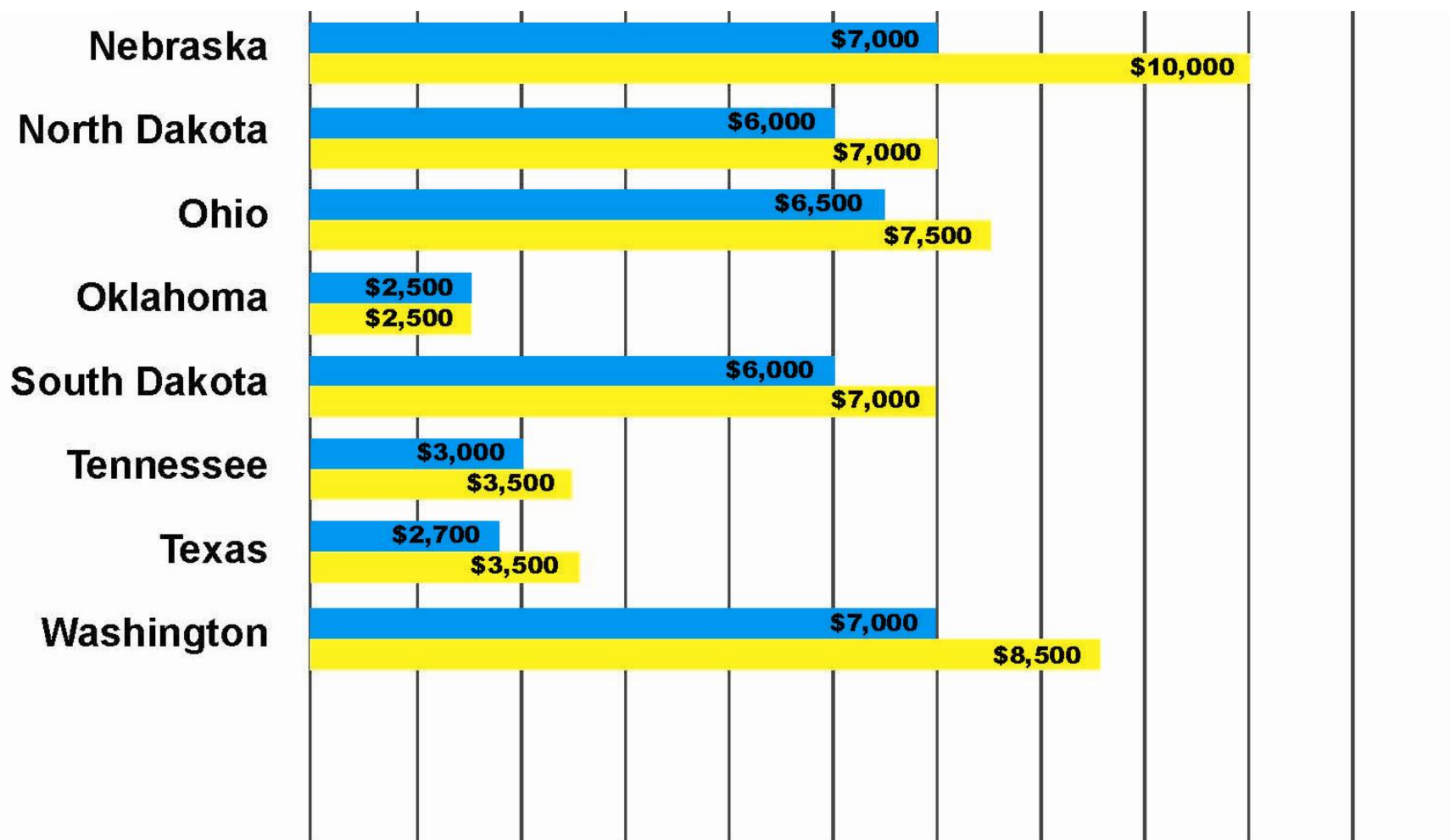


- **Fund buyers**
 - **Bank trust departments creating funds for client investment**
 - **Hedge funds adding to their holdings**
 - **Individuals creating funds**
 - **Individuals buying for the first time because they are bullish on ag**

HIGH QUALITY LAND VALUES BY STATE

SALE PRICES PER ACRE

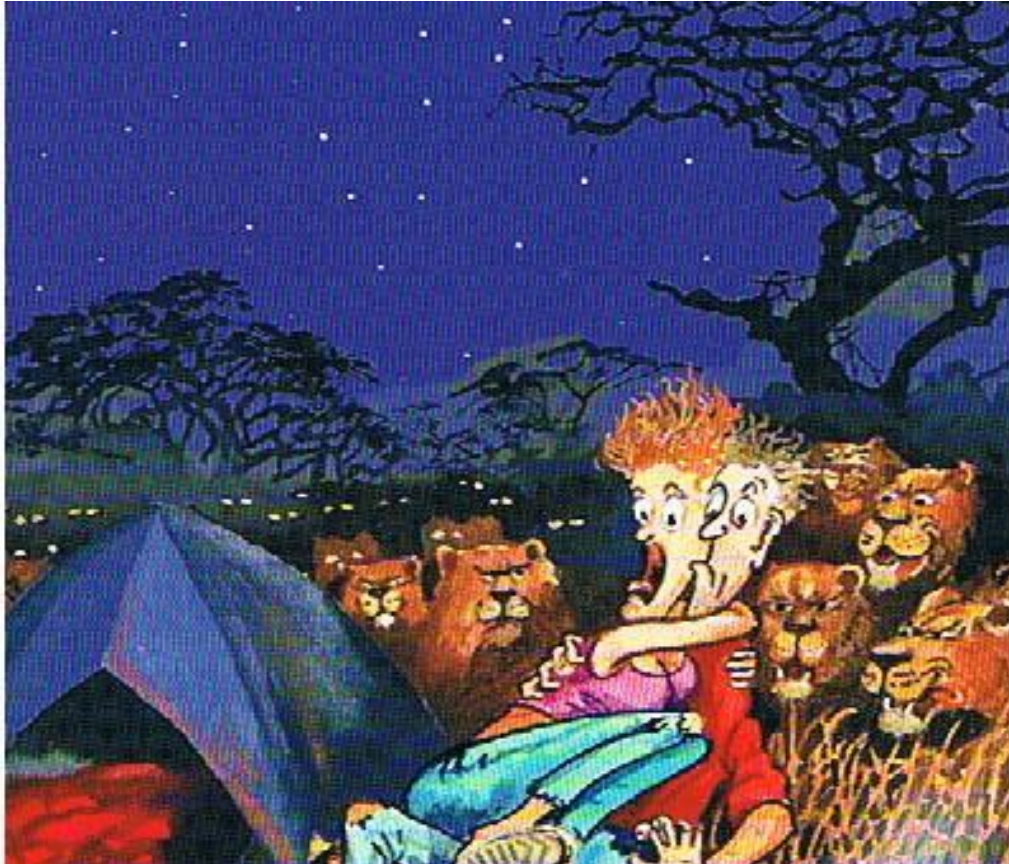




Source: Farmers National
Company Agent Survey

June 2011

June 2012



Are We Focused on the Right Risks?



For the Near Term



- **Good land values well into 2012**
- **Profit potential remains strong**
- **Strong demand for land to rent again in 2013**

Thank You!

