

# **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
<b>15. TOTAL CROP EXPENSES</b>		<b>633.51</b>	<b>383.04</b>
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		<b>\$533.44</b>	<b>\$418.18</b>

# Cash Rent Ranges

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

- 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

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

# 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

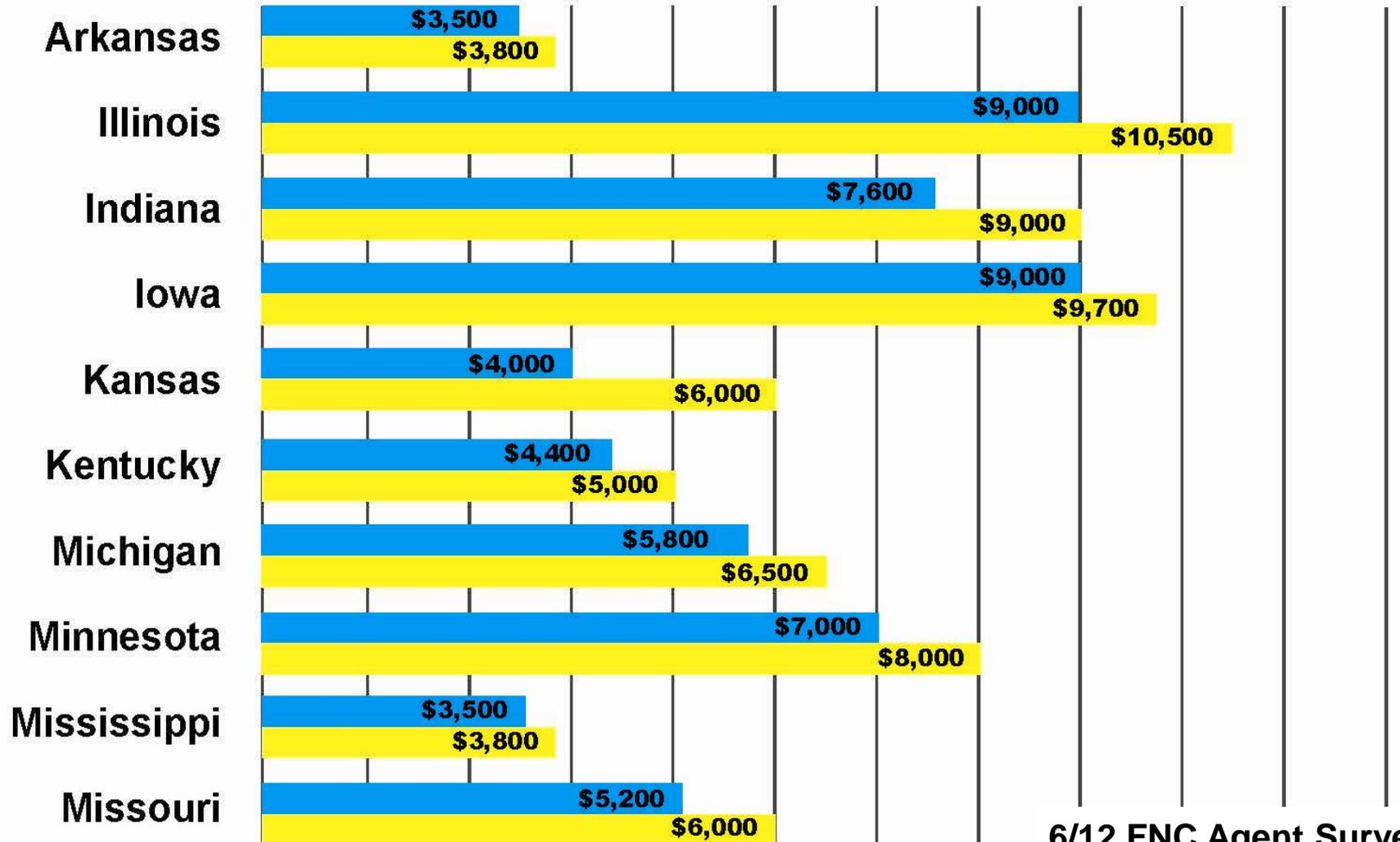


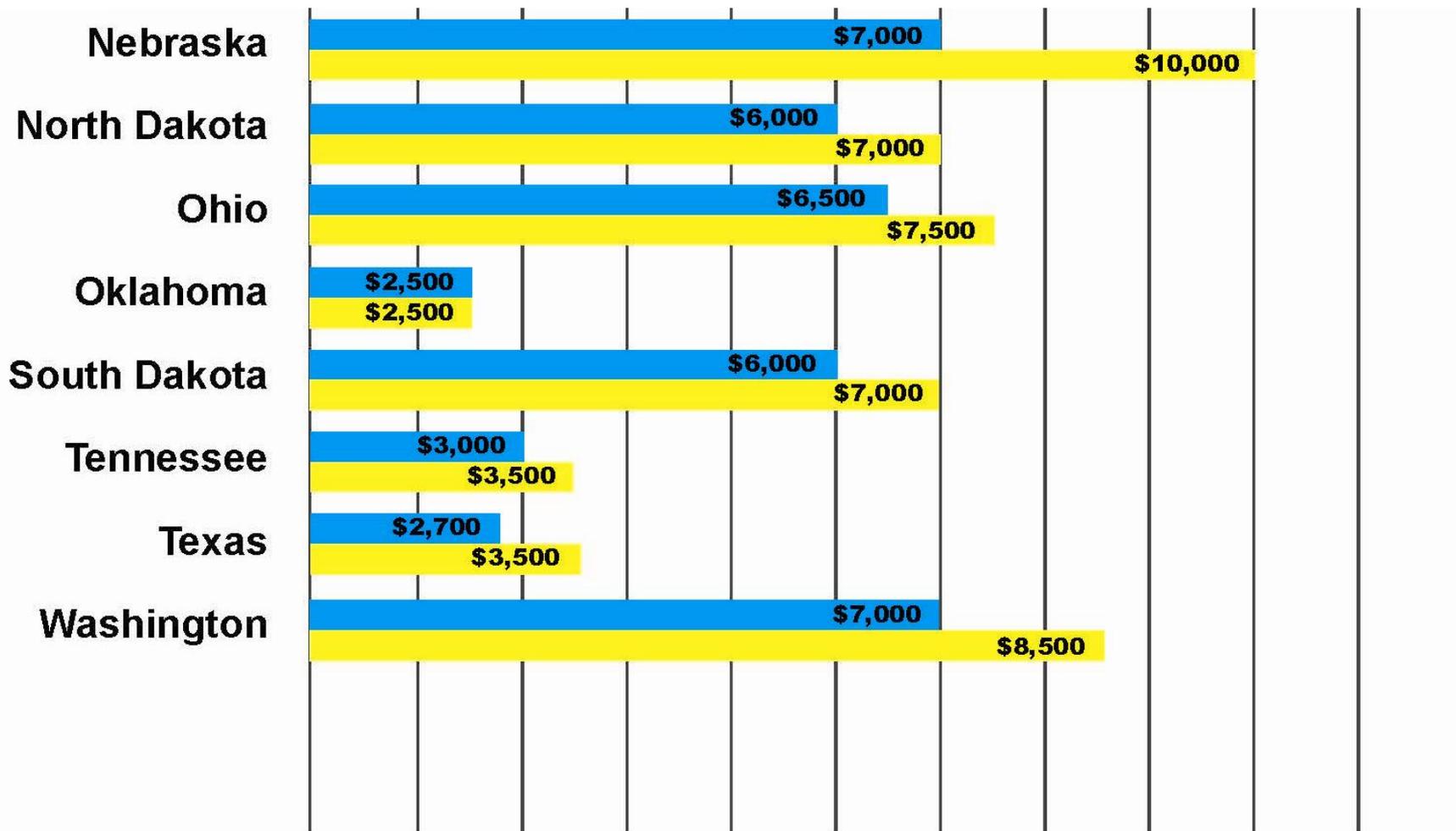
- **Fund buyers**
  - **Bank trust departments creating funds for client investment**
  - **Hedge funds adding to their holdings**
  - **Individuals creating funds**
  - **Individuals buying for the first time because they are bullish on ag**

# HIGH QUALITY LAND VALUES BY STATE

## SALE PRICES PER ACRE

\$0 \$2,000 \$3,000 \$4,000 \$5,000 \$6,000 \$7,000 \$8,000 \$9,000 \$10,000 \$11,000 \$12,000

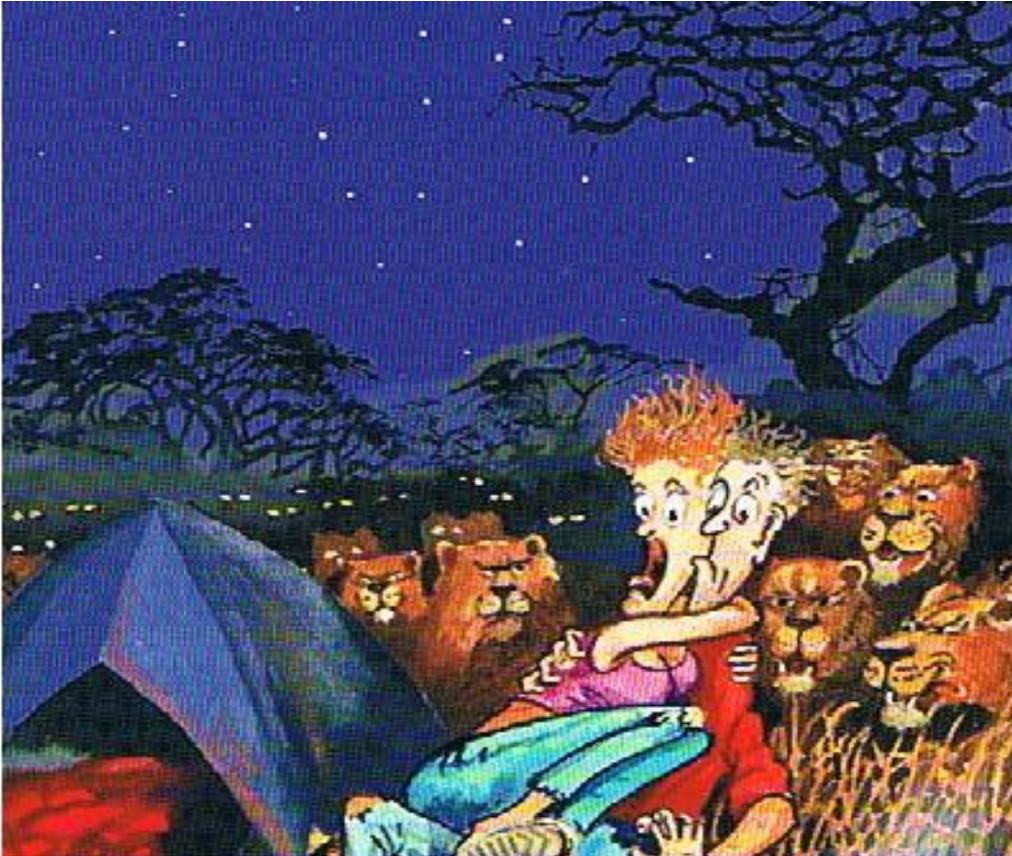




Source: Farmers National  
Company Agent Survey

■ 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!***

