

Land Rent Discussions

Presented By



Michael C. Downey
downey@farmestate.com
 319-361-2409

Find us on
 Facebook @NextGenAgAdvocates

www.nextgenag.us

1

An Introduction to Who We Are



1. Succession Planning
2. Estate Planning
3. Family Reviews
4. Strategies Within Families

www.farmestate.com



1. Matching Program
2. Leasing Program
3. Annual 3rd Party Reviews
4. Strategies Across Families

www.nextgenag.us

2

Perfect Storm in Farm Transition



1.) Age of Land Owner

- * Is the oldest in history: 60% over age 65 and 35% over the age 75

2.) All-time high land values

- * Iowa's state average is \$7,432/acre *Illinois's state average is \$8,200/acre

3.) Cash Flow to acquire land is outside of long term profitability

- * Subsidization and Economies-of-Scale required to compete

4.) Farm is a legacy asset - Philosopher Rene Descartes "I farm therefore I am"

5.) Control

- * Difficult to surrender--required to transfer

6.) Advice from specialists

- * Limited by location, experience and incentive

7.) Low interest rates will change in the future

8.) Longevity of land owner

- * "Sandwich generation" may lose ownership opportunity

9.) Family dynamics

- * Fair vs. Equal
- * Performance based pay vs. Inheritance based pay

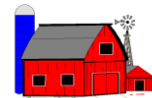
10.) Deferral Mentality

- * Susceptible to emotional decision-making...Greed, Hope, Fear

SOURCE: Iowa State University Extension and National Agricultural Statistics Service (2003-2018)

3

~~Perfect Storm in Farm Transition~~ Farm Leasing



A new element but perhaps the most important:

- * 80% of rented farmland will be owned & controlled by those that don't operate it themselves
- * 53% of Iowa farms are rented (16 million acres)
 - In some counties, upwards of 70% of farms are rented
- * 43% of Illinois farms are rented as of 2012 (12 million acres)
- * 34% of Iowa land is owned by those with no farm experience (10 million acres)

"This will put a greater emphasis on landlord/tenant relationships. Solid long-term rental relationships are going to be an important factor for the survival for the next generation of producers."

-Steve Bohr - Farmer, Landowner & Farm Transition Specialist



www.nextgenag.us

Source: USDA & ISU Tenure Study

4

Future of Agriculture



"70% of family farms will change hands over the next 15 years." - USDA

Many of these will transition to a generation that did not grow up on the farm or operate it themselves. We connect Landowners to Producers who will operate the land as if it were their own.

Preserving the family farm – 1 Landowner, 1 Producer and 1 Farm at a time

Learn How We Do This

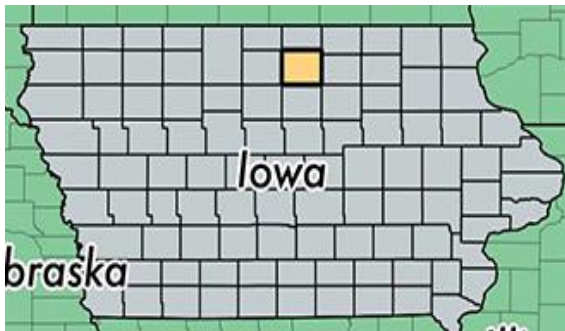
www.nextgenag.us



5

Transition in Production Agriculture

Via Land Auction & Option to Rent



- Option to rent 744 acres at \$285/acre for 3 years

FARMLAND AUCTION: FLOYD COUNTY, IOWA, SALE INCLUDES WHOPPER CASH-RENT OPPORTUNITY

SUCCESSFUL BIDDER OF 80-ACRE TRACT GETS FIRST DIBS ON 744-ACRE CASH-RENT OPPORTUNITY.

By Bill Spiegel
9/20/2019

Every farmland auction is unique, and the sale of a tract in Floyd County, Iowa, on September 17 was one of the more unique actions I've ever seen. The buyer of this property also had the opportunity to cash-rent more than 740 acres for three years.

More on that in a moment.

Up for sale was 80 acres of good-quality land, 3 miles northwest of Marble Rock in northeast Iowa. The tract has 74.7 acres of cropland, mostly Saude and Waukelee loam soil with a Corn Suitability Rating of 9.



Whopper Cash Rent Opportunity?



www.nextgenag.us

6

www.nextgenag.us

Source: USDA

Transition in Production Agriculture Via Social Media & Internet Platforms



- 250-acre farm in east-central Iowa
- Landowner saw an Internet company advertising on Facebook
- Company offered to lease the farm from landowner and offered \$321/acre for 3 years all paid upfront (\$963/a) within 7 days
- Company did not have a renter but promised renter would come from no more than 50 miles away

Questions Land Owners should be asking...

“How are they able to do this?”

“Who they sub-rent the farm to?”

“Why?”

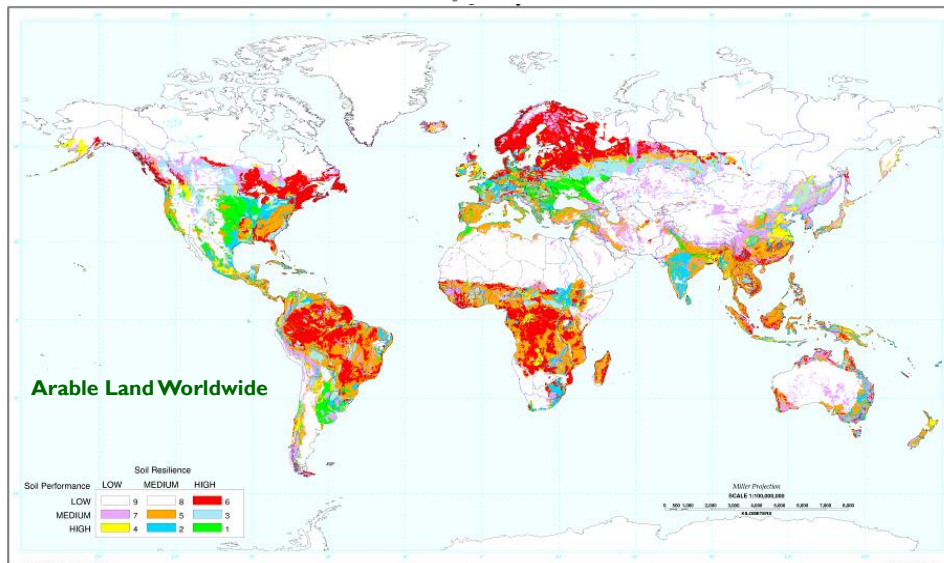


www.nextgenag.us

9

American Agriculture

Who will own & operate our farmland?



www.nextgenag.us

Source: U.S. Dept of Ag

10

Dirt – “they’re not making any more of it”

Between 1992 and 2012 almost 31 million acres of agricultural land was lost to development.

Farms Under Threat

Acres Developed by Land Cover/Use 1992 - 2012

| Land Cover/Use | Urban Development | Low Density Residential | Total Developed |
|-------------------------|-------------------|-------------------------|-----------------|
| Cropland | 7,408,000 | 4,385,000 | 11,793,000 |
| Pastureland | 4,662,000 | 4,379,000 | 9,041,000 |
| Rangeland | 4,285,000 | 1,408,000 | 5,693,000 |
| Woodland | 1,674,000 | 2,527,000 | 4,201,000 |
| Total agricultural land | 18,029,000 | 12,698,000 | 30,727,000 |
| Forestland | 5,107,000 | 9,739,000 | 14,846,000 |
| Other | 2,463,000 | 1,297,000 | 3,761,000 |
| Total | 25,600,000 | 23,735,000 | 49,335,000 |

Source: Farmland Information Center



This is equivalent to losing all of the state of Illinois or Iowa's cropland acres.

www.nextgenag.us

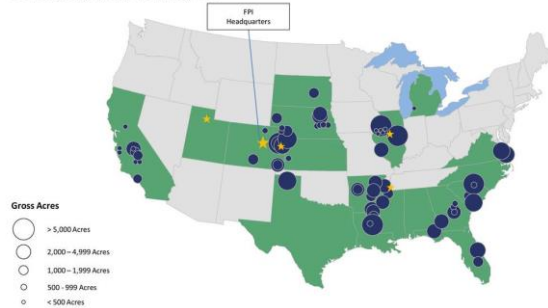
11

Farmland is in Demand

Farmland Partners Inc.

Broadly Diversified Across Crops, Markets, and Tenants

FPI's portfolio now includes nearly \$1.0 billion in real estate assets totaling over 154,000 acres across 17 states and approximately 30 major crop types. We work with more than 110 farmers across our properties.¹ Our headquarters are in Denver, CO with satellite offices in Burlington, CO, Salt Lake City, UT, Bloomington, IL, and Memphis, TN.



(1) Statistics as of June 6, 2017, inclusive of properties under contract

FARMLAND PARTNERS FPI
NYSE

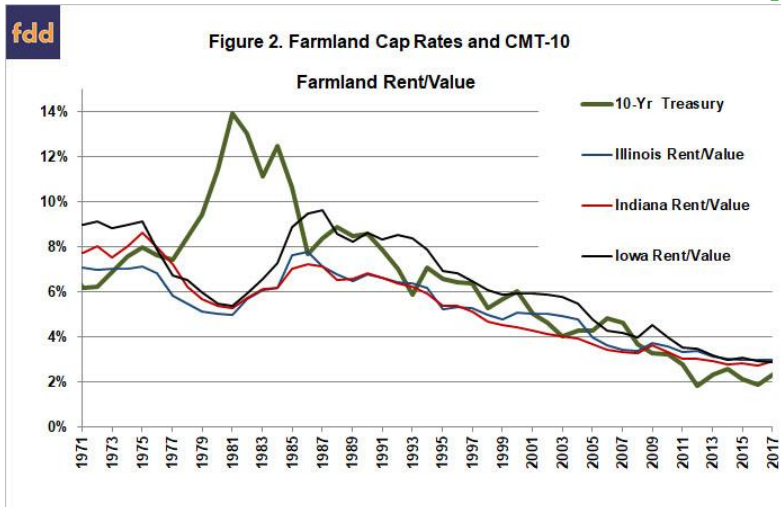


Farmland has increased in popularity and more and more institutional funds, pension funds and other buying groups want to own some of it.

www.nextgenag.us

12

Return to Farmland Ownership



There's a growing disconnect between farm profit margins and what people will pay for ground

www.nextgenag.us

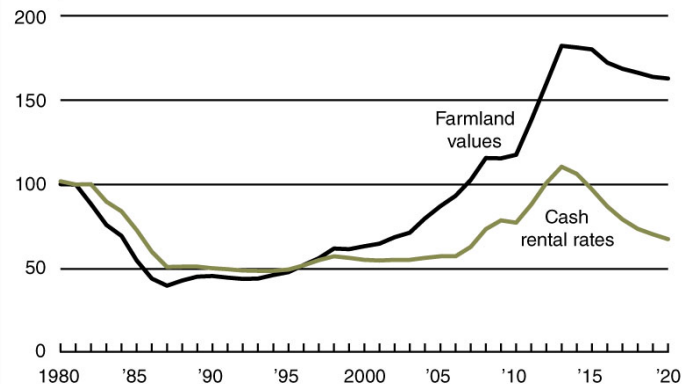
Source: 2017 ISU Tenure Study, USDA & Illinois FarmDoc

13

Land Rents vs Land Values

2. Indexes of Seventh District farmland adjusted by PCEPI

index, 1981=100



Note: Both series are adjusted by PCEPI for the first quarter of each year.

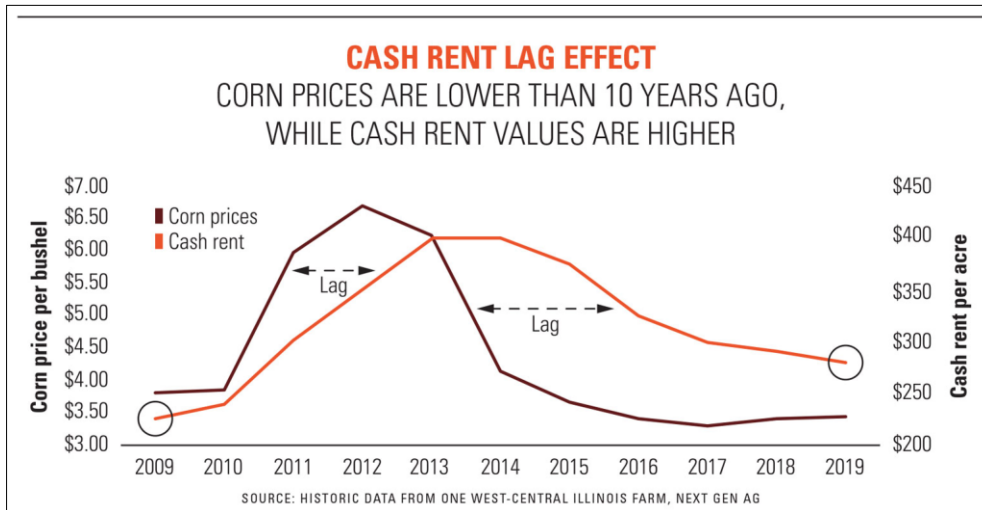
Sources: Author's calculations based on data from Federal Reserve Bank of Chicago surveys of farmland values; and U.S. Bureau of Economic Analysis, Personal Consumption Expenditures Price Index (PCEPI), from Haver Analytics.

Farmland values & rents have the tendency to move up and down together.

www.nextgenag.us

14

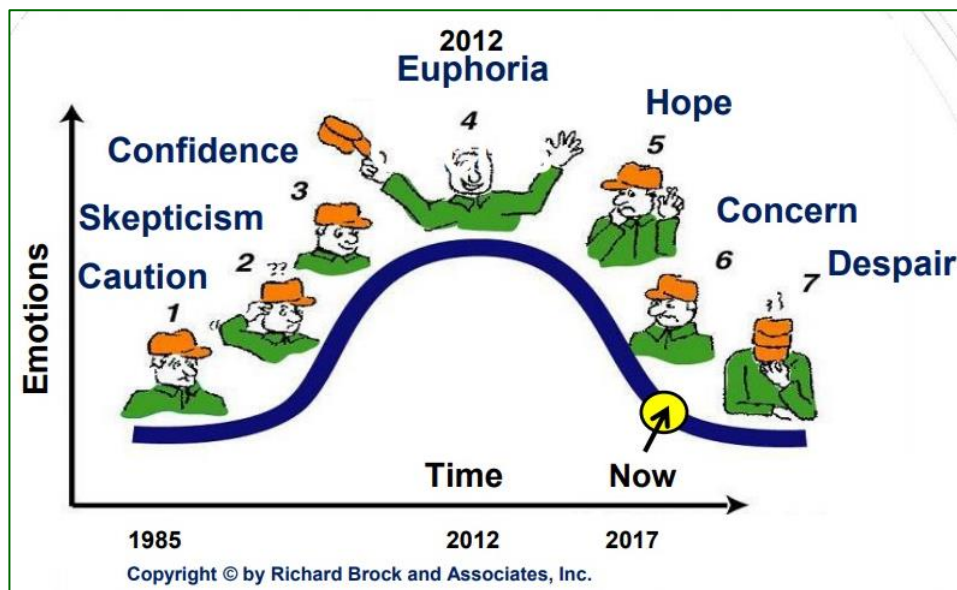
the Fixed Cash Rent Lease



www.nextgenag.us

Image Source: Farm Futures

15



www.nextgenag.us

16

Land Rent Discussions

Considerations for 2021

- Why do farmers farm?
- Why do landowners own land?
- What about the next generation?



www.nextgenag.us

17

Landowner-Producer relationships

What's Important to You?

Landowners:

What are your expectations in a prospective tenant?

- TI. Stewardship & Care for the Land
- TI. Receive a Fair Income
- TI. All the Little Things...

Producers:

What are you looking for in working with a landowner?

1. A long-term relationship
2. They care for the land
3. Understanding of fair lease terms

Does your lease truly incentivize all the factors that are important to you?

Our goal is to create more of a “partnership” in the lease relationship.

www.nextgenag.us

18

Land Stewardship



www.nextgenag.us

19

Dirt – “they’re not making any more of it”



Average Soil Loss In Iowa =
4.3 truck loads/acre/decade

U.S. is losing topsoil 10 times
faster than it is being replenished

It takes 500 years to replenish
1 inch of lost topsoil

www.nextgenag.us

Source: Daily Erosion Project, ISU

20

Land Stewardship



Most conservation practices are
long term, not year to year



www.nextgenag.us

21

Cover Crops – Who Should Pay For It?

Cover Crop Lease Insertion

Use this sample Cover Crop Lease Insertion to work with your farm operator and/or farm manager to incorporate cover crops into your lease.

The Owner and Operator agree to utilize a cover crop. Operator shall use best efforts to plant a cover crop by _____ (date) on _____ acres or _____ % of the leased acres. Specifics such as species composition, planting method, termination method and date will be determined by (Owner/Operator/Jointly), and/or with the input of a conservation professional, crop consultant, agronomist or other professional knowledgeable on local best practices for cover crops. [Optional: These methods shall be set forth in a written Cover Crop Plan.]

The cost to purchase seed, plant, manage and terminate cover crops is estimated at \$_____/acre. The parties may pursue cost-share from USDA, state government or other program to offset costs. Expenditures incurred by Operator related to the use of cover crops will be accommodated through:

_____ Compensate the Operator at \$_____/acre for the purchase of seed, planting, management and termination of cover crops. Payment from Owner shall be made within 120 days after cover crops are established.

_____ Reduce the per acre rental rate set forth above by \$_____/acre in year(s) _____ of the lease agreement to compensate for the cost of cover crop implementation. Final lease rental rate is \$_____/acre for the year(s) identified above.

_____ The Operator shall bear all costs.



www.nextgenag.us

Source: Nature Conservancy & Purdue University

22

How to Incentivize Good Conservation

Table 1. Compensation for improvements.

| Type of Improvement | Date of Completion | Estimated Total Dollar Cost | Percent Contributed by Tenant | | | TOTAL Dollar Value of Tenant's Contribution* | Percent Rate of Annual Depreciation |
|---------------------|--------------------|-----------------------------|-------------------------------|-----------------|-----------|--|-------------------------------------|
| | | | Material | Unskilled Labor | Machinery | | |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |
| | | \$ | % | % | % | \$ | % |

* To be recorded when improvement is completed.



www.nextgenag.us

23

Crop Share Arrangements

Low in #'s, but still have a place

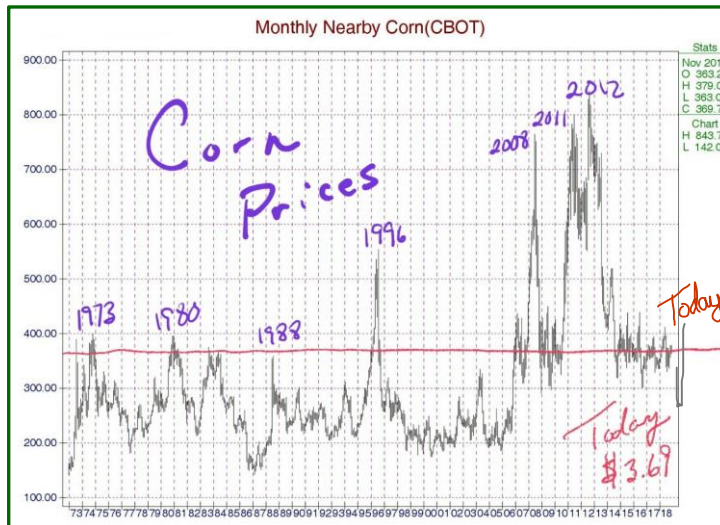
- Sharing of the Income & Expense and Risk & Reward
- Also share in cost of farm improvements & Conservation programs
- Tax reasons
 - Active Participation required for C-Corp to sub-chapter S-Corp
 - Retirement Transition Tool
- Iowa Beginning Farmer Programs
 - 5% State Income Tax Credit for Cash Rent
 - 15% State Income Tax Credit for Crop Share & Flex Lease Payments
- Modified Crop Share Arrangements



www.nextgenag.us

24

Cycles in Agriculture



Cycles in Agriculture have not changed, but farm leasing trends have...

www.nextgenag.us

Chart Source: Unknown

25

Leasing Trends

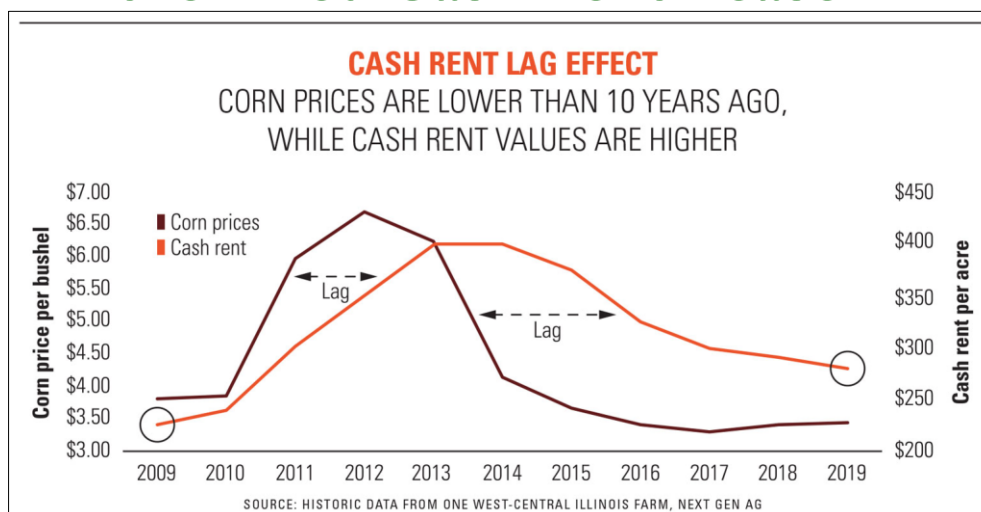


www.nextgenag.us

Source: 2017 ISU Tenure Study & Illinois Lease Trends Report

26

the Fixed Cash Rent Lease



Are we creating a Win-Win or a Win-Lose Relationship?

www.nextgenag.us

Image Source: Farm Futures

27

the Flexible Cash Rent Lease



What % of cash rent leases in Iowa are now flexible leases?

18%

33% in some regions of Iowa

30% of new leases in Illinois

Source: 2017 ISU Tenure Study & Illinois Land Values & Lease Trends Report

28

| LANDOWNER'S RENT WITH A FLEXIBLE LEASE | | | | | | | |
|--|-----|--------|--------|--------|--------|--------|--------|
| Average price | | | | | | | |
| Actual yield (bu./ac.) | 280 | \$2.50 | \$3.00 | \$3.50 | \$4.00 | \$4.50 | \$5.00 |
| | | \$231 | \$277 | \$323 | \$370 | \$416 | \$462 |
| | 260 | \$225 | \$257 | \$300 | \$343 | \$386 | \$429 |
| | 240 | \$225 | \$238 | \$277 | \$317 | \$356 | \$396 |
| | 220 | \$225 | \$225 | \$254 | \$290 | \$327 | \$363 |
| | 200 | \$225 | \$225 | \$231 | \$264 | \$297 | \$330 |
| | 180 | \$225 | \$225 | \$225 | \$238 | \$267 | \$297 |
| Net rent to be higher of \$225/acre base or 33% of gross revenue | | | | | | | |
| Farm Futures article: "It's time to get serious about a flexible land lease" | | | | | | | |
| www.nextgenag.us | | | | | | | |
| Image Source: Farm Futures | | | | | | | |

29

Understanding the Numbers

Land Rent Break-Even's

| AUGUST 2020 | Corn | Soybeans | JANUARY 2021 | Corn | Soybeans |
|---------------------------------------|---------|----------|---------------------------------------|---------|----------|
| 2021 Projected Price | \$3.50 | \$8.60 | 2021 Projected Price | \$4.00 | \$11.00 |
| Average Yields (APH) | x 210 | x 60 | Average Yields (APH) | x 210 | x 60 |
| Gross Revenue | \$735 | \$515 | Gross Revenue | \$840 | \$660 |
| Less Crop Expenses & Non-land costs | (\$450) | (\$265) | Less Crop Expenses & Non-land costs | (\$450) | (\$265) |
| Less Operator Return for Time & Labor | (\$50) | (\$50) | Less Operator Return for Time & Labor | (\$50) | (\$50) |
| Break-Even (Before Rent) | \$235 | \$200 | Break-Even (Before Rent) | \$340 | \$345 |



Let's establish a fair starting point, but with the flexibility to adjust higher as farm income moves higher

www.nextgenag.us

30

Cash Rent vs Corn Price

| Year | Your Farm | District 5 Grundy Co | District 6 Cedar Co | District 9 Henry Co | Corn \$ | Bean \$ |
|-----------|-----------|-------------------------|------------------------|------------------------|---------|---------|
| 2010 | | \$229 | \$235 | \$204 | \$3.55 | \$9.59 |
| 2011 | | \$270 | \$263 | \$247 | \$5.18 | \$11.30 |
| 2012 | | \$333 | \$313 | \$271 | \$6.22 | \$12.50 |
| 2013 | | \$353 | \$349 | \$291 | \$6.89 | \$14.40 |
| 2014 | | \$336 | \$337 | \$297 | \$4.46 | \$13.00 |
| 2015 | | \$304 | \$307 | \$271 | \$3.70 | \$10.10 |
| 2016 | | \$274 | \$289 | \$249 | \$3.61 | \$8.95 |
| 2017 | | \$263 | \$274 | \$252 | \$3.36 | \$9.47 |
| 2018 | | \$270 | \$277 | \$246 | \$3.36 | \$9.33 |
| 2019-2020 | | \$272 | \$252 | \$265 | \$3.61 | \$8.48 |

(ISU high quality averages)

(USDA Marketing Year Averages)


www.nextgenag.us

Source: ISU Cash Rent Survey & USDA

31

Cash Rent / Gross Revenue Trends

Table 1. Average Iowa cash rent as a percent of gross crop value and gross crop revenue (\$/acre)

| Year | Average Cash Rent ^{1/} | Average Gross Crop Value ^{2/} | | Cash Rent as % of Gross Crop Value | | Average Gross Crop Revenue ^{3/} | | Cash Rent as % of Gross Crop Revenue | |
|----------------------|---------------------------------------|---|----------|--|----------|---|----------|--|----------|
| | | Corn | Soybeans | Corn | Soybeans | Corn | Soybeans | Corn | Soybeans |
| 2008 | \$176 | \$743 | \$463 | 24% | 38% | \$846 | \$537 | 21% | 33% |
| 2009 | \$183 | \$672 | \$488 | 27% | 38% | \$730 | \$516 | 25% | 35% |
| 2010 | \$184 | \$756 | \$552 | 24% | 33% | \$819 | \$577 | 22% | 32% |
| 2011 | \$214 | \$985 | \$596 | 22% | 36% | \$1,037 | \$626 | 21% | 34% |
| 2012 | \$252 | \$948 | \$641 | 27% | 39% | \$1,111 | \$687 | 23% | 37% |
| 2013 | \$270 | \$732 | \$579 | 37% | 47% | \$905 | \$625 | 30% | 43% |
| 2014 | \$260 | \$655 | \$513 | 40% | 51% | \$780 | \$558 | 33% | 47% |
| 2015 | \$246 | \$681 | \$484 | 36% | 51% | \$741 | \$509 | 33% | 48% |
| 2016 | \$230 | \$661 | \$563 | 35% | 41% | \$699 | \$582 | 33% | 40% |
| 2017 | \$219 | \$644 | \$519 | 34% | 42% | \$665 | \$531 | 33% | 41% |
| Average 2008-2017 | \$223 | \$748 | \$540 | 31% | 42% | \$833 | \$575 | 27% | 39% |

^{1/} Cash Rental Rates for Iowa Survey, AgDM File C2-10.^{2/} USDA NASS Iowa average yield x Iowa average cash price in Oct.-Dec.^{3/} USDA NASS Iowa average yield x Iowa average cash price in Oct.-Dec., plus USDA payments and crop insurance indemnity payments.

\$735 Estimated Gross Corn Revenue x 30% = \$220/Acre

\$515 Estimated Gross Bean Revenue x 40% = \$205/Acre

www.nextgenag.us

32

| \$300/acre Fixed Rent | | | | | | | | |
|------------------------------|--------|--------|--------|--------|--------|--------|--------------|--|
| Actual Selling Price | | | | | | | | |
| | \$2.50 | \$3.00 | \$3.50 | \$4.00 | \$4.50 | \$5.00 | \$5.50 | |
| Actual Yield | | | | | | | | |
| 260 | (\$75) | \$5 | \$135 | \$265 | \$395 | \$525 | \$655 | |
| 240 | (\$75) | (\$55) | \$65 | \$185 | \$305 | \$425 | \$545 | |
| 220 | (\$75) | (\$75) | (\$5) | \$105 | \$215 | \$325 | \$435 | |
| 200 | (\$75) | (\$75) | (\$75) | \$25 | \$125 | \$225 | \$325 | |
| 185 | (\$75) | (\$75) | (\$75) | (\$35) | \$58 | \$150 | \$243 | |
| 170 | (\$75) | (\$75) | (\$75) | (\$75) | (\$10) | \$75 | \$160 | |

| \$225/acre Base Rent + Share 33% of Profits | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------------|--|
| Actual Selling Price | | | | | | | | |
| | \$2.50 | \$3.00 | \$3.50 | \$4.00 | \$4.50 | \$5.00 | \$5.50 | |
| Actual Yield | | | | | | | | |
| 260 | \$0 | \$54 | \$141 | \$228 | \$315 | \$402 | \$489 | |
| 240 | \$0 | \$13 | \$94 | \$174 | \$255 | \$335 | \$415 | |
| 220 | \$0 | \$0 | \$47 | \$121 | \$194 | \$268 | \$342 | |
| 200 | \$0 | \$0 | \$0 | \$67 | \$134 | \$201 | \$268 | |
| 185 | \$0 | \$0 | \$0 | \$27 | \$89 | \$151 | \$213 | |
| 170 | \$0 | \$0 | \$0 | \$0 | \$44 | \$101 | \$157 | |

Producer Profit (\$/acre) Fixed Lease vs Flex

250-acre farm example:

$\$166/\text{acre} \times 250 \text{ ac} = \$41,500$ more profit

- Are you willing to take more risk for the chance of having a "home run" year?
- Or, would you rather give up some of the top end to better manage the low end risk?

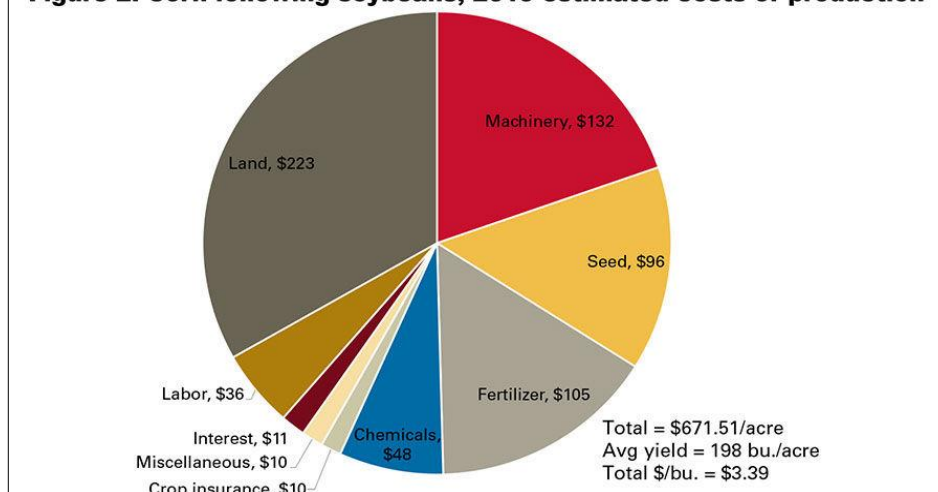
Source: Next Gen Ag

www.nextgenag.us

33

Land Costs

Figure 2. Corn following soybeans, 2019 estimated costs of production




The cost to produce corn & soybeans has not changed dramatically over the last 7 years compared to the respective drop in commodity prices from hitting their highs in 2012.

www.nextgenag.us

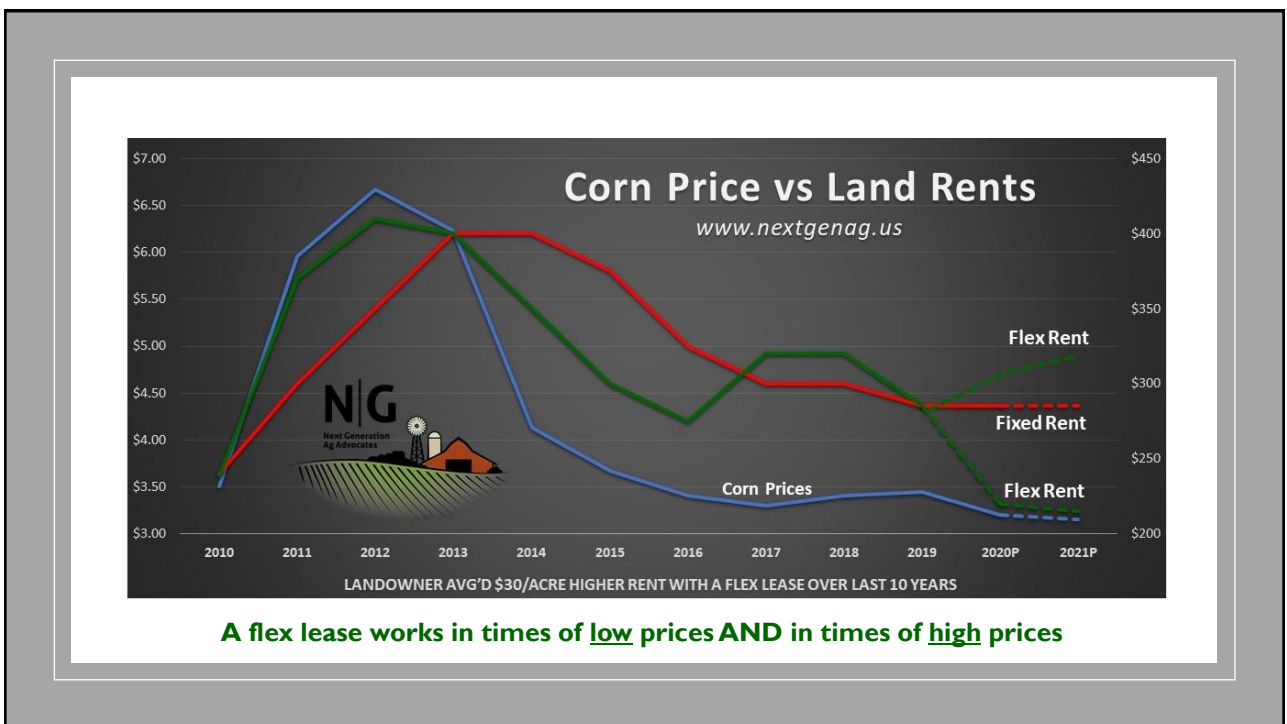


34

| LANDOWNER RENT COMPARISON Fixed cash rent vs. flex lease | | | | |
|---|--------------|------------|-------|--------------|
| Fixed lease | | Flex lease | | |
| Year | Fixed rent | Base rent | Bonus | Total |
| 2010 | \$240 | \$200 | \$74 | \$274 |
| 2011 | \$300 | \$250 | \$143 | \$393 |
| 2012 | \$350 | \$300 | \$151 | \$451 |
| 2013 | \$400 | \$300 | \$193 | \$493 |
| 2014 | \$400 | \$300 | \$177 | \$477 |
| 2015 | \$375 | \$300 | \$0 | \$300 |
| 2016 | \$325 | \$275 | \$0 | \$275 |
| 2017 | \$300 | \$250 | \$72 | \$322 |
| 2018 | \$300 | \$250 | \$85 | \$335 |
| 2019 | \$285 | \$225 | \$55 | \$280 |
| 10-year avg. | \$327 | \$265 | | \$360 |


 SOURCE: NEXT GEN AG
www.nextgenag.us
 Image Source: Farm Futures

35



36

the Flexible Cash Rent Lease

a Modern-Day Alternative

- **A crop share & traditional cash rent lease all wrapped into one:**
 - There is still a guaranteed level of income as with a traditional cash lease
 - The upside is left open for the landowner to participate in profits from strong prices and/or yields (more flexible)
 - There is still no production or price risk for the landowner
- **Facilitates a “Marriage” between the landowner and tenant, not a “Divide”**
 - Reduces the annual rent negotiation & less worry on determining what is fair
 - It turns into a more enjoyable landlord-tenant relationship
- **Meets all the landowner’s goals** (land stewardship, fertility, fair income, all the little things)
- **Meets the producers #1 goal** (supports a longer-term relationship)
 - Recognizes the need for the tenant to make money
 - Regarded as a more mutually fair arrangement
- **A key component is the “base” rent should be set at a reasonable level**



www.nextgenag.us

37

Land Rent Discussions

Presented By



Michael C. Downey
downey@farmestate.com
 319-361-2409

Find us on
 Facebook @NextGenAgAdvocates

www.nextgenag.us

38