



## Farm Lease Trends and Strategies

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**2007 Illinois Farm Economic Summit**

*The Profitability of Illinois Agriculture: Where to from Here?*

### Outline

- Leasing trends
- Control of Illinois farmland
- A look at farm income and returns
- Cash rent trends
- Estimated crop share returns
- Risk consideration study
- Variable cash rent leases
- FSA issues
- What about 2008?
- Strategies

- Continued slow but steady movement to more cash rent leases, less crop share.
- Adjustments that occur generally favor land owner, like higher cash rent or operator pays more of the cost on crop share leases (supplemental crop share leases).
- Generally a time lag in adjusting leases to changing economic conditions.
- Improved profit margins has brought about interest to review lease terms more closely.

- More pressure than usual to raise cash rents.
- Average cash rental rates almost never decrease.
- Due to higher risk and more uncertainty, more interest in variable cash rental arrangements, but implementation still limited.
- While a small percentage, custom farming arrangements still part of the mix.
- Due to better returns, crop share leases have become competitive again with cash rent leases.

## Control of Illinois Farmland



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### Control of Farmland by Illinois Farm Operators

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Northern Illinois Pure Grain Farms</b>				
% owned	22	22	17	18
% crop shared	30	29	30	29
% cash rented	48	49	53	53
<b>Central Illinois Pure Grain Farms</b>				
% owned	15	15	14	13
% crop shared	59	56	56	55
% cash rented	26	29	30	32
<b>Southern Illinois Pure Grain Farms</b>				
% owned	24	24	23	23
% crop shared	43	41	40	40
% cash rented	33	35	37	37

Source: Illinois FBFM Association and the University of Illinois

## Returns - Northern Illinois



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### Per Acre Operator and Farmland Returns - Northern Illinois

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007F</u>	<u>2003 - 2007</u> <u>change</u>
Gross revenue	\$379	\$432	\$389	\$481	\$587	\$208
Total direct costs	\$116	\$131	\$139	\$144	\$155	\$39
Total power costs	\$50	\$56	\$58	\$66	\$68	\$18
Total overhead costs	\$37	\$40	\$43	\$51	\$52	\$15
Total non-land costs	\$203	\$227	\$240	\$261	\$275	\$72
Operator and land return	\$176	\$205	\$149	\$220	\$312	\$136

Source: University of Illinois  
2007F - Forecast

## Returns – Central Illinois



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### Per Acre Operator and Farmland Returns - Central Illinois

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007F</u>	2003 - 2007 <u>change</u>
Gross revenue	\$404	\$445	\$431	\$490	\$613	\$209
Total direct costs	\$117	\$128	\$144	\$147	\$158	\$41
Total power costs	\$45	\$50	\$52	\$55	\$57	\$12
Total overhead costs	\$39	\$38	\$42	\$45	\$46	\$7
Total non-land costs	\$201	\$216	\$238	\$247	\$261	\$60
Operator and land return	\$203	\$229	\$193	\$243	\$352	\$149

Source: University of Illinois  
2007F - Forecast

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## Returns – Southern Illinois



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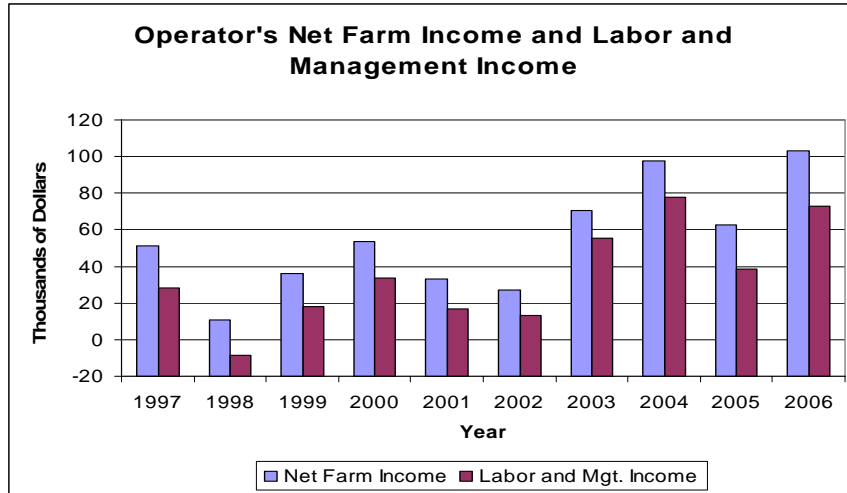
### Per Acre Operator and Farmland Returns - Southern Illinois

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007F</u>	2003 - 2007 <u>change</u>
Gross revenue	\$340	\$393	\$357	\$410	\$449	\$109
Total direct costs	\$109	\$117	\$133	\$143	\$154	\$45
Total power costs	\$50	\$55	\$61	\$64	\$66	\$16
Total overhead costs	\$35	\$38	\$41	\$47	\$48	\$13
Total non-land costs	\$194	\$210	\$235	\$254	\$268	\$74
Operator and land return	\$146	\$183	\$122	\$156	\$181	\$35

Source: University of Illinois  
2007F - Forecast

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## Sources of data...

- USDA
- Illinois Farm Business Farm Management (FBFM) Association
- Illinois Society of Professional Farm Managers and Rural Appraisers

## Cash Rent - USDA



### Illinois Average Cash Rent USDA

Year	Cash Rent Per Acre	Percent Change
2000	\$119	7.2
2001	\$119	0.0
2002	\$122	2.5
2003	\$123	0.8
2004	\$126	2.4
2005	\$129	2.4
2006	\$132	2.3
2007	\$141	6.8

## Cash Rent - FBFM



### Average Cash Rent Paid by Illinois Farms Enrolled in Illinois Farm Business Farm Management, 2000 - 2006

Region	Year							Average Annual % Change
	2000	2001	2002	2003	2004	2005	2006	
Northern	\$123	\$126	\$129	\$130	\$135	\$137	\$139	2.06
Central (High SPR)	\$132	\$137	\$137	\$140	\$143	\$147	\$150	2.16
Central (Low SPR)	\$115	\$119	\$122	\$123	\$131	\$131	\$135	2.73
Southern	\$85	\$87	\$89	\$82	\$98	\$99	\$98	2.72

Per Acre Cash Rents for Top 1/3, Mid 1/3 and Low 1/3  
Cash Rent Leases by Land Quality, 2007

Lease Type	Land Quality			
	Excellent	Good	Average	Fair
High 1/3	\$212	\$187	\$163	\$136
Mid 1/3	\$183	\$164	\$144	\$120
Low 1/3	\$157	\$140	\$122	\$102

Source: Illinois Society of Professional Farm Managers and Rural Appraisers, March 2007

Cash Rents in 2006, 2007, and 2008 on Professionally  
Managed Illinois Farmland

	Expected 2008 Corn Yield			
	Less than 170 bu.		Over 170 bu.	
	All	170 bu.	190 bu.	Over 190 bu.
	Bu. per acre			
Expected corn yield in 2008	184	166	182	204
	\$ per acre			
Cash rent in 2006	\$169	\$158	\$170	\$172
Cash rent in 2007	\$191	\$171	\$194	\$197
Expected cash rent in 2008	\$212	\$186	\$216	\$219

Source: Illinois Society of Professional Farm Managers and Rural Appraisers, August 2007

## Estimated Crop Share Returns



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<u>Year</u>	<u>Landlord Net Rent</u>	<u>Landlord Expenses</u>	<u>Equivalent Gross Cash Rent</u>
Northern and central Illinois - higher productive soil			
2000	\$107	\$41	\$149
2001	\$91	\$42	\$133
2002	\$91	\$40	\$130
2003	\$116	\$36	\$152
2004	\$127	\$39	\$166
2005	\$114	\$40	\$154
2006	\$143	\$41	\$184
2007F	\$192	\$42	\$234
2000 - 2007 avg.	\$123	\$40	\$163
2003 - 2007 avg.	\$138	\$40	\$178

Source: Illinois FBFM Association and the University of Illinois.

## Estimated Crop Share Returns



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<u>Year</u>	<u>Landlord Net Rent</u>	<u>Landlord Expenses</u>	<u>Equivalent Gross Cash Rent</u>
Northern and central Illinois - lower productive soil			
2000	\$97	\$37	\$134
2001	\$85	\$38	\$123
2002	\$89	\$35	\$124
2003	\$102	\$32	\$134
2004	\$120	\$34	\$155
2005	\$102	\$36	\$137
2006	\$134	\$37	\$171
2007F	\$182	\$38	\$220
2000 - 2007 avg.	\$114	\$36	\$150
2003 - 2007 avg.	\$128	\$35	\$163

Source: Illinois FBFM Association and the University of Illinois.



**‘Consider Higher Costs and Additional Risk  
When Negotiating 2008 Cash Rents.’...Gary  
Schnitkey, University of Illinois**

**Newsletter available in the ‘Management’  
section of the *Farmdoc* website.**

**More risk due to.....**

- **Higher input costs.**
- **More corn and soybean price variability.**
- **Less downside price protection from farm program due to higher prices.**
- **Larger drop in revenue needed for some crop insurance products to pay.**

## Risk considerations continued... Comparison of returns and risks

Expected Farmer Margin	Cash Rent		Chance of Negative Farmer Margin		Avg. Farmer Margin When Margin is Negative	
	2001-2005	2008P	2001-2005	2008P	2001-2005	2008P
\$50	\$149	\$264	11%	35%	-\$19	-\$64
\$75	\$124	\$239	3%	28%	-\$15	-\$53
\$100	\$99	\$214	1%	20%	-\$11	-\$43
\$125	\$74	\$189	*	14%	-\$4	-\$31
\$135	\$64	\$179	*	11%	-\$2	-\$28

\* Indicates less than 1% chance.

## Why more interest now in variable cash rent leases?

- Use of cash rent leases in general are increasing.
- Increase in farm profitability (short term?), pressure to raise cash rents.
- Currently, more variability in corn and soybean prices, uncertainty about future price directions.
- Higher input costs result in potential for larger losses if drop in prices and/or yields.

- **Base rent X actual yield X actual price  
base yield     base price**
- **Base rent plus bonus payment, bonus payment based on yield, price or both.**
- **Cash rent is based on \$ per bushel harvested.**
- **Fixed percentage of gross revenue.**

Cash Rent as a Percent of Crop Returns - Northern Illinois Grain Farms

<u>Year</u>	<u>Average Cash Rent</u>	<u>Crop Returns</u>	<u>Cash Rent as % of Crop Returns</u>	<u>35% of Crop Returns</u>	<u>40% of Crop Returns</u>
2000	\$123	\$375	32.8	\$131	\$150
2001	\$126	\$350	36.0	\$123	\$140
2002	\$129	\$356	36.2	\$125	\$142
2003	\$130	\$386	33.7	\$135	\$154
2004	\$135	\$437	30.9	\$153	\$175
2005	\$137	\$417	32.9	\$146	\$167
2006	\$139	\$524	26.5	\$183	\$210
2007F	\$145	\$590	24.6	\$207	\$236
2000-2006 avg.	\$131	\$406	32.7	\$142	\$163

Source: Illinois FBFM Association and University of Illinois.

## Cash Rent % - Central Illinois



Cash Rent as a Percent of Crop Returns - Central Illinois Grain Farms

<u>Year</u>	<u>Average Cash Rent</u>	<u>Crop Returns</u>	<u>Cash Rent as % of Crop Returns</u>	<u>35% of Crop Returns</u>	<u>40% of Crop Returns</u>
2000	\$132	\$391	33.8	\$137	\$156
2001	\$137	\$364	37.6	\$127	\$146
2002	\$137	\$360	38.1	\$126	\$144
2003	\$140	\$407	34.4	\$142	\$163
2004	\$143	\$443	32.3	\$155	\$177
2005	\$147	\$434	33.9	\$152	\$174
2006	\$150	\$494	30.4	\$173	\$198
2007F	\$155	\$610	25.4	\$214	\$244
2000-2006 avg.	\$143	\$438	33.2	\$153	\$175

Source: Illinois FBFM Association and University of Illinois.

## Cash Rent % - Southern Illinois



Cash Rent as a Percent of Crop Returns - Southern Illinois Grain Farms

<u>Year</u>	<u>Average Cash Rent</u>	<u>Crop Returns</u>	<u>Cash Rent as % of Crop Returns</u>	<u>25% of Crop Returns</u>	<u>30% of Crop Returns</u>
2000	\$85	\$342	24.9	\$86	\$103
2001	\$87	\$326	26.7	\$82	\$98
2002	\$89	\$257	34.6	\$64	\$77
2003	\$82	\$347	23.6	\$87	\$104
2004	\$98	\$390	25.1	\$98	\$117
2005	\$99	\$375	26.4	\$94	\$113
2006	\$98	\$429	22.8	\$107	\$129
2007F	\$100	\$445	22.5	\$111	\$134
2000-2006 avg.	\$92	\$364	25.8	\$91	\$109

Source: Illinois FBFM Association and University of Illinois.

- **Cash leases with variable rents based on farm's production or crop proceeds.**
- **These type of leases considered share leases by FSA.**
- **Could put DCP payments in jeopardy since farm signed up as cash lease and no sharing of program payments with landlord indicated on CCC-509 form.**
- **FSA Notice DCP-172 clarifies issue.**

- **If the terms of the lease stipulate that the rental payment is based specifically on the crop produced or the crop proceeds, considered share-lease agreement for DCP purposes.**
- **Bonus payments – bonus payments to a landowner, in itself, is not a violation of the DCP regulations even if not stipulated in original lease.**

**Operator and Land Return Using  
Different Corn and Soybean Prices  
for Northern, Central and Southern Illinois  
Region**

Corn/SB Yields	Region		
	Northern 183/51	Central 191/54	Southern 148/47
Prices	Operator and Land Return		
\$4.00/\$10.00	\$350	\$393	\$257
\$3.75/\$9.50	\$314	\$356	\$226
\$3.50/\$8.75	\$272	\$312	\$190
\$3.25/\$8.10	\$232	\$270	\$156
\$3.00/\$7.50	\$194	\$230	\$124
\$2.75/\$6.90	\$156	\$190	\$91
\$2.50/\$6.25	\$117	\$149	\$57
\$2.25/\$5.60	\$77	\$107	\$24

Yield and cost estimates based on 2008 University of Illinois budgets.

- Communication a key with landowner. Keep them informed of changing economic conditions.
- Consider taking the lead in proposing changes to farm leasing terms.
- Farm operators are assuming a higher level of risk due to higher input costs and more price variability. Important to recognize and manage this risk. (crop insurance, variable cash leases, etc.)

- Try to avoid long term agreements in swiftly changing economic conditions unless returns and costs are locked in.
- If trying to acquire additional land, have an up-to-date relevant farm resume. Include information on your background, experience, business plan, production practices, machinery listing, environmental practices, risk management strategies, communication with landowners and references.

Thank you and GO ILLINI!!

