Farmland Leasing in 2020
Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019

Topics

1. Income Outlook
2. Leasing Basics
3. Types of Leasing
4. Leasing Addendums
Part 1: Income Outlook
Leasing 101

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019P</th>
<th>2020P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield per acre</td>
<td>237</td>
<td>205</td>
<td>211</td>
</tr>
<tr>
<td>Price per bu</td>
<td>$3.60</td>
<td>$3.90</td>
<td>$3.90</td>
</tr>
<tr>
<td>Crop revenue</td>
<td>$853</td>
<td>$800</td>
<td>$823</td>
</tr>
<tr>
<td>ARC/PLC</td>
<td>0</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>MFP Payments</td>
<td>1</td>
<td>82</td>
<td>0</td>
</tr>
<tr>
<td>Crop insurance proceeds</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Gross revenue</strong></td>
<td><strong>$856</strong></td>
<td><strong>$892</strong></td>
<td><strong>$823</strong></td>
</tr>
<tr>
<td>Total direct costs</td>
<td>$373</td>
<td>$393</td>
<td>$371</td>
</tr>
<tr>
<td>Total power costs</td>
<td>$128</td>
<td>$125</td>
<td>$125</td>
</tr>
<tr>
<td>Total overhead costs</td>
<td>$73</td>
<td>$74</td>
<td>$74</td>
</tr>
<tr>
<td><strong>Total non-land costs</strong></td>
<td><strong>$574</strong></td>
<td><strong>$592</strong></td>
<td><strong>$570</strong></td>
</tr>
<tr>
<td>Operator and land return</td>
<td><strong>$282</strong></td>
<td><strong>$300</strong></td>
<td><strong>$253</strong></td>
</tr>
<tr>
<td>Land costs</td>
<td>274</td>
<td>274</td>
<td>270</td>
</tr>
<tr>
<td>Farmer return</td>
<td>$8</td>
<td>$26</td>
<td>-$17</td>
</tr>
</tbody>
</table>

Notes:
- There is $82 of MFP payments in 2019
- To get 2020 returns to $0 need:
  - MFP
  - 4 bushel higher yield
Farmland Leasing in 2020
Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019

**Soybeans, Central Illinois, High-Productivity**

**Notes:**

There is $82 of MFP payments in 2019

To get 2020 returns to $0 need:
- MFP
- 5 bushel higher yield

**MYA Prices and Projections for 2019 and 2020**

<table>
<thead>
<tr>
<th>Market Year</th>
<th>Corn</th>
<th>Soybeans</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4.46</td>
<td>13.00</td>
<td>6.87</td>
</tr>
<tr>
<td>2014</td>
<td>3.70</td>
<td>10.10</td>
<td>5.99</td>
</tr>
<tr>
<td>2015</td>
<td>3.61</td>
<td>8.95</td>
<td>4.89</td>
</tr>
<tr>
<td>2016</td>
<td>3.36</td>
<td>9.47</td>
<td>3.89</td>
</tr>
<tr>
<td>2017</td>
<td>3.36</td>
<td>9.33</td>
<td>4.72</td>
</tr>
<tr>
<td>2018</td>
<td>3.55</td>
<td>8.66</td>
<td>5.15</td>
</tr>
<tr>
<td>2019P</td>
<td>3.90</td>
<td>9.20</td>
<td>5.00</td>
</tr>
<tr>
<td>2020P</td>
<td>3.70</td>
<td>9.00</td>
<td>5.00</td>
</tr>
</tbody>
</table>

Corn prices continue to be below $4.00
My opinion, higher corn prices are the last hope for higher incomes in 2019

Soybean prices have risen but still low
My opinion, lower soybean prices continue because of:
- Trade uncertainty
- African Swine Fever
- Large carryout of U.S. stocks
Operator and Land Returns (Bars) and Cash Rent
Central Illinois, High-Productivity Farmland

Corn
Soybeans
Cash Rent

Operator and Land Returns (Bars) and Cash Rent
Central Illinois, High-Productivity Farmland

Corn
Soybeans
Cash Rent
Farmland Leasing in 2020
Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019

Operator and Land Returns (Bars) and Cash Rent
Northern Illinois

Incomes will be much lower in low yielding area.

Part 2: Farm Leases Basics
Leasing 101
Farm Lease Basics: Generally

Lease is a contract for occupation/use of property by lessor with permission and payment of rent.

Real property interest: possession & control with reversionary interest to landlord; an interest that is less than freehold or fee.

Under the lease the tenant stands in the place of the land owner per the agreement.

Writing is generally required (statute of frauds); formal document not required; series of documents can count.

Normally contracts run year-to-year and must be renewed; deemed to automatically renew unless adequate notice is given.

Substantial performance can create an enforceable contract.
Farm Lease Basics: Generally

Can have a tenancy for term or multi-year; agreed-upon timeframe that terminates or goes to a year-to-year lease

Tenancy at sufferance: holdover situation and exists for only a short time.

Notice of termination in Illinois: must be 4 months for verbal leases or written leases without specific termination date. Farm leases typically run March 1 to Feb. 28; notice by Nov. 1st

Farm Lease Basics: Holdover

Tenant remains in possession and continues to pay rent; landlord must provide notice to terminate

Can create a year-to-year tenancy; a new lease implied; will use same terms as previous lease.

Notice of termination is typically construed very strictly and against the landlord.
Farm Lease Basics: Termination Issues

- Four-month notice requirement (735 ILCS 5/9-206).
- For leasing ending March 1, notice must be given by Nov. 1 preceding.
- This is the default; parties can contract for other termination provisions; for multi-year leases, etc.; can include automatic termination at end of lease term (landlord preferred), but clarity needed.
- **Landlord’s lien**: for rent (unpaid) on the crops grown or growing for faithful performance of lease; 6 months after expiration (735 ILCS 5/9/-316).
- **Lien (generally)**: a claim, encumbrance or charge on property for payment of debt, obligation or duty.
  - Can be voided if proper notice was not provided; landlord may have to send to area elevators to enforce.
  - It should have priority over other liens on the farmer/tenant.

Farm Lease Basics: Rights & Duties

Tenant gets reasonable use; must not commit waste, including making repairs

Farm leases may require proper farming; can’t exhaust soil or resources

This is general, tenant left to farm as s/he wants **unless** lease specifies
Farm Lease Basics: Other

Growing crops belong to tenant until harvested and divided per lease.

Injuries on premises generally the landlord is not liable.

Exceptions can include injuries for those things landlord responsible for fixing.

Farm Lease Basics: Other

Trespass action belongs to the tenant but landlord reserves right of entry.

State laws generally protect tenants; including if landlord sells property.

Assignments and subleases should be dealt with in the lease.
Farm Lease Basics: Other

Fixtures and tenant improvements: tenant can generally remove them unless impractical or destructive

- Important distinction between removable and permanent
- Very important to make this clear in the lease; always be careful

Farm Lease Basics: Waste

Usually permanent or substantial injury, can be voluntary or permissive

Goes to matters of irrigation, weeds and erosion; what does lease require

Waste can be cause for termination or other actions
Farm Lease Basics: Good Husbandry

Used and cultivated (?) in a workmanlike manner, no waste committed and the soil **shall not be exhausted** by negligence or improper tillage.

Much depends on area and practices of other farmers in community as to what is reasonable and acceptable (i.e., not negligent).

Implied covenant (if not explicit); typically production-focused (maximize yield).

Farm Lease Basics: Improvements

Something that benefits the real property/land; reverts to the landlord after the lease.

Where do “soil health” practices fit, and sustainable farming?

**The example of cover crops:**
good husbandry (weeds?); soil improvements; carryover on terminated lease?
Part 3: Lease Types

1. Cash rent
2. Share rent
3. Variable cash rent

Trend: Stable cash rents since 2017 in Illinois

Source: NASS, USDA
Average Cash Rents in Illinois from NASS for 2019

We have not seen a lot of movement in cash rents in recent years.

<table>
<thead>
<tr>
<th>Land Productivity</th>
<th>Actual 2019 Rent</th>
<th>Expected 2020 Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>302</td>
<td>298</td>
</tr>
<tr>
<td>Good</td>
<td>261</td>
<td>254</td>
</tr>
<tr>
<td>Average</td>
<td>212</td>
<td>205</td>
</tr>
<tr>
<td>Fair</td>
<td>170</td>
<td>167</td>
</tr>
</tbody>
</table>

Values represent rents on professionally managed farmland.

Agricultural returns suggests lower cash rents, but cash rents are sticky.
Finding average 2019 cash rent based on PI

Benchmark rent = -147 + CRD adjustment + (2.79 x PI)

Example: Bureau county farm with 125 PI
Benchmark rent = -147 + 42 + (2.79 x 125)
= $245

See: Determining the Average Cash Rent Based on Productivity Index, farmdocDaily November 8, 2017

https://farmdocdaily.illinois.edu/2017/11/determining-average-cash-rent-productivity-index.html

Pressures on rents
Decline in returns during 2014 to 2018, average cash rents have come down slightly.

2019 and 2020 represent another step down

Pressures on lowering cash rents are building because of:

- Extended period of lower returns (2013 on)
- Now expectations of $8ish per bushel soybeans for the foreseeable future
- Reductions in working capital
Variable Cash Leases
(Parameters for Higher Productivity Farmland)

- **Base cash rent** (paid no matter what) -- $200 per acre
- Pay a higher cash rent if crop revenue plus MFP times a rent factor exceed the **base cash rent**
- Rent factor (**33% for corn** and **40% for soybeans**)
- Yield is from the farm, Price is average on Wednesday from an agreed spot from Spring to Fall

\[
\text{Rent} = \text{Yield} \times \text{Price} \times \text{Rent factor} \\
\text{Rent} = 210 \times 3.60 \times 0.33 = 250 \text{ (Higher than $200, $50 plus)}
\]

Share rent arrangements

In northern and central Illinois, 50-50 prevail

Sometimes have a supplemental rent of $20 to $30 per acre paid by farmer to landowner

Farmer bears all the labor and machinery expenses
Share Rents have Adjusted to Changing Returns in Agriculture

Part 4: Conservation Addendums

Options for Leasing
Conservation Pressures on Farming

- Consumer & food chain demands for sustainable production & sourcing
- Gulf Hypoxia
- Drainage
- Algal Blooms
- Nutrient & Soil Loss
- Sustainable production
- Stewardship

- Impacts on water quality (local to the Gulf);
- Impacts on soil health, land stewardship.

Note on Conservation Policy: Compliance

- Highly Erodible Lands (plan for control).
- Wetlands (drain or plant).

1985 Farm Bill creates; crop insurance eligibility included.

Compliance for crop insurance eligibility removed in 1996 Farm Bill; 2014 Farm Bill reattaches to premium subsidy on forward-looking basis.
Farmland Leasing in 2020
Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019

Farm Lease Overview

- Nationally, there is roughly 390 million acres of total cropland.
- Almost 40% of all farmland was rented or leased.
- In Illinois, roughly 60% of farmland is leased; 51% cash rent.

![Farm Lease Overview Map](image)

**Model lease on farmdoc, Agricultural Law Section:**
https://farmdoc.illinois.edu/agricultural-law.

General fillable pdf; also template for discussion and negotiation between landlord and tenant.

If an addendum is to be added, suggest adding to lease (section 7):
“Incorporation by Reference: All exhibits and addenda attached hereto are hereby incorporated into this Lease and a part hereof. If there is any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.”
<table>
<thead>
<tr>
<th>Nutrient Management Addendum</th>
<th>Addresses issues with how the farmer/tenant applies fertilizer to the leased farm fields and manages soil fertility.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maximum Return to Nitrogen (MRTN); scientific tool recommendations for corn nitrogen application; application rate, timing and method can impact crop uptake and nutrient loss (especially tile-drained fields).</td>
</tr>
<tr>
<td></td>
<td>Efforts to reduce or avoid fall application; push for split application and timing closer to planting (post or pre); crop growth; reduce losses and better timed for plant needs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Soil Health Addendum</th>
<th>Farm practices such as tillage (reduced, conservation or no-till) and cover cropping can build soil health.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No-till and cover crops can add carbon, prevent erosion, improve water holding capacity, and increase soil organic matter; cover crops scavenge nitrogen, reduce losses.</td>
</tr>
<tr>
<td></td>
<td>Addendum provides numerous options to discuss and potentially include in the lease: tillage systems; cover crops (winter kill or over-winter; termination); how to adjust rent or deal with assistance payments.</td>
</tr>
</tbody>
</table>
Conservation Habitat Addendum.

If the leased farm includes (or adds) wildlife or other habitat areas.

Issues for discussion and inclusion: establishment, maintenance, Integrated Pest Management, etc.

Adjustments to rent; addressing repairs or replacement issues.

Other Resources


https://farmdoc.illinois.edu/agricultural-law

Farmland Leasing in 2020
Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019
Farmland Leasing in 2020
Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019

Handout and webinar archive will be available at
farmdoc.illinois.edu/webinars/archive

Thank you for attending
Please visit us at farmdoc.illinois.edu
and farmdocdaily.illinois.edu

Gardner Agriculture Policy Program

Delta Institute

Gary Schnitkey
Jonathan Coppess
Dale Lattz