

Lease Arrangements and Ownership from the Landowner Perspective



Gary Schnitkey
University of Illinois



ILLINOIS

Agricultural &
Consumer Economics

COLLEGE OF AGRICULTURAL, CONSUMER
& ENVIRONMENTAL SCIENCES



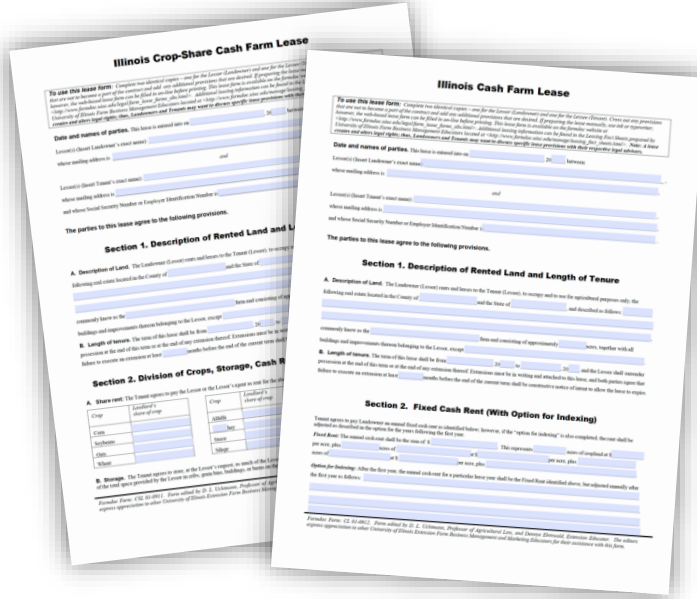
Luke Worrell, ALC, AFM
Worrell Land Services

farmdoc

Topics



I just inherited farmland, what do I do now?



Leasing arrangements



Selling and Transferring farmland to the next generation

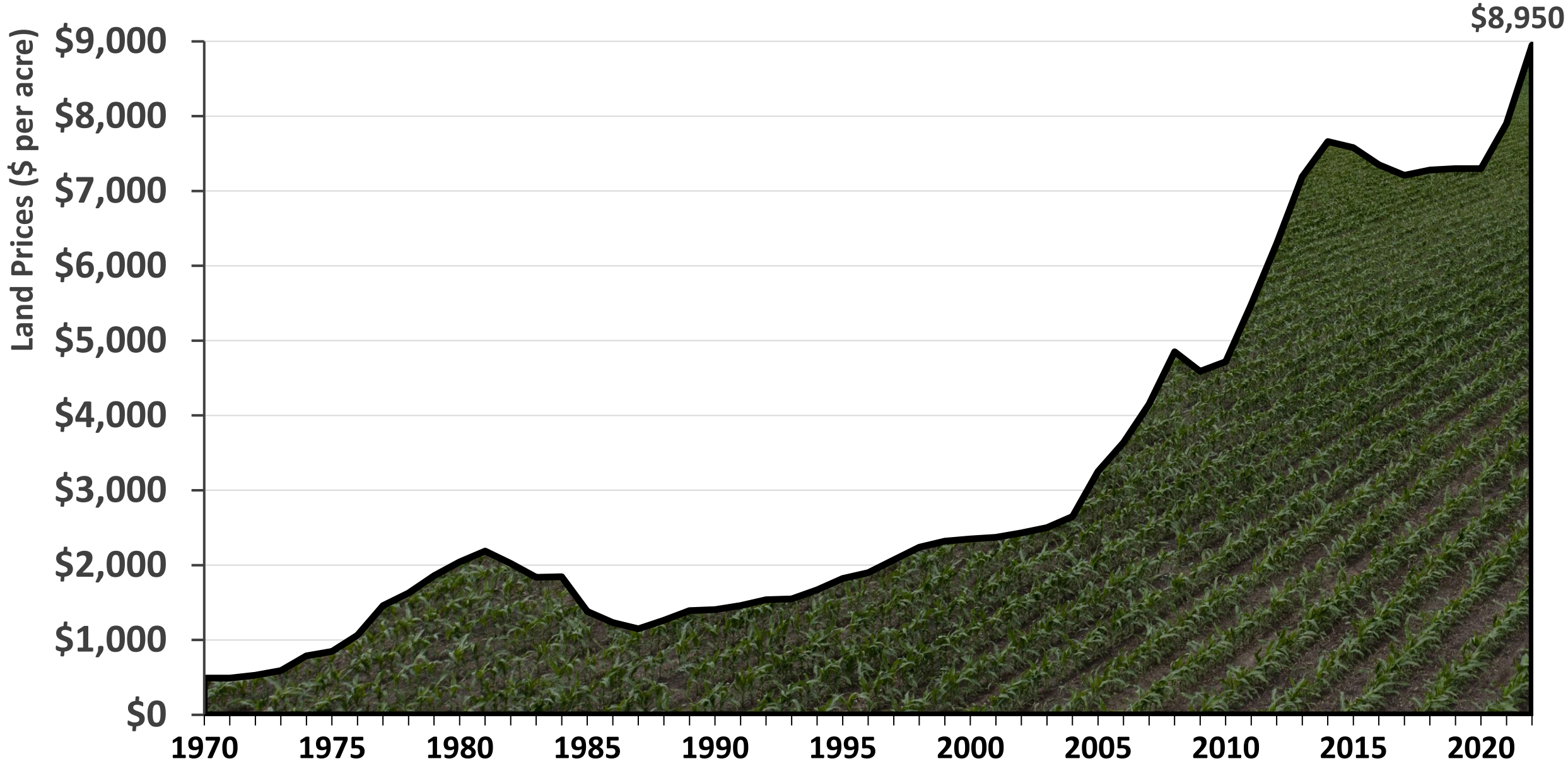
I just got farmland, what do I do now?

You have a valuable asset

- Historically, has had returns near stock market returns
- Typically has a low current return, cash rent less costs is typically 2% of value
- Typically, capital gains (growth in farmland price) make up the largest percentage of farmland return

Would not suggest selling the asset

Farmland Prices in Illinois



Tasks of farmland owner

- **Select a farmer (tenant)**
- **Determine and manage a rental arrangement**
- **Assess the property**
- **Ensure all long-term investments are in place**

Professional Farm Management is an option



Illinois Society
of Professional Farm Managers & Rural Appraisers

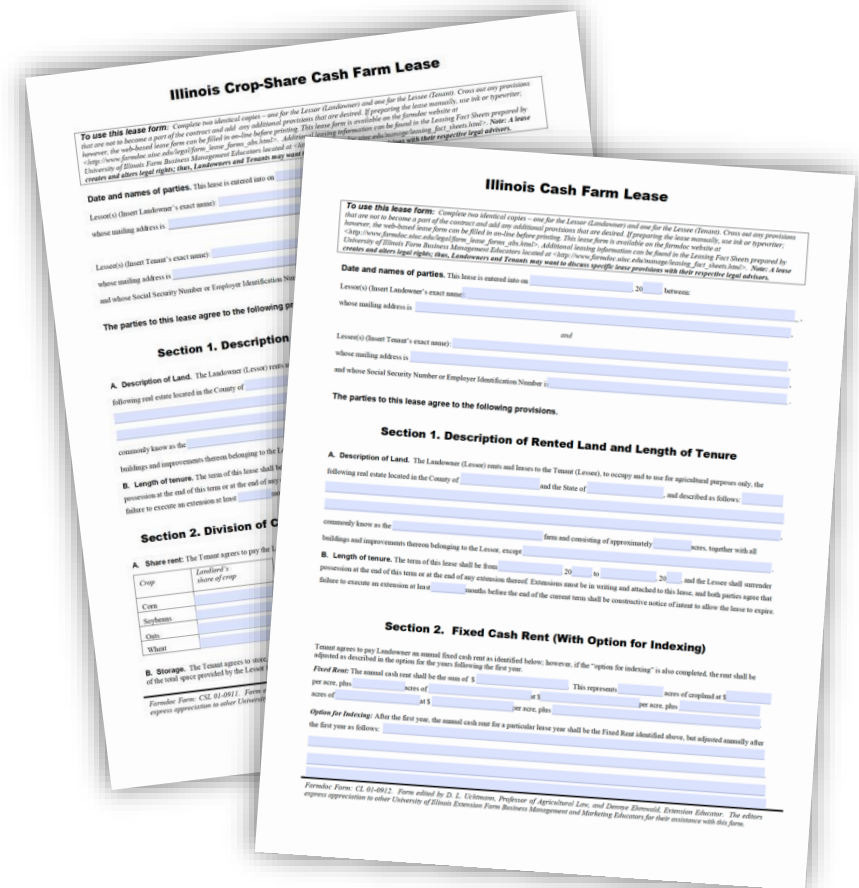
Leasing arrangements

Typically have a year-to-year lease

If no written lease, changes need to be made in Illinois by October 30

Leasing characteristics

- Management by tenant
- Risk (once the lease has been signed)
- Difficulty in setting lease terms each year



Leases

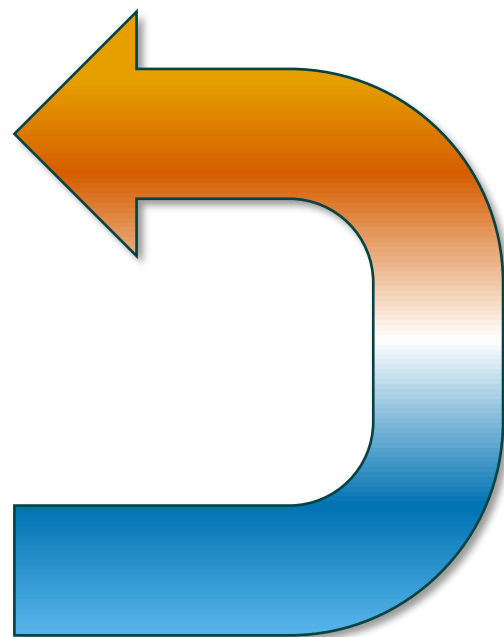
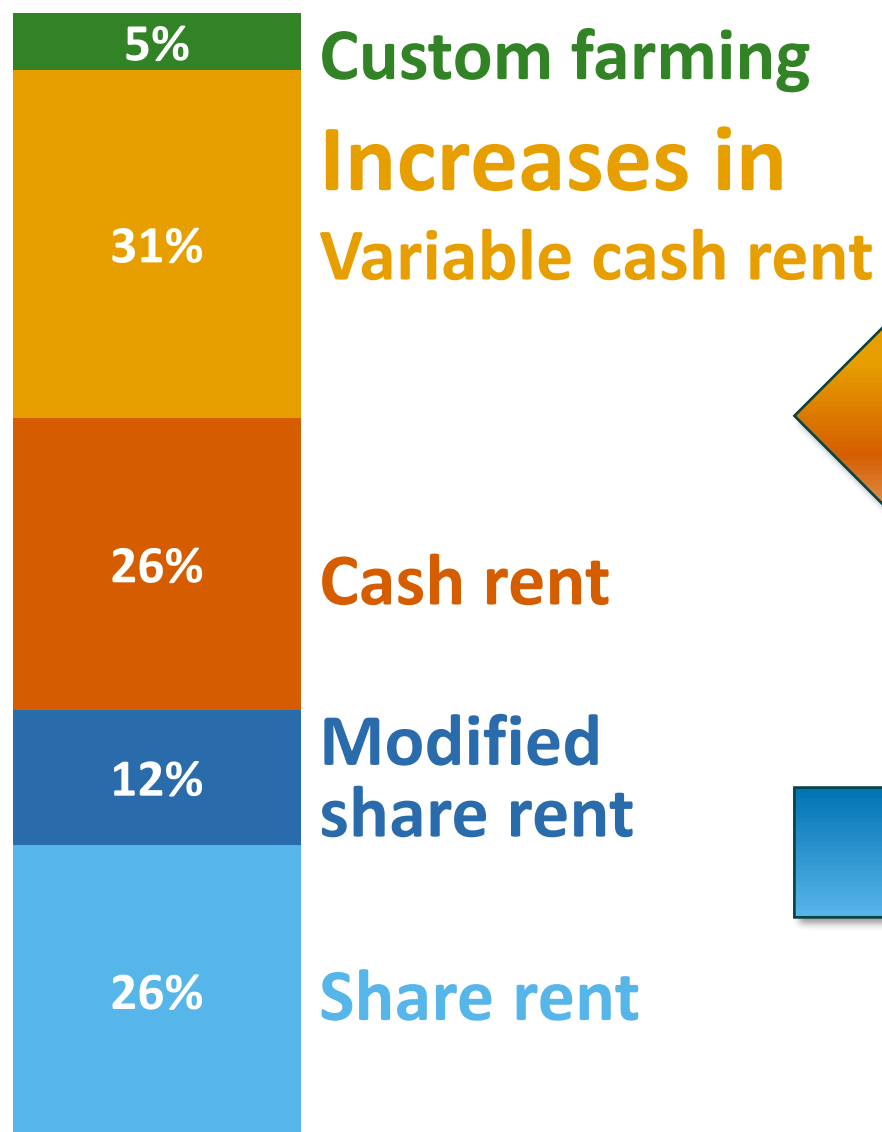
Lease type	Management	Risk	Term Difficulty
Share rent lease	Med	Med to High	Low
Cash rent lease	Low	Low	High
Variable cash rent lease	Low	Med	Med
Custom farming	High	High	Med

Slow movement away from share to cash rents

Variable cash rent is growing but small

Custom farming is low percentage

Leasing arrangements used by farm managers



**Shifts away
from share rents
to cash rents**

Share Rent Lease

Landowner and tenant share in input costs and revenue

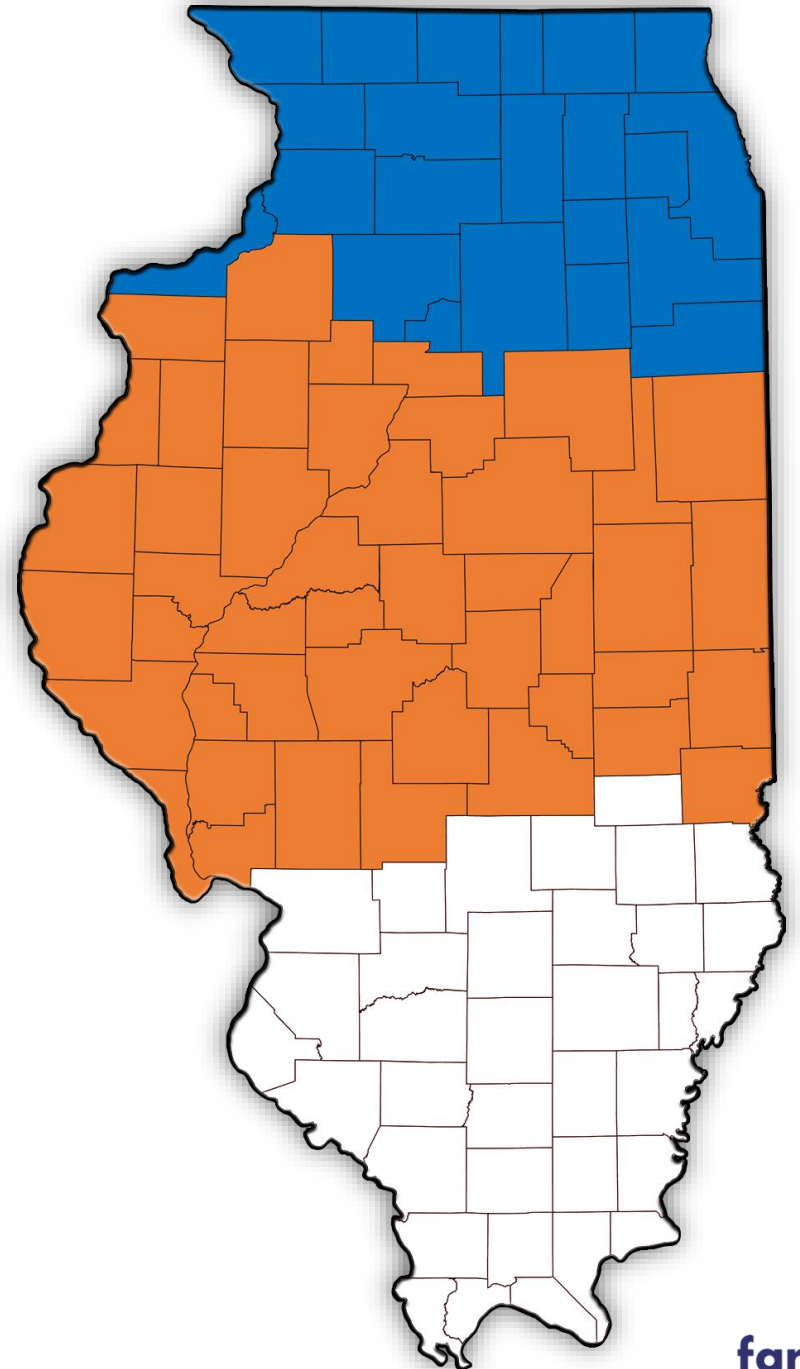
- Seed, fertilizer, herbicides, insecticides, fungicides.
- Landowner receives grain, on which they pay storage/drying
- Landowner has share of commodity title payment (deals with Farm Service Agency)



Share Rent Lease

Northern/central Illinois

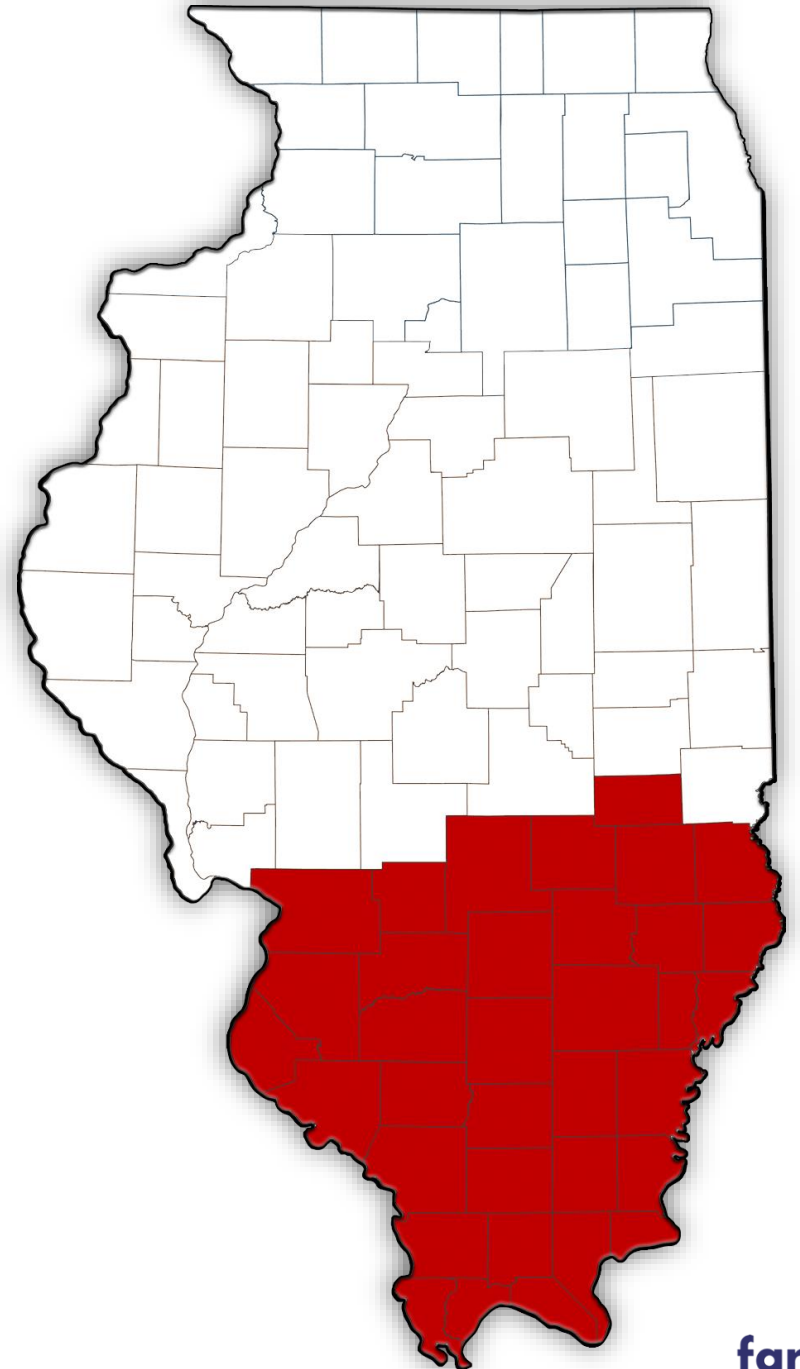
- 50/50 common, landowner gets **50% of the grain** and **pays 50% of crop costs**
- Often has an additional rent (\$25 to \$35 per acre)



Share Rent Lease

Southern Illinois (more variable terms)

- 2/3 to farmer, 1/3 to landowner, farmer pays all seed costs
- 50/50
- 60 farmer / 40 landowner



Share Rent Lease

Landowner pays property tax
and maintains land improvements



Share Rent Lease

Farmer pays all machinery costs, including fuel

Lime often paid by farmer, have a contract that prorates cost over life of asset



Leasing on farmdoc farmdoc.illinois.edu

The screenshot shows the top of the farmdoc website. At the top left is the 'ILLINOIS' logo. Below it, the 'farmdoc' logo is prominently displayed in white on a green field background. Underneath the logo are navigation links: 'Market Prices', 'Sections', 'Tools', and 'Publications'. A dropdown menu is open under 'Sections', listing various topics: 'Agricultural Law', 'Agricultural Policy', 'Crop Insurance', 'FAST Tools', 'Field Crop Production', 'Livestock Production', 'Management' (highlighted in yellow), and 'Marketing & Outlook'. Below the menu, there is a banner for 'EDUCATIONAL PARTNERSHIP' with the 'Dept of ACE' logo and the 'FAST' logo.

This screenshot shows the main content area of the farmdoc website. At the top right, there are links for 'Our Sites: farmdoc farmdocDAILY Farm Policy News' and a search icon. Below this is a navigation bar with links for 'Market Prices', 'Sections', 'Tools', 'Publications', 'Webinars/IFES', 'Sponsors/Donate', and 'About Us'. The main heading is 'farmdoc Management'. Below this is a row of navigation buttons: 'Machinery Costs', 'Crop Budgets', 'Farmland Leasing' (highlighted), 'Finance', 'Whole Farm', and 'ARC / PLC'. The main content area is titled 'Illinois Rental Fact Sheets' and contains a grid of six articles, each with a 'Get the Report' button. The articles are: 'Information for Setting 2023 Cash Rents' (September 13, 2022), 'Share Rent Leasing Fact Sheet' (April 4, 2017), 'Cash Rent Leasing Fact Sheet' (April 4, 2017), 'A Straight-Forward Structure for a Variable Cash Rent' (August 10, 2021), 'Variable Cash Rent Leasing Fact Sheet' (April 4, 2017), and 'Index Numbers of Illinois Farmland Values' (August 16, 2021). Below the grid are two sections: 'Related Tools' featuring the 'Farm Projection Tool' (October 4, 2022) and 'Related Videos' featuring two videos: 'Information for Setting 2022 Cash Rents' and 'Types of Leasing Arrangements'. On the right side, there is a 'Leasing Forms' section with a grid of PDF forms: 'Crop Share Lease Form - PDF' (May 19, 2006), 'Livestock Share Lease Form - PDF' (February 8, 2005), 'Fixed Cash Rent Lease Form - Short Form - PDF' (May 19, 2006), 'Pasture Lease Form - PDF' (February 8, 2005), 'Illinois Cash Farm Lease Form - PDF' (October 8, 2019), and 'Conservation Habitat Addendum - PDF' (September 26, 2019). Each form has a 'Get the Form' button.

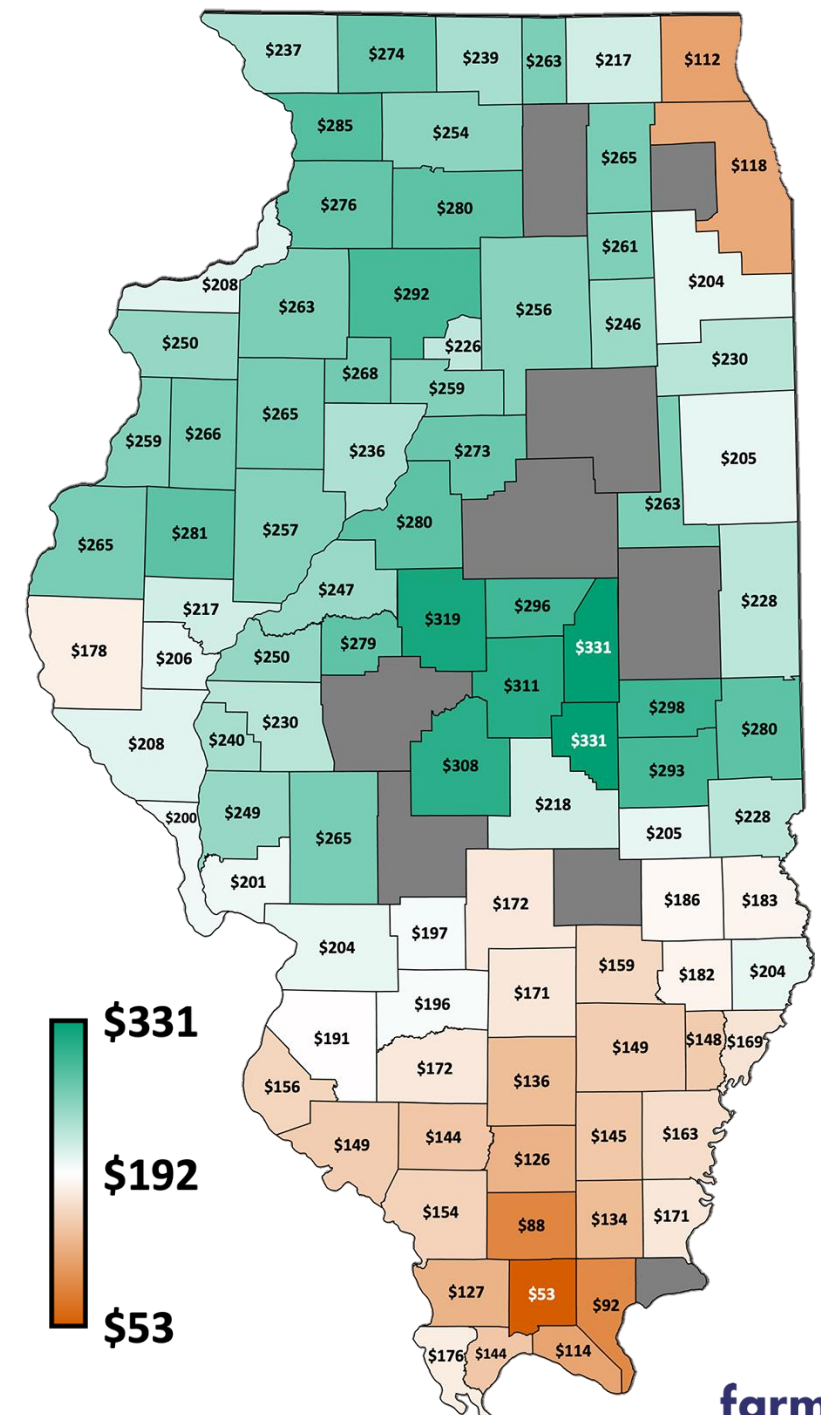
Cash Rent Lease

- Farmer pays landowner a cash rent per year
- Agree on the cash rent before field operations (major sticking point)
- Payments can occur:
 - Once a year before planting
 - Twice a year: once before planting, once at harvest
 - More times

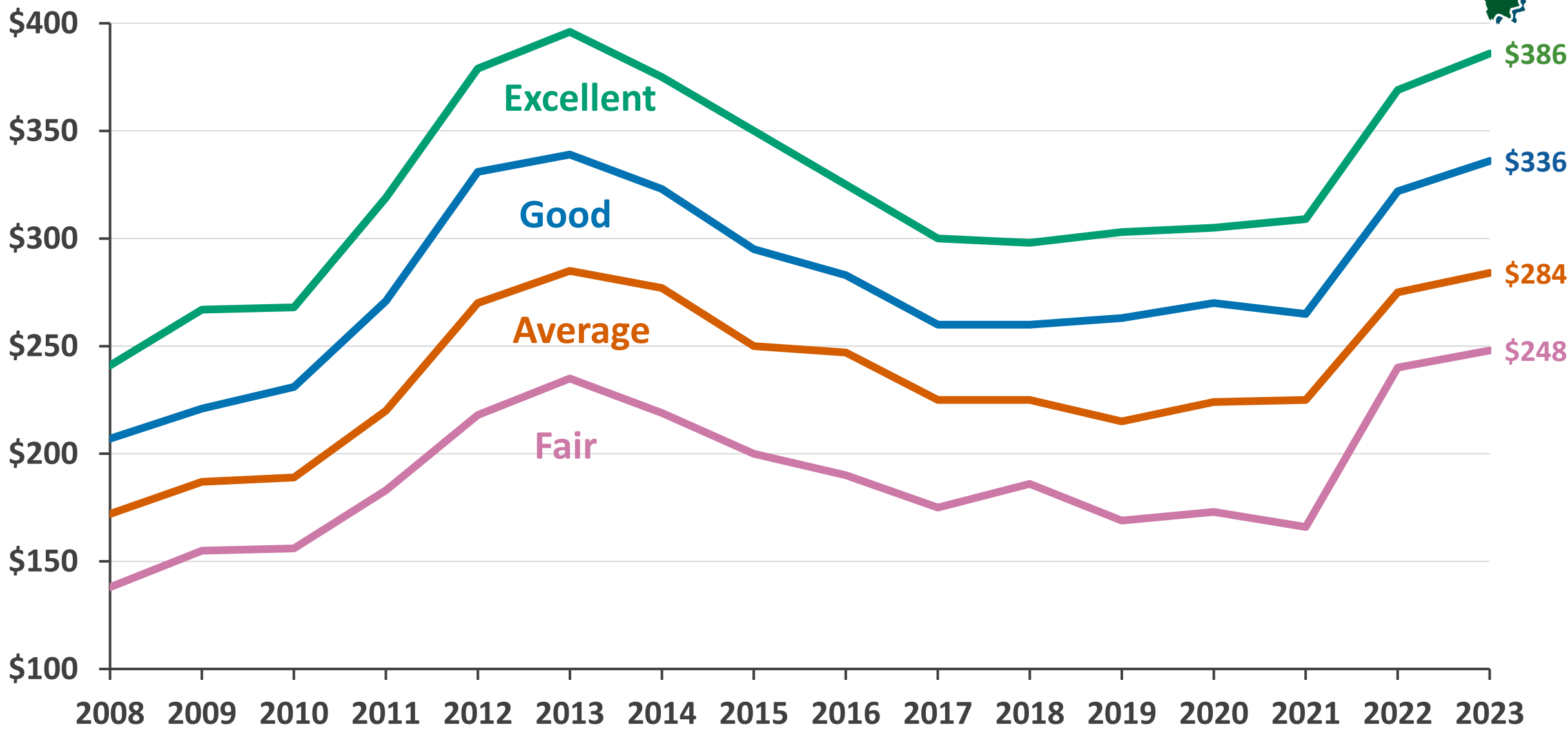
County Cash Rents

2021 Cash Rents Released by the National Agricultural Statistical Service

Most rents went up about \$30 in Northern and Central Illinois



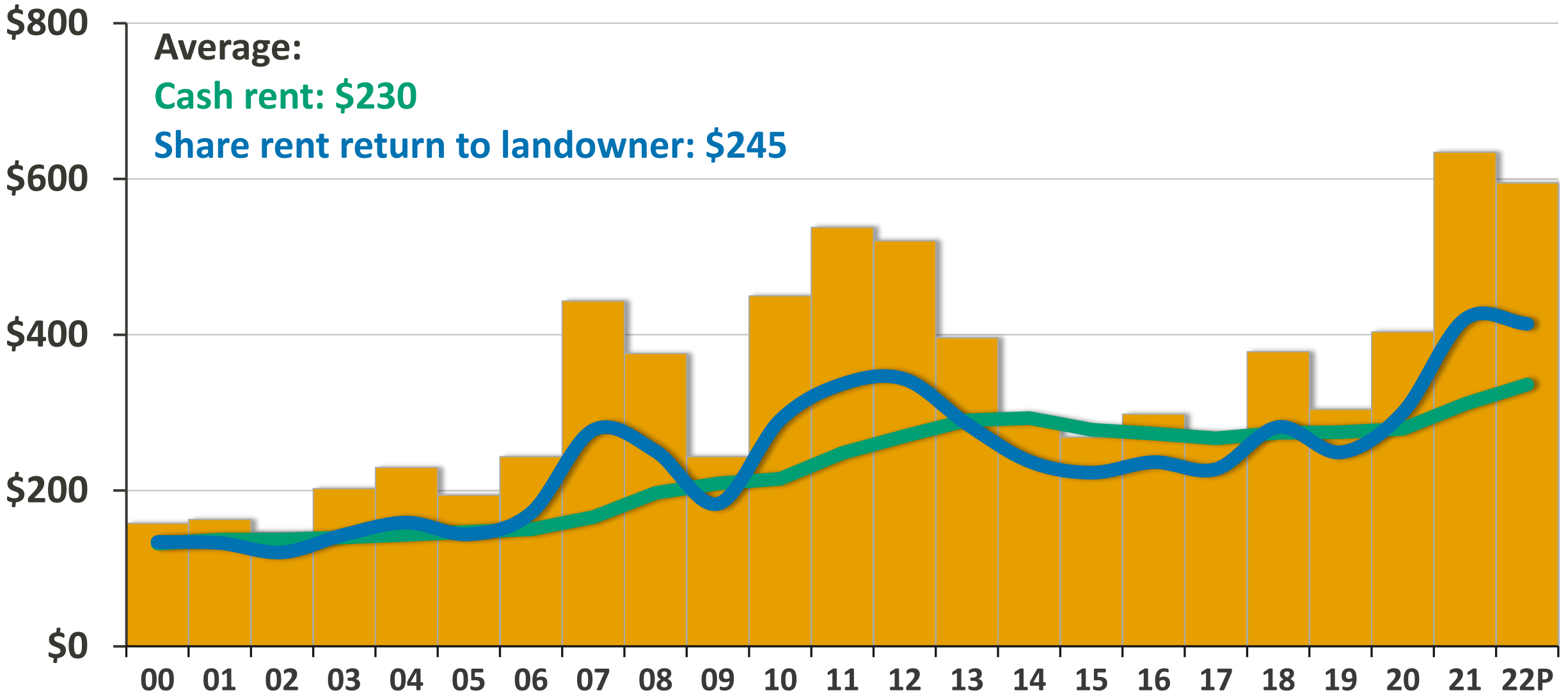
Historic Cash Rents of Survey in Dollars per Acre



Cast Rent Lease Characteristics

- Cash rent is the difficult parameter to determine
- Landowners have little management and risk
- Still need to inspect property and deal with land improvements
- Cash rents tend to lag farmland returns

Operator and Land Returns, Share Rent, and Cash Rents, High-Productivity Farmland in Central Illinois, 2000 to 2022P



Source: Data summarized from farms enrolled in Illinois Farm Business Farm Management (FBFM)

Variable Cash Lease

- Modification of a cash rent lease, to consider the **impacts of return changes over time**
- **Give an example, many different kinds**

Share This



[download PDF](#)

Weekly Farm Economics

A Straight-Forward Structure for a Variable Cash Rent

Gary Schnitkey, Krista Swanson, and Nick Paulson
Department of Agricultural and Consumer Economics

University of Illinois

Carl Zulauf

Department of Agricultural, Environmental and Development Economics

Ohio State University

August 10, 2021

farmdoc daily (11):117

Recommended citation format: Schnitkey, G., C. Zulauf, K. Swanson and N. Paulson. "A Straight-Forward Structure for a Variable Cash Rent." *farmdoc daily* (11):117, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 10, 2021.

[Permalink](#)

Unlike fixed cash rental arrangements, payments from a variable cash rent arrangements will vary based on prices and yields. Often during times of changing commodity prices, there is a need to renegotiate cash rents. Recent increases in commodity prices suggest that many rents will be re-negotiated this year, likely at higher levels. The use of a variable cash rental arrangement reduces renegotiation pressures. One barrier to the use of variable cash rents is specifying the parameters of variable cash rent. We present one of the most straightforward variable cash rental agreements in this article, with parameters set so that historical rents from the variable cash rent will equal average cash rents.

Terms of the Variable Cash Rent

This cash rental arrangement will base cash rents on percentages of crop revenues unless the result of those calculations is below a minimum cash rent. The percent of crop revenue is called the rent factor. Important terms of this share rent lease are given below:

Minimum Cash Rent: A minimum cash rent is included to meet Farm Service Agency (FSA) requirements to be classified as a cash lease. FSA will treat the agreement as a share rent if a meaningful minimum rent is not in place, in which case the landowner will share in government support payments. For simplicity, both the farmer and landowner often desire for the arrangement to be treated as a cash lease.

We suggest the following minimum cash rents by region of Illinois:

- North (214 bushels per acre expected corn yield for 2022): \$180 per acre
- Central-High (220 bushels per acre expected corn yield for 2022): \$200 per acre
- Central-Low (209 bushels per acre expected corn yield for 2022): \$160 per acre
- South (160 bushels per acre expected corn yield in 2022): \$80 per acre

These minimum levels are approximately \$80 per acre below average 2020 cash rents for that region (see Table 1).

Table 1. Expected 2022 Yields, Average 2020 Cash Rents, and Equivalent Rent Factors by Region of Illinois

Region	Expected 2022 Yields		2020 Average Cash Rent	Equivalent Rent Factors ¹	
	Corn	Soybeans		Corn	Soybeans
North	214	63	256	32%	44%
Central - High	220	69	279	32%	42%
Central - Low	209	62	243	34%	45%
South	166	55	160	38%	50%

¹ Application of this rent factor to crop revenue causes a variable cash rent to equal the average cash rent from 2000 to 2020.

farmdocDAILY

Table 2. Calculation of a Rent from a Variable Cash Rent Based on Crop Revenue

Panel A. Factors Agreed on in Rental Arrangement¹

Minimum Rent	<u>\$200</u>
Rent Factor - Corn	<u>32%</u>
Rent Factor - Soybeans	<u>43%</u>
Percent Acres in Corn	<u>50%</u>
Percent Acres in Soybeans	<u>50%</u>

Panel B. Calculation of Rent After Yields and Prices are Known²

	Farm Yield		Market Price	=	Crop Revenue	x	Rent Factor	x	Percent of Acres	=	Rent
Corn	<u>220</u>	x	<u>\$4.50</u>	=	<u>\$990</u>	x	<u>32%</u>	x	<u>50%</u>	=	<u>\$158</u>
Soybeans	<u>69</u>	x	<u>\$12.35</u>	=	<u>\$852</u>	x	<u>43%</u>	x	<u>50%</u>	=	<u>\$183</u>
Rent Calculation (sum of corn and soybeans)											<u>\$341</u>
Cash Rent (higher of Minimum or Rent Calculation)											<u>\$341</u>

¹ These factors need to be agreed upon when a variable cash rent is entered.

² Farm yields and market prices allow the calculation of the cash rent.

Negotiated parts of variable lease

Minimum cash rent
(and maximum cash rent)

Additional cash rent that varies
based on economic conditions,
usually crop revenue



Negotiated items of a Variable Lease

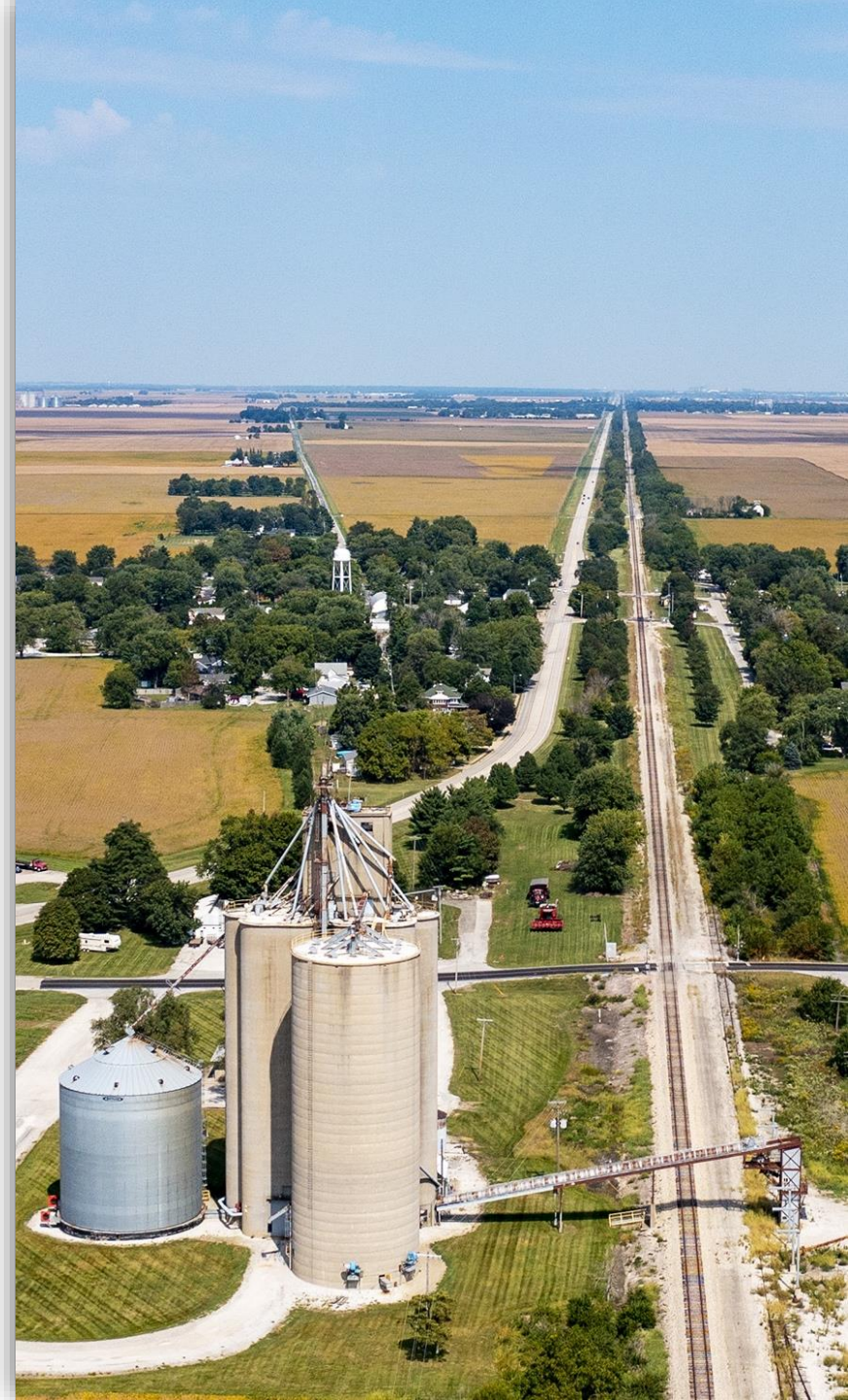
Minimum cash rent

Additional payment as a percent of crop revenue exceeds the minimum cash rent based on **rent factor** times **crop revenue**

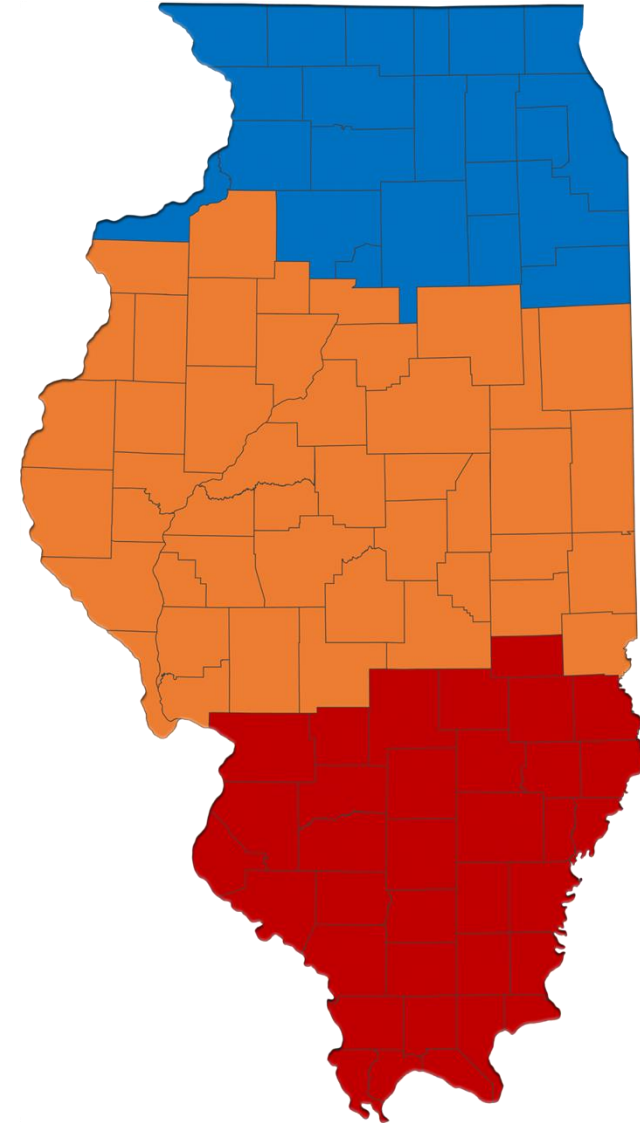
Crop revenue equals **farm yield** times **market price**

Market price is an average of quotes of an agreed upon delivery point

Quote every Wednesday from XYZ elevator from March to October



Minimum cash rent



North \$200/acre

214 bu/acre expected corn yield 2022

Central-High \$230/acre

214 bu/acre expected corn yield 2022

Central-Low \$180/acre

209 bu/acre expected corn yield 2022

South \$130/acre

160 bu/acre expected corn yield 2022

Rent Factor

Corn

31%

33%

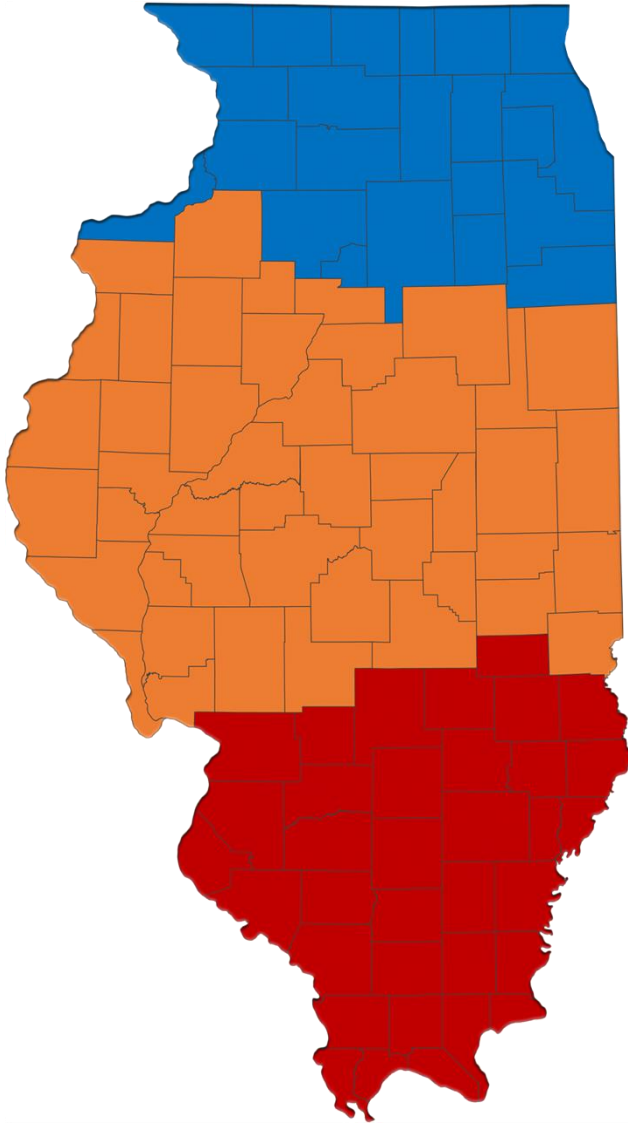
24%

Soybeans

42%

43%

31%



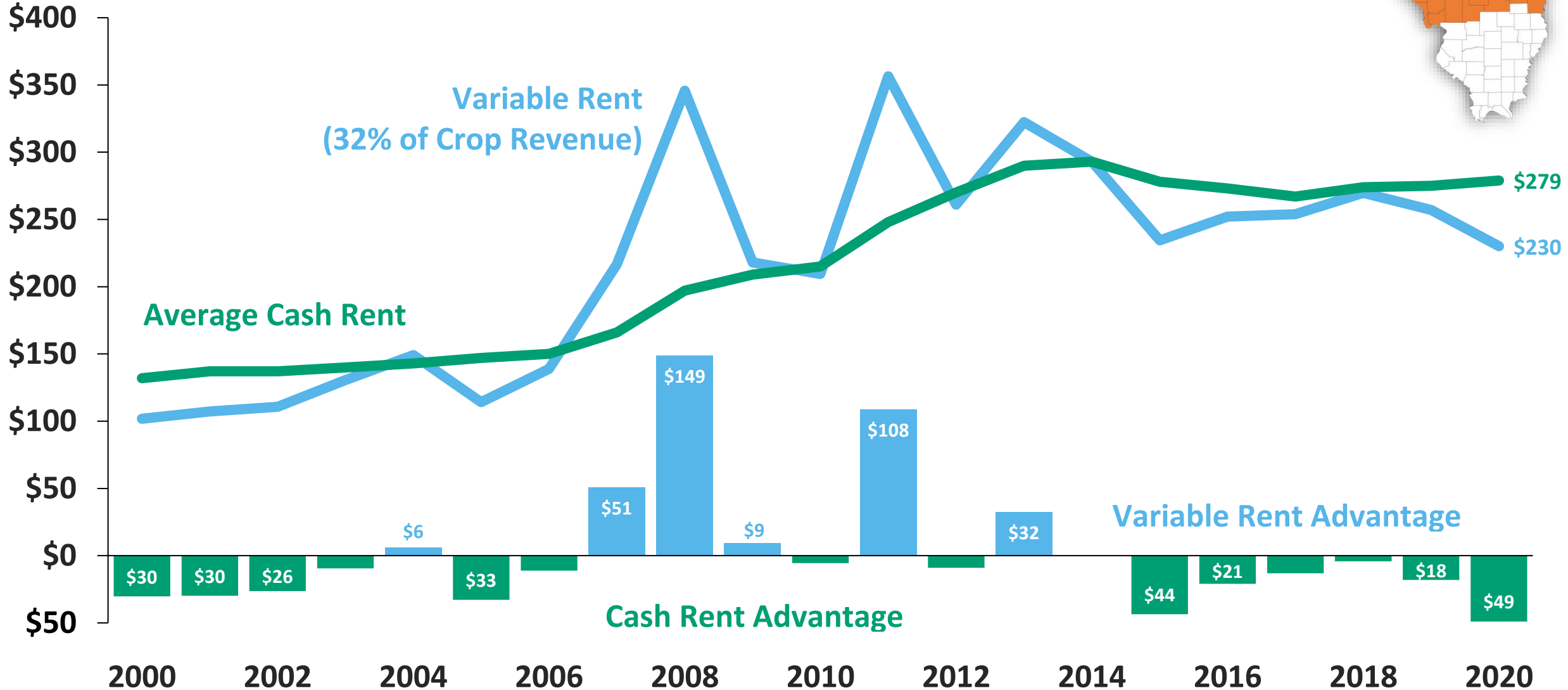
Percent of revenue that determines final cash rent

Varies between **corn** and **soybeans**

Rent factors causing variable cash rents to average cash rent over time

Average Cash Rents and Variable Cash Rents

in \$ per acre for Central Illinois Farmland, Corn



Source: Illinois Farm Business Farm Management

Advantages and Disadvantages (compared to cash rent)

Advantages

Adjusts cash rents to vary with returns,
so less need to renegotiate rents (self adjusting)

Disadvantage

More terms to negotiate initially

Custom farming

- Landowner pays a flat fee for all field operations
- Landowner buys all inputs and markets all grain
- High management/High risk
- Not many landowner use this alternative



Selling Farmland

- Calculate and understand taxes before selling
- Alternative assets have their own risk/return profile which may not be better than farmland
- Goal: Sell it and have fun, go for it



Transferring Farmland

- Has to be part of an estate plan
- Some favorable tax implications of transfer (step up in basis)
- If it all possible, give as undivided interest



Methods of transfer

Undivided interests (tenancy in common)

- Can give equal division to each heir
- Concern with difficulties in the future if disagreements arise

Divided Interest

- Divide farmland and each heir gets their part

Land owning entity

(limited liability companies and limited liability partnerships)

- Unique ways of doing this including limited liability companies
- Can work but (see rule about about managing from grave)

Observation

Most likely, your children, and definitely grandchildren, will have less of an attachment to the farm than you do

I suggest not planning for the farmland to remain in the family indefinitely

Don't try and manage your heirs' affairs from the grave



Upcoming Webinars

Nov 3: Nitrogen fertilizer decisions for 2023

Farmers are being strongly encouraged to shift fertilizer applications away from the fall to the spring as it can lead to improved water quality impacts. However, high fertilizer prices and heightened uncertainty surrounding supply chains create incentives to move forward with at least some level of fall application as a risk management strategy. This webinar will discuss these issues and other factors facing Midwest farmers as they make their fertilizer decisions for the 2023 crop.

Nov 10: Farm Tax Planning Strategies 2022

FBFM staff offer insight for key tax topics to produce meaningful year end planning results. Strategies to manage tax liability using depreciation, prepaying expenses, retirement plans, installment contracts, and tax brackets will be discussed. Income tax liabilities are often a significant reduction to net worth; planning before year end helps guide to better results. Looking ahead to 2023 and beyond will also be important. We'll also describe a few items that can be done after year end in case surprises arise.

farmdoc Sponsors

TIAA

Center for
Farmland Research



COMPEER
FINANCIAL™



CORTEVA™
agriscience



FARM CREDIT
ILLINOIS
Helping Farm Families Succeed



IL CORN
WWW.ILCORN.ORG



GROWMARK



ILLINOIS
SOYBEAN
ASSOCIATION

farmdoc Educational Partners



I ILLINOIS

Extension

COLLEGE OF AGRICULTURAL, CONSUMER
& ENVIRONMENTAL SCIENCES

I ILLINOIS

Agricultural & Consumer Economics

COLLEGE OF AGRICULTURAL, CONSUMER
& ENVIRONMENTAL SCIENCES



ILLINOIS farmdoc farmdocDAILY Farm Policy News

farmdocDAILY
Market Prices Authors By Month Categories Series Tools Webinars/IFES Sponsors/Donate About Us

EDUCATIONAL PARTNERS:
Dept of ACE FBFM EXTENSION

Subscribe for Daily Email Updates

Connect on Social Media

Latest Article

PLC and ARC Payment: 2021 Payments and Outlook for 2022 and 2023
October 25, 2022
Gary Schnitkey, Krista Swanson, Carl Zulauf, Nick Paulson, and Jim Baltz
The Farm Service Agency (FSA) recently released all the information necessary to calculate 2021 commodity title payments. For 2021, Price Loss Coverage (PLC) did not make payments for corn, soybeans,...

[Read the Article](#)

Corporate Sponsor TIAA Center for Farmland Research	Platinum Sponsor COMPEER FINANCIAL
Platinum Sponsor CORTEVA agriscience	Platinum Sponsor FARM CREDIT ILLINOIS Helping Farm Families Succeed
Platinum Sponsor GROWMARK	Platinum Sponsor ILCORN WWW.ILCORN.ORG
Platinum Sponsor ILLINOIS SOYBEAN ASSOCIATION	

[See all sponsors](#)

[See the Latest News on Social Media](#)

Recent Articles - View All

<p>When Creating 2023 Crop Budgets, Keep in Mind Family Living Costs October 21, 2022 Bradley Zwilling In 2021, the total noncapital living expenses of 1,213 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$85,828—or about \$7,200 a</p>	<p>Fall Anhydrous Ammonia Application Practices and Profitability on Fields Enrolled in Precision Conservation Management October 18, 2022 Gary Schnitkey, Sarah Sellars, Laura Gentry, and Carl Zulauf As fall nitrogen application season approaches, we summarize the fall</p>	<p>WASDE Recap for October 2022: Corn and Soybeans at a Turning Point October 17, 2022 Joe Janzen On Wednesday, October 12, the USDA released its latest World Agricultural Supply and Demand Estimates, or WASDE. The WASDE report provides an updated point of reference for</p>
---	--	---

Thank You for joining us!

Please submit your questions

Visit us at

farmdocDAILY
.Illinois.edu

[Subscribe for Latest News Updates](#)

ILLINOIS
Agricultural & Consumer Economics
COLLEGE OF AGRICULTURAL, CONSUMER & ENVIRONMENTAL SCIENCES



For the webinar archives and **5-minute farmdoc**
Subscribe to our channel [YouTube.com/farmdocVideo](https://www.youtube.com/farmdocVideo)

