

2010-2011
Kansas State University

AG PROFITABILITY CONFERENCE

January 18, 2011

Fairgrounds Community Building
(1/4 mile north of Canton)
Canton, Kansas



Kansas State University
Department of Agricultural Economics

Managing Farm Leases

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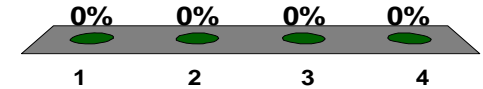


Test to make sure clickers are working ...

How many times have you heard Kevin talk about leasing land?

1. Never
2. Several times
3. Wish I had a \$1 for every time...
4. Who's Kevin?

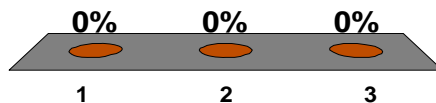
Due to technical difficulties, no "clicker" data were captured.



Which best describes you?

1. Producer
2. Landowner
3. Other

Due to technical difficulties, no "clicker" data were captured.

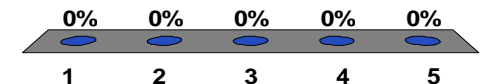


What type of leases do you use?

The lease arrangement for the majority of crop acres I rent or manage is ...

1. Mostly crop share
2. Mostly fixed cash
3. ~50/50 mix (of crop share and cash)
4. Other
5. Does not apply

Due to technical difficulties, no "clicker" data were captured.

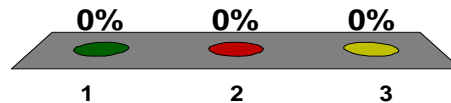


Written versus oral leases...

Is your typical lease written?

1. Yes
2. No
3. Does not apply

Due to technical difficulties, no "clicker" data were captured.

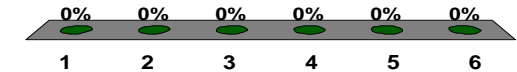


Length of leases...

How long is your typical lease?

1. One year
2. Two years
3. Three years
4. Five years
5. Other
6. Does not apply

Due to technical difficulties, no "clicker" data were captured.



Do you agree or disagree with the following

I have voluntarily given up land in the past because the profitability didn't "pencil out".

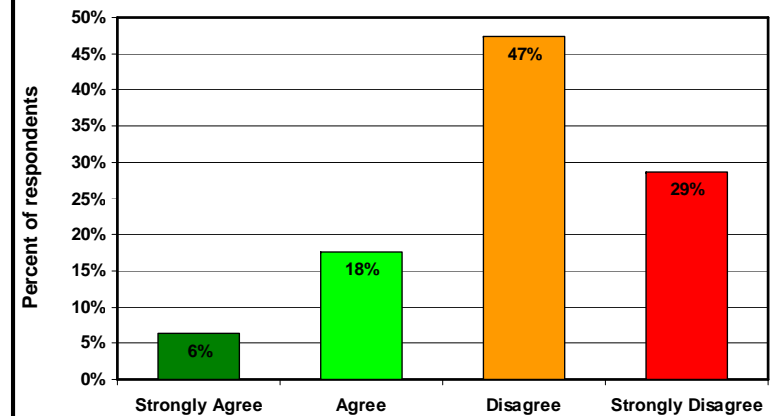
1. Strongly agree
2. Agree
3. Disagree
4. Strongly disagree

Due to technical difficulties, no "clicker" data were captured.



Most producers do not give up land voluntarily...

STATEMENT: I voluntarily gave up rented ground in the past two years because the profitability did not pencil out.



Source: August 2010 Farm Futures Crop Survey -- 458 responses.

Lease rates...

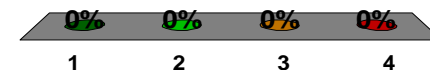
- When thinking about renting crop land (or leasing it out), how do you determine the terms of the lease?
- Does your approach vary for determining crop share terms versus cash lease rate?

Do you agree or disagree with the following

In response to a request for a cash rent bid, “I will pay \$X above your highest offer.”

1. Strongly agree
2. Agree
3. Disagree
4. Strongly disagree

Due to technical difficulties, no “clicker” data were captured.



Calculated values
vs.
Market values

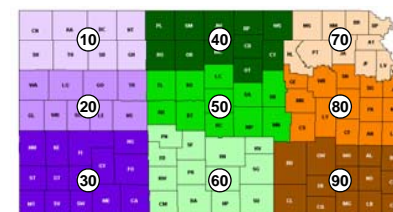
Which values are the “correct” ones?
If market, why bother with calculations?

Publicly available cash rent data...

Historically Kansas Agricultural Statistics (KAS) reported average land values and cash rent rates for non-irrigated, irrigated, and pasture land at the crop reporting district (CRD) level

Beginning in 2009 KAS began reporting county-level cash rates (i.e., more intensive data), but in 2010 will discontinue reporting land values at the regional level (i.e., less intensive data).

This is the market we observe and can reference. What you folks all face day to day is the real market.



KAS surveyed "market" rates...

2010 Land Value Highlights

The average value of all farmland and buildings in 2010 is estimated to be \$1,000 per acre. This compares with \$1,030 in 2009 and \$1,020 in 2008. Kansas' average value of all farmland and buildings increased 2.9 percent from 2009 to 2010. Irrigated cropland value rose 3.3 percent from 2009 while non-irrigated cropland increased 7.0 percent in value from last year. The value of Kansas pasture land increased 2.7 percent from 2009 at \$770.

2010 Cash Rents

The 2010 average cash rent farmers pay for non-irrigated cropland in Kansas was \$43.50 per acre, unchanged from 2009. The cash rental rates for non-irrigated cropland ranged from a low in Seward County of \$25 per acre to the high in Doniphan County of \$111 per acre. Doniphan County was followed by Brown County at \$103, Nemaha at \$82 and Johnson at \$71. Leawards was increased by Lane and Trego at 3% and Greeley at 2.5%. The district with the highest rent was the Northeast District at \$54 per acre.

The 2010 cash rental rate for irrigated cropland in Kansas averaged \$95 per acre, up from \$89 per acre in 2009. The Northeast District had the highest rent with \$121 per acre, followed by the Northeast at \$120 and the North Central at \$116. The Southwest District had the lowest irrigated rent with \$62 per acre.

The pasture cash rent averaged \$15.50 per acre in 2010, unchanged from the rate in 2009. The rent for pasture in Kansas ranged from \$6.50 per acre in Morton County for a low to \$32 per acre in Doniphan County for the high. Doniphan was followed by Marshall at \$29 and Brown at \$27.50. Morton was followed by Seaman and Johnson at \$7 and Kearny and Hamilton at \$7.50. The Northeast District had the highest district-level rent per acre in the State at \$22 per acre.

Year	Irrigated		Non-Irrigated		Pasture		All Farmland
	Value	Rent	Value	Rent	Value	Rent	
2009	1,040	890	880	73.00	940	13.00	940
2010	1,080	895	875	72.00	945	12.80	945

KAS report (switched to county-level in 2009, will drop CRD-level land values after 2010)

Kansas Land Prices and Cash Rental Rates

The Farm Management Guide reports Kansas land prices and cash rents for 1991-2010. These data are useful to farm managers in determining cash rental rates, to financial appraisers in calculating indices for making time adjustments to land prices, and to business and investment buyers in comparing historical price and rental levels for farmland. The average price in the guide represents parcels of land that vary widely in productivity. Thus, these data are more appropriate for analyzing trends than for establishing market value or rental rates for specific tracts of farmland.

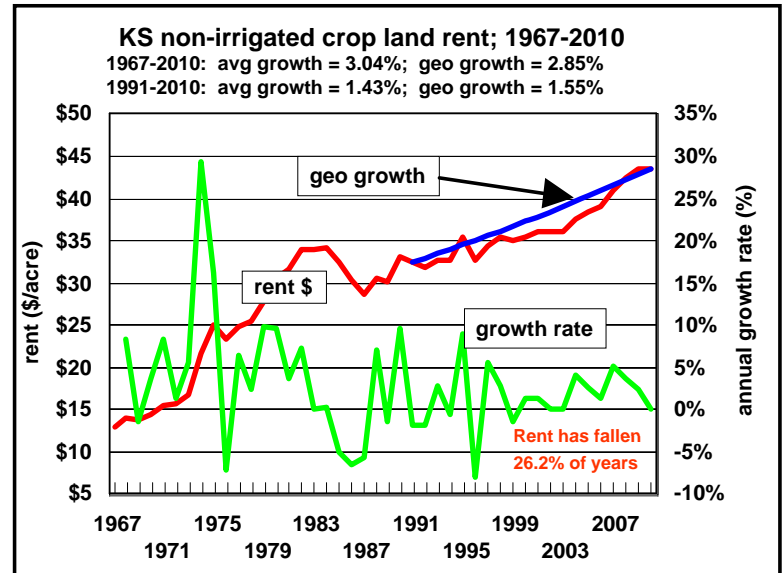
Kansas Agricultural Statistics

For reporting purposes, Kansas Agricultural Statistics Service has divided the state into nine agricultural statistical districts. The districts are: Northwest (NW), West Central (WC), Southwest (SW), North Central (NC), Central (C), South Central (SC), Northeast (NE), East Central (EC), and Southeast (SE) (Figure 1). Since 1991, Kansas Agricultural Statistics has collected price information on three types of land: non-irrigated cropland, irrigated cropland, and pasture. This information is combined in two additional land groupings: all cropland and all land in farms. The all cropland land values represent an average-weighted average of irrigated and non-irrigated cropland. Although these two groupings do not represent a particular class of land (e.g., non-irrigated cropland), they provide a broader classification of interest.

The land value of all land in farms reported also includes the value of any buildings that are on the land. The value of the buildings represents a small portion of the total value, on average, and thus this reporting method does not significantly affect the accuracy of land value reported.

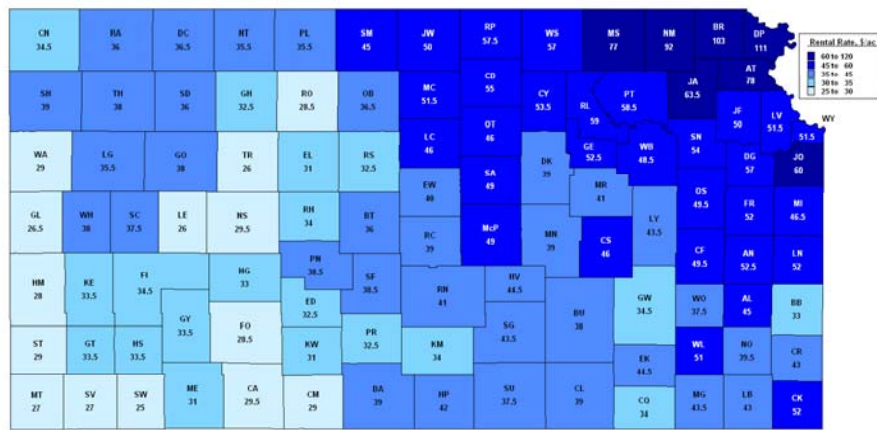
KSU report - basically a repackaging of KAS data (show more history)

Cash rent historical perspective



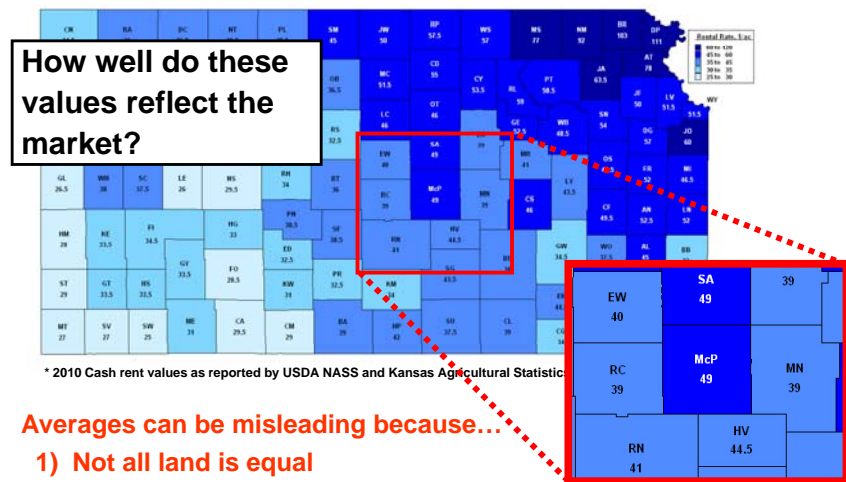
1967-2009 average land value growth = 5.09%

Kansas county-level non-irrigated crop cash rents...



* 2010 Cash rent values as reported by USDA NASS and Kansas Agricultural Statistics (KAS).

Kansas county-level non-irrigated crop cash rents...



* 2010 Cash rent values as reported by USDA NASS and Kansas Agricultural Statistics

Averages can be misleading because...

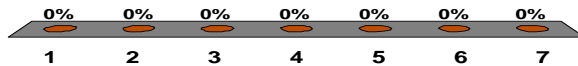
- 1) Not all land is equal
- 2) Not all relationships are equal

Market rate for average cash rent...

2010 average cash rent per tillable acre for non-irrigated crop land in my area is...

1. < \$35
2. \$36-\$40
3. \$41-\$45
4. \$46-\$50
5. \$51-\$60
6. \$61-\$70
7. > \$70

Due to technical difficulties, no "clicker" data were captured.

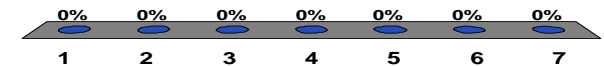


Market rate for average cash rent...

2010 average cash rent per wet acre for irrigated crop land in my area is...

1. < \$75
2. \$75-\$100
3. \$100-\$125
4. \$125-\$150
5. \$150-\$175
6. \$175-\$200
7. > \$200

Due to technical difficulties, no "clicker" data were captured.



Example of market established crop shares...

Crop	Landlord's Percent of Crop Received (or of Costs Paid)*			
	33% Share	40% Share	50% Share	Other % Share
Wheat (155 Leases)	127	18	3	7
% of Total Leases in Lease Arrangement	82.0%	11.6%	1.9%	4.5%
% of Leases Sharing Fertilizer Costs	97.6%	100.0%	100.0%	85.7%
% of Leases Sharing Herbicide Costs	70.1%	94.4%	100.0%	85.7%
% of Leases Sharing Insecticide Costs	41.7%	55.6%	100.0%	28.6%
Sorghum (36 Leases)	34	1	1	No Responses
% of Total Leases in Lease Arrangement	94.4%	2.8%	2.8%	No Responses
% of Leases Sharing Fertilizer Costs	97.1%	100.0%	100.0%	No Responses
% of Leases Sharing Herbicide Costs	64.7%	0.0%	0.0%	No Responses
% of Leases Sharing Insecticide Costs	38.2%	100.0%	100.0%	No Responses
Multiple Crops (40 Leases)	39	1	No Responses	No Responses
% of Total Leases in Lease Arrangement	97.5%	2.5%	No Responses	No Responses
% of Leases Sharing Fertilizer Costs	97.4%	100.0%	No Responses	No Responses
% of Leases Sharing Herbicide Costs	77.5%	100.0%	No Responses	No Responses
% of Leases Sharing Insecticide Costs	56.4%	100.0%	No Responses	No Responses
Soybeans (11 Leases)	10	1	No Responses	No Responses
% of Total Leases in Lease Arrangement	90.9%	9.1%	No Responses	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	100.0%	No Responses	No Responses
% of Leases Sharing Herbicide Costs	100.0%	100.0%	No Responses	No Responses
% of Leases Sharing Insecticide Costs	50.0%	100.0%	No Responses	No Responses
Alfalfa (9 Leases)	7	No Responses	2	No Responses
% of Total Leases in Lease Arrangement	77.8%	No Responses	22.2%	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	No Responses	100.0%	No Responses
% of Leases Sharing Herbicide Costs	42.9%	No Responses	100.0%	No Responses
% of Leases Sharing Insecticide Costs	71.4%	No Responses	100.0%	No Responses

* The percentages calculated in this table represent the percent of landlords sharing the same percent of costs as they share of the crop. For example, 97.6% of landlords receiving 33% of the wheat crop paid 33% of fertilizer expenses.

Source: Schlegel and Tsoodle -- 2007 KAS/KSU survey (available at www.agmanager.info)

Example of market established crop shares...

Crop	Landlord's Percent of Crop Received (or of Costs Paid)*			
	33% Share	40% Share	50% Share	Other % Share
Wheat (167 Leases)	163	3	1	No Responses
% of Total Leases in Lease Arrangement	97.6%	1.8%	0.6%	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	100.0%	0.0%	No Responses
% of Leases Sharing Herbicide Costs	71.2%	33.3%	0.0%	No Responses
% of Leases Sharing Insecticide Costs	53.4%	33.3%	0.0%	No Responses
Sorghum (9 Leases)	9	No Responses	No Responses	No Responses
% of Total Leases in Lease Arrangement	100.0%	No Responses	No Responses	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	No Responses	No Responses	No Responses
% of Leases Sharing Herbicide Costs	88.9%	No Responses	No Responses	No Responses
% of Leases Sharing Insecticide Costs	22.2%	No Responses	No Responses	No Responses
Multiple Crops (21 Leases)	16	5	No Responses	No Responses
% of Total Leases in Lease Arrangement	76.2%	23.8%	No Responses	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	80.0%	No Responses	No Responses
% of Leases Sharing Herbicide Costs	68.8%	0.0%	No Responses	No Responses
% of Leases Sharing Insecticide Costs	43.8%	80.0%	No Responses	No Responses
Soybeans (6 Leases)	6	No Responses	No Responses	No Responses
% of Total Leases in Lease Arrangement	100.0%	No Responses	No Responses	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	No Responses	No Responses	No Responses
% of Leases Sharing Herbicide Costs	33.3%	No Responses	No Responses	No Responses
% of Leases Sharing Insecticide Costs	33.3%	No Responses	No Responses	No Responses
Alfalfa (9 Leases)	8	No Responses	1	No Responses
% of Total Leases in Lease Arrangement	88.9%	No Responses	11.1%	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	No Responses	100.0%	No Responses
% of Leases Sharing Herbicide Costs	100.0%	No Responses	0.0%	No Responses
% of Leases Sharing Insecticide Costs	87.5%	No Responses	0.0%	No Responses

* The percentages calculated in this table represent the percent of landlords sharing the same percent of costs as they share of the crop. For example, 100% of landlords receiving 33% of the wheat crop paid 33% of fertilizer expenses.

Source: Schlegel and Tsoodle -- 2007 KAS/KSU survey (available at www.agmanager.info)

Example of market established irrigated crop shares...

Table 10. Central-50 Irrigated Crop-Share Arrangements					
Crop	Landlord's Percent of Crop Received (or of Costs Paid)*				
	25%	33%	40%	50%	Other
Corn (34 Leases)					
% of Total Leases in Lease Arrangement		23.5%	26.5%	41.2%	8.8%
% of Leases Sharing Fertilizer Costs	No Responses	100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Herbicide Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Insecticide Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Energy Costs		100.0%	100.0%	100.0%	100.0%
Sorghum (5 Leases)					
% of Total Leases in Lease Arrangement	No Responses	40.0%	60.0%	No Responses	No Responses
% of Leases Sharing Fertilizer Costs		100.0%	100.0%		
% of Leases Sharing Herbicide Costs		100.0%	100.0%		
% of Leases Sharing Insecticide Costs		100.0%	100.0%		
% of Leases Sharing Energy Costs		100.0%	100.0%		
Soybeans (18 Leases)					
% of Total Leases in Lease Arrangement	No Responses	44.4%	38.9%	5.6%	11.1%
% of Leases Sharing Fertilizer Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Herbicide Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Insecticide Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Energy Costs		100.0%	100.0%	100.0%	100.0%
Alfalfa (3 Leases)					
% of Total Leases in Lease Arrangement	No Responses	100.0%	No Responses	No Responses	No Responses
% of Leases Sharing Fertilizer Costs		100.0%			
% of Leases Sharing Herbicide Costs		100.0%			
% of Leases Sharing Insecticide Costs		100.0%			
% of Leases Sharing Energy Costs		100.0%			

*The percentages calculated in this table represent the percent of landlords sharing the same percent of costs as they share of the crop. For example, 100% of landlords receiving 33% of the wheat crop paid 33% of fertilizer expenses.

Source: Schlegel and Tsoodle -- 2008 KAS/KSU survey (available at www.agmanager.info)

Example of market established irrigated crop shares...

Table 11. South Central-60 Irrigated Crop-Share Arrangements					
Crop	Landlord's Percent of Crop Received (or of Costs Paid)*				
	25%	33%	40%	50%	Other
Wheat (6 Leases)					
% of Total Leases in Lease Arrangement	16.7%	66.6%	No Responses	16.7%	No Responses
% of Leases Sharing Fertilizer Costs	100.0%	100.0%		100.0%	
% of Leases Sharing Herbicide Costs	100.0%	100.0%		100.0%	
% of Leases Sharing Insecticide Costs	100.0%	100.0%		No Response	No Response
% of Leases Sharing Energy Costs	No Response	100.0%		No Response	
Corn (88 Leases)					
% of Total Leases in Lease Arrangement	1.1%	52.3%	11.4%	23.8%	11.4%
% of Leases Sharing Fertilizer Costs	100.0%	100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Herbicide Costs	No Response	100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Insecticide Costs	No Response	100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Energy Costs	No Response	100.0%	100.0%	100.0%	100.0%
Sorghum (16 Leases)					
% of Total Leases in Lease Arrangement	No Responses	81.3%	6.2%	12.5%	No Responses
% of Leases Sharing Fertilizer Costs		100.0%	100.0%	100.0%	
% of Leases Sharing Herbicide Costs		100.0%	100.0%	100.0%	
% of Leases Sharing Insecticide Costs		100.0%	100.0%	100.0%	
% of Leases Sharing Energy Costs		100.0%	No Response	100.0%	
Soybeans (31 Leases)					
% of Total Leases in Lease Arrangement	No Responses	45.2%	16.1%	29.0%	9.7%
% of Leases Sharing Fertilizer Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Herbicide Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Insecticide Costs		100.0%	100.0%	100.0%	100.0%
% of Leases Sharing Energy Costs		100.0%	100.0%	80.0%	No Response

*The percentages calculated in this table represent the percent of landlords sharing the same percent of costs as they share of the crop. For example, 100% of landlords receiving 33% of the wheat crop paid 33% of fertilizer expenses.

Source: Schlegel and Tsoodle -- 2008 KAS/KSU survey (available at www.agmanager.info)

Determining the terms of a crop lease...

Calculated values
vs.
Market values

If (when) market values have very little meaning to individual situations, we need to estimate what we believe might be the more “correct” values.

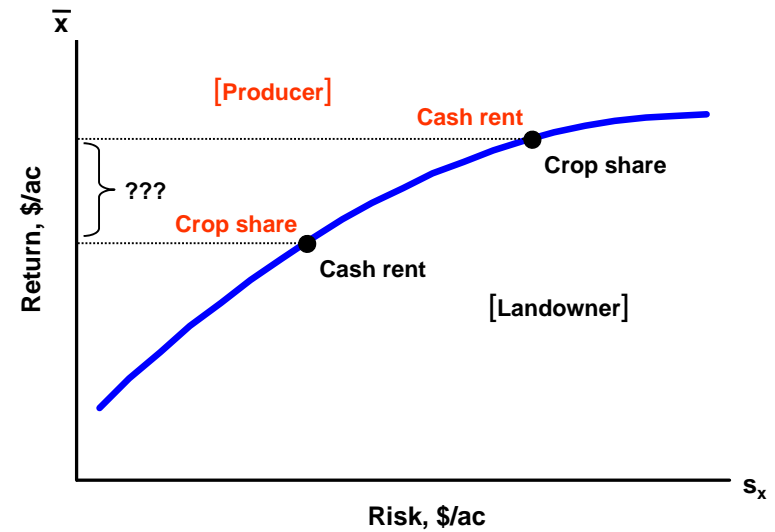
- When market reported rates are not sufficient to answer the question at hand, what do we do?
- While landowners and tenants (i.e., the market) ultimately determine terms of crop share and cash leases, we use the equitable concept to arrive at a starting point for negotiations – and to better understand the market.

Principles embodied in an equitable lease...

- Profit maximization (MR=MC)
- Economic profits (expected profit = 0*)
- Opportunity costs
- Risk across lease types
- Equal rates of return on annual investment (if economic profit = 0, then rate of return = 0)

* On average, in the long run.

Landowner/producer risk-return tradeoff

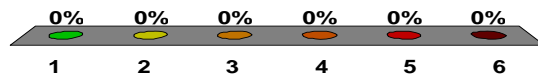


Risk premium...

How should cash rent for non-irrigated land compare with expected returns from equitable crop share...

1. 5-10% higher
2. Roughly equal
3. 5-10% less
4. 10-15% less
5. 15-25% less
6. >25% less

Due to technical difficulties, no "clicker" data were captured.



Microsoft Excel - KSU Lease-AgProfitConf(Canton).xls

KSU Lease.xls ----- A spreadsheet budgeting program to determine equitable crop share and cash lease rental arrangements.
Version - 1.9.10

INPUTS vs CALCULATED VALUES
In the *Crop budgets*, *Shares*, and *Lease budgets* sheets all blue numbers are inputs and all black numbers are calculated from these inputs. The spreadsheet automatically recalculates every time an additional input is entered. Thus, it is important to wait until all data have been entered and reviewed before interpreting any of the calculated results (i.e., black numbers).

DESCRIPTION OF INPUTS
The paper titled *KSU Lease.pdf* serves as a "users guide" and provides a brief overview of this spreadsheet. Also, several of the input cells (i.e., blue number) have a red diamond in the upper right hand corner of the cell. By moving your mouse cursor over this diamond, a brief description of the input will be displayed on the screen.

COMPANION PUBLICATIONS
This spreadsheet was developed as a decision-aid tool based on the principles of equitable leases outlined in several publications that can be found on the K-State Ag Econ departmental website (www.agecon.ksu.edu). Additionally, the budget format of this spreadsheet was designed to follow that of the K-State Farm Management Guide crop budgets, which are also available on the Ag Econ website, so they can also be a useful resource when analyzing leasing alternatives.

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Crop budgets for C/SC Kansas using 5-year average crop prices.

Microsoft Excel - KSU-Lease-AgProfitConf(Canton).xls

TABLE 1. CROP BUDGETS SHOWING TOTAL COSTS AND RETURNS

Crop/System	Wht-C	Wht-R	Milo	Corn	SB-FS	SB-DC	Total	Per Acre	Per Acre
Planted acres of each crop	30.0	30.0	20.0	25.0	45.0	0.0	150.0	Planted	Per Tillable
Tillable acres per planted acre	1.00	1.00	1.00	1.00	1.00	0.00	150.0		
INCOME PER ACRE									
A. Yield per acre		45.0	45.0	80.0	90.0	27.0	20.0		
B. Price per unit	\$5.99	\$5.99	\$3.80	\$3.82	\$9.24	\$9.24			
C. Net government payments	\$15.35	\$15.35	\$15.35	\$15.35	\$15.35	\$0.00			
D. Indemnity payments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
E. Miscellaneous income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
F. Returns/acre (A x B) + C + D + E)	\$285.01	\$285.01	\$319.12	\$359.43	\$264.92	\$184.87			
COSTS PER ACRE									
1. Seed	\$15.00	\$9.00	\$10.08	\$55.02	\$42.90	\$49.50			
2. Herbicide	3.20	6.65	19.87	32.08	8.06	9.08			
3. Insecticide / Fungicide	1.00	1.00	0.00	1.00	0.00	0.00			
4. Fertilizer and Lime	70.25	52.50	61.50	67.50	16.00	11.00			
5. Crop Consulting	0.00	0.00	0.00	0.00	0.00	0.00			
6. Crop Insurance	0.00	0.00	0.00	0.00	0.00	0.00			
7. Drying	0.00	0.00	0.00	0.00	0.00	0.00			
8. Miscellaneous	5.75	5.75	5.75	5.75	5.75	5.75			
9. Machinery Expense	98.65	98.65	107.35	108.26	61.34	55.06			
10. Non-machinery Labor	11.18	11.18	12.09	12.22	6.89	6.24			
11. Irrigation	0.00	0.00	0.00	0.00	0.00	0.00			
12. Land Charge / Rent	42.00	42.00	42.00	42.00	42.00	0.00			
G. SUB TOTAL	\$247.03	\$226.73	\$258.64	\$323.83	\$182.94	\$136.63	\$35,714	\$238.09	\$238.09
H. TOTAL COSTS	\$253.05	\$232.04	\$264.96	\$332.43	\$187.16	\$140.77	\$36,585	\$243.90	\$243.90
I. RETURNS OVER COSTS (F - H)	\$31.96	\$52.97	\$54.16	\$27.00	\$77.76	\$44.10	\$7,805	\$52.03	\$52.03
J. TOTAL COSTS/UNIT (H/A)	\$5.62	\$5.16	\$3.31	\$3.69	\$6.93	\$7.04			
K. RETURN TO TOTAL COST ((I+13)/G)	15.37%	25.70%	23.38%	10.99%	44.81%	35.30%	21.33%	21.33%	21.33%

Returns over costs (i.e., profit) -- one of the numbers to focus on. We expect it to be "close" to \$0, on average, in the long-run.

If it is "too high" (as is likely the case here), land values and rents will increase.

Crop budgets for C/SC Kansas using 5-year average crop prices.

Microsoft Excel - KSU-Lease-AgProfitConf(Canton).xls

Crop/System	Wht-C	Wht-R	Milo	Corn	SB-FS	SB-DC	Total
Planted acres	30.0	30.0	20.0	25.0	45.0	0.0	150.0
OPERATOR'S share of machinery, labor, irrigation, and land (enter -100% if shared equitably)							
Drill/Plant	100%	100%	100%	100%	100%	100%	
Tillage and Chemical Applications:							
Chisel	100%	100%	100%	100%	100%	100%	
Disk	100%	100%	100%	100%	100%	100%	
Field cultivate	100%	100%	100%	100%	100%	100%	
Cultivate w/sidedress	100%	100%	100%	100%	100%	100%	
Anhydrous application	100%	100%	100%	100%	100%	100%	
Fertilizer application	-100%	-100%	-100%	-100%	-100%	-100%	
Herbicide application	-100%	-100%	-100%	-100%	-100%	-100%	
Insecticide/fungicide application	-100%	-100%	-100%	-100%	-100%	-100%	
Harvest							
Harvest	100%	100%	100%	100%	100%	100%	
Hauling	100%	100%	100%	100%	100%	100%	
Miscellaneous							
Non-machinery labor	100%	100%	100%	100%	100%	100%	
Irrigation expenses							
Labor	100%	100%	100%	100%	100%	100%	
Fuel and oil	100%	100%	100%	100%	100%	100%	
Repair and maintenance	100%	100%	100%	100%	100%	100%	
Irrigation investment							
Well, pump and gearhead	100%	100%	100%	100%	100%	100%	
Motor	100%	100%	100%	100%	100%	100%	
Irrigation system	100%	100%	100%	100%	100%	100%	
Land							
Cash payment to landowner, \$/acre	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0
Operator's equitable share (O5%)	74.7%	73.7%	74.6%	80.7%	71.4%	100.0%	74.9%
Landowner's equitable share (L5%)	25.3%	26.3%	25.4%	19.3%	28.6%	0.0%	25.1%

"Calculated" values for what is equitable -- numbers to focus on.

Typically what people are doing is equitable and thus this provides a check on costs in budget.

If landowners in area are typically getting a higher percentage than the calculated value (and profit > \$0), land charge likely should be increased.

Crop budgets for C/SC Kansas using 5-year average crop prices.

Microsoft Excel - KSU-Lease-AgProfitConf(Canton).xls

TABLE 8. ALTERNATIVE METHODS OF ESTIMATING CASH RENT

Crop/System	Wht-C	Wht-R	Milo	Corn	SB-FS	SB-DC	Total	Per Acre	Per Acre
Planted acres of each crop	30.0	30.0	20.0	25.0	45.0	0.0	150.0	Planted	Per Tillable
A. Landowner's COST									
Land	\$62.50	\$62.50	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
Irrigation equipment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0	\$0.00	\$0.00
Total	\$62.50	\$62.50	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
B. Landowner's EQUITABLE SHARE RENT ---- risk adj factor									
Total income	\$285.01	\$285.01	\$319.12	\$359.43	\$264.92	\$184.87	\$44,390	\$295.93	\$295.93
Landowner's share	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	\$3,333	33.3%	33.3%
Landowner's income	\$94.79	\$94.79	\$106.13	\$119.54	\$88.10	\$61.48	\$14,763	\$98.42	\$98.42
Landowner operating expense	29.05	24.13	33.17	38.04	13.44	10.38	3,815	25.43	25.43
Income less operating expense	\$65.73	\$70.66	\$72.96	\$81.49	\$74.66	\$51.10	\$10,948	\$72.99	\$72.99
Less risk adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00
Cash rent equivalent	\$65.73	\$70.66	\$72.96	\$81.49	\$74.66	\$51.10	\$10,948	\$72.99	\$72.99
C. Amount tenant CAN AFFORD TO PAY									
Total income	\$285.01	\$285.01	\$319.12	\$359.43	\$264.92	\$184.87	\$44,390	\$295.93	\$295.93
Total operating expense	\$211.05	\$190.04	\$222.96	\$290.43	\$145.16	\$140.77	\$30,285	\$201.90	\$201.90
Return to land and irr equip	\$73.96	\$94.97	\$96.16	\$69.00	\$119.76	\$44.10	\$14,105	\$94.03	\$94.03

Cash rent from budget vs. cash rent equivalent with crop share (and imputed risk premium) -- numbers to focus on. Historically we have suggested a risk premium of -10% (i.e., the value that would drive cash rent (A) and cash rent equivalent (B) equal -- in this example it is closer to 25%).

If risk premium is "too high" this suggests that land rent will likely increase.

Crop budgets for C/SC Kansas using 5-year average crop prices.

Microsoft Excel - KSU-Lease-AgProfitConf(Canton).xls

TABLE 8. ALTERNATIVE METHODS OF ESTIMATING CASH RENT

Crop/System	Wht-C	Wht-R	Milo	Corn	SB-FS	SB-DC	Total	Per Acre	Per Acre
Planted acres of each crop	30.0	30.0	20.0	25.0	45.0	0.0	150.0	Planted	Per Tillable
A. Landowner's COST									
Land	\$62.50	\$62.50	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
Irrigation equipment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0	\$0.00	\$0.00
Total	\$62.50	\$62.50	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
B. Landowner's EQUITABLE SHARE RENT ---- risk adj factor									
Total income	\$285.01	\$285.01	\$319.12	\$359.43	\$264.92	\$184.87	\$44,390	\$295.93	\$295.93
Landowner's share	14.4%	14.4%	14.4%	14.4%	14.4%	14.4%	\$3,333	14.4%	14.4%
Landowner's income	\$41.04	\$41.04	\$46.05	\$51.74	\$38.17	\$26.54	\$5,000	\$33.33	\$33.33
Landowner operating expense	29.05	24.13	33.17	38.04	13.44	10.38	3,815	25.43	25.43
Income less operating expense	\$11.99	\$16.91	\$12.88	\$13.70	\$24.73	\$16.16	\$1,185	\$7.90	\$7.90
Less risk adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00
Cash rent equivalent	\$11.99	\$16.91	\$12.88	\$13.70	\$24.73	\$16.16	\$1,185	\$7.90	\$7.90
C. Amount tenant CAN AFFORD TO PAY									
Total income	\$285.01	\$285.01	\$319.12	\$359.43	\$264.92	\$184.87	\$44,390	\$295.93	\$295.93
Total operating expense	\$211.05	\$190.04	\$222.96	\$290.43	\$145.16	\$140.77	\$30,285	\$201.90	\$201.90
Return to land and irr equip	\$73.96	\$94.97	\$96.16	\$69.00	\$119.76	\$44.10	\$14,105	\$94.03	\$94.03
Comparison of alternative cash rent methods									
Low	\$56.27	\$60.48	\$62.46	\$62.50	\$62.50	\$0.00	\$9,372	\$62.48	\$62.48
Average	\$64.24	\$72.65	\$73.70	\$67.09	\$82.06	\$29.28	\$10,951	\$73.00	\$73.00
High	\$73.96	\$94.97	\$96.16	\$69.76	\$119.76	\$44.10	\$14,105	\$94.03	\$94.03
Returns above all costs (profit)	\$11.46	\$32.47	\$33.66	\$6.50	\$57.26	\$44.10	\$4,730	\$31.53	\$31.53

This would suggest that a cash rent of \$62.50 might be reasonable given yield and cost assumptions and 5-year average prices. However, what does this mean at current prices?

Microsoft Excel - KSU-Lease-AgProfitConf(Canton).xls

Crop budgets for C/SC Kansas using current forward bids.

TABLE 8. ALTERNATIVE METHODS OF ESTIMATING CASH RENT

Crop/System	Wht-C	Wht-R	Milo	Corn	SB-FS	SB-DC	Total	Per Planted Acre	Per Tillable Acre
Total tillable acre	30.0	30.0	20.0	25.0	45.0	0.0	150.0	150.0	
Planted acres of each crop	30.0	30.0	20.0	25.0	45.0	0.0	150.0	150.0	
A. Landowner's COST									
Land	\$62.50	\$62.50	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
Irrigation equipment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0	\$0.00	\$0.00
Total	\$62.50	\$62.50	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
B. Landowner's EQUITABLE SHARE RENT ----- risk adj factor									
Total income	\$336.20	\$336.20	\$376.15	\$499.25	\$319.64	\$225.40	\$53,060	\$353.73	\$353.73
Landowner's share	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	\$17,870	117.64	117.64
Landowner's income								\$117.64	\$117.64
Landowner operating expense								25.43	25.43
Income less operating expense								\$92.21	\$92.21
Less risk adjustment								29.51	29.51
Cash rent equivalent								\$62.70	\$62.70
C. Amount tenant CAN AFFORD TO PAY									
Total income	\$336.20	\$336.20	\$376.15	\$439.25	\$319.64	\$225.40	\$53,060	\$353.73	\$353.73
Total operating expense	\$211.05	\$190.04	\$222.96	\$290.43	\$145.16	\$140.77	\$30,285	\$201.90	\$201.90
Return to land and irr equip	\$125.15	\$146.16	\$153.19	\$148.82	\$174.48	\$84.63	\$22,775	\$151.84	\$151.84
Comparison of alternative cash rent methods									
Low	\$56.28	\$59.62	\$62.50	\$62.50	\$62.50	\$0.00	\$9,375	\$62.50	\$62.50
Average	\$81.31	\$89.43	\$92.73	\$94.93	\$100.04	\$42.85	\$13,852	\$92.35	\$92.35
High	\$125.15	\$146.16	\$153.19	\$148.82	\$174.48	\$84.63	\$22,775	\$151.84	\$151.84
Returns above all costs (profit)	\$62.65	\$83.66	\$90.69	\$86.32	\$111.98	\$84.63	\$13,400	\$89.34	\$89.34

My gut feel is that this is too big of a risk premium and thus pressure exists for cash rents to increase.

Cash rent auction in NW KS ...

LAND LEASE AUCTION

2150 Acres +/- Located in Sheridan and Thomas County, Kansas

Saturday, January 15, 2011 • Time: 2:00 p.m.

Owner: Ward J. Munkres Sale Location: Shepherd's Staff building, 225 Main St., Rexford, KS

Cash rent auction in NW KS ...

Announcements made Day of Sale take precedence over printed material.

AUCTIONEER'S NOTE: This land is all prime cropland with no growing crops. There are only 90 acres that are tenured located in SW1/4 18-7S-30W, Sheridan County, Kansas. Anyone interested in adding to their operation with very productive farmland won't want to miss this auction. All the land has been maintained with no-ill for the past 10 years.

LEASE: The leases will be auctioned for a five year lease, with a two year option after the five years. The first year's lease will be due day of auction, with following years' leases due on or before January 1 of each year. The leases will be auctioned in two individual tracts. All leases will be sold in FSA cropland measurements. The lease for the last year must be negotiated before September 1, 2015.

AGENCY DISCLOSURE: Johnson Realty, Inc. and its agents are representing the Lessor and not representing the Lessee.

Call Lynn A. Johnson, Johnson Realty, Inc. for more information. Office - 785-475-2785 or Lynn's cell - 785-475-8514.

Not responsible for accidents. All guarantees are between Lessor and Lessee.

All inspections are the responsibility of the potential bidders, with no guarantees or warranties from the Lessor or Johnson Realty, Inc. and its agents. All information has been obtained from reliable sources.

<p>Tract 1: NE1/4 10-7-31 and W1/2NW1/4 11-7-31, Thomas County</p> <p>Cropland acres - 214.0 Wheat base acres 171.0 Yield -36 Grain Sorghum base acres 43.0 Yield -46</p>	<p>Tract 6: SE1/4 28-6-32, Thomas County</p> <p>Cropland acres 156.0 Wheat base acres 74.5 Yield -36 Grain Sorghum base acres 42.8 Yield -47</p>	<p>Tract 8: W1/2 7-7-30, Sheridan County</p> <p>Cropland acres 299.0 Wheat base acres 78.0 Yield -36 Corn base acres 145.8 Yield 124.0 Sunflowers base acres 5.9 Yield 797.0 lbs.</p>
<p>Tract 2: E1/2NW1/4 23-7-31, Thomas County</p> <p>Cropland acres - 79.7 Wheat base acres 37.6 Yield -36</p>	<p>Tract 7: E1/2 35-6-32, Thomas County</p> <p>Cropland acres - 338.7 Wheat base acres 146.6 Yield -36 Grain Sorghum base acres 84.4 Yield -47</p>	<p>Tract 10: SW1/4 18-7-30, Sheridan County</p> <p>Cropland acres - 156.3 Wheat base acres 78.5 Yield -36 Grain Sorghum base acres 33.4 Yield -46 Barley base acres 2.2 Yield -40</p>
<p>Tract 3: SW1/4 35-6-31, Thomas County</p> <p>Cropland acres - 153.1 Wheat base acres 5.8 Yield -36 Grain Sorghum base acres 33.4 Yield -48 Barley acres 6.1 Yield -40</p>	<p>Tract 9: S1/2 6-7-30, Sheridan County</p> <p>Cropland acres - 305.9 Wheat base acres 205.5 Yield -37 Grain Sorghum base acres 48.3 Yield -48</p>	
<p>Tract 4: NW1/4 3-7-32, Thomas County</p> <p>Cropland acres - 160.9 Wheat base acres 75.4 Yield -36 Grain Sorghum base acres 43.9 Yield -47</p>		
<p>Tract 5: W1/2 27-6-32, Thomas County</p> <p>Cropland acres - 314.6 Wheat base acres 155.9 Yield -36 Grain Sorghum base acres 50.0 Yield -46 Barley base acres 1.8 Yield -40</p>		

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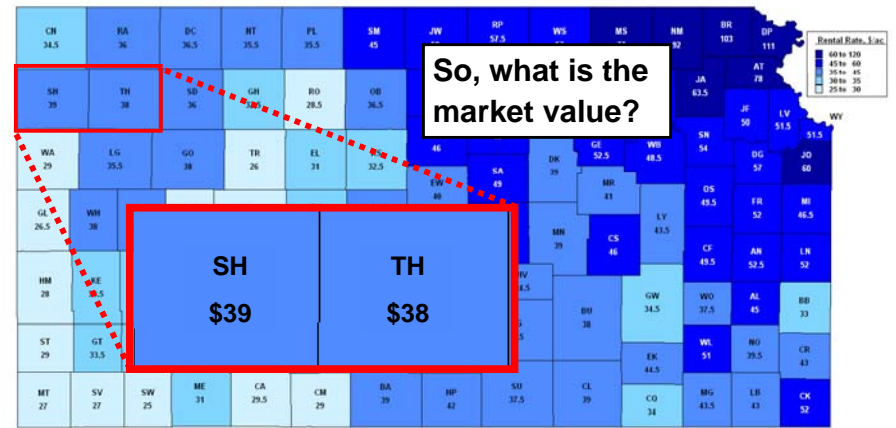
Johnson Realty, Inc.

122 South Penn, Oberlin, KS 67749

Roberta Johnson, Broker - Lynn A. Johnson, Associate Broker/Auctioneer
Call Lynn A. Johnson for sale bill or information: 785-475-2785 - Mobile: 785-475-8514
email: johnsonrealty1@yahoo.com

Joe D. Green, Salesperson/Auctioneer Roger Emigh, Salesperson/Auctioneer Randy Oetzmeyer, Salesperson
David Juennemann, Salesperson Duane Bremer, Oberlin, Salesperson Michael Wilson, Salesperson

Kansas county-level non-irrigated crop cash rents...



* 2010 Cash rent values as reported by USDA NASS and Kansas Agricultural Statistics (KAS).

Cash rent auction in NW KS ...

Munkres cash rent auction, January 15, 2011

Tract	Cropland acres (FSA)	\$/acre rent	Annual dollars	Wheat stubble a	Corn stalks a	Milo stalks a	Govt payments	Govt pymt per acre	Avg % org matter	PPM soil test P
1	214.0	\$110	\$23,540	108.0	106.0		\$3,255	\$15.21	2.00	37.50
2	79.7	\$90	\$7,173		79.7		\$586	\$7.35	1.50	15.00
3	153.1	\$105	\$16,076		153.1		\$597	\$3.90	1.80	17.00
4	160.9	\$135	\$21,722	160.9			\$1,776	\$11.04	1.70	15.00
5	314.6	\$140	\$44,044	226.4	88.2		\$3,638	\$11.56	1.60	23.00
6	156.0	\$140	\$21,840		156.0		\$1,747	\$11.20	1.70	21.00
7	308.7	\$130	\$40,131	240.0	68.7		\$3,441	\$11.15	1.74	24.55
8	305.9	\$125	\$38,238			305.9	\$3,847	\$12.58	1.80	24.00
9	299.0	\$135	\$40,365			299.0	\$5,465	\$18.28	2.00	20.00
10	156.3	\$120	\$18,756		78.2	78.2	\$1,709	\$10.93	1.65	21.00
Total	2,148.2		\$276,004	735.3	729.9	683.1	\$26,061			
Overall per acre values			\$126.56				\$12.13	1.75	1.75	21.80
Correlation of cash rent with above columns>								0.51	0.14	0.04

Only marginal differences in farmability and land quality across tracts, except that tract 2 had several acres in a lagoon.

All land is non-irrigated, fairly flat, little erosion, and has good road and grain market access.

All land is open, i.e., no growing wheat.

Land leased for 5 years and tenant must ensure no loss of soil fertility during lease term, i.e., must reimburse

landowner at end of lease for any reduced fertility (both N and P), as judged by before & after soil tests.

Land located near Rexford and Gem in both Thomas and Sheridan counties, Kansas.

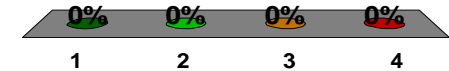
Pre-auction expectations likely were centered around \$80/acre.

Do you agree or disagree with the following

Producers should receive 100% of payments from programs such as CSP that are due to their management.

1. Strongly agree
2. Agree
3. Disagree
4. Strongly disagree

Due to technical difficulties, no "clicker" data were captured.



Summary ...

- Market values trump what we might calculate, but we calculate values to avoid making bad decisions
- To reduce risk associated with renting land, consider:
 - Staying with (going back to) crop share
 - Go to a flexible cash rent (not ad hoc bonuses)
 - Renegotiate often (i.e., every year) and be willing to increase *and* decrease rents annually
 - Increase level of communication
- There is no one right way to manage farm leases, but several things to strive for are:
 - Keep arrangement business like
 - Maintain open communication at all times

Questions ???

