2017 LEASE SURVEY
SUMMARY REPORT
K-State Research and Extension
Post Rock District
LINCOLN County

K-STATE
Research and Extension | Post Rock District

2017 FARM LEASE ARRANGEMENT SURVEY SUMMARY FOR DRYLAND CROPS

K-STATE RESEARCH & EXTENSION

Post Rock District

LINCOLN County

Number of survey responses: 11 (19% return rate)

Summary of Cash Rent Paid to Landlord

CROP ENTERPRISE	AVERAGE RENT/ACRE	CASH RENT RANGE
Cropland (dryland)	$50.00	$30 - $70
Native or Tame Pasture	$19.00	$12 - $22
Native or Tame Hayland	$22.00	$20 - $26
Winter Stalks	Not enough responses	Not enough responses

Estimated Trend for 2018 Dryland Crop/Pasture Leases in Lincoln County

No change	38%
Lower	38%
Unsure of 2018 Trend	24%
Higher	0%

Trend of Lease Arrangements for 2018

NO CHANGE	MORE CROP SHARE	MORE CASH RENT
38%	38%	24%

Adjustments to Cash Rents due to rising input costs in 2017

NO ADJUSTMENTS	INCREASE	DECREASE
89%	11%	No responses

Percentage of acres in the different Tillage Systems in 2017
(Number of responses)

No -Till	Minimum Till	Conventional Till	Summer Fallow
3 - 100% 4 - 40% to 85%	3 - 30% or less	3 - 40% to 70%	2 - 20% or less

When were the cash rent payments made to the landlord for 2017?
(% of responses)

All at once	Split payment	Dates	After Harvest
44% (Payments in July or August)	56%	May and November	No responses

Interest in Flexible Leasing Arrangements

No	Yes
88%	12%

Crop Share Summary

DRYLAND CROP ENTERPRISE	SHARE PAID TO LANDLORD	OTHER COMMENTS
Wheat	1/3 - 88% 2/5 - 12%	
Grain Sorghum	1/3 - 88% 2/5 - 12%	
Corn	1/3 - 83% 2/5 - 17%	
Sunflowers	1/3 - 100%	
Soybeans	1/3 - 86% 2/5 - 14%	
Alfalfa	1/3 - 50% 2/5 - 50%	
Other Dryland Crops (Brome Hay)	1/3 - 100%	
Landlord's Share of Government Payments	1/3 - 100%	
Landlord's Share of Crop Insurance Proceeds	1/3 - 67% None - 33%	-Landlord has own insurance. -Tenant has own insurance.

Percentage of Written and Oral Leases For Pasture and Cropland (number of responses)

Written Leases		Oral Leases	
2 - 100%	1 - 50% or less	2 - 100%	1 - 90%

Landlord Share of Input or Cost (Percent of responses)

EXPENSE OR INPUT	Landowners % Share of Crop Expenses	Other Comments
Fertilizer	1/3 - 100%	-Same as share with crop share. -No cost share with cash rent.
Fertilizer Application	1/3 - 67% None - 33%	-Same as share
Herbicide	1/3 - 83% None - 17%	-Same as share
Herbicide Application	1/3 - 50% None - 50%	-Same as share
Insecticide	1/3 - 83% None - 17%	-Same as share
Insecticide Application	1/3 - 60% None - 40%	-Same as share
Harvesting Costs	None - 100%	
Hauling Grain	None - 100%	
Drying costs after harvest	None - 83% 1/3 - 17%	
Crop Insurance	1/3 - 75% None - 25%	-Landowner has own insurance. -Tenant has own insurance.
Other production costs (seed, fungicide, crop consulting, water, etc.)	None - 100%	
Terrace/Conservation Structure Maintenance (annual upkeep costs)	None - 60% ½ - 20% 100% - 20%	-Tenant takes care of 100% of the maintenance of the terraces. -Machinery cost/rent is the landowner expense.
Terrace/Conservation Structure Construction (major land investments)	100% - 60% None - 20% ½ - 20%	

Pasture Lease Summary

Physical Location of Pasture Land

Lincoln Co.	70%	Saline Co.	10%
Ottawa Co.	10%	Russell Co.	10%

Pasture Land Rental Rates

Average rent/acre	$19.00/acre
Range/acre	$12-$22/acre

Trends for stocking rates for 2018

Decrease	50%
No Change	50%

Livestock Stocking Rate (Cow/Calf)

Average	8 acres/pair
Range	6 -10 acres/pair

Mature Weight of Cow

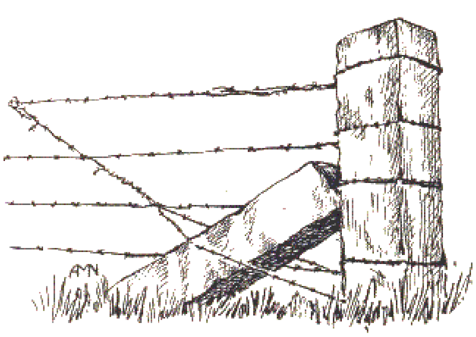
Average	1250 lbs.
Range	1000 -1400 lbs.

Livestock Water Supply

Pond	39%
Well	39%
Stream	22%

Summary of Tenant/Landlord Responsibilities

Responsibility	Tenant	Landlord
Maintaining Water Supply	57%	43%
Maintaining Fences - Furnishing Materials	14%	86%
Maintaining Fences - Furnishing Labor	86%	14%
Controlling Weeds	71%	29%



Pasture Grazing in 2016

Pasture season length (months)	Month Started	Month Ended
5 mo. - 12% 6 mo. - 76% 7 mo. - 12%	April - 25% May - 75%	Oct. - 12% Nov. - 76% Dec. - 12%

Pasture Grazing in 2017

Pasture season length (months)	Month Started	Month Ended
6 mo. - 86% 12 mo. - 14%	Jan. - 14% May - 72% Nov. - 14%	May - 14% Nov. - 72% Dec. - 14%

Special arrangements for weed control in pastures:

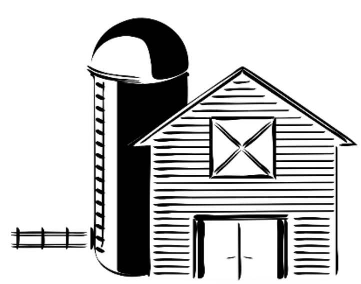
No - 57% **Yes - 43%**

Additional comments:

-1/3 of total acreage sprayed annually with chemical cost to be split between landlord and tenant.
-Landlord and tenant split all chemical costs.

Kinds of Pastureland - 2017
(number of responses to percent of their pastures)

Upland	Lowland/River	Mixture
4 - 100% 2 - 70-80%	2 - 30% or less	No responses



Crop Residue Grazing Summary

Physical Location of Crop Residue Land

Lincoln Co. 100%

Crop Residue Rental Rates

Average: Not enough responses

Type of Cattle/Livestock On Crop Residue

Cow/Calf Pairs 100%

Livestock Water Supply

Transported to Site 50%

Well 50%

Average of Nutritional Supplement In Addition to Crop Residue

Hay 0.5 -1 lb./cow/day

Other Protein blocks/tubs

Crops Utilized for Grazing - (% of responses)

Milo 33%

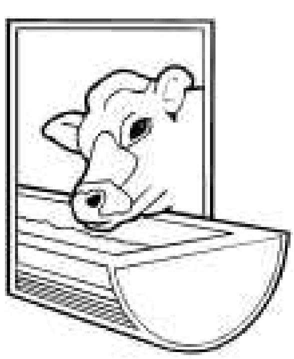
Alfalfa 33%

Cover Crops 17%

Wheat 17%

Rate of Gain in Crop Residue Grazing System

Cows Maintain wt./0.5 lb./day



Crop Residue Grazing Period 2017

Grazing Season Length (months)	Month Started	Month ended
1 mo. - 50% 2 mo. - 50%	November - 50% December - 50%	December - 100%

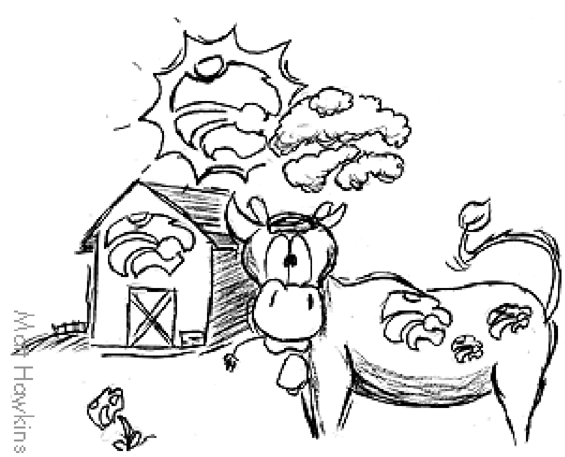
Crop Residue Summary of Tenant/Landlord Responsibilities 2017

Responsibilities	Tenant	Landlord
Maintaining water supplies	33%	67%
Maintaining Fences - Furnishing Materials	67%	33%
Maintaining Fences - Furnishing Labor	100%	0%
Livestock Care	100%	0%

Other comments with crop residue grazing

* No crop residue grazed or rented out (6 responses).

* I use my own crop residue.



Recreational Leasing Summary

Percentage of Written and Oral Leases For recreational hunting:

Written	Oral
60%	40%

Years with same tenant:

2-14 years 100%

Leasing Arrangements for Hunting 2017:

Hunting Type	Acres	# Hunters	Length	Rental $
Deer	4,800	2 to unlimited	*Season *1 year	*$1,000 to $5,000 *Pay by number of deer
Turkey	2,020	No responses	*Season	*$500
Game birds	None reported	________	________	________
Water-fowl	None reported	________	________	________
Fishing	None reported	________	________	________

Rating of Hunting:

Excellent 50%
Very Good 50%

Are users required to sign a waiver of liability or carry liability insurance?

Yes 100%
No 0%

Is the property specifically managed to improve the wildlife or fish habitat?

No 75%
Yes 25%

Other comments related to recreational hunting:

-No leasing indicated (7 responses).
-Walk-in Hunting (No - 100%)
-Don't ask for payment.
-No leases, individual permission only.
-Rent depends on deer numbers.

Information related to recreational hunting:

(by Dr. Mykel Taylor, K-State Research and Extension, Farm Management specialist)

In many parts of Kansas, hunting leases for cropland and pasture offer an additional revenue source for land-owners. Whether or not to pursue this option is going to depend on a couple of factors: how much can I charge and what is my liability exposure?

Information on hunting leases and rental rates is challenging to find and, when it is available, interpret accurately. There is very little consistency across hunting leases and learning what other people pay and/or receive is only half of the equation. How much a hunter is willing to pay for a lease will depend on the amount of land, the quality of the habitat, the range of wildlife and seasons the land can be hunted, along with documented harvests of trophy animals on that land. Each of these factors can affect the rental rate, as well as how many years the land may be rented. Another aspect of hunting leases that affects the rental rate is the availability of additional services such as housing, meals, guide services, and even transportation from the nearest airport. Landowners who cater to more of the needs of hunters will be able to charge a higher rent for their land.

The question of liability is an important one because risk exposure depends on the type of lease that is negotiated. Agricultural land owners can avoid liability if they allow hunters on their land at no charge or if they charge a fee for hunting only. This means if any additional services are provided such as guiding, lodging, etc. the landowner may be liable. Another option for the landowner to rent their land and not have to deal with liability is by contracting with the State of Kansas through the Walk-In Hunting program.

Regardless of the type of lease that is pursued, it is important to remember that the hunting rights to a piece of rented farmland transfer to the tenant unless they are explicitly retained by the landowner in a written contract. This means both landowners and producers need to discuss how a hunting lease would work for them and how the costs and benefits will be split. Examples of questions to answer include: Who pays for any improvements that affect the hunting lease, i.e. permanent blinds? Will the presence of livestock on the land be affected by hunting?

Communication between the landowner and producer can make hunting leases a beneficial option.

General Lease Concepts

Rules & Regulations:

- Leases must be longer than two years to allow tenants to sublease.
- When a farm is sold, the new owner substitutes for the old.
- Leases are binding on executors and heirs.
- Written leases can cover any length of time.
- Oral leases are **unenforceable** if they are one year or more in length.

Test of a Good Lease:

- Is it written?
- Does it encourage proper amounts of yield increasing expenses?
- Does it plan for new or needed improvements?
- Does it promote conservation?
- Is the crop shared in the same percentage as the contribution?

Lease Termination Notice:

- In writing
- At least 30 days prior to March 1
- **Spring planted crops:** must fix termination date of tenancy to take place on March 1
- **Fall seeded crops:** will be terminated the day after harvest or August 1
- **Exception to above:** written lease providing otherwise

Crop Share Leases

A good crop share lease should follow five basic principles:

- Yield increasing inputs should be shared
- Share arrangements should be re-evaluated as technology changes
- Total returns divided in same proportion as resources contributed
- Compensation for unused long-term investments at termination
- Good landlord/tenant communications

Advantages of Crop Share Leases:

- Yield and price risks and opportunities are shared by tenant and landlord
- Less operating capital needed by the tenant
- Management skills may be shared by an experienced landlord and tenant
- Tax management opportunities from timing of sales and input purchases
- Material participation issues

Disadvantages of Crop Share Leases:

- The landlord's income is more variable
- More record keeping is required
- Landlords have marketing decisions to make
- Joint management decisions must be made and disagreements may occur
- Material participation/Social Security issues

Cash Rental Leases

Methods to Determine Cash Rental Rates:

- **Market going rate (if available)**
  Local competitive rental rates
- **Landowner's cost**
  Depreciation, Interest, Repairs, Taxes, Insurance - Based on the premise of landowner's continuing to receive comparable returns to what has been received in the past.
- **Crop share equivalent (adjusted for risk)**
  Converts equitable crop share rent to an expected dollar amount per acre.
- **What Tenant Can Afford to Pay**
  Revenue - Non-land Costs = Rent

(The last three require yield, price, and government payment projections as well as cost information used for crop share.)

Advantages of Cash Leases:

- **For Landlords**
  -Less involvement in management
  -No production costs to share
  -No marketing decisions to make

- **For Tenants**
  -More managerial control and freedom
  -More income for above-average managers
  -More potential for windfall profits in good years

Disadvantages of Cash Leases:

- **For Landlords**
  -No potential for windfall profits in good years
  -Less tax management flexibility from timing sales and expenses
  -Risk of exploiting or "mining" of the farmland by a tenant

- **For Tenants**
  -Bears all yield and price risk
  -Crop production and expenses are higher

Trends in Leases and Values of Agricultural Land in Kansas

by Dr. Mykel Taylor, K-State Research and Extension, Farm Management specialist

The past few years have seen some wide fluctuations in both land values and rental rates as a result of dramatic changes in profitability for farmers and ranchers in Kansas. According to surveys by USDA-NASS, the statewide average land value for non-irrigated cropland in 2009 was $981/acre. Within a five-year span, that average more than doubled to $2,150/acre in 2014. By 2016, non-irrigated land values in Kansas have fallen 10% and are expected to continue to decline as long as low commodity prices remain in place. A similar pattern can be observed in pasture values. The state average of pasture was $761/acre in 2010 and, within five years, values increase 80% to a record high of $1,390/acre. Pasture values have fallen off 7.2% since 2015.

For most producers, high volatility in commodity prices translates into higher risk exposure from rental rates. During periods of high profitability, rental rates will increase and competition for land can be fierce as producers try to expand their land base to capture more returns. However, a sudden decline in profitability in the sector will not necessarily translate into lower rents in the short run.

Rental rates tend to lag behind commodity prices and profitability for several reasons. First, land contracts and cash rental rates are often set for 3-5 year periods to allow both producers and landowner to plan for expected costs and returns. As a result, producers can be locked into rents that are not aligned with the current market.

Another reason rental rates do not decline as quickly as might be expected is due to concern over losing land. Rented land is often a significant part of the land base in an ag operation, driving decisions on machinery and labor. If a landowner will not accept a lower rent, then some producers will pay more than their total costs of production to keep it. The expectation is that taking a loss in the short run is preferable to losing acres and incurring an increase in total costs per acre.

Regardless of the particular situation a producer faces, strong communication with their landowner can be very beneficial to the long-run economic viability of their operation. Landowners will not be excited to lower rental rates, but if they have a strong understanding of the current market conditions they may be more willing to negotiate. Tenants who take extra time to work with their landowners, answer questions, and keep them up to date on the farm's situation will find it easier to have those difficult conversations about lowering the rent.

Flexible Cash Rents

Principles:

- Flexible cash rents simply refer to land rental arrangements where the amount of cash rent paid (received) can vary based upon some pre-determined formula (i.e. formalizes bonus rents)
- Methods of **"flexing"** rental rates, i.e., formulas are based on:
  - -Yield (actual for producer, co avg., etc.)
  - -Price (harvest, season average, actual)
  - -Revenue (yield x price, crop insurance, residue)
  - -Costs (i.e. fertilizer price)
  - -Other

Advantages of Flexible Cash Rents:

- Method of allowing rents to vary year-to-year without having to renegotiate rents annually
- Way of sharing/managing risks associated with volatile markets (without hassles of crop share lease)
- Somewhat "forces" a higher level of communication relative to fixed cash rent (poor/lack of communication is often an issue with problem lease arrangements)
- Trend in Kansas has been moving away from crop share leases to more cash leases
- Volatility of last few years has significantly increased the risk of **fixed** cash rents

Disadvantages of Flexible Cash Rents:

- Complex!
- Theory and intuition guide conceptual design, but little help with specific details
- Not needed if cash rents are renegotiated frequently (every year?)
- Hard to think of everything, which means we might need to be "tweaking" the arrangements regularly
- If designed wrong, might increase risk
- Appealing for certain situations, but not appropriate in all cases (depends on why you are considering flexible cash rent)

How to determine Flexible cash rents:

- There is not a single right way to do this! (But there are plenty of wrong ways)
- Establish a base cash rent:
  -Budget-derived value (KSU-Lease.xls) Online KSU spreadsheet (Excel) tailors to a specific situation and an equitable crop share can be calibrated to the local area
- **Questions to ask**:
  -Does cash rent flex up and down or only up?
  -What yields and prices are used to determine actual gross revenue?
  -What crops should be included in calculations?
  -Are crop insurance and government payments included/accounted for?
  -What about flexing cash rent based on costs of crop inputs?
  -What will final rent be under alternative potential outcomes?

Summary:

- Flexible cash leases are simply a way of sharing risks of unpredictable markets (and yields?) without the hassles of crop ownership.
- Why not simply give landowner ad hoc "bonuses" when times are good?
- There are many types of flex leases – no one method is right or best in all cases.
- Communication, communication, communication! (Remember, it likely is a learning process for both parties.)
- The KSU website www.agmanager.info has more information on **Flexible Cash Rents.**

K-State Research & Extension
Post Rock District
Lincoln Office: 785-524-4432
Sandra L. Wick, Crop Production Agent, swick@ksu.edu
Barrett Simon, Livestock Agent, barrett8@ksu.edu

K·STATE Research and Extension | Post Rock District