

Farmland Leasing in 2020

Presented by Gary Schnitkey, Jonathan Coppess and Dale Lattz
October 25, 2019



I Farmland Leasing in 2020
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Gardner Agriculture Policy Program
delta institute



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

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Topics

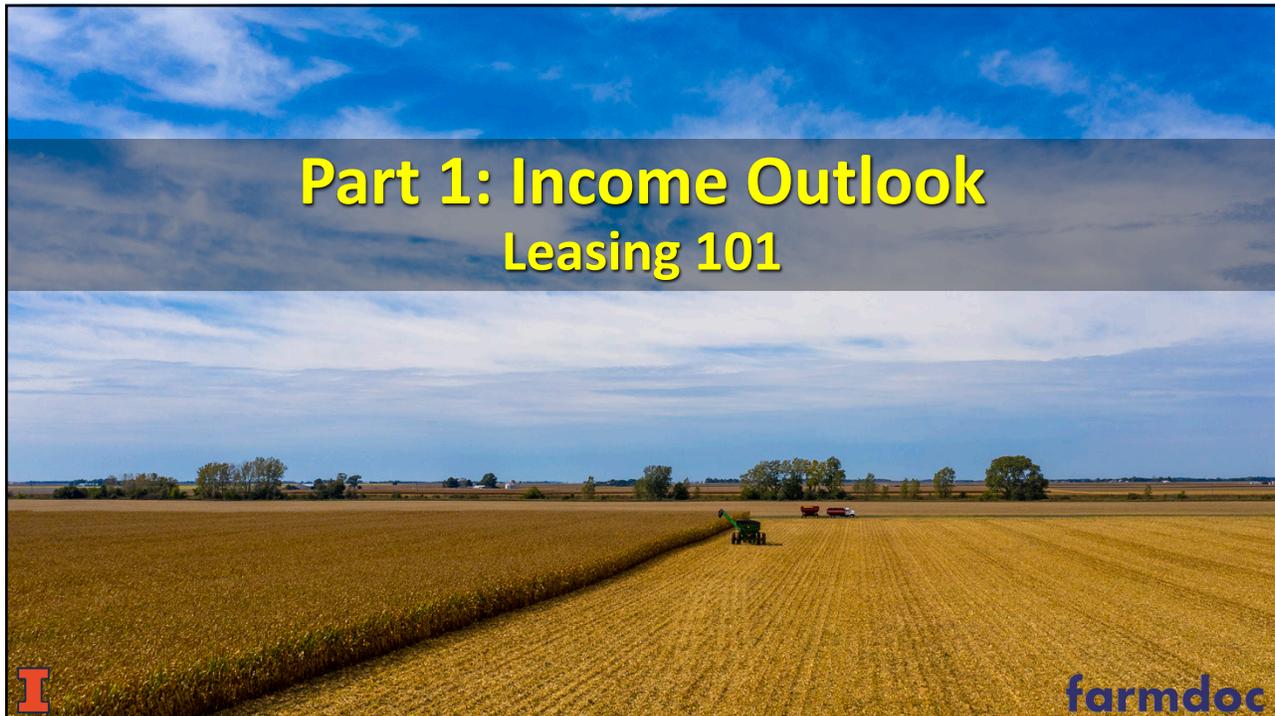
1. Income Outlook
2. Leasing Basics
3. Types of Leasing
4. Leasing Addendums

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

Corn, Central Illinois, High-Productivity

Notes:

There is \$82 of MFP payments in 2019

To get 2020 returns to \$0 need:

- MFP
- 4 bushel higher yield

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	Year		
	2018	2019P	2020P
Yield per acre	74	55	63
Price per bu	\$8.85	\$9.30	\$9.20
Crop revenue	\$655	\$512	\$580
ARC/PLC	0	10	0
MFP	122	82	0
Crop insurance proceeds	4	5	0
Gross revenue	\$781	\$609	\$580
Total direct costs	\$184	\$183	\$184
Total power costs	\$102	\$104	\$103
Total overhead costs	\$67	\$68	\$68
Total non-land costs	\$353	\$355	\$355
Operator and land return	\$428	\$254	\$225
Land costs	274	274	270
Farmer return	\$154	-\$21	-\$45

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



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MYA Prices and Projections for 2019 and 2020

Market Year	Corn	Soybeans	Wheat
2013	4.46	13.00	6.87
2014	3.70	10.10	5.99
2015	3.61	8.95	4.89
2016	3.36	9.47	3.89
2017	3.36	9.33	4.72
2018	3.55	8.66	5.15
2019P	3.90	9.20	5.00
2020P	3.70	9.00	5.00

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:

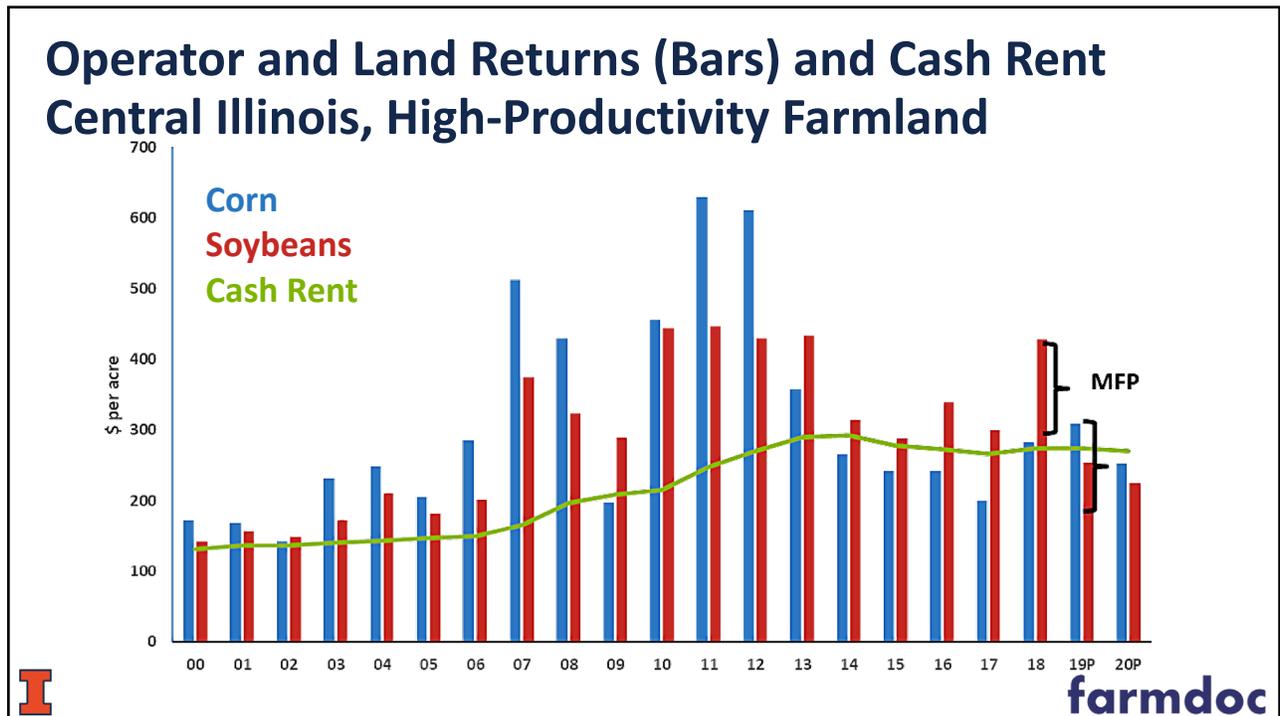
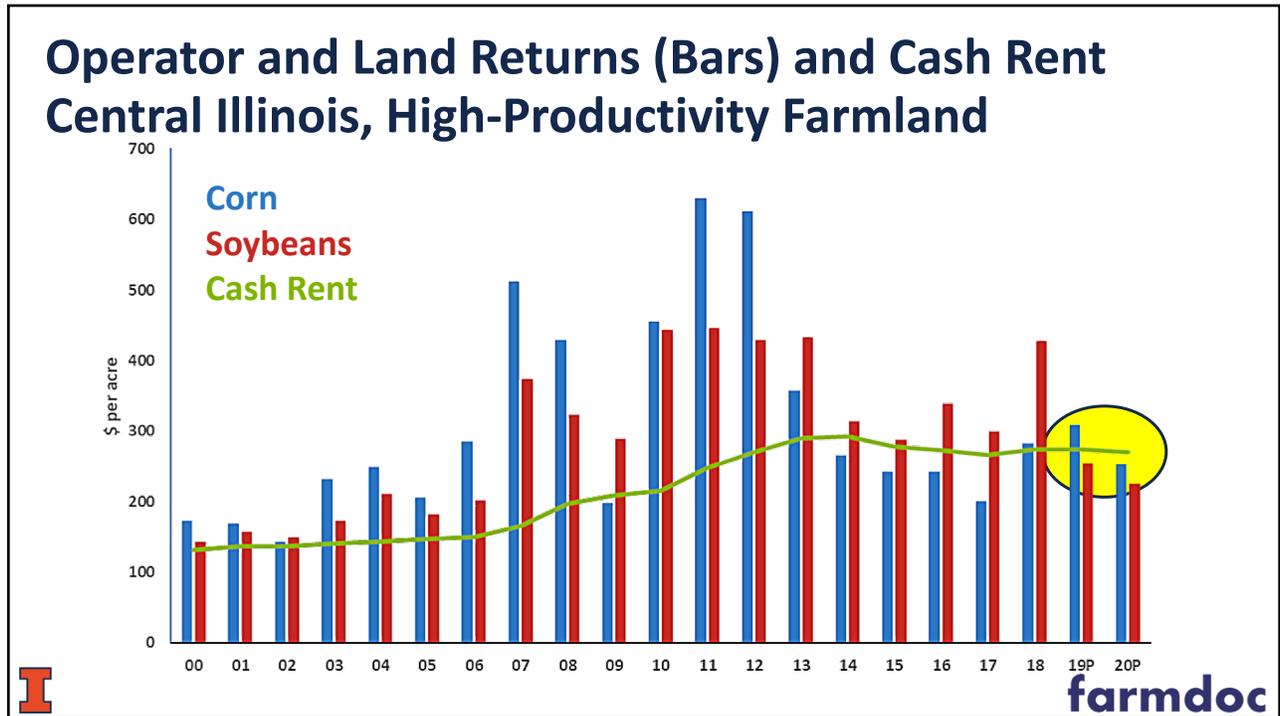
- Trade uncertainty
- African Swine Fever
- Large carryout of U.S. stocks



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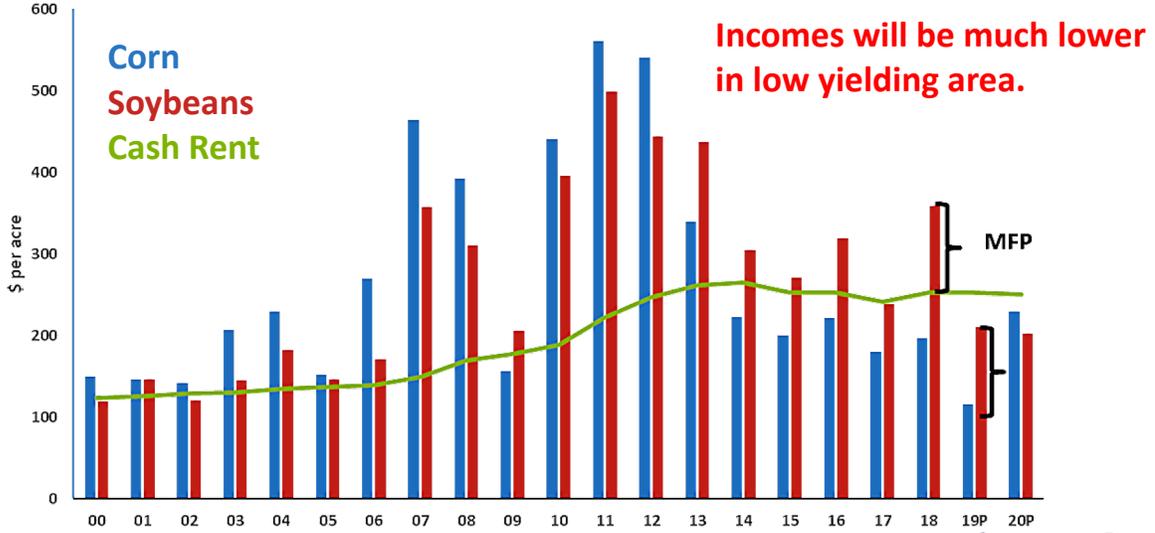
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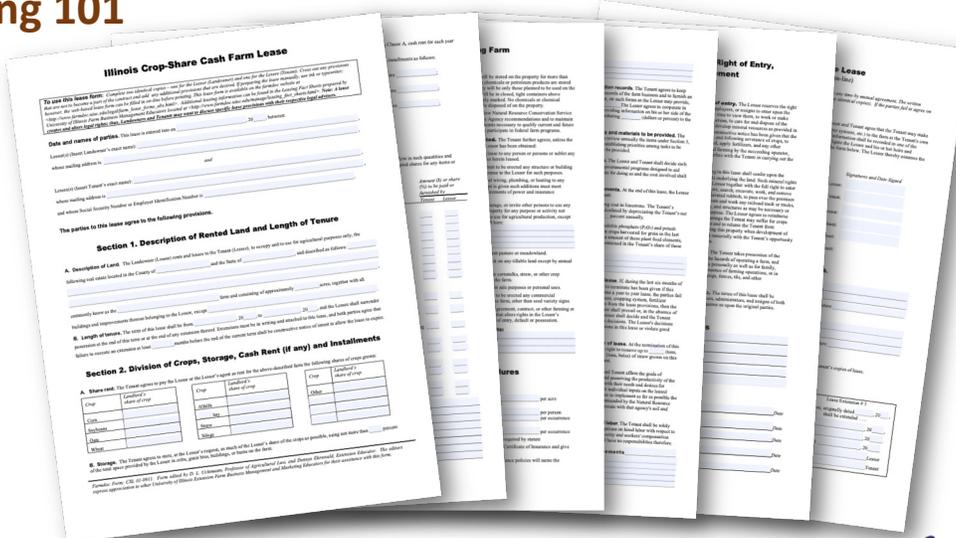
Operator and Land Returns (Bars) and Cash Rent Northern Illinois



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Part 2: Farm Leases Basics

Leasing 101



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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.



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Farm Lease Basics: **Generally**

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.



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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



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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.



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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.



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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



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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



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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



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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



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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



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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).



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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:

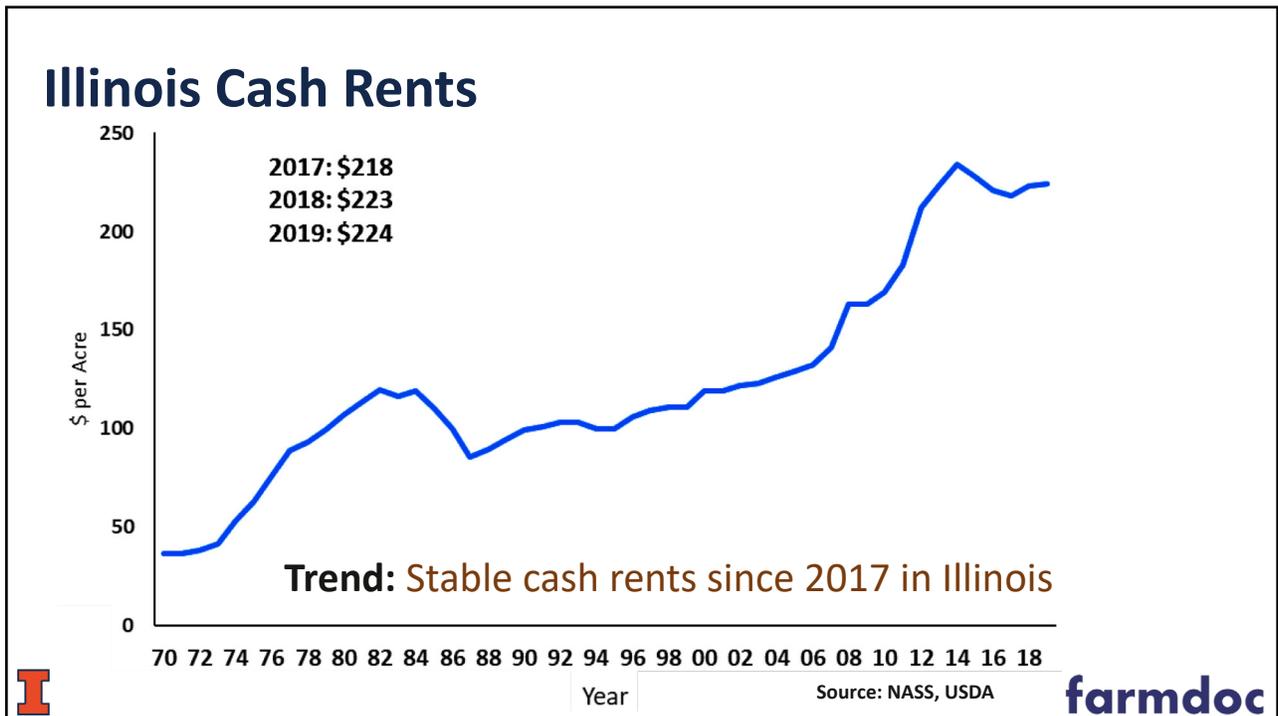
good husbandry (weeds?); soil improvements; carryover on terminated lease?



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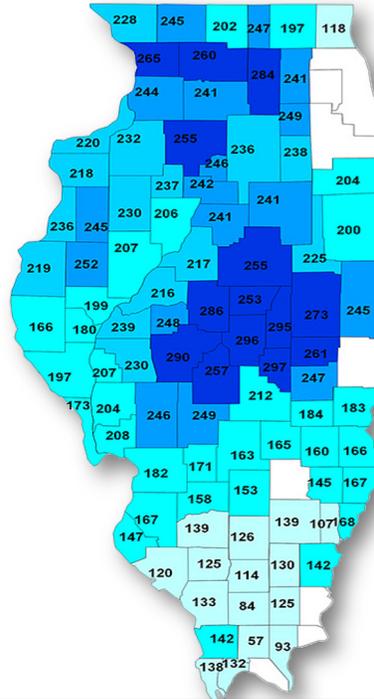


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Average Cash Rents in Illinois from NASS for 2019

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



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Illinois Society of Professional Farm Managers and Rural Appraisers indicate very slight decreases in 2020 cash rents

Land Productivity	Rent in \$/acre	
	Actual 2019 Rent	Expected 2020 Rent
Excellent	302	298
Good	261	254
Average	212	205
Fair	170	167

Values represent rents on professionally managed farmland

Agricultural returns suggests lower cash rents, but cash rents are sticky



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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>

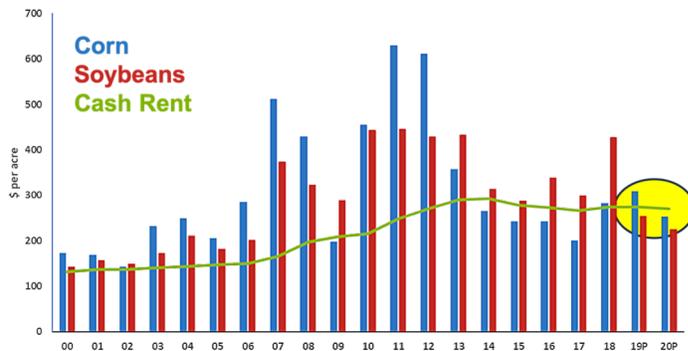


Table 1. Crop Reporting District (CRD) Adjustment Factors

CRD and Counties	CRD Adjustment
Northwest (Bureau, Carroll, Henry, Jo Davies, Lee, Mercer, Ogle, Putnam, Rock Island, Stephenson, Whiteside, Winnebago)	42
Northeast (Boone, Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, LaSalle, McHenry, Will)	23
West (Adams, Brown, Fulton, Hancock, Henderson, Knox, McDonough, Schuler, Warren)	42
Central (Dewitt, Logan, Macon, Marshall, Mason, McLean, Menard, Peoria, Stark, Tazewell, Woodford)	37
East (Champaign, Ford, Iroquois, Kankakee, Livingston, Piatt, Vermillion)	26
West Southwest (Bond, Calhoun, Cass, Christian, Greene, Jersey, Macoupin, Madison, Montgomery, Morgan, Pike, Sangamon, Scott)	55
East Southeast (Clark, Clay, Cumberland, Crawford, Coles, Douglas, Edgar, Effingham, Fayette, Jasper, Lawrence, Marion, Moultrie, Shelby, Richland)	27
Southwest (Alexander, Clinton, Jackson, Johnson, Monroe, Perry, Pulaski, Randolph, St. Clair, Union, Washington, Williamson)	-2
Southeast (Edwards, Franklin, Gallatin, Hamilton, Hardin, Jefferson, Massac, Pope, Saline, Wabash, Wayne, White)	0

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Operator and Land Return for Corn and Soybeans and Cash Rent, Central Illinois, High-Productivity Farmland



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

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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

Yield = 210 bushels per acre, **Price = \$3.60**, **Rent factor = .33**,
Rent = 210 x \$3.60 x .33 = \$250 (Higher than \$200, \$50 plus)



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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

Land Owned and Rented, Grain Farms in Illinois FBFM, 2018

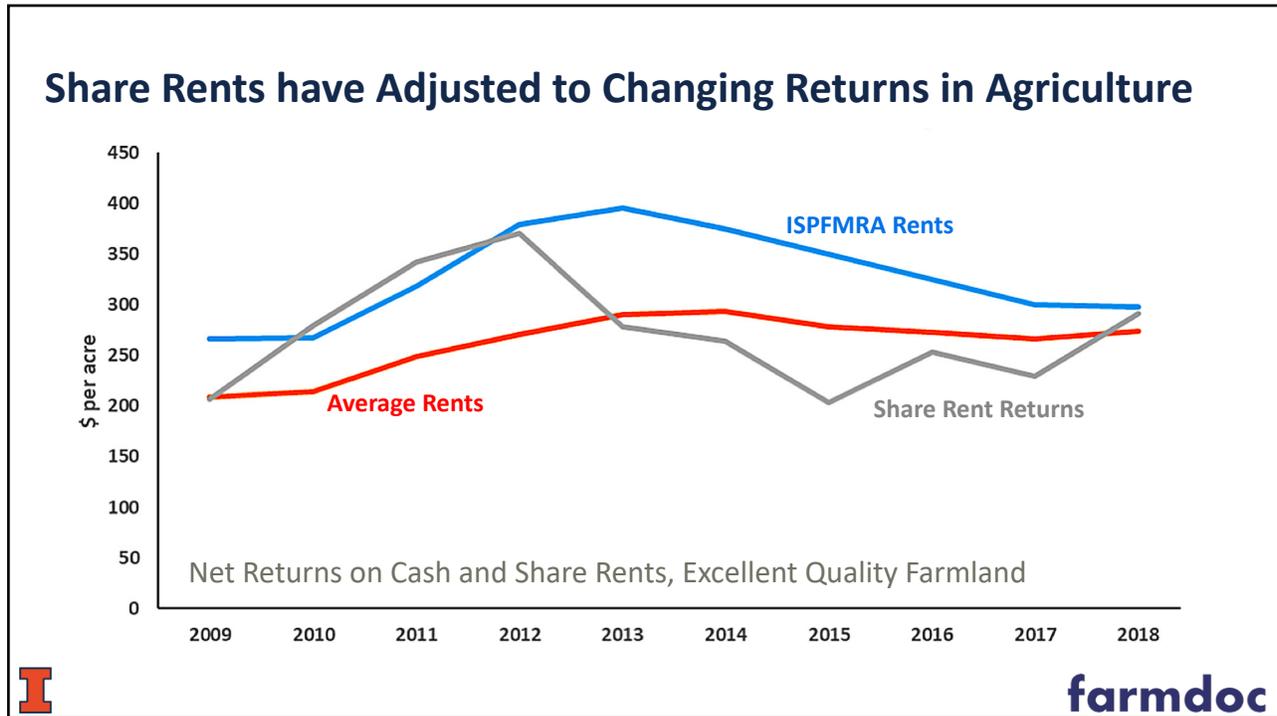
	Northern	Central	Southern
Owned	19%	15%	24%
Share-rent	21%	42%	36%
Cash-rent	60%	43%	40%



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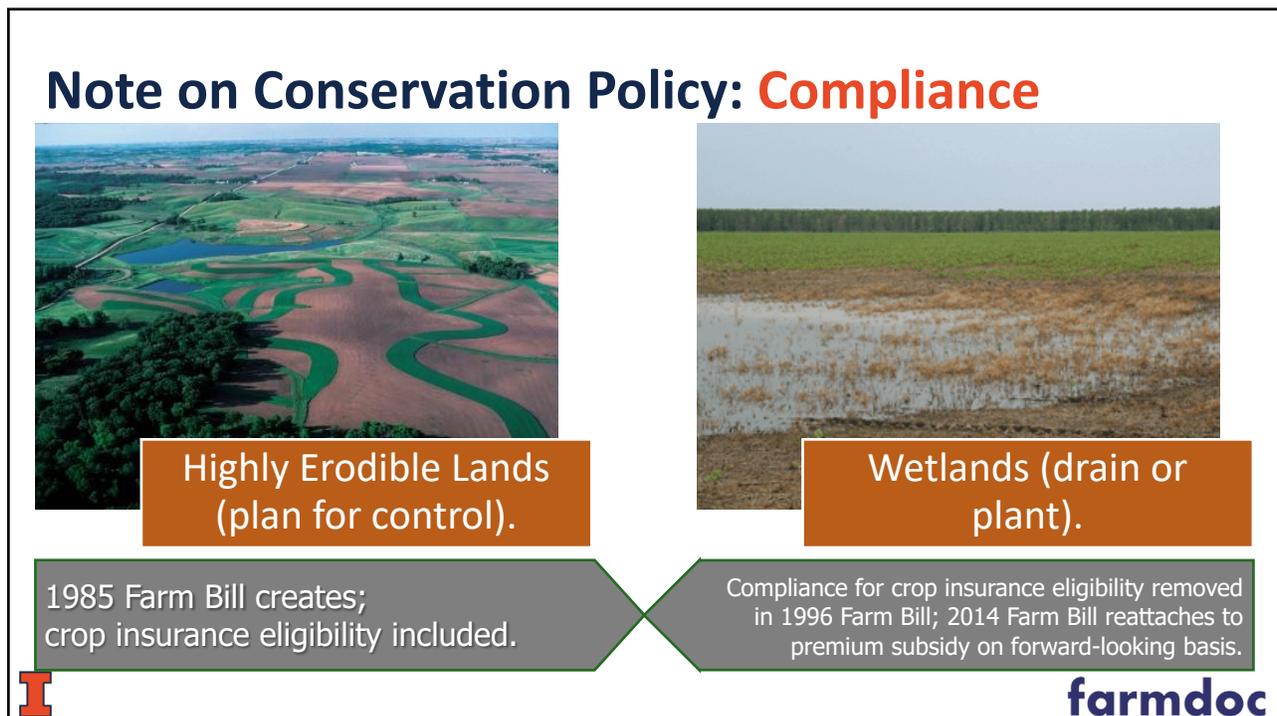
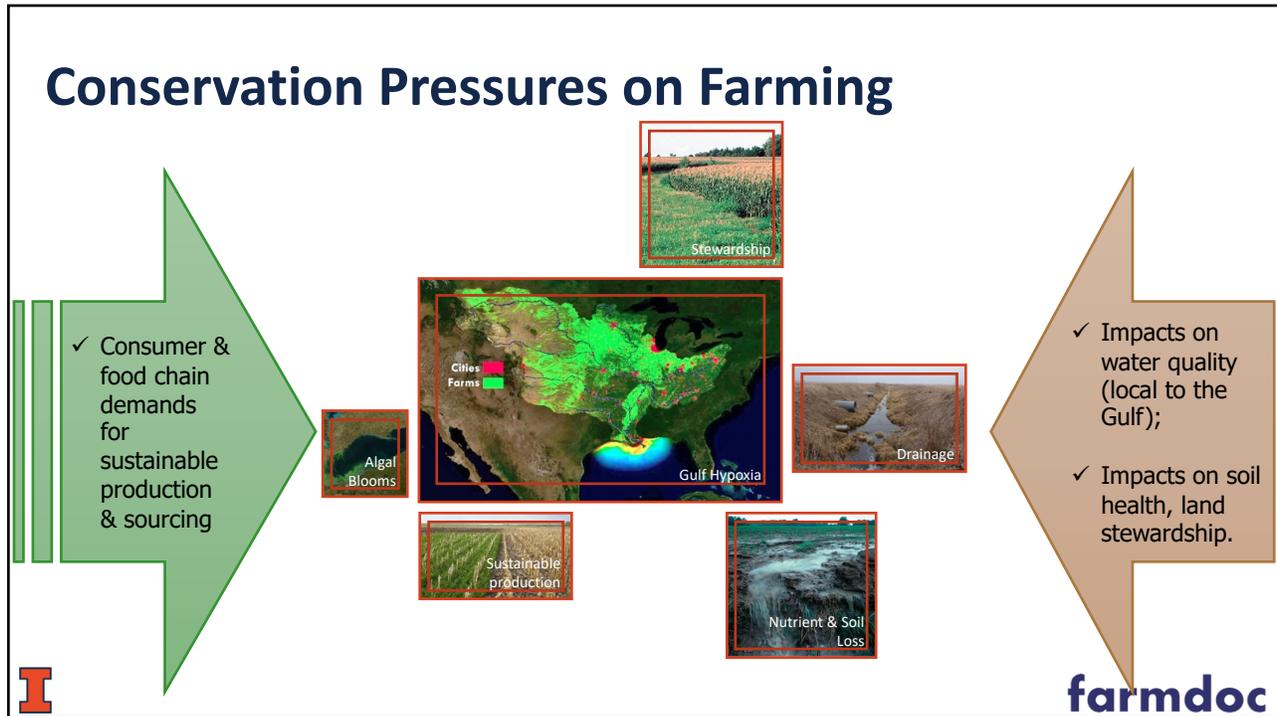
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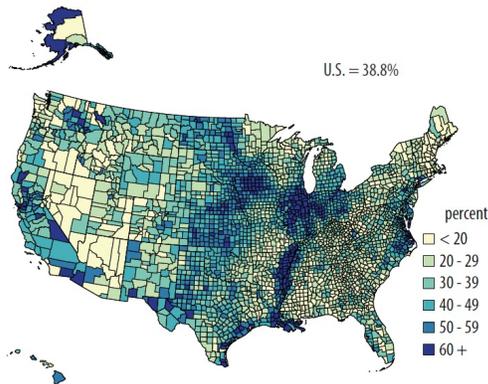


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Farm Lease Overview

Fig. 5
Percent of U.S. Farmland Rented or Leased, by County, 2012



Source: USDA NASS, 2012 Census of Agriculture.



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- 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 Contract

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."



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Nutrient Management Addendum

Addresses issues with how the farmer/tenant applies fertilizer to the leased farm fields and manages soil fertility.

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).

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.



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Soil Health Addendum

Farm practices such as tillage (reduced, conservation or no-till) and cover cropping can build soil health.

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.

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.



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Conservation
Habitat
Addendum.

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

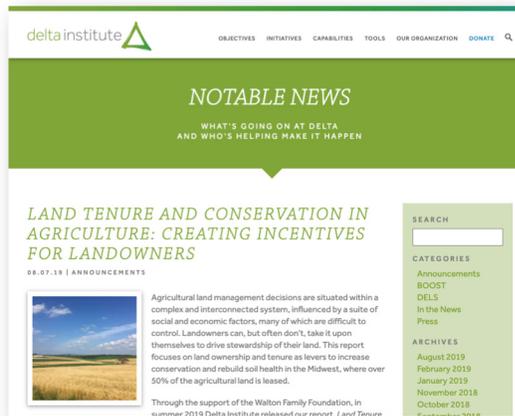
Issues for discussion and inclusion:
establishment, maintenance, Integrated Pest Management, etc.

Adjustments to rent; addressing repairs or replacement issues.



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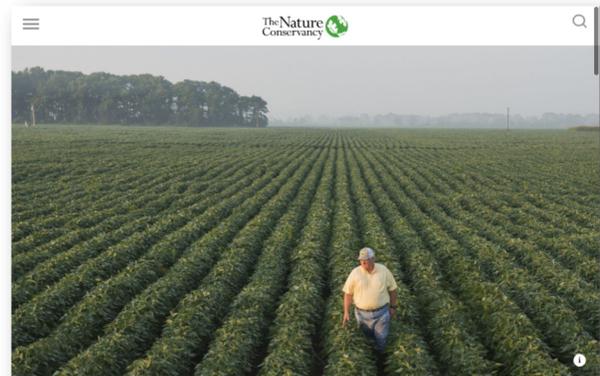
Other Resources



<https://delta-institute.org/2019/08/land-tenure-and-conservation-in-agriculture-creating-incentives-for-landowners/>

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



<https://www.nature.org/en-us/what-we-do/our-priorities/provide-food-and-water-sustainably/food-and-water-stories/ensure-your-farmlands-sustainability/>



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