Kevin & Lisa Martin – Farm Operator Background

Kevin Martin thought he wanted to teach and he taught middle school math in northeast Iowa for ten years. In 2003 Kevin got the opportunity to farm with his father-in-law Larry Lawrence in central Iowa. Kevin’s wife, Lisa, had grown up on the farm, and she wanted to raise their children there. As a nurse, Lisa was confident she could get a position wherever they went.

So, when Kevin and Lisa were both 32, they moved to central Iowa and started farming the Lawrence family’s 650 acres on shares in 2003. Kevin was able to cash rent a quarter from a neighbor in 2004. In 2005, Kevin and Lisa bought a quarter section and found another quarter section to lease on shares. In 2006, Kevin got the opportunity to cash rent two quarters from Donna Williams, a widow in the area. When the “Golden Age of Agriculture” started, Kevin was farming 1,450 acres.

The 480 acres of cash rented land got more expensive from 2006 to 2013. The rent has decreased for the past three years. The land purchase in 2005 has been working well. The crop-share leases have worked well too. The share lease landowners have been grumbling lately with the lower crop prices. Kevin feels bad as he’s watched his in-laws receive less as well.

Kevin was jarred by the unexpected passing of Donna Williams in 2013. Donna’s children, Susie and Sam, each inherited a quarter of farmland. Susie and Sam have different goals. It hasn’t been easy for Kevin to get the cash rent decreased on their land. Both Lisa and Kevin are concerned about the losses he’s accumulated on the cash lease land. Kevin is wondering how farmers made it through the 1990’s with $2 corn and 4% higher interest rates.

Current Situation

Kevin and Lisa are now well into their 40s with three children. In the last two years, Kevin realized that he has enough equipment to farm more acres. He wonders whether he can get more land to fully utilize his equipment or if he needs to sell a tractor. Kevin does not have an off-farm job. They were doing well financially between Lisa’s nursing and his farming.

For the 2017 crop year, Kevin is pretty sure Susie and Same will go in different directions due to their different goals. Susie visited with Lisa about the health impacts of some of Kevin’s choices on fertilizer and pesticide use. Sam asked him how land sales were going in the area.

Kevin knows he needs to find answers to some questions before negotiating with Susie and Samuel.

1) What cash rent can I afford to pay for each of their places in 2017?

2) If I lose Samuel’s quarter, can I sell the tractor? Will I have to?

3) What will it cost to put in cover crops, and can I generate income off that?

4) Would I be financially ahead by letting some land go?

What other questions do you think Kevin needs to ask?
Susie and Sam – Farmland Owner Background

Susie and Sam are brother and sister. Susie is 58 and Sam is 55. They each inherited a quarter section of land from their mother Donna Williams when she passed away in 2013. Their mother had Kevin as a tenant for ten years. Susie and Sam chose to continue renting their land to Kevin. Now that the estate is fully settled and they’ve seen two years of declining cash rental rates, they’re assessing their relationship with Kevin and the rental rate.

Susie

Susie is a teacher. She lives in Denver with her husband who is also a teacher. They are supporters of the local foods movement in their area. Susie and her husband have been researching the impacts of current agricultural practices on soil and water quality. They’ve had several discussions with Kevin about tillage and pesticide use. They’ve indicated flexibility on the rental rate based on changes to some of his practices.

Current Situation

Susie and her husband are considering early retirement. They want to establish a baseline for how much the farm will contribute to her income stream through time.

Susie knows she needs to find answers to her questions before continuing to reduce the cash rent at the rate Kevin’s asking.

1) Is Kevin the best tenant for this farm?

2) What are other tenants willing to pay?

3) How much of a cash rental rate discount is Susie willing to take to require cover crops and no-till?

What other questions do you think Susie needs to ask?

Samuel

Samuel is a software engineer. He lives in Seattle. As the estate settlement progressed, he became concerned that his mother’s $9,877/acre land was renting for $297/acre. Then he learned that was only on the crop acres – not the whole parcel. Land values and cash rents haven’t been moving in the right direction. As he read about the recent “Golden Age of Agriculture” he wondered how it would look moving forward.

<table>
<thead>
<tr>
<th>Year</th>
<th>Land Value per acre</th>
<th>Cash Rent per acre</th>
<th>Rate of Return</th>
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</thead>
<tbody>
<tr>
<td>2013</td>
<td>$9,877</td>
<td>$297</td>
<td>3.01%</td>
</tr>
<tr>
<td>2014</td>
<td>$9,087</td>
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</tr>
<tr>
<td>2015</td>
<td>$8,505</td>
<td>$261</td>
<td>3.07%</td>
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<tr>
<td>2016</td>
<td>$8,003 (est)</td>
<td>$239</td>
<td>2.99%</td>
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</tbody>
</table>

Samuel needs to find answers to his questions before continuing to reduce the cash rent at the rate Kevin’s asking.

1) Why don’t I sell the land and invest the $1.3 million elsewhere?

2) Will Kevin agree to a multiple year lease at the current rate?

3) If my net worth has declined by $173,407 by holding on to this land, how much longer can I do that?

What other questions do you think Samuel needs to ask?