



# Ag Decision Maker



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## Cash rent increases: When is the right time to give up a lease?

By Tina Barrett, executive director, Nebraska Farm Business, Inc., 402-464-6324, tbarrett2@unl.edu

There has been considerable talk for many years about the increases in cash rent. Figure 1 shows the data collected by Nebraska Farm Business, Inc. (NFBI) for the average cash rent paid in the prior 10 years. The average cost has doubled from \$127.71 in 2005 to \$258.11 in 2014 (peak of \$274.74 in 2013).

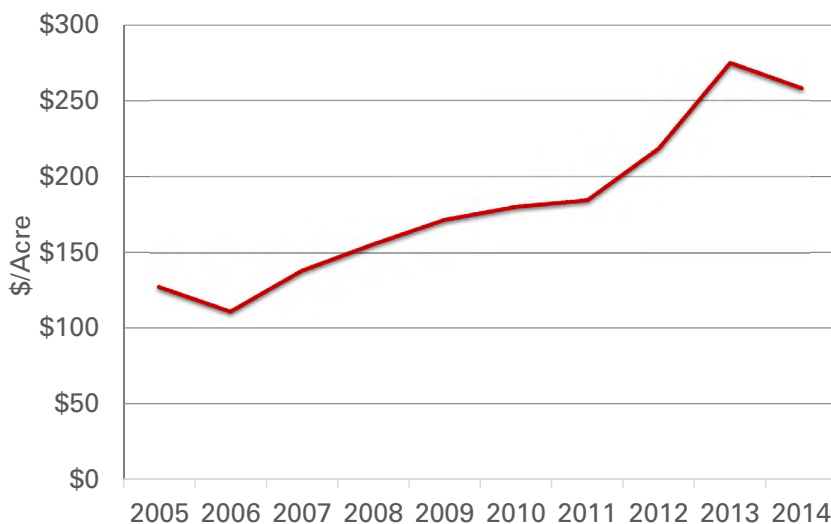
The cost now accounts for 31 percent of the total cost of growing irrigated corn. It's no wonder that in times of narrowing margins, producers are considering ways to reduce this major expense.

Unfortunately, reducing cash rent isn't a one-sided story. Landowners have seen their

own rapidly increasing costs. The average personal property and real estate taxes paid per acre has also been increasing.

*continued on page 2*

Figure 1. Irrigated corn cash rent per acre (Nebraska)



### Handbook updates

For those of you subscribing to the handbook, the following new updates are included.

Historic County Cropland Rental Rates – C2-11 (10 pages)

Table of Contents – C6-00 (1 page)

Storage Capacity for Grains, Forages and Liquids – C6-82 (2 pages)

Agricultural Test Weights and Conversion – C6-84 (5 pages)

Please add these files to your handbook and remove the out-of-date material.

*continued on page 6*

### Inside . . .

Watch demand and basis .....  
..... Page 3

Cash rent increases: When is the right time to give up a lease?, continued from page 1

In the same 10 year period, this cost has also increased from \$29.22 to \$55.71. Unlike cash rent, the cost for 2015 will certainly be another significant increase. Although this increase has only been \$30 per acre versus a \$125 per acre increase in rents, it's not fair to discuss cash rents without discussing the increases in landlord costs.

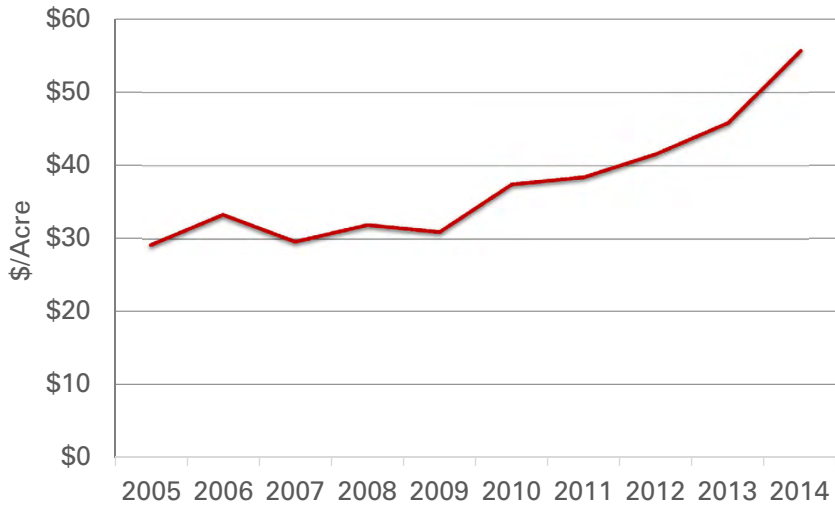
So the question remains: what to do with high cash rents. It seems many tenants feel they are stuck between a rock and a hard place. It's hardly anyone's desire to work all year knowing you will lose money, but giving up land is a long-term and often emotional decision.

Table 1 shows the average of the one-third of farms included in the NFBI averages with the lowest net return. If we assume these are the projected costs for an operation for 2015, we can talk about the decisions of whether or not it's time to give up a cash rent lease.

There are three types of expenses listed.

- **Direct expenses** (variable) are those that are directly tied to the production: seed, chemicals, fuel, irrigation fuel, etc. These costs would not be part of your operation if you didn't farm these acres.
- **Overhead expenses** (fixed) are those expenses that don't go away (or increase) with a change in acres. Things such as farm insurance, utilities (outside of irrigation), depreciation of equipment, building repairs, etc., are included in overhead expenses.
- **Family living expenses** are non-farm costs that must be covered by farm income. These expenses include food, clothing, health insurance, home rent/repairs, etc.

**Figure 2. Irrigated Corn, Owned: Real Estate & Personal Property Taxes Per Acre (Nebraska)**



**Table 1. Average costs/returns from one-third of Nebraska Farm Business, Inc. operations with lowest net returns per acre.**

Gross income	\$819.36
Direct expenses	\$863.08
Return over direct	-\$43.72
Overhead expenses	\$75.32
Net return	-\$119.04
Family living	\$55.02
Net return over all costs	-\$174.06

In an ideal, long-term situation there would be enough gross income to cover all expenses. This is certainly the situation we've had in the previous 8-10 years. It's hard to realize that in some situations you are going to have to accept less. So how do you make the decision?

If, at any time, your net return over all expenses is negative, it's important to back up and see where you have a profit. If you have a positive net return before family living, you are making money farming, but not more than you are spending to live. There are two ways to fix that problem.

Cash rent increases: When is the right time to give up a lease?, continued from page 2

1) You spend less for family living or subsidize your farm income with non-farm income to lower the amount that must come from the farm. You can continue to operate in the short term with a negative net return overall costs, but eventually without adjustment, it will cause you to lose enough net worth to put an end to your business.

2) If your net return before family living is negative, step back again and see if you have a positive income over direct expenses. If this is positive, you are better off continuing to farm that land in the short term. This means that you are making enough gross income to cover the direct expenses and contribute to overhead expenses. Remember, those overhead expenses won't go away if you don't farm that particular piece of land so any contribution to those expenses is better than nothing.

Let's go back to the table with returns from the low one-third producers. If this was your projection, you would have a tough decision. Economics would say you are better off not farming this piece of land. The return over direct expenses is -\$43.72 so you would make more money to not farm it for another year.

The reality is that this decision can't be just about the numbers. The likelihood of ever having the opportunity to farm that land again once you give it up is slim. It is also tough to find additional land to farm when the markets turn around. The scarcity of the income producing resource (the land) makes the decision to give up high cash rent extremely tough. Knowing that a weather scare, a disaster in another area of the Midwest, or even major legislation could change this outlook in an instant gives validity to continuing to pay higher cash rent than what will actually earn. It's also important to remember that giving up the land may reduce your risk, but it also cuts your opportunity to make money.

The final decision as to whether you should continue the high risk lease may come down to the overall financial health of your business. If the operation is highly leveraged and has a significant amount of acres of high rent land, the tough decision will have to be made sooner than an operation with low debt and only a few acres of high cash rents. It's also going to be easier for an operator with plenty of net worth built up to continue in this situation rather than a young or beginning farmer who doesn't have years of profits to fall back on. In any case, high cash leases shouldn't be given up as a knee-jerk reaction to tight margins, but only with consideration of net return, overall financial health and long-term outlook of the operation.

*Tina Barrett is the Executive Director of Nebraska Farm Business, Inc. Her focus is working with Nebraska farms and ranches to use financial analysis to improve profitability.*

*The points covered in this article can be applied for all farmland. To find information on Iowa farm costs, visit the Ag Decision Maker resources listed below.*

AgDM File A1-20, [Estimated Cost of Crop Production](#)

AgDM File C2-11, [Historic County Cash Rental Rates](#)

AgDM File C1-10, [Farm Costs and Returns](#)



## Watch demand and basis

By Steven D. Johnson, PhD, farm management specialist, 515-957-5790, sdjohns@iastate.edu

Futures prices have fallen back to mid-June levels, prior to weather concerns that drove prices higher. If you missed the summer rally, marketing corn and soybeans promises to be a challenge. While US corn production this year is estimated by USDA to be the third largest on record at 13.686 billion bushels, soybean production at 3.916 billion bushels is estimated nearly as large as last year's record crop.

### Demand is critical

Demand for both US corn and soybeans has already become a key driver for futures prices. According to the USDA World Agricultural and Supply Estimates (WASDE) report for the 2015-16 marketing year, demand for corn is expected to increase slightly to 13.775 billion bushels and the midpoint national average cash price is projected at \$3.65 per bushel.

Corn demand for feed and exports remains identical to the 2014-15 marketing year, while ethanol production increases by 50 million bushels. Soybean demand for feed increases slightly by 15 million bushels, but exports decline by 100 million bushels.

Soybean demand is expected to decline slightly to 3.717 billion bushels and the midpoint national average cash price is projected to be \$9.15 per bushel.

Concerns about demand for both corn and soybeans may stem from two different sources. The first is that exports of US corn will fall short of the current USDA projection of 1.85 billion bushels. The second concern is about weak commodity demand resulting from slow global economic growth and severe weakness in financial markets. A weakening demand implies that a lower cash price will be required to entice an increase in consumption.

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When we do get futures and/or cash price rallies, they will likely be short-lived.

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As a result, cash pricing opportunities will be limited heading into harvest. New-crop corn prices in central Iowa are in the \$3 to \$3.50 range, while cash prices for soybeans are in the \$8 to \$9 range. Prepare now for harvest as most of Iowa crops appear to be large and near normal for maturity.

### Be ready to go

On-farm storage should already have been emptied to store 2015 crops. When we do get futures and/or cash price rallies, they will likely be short-lived. Farmers should be ready to pounce should an attractive basis bid be offered. Basis is the difference between the local cash price minus the nearby futures price. In marketing crops, farmers can make marketing decisions that target the futures price alone (a hedge-to-arrive contract), or the basis alone (a basis contract) or the combination of the two prices.

Should we get into delayed harvest conditions due to weather, watch for localized basis plays as many processors will be geared up for a steady flow of bushels during harvest. Delivering corn bushels during harvest might avoid the fixed costs associated with drying, shrink and then storing those bushels.

### Sell corn for cash?

Compare cash corn sales with a moisture discount. ISU Extension has developed an online decision tool to compare selling your corn at harvest versus the shrink loss, drying and storage costs you would incur by drying and storing corn.

Watch demand and basis, continued from page 4

Using the Ag Decision Maker Decision Tool A2-32, [Corn Drying and Shrink Comparison](#), plug in your own information and assumptions. Here's how it works.

**Step 1** – Variable cost estimate for on-farm drying: Choose a drying system and input your variable costs. Those are propane, electricity, drying time labor, drying capacity, average points of moisture removed per bushel, total bushels per year and total investment in drying system.

**Step 2** – Yield and moisture projections for unharvested corn: Input your own decisions regarding acres harvested, wet gross bushels yield, corn moisture in field, days before harvesting and expected cash grain price at harvest.

**Step 3** – Compare your grain sale alternatives at harvest: You can 1) Sell wet corn and incur a moisture discount; 2) Dry the grain commercially and then sell; 3) Dry it on-farm and sell it.

**Step 4** – Input your own final moisture level for commercial sale, moisture discount for wet corn sale, commercial drying charge and shrink factor. You might want to consider additional on-farm costs for drying and hauling.

**Step 5** – Input your own sales alternatives for after storage. This includes the number of months grain will be stored, cash price paid after storage, moisture level for storage, minimum charge for commercial storage, base rate in months, monthly minimum charge commercial storage after minimum, quality deterioration on-farm storage, fans, electricity and labor on-farm storage and short-term interest rates.



Use the online Decision Tool to compare selling your corn at harvest versus the shrink loss, drying and storage costs you would incur by drying and storing corn.

The information files (pdfs) and decision tools (Excel spreadsheets) for grain drying, shrink and storage were developed by retired Iowa State Economics Professor William Edwards and are posted on the Ag Decision Maker website at:

AgDM File A2-31, [Estimating the Cost for Drying Corn](#)

AgDM File A2-32, [Corn Drying and Shrink Comparison](#)

AgDM File A2-33, [Cost of Storing Grain](#)



Updates, continued from page 1

**Internet Updates**

The following Information Files and Decision Tools have been updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

Iowa Farm Lease Form – C2-12 (11 pages)

Estimated Storage Capacity for Grains and Forages – C6-82 (Decision Tool)

2014 Projected ARC Payments – A1-32 (Decision Tool)

2015 Projected ARC Payments – A1-32 (Decision Tool)

**Current Profitability**

The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://www.extension.iastate.edu/agdm/info/outlook.html).

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15



**it's a lifestyle.**

**National Farm Safety & Health Week  
September 20-26, 2015**

**Serious injuries and death can be prevented by**

- cautiously approaching field adjustments or repairs,
- taking precautions to avoid slips and falls,
- making smart decisions while assigning tasks to youth,
- using and maintaining the slow moving vehicle emblem SMV correctly, and
- retrofitting tractors with rollover structures (ROPS).

**... and justice for all**

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