

# AgriCulture

ENHANCING FARMLAND OWNERSHIP

## Flexible Cash RENT LEASES



James W. Schroeder,  
AFM Vice President

### Gaining Acceptance

Lease terms are changing rapidly. In the past, the overwhelmingly popular lease standard was the 50/50 crop share lease. Gradually, the trend began to swing toward cash rent leases. The past couple of years, flexible cash rents have become increasingly popular.

The reason for the gaining acceptance of flexible cash rent leases has been the extreme variability in grain prices and expenses, resulting in wide swings in net farm income. During 2008, the price of corn varied from less than \$3.00 per bushel to over \$7.00 per bushel. Fertilizer costs increased from \$122 to \$230 per acre of corn.

These factors had a dramatic impact on a farm's profitability and, thereby, appropriate lease terms. With the wildly changing economy of farming, a cash rent that met the landowner and tenant's needs one year, might severely tilt the balance toward one of the parties in subsequent years.

The flexible cash rent lease can be designed in any number of different ways. These leases can be very aggressive in maximizing the return to landowner, or providing tenant profitability in all but extreme economic circumstances. Most flexible cash rent leases are designed to provide a landowner an acceptable base cash rent, with the potential of sharing in additional income during the good times.

### Designing a Flexible Cash Rent Lease

When we design a flexible cash rent lease, we project average gross farm income. We use the farm's actual trend line yield and project grain prices. Farm expenses are also estimated. Gross income and ex-

pense estimates allow us to project a tenant farmer's net income before lease payments.

We then discuss the projected net farm income with the landowner and compare it to the range of traditional cash rents and returns to crop share leases. The owner informs us of his or her goals and objectives. Some have goals to maximize their potential net income to their farmland investment. Other owners prefer to insure, under average conditions, the tenant make at least a certain amount of net income over the base cash rent payment and prior to the bonus going into effect.

### An example of a simple flexible cash rent lease:

Base rent = \$230/acre

Bonus clause = actual farm yield x avg price (ex. Jan 1 - Dec 1 at local elevator) x 33% - base rent

Example = 190 bu/acre x \$4.00/bu x 33% = \$253/acre - \$230/acre base rent = \$23/acre bonus rent

### Other lease terms

We require the tenant apply and pay for fertilizer and limestone in quantities that will maintain soil fertility at optimum yield potential. We require Farm Service Agency planted acreage information and grain elevator harvest delivery sheets, thereby tracking final yield per acre. We calculate the average price for that year's crop at the local elevator.

### Flex cash rent leases share in risk and reward with tenant

Advantages to owner over average traditional cash rent:

- Guaranteed base income
- Higher income in years of higher profitability

Disadvantages to owner:

- Lower guaranteed income
- Lower income in years of lower profitability

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## *Obama Administration* AFFIRMS SUPPORT FOR ETHANOL

Archer Daniels Midland Company (NYSE: ADM) Chairman and CEO Patricia Woertz offered the following comment on the Obama Administration's proposed rulemaking and other comments regarding the Renewable Fuel Standard:

"On May 5, the Obama Administration made clear that ethanol and biofuels will continue to be an important part of America's fuel supply. By reaffirming the role biofuels will play in our energy future, the Administration provided the direction and policy consistency the industry needs to continue vital investments in infrastructure, capacity and technology.

"Two years ago, Congress passed the Energy Independence and Security Act of 2007, which expanded an existing Renewable Fuel Standard (RFS) — the guideline that mandates the use of ethanol and other biofuels in the U.S. fuel supply. On May 5, in accordance with the Act, the EPA put forth a proposed rule that would determine how the environmental impacts of biofuels will be calculated.

"The proposed rule is an important step toward the implementation of the expanded RFS — which will increase the ethanol mandate from 10.5 billion gallons today to 12 billion gallons in 2010, and 15 billion gallons in 2015.

"To help meet this expanded demand, ADM continues our construction of large, highly efficient ethanol plants in Cedar Rapids, Iowa, and Columbus, Nebraska. Each plant is permitted to 400 million gallons per year; we are currently building each to 275 million gallons per year.

"In addition to its support for traditional corn-based ethanol, the Administration clearly envisions a biofuels future that continues to rely on corn. Beyond the 15 billion gallons mandated in 2015, the RFS calls for adoption of advanced biofuels. Of the 16 billion gallons of cellulosic biofuel mandated by 2022, the government estimates that nearly half of this production will come from corn stover — the stalks and leaves left behind when corn is harvested. In the coming months, ADM expects to make a final technology decision regarding a pilot plant that will convert corn stover into a renewable biocrude that can be processed into gasoline in a traditional petroleum refinery.

"As the EPA's rulemaking process moves forward, we will be working to help ensure that the agency's formula for calculating indirect land use change — which estimates biofuels' impact on conversion of nonfarm land into farm land — is based on sound science. The concept of indirect land use change is quite new and

rather imprecise, so we hope the Administration will move carefully as it determines whether and how to use it in environmental impact calculations.

"In addition to the proposed rule, the Administration demonstrated its commitment to biofuels as Agriculture Secretary Tom Vilsack and Energy Secretary Stephen Chu laid out more than \$1.8 billion in government investments to help advance homegrown, renewable fuels.

"Two years ago, Congress worked in a thoughtful and bipartisan manner when they passed the Energy Independence and Security Act of 2007. It is because of that deliberate effort that President Obama can continue to support the RFS as a cornerstone of America's energy policy.

"Biofuels are good for the environment, for energy security and for the American economy. We at ADM are proud of the role that our current ethanol and biodiesel, as well as our advanced biofuels will play in America's and the world's energy future."

## *Farmland Values* REMAIN SOLID



**Seth Baker,**  
AFM, State Certified  
General Appraiser

Since 2003, productive farmland in the Midwest has more than doubled in value. The first half of 2008, land prices again increased on the continued strength of commodity prices.

Increases of 10-20% were seen in the spring, with a second increase of 10-15% in the late summer/early fall time frame.

In October, 2008, the overall U.S. and world economy changed, affecting a wide range of investment instruments. This economic situation also caused a down turn in overall commodity prices. After a peak in farmland values in late summer 2008, we saw a quick price reduction of 5-10% in the November-December time frame. This down turn can be attributed to the uncertainty of the overall US economy and prospects for the future.

Sales in early 2009 indicate a reversal of the declines of November and December with an increase of 5% from the beginning of the year. There appears to be strong interest in farmland due to the perceived lack of other quality investments. Farmland has followed inflation in the past and investors appear to perceive it to be a good inflation hedge for the future.

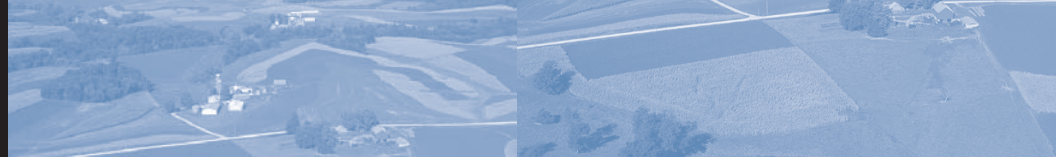
The overall result is that farmland over the past twelve months has remained steady, although there have been some swings in valuation in that time frame. Only time will tell for sure, but it appears that farmland will continue to be a steady and secure investment into the future.

Please feel free to contact us regarding the purchase or sale of farmland.

## *Flexible Cash* RENT LEASES

Recently, gross income, expenses and cash rent levels have varied dramatically. We feel it is important to keep up to-date with these trends so your lease can accurately reflect your goals and objectives.

Please feel free to contact us regarding any questions you may have on flexible cash rent leases and our assistance in farm management. We can also discuss all variations of leases from traditional cash rent, crop share, with bonuses and custom farming arrangements. Today's leases are custom designed using each farm's distinct characteristics and the owner's goals and objectives.



Offered through Schroeder/Huber LLC Real Estate Broker; Services not offered through Hickory Point Bank & Trust, fsb

Contact Bruce Huber, Broker for this and other area listings: 217 872-6291 Office | 217 521-3537 Mobile | Bruce.Huber@adm.com



**FARM FOR SALE**

***Koomar Farm***

**57.26 acres**

**Macon County, IL**

**\$469,532**

**(\$8,200 per acre)**

This property is located one-half mile southeast of Mt. Zion, IL.

*For more photos, please visit [www.SchroederHuber.com](http://www.SchroederHuber.com)*



**JOIN OUR EMAIL ALERT**

Have you had the opportunity to visit our farmland sales listings online at [www.SchroederHuber.com](http://www.SchroederHuber.com)? We display all of our current listings and information regarding each farm as soon as it is available. Would you like to be notified if a new listing is added? Join our new e-mail alert list and you will receive an e-mail notification and link to any new listing posted on SchroederHuber.com. Simply e-mail your e-mail address and counties you are interested in (or just say "all") to [Seth.Baker@adm.com](mailto:Seth.Baker@adm.com) to be included. We will not use your e-mail address for any other purpose than sending out the new listing notice.

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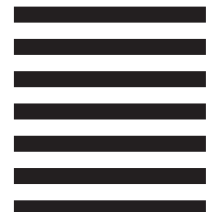


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Trust and Investment Management

Located in the heart of some of the most productive land in America, Hickory Point Bank & Trust Agricultural Services staff combines over 100 years of experience in farm management, real estate sales & purchases, rural appraisals and consulting.

### Northern Region – Jim Schroeder, Bruce Huber, Seth Baker

225 North Water Street ▪ Box 2548 ▪ Decatur, IL 62525-2548 ▪ T 217.875.3131

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[www.hpbAgServices.com](http://www.hpbAgServices.com)

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