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## Leasing issues and rental rates for 2013

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# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Leasing issues and rental rates for 2013

*by Kelvin Leibold, extension farm management specialist, 641-648-4850, kleibold@iastate.edu*

In May's Ag Decision Maker newsletter, an article reviewed the 2012 leasing rental rates, which showed continued strength in the rental markets. The article provided highlights from Information File C2-10, 2012 Iowa Cash Rental Rate Survey, which is available on the Ag Decision Maker website or at county extension offices. Where might rental rates be headed this coming year and are there any new issues to look at?

When landlords and tenants establish rental rates they often look at the following: what others are paying, average crop yields, Corn Suitability Rating Index, share of the gross crop value, the return on investment, percentage of the crop and the tenant's residual. Next year's rents may be influenced by the drought of 2012. In recent years the tenant's residual has received a lot of scrutiny.

For more information on the methods listed, read Information File C2-20, Computing a Crop-land Cash Rental Rate on calculating rental rates. A Decision Tool for analyzing the different methods is also available.

#### Tenant's residual method

When people use the tenant's residual method they need to look at the potential range of outcomes. The volatility in yields has increased as weather patterns have become more variable. The volatility in prices has increased with exports, new uses for commodities such as ethanol, increased production in other countries and more world trade. Government programs, including crop insurance, have helped to stabilize some of this volatility but not to the extent that we saw in previous Farm Bills. Revenues can change by hundreds of dollars per acre in a matter of a few days.

#### Costs of production

Two producers with similar costs of production can have *continued on page 2*

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

**Historic Costs of Crop Production** – A1-21 (2 pages)

**Corn Price Basis** – A2-41 (11 pages)

**Soybean Price Basis** – A2-42 (11 pages)

Please add these files to your handbook and remove the out-of-date material. *continued on page 6*

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significantly different gross revenues due to marketing, crop insurance and government payments. For recent trends in grain prices, you can refer to Information File A2-11, Cash Corn and Soybean Prices, which gives monthly prices for Iowa. The Season Average Price Calculator is another resource. The associated Decision Tool allows you to estimate future corn prices for the current crop year; just click on the calculator in the upper right corner of the screen to download the interactive spreadsheet. When adjusted for basis the CME Commodity Prices (<http://www.cmegroup.com/trading/agricultural/>) will give you an idea of what the market thinks future prices will be.

### **Crop production budgets**

Information File A1-20, Estimated Costs of Crop Production, takes you to the various crop production budgets. These are the 2012 budgets, but they will be updated in the coming months to estimate what 2013 budgets will be. If you want to enter your own data and look at the combined economics of crop rotations go to Decision Tool, Crop Rotation Summary.

The costs to watch in the coming season include seed and fertilizer. High grain prices along with production problems related to the drought will allow the seed industry to increase seed costs. The fertilizer industry is seeing increased worldwide demand with some governments subsidizing the cost to their domestic farmers. Natural gas prices have dropped, but it is still too early to predict what nitrogen prices will do. With current grain prices the demand for phosphorus and potash could set new records for demand worldwide. Producers may want to negotiate leases early and lock in a price to guarantee a supply. With the drought, we will see significant differences between counties and even within counties when it comes to yields. Soil types and weather all impact yields.

### **Outlook for 2013**

One result of the drought is that grain prices remain high. If we produce a bumper crop next year, we would see a major decline in grain prices and

smaller gross revenues in general. World production and demand will have a greater impact on U.S. prices in the coming months. The last few years we have seen high prices, in part because of demand, and it will be interesting to follow how these current prices impact demand in the next marketing year.

When you look at the CME Group grain prices for 2013 new crops you see an interesting scenario. We are currently at record high prices for corn. New crop corn started out at \$4 per bushel and went as high as \$6.40 a bushel and has hung around that mark with the drought. We can easily see a \$1 swing in the price of corn in a matter of days, which may change the gross revenue by as much as \$200 per acre. The 2013 new crop soybeans prices on the Chicago Board started out around \$9.50 and then moved higher into the \$13.50 range and now sit around \$12.50. We've seen the Board price move \$.70 in a day, which illustrates the volatility in the market. Keep in mind that normally Iowa cash prices are lower than Chicago prices. Even with the drought these prices are slightly less than a year ago. Prices could still increase further.

This past year we saw significant increases in land rents. There is the potential for a significant increase in seed costs due to the drought. The new Farm Bill has not been passed. Two things to watch for are a disaster program such as SURE (Supplemental Revenue) and the loss of "direct payments." Direct payments have been "bid into rents" so a cash rent landowner actually captures the value of those payments in the form of higher rent. If the direct payments are eliminated, then rents should be adjusted to reflect the loss of those payments.

### **Legal issues**

One common topic that comes up frequently deals with the issue of terminating leases. The Center for Agricultural Law and Taxation's (CALT) leasing publication, Iowa Farm Leases - Legal, Economic, and Tax Considerations, goes into detail on page 6 discussing the ways to terminate a lease. The article also addresses the issues of material partici-

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pation, USDA payments, landlord liens and many other topics. AgDM File C2-19 shows an example form for terminating a lease.

The CALT website also provides a list of New Iowa Legislation Impacting Rural Landowners and Agricultural Businesses (Effective July 1, 2012). There are a couple of new legal issues that may be of in-

terest. They deal with premise liability, mechanics liens, and fracking, as well as several unresolved issues such as changing the fence law.

The resources listed above and more are available on the Ag Decision Maker 2012 Leasing page. Also included on this page is information on the 2012 Iowa State University Extension leasing meetings being held in August.



## How to price silage and insurance coverage during periods of drought

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Corn that has suffered severe drought damage is sometimes harvested as silage instead of as grain. Questions often arise about how to arrive at a fair price for standing crops such as corn silage when there are no widely quoted market prices.

### Pricing drought-damaged silage

Corn silage can still have significant feed value if harvested at the right stage. See the article “Alternatives for Drought-damaged Corn—Grain Crop or Forage” for harvesting recommendations. Any damaged acres that are covered by crop insurance should be viewed by an adjustor and released by the insurance company before harvesting takes place.

Grain producers may be willing to sell corn standing in the field to be harvested by the livestock producer or a custom operator. The buyer and the seller must agree on a selling price. The seller would need to receive a price that would give at least as good a return as could be received from harvesting the corn as grain. The buyer would need to pay a price that would not exceed the feeding value of the corn. Within that range the price can be negotiated.

One ton of normal, mature standing corn silage at 60 to 70 percent moisture can be valued at about eight times the price of a bushel of corn. For a \$6 corn price, a ton of silage would be worth about

\$48 per ton. However, drought-stressed corn may have only 5 bushels of grain per ton of silage instead of the normal 6 to 7 bushels. A value of about six times the price of corn would more appropriate. For silage with little grain content, a factor of five times the price of corn can be used.

If the crop is sold after being harvested and transported, those costs must be added to that value, typically \$5 to \$10 per ton, depending on whether it is done by a custom operator or the buyer, and the distance it is hauled. A buyer would only consider the variable costs for harvesting and hauling, whereas a custom operator would need to recover fixed costs, as well.

An electronic spreadsheet for estimating a value for corn silage, for both the buyer and the seller, is available from Ag Decision Maker.

### Insurance coverage for drought-damaged crops

Nearly 90 percent of the corn and soybean acres in Iowa are covered by multiple peril crop insurance. Drought damage is an insurable loss under these policies. Producers should consult with their crop insurance agents before harvesting or destroying any drought-damaged crops, however.

The agent will notify a certified crop adjustor to appraise the insured crops. Keep in mind that when damage is widespread, adjustors cannot be everywhere at once. The adjustor may declare