



ARE CASH RENTS STEADYING FOR 2019?

We hope 2019 has started off well for you and your farm operation. Our lenders are working hard with customers to see how 2018 went and help them form a good plan for 2019. This time of year, one big part of any plan is the topic that has received a lot of attention the past few years: cash rent. This month, we offer some thoughts on that topic. It has been cold lately, but we will keep telling ourselves spring is getting closer by the day!



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KEITH KNUDSEN
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TOP 6 CASH RENT TIPS FOR 2019

BY **LEE POTTS** | *Vice President / Loan Officer*

Now that we are approaching the time of year that cash rents are due for the upcoming crop year, we thought it would be appropriate to offer an update, as it was about a year ago that we provided the same for the 2018 year.

Let's set the stage for what 2019 appears to look like, at least right now.

- Grain prices, though better than they were a few months ago, are not much different for the most part. Like 2018, there might be ups and downs through the year, but in general, with good 2018 yields, there is a lot of supply out there.
- We are hearing and starting to see evidence in cash flow projections of the fact that fertilizer prices have risen, depending on which type, for 2019.
- Most other costs appear about the same, granted there might be some that are up and some that are down in terms of seed, chemicals, insurance, etc.



So What About Cash Rents?

We are not hearing of much change in rents from last year, but again, that is a generality, with exceptions here and there. As lenders, it becomes difficult to pinpoint a trend because we see the extremes and everything in between for rent levels, type of ground, geographic area, etc. Therefore, it becomes difficult to make blanket statements such as “Dryland should rent for \$X and irrigated should rent for \$Y.” Along with those variables, we know that every operation has a different tolerance for different levels of rent and other expenses.



Obviously, there are levels of rent that we can argue work for no one, whether that be on the high side for the tenant, or the low side for the landlord. At the same time, just as one example, a rent of say \$225 might work just fine for one tenant, but not be workable for another. Again, this can vary by land quality or the rest of a given producer’s cost structure.

As you might be aware, as lenders, we do not participate in determining cash rents. Instead, we offer the following pointers for ensuring a fair deal for both parties involved:

- 1 When determining the amount of rent that works for you, be sure to consider all expenses or cash outflows such as equipment payments, personal property taxes, repairs, family living (or farm portion thereof), hired labor, and other costs that are fixed costs. In other words, the costs that don’t change, regardless of the number of acres farmed. These costs must be paid from somewhere each year in addition to the variable costs.
- 2 Once you know your cost structure, use realistic yield projections such as APH to determine what marketing targets to set in order to cover all costs and/or obtain profit objectives. If yields need to be a homerun to breakeven, look at what adjustments could be made to make that more realistic, and not just looking at the rent.
- 3 Execution of those marketing targets is also an important part. The best plan without execution isn’t going to work.
- 4 One usually cannot go wrong with open and honest communication both if you’re a producer or a landlord.
- 5 For every rent you hear that is well above or below the market, there are likely many others that are within the market and are workable for most producers. “The market” can be a subjective term and perceived differently from one person to the next.
- 6 Weigh the pros and cons of either paying up for a farm or walking away from a farm. While paying too much can erode profit margins, letting acres go can also cause those fixed costs to increase on a per acre basis on remaining acres farmed.

If you would like help in determining where you might stand on a particular farm, or operation-wide, our lenders have the tools available to quickly make those determinations.

QUESTIONS? *Our lenders are here for you!*

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