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TIME TO NEGOTIATE YOUR CASH RENT?



BY **LEE POTTS**
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Here we are nearing the end of the year once more. We hope you can look back on 2017 and have some things to smile about. It was an interesting year in ag to say the least!

With year-end comes a multitude of things to take care of. Not only the holidays, but in business, things like assessing how things ended up for the year, paying bills, tax planning, figuring out next year's plans, and the list goes on.

For this month's article, when it came to choosing a topic, we chose the topic that is getting the most attention in conversations, calls, texts, and emails from customers, non-customers, and many others in the community: Cash Rent.

We are receiving more calls each week on what we're hearing for cash rents. We are happy to share ranges we are seeing, but what happens in these conversations is it becomes difficult to precisely answer those questions because we see such a large range among our customer base.

As bankers, we avoid participating in setting cash rents. Reason being is that we have both farmers and landlords as bank customers. We are happy to utilize several tools to help people make informed decisions, but ultimately it is up to the farmer and landlord to come to agreement on a fair rent.

BUT WHAT IS A FAIR RENT?

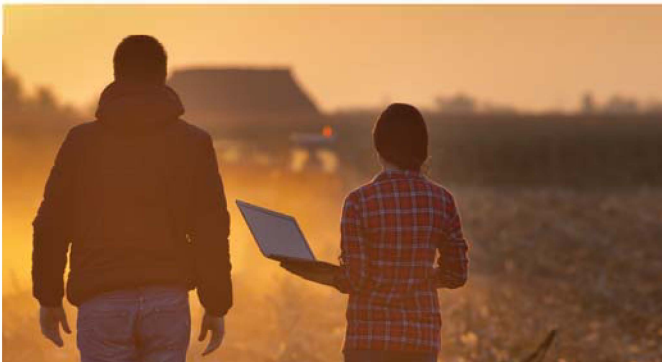
That question becomes more complex when considering everything from type of land, topography, soil quality, irrigation potential, individual financial situations on both sides, competition from other farmers, government programs, markets, and other “moving parts.” The answer is not as simple as it may seem, as you know.

So, while we do not participate in setting cash rent rates, we do promote open and honest communication between farmer and landlord, as well as providing help on each side to determine what makes the most financial sense to be mutually beneficial—or at the very least, give both parties the best chances of success and meeting goals. Thus, rather than making blanket statements such as “dryland should rent for X, and irrigated should rent for Y,” or, “cash rents need to go down X% next year,” the number might be different for every situation.

In other words, there is no one-size-fits-all approach.

THE CASH RENT DISCUSSION

Based on what we’ve seen so far in the bank, here are some thoughts to consider as you work on having the cash rent discussion whether you are a farmer or landlord reading this.



CASH RENT DISCUSSION

- 1 | Most of the other input costs have changed very little from 2017. There are of course exceptions in some cases, but in general, 2018 costs may be very similar.
- 2 | With 2018 costs being very like 2017 costs, breakeven cost of production may also be similar assuming similar yields. A quick look at various cash grain markets suggests there is no opportunity currently to lock in a price above cost of production. Again, depending on the multitude of factors, there could be exceptions.
- 3 | The 2017 ARC payments to be received in October 2018 are not yet determined, and won't be for some time—after the 2018 crop is in the ground. A person may be able to calculate estimates, but we won't know for sure for a while.
- 4 | For every high rent you hear about, there is likely a lower rent you don't hear about.

STILL, WHAT ABOUT RENTS?

What is the best way to determine where a rent may need to be? That is where one of our lenders at Security Bank comes in. We have the tools available to help you determine this, starting with our detailed breakeven analysis in which from there we can help you apply a “gauge” as to where a given farm measures up compared to where it should be to maximize chances of success. Give one of our lenders a call and set up a time to run this analysis. The results may surprise you. A given farm may be more workable than you first thought, or on the flipside of the coin, worse than you thought. Regardless, when would you like to find out?