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Leasing Decisions Need to be Considered Carefully for the Volatile Year Ahead

LINCOLN, Neb. & Landowners and tenants face difficult leasing decisions for the year ahead, a University of Nebraska-Lincoln agricultural economist says.

It will be especially challenging to determine a fair and reasonable leasing agreement for both parties, said Bruce Johnson, UNL agricultural economist.

"Production agriculture is already risky, but faced with the current financial crisis there seems to be little disagreement that we are, in the very least, staring into the face of a potentially long and deep global recession," Johnson said.

In recent years, Nebraskans and others in the Midwest have enjoyed profitable times. In addition, thanks to the more conservative decisions of both lenders and borrowers, farmers are not experiencing the degree of economic hardship facing many other regions of the country, the Institute of Agriculture and Natural Resources specialist said.

"Nevertheless, serious impacts on the U.S. agricultural sector are still being felt," he said. "As seen by the recent down-turns in agricultural commodity prices, we in the nation's heartland are closely tied to the emerging realities of a global recession that could significantly curtail demand for both food and fuel."

When it comes to farm leases, Johnson said both the tenant and landowner need to realize that risk exposure going into 2009 is greater than ever before.

With a cash lease, the tenant carries the bulk of the risk, and the landowner must realize this risk is growing.

"Tenants can't simply continue to bid up cash rents in light of the fact that there is serious risk exposure on both the purchased-input side and the commodity price side," he said.

The best advice, Johnson said, may be to leave 2009 cash rent rates at 2008 rates assuming those 2008 rates were set at reasonable and competitive levels for the local area.

When one loads current conditions into the UNL Farm Lease Calculator, the results would suggest little economic justification for raising 2009 lease rates much above the 2008 levels. The UNL Farm Lease Calculator and other leasing resources are available on the [Department of Agricultural Economics](http://www.agecon.unl.edu) (<http://www.agecon.unl.edu>) Web site.

If landowners are hoping for higher cash rents in 2009, they too must be willing to take on their share of the risk, he said.

"As dizzying as the markets for agricultural commodities and inputs are, landowners who don't want the

management and marketing responsibilities of crop share leasing and yet are looking for higher cash rent returns, could consider a flexible cash lease," Johnson said. "This is where there would be a base payment and also a portion triggered on harvest time crop price levels and/or total seasonal crop revenues."

Tenants also may be interested in this variation of a straight cash lease since it can be part of their overall risk-management strategy, he said.

"However, both parties need to be well informed and willing to expend some effort in developing a good flexible cash lease for their particular situation," he said.

During volatile market times, the crop-share lease actually is the most fair and equitable of the cropland leasing agreements, Johnson said. Both tenants and landowners have tended to move toward cash leasing and away from crop-share leasing tenants because of the great management flexibility and landowners because of the fixed cash payment they can count on with little management responsibility on their party.

"However, as we try to ride out this global economic storm, it may be time for both parties to reconsider leasing on a crop-share basis," he said. "Bear in mind, though, that traditional crop-share arrangements may not fit the type of crop production agriculture we have today."

For example, under the conventional 50-50 crop share arrangement for irrigated land, the landowner's relative dollar contribution to the contract is often greater than that of the tenants. However, by altering the proportional shares of one or more of the variable inputs instead of sharing in the same proportions as output, the balance can often be restored. Again, the UNL Farm Lease Calculator can help with this.

"Finally, it should go without saying that economic decisions today based on mutual trust, forthrightness and integrity are more important than ever," he said. "All parties need to be striving for one common cause a fair and equitable leasing arrangement with the long-run sustainability of the land and the agricultural community in mind."

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