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CROP-SHARE LEASE UPDATES

With the recent upward surge in crop prices, many landowners are taking a renewed interest in the crop-share lease, thinking it may lead to a larger dollar return than under a straight cash rental arrangement, according to UNL professor Bruce Johnson. To be sure, that may well be true for this 2007 crop year and quite possibly even for 2008 if the landowner is willing to take on the greater risk and more of the direct management of production/marketing, etc.

Lease experts are saying the old traditional crop-share arrangements and the associated inputs shared in the same proportion are no longer equitable. This statement may be alarming to some, but think how farming practices and capital investment has changed to a point that the relative contributions of the tenant and the landowner under the traditional patterns may no longer be in sync with output shares. It all depends on your individual situation and if input and output is close for both parties, you have a fair and equitable lease.

Now we have more sons and daughters or nieces and nephews that inherit land and they may not understand farming or agriculture and marketing grain. For these situations, cash rent has been a popular option and easy solution to the landowner. But all the production risk is transferred to the producer with cash rent and it forces the producer to set a fixed price and yield in his head one year in advance, that most likely will be wrong. Look at the volatility we are now seeing. When things were at loan rates all the time, it was much easier to predict a fair and equitable cash rent. How can anyone predict farm bill payments for 2008 this fall and be accurate?

Now we have some producers that have received calls from a potential new landlord asking "Can you top this?" It is very important to note "Can you top this?" should not be the determining factor in farm lease negotiations. I contend that both tenant and landowners need to sit down together with realistic numbers and expectations and arrive at a figure that is at a mutually agreeable level, fair to both parties. Included in the discussion is how liming the farm will be handled and specific conservation measures that will be used on the land. The UNL Agricultural Economics department has a new tool that can be useful when you do this called the "Farm Lease Calculator."

Of course, with any computer tool, you have heard the adage "garbage in, garbage out" you need to be careful. The Microsoft Excel spreadsheet is relatively easy to use but change the default expenses on the template to reflect your own situation, to get meaningful information for farm lease analysis. I like the price and yield analysis matrixes the program produces and how it calculates share leases and cash leases at the same time. This tool would be similar to what farm management firms have used for years and having the printout would be an excellent tool when negotiating farm leases.

The Farm Lease Calculator is a Microsoft Excel spreadsheet used to evaluate, analyze, and determine crop production budgets and lease arrangements for the benefit of landowners and tenants. It is created in a means that makes the revenues, inputs, operations, contributions, etc. of crop production easy to assemble and analyze so that landowners and tenants can form lease

arrangements that are fair and mutually beneficial to both parties. Let's stop the talk about "Can you top this?" and change it to what is realistic given the current farming environment. Included should be discussion on farming practices that conserve the precious topsoil. You can find this spreadsheet on the Internet at www.agecon.unl.edu/resource/farmcalc.html. If you have questions on how it works, feel free to give me a call at 821-2151 or email rpryor1@unl.edu.

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