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# 2016 LEASE SURVEY SUMMARY REPORT

## K-State Research and Extension Post Rock District SMITH County

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**K-STATE**  
Research and Extension

Post Rock  
District

# 2016 FARM LEASE ARRANGEMENT SURVEY SUMMARY FOR DRYLAND CROPS K-STATE RESEARCH & EXTENSION



## Post Rock District SMITH County



Number of survey responses: 25 (30% return rate)

### Summary of Cash Rent Paid to Landlord

CROP ENTERPRISE	AVERAGE RENT/ACRE	CASH RENT RANGE
Cropland (dryland)	\$62.00	\$30 - \$100
Native or Tame Pasture	\$24.00	\$17 - \$35
Native or Tame Hayland	\$26.00	\$10 - \$40
Winter Stalks	\$10.00	\$5 - \$15

Other comments: Can't lower cash rent due to high land taxes.

### Estimated Trend for 2017 Dryland Crop/Pasture Leases in Smith County

RENTAL TREND IN 2017	CROPLAND
Higher	No responses
No Change	70%
Lower	10%
Unsure of 2017 Trend	20%

### Trend of Lease Arrangements for 2017

MORE CASH RENT	MORE CROP SHARE	NO CHANGE
37%	10%	53%

### Adjustments to Cash Rents due to rising input costs in 2016

INCREASE	DECREASE	NO ADJUSTMENTS
11%	No responses	89%

**Percentage of acres in the different Tillage Systems in 2016  
(Number of responses )**

<b>No-Till</b>	<b>Minimum Till</b>	<b>Conventional Till</b>	<b>Summer Fallow</b>
9 - 100% 5- 70-90% 2 - Less than 50%	4 - 100% 1 - 70% 6 - 25% or less	1 - 50% or less	2 - 15% or less

**When were the cash rent payments made to the landlord for 2016? (% of responses)**

<b>All at once</b>	<b>Split payment</b>	<b>Dates</b>	<b>After harvest</b>
<b>17%</b> (Payments made in May and October)	<b>72%</b>	Jan./July.    March/Oct.    May/Dec. Jan./August    May/Oct.	<b>11%</b>

**Interest in Flexible Leasing Arrangements**

<b>Yes</b>	<b>No</b>
<b>9%</b>	<b>91%</b>

**Crop Share Summary**

<b>DRYLAND CROP ENTERPRISE</b>	<b>SHARE PAID TO LANDLORD</b>	<b>OTHER COMMENTS</b>
Wheat	1/3 - 81%    2/5 - 19%	
Grain Sorghum	1/3 - 80%    2/5 - 20%	
Corn	1/3 - 73%    2/5 - 27%	
Sunflowers	1/3 - 50%    2/5 - 50%	
Soybeans	1/3 - 79%    2/5 - 21%	
Alfalfa	1/3 - 20%    2/5 - 40% 1/2 - 40%	
Other Dryland Crops (OATS and Hay)	1/3 - 57%    2/5 - 29% 1/2 - 14%	
Landlord's Share of Government Payments	1/3 - 79%    2/5 - 21%	
Landlord's Share of Crop Insurance Proceeds	1/3 - 70%    2/5 - 30%	-Landlord buys own insurance.

Other comments: No crop share (4 responses)

**Percentage of Written and Oral Leases  
For Pasture and Cropland (number of responses)**

Written Leases			Oral Leases		
9 -100%	5- 50-90%	1- Less than 50%	4-100%	3- 50-90%	4-Less than 50%

**Landlord Share of Input or Cost  
(Percent of responses)**

EXPENSE OR INPUT	Landowners % Share of Crop Expenses	Other Comments
Fertilizer	1/3 - 75%      2/5 - 19% None - 6%	
Fertilizer Application	1/3 - 19%      None - 81%	
Herbicide	1/3 - 37%      None - 47% 2/5 - 16%	
Herbicide Application	1/3 - 25%      None - 75%	
Insecticide	1/3 -35%      None- 53% 2/5 - 12%	
Insecticide Application	1/3 - 12%      None - 88%	
Harvesting	None - 100%	
Hauling Grain	None - 100%	
Drying costs after harvest	1/3 - 25%      None - 63% 2/5 - 6%      100% - 6%	
Crop Insurance	1/3 - 51%      None - 25% 2/5 - 12%      100% - 12%	-Landowner buys insurance (2 responses)
Other production costs (seed, fungicide, crop consulting, water, etc.)	None - 93%      2/5 - 7%	-Landowner pays 40% of fungicide only.
Terrace/Conservation Structure Maintenance (annual upkeep costs)	None - 41%      100% - 53% 1/2 - 6%	-One response landlord pays 50-100%. -Landowner pays for maintenance.
Terrace/Conservation Structure Construction (major land investments)	100% - 88%      None - 12%	-Tenant performs small terrace work. -Landowner pays for major structure.

# Pasture Lease Summary

## Physical Location of Pasture Land:

Smith Co. 81% Osborne Co. 5%  
Phillips Co. 14%

## Pasture Land Rental Rates:

Average rent per acre \$24.00/acre  
Range per acre \$17-\$35/acre

## Trends for stocking rates for 2017

Decrease 10%  
Increase 5%  
No Change 85%

## Livestock Stocking Rate: Cow/Calf

\*Avg. 8 acres/pair \*Range 4-10  
acres/pair

## Mature Weight of Cow

Average 1200 lbs.  
Range 1100-1400 lbs.

## Livestock Water Supply:

Pond 43% Transported to site 8%  
Well 30% Rural Water 4%  
Stream 15%

## Summary of Tenant/Landlord Responsibilities

Responsibility	Tenant	Landlord
Maintaining Water Supply	50%	50%
Maintaining Fences - Furnishing Materials	16%	84%
Maintaining Fences - Furnishing Labor	89%	11%
Controlling Weeds	53%	47%

## Typical Pasture Grazing Period

Pasture season length (months)	Month Started	Month ended
5 mo. - 25%	April - 8%	Oct. - 59%
6 mo. - 67%	May - 92%	Nov. - 33%
7 mo. - 8%		Dec. - 8%

## Pasture Grazing in 2015

Pasture season length (month)	Month Started	Month Ended
6 mo. - 43%	April - 14%	Sept. - 7%
7 mo. - 57%	May - 86%	Oct. - 43%
		Nov. - 50%

## Pasture Grazing in 2016

Pasture season length (months)	Month Started	Month Ended
5 mo. - 13%	April - 12%	Oct. - 31%
6 mo. - 81%	May - 88%	Nov. - 63%
7 mo. - 6%		Dec. - 6%

## Special arrangements for weed control in pastures:

No - 50% Yes - 50%

- Landowner may spray with plane.
- Landowner uses aerial spray for noxious weeds.
- Landowner helps with chemical. (2 responses)

## Kinds of Pastureland - 2016

(number of responses to percent of their pastures)

Upland	Lowland/River	Mixture
12- 100%	3- 40% or less	3 - 100%
4 - 50-90%		2 - 50% or less

## Other comments on pasture management:

- Our county seems to be less pasture rent than others nearby.
- Cannot reduce rates due to high land taxes.
- KSU Grazing Decision Tool –NEW–available at the Ag Manager website: [www.agmanager.info](http://www.agmanager.info).



# Crop Residue Grazing Summary

## Physical Location of Crop Residue Land:

Smith County 82%      Osborne County 6%  
 Phillips County 12%

## Crop Residue Rental Rates:

Average : \$10 per acre  
 Range:\$5 - \$15 per acre

## Type of Cattle/Livestock On Crop Residue:

Cow/Calf Pairs 40%  
 Cows only 60%  
 Stockers/Feeders No responses

## Livestock Stocking Rate:

2 acres/animal (average)  
 Other: Unlimited grazing until done (4 responses);  
 tenant makes the determination.  
 Average Weight of Animals Per Acre: 1200 lbs.

## Livestock Water Supply:

Transported to site 45%  
 Well 33%  
 Pond 22%

## Average of Nutritional Supplement In Addition to Crop Residue

Hay 3% of Body weight  
 Other: Protein tubs/minerals/salt

## Crops Utilized for Grazing - (% of responses)

Corn 43%      Alfalfa 5%  
 Milo 43%      Soybeans 9%

## Rate of Gain in Crop Residue Grazing System

(Range) 0.25-1 lb./day  
 (Hope to maintain weight - 2 responses)

# Crop Residue Grazing Period 2016

Grazing Season Length (months)	Month Started	Month ended
2 mo. - 42%	October - 17%	December - 17%
3 mo. - 33%	November - 67%	January - 25%
4 mo. - 25%	December - 8%	February - 33%
	January - 8%	March - 25%

# Crop Residue Summary of Tenant/Landlord Responsibilities 2016

Responsibilities	Tenant	Landlord
Maintaining water supplies	79%	21%
Maintaining Fences- Furnishing Materials	57%	43%
Maintaining Fences - Furnishing Labor	93%	7%
Livestock Care	100%	0%

## Other comments with crop residue grazing:

- \*No crop residue grazed or rented out. (8 responses)
- \*Unlimited grazing until residue gone.
- \*Doesn't really know how much the cowherd gains or loses in condition.
- \*Hope to maintain weight, just a maintenance program.



# Recreational Leasing Summary

## Percentage of Written and Oral Leases For recreational hunting:

Written	Oral
22%	78%

Walk-In Hunting available - YES: 13%; NO: 88%

## Years with same tenant:

3-10 years	80%
20 years	20%

## Leasing Arrangements for Hunting 2016:

Hunting Type	Acres	# hunters	Length	Rental \$
Deer	1,940	1 to 5	*Season	*0 to \$1500
Turkey	1,040	1 to 5	*Season	*0 to \$1500
Game Birds	740	1 to 5	*Season	*0 to \$1500
Water-fowl	320	1-5	*Season	-----
Fishing	None	reported	-----	-----

## Rating of Hunting:

Superior	No responses
Excellent	40%
Very Good	20%
Good	20%
Fair	20%



## Are users required to sign a waiver of liability or carry liability insurance?

No	80%
Yes	20%

## Is the property specifically managed to improve the wildlife or fish habitat?

No	67%
Yes	33%

## Other comments related to recreational hunting:

- No leasing indicated (5 responses).
- Landowner retains all hunting and fishing rights on all lands leased to tenants and is a part of the written lease agreement.
- No "formal" leases, but verbal agreements if asked.

## Information related to recreational hunting: (by Dr. Mykel Taylor, K-State Research and Extension, Farm Management specialist)

In many parts of Kansas, hunting leases for cropland and pasture offer an additional revenue source for landowners. Whether or not to pursue this option is going to depend on a couple of factors: how much can I charge and what is my liability exposure? .

Information on hunting leases and rental rates is challenging to find and, when it is available, interpret accurately. There is very little consistency across hunting leases and learning what other people pay and/or receive is only half of the equation. How much a hunter is willing to pay for a lease will depend on the amount of land, the quality of the habitat, the range of wildlife and seasons the land can be hunted, and documented harvests of trophy animals on that land. Each of these factors can affect the rental rate, as well as how many years the land may be rented. Another aspect of hunting leases that affects the rental rate is the availability of additional services such as housing, meals, guide services, and even transportation from the nearest airport. Landowners who cater to more of the needs of hunters will be able to charge a higher rent for their land.

The question of liability is an important one because risk exposure depends on the type of lease that is negotiated. Agricultural land owners can avoid liability if they allow hunters on their land at no charge or if they charge a fee for hunting only. This means if any additional services are provided such as guiding, lodging, etc. the landowner may be liable. Another option for landowner to rent their land and not have to deal with liability is by contracting with the State of Kansas through the Walk-In Hunting program.

Regardless of the type of lease that is pursued, it is important to remember that the hunting rights to a piece of rented farmland transfer to the tenant unless they are explicitly retained by the landowner in a written contract. This means both landowners and producers need to discuss how a hunting lease would work for them and how the costs and benefits will be split. Examples of questions to answer include: Who pays for any improvements that affect the hunting lease (e.g. permanent blinds) ? Will the presence of livestock on the land be affected by hunting?

Communication between the landowner and producer can make hunting leases a beneficial option.

# General Lease Concepts

## Rules & Regulations:

- Leases must be longer than two years to allow tenants to sublease.
- When a farm is sold, the new owner substitutes for the old.
- Leases are binding on executors and heirs.
- Written leases can cover any length of time.
- Oral leases are **unenforceable** if they are one year or more in length.

## Test of a Good Lease:

- Is it written?
- Does it encourage proper amounts of yield increasing expenses?
- Does it plan for new or needed improvements?
- Does it promote conservation?
- Is the crop shared in the same percentage as the contribution?

## Lease Termination Notice:

- In writing
- At least 30 days prior to March 1
- Spring planted crops:** must fix termination date of tenancy to take place on March 1
- Fall seeded crops:** will be terminated the day after harvest or August 1
- Exception to above:** written lease providing otherwise

# Crop Share Leases

## A good crop share lease should follow five basic principles:

- Yield increasing inputs should be shared
- Share arrangements should be re-evaluated as technology changes
- Total returns divided in same proportion as resources contributed
- Compensation for unused long-term investments at termination
- Good landlord/tenant communications

## Advantages of Crop Share Leases:

- Yield and price risks and opportunities are shared by tenant and landlord
- Less operating capital needed by the tenant
- Management skills may be shared by an experienced landlord and tenant
- Tax management opportunities from timing of sales and input purchases
- Material participation issues

## Disadvantages of Crop Share Leases:

- The landlord's income is more variable
- More record keeping is required
- Landlords have marketing decisions to make
- Joint management decisions must be made and disagreements may occur
- Material participation/Social Security issues

# Cash Rental Leases

## Methods to Determine Cash Rental Rates:

- Market going rate (if available)**  
Local competitive rental rates
- Landowner's cost**  
Depreciation, Interest, Repairs, Taxes, Insurance - Based on the premise of landowner's continuing to receive comparable returns to what has been received in the past.
- Crop share equivalent (adjusted for risk)**  
Converts equitable crop share rent to an expected dollar amount per acre.
- What Tenant Can Afford to Pay**  
 $\text{Revenue} - \text{Non-land Costs} = \text{Rent}$

(The last three require yield, price, and government payment projections as well as cost information used for for crop share.)





### Advantages of Cash Leases:

- ❑ **For Landlords**
  - Less involvement in management
  - No production costs to share
  - No marketing decisions to make
- ❑ **For Tenants**
  - More managerial control and freedom
  - More income for above-average managers
  - More potential for windfall profits in good years

### Disadvantages of Cash Leases:

- ❑ **For Landlords**
  - No potential for windfall profits in good years
  - Less tax management flexibility from timing sales and expenses
  - Risk of exploiting or “mining” of the farmland by a tenant
- ❑ **For Tenants**
  - Bears all yield and price risk
  - Crop production and expenses are higher

## Trends in Leases and Values of Agricultural Land in Kansas

by Dr. Mykel Taylor, K-State Research and Extension, Farm Management specialist

The past few years have seen some wide fluctuations in both land values and rental rates as a result of dramatic changes in profitability for farmers and ranchers in Kansas. According to surveys by USDA-NASS, the statewide average land value for non-irrigated cropland in 2009 was \$981/acre. Within a five-year span, that average more than doubled to \$2,150/acre in 2014. By 2016, non-irrigated land values in Kansas have fallen 10% and are expected to continue to decline as long as low commodity prices remain in place. A similar pattern can be observed in pasture values. The state average of pasture was \$761/acre in 2010 and, within five years, values increase 80% to a record high of \$1,390/acre. Pasture values have fallen off 7.2% since 2015.

For most producers, high volatility in commodity prices translates into higher risk exposure from rental rates. During periods of high profitability, rental rates will increase and competition for land can be fierce as producers try to expand their land base to capture more returns. However, a sudden decline in profitability in the sector will not necessarily translate into lower rents in the short run.

Rental rates tend to lag behind commodity prices and profitability for several reasons. First, land contracts and cash rental rates are often set for 3-5 year periods to allow both producers and landowner to plan for expected costs and returns. As a result, producers can be locked into rents that are not aligned with the current market.

Another reason rental rates do not decline as quickly as might be expected is due to concern over losing land. Rented land is often a significant part of the land base in an ag operation, driving decisions on machinery and labor. If a landowner will not accept a lower rent, then some producers will pay more than their total costs of production to keep it. The expectation is that taking a loss in the short run is preferable to losing acres and incurring an increase in total costs per acre.

Regardless of the particular situation a producer faces, strong communication with their landowner can be very beneficial to the long-run economic viability of their operation. Landowners will not be excited to lower rental rates, but if they have a strong understanding of the current market conditions they may be more willing to negotiate. Tenants who take extra time to work with their landowners, answer questions, and keep them up to date on the farm's situation will find it easier to have those difficult conversations about lowering the rent.



# Flexible Cash Rents

## Principles:

- ❑ Flexible cash rents simply refer to land rental arrangements where the amount of cash rent paid (received) can vary based upon some pre-determined formula (i.e. formalizes bonus rents)
- ❑ Methods of “flexing” rental rates, i.e., formulas are based on:
  - Yield (actual for producer, co. average, etc.)
  - Price (harvest, season average, actual)
  - Revenue (yield x price, crop insurance, residue)
  - Costs (i.e. fertilizer price)
  - Other

## Advantages of Flexible Cash Rents:

- ❑ Method of allowing rents to vary year-to-year without having to renegotiate rents annually
- ❑ Way of sharing/managing risks associated with volatile markets (without hassles of crop share lease)
- ❑ Somewhat “forces” a higher level of communication relative to fixed cash rent (poor/lack of communication is often an issue with problem lease arrangements)
- ❑ Trend in Kansas has been moving away from crop share leases to more cash leases
- ❑ Volatility of last few years has significantly increased the risk of **fixed** cash rents

## Disadvantages of Flexible Cash Rents:

- ❑ Complex!
- ❑ Theory and intuition guide conceptual design, but little help with specific details
- ❑ Not needed if cash rents are renegotiated frequently (every year)
- ❑ Hard to think of everything, which means we might need to be “tweaking” the arrangements regularly
- ❑ If designed wrong, might increase risk
- ❑ Appealing for certain situations, but not appropriate in all cases (depends on why you are considering cash rent)

## How to determine Flexible cash rents:

- ❑ There is not a single right way to do this! (But there are plenty of wrong ways)
- ❑ Establish a base cash rent:
  - Budget-derived value (KSU-Lease.xls) Online KSU spreadsheet (Excel) tailors to a specific situation and an equitable crop share can be calibrated to the local area
- ❑ **Questions to ask:**
  - Does cash rent flex up and down or only up?
  - What yields and prices are used to determine actual gross revenue?
  - What crops should be included in calculations?
  - Are crop insurance and government payments included/accounted for?
  - What about flexing cash rent based on costs of crop inputs?
  - What will final rent be under alternative potential outcomes?

## Summary:

- ❑ Flexible cash leases are simply a way of sharing risks of unpredictable markets (and yields?) without the hassles of crop ownership.
- ❑ Why not simply give landowner ad hoc “bonuses” when times are good?
- ❑ There are many types of flex leases – no one method is right or best in all cases.
- ❑ Communication, communication, communication! (Remember it likely is a learning process for both parties.)
- ❑ The KSU website [www.agmanager.info](http://www.agmanager.info) has more information on **Flexible Cash Rents**.

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