



Great Lakes Fruit, Vegetable & Farm Market EXPO

Michigan Greenhouse Growers EXPO

December 9 - 11, 2014

DeVos Place Convention Center, Grand Rapids, MI



Farm Business Management: Determining a Land Rental Rate

Thursday morning 10:00 am

Where: Gallery Overlook (upper level) Room G

Moderator: Curtis Talley Jr., Farm Management Educator, MSU Extension, Hart, MI

10:00 am Determining A Land Rental Rate

- Dennis Stein, Farm Management Educator, MSU Extension

10:50 am Session Ends

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Determining A Land Rental Rate

Dennis Stein
MSU Extension- Farm Management
Email: steind@anr.msu.edu
Web: <http://www.msu.edu/user/steind>
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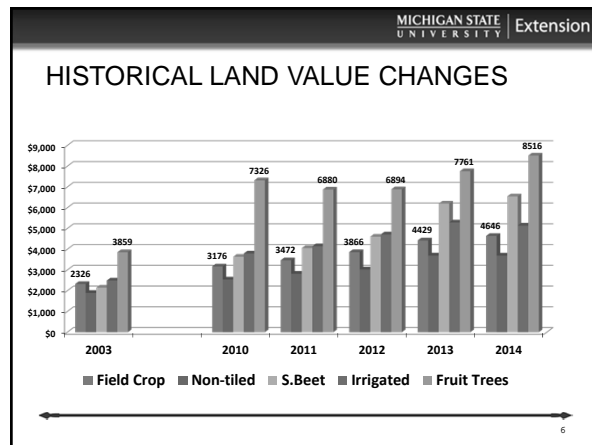
Farm Land Values

- **What is the current cash value of land?**
- **It is what every you are willing to pay for the land!**
 - Economics of production enterprises
 - Appreciation in value
 - Amount of dividends it can generate (rent)

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What about Land Values?

- **Factors affecting values**
 - **Competition**
 - **Risk related to ownership**
 - Federal Program \$\$ \$10 to \$40 per acre
 - Crop Insurance
 - Interest rates or cost of money
 - **Economic capacity**



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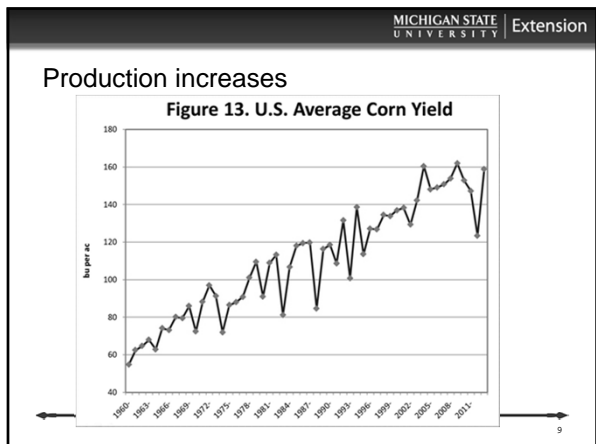
First Step

- **Estimate of Gross Margin**
 - Gross Income” minus “Direct Cost
- **Adjustments to “Meet CASH FLOW”**
 - Prices, Yields and operational system
 - Economic Returns

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Changes and Trends to notice

- **Production systems have changes**
 - Yield trends for crops continue to increase
 - Other commodity yields continue to go higher
- **Economic situation have changed**

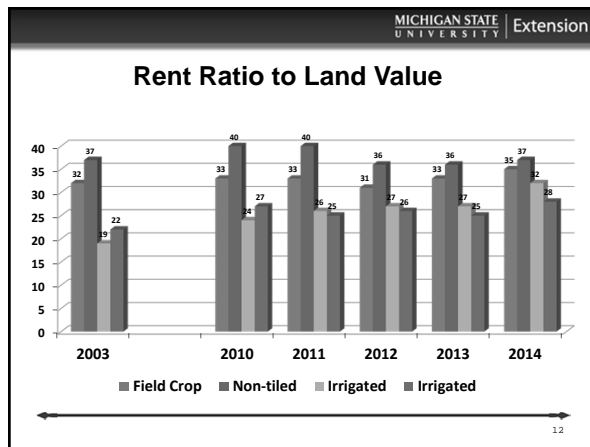
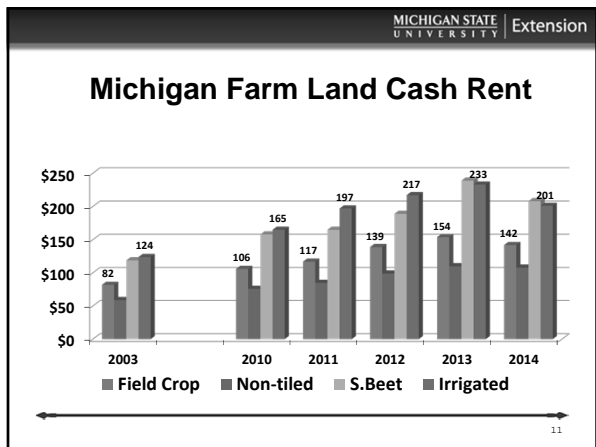


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Rent & Renting Issues

- Cost of Production and Break Even Analysis
- What can be Paid for Land Rent
- Rent Methods
- Conclusions

10



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What about Land Rent?

- Factors affecting rental rate
 - Expected
 - Yield
 - Prices
 - Expenses
 - Perceived risk and protection tools
 - Irrigation
 - APH, ACRE, SURE, DP, CC and actual Yields
 - Manure availability and usage
 - Value of manure - Depends on how utilized
 - Competition – Local/State wide
 -etc.

13

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- Net Margin
 - Income – Cost = Net Margin
 - Cost of Production
 - Break Even; price, yield, margin

14

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	Corn	Soybean	Wheat	Dry Beans	Alfalfa	S. Beets
Yield	180	50	87	22	4.5	25
Price/ Bu	\$3.74	\$8.93	\$5.28	\$27.00	\$125.00	\$45.00
Gov. Program Payment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gross \$	673.20	446.50	459.36	594.00	562.50	1,125.00
Pre Harvest cost/ acre	\$416.70	\$203.65	\$234.21	\$354.70	\$224.00	\$665.69
Harvest cost/ acre	\$31.00	\$31.00	\$28.00	\$34.00	\$100.00	\$125.00
Trucking	\$19.00	\$9.60	\$10.84	\$9.00	\$12.00	\$65.00
Family draw	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00
Sum of Costs	\$516.70	\$294.25	\$323.05	\$447.70	\$386.00	\$905.69
Return to Fixed Cost*	\$156.50	\$152.25	\$136.31	\$146.30	\$176.50	\$219.31
Break even cost/unit	\$2.87	\$5.89	\$3.71	\$20.35	\$85.78	\$36.23
Break even yield/acre	138.2	33.0	61.2	16.6	3.1	20.1
Pre harvest costs	Corn	Soybean	Wheat	Dry Beans	Alfalfa	S. Beets
seed	\$125.00	\$55.00	\$40.00	\$90.00	\$40.00	\$205.00
fertilizer- N-P-K	\$148.00	\$68.00	\$105.00	\$90.00	\$78.00	\$144.00
weed control	\$33.00	\$30.00	\$5.75	\$38.50	\$2.00	\$45.50
disease & insect control			\$37.50	\$27.00	\$14.00	\$95.75
fuel	\$24.20	\$15.30	\$13.11	\$26.20	\$20.00	\$52.44
repairs or machine cost	\$28.00	\$19.60	\$19.60	\$28.00	\$60.00	\$63.00
marketing	\$4.50	\$3.75	\$4.25	\$5.00	\$10.00	\$0.00
crop insurance	\$18.00	\$12.00	\$9.00	\$20.00	\$0.00	\$30.00
total cash operat. costs	\$416.70	\$203.65	\$234.21	\$354.70	\$224.00	\$665.69

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What is the maximum price you can pay to rent land?

- Cover all cost?
 - Cover only Direct Cost?
 - Some return to Overhead Cost
- How much does overhead cost change if add direct cost from more land?
- Have machinery line?
- Have personnel?
- Have the desire?

16

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Revenue/Rent Expense RISK!!

- Who bares the RISK in your rental agreement?
 - Landlord versus Tenant
- The more risk one takes, the more one expects in net returns!

17

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Revenue/Rent Expense RISK!!

- Self Insure
 - Take all the risk yourself
 - Personal preferences
 - Debt Level?
 - Equity willing to RISK
 - Pay what ever it takes to keep the landlord
 - Renting versus owning issues
 - Be a good tenant

18

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Revenue/Rent Expense RISK!!

- Crop Insurance
 - Various options in COMBO
 - Your yields and futures prices
 - Hail Insurance
 - Irrigation
 - These all help "Revenue" but not "Expense"

19

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Revenue/Rent Expense RISK!!

- Self Insure
- Crop Insurance – Various options
- Share Crop 1/3-2/3 50/50
- Variable Cash Rent / Flex Rent

20

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What is the maximum price you can pay to rent land?

- Cover all cost?
- Cover only Direct Cost?
- Get some return to Overhead Cost --- Yes or No?
- How much does overhead cost change if add direct cost from more land?
- I have the machinery line to cover more acres?
- I have the personnel to cover more acres?
- I have the desire to cover more acres?

21

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Actions

- **Develop a cash flow management plan**
- **Monitor & Control production and overhead costs**
- **Establish a commodity price risk management plan**
- **Identify your farms profit center and focus on building strength in that enterprise(s)**
- **Insure the farms future through a sound business and transition plan**

22

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Plan of Action

- Management goals and focus
- **Update or build a business plan**
 - Inventory, SWOT, Cash flow projections, Cost of Production,
 - Research trends in
- **Set pricing targets and production goals** (a written plan that is shared with others)

23

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CHANGES IN PRODUCTION COSTS

1. **Shifts in a input costs**
 1. Land Rent; higher, the same, lower
 2. Fertilizer; lower to stable
 3. Seed; higher
 4. Fuel; the same
 5. Interest; higher
 6. Depreciation- Equipment; higher

24

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Thank you!

**Dennis Stein, Extension Educator,
Michigan State University Extension**
362 Green Street, Caro, MI 48723-1998

Phone: 989.672.3870
email: steind@msu.edu
Web: <https://www.msu.edu/user/steind/>
Web MSUE: <http://firm.msue.msu.edu/>



25