

FARMLAND STEWARDSHIP SOLUTIONS

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www.farmlandstewards.com • 305 NW 48th Pl. Des Moines, IA 50313 • 515.243.9352

Should Farm Leasing Be An Annual Guessing Game?

For the past few months and continuing until the beginning of March, is Cash Rent Guessing Season. This is when the landowner and their tenant try to figure out what is the proper cash rent for the upcoming year. These negotiations typically are based on expectations for the upcoming crop year but we don't know what prices and yields will be at the time the 2017 crop year ends. Would anyone have guessed some of the outstanding corn and soybean yields in 2016? It is conceivable that all cash rents are wrong when the dust settles in the winter following the season. Many leases in Iowa are set in August of the year prior, thus are in place 16 months ahead of knowing the final results. We don't have a crystal ball and doubt you do either. Tenants have some of the same apprehension.

Why do we set cash rents this way? Primarily because very few owners want a crop-share lease anymore, since it's easier to cash rent.

When negotiating lease terms a lot of numbers get thrown around. For example, people will mention surveys or what they are paying on neighboring land or what they heard operators are paying at the coffee shop. One needs to consider that farm is different and therefore each lease negotiation should be farm specific in order to come up with the best possible arrangement for both parties. In order to truly understand what a fair rental rate will be in 2017 and beyond one must first look back at the most recent crop year. Production capacity is what ultimately drives rental rates. A property that is able to produce high yields on a consistent basis may not need a reduction in rent for 2017. Although profit margins continue to decrease there were still opportunities to market corn above \$4 in 2016 and we

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Farmland Stewardship Solutions to use Land O Lakes' SUSTAIN™

Farmland Stewardship Solutions has inked a software licensing agreement to use Land O Lakes' SUSTAIN™ conservation planning platform, according to Greg Townsend of FSS.

The deal is part of the farm leasing service company's expansion of services, says Townsend.

"Many of our clients and their operators already employ precision agriculture technologies. But these new conservation planning tools in the SUSTAIN program will help us offer our landowners and their operators conservation planning options

more quickly and with greater depth.

"The short term benefits are increased nutrient efficiency, improved moisture retention, and enhanced soil productivity through reduced soil erosion. But longer term benefits are conservation program compliance, improved soil quality and – ultimately – improved land productivity and higher land values," Townsend adds.

The SUSTAIN platform traces its origin to another Iowa-based firm, Agren, from Carroll, Iowa. Agren was later

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Farmland Stewardship Solutions

Farmland Leasing System
New Tenant Assistance
Beginning Farmer Recruitment
Long Term Record Keeping

Farmland Stewardship Solutions was created in 2008 in Ames, Iowa. FSS now works with clients in 5 Midwest states and is the Midwest's leading farm lease platform."

OUR TEAM



Greg Townsend
Executive Director



Andy Mullan
VP of Farmland Stewardship
Solutions & Appraiser



Mark Gannon
Broker/Farm Manager/Appraiser

AS A LANDOWNER - KNOW YOUR KPIs

Owning land is a privilege that brings with it an obligation. The most important factor in buying farmland is purpose; why are you buying? Whether you're an investor looking for a specific rate of return, a producer looking to grow the size of your operation to bring in a family member or, you inherited the property and want to continue its legacy, having clear ownership goals is a must. Most feel the obligation of leaving the land better than when it was received.

Landownership should be looked upon as a business, there are critical factors looked at in-order to monitor and steer their businesses in the right direction. One business metric used to evaluate factors that are critical to the success of the business is called KPIKey Performance Indicator. The concept of Key Performance Indicators (KPIs) is not new. However, it may be somewhat unique when quantifying the performance of farmland. Landowners can use them to identify weaknesses in as well as set specific targets for their farms. You then can follow the progress to see if improvements were being made to boost productivity and sustainability of the land. Each KPI provides a valuable insight into the efficiency of utilization of farm resources and management skills of the tenant.

If you own farmland, have you developed your farm's KPI's? As mentioned, each

piece of property is different in its needs and productivity levels right down to the field level. As we work with landowners at Farmland Stewardship Solutions, we have some general areas that KPI's can be developed and measured to assess your farmland's value:

- Productivity/ROI
- Soil Health Maintenance
- Soil/Nutrient Run-off
- Wildlife Environment and Biodiversity Protection
- Conservation Planning
- Water Quality

It must be stressed that no single KPI should be used by itself to assess farmland performance and profitability, since each one is the end result of interactions between many farm inputs. It is important to make sure there is a balance between their utilization so that one production target is not achieved at the expense of others within the farming operation. On-farm data collection of this information plays an important role in assessing how well your farmland is progressing. So it's vital that this data is gathered and analyzed. That's part of what we do at Farmland Stewardship Solutions as we initiate a systematic approach to establishing the best lease arrangement between landowner and tenant based on data.

RECORD KEEPING - THE TIME TO START IS NOW

Is my rental rate fair to me and my tenant? Are areas of the farm under producing? What have the yields been on my farm for the past 10 years? Is my tenant maintaining or building the fertility levels on my property? These are just a few of the many questions that absentee and non-operating landowners ask themselves each year. In situations where owners do not have access to farm data in order to review and analyze the farm on an annual basis it is extremely difficult to make informed decisions regarding their land; these decisions could include selling, adjusting rental rate or making improvements to the property, to name a few. The practice of obtaining, analyzing and maintaining records is truly invaluable in today's age of farming.

It is no secret that row crop production has grown into big business over the last several years. The era of "Big Data" is not only here to stay but sources of farm data grow each year. More and more operators are implementing precision agriculture into their operation. The owners should also have access to this information in order to make better decisions concerning their land. The sharing of information helps to facilitate trust and long term relationships between owner and operator.

There is an endless amount of data that is available but being able to decipher what is important for the landowner can be difficult. Knowing the fertility levels and understanding the soil test is a crucial first step. Yield is everything in determining the value of your farm. A lot of people reference a farm's CSR value when referring to the value of a property. CSR can be used as a good benchmark, but the true value of a property lies within its production history. Operators and buyers are more willing to make higher offers when more information is made available to them. Not only does record keeping help boost your potential income, but there is also a satisfaction that comes from knowing that your property is being cared for and maintained the right way. Farmland owners control one of the most valuable assets not only in the United States but in the world and it is their responsibility to treat it that way.

KEEPING THE LANDOWNER INFORMED ON WHAT'S HAPPENING



"This goes beyond giving them yield maps and a check. They should also be informed when the crop is planted, fertilizer rates used and any new government programs that can benefit their farms". That is the approach operator Chad Vroman, third generation farmer, takes with his landlord Kenny and Mary Ann Specht on their Illinois farm and clients of Farmland Stewardship Solutions. Chad goes on to say, "I want them to know we are doing the best job farming their ground".

Chad, wife Jesi and two young sons Jensen 7 years old and Wyatt 5 grow corn, soybeans and wheat along with maintaining 60 acres of CRP. Vroman is an example of the new generation of operators who collect a great amount of on-farm data and use the information to keep their landowner aware of the job they do making sure the property is farmed profitably and is sustainable.

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licensed by United Suppliers, which was then purchased by Land O'Lakes and incorporated into its SUSTAIN initiative. Tom Buman, founder of Agren now leads the SUSTAIN effort for Land O Lakes.

"SUSTAIN complements existing precision ag support services. It predicts where soil is likely degrading, losing fertility and suffering productivity losses. If problem areas are not addressed, yields drop and land value is diminished," explains Buman.

Farmland Stewardship Solutions added the web-based conservation-planning tool to its menu of purchased services, says Townsend. "A farmland owner in Chicago concerned about his/her family's farm in Iowa can request an analysis and conservation plan. We combine the analysis with our existing farm lease information." In a nutshell, the SUSTAIN tool allows FSS to analyze a farm from a conservation perspective. The report includes operational options and cost-benefit analysis. The fee for the SUSTAIN service is only a few dollars per acre.

The Sustain platform features several

"Since I started farming, we began to implement more technology on the farm. It started with a yield monitor in the combine in 2000 to now running row shutoffs, variable rate planting and fertilizer applications. It allows us to make sure the right rate of fertilizer or seed is placed in the right parts of the field. We have also installed drain tile to improve our farms productivity", says Chad.

"Chad is a great example of the type of operator we like to work with", says Greg Townsend, Executive Director of FSS. "He collects good data, takes the time to upload it in timely fashion to our secure on-line data warehouse, U.S. Farm Records. By doing this, Chad makes the data available to the Specht's whenever they want to access it." This is the information age in agriculture. Landowners need to know what's going on with their property, both good and bad. They quickly can see the value that tenants who utilize the newest technologies bring to their bottom line.

"I heard about a farm that the landowners wanted to rent to a young farmer that could use help getting a start. I met with

innovative planning tools. The SoilCalculator, for example, predicts soil erosion in 9 by 9 meter grids. The program uses LiDAR elevation data to define length and slope of fields, two critical predictors of soil loss. This data is overlaid with field and soil map information. The analysis is then used as the basis for changes in farming methods such as contour farming, tillage adjustments, installation of waterways and such.

Other Sustain tools help design waterways, ponds, and sediment control basins in a matter of minutes, instead of months. Buman, a former NRCS employee, worked with NRCS engineers, various subject matter experts and university experts to develop and test the software tools.

"The bottom line is this will help us suggest ways landowners and operators can reduce soil erosion, reduce nutrient loss, increase yields, improve the farm's sustainability and increase the land's value," summarized Townsend. "This service is very appealing for farmland owners who are concerned about the sustainability of their farmland investment but don't know where to start."

Kenny and Mary Ann Specht in October 2000 and was given a tour of the farm. I remember leaving after looking at their place and the pride of ownership they had in the buildings. This was a place that offered it all with highly productive soils, grain and machinery storage, it was a perfect start for someone".

The Vroman's and Specht's have developed a strong relationship since 2000. "Strengthening relationships with good communication between landowner and operator is critical for success" says Townsend. "Chad sharing data that belongs to the farm with the landowner only solidifies the relationship". Then when it comes to negotiating lease arrangements, the information collected from the property proves to be beneficial. You can't argue with the numbers.

At the end of the day, the joys and success of a young farm family comes from looking to the future. As Chad clearly states, "Wyatt is planning on taking over the farm as long as we have a red combine". What more is there to farming.

...GUESSING GAME

could see this again in 2017.

So what alternative is there? Consider a "flex lease" that gives you a guaranteed base rent similar to what you have now, but you also have a chance to get a bonus if all goes well with yields and prices. This type of lease will perform with the higher rents you hear rumors about. It also will assure the owner they will get a rent appropriate for the annual productivity of the land as well as the market prices.

The added bonus with a flex lease is the owner now is made aware of not only the yield, but what factors attributed to yields such as soil tests, fertilizer use and other agronomic practices. Leases under the guidance of Farmland Stewardship Solutions will provide you with high quality records/data such as yield maps, soil test information, fertilizer application data, conservation oversight and even water quality data, if it is being monitored. All of the information and analysis is provided in a comprehensive annual report. We handle the data and process which benefits the landowner and tenant. Farm leases are part of the farming business so we need to think of it that way.

Cash Plus Lease at FSS Getting It All and Maybe Some More.

Most cash rent leases are one price with no bonus possibility. At FSS almost all of our leases have a formula where the landowner can get an additional rent payment if the yields and prices add up to a higher gross income than would have been anticipated at the time the cash rent was established. In 2016 farmers had good to great yields but lower commodity prices. This combination didn't add up for a "Plus" or flex payment for many leases but some worked out well with

an average of \$28 per acre paid on leases that received a flex payment. The range was \$0 to \$61.

Another part of the "Getting it All" with FSS leases is the owner is getting all the data and records that are generated on the farm. We then analyze these for the landowner and tenant and provide the analysis with the report and records stored permanently on US Farm Records

OUR MISSION

Farmland Stewardship Solutions' mission is to:

- Provide landlords and fiduciaries accurate and timely farmland oversight and performance reports;
- Develop mutually beneficial farmland leases supported by on-farm production data, current economic trends, and stewardship goals;
- Leverage an industry-accepted process for leasing that uses technologies to capture key data, retain trend records and communicate an accurate portrayal of the farm's production and value;
- Recommend strategies to maximize short-term returns for tenant and landlord while protecting or enhancing the farm's value long term

LEARN MORE

If you are an absentee or non-operating farmland owner; or a fiduciary, you may find Farmland Stewardship Solutions is your answer. Give us a call at: **515-243-9352** and ask for Greg Townsend or Andy Mullan.

