

# CASH RENT ANALYSIS FOR A NEW ERA

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## TODAY'S AGENDA

- 2014 Budgets
- Corn versus Beans?
- Cash Rent Bid Strategy
- Cash Rent Trends

## 2014 BUDGETS

	Corn	Soybeans	Wheat
Fertilizer	\$ 145	\$ 58	\$ 108
Chemicals	57	35	17
Seed	119	70	46
Fuel	23	20	18
Repairs	24	20	20
Equipment	47	46	38
Labor	40	40	40
Interest	11	10	10
Insurance	35	26	15
Overhead	33	28	24
<b>Total Non-Land Costs</b>	<b>\$ 534</b>	<b>\$ 353</b>	<b>\$ 336</b>

## 2014 BREAK-EVEN CALCULATIONS

	CORN	SOYBEANS	WHEAT
Yield	185 Bu/Acre	53 Bu/Acre	70 Bu/Acre
Non-Land Costs	\$ 534	\$ 353	\$ 336
Land Charge	\$ 250	\$ 250	\$ 250
Break-Even Price/Bu @ \$250/Acre Rent	\$ 4.24	\$ 11.38	\$ 8.37
West Central IL Season Prices (Est Nov'13)	\$ 4.40	\$ 11.00	\$ 6.55

**CAUTION!!!!**

**YOUR COSTS ARE THE ONLY COSTS  
THAT MATTER!!!!**

## BREAK-EVEN CASH RENT CALCULATIONS (2014)

	CORN	SOYBEANS	WHEAT
Yield	185 Bu/Acre	53 Bu/Acre	70 Bu/Acre
Non-Land Costs	\$ 534	\$ 353	\$ 336
Break-Even Price/Bu @ \$ 250/Acre Cash Rent	\$ 4.24	\$ 11.38	\$ 8.37
West Central IL Season Prices ( Jan 10, 2014)	\$ 4.40	\$ 11.00	\$ 6.55
Break-Even Cash Rent/Acre	\$ 380	\$ 230	\$ 122

## 2014 BREAK-EVEN FACTORS

	CORN	SOYBEANS	WHEAT
Yield	185 Bu/Acre	53 Bu/Acre	70 Bu/Acre
Break Even Cash Rent	\$ 280	\$ 230	\$ 122
1 Bushel of Yield Changes Rent By:	\$ 4.40	\$ 11.00	\$ 6.55
\$.10 in Price Changes Rent By:	\$ 18.50	\$ 5.30	\$ 7.00

## CORN VS SOYBEANS

- CORN @ 4.40
- BEANS @ \$ 11.00
- BREAK-EVEN CASH RENT/ACRE = \$ 230
- YIELD = 53
- BREAK-EVEN CASH RENT/ACRE = \$ 230
- BREAK-EVEN YIELD OF CORN VS BEANS = 173

## CORN VS SOYBEANS

- CORN @ 4.40
- BEANS @ \$ 11.00
- BREAK-EVEN CASH RENT/ACRE = \$ 340
- YIELD = 63
- BREAK-EVEN CASH RENT/ACRE = \$ 340
- BREAK-EVEN YIELD OF CORN VS BEANS = 199 BU

## FORGET 2011, 2012, and 2013!!!!

- Tendency To Dwell On Most Recent Year's Results
- Use 5 Year Average To Determine 2014 Cropping Program (Ignore 2011 & 2012?)
  - Drop The High Year, Drop The Low Year, Take The Average Of 3 Remaining Years (Alternate: Crop Insurance Yield?)
- Market Crop in Advance for 2014
  - Take Advantage Of Current Price Opportunities
  - History Tells Us That Market Will Always Return To Below Cost Of Production
- Will You Allow 2011 And 2012 To Alter Your Decision Making Process?

## CALCULATING CASH RENT BIDS

2014	CORN	SOYBEANS
Yield	185	53
FSA Payment	\$ 0	\$ 0
Price	\$ 4.40	\$ 11.00
Gross Income	\$ 814.00	\$ 583.00
Variable Cost	\$ 534.00	\$ 353.00
Available for Rent	\$ 280.00	\$ 230.00
15% Margin	\$ 42.00	\$ 34.00
 Bid	 \$ 238.00	 \$ 196.00

Farm Journal Website Survey  
Cash Rents For 2014  
1013 Votes

- 20% Higher 10%
- 10% Higher 15%
- No Change 62%
- 10% Lower 6%
- 20% Lower 7%

## COMMON COMMENTS

- But, How Do "THEY" Do It?  
Response: It Doesn't Matter!
- I Will Not Be Able To Expand!  
Response: Are You Willing To Enter Into An Agreement  
Knowing You Will Experience A Loss?
- If I Could Just Get Control Of The Land I Can Keep It!  
Response: Many Landlords Have Little Loyalty Today.  
How Much Net Worth Are You Willing to Risk?

## OPTIONS?

- Variable Cash Rents ([www.farmdoc.illinois.edu](http://www.farmdoc.illinois.edu))  
Look at FAST Tools as well as FEFO 11-17, 9-27-2011 in Archives
- Return to Crop Share
- Profit Sharing
- Custom Farming
- Zero Based Budgeting
  - Why Do I Need This Expense?
  - Go Back to Agronomic Basics: Soil Test
  - Examine Machinery Replacement Program
  - Don't Drop A Quarter Trying To Save A Nickel

## PROFIT SHARING

- Variation of Variable Rents
- Built on Trust
- Base Cash Rent
- Bonus Rent on Base Rent: “We Want to Pay You the Top Cash Rent!”
- Everyone Needs to Make a Profit!!!!



## FARMING AND RANCHING IS A MARGIN GAME!!!

- Once You Lock In Your Rent, Lock In Your Profit: Marketing Program and Lock in Inputs
- You Don't Go Broke Making A Profit
- Dunteman Rule 43: Pigs Get Fed, Yet Hogs Get Slaughtered!

## MARKETING RISK MANAGEMENT STRATEGIES

- Multiple Advisors: At least 2 or 1 for each 3,000 Acres
- Mutual Funds Approach to Marketing??
- Allocate at least 1/3 of Production to “Dumb Method of Marketing?”
- Delegate Execution of Plans to Spouse or Clerical Staff
- Marketing is Still a “Black Art”; Operator Results are Not Consistent Year to Year!!

## THE CARE AND FEEDING OF LANDLORDS

- Written Lease
- Be Fair!
- Establish Trust
- Make The Landlord A Part of Your Family
  - Christmas, Holidays, Birthdays
  - Farm Newsletter (pictures, farm events, landlord recognition, price trends, economic trends, etc. Note: This can also be a sales tool with Farm Managers and Prospective Landlords)
- Landlord “Brag Book”
  - Update Regularly
  - Include Yield Data, Picture of Landlord Farms, Soil Tests, Fertilizer Applications

## GAINING NEW RENTAL ACRES

- Take Out Your Plat Book: Identify Potential Rental Land in 10 Mile Circle
- Create Sales Book
- Newsletter
- Website
- Use Personal Contacts
- Watch Cash Rent Bids
  - Think of Your Rental Land as a Portfolio
  - Equal Rate for Equal Land
  - Pay Bonus Rents When You Make Money

## TRENDS IN LEASING

- Minimum Fertility Clause
- Landlord Rents Farm With Fertilizer
- Custom Farming Lease
- Letter of Credit For Second Rent Payment
- Return To Crop Share In Limited Cases

## THE END

- Questions
- Comments
- Snotty Remarks???