GLAUB FARM MANAGEMENT

• MANAGEMENT • REAL ESTATE • LAND AUCTIONS
• APPRAISALS • CONSULTING • INVESTMENTS

MIDSOUTH VIEWPOINTS

WINTER 2019

ESTABLISHING A WIN-WIN LEASE AGREEMENT

One of the most important aspects of owning farm land is establishing a proper lease agreement with the operator in charge of farming the land. There are two general types of lease agreements that one must choose from: cash rent and crop-share.

Glaub Farm Management recommends a crop-share arrangement as the best long-term option because it contains many benefits to both the landowner and the operator. When compared to cash rents, a crop-share arrangement allows the operator to have less capital in play due to the landowner sharing some of the costs. Additionally, both parties share risks from potential low yields or profits from high yields. A crop-share arrangement also motivates landowners to be as involved as possible with the land as well as establish a good relationship and communication with the operator.

When establishing a crop-share arrangement, it is important to develop an equitable lease for both parties based on resource and input contributions. One way to do this is to make sure shareable expenses are divided into the same percentages as the income that is shared. Remember that yield-increasing input expenses should be shared in the same percentage as the crop. The operator and the landowner must share total returns in the same manner that they contribute inputs and resources to produce the crop. The sharing of input expenses encourages both parties to maximize production and yield the highest profits possible.

If the landowner and operator each contribute 50% of all resources and inputs, then it is only fair that both parties share 50% of any income derived from these expenses. The same applies for a 67-33% agreement, a 75-25% agreement or any other percentages that have been established by the lease. The shareable income includes crop sales, government payments or other type of income generated from the land to which both parties have contributed. Mineral rights are typically not shared since the operator generally has not contributed to this income in any way. Income from rights such as hunting, solar/wind, etc. may have shared contributions which could be factored into a crop share percentage or other arrangements.

Oftentimes leases are set because “that’s how we always have done it.” However, technology and capital contributions change, so a lease should be reviewed over time. There are two different approaches to a crop-share arrangement—the contribution approach and the desired-share approach. Under the contribution approach, the percentage of contribution from each party (except for yield-increasing inputs) is determined. Both parties then share crop-related income and yield-increasing inputs using the same percentage. Under the desired-share approach, both parties determine a percentage share basis and adjust their contributions to fit this percentage. While both approaches have their advantages and disadvantages, determining the best solution for a specific situation is ultimately up the landowner and operator.

Once an agreement has been made, the determined arrangement must be put in writing. Our in-house joke is that “a verbal lease is as good as the paper it is written on.” A written lease provides both parties a physical statement of all details for a better understanding of the entire agreement. In the case of the death of the landowner or operator, having a physical copy of the agreement provides any heirs with a guide for moving forward with the operation.

One resource for lease publications is ncfmc.org/publications.aspx from the North Central Farm Management Extension Committee. Leasing information is also available through Glaub Farm Management, the Extension offices and the National Ag Risk Education Library.

RECENT AUCTION RESULTS

On Sep. 18, Glaub Farm Management held an auction at Jonesboro's Hilton Garden Inn to sell 648.53 +/- acres in Craighead County, Arkansas. The farm was auctioned for a combined $3,339,903.98 or $5,149.96 per acre. Of the total 648.53 acres, 563.33 are considered tillable, resulting in a price of $5,928.86 per tillable acre. The farm was split into three different tracts, giving the bidders the opportunity to buy the whole farm, individual tracts or a combination as desired.

A local farming family purchased Tracts 1 and 2, consisting of 229.98 acres and 176.19 acres, respectively, for a total acreage of 406.17 at $4,900 per acre. Together, the tracts contain 357.98 tillable acres, making the price of the tillable acres $5,893.20 per acre.

Tract 3 was purchased by a local investor. The tract contains 242.36 acres and was sold at a price of $4,500 per total acre. Of the 242.36 acres, 205.35 are considered tillable. The price of the tillable acres equates to $5,311.03 per acre.

GFM would like to thank the sellers for the opportunity to serve and successfully achieve our client's goals and objectives.

DIFFERENT WAYS LAND TITLES ARE HELD

Whether you have recently inherited land, currently own land or are looking to invest in land, it is important to know the different ways property title is held and what each form entails. The following provides general information on the topic, but a discussion with your legal counsel is appropriate when making any purchase or ownership structure change.

Sole Ownership is a form of ownership in which full ownership of the property and all assets belong to a single individual. While appealing to many, this form makes it difficult for the heirs of the property owner. In the case of death of the property owner, the heirs must probate the estate, which can be time consuming and expensive. If a single individual passes with or without a will, the heir(s) should seek legal counsel to move forward with probate. This process might be necessary in multiple states if the deceased had assets in other states than where he/she resided.

Another form of ownership is **Joint Tenancy**. In this form, two or more individuals own a property. The owners each retain equal shares as well as equal rights of the property, meaning they share all income, expenses and use of the property equally. The right of survivorship is a key component of joint tenancy. In the case of death of one or more owners, sole ownership is passed on to the last surviving owner. Right of survivorship also means that the surviving owner can avoid probate, and the transfer of ownership can easily be passed along after death. If one of the owners has any outstanding debts, creditors may be entitled to collect any amount that may be owed using a forced sale of an asset. Under joint tenancy, every owner must agree on the sale or transfer of the property.

Tenancy in Common is established when two or more people own a property. Unlike joint tenancy, owners under tenancy in common do not have to share ownership, income or rights equally. The tenants may decide how to split the assets in any manner they desire. Tenancy in common does not include right of survivorship. In the case of death of one of the tenants, the heirs of said tenant enter the ownership agreement with the surviving tenants.

Tenancy by the Entirety is a form of ownership in which a husband and a wife share equal ownership, rights and income of a property. This form of ownership includes right of survivorship. In the case of death of an owner, the surviving spouse assumes the property and all assets in entirety. In the case of divorce, the two owners become tenants in common, and both owners must agree fully on a sale or transfer of the property.

An **Owning Corporation** occurs when property is owned by the shareholders of a company. This form of ownership limits liability. If an accident happens on the property resulting in injury, the corporation that owns the land may be liable. An Owning Partnership (LLCs) is a form of ownership in which liability is limited for the members of the LLC. As with a corporation, the LLC members' liability will likely be limited to the entity.

An **Owning Trust** is a form of ownership in which a trustee is designated to manage the property on behalf of the beneficiaries of the property. The trustee acts in the direction desired by the trustor. In the case of death of the trustor, his/her interest in the trust is passed along to the beneficiaries. The trust structure and purpose will determine how it operates, when it can be closed and how the remainderman receives title.

U OF A RELEASES 2020 CROP ENTERPRISE BUDGETS

The University of Arkansas Cooperative Extension Service recently released its 2020 crop enterprise budgets that present the return before land and management expenses are accounted. Peanuts, corn, rice, cotton, soybeans and sorghum are in order from most to least profitable according to the 2020 surface irrigation budgets. This is the first year in the last five to have more than one crop with negative returns as shown in the graph.

The budgets are designed in Excel, which allows the user to adjust prices, yields, machinery compliments and irrigation in order to match actual farm activities. Divergence in profitability becomes clear depending on crops and farming practices which include capital contributions to the land. View and download the UA 2020 Crop Enterprise Budgets on the Extensions Service's website.

ANNUAL CROP BUDGET RETURNS BEFORE LAND COST

	2015	2016	2017	2018	2019	2020
COTTON	$82.78	$4.82	$80.47	$15.89	$57.98	-$12.12
CORN	$176.80	$182.67	$116.77	$55.04	$45.83	$96.28
SORGHUM	$33.55	$86.25	-$13.99	-$55.13	-$90.84	-$111.05
SOYBEAN	$190.50	$77.99	$169.77	$164.02	$84.07	-$35.44
RICE	$251.74	$330.51	$154.40	$200.01	$181.75	-$9.79
PEANUT	$352.56	$166.92	$320.26	$400.93	$281.05	$208.37

2019 ASFMRA ANNUAL CONFERENCE

Ted, Jeffrey and Houston recently attended the American Society of Farm Managers & Rural Appraisers (ASFMRA) 90th Annual Conference held Nov. 16-22 in Louisville, Kentucky.

The main highlights were visiting Tucker Farms, where workers were stripping tobacco for market, and Undulata Farm, where we received an up-close view of an American Saddlebred operation.

The conference featured several interesting presentations, including a new technology review by Ag Innovations, an update on the U.S. agriculture economy, the application of blockchain into agriculture, the future of valuation and what climate change means for agriculture.

ASFRMA is the premier organization of rural property professionals focused on advancing the standards of the disciplines represented through an unparalleled level of expertise and integrity. Ted, Jeffrey and Houston all volunteer and help the organization on both the local and national level.

Ted working as a ringman during the Education Foundation Auction.

Jeffrey helping with the Eduction Foundation Auction items.

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Ted L. Glaub
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Certified General
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AVAILABLE LAND INVESTMENTS

- 91+/- Acres in Crittenden County, AR. (Pending)
- 218+/- Acres in Monroe County, AR. (Available)
- 255+/- Acres in Phillips County, AR (Available)
- 531+/- Acres in Monroe County, AR (Available)
- 606+/- Acres in Monroe County, AR (Available)
- 761+/- Acres in Cross County, AR. (Pending)
- 766+/- Acres in St. Francis County, AR. (Available)
- 890+/- Acres in St. Francis County, AR (Available)
- 974+/- Acres in St. Francis County, AR (Available)

Contact us for these and additional land investment opportunities.

GLAUB FARM MANAGEMENT

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