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MID SOUTH VIEWPOINTS

WINTER 2023

UNDERSTANDING THE ROLE OF AGRICULTURAL ASSET MANAGEMENT



By Jeffrey Hignight

Professional farm management can be misunderstood due to the various roles a farm manager can play. These roles can include directly operating the farm, providing advice to the farmer, or working for a landowner. However, in general, a property manager in real estate is primarily responsible for collecting rent, paying bills, and administering property leases. A property asset manager goes beyond the duties of a property manager, actively working to enhance the value of a property for the owner or investor through their expertise in various fields such as business, brokerage, management, economics, finance, and accounting. They are deeply involved in all aspects of the property and use their diverse skill set to maximize its potential. This is the type of service that we specialize in at Glaub Farm Management, as well as what is expected of Accredited Farm Managers.

The complexities of agriculture drive the asset manager's crucial role in helping landowners to make informed decisions about their agricultural assets. These professionals are responsible for managing and maximizing the value of agricultural land and assets, including farms, ranches, and other rural properties.

As an agricultural asset manager, the main responsibility is to devise and execute strategies that enhance the profitability and efficiency of a landowner's assets, all while aligning with their ownership goals. It is essential to approach the role with a strategic mindset and act as if the assets are one's own. This may involve identifying opportunities for diversifying crop options, increasing crop yields, increasing the land attractiveness to top operators, mitigating risk, controlling expenses, or expanding the use of the land for other purposes, such as renewable energy production, wildlife enhancement or recreation activities.

In addition to developing strategies for improving the performance of agricultural assets, agricultural asset managers also play a key role in identifying and securing funding options for projects and investments. This may include securing loans, grants, or other forms of financing to support the development and expansion of agricultural operations. As an example, an agricultural asset manager may review and apply for cost-share programs offered by the United States Department of Agriculture, such as the Environmental Quality Incentives Program, to maximize the profitability and efficiency of a landowner's assets.

Agricultural asset managers also play a crucial role in helping landowners navigate the complex regulatory environment surrounding agricultural production. This may include helping landowners obtain necessary permits, comply with environmental regulations, and manage their assets in a sustainable manner.

Agricultural asset management may involve taking on the roles of teacher and psychologist at times, providing guidance and support to owners and their families as they navigate the world of farming and land ownership. This can include educating them on land markets, asset valuations, rental agreements, and the importance of understanding the desire of each stakeholder to develop successful business and succession plans. By helping owners and their families understand the intricacies of the farming industry, agricultural asset managers can play a crucial role in the success and sustainability of their operations.

Overall, agricultural asset managers serve as trusted advisors and partners for landowners, helping them make informed decisions about their agricultural assets and implementing actions to achieve ownership goals.

2023 CROP ENTERPRISE BUDGETS NOW AVAILABLE

According to the recently released 2023 crop enterprise budgets from the University of Arkansas Cooperative Extension Service, surface irrigated corn, soybean, rice, peanut, cotton, and sorghum are the most profitable crops in that order. While the budgets project higher crop revenues in 2023 compared to 2022, with an average increase of 11%, they also show a 9% increase in crop input expenses. The budgets suggest that there may be fewer cotton acres and more corn and soybean acres, and that rice acres may increase from the previous year due to slightly higher profitability. It's important to note that budgeting is a tool for setting expectations, but it is not a guarantee of actual returns. If the end of the year looks like the budget, it is a sheer coincidence. Several factors, including weather, price changes, and unexpected events (commonly referred to as "black swans"), can impact the success of a crop.

2023 CROP ENTERPRISE BUDGETS NOW AVAILABLE - CONTINUED

University of Arkansas Summary of Revenue and Expenses per Acre for Surface Irrigation

Receipts	Cotton B3XF	Corn Stacked	Grain Sorghum	Soybean RR2Xtend	Rice FullPage
Crop Revenue	\$1,020.00	\$1,397.50	\$630.00	\$816.00	\$1,330.00
² Net Operating Expenses	\$762.67	\$855.50	\$502.40	\$485.71	\$1,031.39
³ Returns to Operating Expenses	\$257.33	\$542.00	\$127.60	\$330.29	\$298.61
Fixed Costs	\$184.69	\$117.31	\$111.41	\$129.79	\$129.76
⁴ Total Specified Expenses	\$947.36	\$972.81	\$613.81	\$615.50	\$1,161.15
³ Returns to Specified Expenses	\$72.64	\$424.69	\$16.19	\$200.50	\$168.85

¹Gin rebate is set equal to post-harvest expenses.

²Cottonseed value (gin rebate) deducted from post-harvest expenses.

³Share rent and cash land rent are deducted from crop revenue.

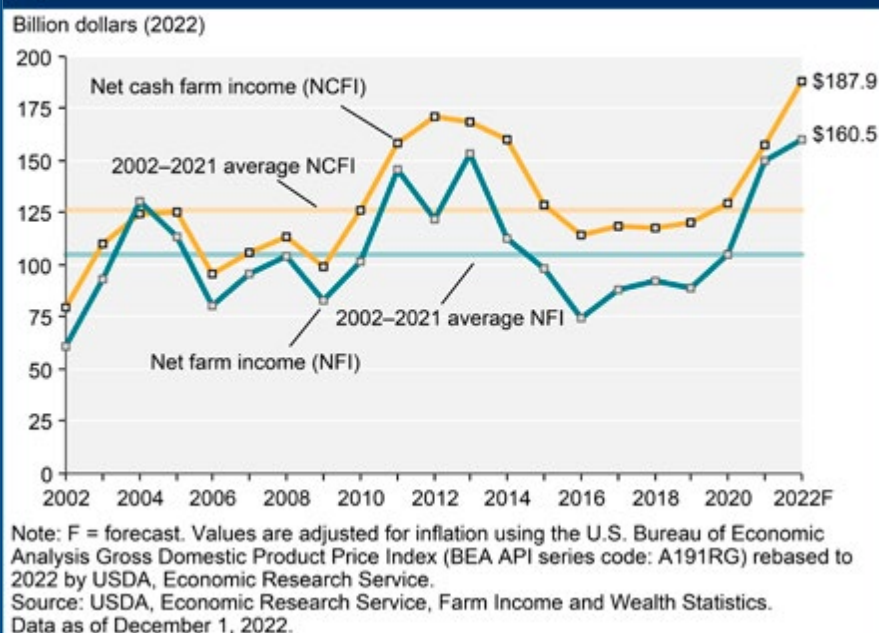
⁴Does not include land costs, management, or other expenses and fees not associated with production.

<https://www.uaex.uada.edu/farm-ranch/economics-marketing/farm-planning/budgets/crop-budgets.aspx>

The UA 2023 Crop Enterprise Budgets are a useful tool for farmers and landowners looking to understand the potential profitability of their crops. Created in Excel, these budgets allow users to customize the prices, yields, machinery, and irrigation used in their calculations to better reflect their own farm's activities. By making adjustments to these variables, farmers and landowners can see how changes in field trips, inputs, machinery, prices, and yields can affect their profitability. The budgets are available for free download on the extension service's website <https://www.uaex.uada.edu/farm-ranch/economics-marketing/farm-planning/budgets/crop-budgets.aspx> and are a convenient way to plan for the future.

RECORD NEW FARM INCOME PROJECTED FOR 2022 BYJEFFREYHIGHLIGHT

U.S. net farm income and net cash farm income, inflation adjusted, 2002–2022F



Net farm income is a broad measure of the profitability of a farming operation. It is calculated by subtracting the cost of production from the revenue generated by the sale of agricultural products.

Factors that can affect net farm income include the price of agricultural commodities, the cost of inputs such as seed, fertilizer, and fuel, and weather conditions that may impact crop yields. In recent years, net farm income has been volatile due to market fluctuations, trade disputes, and other economic factors. Ad hoc farm payments have helped stabilize the farm economy during these recent years. Other tools such as crop insurance, forward contracts, and hedging help mitigate some of the financial risks faced in production agriculture.

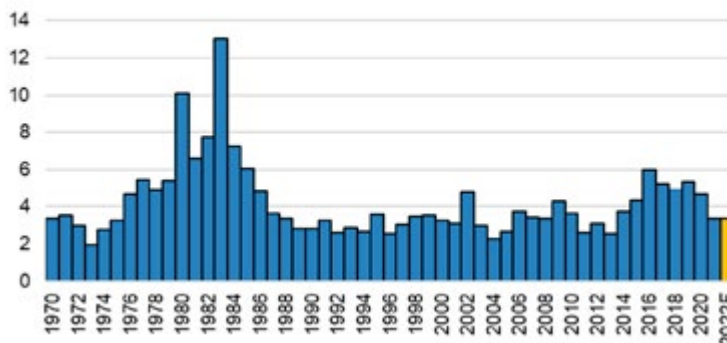
Adjusted for inflation, USDA reports both net cash and net farm income for 2022 will be at the highest level since 1973. Net cash is projected at \$187.9 billion while net farm income is estimated to be 160.5 billion (see chart below). It is worth noting that net cash income includes all cash expenses while

net farm income includes all cash and non-cash expenses, such as capital depreciation and farm household expenses.

Net farm income is just one measure of the health of the agricultural industry. Other metrics, such as the value of agricultural production, farm debt, and land values, can also provide insight into the financial well-being of farmers and the agricultural sector as a whole. The publication *Landowner* by Farm Journal frequently reports on the ratio of Total U.S. Farm Debt to Total U.S. Net Farm Income. When this ratio exceeds 4, it often indicates that stress is building within the U.S. agricultural sector. According to current projections, the ratio for 2022 will be 3.4. See chart to the right.

Looking ahead to the 2023 crop, farm income will likely be similar to 2022 and still above the historical average. Input prices, such as those for fertilizer and diesel, are expected to decrease slightly, though they will remain elevated. The ongoing Russian war in Ukraine will likely keep commodities prices firm including those for soybeans, wheat, rice, and corn. Cotton prices, on the other hand, appear to be heading lower. One of the biggest challenges facing U.S. agriculture is the impact of monetary policy and the impact of financing production and real estate. Commodity market demand is also a potential uncertainty, as disruptions in China due to the spread of Covid-19 or other global animal flu outbreaks could affect demand for agricultural products. Like every year, unknown and unforeseen factors will influence the market and certainly make the ending different than what was expected.

Total U.S. Farm Debt/ Total U.S. Net Farm Income





In the summer of 2022, you may have seen headlines about Dutch farmers protesting the government's nitrogen emissions reduction laws, which disproportionately affect livestock producers. While it is important to work towards reducing emissions, it is crucial to do so in a way that does not decrease food production, increase food prices, or ultimately result in higher global emissions.

The Netherlands is a major player in the global agricultural industry and is the second-largest exporter of agricultural goods in the world, behind only the United States. Despite being a

small country (about the size of Maryland), Dutch farmers are among the most efficient in the world, generating \$79 billion in exports in 2019. In comparison, the US, which is much larger in size, generated \$118 billion in agricultural exports that year.

The Dutch government has faced criticism for its policies that are perceived to harm the agriculture industry in the country. In an effort to reduce greenhouse gas emissions, including carbon and nitrogen, the government has passed legislation with ambitious targets, such as a 50% reduction in nitrogen emissions by 2030 and 95% by 2050. However, achieving these goals using current technology is seen as impossible, leading to government plans to force buyouts on approximately 3,000 farms.

It is estimated that these policies will reduce the countries' food output by 20%. While citizens of the Netherlands may not go hungry, they can expect to see an increase in food prices. However, the greatest impact will be felt by countries that rely on exports and developing countries that will likely have less food available. Additionally, it is unlikely that global emissions will be significantly reduced by the Dutch policies, as less efficient countries will increase production to compensate, leading to higher carbon emissions per unit of output.

Several countries have implemented legislation that could potentially compromise food production. For example, the EU has set a goal to have at least 25% of all farms be organic, even though organic farming often results in higher carbon emissions. Similarly, Ireland has set a target to reduce nitrogen use by 30% by 2030. Sri Lanka also attempted to ban all synthetic fertilizers in 2022, which had a devastating impact on crop production in the country. The government reversed course after massive protest. These actions by governments may have unintended consequences on food production and are targeting a fundamental necessity of life that is not the largest contributor of emissions. According to the EPA transportation, electric power, industrial, and commercial/residential sectors all create more greenhouse emissions than agriculture.

The United States' historical approach to reducing greenhouse gas emissions from agriculture has two main components: first, to minimize negative impacts and, second, to incentivize and support the development of more sustainable and efficient farming practices. One example of this approach is the Inflation Reduction Act, which allocated \$20 Billion towards "Climate Smart Farming" initiatives that promote low-carbon, environmentally-friendly practices. By taking these policy measures, the government aims to reduce carbon emissions from the agricultural sector while also ensuring the resilience and sustainability of the food system, without imposing undue burdens on farmers or disadvantaged countries and people. Let's hope the U.S. continues with a rational approach.

RICE PRODUCERS TO RECEIVE AID

In late December 2022, Congress passed the Omnibus Bill, a comprehensive \$1.7 trillion federal spending package that included provisions negotiated by Arkansas Senator Boozman on behalf of rice farmers. One of these provisions was a one-time payment of \$250 million to producers who planted crops in 2022. As the Ranking Member of the Senate Committee on Agriculture, Nutrition and Forestry, Senator Boozman will play a key role in the upcoming farm bill negotiations, which are important for midsouth producers.

Rice farmers in 2022 faced steep increases in input prices, similar to those experienced by farmers of other crops. However, rice prices did not increase as much, leaving farmers with little relief from the higher production costs. According to an Agricultural and Food Policy Center Report, the biggest contributor to the cost increase for rice farmers was a rise in fertilizer prices, which added \$62 per acre in expenses. A study by Texas A&M University found that the rice industry would be more affected by rising fertilizer costs than any other commodity, and another report from the university indicated that the increasing input costs would make roughly two-thirds of rice farmers unprofitable in 2022.

According to the USDA's September 2022 survey, a total of 2,223,000 acres of rice were planted in the United States. It is understood that the one-time payment to rice farmers, which is expected to be made in 2023, will be based on 2022 planted acres. Based on this information, the payment would be approximately \$112 per acre (\$250M/2.2M acres). It's worth noting that the actual payment most likely will be lower than this estimate. Both producers and landowners who have crop share arrangements will qualify for this payment.

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LAND INVESTMENTS: CURRENTLY AVAILABLE & RECENTLY SOLD

- Grain Bins in Poinsett County, AR (Sold)
- 20+/- Acres in Phillips County, AR (Sold)
- 27+/- Acres in Crittenden County, AR (Sold)
- 52+/- Acres in Craighead County, AR (Available)
- 160+/- Acres in Sharp County, AR (Sold)
- 168+/- Acres in Lee County, AR (Contract Pending)
- 333+/- Acres in Prairie County, AR (Sold)



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As experienced professionals with a combined 95 years in the industry, our dynamic team can provide expert guidance and support on all aspects of landownership, including buying, selling, managing, consulting, and appraising. We welcome the opportunity to work with you and help you explore our listed and other land investment opportunities available. Please don't hesitate to contact us for more information.

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