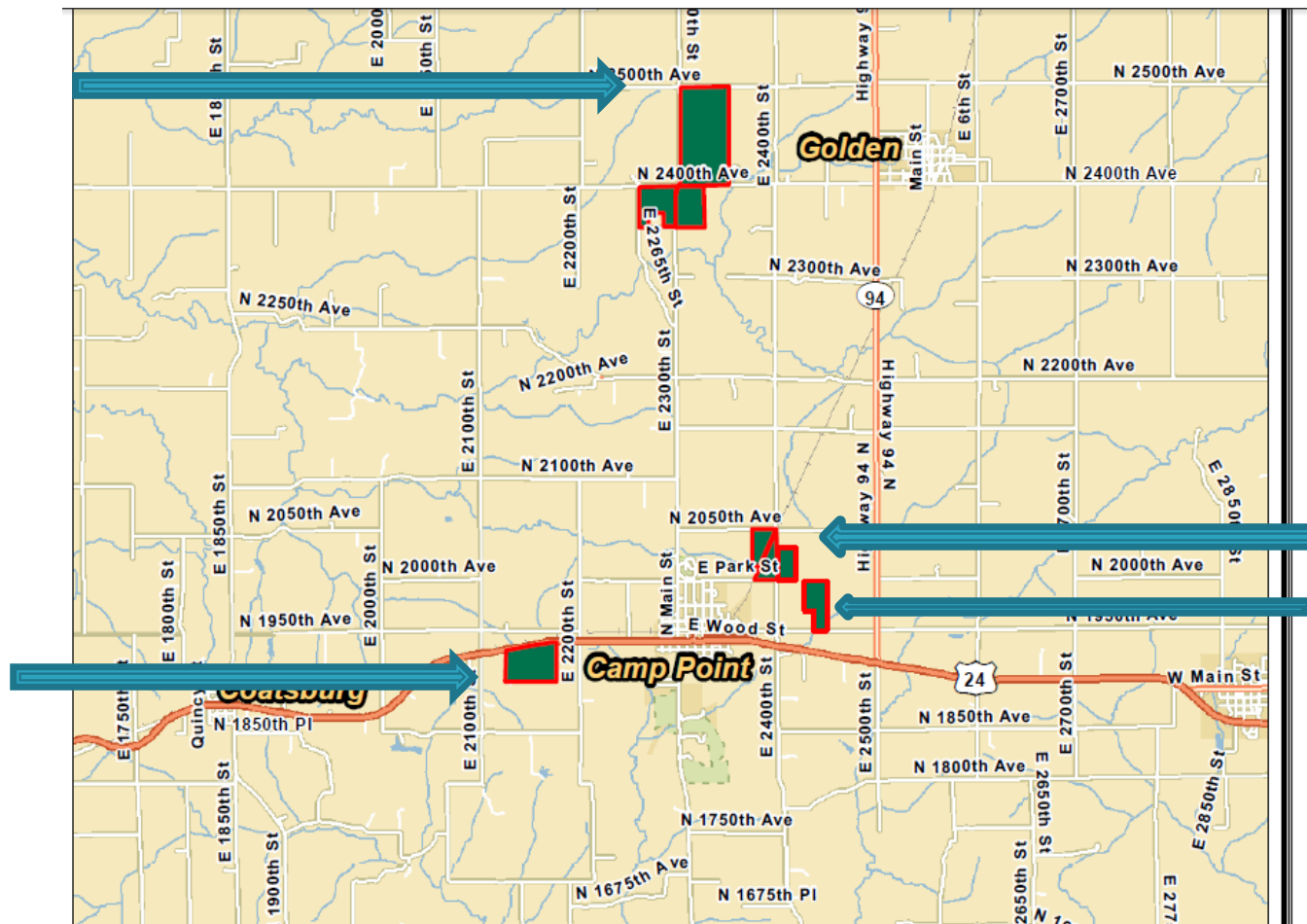


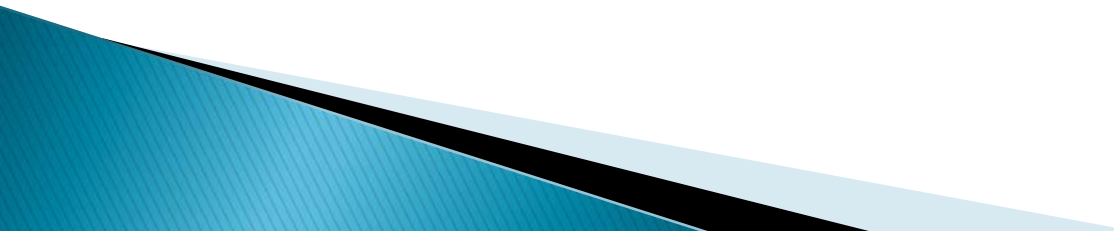
# **TOMORROW'S RENTAL ARRANGEMENTS**

**2017 IOWA FARM BUREAU  
ECONOMIC SUMMIT  
July 20, 2017**

# Bowman



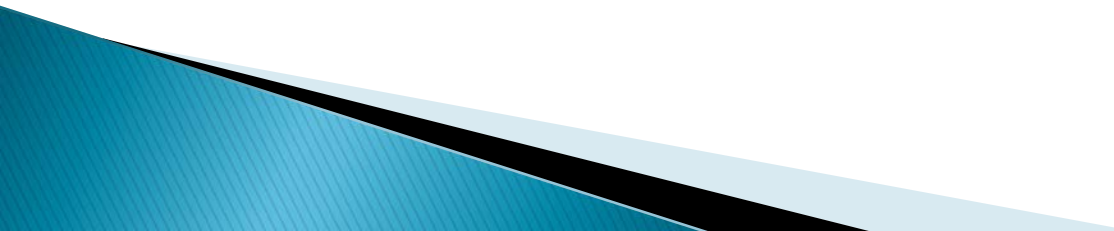
# Topics for Our Discussion

- ▶ 1. Big Picture Changes in Land Ownership and Rental Arrangements
  - ▶ 2. Cash Rent Trends
  - ▶ 3. Fostering Relationships With Your Landowners
  - ▶ 4. Big Data and the Landowner
- 

# 1. Upcoming Farm Ownership Changes

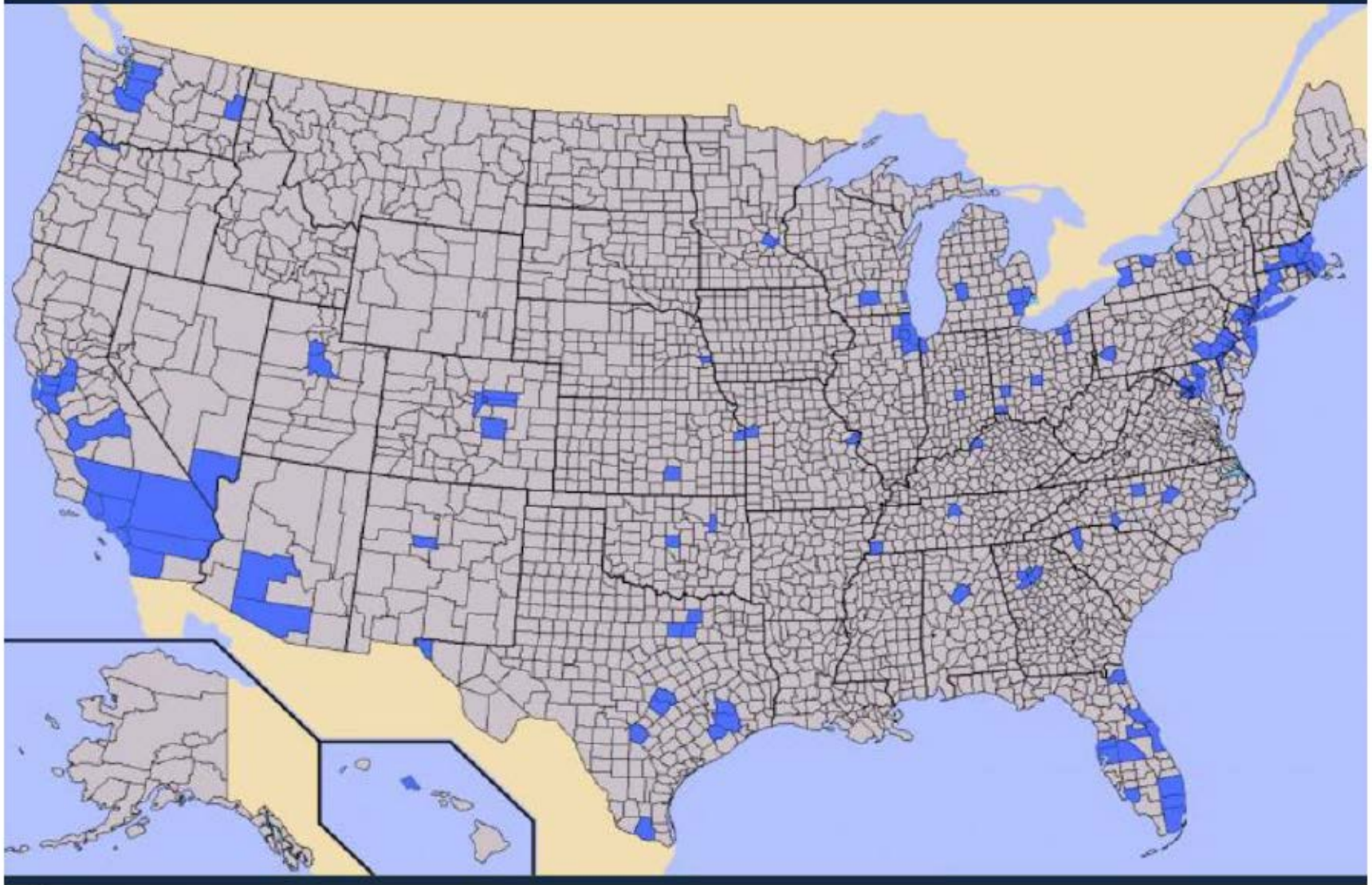
- ▶ 70% of the nation's farmland will change hands over the next 20 years (Kohl)
- ▶ Up to 25% of farmers and ranchers will retire
- ▶ 40% of US landowners are over 70 years old
- ▶ 30% of Iowa landowners are over 75 years old
- ▶ In Iowa, non-resident ownership of land increased from 6% to 21% during the period 1982–2007 (Duffy)

# Generational Transfer of Wealth

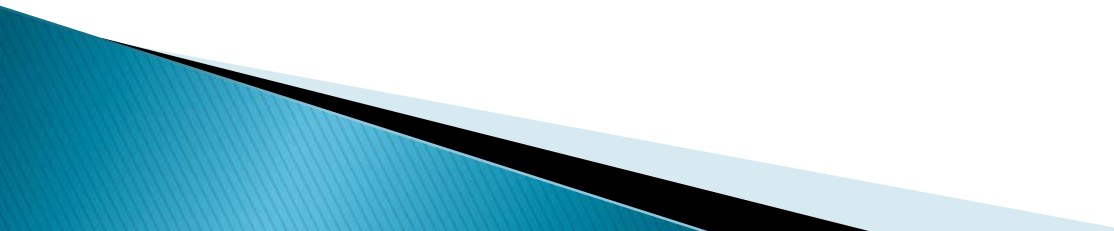
- ▶ 10% of 911 million acres of agricultural land will change hands in the next five years (2% per year)
  - ▶ Only 1% or less trades in the open market each year
  - ▶ Therefore, an estimated 21 million acres of farm and ranchland will be sold between non-related parties in the next five years or 4.25 million acres per year  
*(USDA Total Survey)*
  - ▶ Farmers National Company markets and sells 2.5% to 3.5% of the total land sold each year
- 



# Half of the US Population Lives in these 146 Counties



# What Does This Mean For You?

- ▶ **Opportunity to Purchase Land: Only inheritors sell**
  - ▶ **Passing of one Generation & their values**
  - ▶ **Baby Boomers are the inheritors**
  - ▶ **More demanding and more information**
  - ▶ **Building relationships with owners**
- 

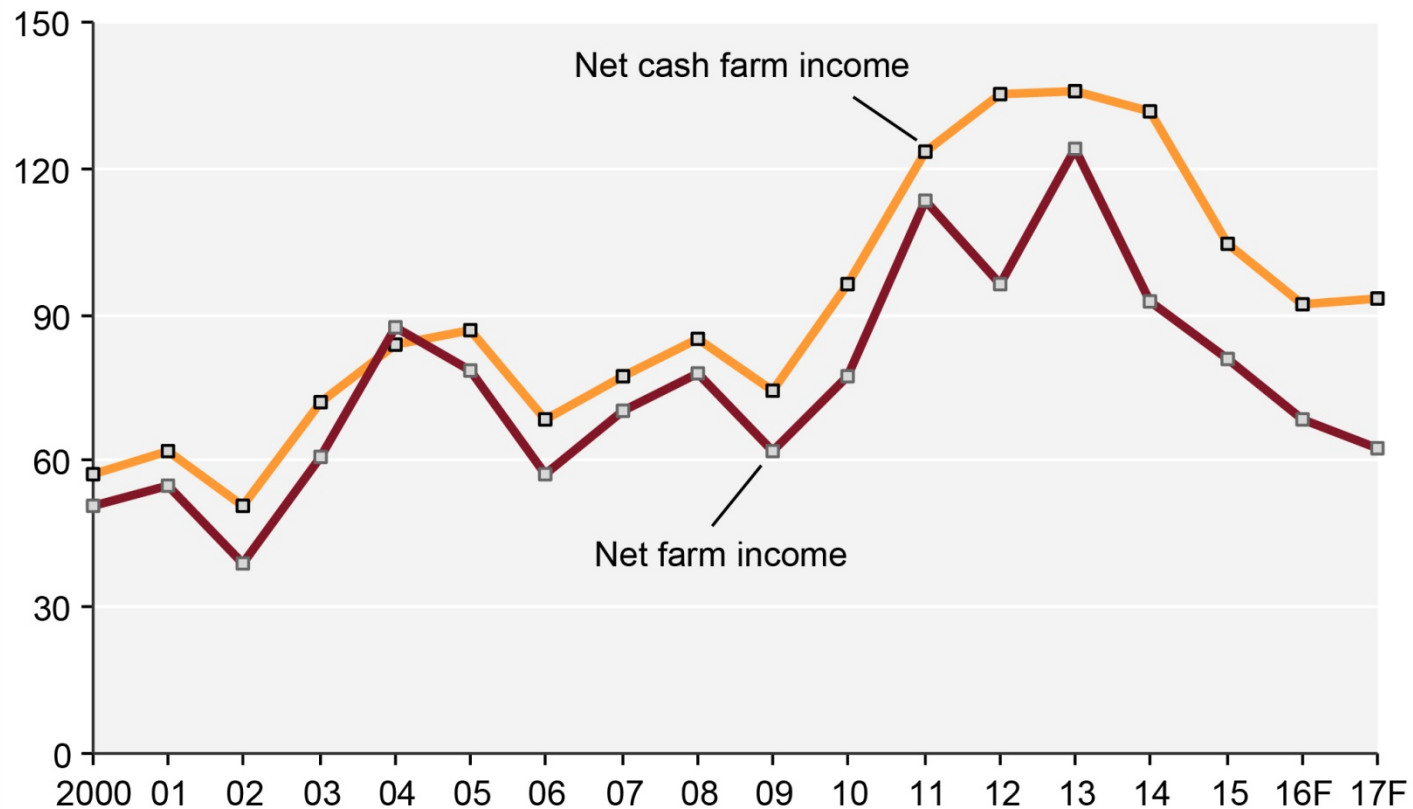
## 2. The Cash Rent Market





## Net farm income and net cash farm income, 2000-2017F

\$ billion, nominal



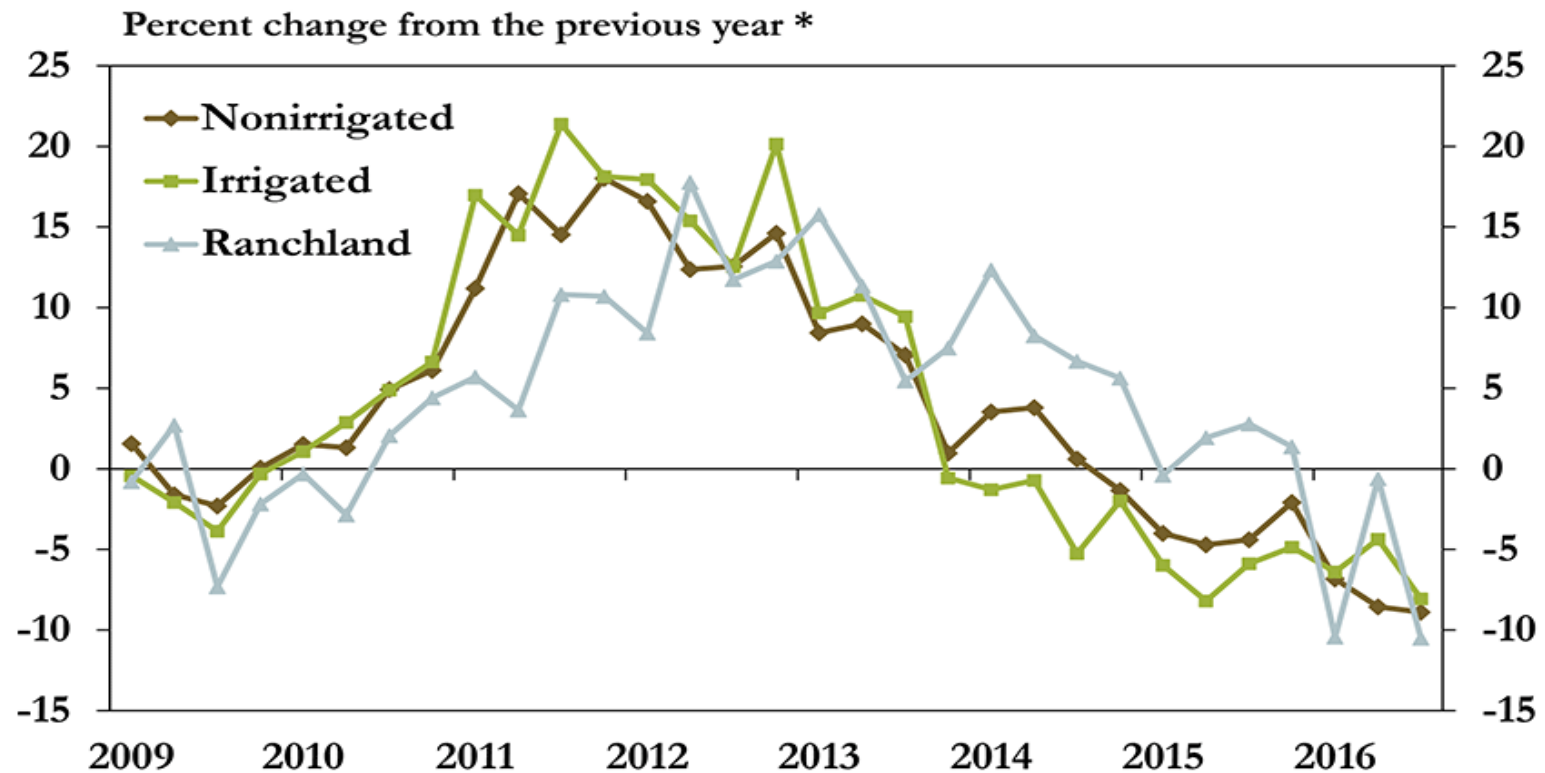
Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of February 7, 2017.

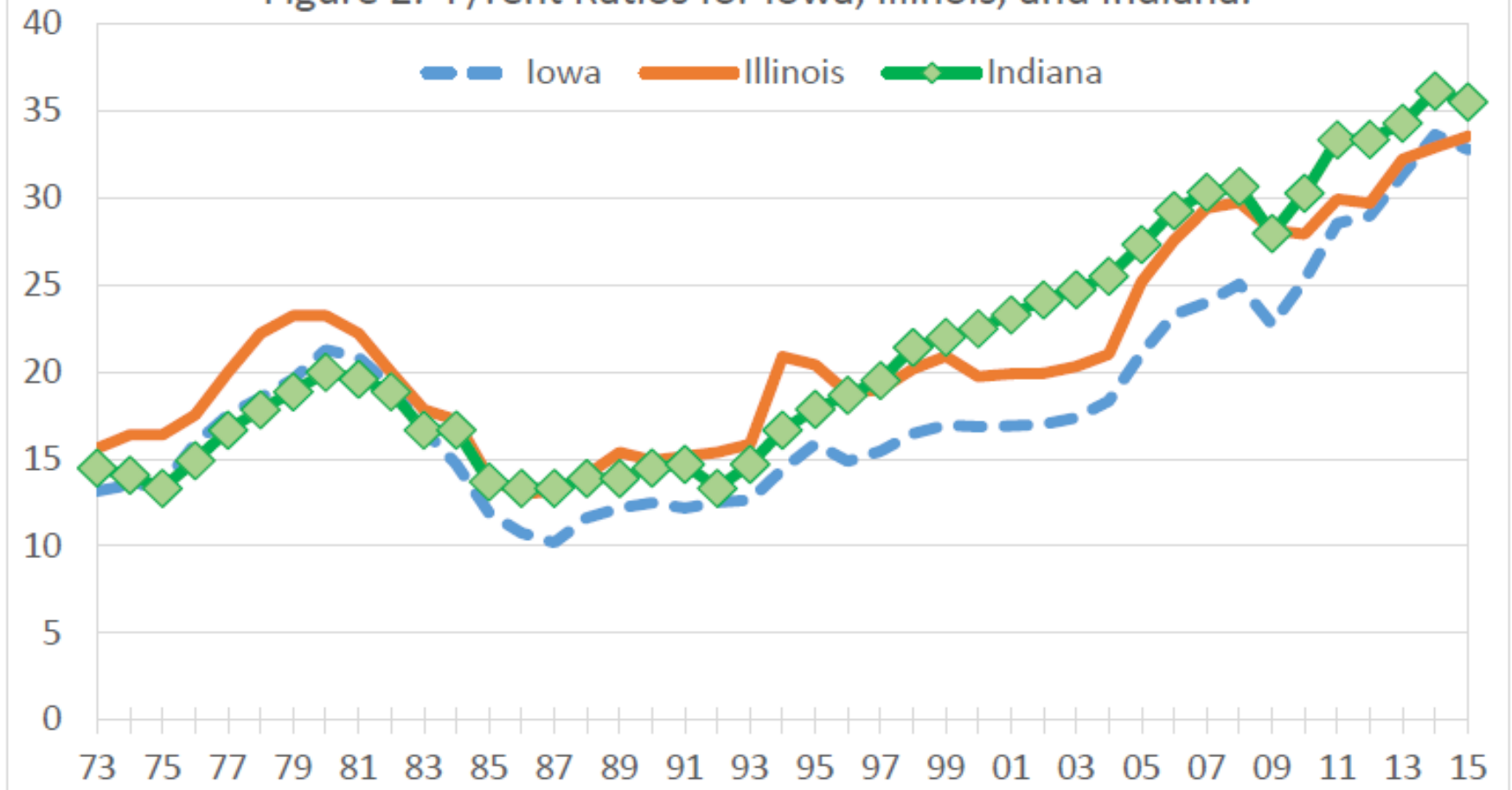
# *Why the Concern in Farm Leasing?*

**Chart 5: Tenth District Cash Rents**



\*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.

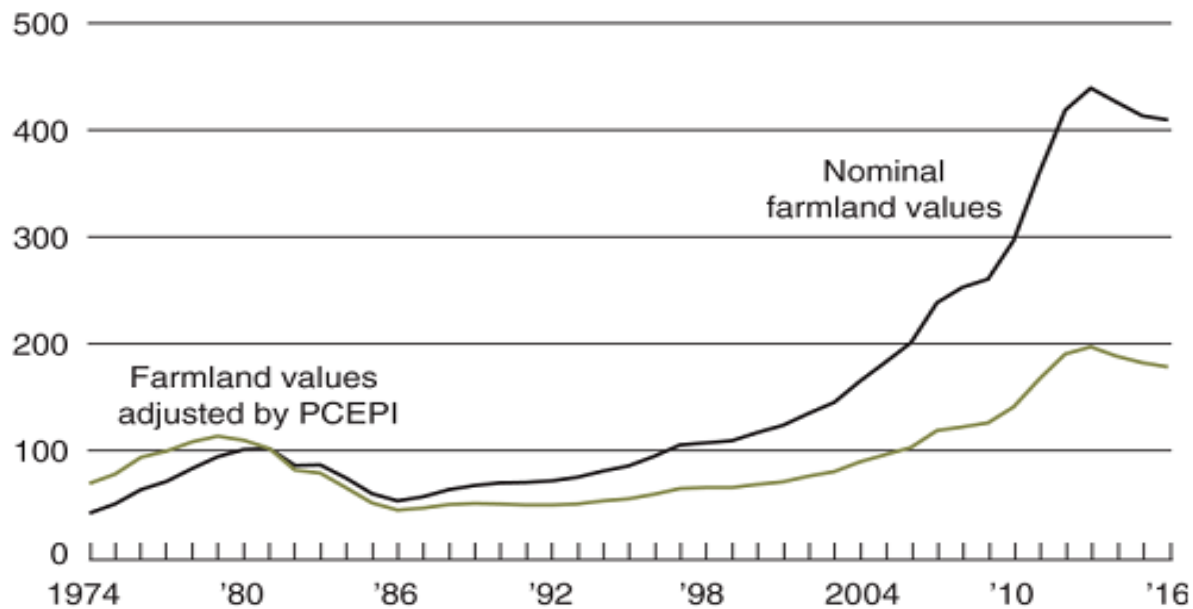
Figure 2. P/rent Ratios for Iowa, Illinois, and Indiana.



Source Purdue Ag Economics Report: P/R ratios in IN have averaged around 17.5

## Farmland Bubble Deflates Chicago Fed District

index, 1981=100

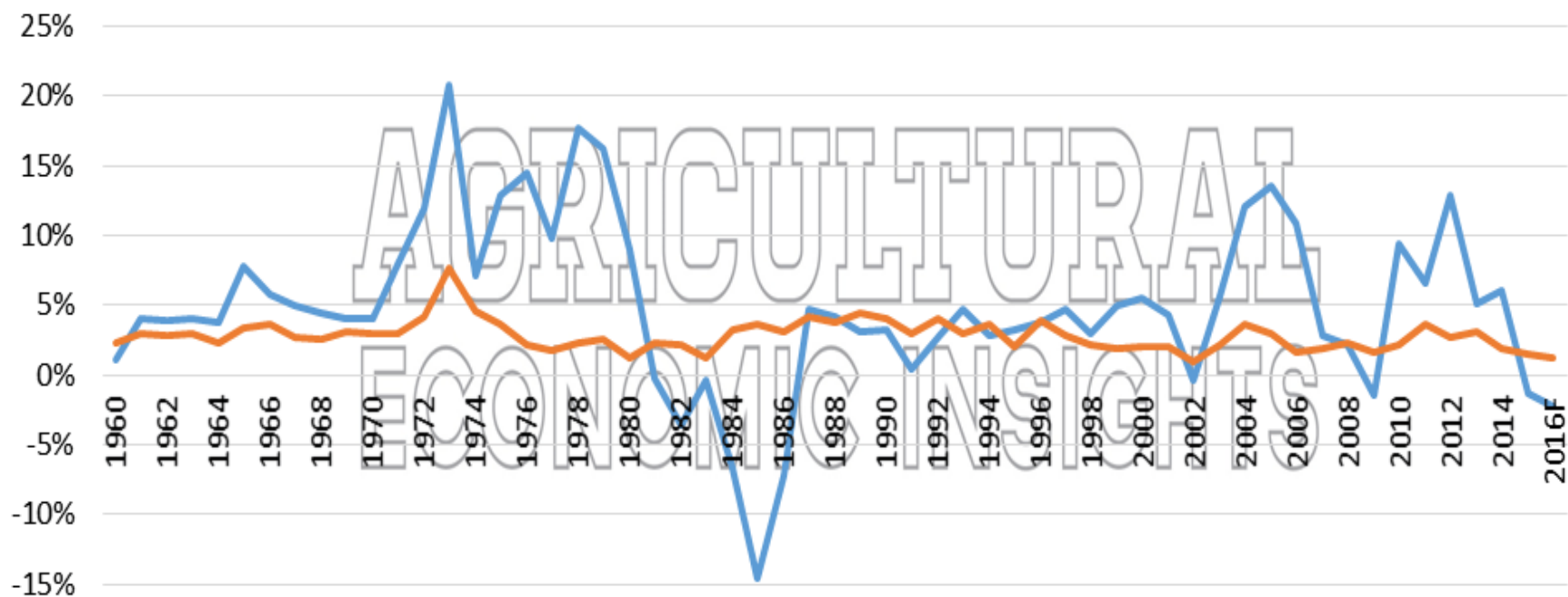


Source of chart: Chicago Fed's AgLetter

WOLFSTREET.com

## Rates of Return on Assets from Income and Capital Gains, U.S. Farm Sector, 1960-2016

— Capital Gains — Income

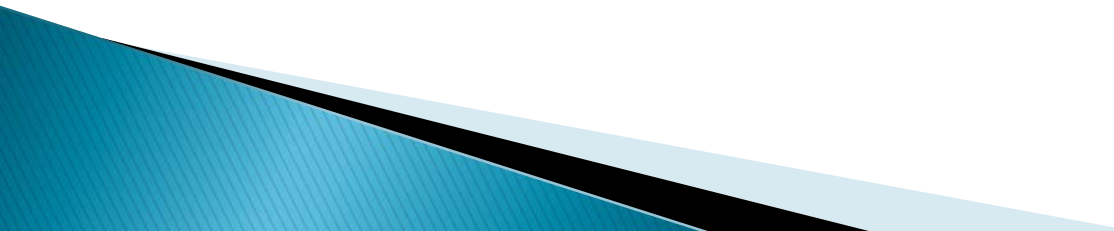




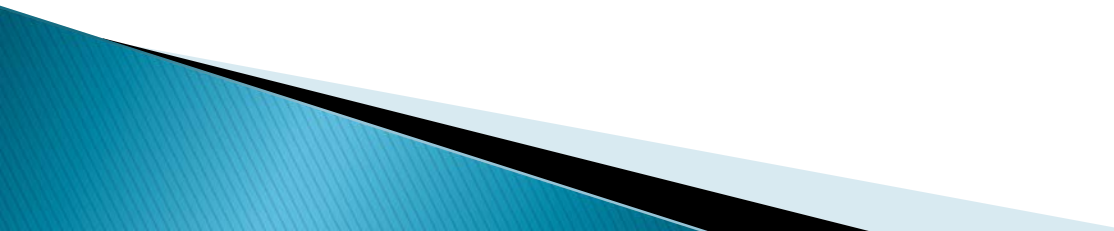
# Sticky Cash Rents

- ▶ **Steady to down 5% to 7% for 2017**
- ▶ **More rent pressure expected in 2018**
  - Rent to value is out of line
- ▶ **Landowners are reluctant to lower rents**
  - They were slow to raise the rent
  - The income is now expected
    - A new generation of landowners
  - They have visited their operators farm . . . .!
    - Less empathy today
  - Increasing land tax burden

# Additional Thoughts

- ▶ Strong demand for top quality farms
  - ▶ Custom & Cash Rent outperforming others
  - ▶ Cash rent market is quite variable
  - ▶ Flexible cash rent arrangements
  - ▶ If there are financial issues, may see a small increase in other lease types
- 

# 3. Fostering Relationships

- ▶ **COMMUNICATE**
  - ▶ **COMMUNICATE**
  - ▶ **COMMUNICATE**
  - ▶ **Be Fair**
  - ▶ **Educate and improve their farm**
  - ▶ **Share the Numbers**
  - ▶ **Working with both men and women landowners**
- 

# 3. Big Data & The Landowner

- ▶ **Just Think, In 10 Short Years Since 2007**
  - I Phone
  - Facebook, Twitter, Instagram, etc
  - Cloud Computing and Big Data
  - Artificial Intelligence
  - AirBNB, Uber, etc, etc, etc

**In Agriculture: Where to begin?**

**How much of the improved yields & efficiency  
have been capitalized into land values & rents?**



# What's Next?

- ▶ **Efficiency gains for production agriculture**
    - Farming the margin
    - The big break through that survives?
  - ▶ **Landowners will be better informed**
    - The tech generation
    - Landowner desk top management?
    - University information
  - ▶ **Who owns the data off the farm?**
- 