So You've Inherited a Farm, Now What?

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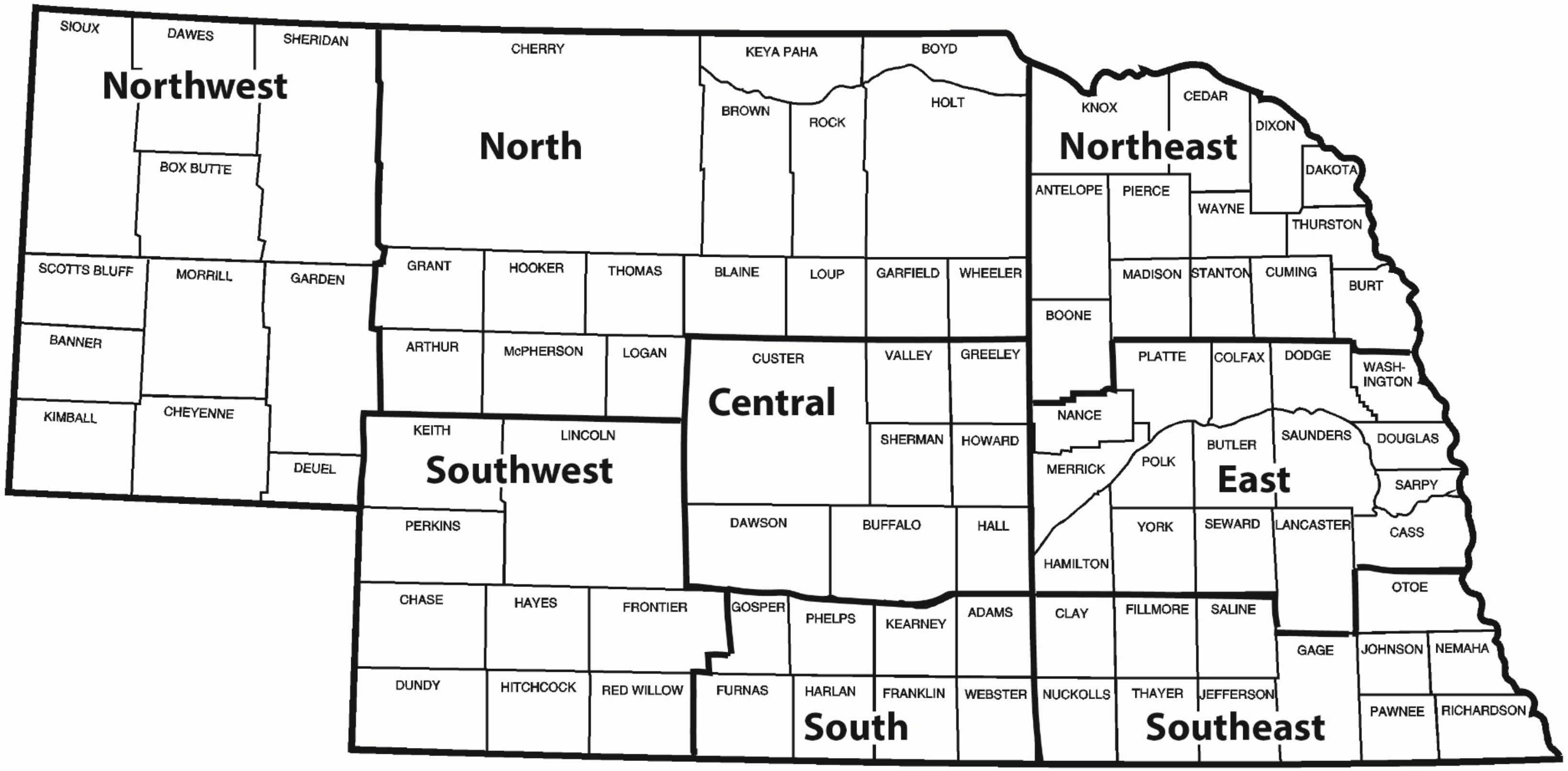
Items to be discussed:

- What is your land worth? – A look at Nebraska land values
  - How to get ag land appraised
- Communicating with family and what to do when things don't go as planned
- Selling or keeping the ground(?)
- Cash rent and trends,
- Managing farmland

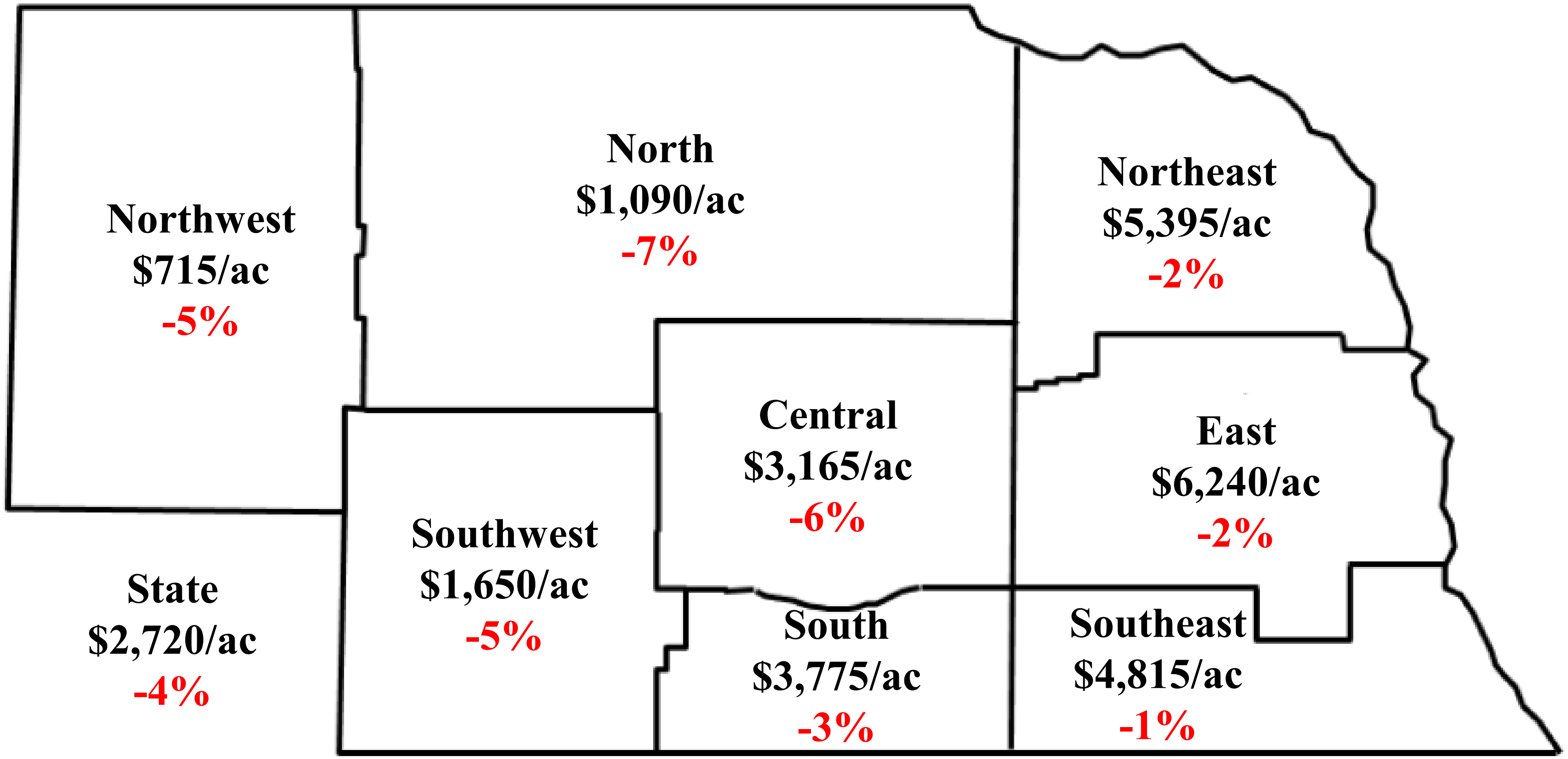
Nebraska Farm Real Estate Survey

- Annual survey conducted since 1978 of Nebraska agricultural appraisers, professional farm managers, and bankers engaged in the land industry.
  - Preliminary results for land values and rental rates published the second week of March.
  - Full report published the following June.
- Nebraska Farm Real Estate website full access to these resources: http://agecon.unl.edu/realestate

Nebraska Agricultural Statistics Districts



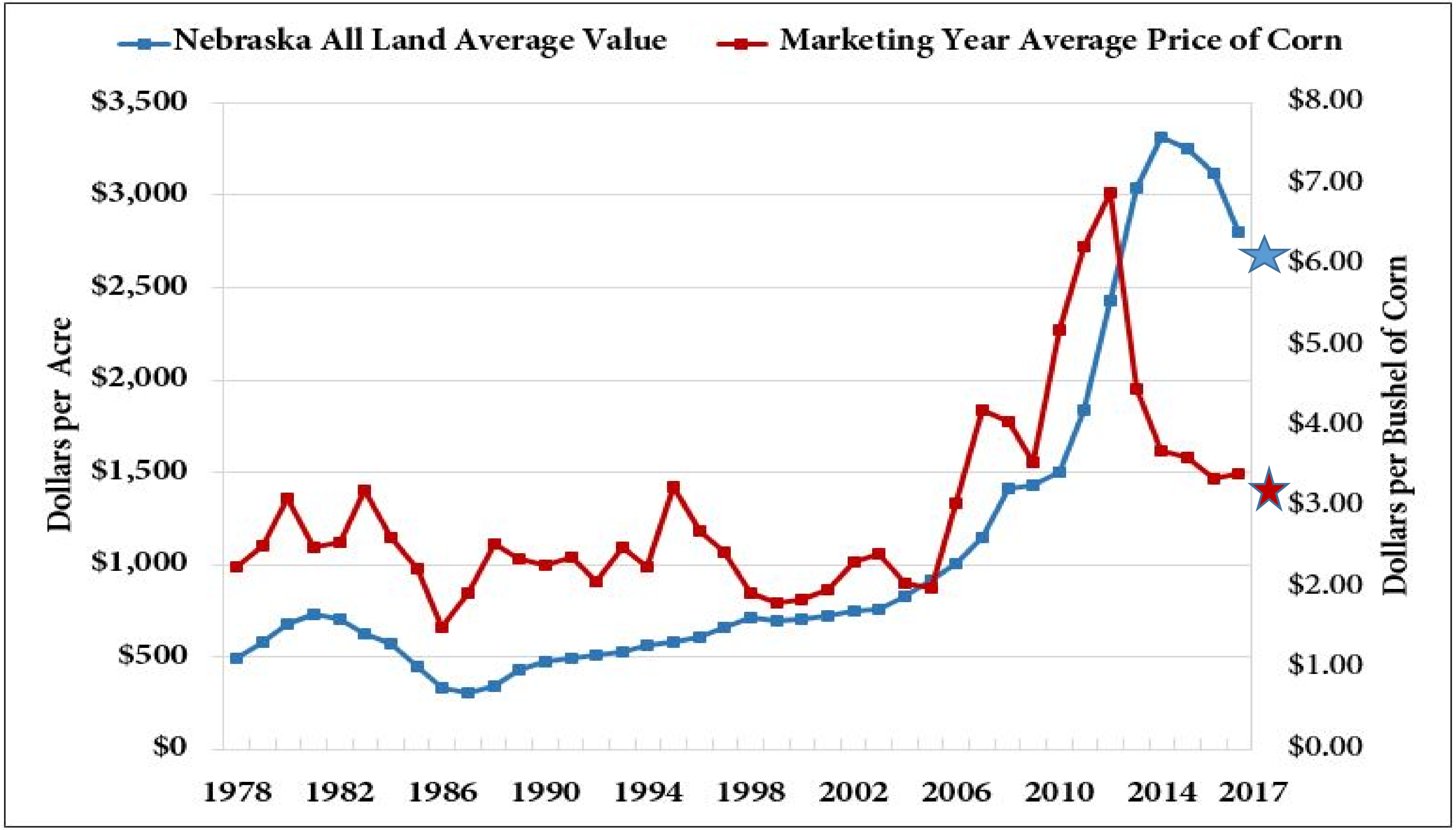
Nebraska Agricultural Average All Land Values – Feb. 1, 2018



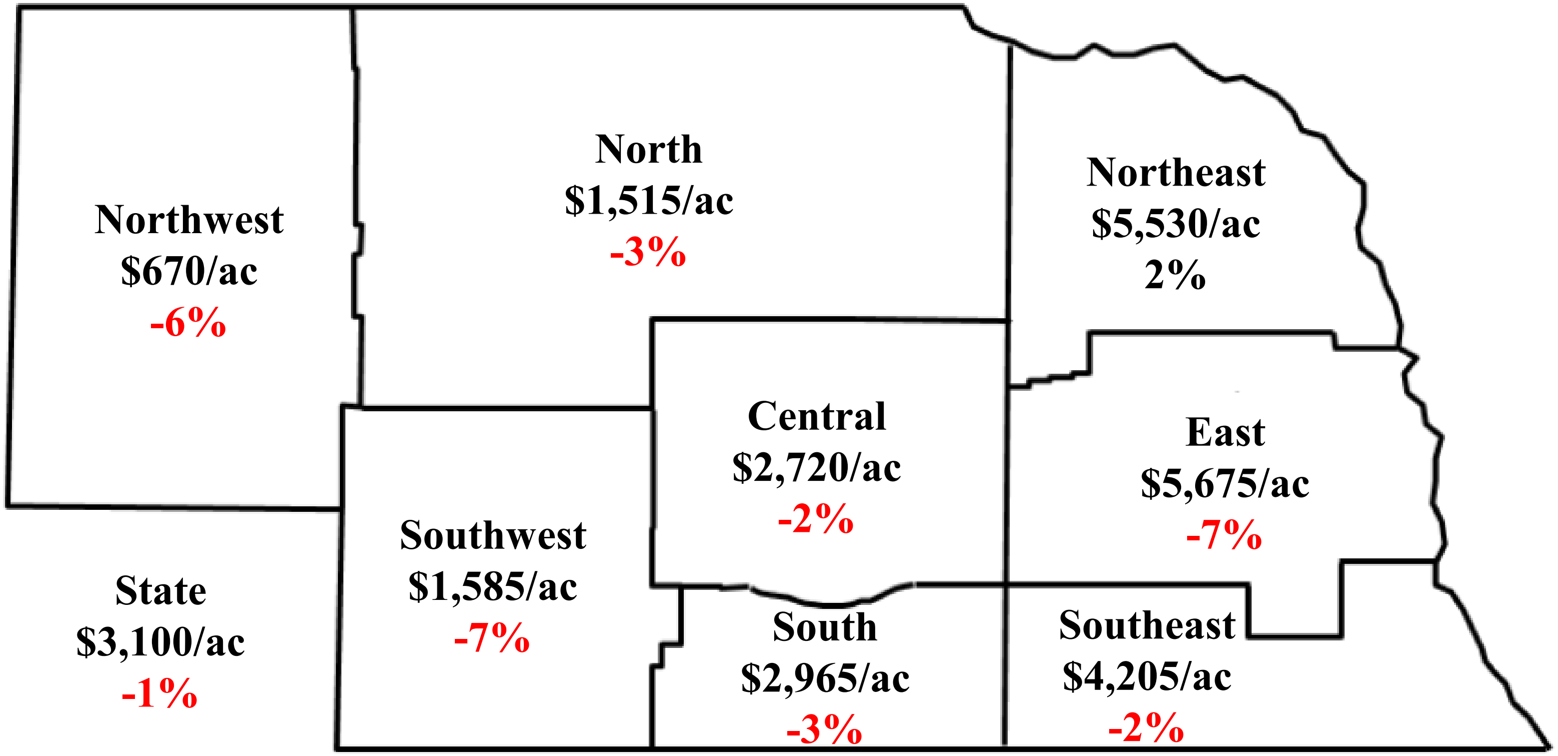
State
$2,720/ac
-4%

Key to Numbers: Average for District, % change from '17

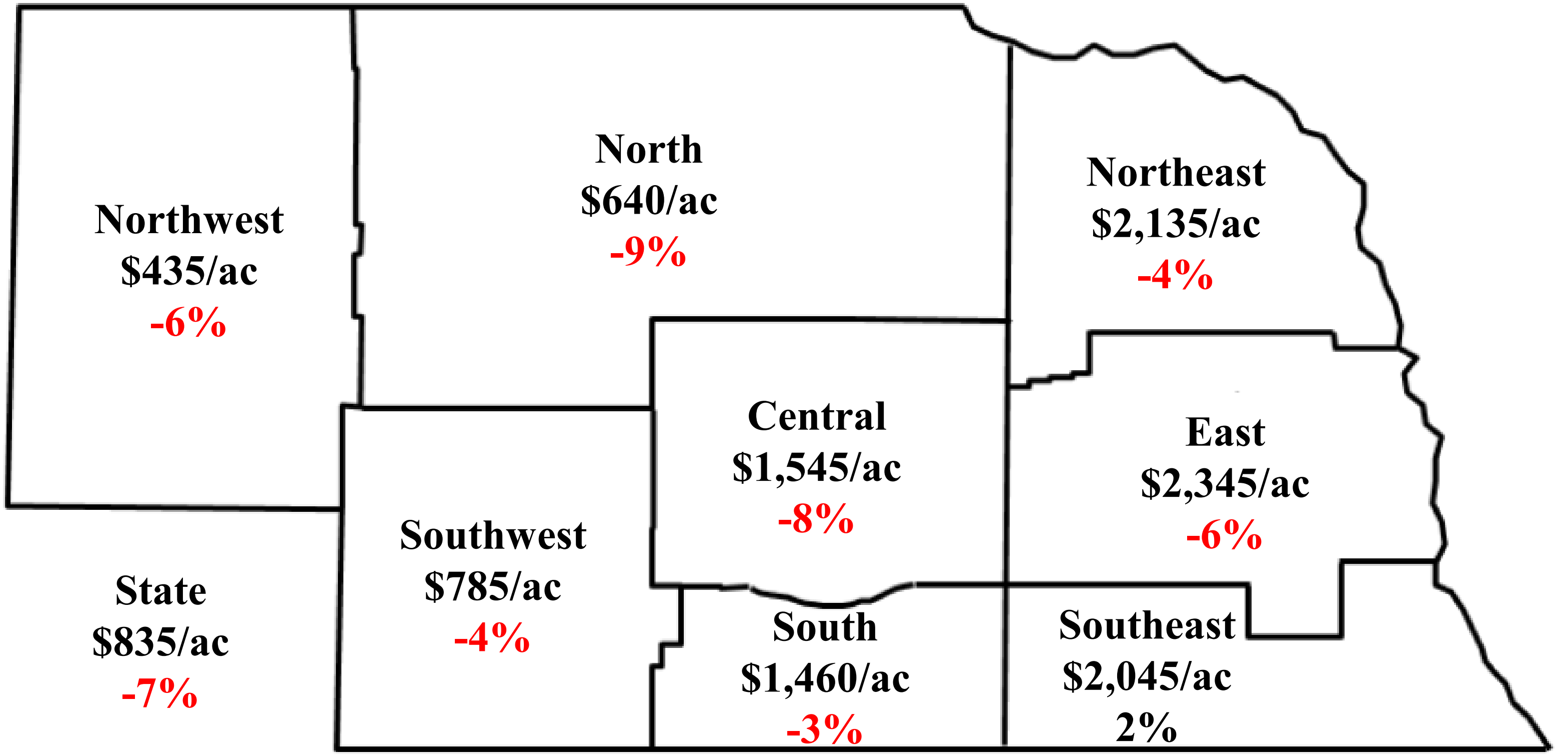
Historical Nebraska Average Land Value & Corn Price 1978-2017



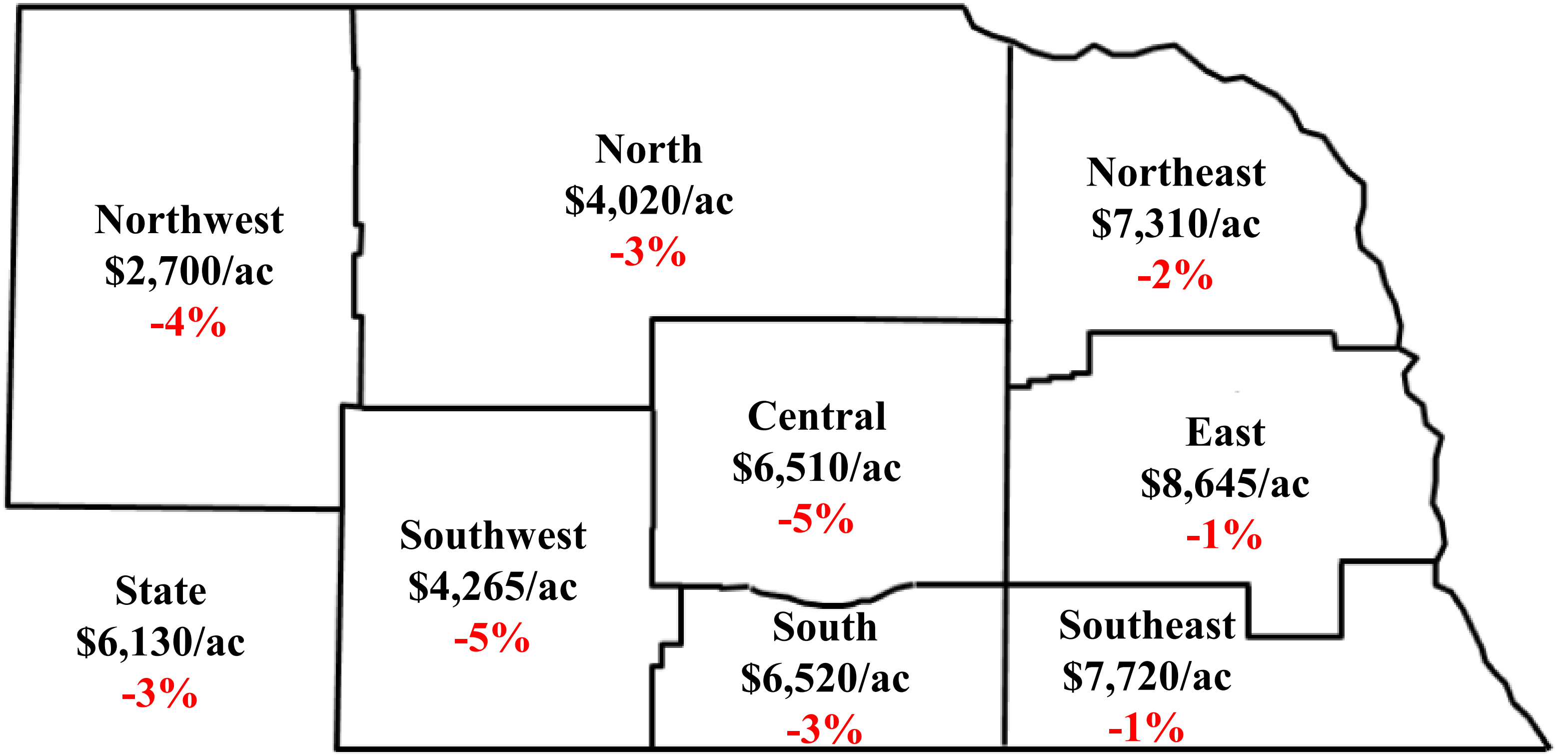
Dryland Cropland (No Irrigation Potential) Average Value – Feb. 1, 2018



Grazing Land (Nontillable) Average Value – Feb. 1, 2018

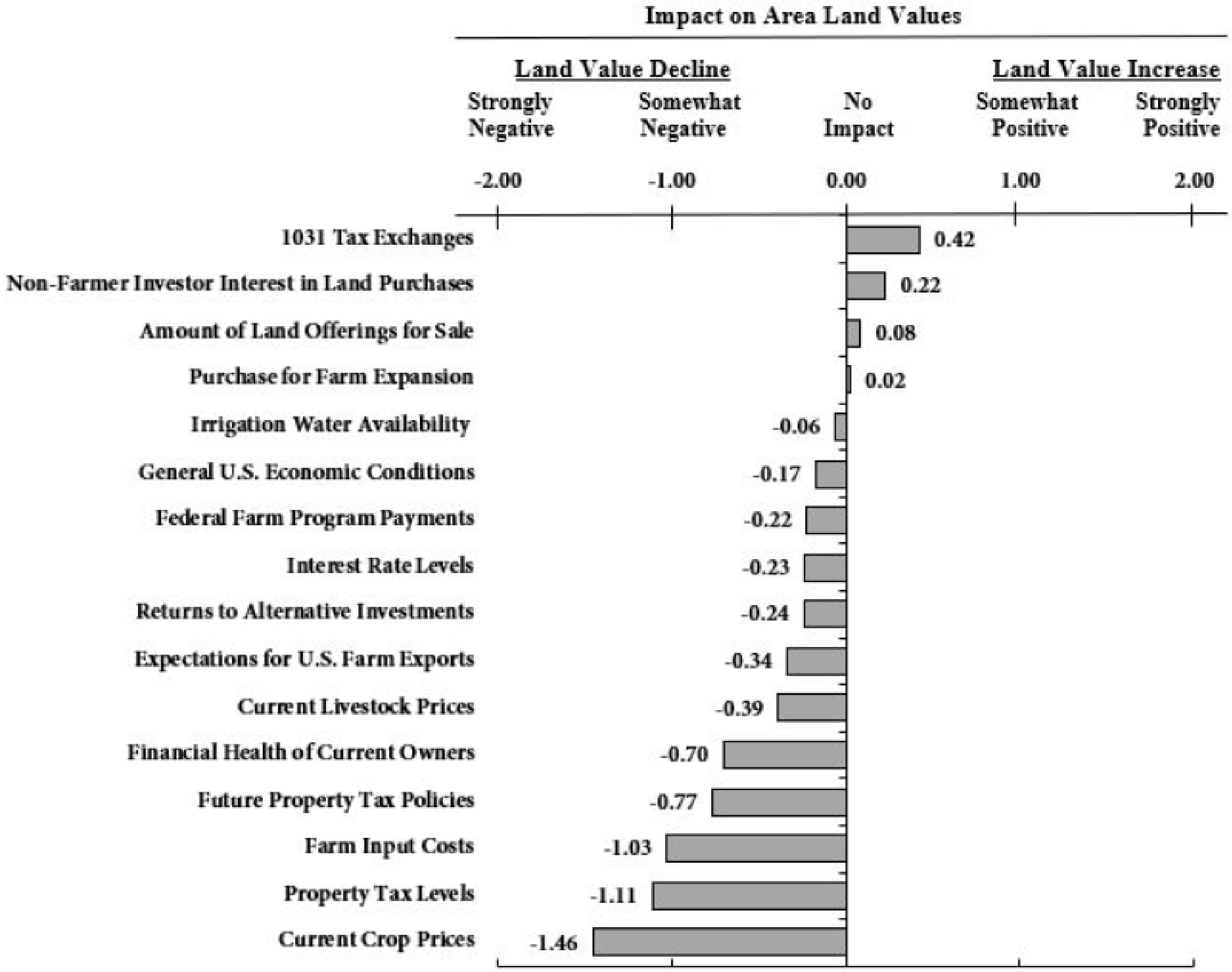


Center Pivot Irrigated Cropland Average Value – Feb. 1, 2018



State
$6,130/ac
-3%

Rating of Factors Influencing Agricultural Land Values in 2018



HOW DO YOU APPRAISE YOUR LAND?

Appraising land

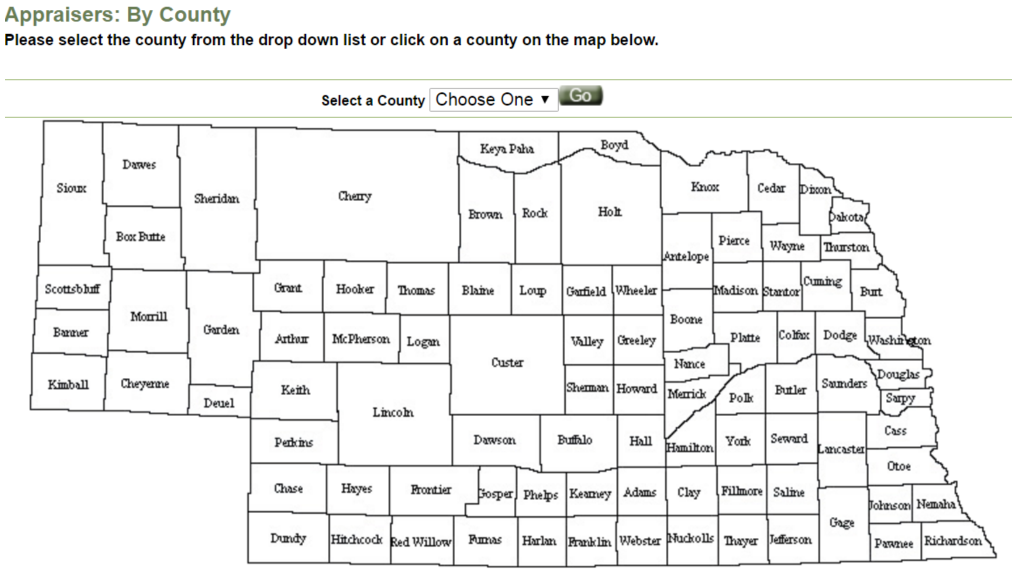
- What is an appraisal?
  - An appraisal is professional appraiser's opinion of market value of a property such as land, buildings, or a farm.
- Why get an appraisal?
  - To determine the current market value of the inherited farm and understand how local economic and market forces influence real estate in an area.
  - Gain perspective on the type of land and value associated with different improvements.
  - Understand the value associated with improvements such as barns, machine sheds, or irrigation equipment that may be physically depreciated or functionally obsolete.

How much does an appraisals cost?

- What factors influence the cost of appraisal?
  - Availability of certified general agricultural appraisers serving a region.
  - Size and geographical location of land.
  - Kind of improvements made to the farm such as buildings or livestock facilities.
- What does an appraisal typically cost?
  - An 80 to 160 acre parcel appraisal may cost between $1,500 to $2,500 or more depending upon number of improvements.
  - Mid-sized ranch appraisals can cost $5,000 or more depending upon the configuration of the ground (grazing paddocks, livestock watering systems, or livestock working facilities).

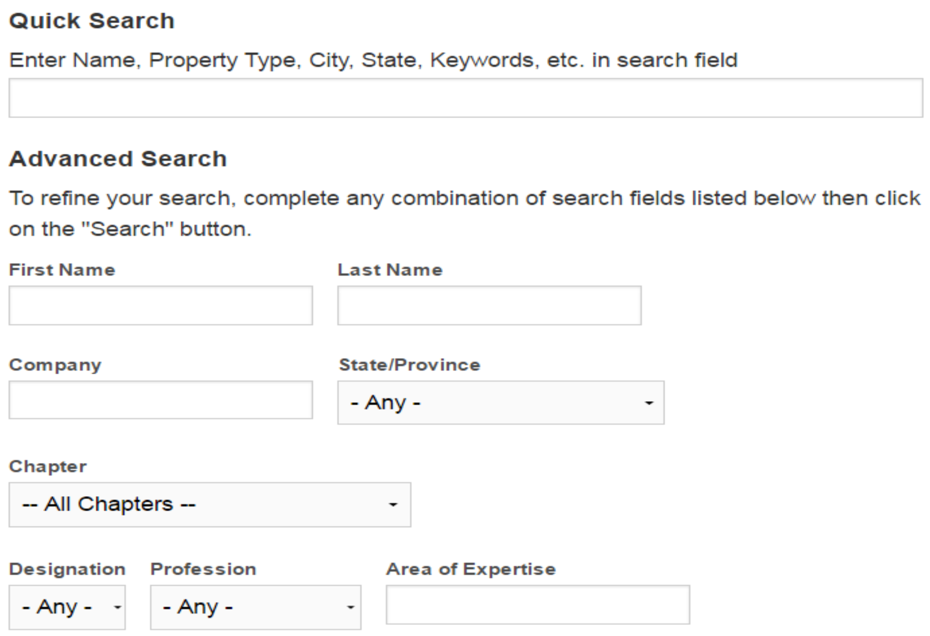
How to find an appraiser

- Appraisers are licensed to preform appraisals in Nebraska.
  - Public listing of appraisers can be found at: http://www.appraiser.ne.gov/
  - Select *Appraiser Listing* on the website and then click *Appraiser Listing/Nebraska County Map* to display interactive map to locate an appraisal professional.



How to find an appraiser or land professional

- The American Society of Farm Managers and Rural Appraisers (ASFMRA) is an association of professionals specializing in farm & ranch management and land appraisals.
  - Members can be found at http://www.asfmra.org/
  - Select *Find a Land Expert* on the website to display a searchable database of members .



Quick Search

Enter Name, Property Type, City, State, Keywords, etc. in search field

Advanced Search

To refine your search, complete any combination of search fields listed below then click on the "Search" button.

First Name

Last Name

Company

State/Province

- Any -

Chapter

-- All Chapters --

Designation

- Any -

Profession

- Any -

Area of Expertise

Communications, family relationships, and having a plan for the land

Choices, Choices, Choices

- Sell!
- Keep in family?
  - Keep and farm it?
  - Keep and rent it?
  - Use land manager?
- The parties involved need to agree on that future

Communication - Important

- When done with the process – are you still going to have a family?
- Most peoples' goal is to hold the family together(?)
  - Don't make that assumption – get that commitment
- Best way is to be open and clear with communications
- Who participates in that discussion?
- Put all options on the table

Communication - continued

Consider using some sort of family meeting process

- Schedule meeting – not at major Holiday (if possible)
  - Not at Grandma's kitchen table (family dinners)
- Will probably take more than one meeting
- Take notes, record the conversation
- Be sure to include off-farm family

Communication - continued

Be aware of the sweetheart deals

- Surprises cause problems (story about Grandma and pivot, or on-farm brother)
- Get both sides of every story!

Communication - continued

- Listening is the Key!
- (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted or intended
- Make sure that you understand the other person's point of view
  (seek first to understand, then to be understood)
- *Spend plenty of time establishing the 'goal' or vision*
  - *Suggested up to 80% of the time with the vision – or what this will look like*
  - *Envision the Future!* (Mark and Nancy story)

Communication

1. Allow all to have input

   * Know that there will be different expectations based on personality, age and participation

2. Then follow Golden Rule – 'ye who has the gold makes the rule'

Negotiations and the Family!

Tips and Traps to watch for!

- Check egos in at the door (remember – keep family together?!!)
- Three rules of negotiation:
  - **1) Prepare, 2) Prepare, 3) Prepare**
- Emotions (drama!) used in negotiation will likely derail the negotiation
  - They divert attention from the matter at hand
  - They can damage a relationship
  - They can be used to exploit

Negotiation and the Family - continued

Try working on these areas to defuse emotions within negotiations

- **Appreciation**
  - All people want is to be appreciated - are they being listened to?
- **Affiliation**
  - Are all parties being treated as adversaries– or as colleagues (family)?
- **Autonomy**
  - Are you free to make the decisions, or are you being blocked?
- **Status**
  - Are you being treated as inferior, or given full recognition?
- **Role**
  - Are you fulfilled with the role that you have?

Negotiation Preparation – Best Practices

Prepare!

- Know your BATNA – Best alternative to no agreement
- Know your ZOPA – Zone of Possible Agreement
- Remember that good negotiation is not about 'winning'
  - Need to create more value that 100%
- How can we create value? Give that thought..
- Put yourself into the other person's shoes – what are they thinking?
  - What is their BATNA or ZOPA?

Dealing with Farming Heirs

Typically, older generation thinks that fair means equal

- Not necessarily true
- Appropriate for on-farm heir to receive compensation for sweat equity – (building maintenance, non-crop weed control, volunteer tree control, fence maintenance, terrace maintenance, rock on driveway, etc.)
  - Thus the need to be fair
  - Also means that you may not divide assets equally

Fair vs. Equal

- Over the years, Mom and Dad (generational value) have tended to make the pie slices equal, but is that fair?
  - In some cases – yes
  - Each situation is different – no one solution to this discussion

Contribution = Compensation

- Four Children
- One farm
- Instead of dividing equally, @ 25% each, consider
- Dividing by 5 or 20% each
  - Farm sibling receives fifth share for their contribution – actually receives 40%
- Others receive 20% instead of 25%

Is the family plan in place?

- Do you all agree?
- Is it OK to have a majority vote, or a unanimous vote?
- Remember one of my first statements – do we want the family together when this process is finished?
- When do you get help?
  - What can that help look like

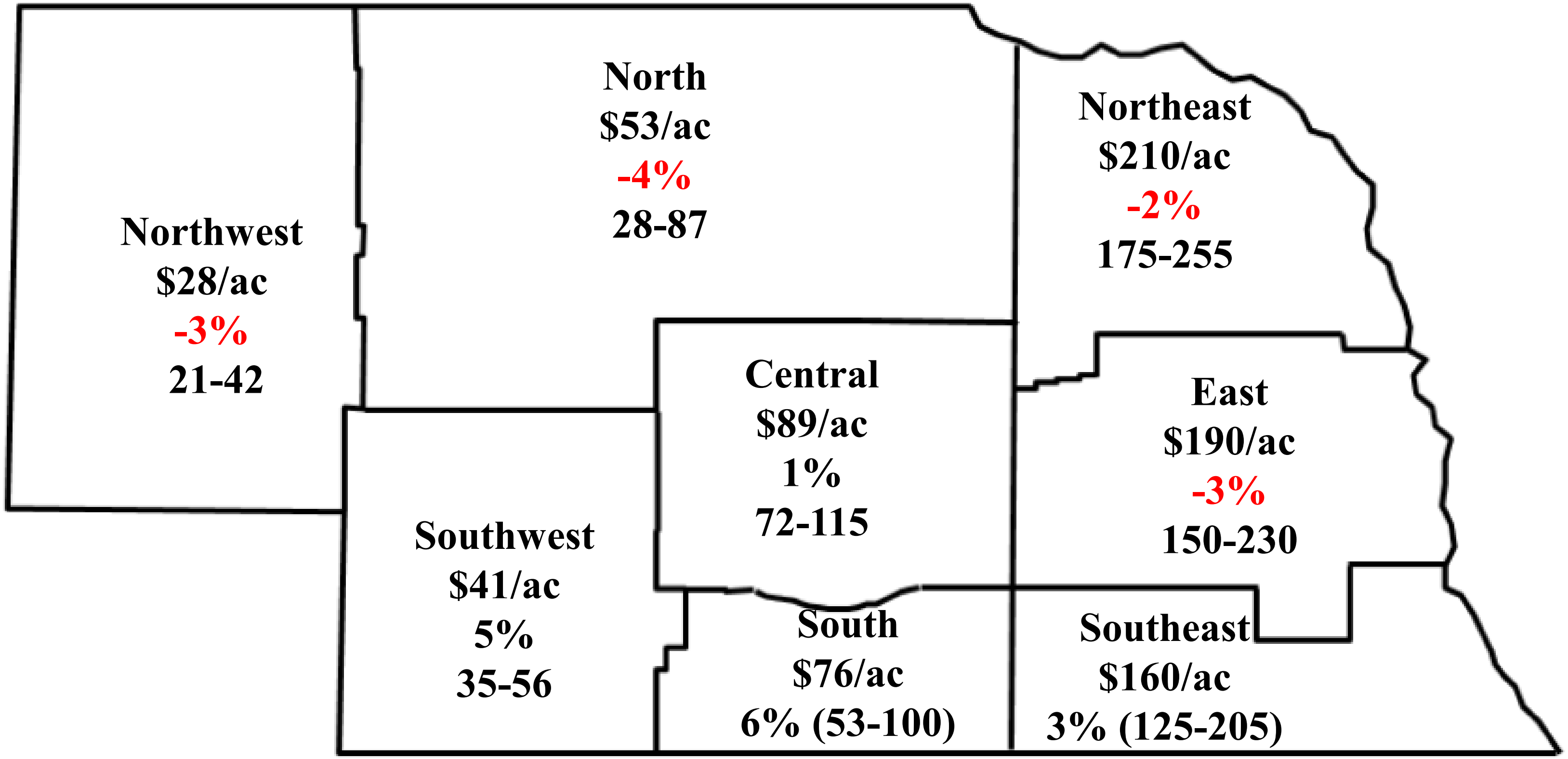
Help with the family plans (when we don't agree)

- Clergy
- Trusted family friend
- Other ag professional in community– like a banker
- Family Lawyer
- Mediation/Arbitration
- Lawsuit(s) – court will decide

Listed from less expensive to most expensive

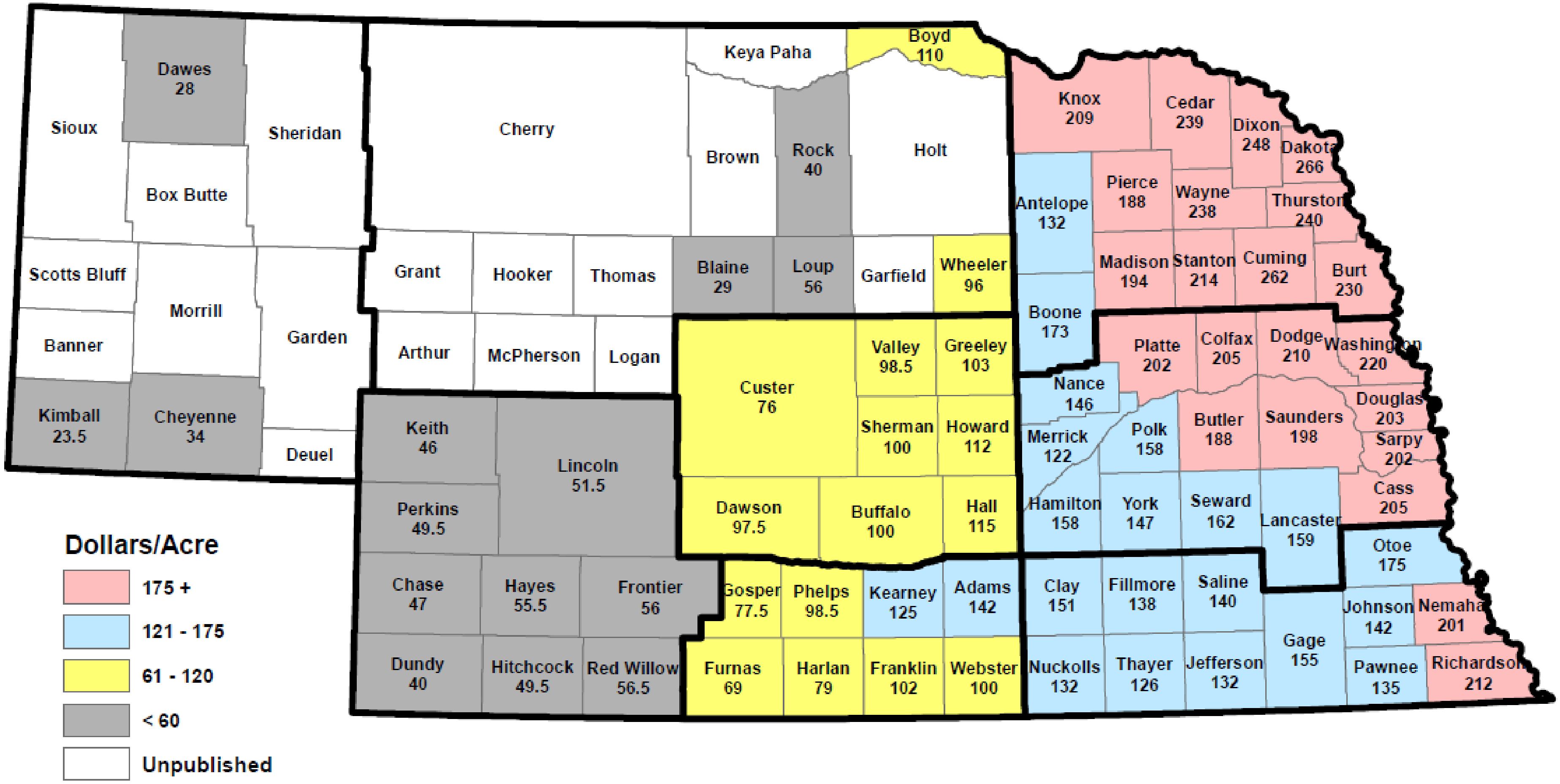
Nebraska Cash Rental Rates

Dryland Cropland
Average Rental Rates – 2018 Season
(Nebraska Farm Real Estate Survey)

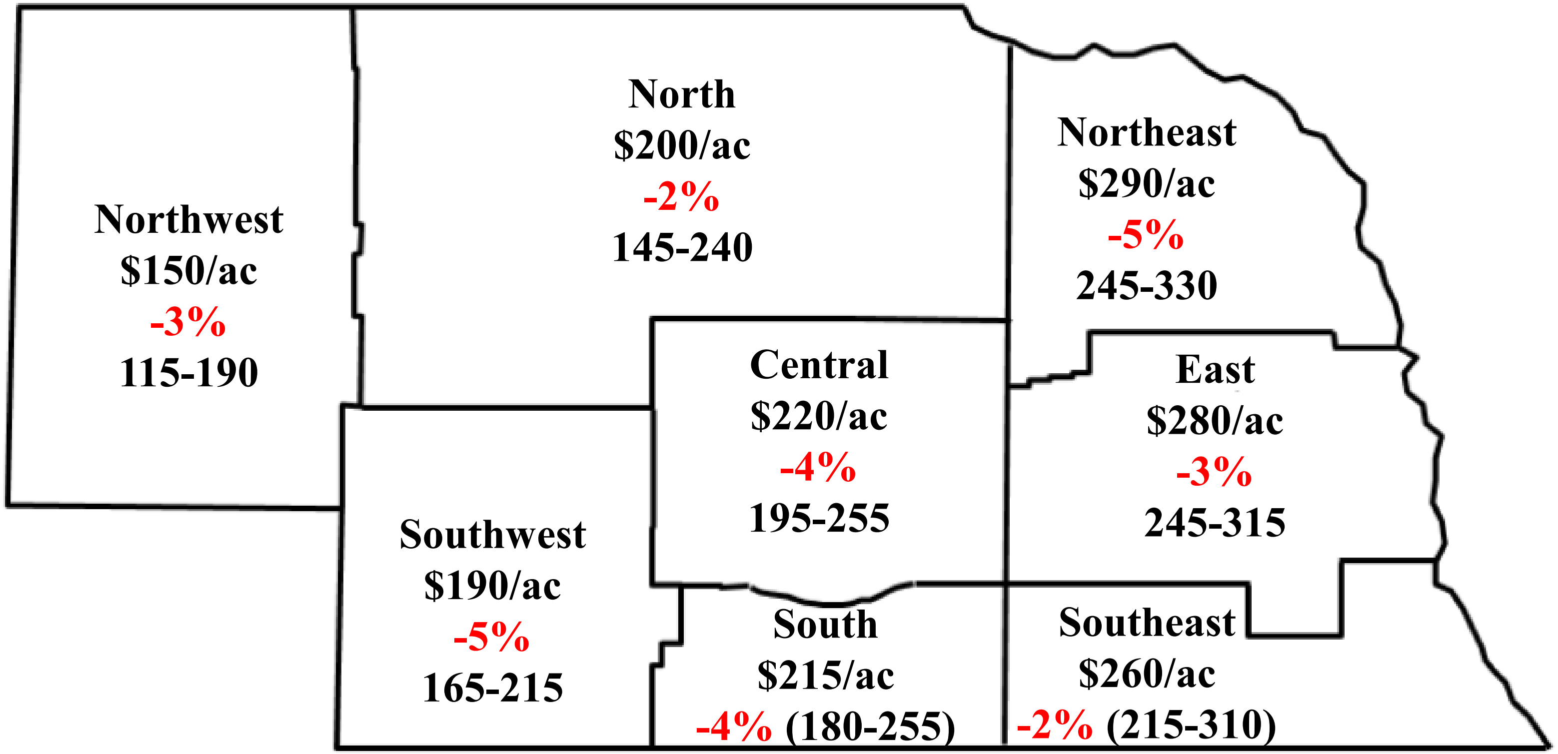


Key to Numbers: Average for District, % change from '17, Range

Dryland Cropland
Rental Rates – 2017 Season
(USDA-NASS Survey – Sept. 8, 2017)

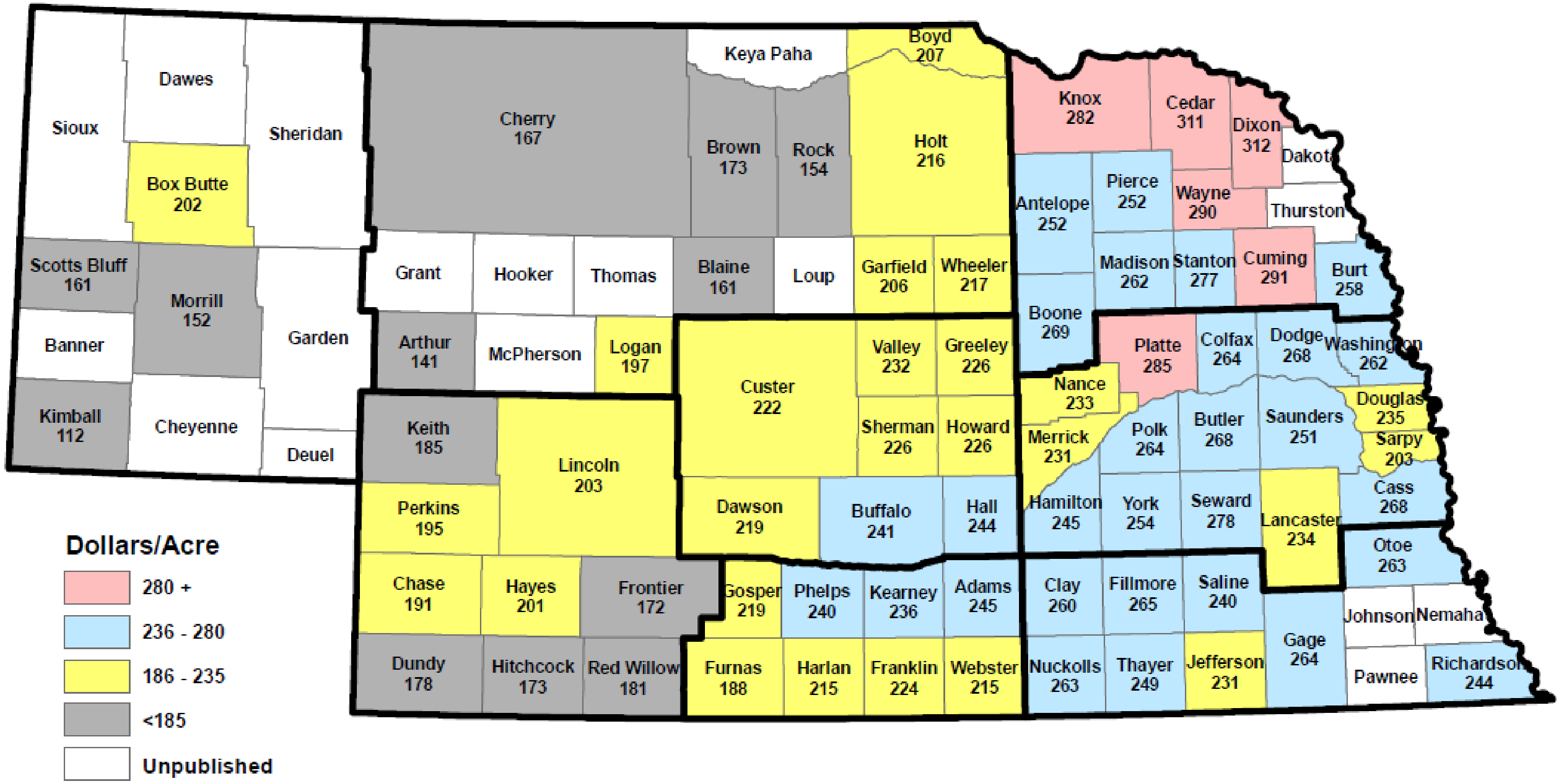


Center Pivot Irrigated Cropland Average Rental Rates – 2018 Season (Nebraska Farm Real Estate Survey)

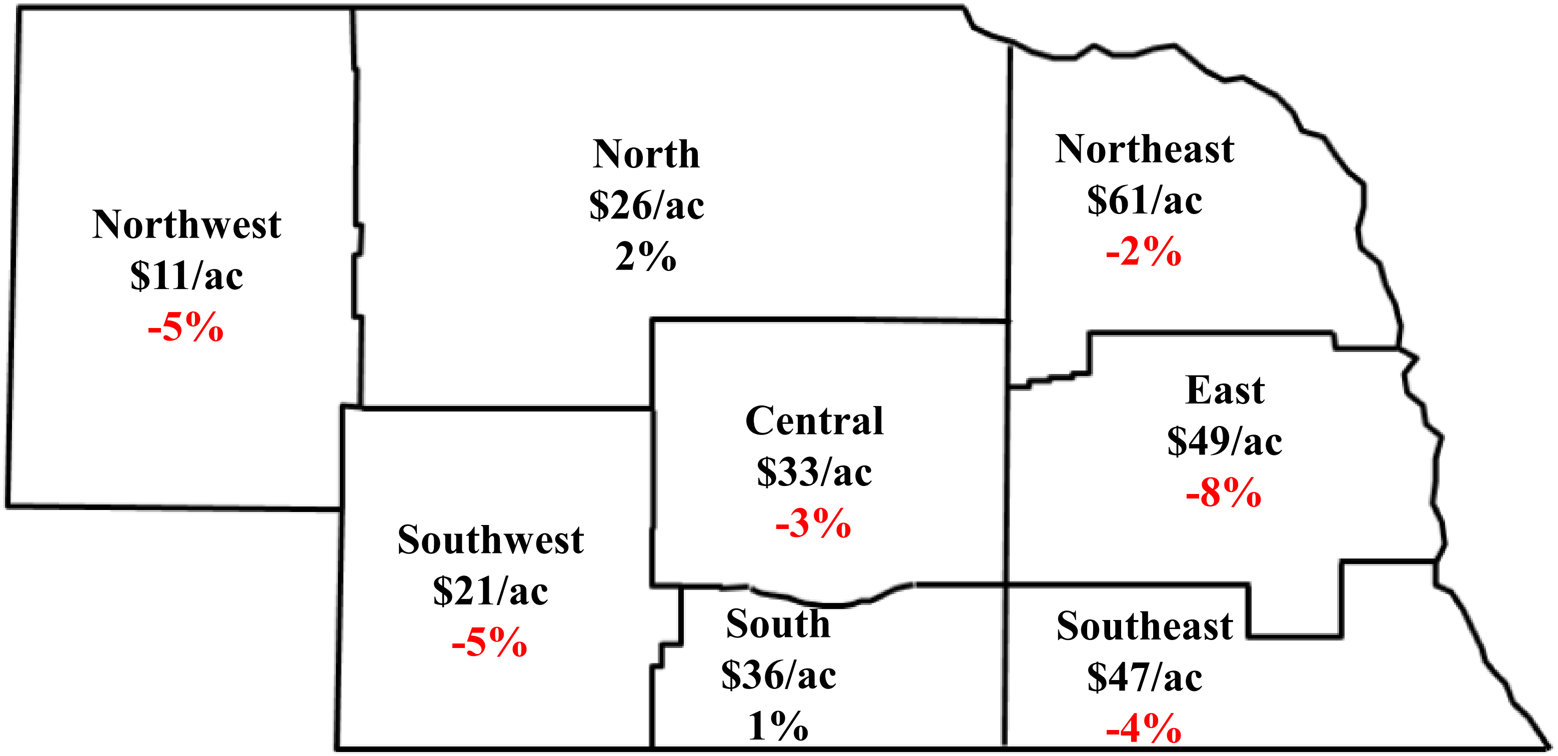


Key to Numbers: Average for District, % change from '17, Range

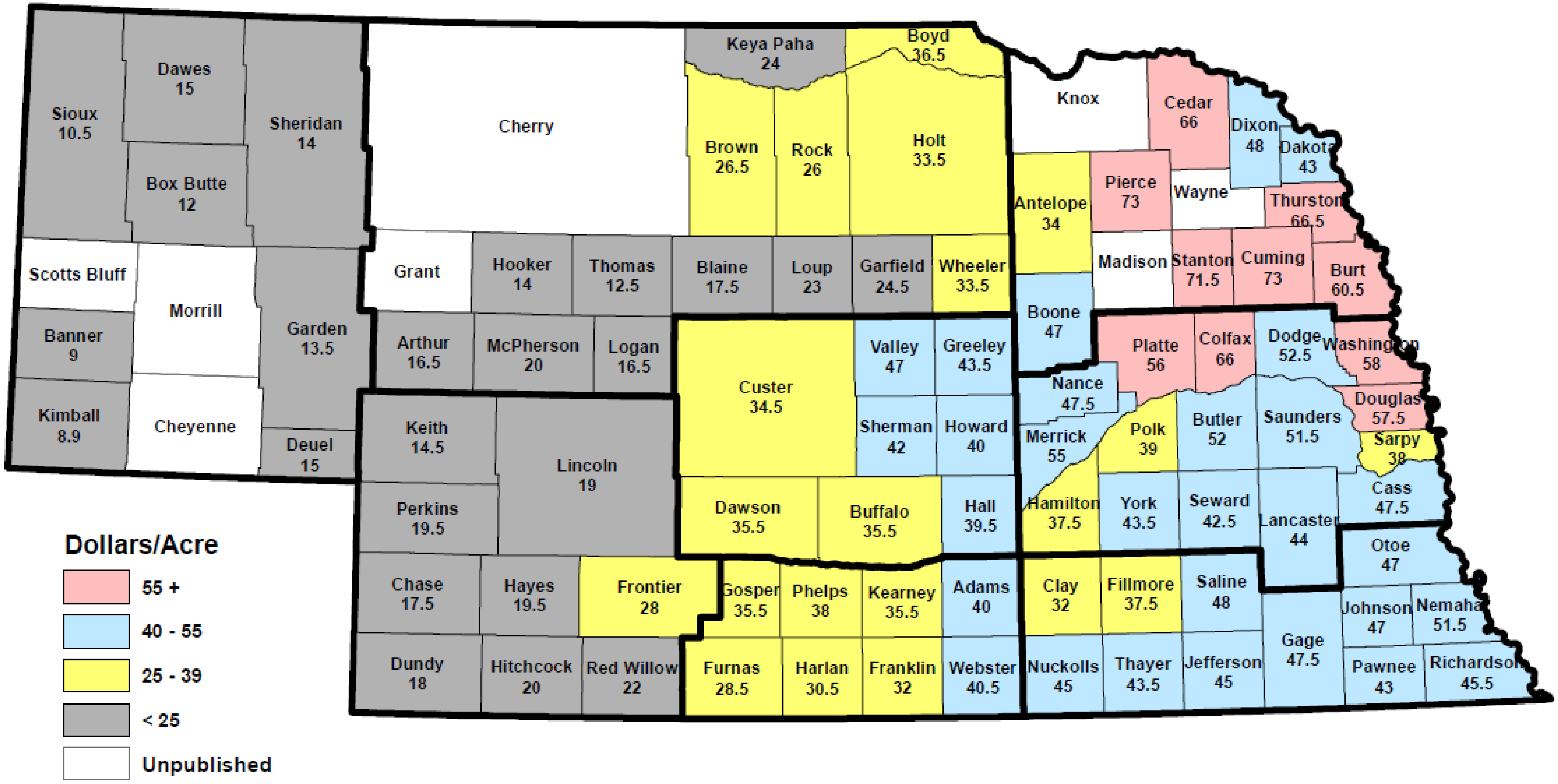
Irrigated Cropland
Rental Rates – 2017 Season
(USDA-NASS Survey – Sept. 8, 2017)



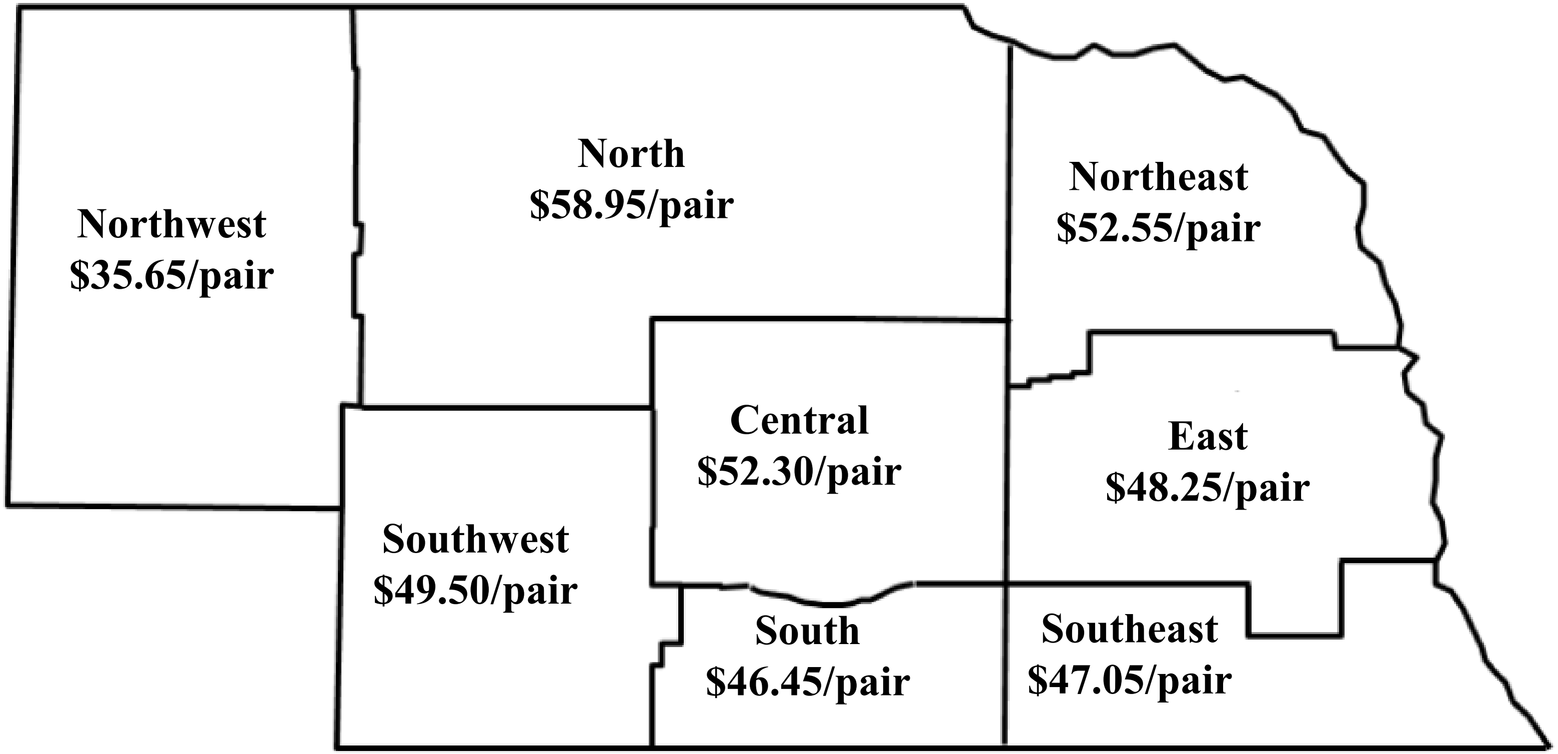
Pasture per Acre
Average Rental Rates – 2018 Season
(Nebraska Farm Real Estate Survey)



Pasture per Acre
Rental Rates – 2017 Season
(USDA-NASS Survey – Sept. 8, 2017)



Cow-Calf Pairs
Average Rental Rates – 2018 Monthly
(Nebraska Farm Real Estate Survey)



Types of Cropland Leases

- **Crop Share**: landowner receives percentage of actual crop yield as payment for leasing the agricultural land to tenant. Landowner may share input and production costs of raising the crop.
- **Cash Lease:** landowner receives an agreed upon cash payment amount for leasing the agricultural land to the tenant.
- **Flex Lease:** landowner and tenant set a base cash rental rate which can flex upon actual crop yields, prices, or a combination of the two.

Options for keeping

- Estimate what the potential income might be
  - From farming it yourself
    - Does it fit the current operation? (next generation)
  - From having it custom farmed
    - Some are having it custom farmed for a % of the production – to motivate farmer to produce
  - From rental
    - Crop share rent
    - Cash rent
    - Flexible cash rent

Professional Farm Manager

- Consider using if Custom Farming or Renting
- Take care of managing the asset – especially valuable for absentee owners
- Charges are between 6-12% of the rental rate as their fee for management (less on straight cash rent, more on crop share rent agreements or custom farming)
  - Depends on what you are asking them to do
- In some cases, the service is very worth while

Options for keeping - continued

- Crop Share –(if you do not mind the marketing part)
  - Still a very fair way to rent – for both landowner and tenant
  - Some landlords are taking a smaller percent and paying no input expenses

Crop Share - continued

- Landlord and tenant share in the expense and share in the risk associated with producing the crop
- Over history a very fair way to rent
- Crop share has lost popularity
  - Landlords do not like to:
    - pay expenses
    - worry about marketing their crop

Options for keeping - continued

- Cash leases – two types – straight cash leases and flexible cash leases
  - Straight lease means that you get paid XX dollars per acre for the lease per year
  - Flexible lease means that the actual lease is flexed by some variable – usually price and/or yield
    - Consider putting lower and upper limits on the 'flex'

Critical Issues – for leasing

Fertility

- Phosphorus – protect both landlord and tenant
- Lime – should be a landlord expense
- Manure application – how often and how much should be discussed

Irrigation

- Adjust rent if tenant provides some or all of irrigation equipment

Critical Issues – for leasing

- Hunting rights
  - Allow or retain – must specify
- Stover
  - Allow harvest or retain
  - If harvest, how often
  - Will the rent increase with use
- Grazing
  - Allow, when, how many, animal/fencing needs
- Easements
  - Do they exist and in what terms

Fillable PDF Leases – AgLease101.org

Click Document Library

Lease Publications

Fillable PDF Forms

LEASES PUBLICATIONS

- Fixed and Flexible Cash Rental Arrangements For Your Farm (NCFMEC-01)
- Crop Share Rental Arrangements For Your Farm (NCFMEC-02)
- Pasture Rental Arrangements For Your Farm (NCFMEC-03)
- Rental Agreements For Farm Buildings and Livestock Facilities (NCFMEC-04)
- Purchasing and Leasing Farm Equipment (NCFMEC-05)
- Beef Cow Rental Arrangements For Your Farm (NCFMEC-06)
- Farm Building Rental Rate Survey (NCFMEC-07)

LEASES FORMS

- Cash Farm Lease (NCFMEC-01A)
- Crop-Share Farm Lease (NCFMEC-02A)
- Pasture Lease (NCFMEC-03A)
- Farm Building or Livestock Facility Lease (NCFMEC-04A)
- Farm Machinery Lease for Non-commercial Transactions (NCFMEC-05A)
- Livestock Rental Lease (NCFMEC-06A)

Written Leases – please!!

- No cookie cutter leases, but models do exist
  - aglease101.org
- Get legal help if needed
- Have lease reviewed by an attorney

Summation

- Land ownership is rewarding – if you put in the work
- Know your investment and what you expect the investment to do for you
- Get help when you need it
- Get training – need to know what you don't know
- Family communications can be challenging, but never ignored

Questions?

EXTENSION

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