A Case for Custom Farming in Southern Iowa

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In this current low-priced commodity environment, I’m often asked if custom farming makes sense versus the common cash rent model. Many landowners are facing compressed rental rates and looking for alternative opportunities to increase overall farm revenue.

In March of 2018, I started managing a new farm located in Lucas County, Iowa. This farm is 282 tillable acres, equally distributed between bottom ground, rolling hillsides, and terraced ridges. Corn Suitability Rating (CSR2) for the farm averages 58.5, which is roughly 25% higher than the average CSR2 value of 43.8 in Lucas County.

South-central Iowa is commonly known to be one of the tougher areas of the state to produce high yields due to the lighter soils and rolling slope. This usually equates to reduced rents compared to the flat black fields in northern Iowa. Public data from the annual Iowa State University Cash Rent Survey shows the typical Lucas County farm cash rented for $148/acre in 2018.

I offered the farm to several operators at $185/acre, a 25% increase from the average rate of $148/acre correlated from the higher CSR2 value. I quickly learned many operators felt the $185/acre asking price was too steep, with most offers coming in at $165-170/acre. After discussing the pros and cons, the landowner and I decided custom farming was the best option.

In a typical custom farming agreement, the landowner pays all the crop expenses and receives 100% of the crop revenue. This requires more extensive management as all marketing, agronomic, and production decisions are determined by the manager and landowner. An operator is hired to perform labor and machine operations in exchange for a set rate. This scenario is much higher risk for the landowner with the potential for higher rewards.

A local operator was selected to complete all machine and labor operations for the 2018 soybean crop; including planting, spraying, harvesting and trucking on the Lucas County farm. No-till practices were actively being applied so there were no additional expenses for tillage. Total invoiced machine, labor, and delivery expenses were $69/acre. Direct crop expenses were $187/acre which included seed, chemicals, insurance, maintenance fertilizer, and grain check off expenses.

MACHINE EXPENSE	**$/A**	**Total**
Spring Spraying	$7.00	$1,974.00
No-Till Planting	$20.00	$5,640.00
Post Plant Spraying	$7.00	$1,974.00
Combine	$30.00	$8,460.00
Transport/Delivery	$5.00	$1,410.00
TOTAL MACHINE	**$69.00**	**$19,458.00**
DIRECT EXPENSE	**$/A**	**Total**
Crop Production (Chemicals)	$54.00	$15,228.00
Seed	$66.00	$18,612.00
Crop/Hail Insurance	$19.00	$5,358.00
Fert. & Spread (8.8-41.6-66 Actual)	$45.00	$12,690.00
Grain Check-Off	$3.00	$846.00
TOTAL DIRECT	**$187.00**	**$52,734.00**
Grain Moisture Doc/Damage	$10.00	$2,820.00
TOTAL EXPENSES	**$266.00**	**$75,012.00**

The farm was planted in mid-May and received timely rains throughout the growing season. A total of 14,718 bushels of soybeans were harvested and delivered to a local elevator in early November. The farm averaged 52 bushels per acre across the 282 tillable acres. 9,000 bushels were forward contracted at an average cash price of $9.60 per bushel. Crop insurance at 80% coverage established the floor concerning the forward contract sales. The remaining 5,718 bushels remain in storage at the local elevator. Our target cash sale price is $8.26/bushel on the remaining grain. Grain moisture, damage, and storage fees must also be accounted for at an estimated $10.00/acre.

If we are able to sell the remaining soybeans at our target price, the total crop revenue will be $474/acre. We would also need to subtract $10/acre for elevator and doc fees. Total profit per acre would simply be the difference between total revenue ($474/acre) minus expenses ($266/acre) or $208/acre.

The landowner also received an additional one-time payment from the Market Facilitation Program (MFP) implemented this summer by the USDA. This program was established to support soybean farmers negatively affected by weakened soybean prices due to the lack of purchases by our most prominent buyer, China. This payment added $1.65 per delivered bushel or roughly $86/acre in revenue. After adding the MFP payment to the actual per acre profits, the landowner will close out the 2018 soybean crop with a profit of $294/acre before management fees are accounted.

REVENUE	$/A	Total
Contracts		$86,400.00
Storage		$47,268.00
TOTAL SALES	**$474.00**	**$133,668.00**
MFP	$86.00	$24,252.00
TOTAL REVENUE	**$560.00**	**$157,920.00**

CUSTOM VS. CASH RENT	Profit $/A	Total
2018 Custom Closeout	$294.00	$82,908.00
Cash Rent @ $185/acre	$185.00	$52,170.00
Cash Rent @ $170/acre	$170.00	$47,940.00

This extra profit allowed the landowner to seed 160 acres of cover crops, soil sample all 282 acres, and complete capital improvement projects focused on long term appreciation. In conclusion, custom farming was much more profitable in comparison to cash renting in 2018.

Peoples Company Land Managers have a strong understanding of the cash rent market and custom farming alternatives. Our managers are also experienced at identifying alternative sources of income such as hunting leases, timber sales, utility and manure easements. There may also be opportunities to remove marginal acres from production, enrolling them into a conservation program. This allows our clients to capitalize on the productive acres while protecting the environmentally sensitive acres.

To learn more about Peoples Company Land Management, please visit www.peoplescompany.com or email landmanagement@peoplescompany.com.