Managing Agricultural Land in 2020 and Beyond

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Managing Agricultural Land in 2020 and Beyond

Meeting Series
2019-2020

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Program Overview

• Financial and legal considerations for land leases
• Effective negotiation skills with landlords, tenants, and agricultural input providers
• Successful approaches for farm and ranch succession and transfer
• Critical short and long-term decision-making and planning

Nebraska Farm Real Estate & Financial Trends 2019-2020

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DISCLAIMER

• Land values and rental rates shown and discussed in this presentation are excerpts from the UNL Nebraska Farm Real Estate Market Survey.
• Information provided in this presentation are averages from these surveys. Actual land values and rental rates may vary depending upon the quality of the parcel and local market forces for an area.

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 in June.
• Nebraska Farm Real Estate website full access to these resources: http://agecon.unl.edu/realestate

Nebraska Agricultural Statistics Districts

Nebraska Land Values

Land Averages and Annual Percent Changes
Nebraska Agricultural Average
All Land Value – Feb. 1, 2019

North $1,050/ac -4%
Northwest $680/ac -5%
State $2,645/ac -3%
Southwest $1,565/ac -5%
South $3,535/ac -6%
Northeast $5,230/ac -3%
East $6,185/ac -1%
Southeast $4,700/ac -2%
Central $3,090/ac -2%
South $3,535/ac -6%


Nebraska Avg. Land Value & 10-year Treasury Bond Rate, 1978-2019

Nebraska Average Land Value and Corn Price, 1979-2019

Property Valuation Changes in Statewide Property Valuation Percentages, 1981-2018

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For the first time in 20 years, property taxes levied on agricultural land statewide declined year-to-year.

Taxes levied in 2018, $1.183 billion, were 1.5 percent or $17.5 million less than that levied in 2017.

Agricultural landowners in 63 counties saw reduced taxes levied. McPherson and Perkins Counties both had declines taxes of over 11 percent. Gage County, on the other hand, saw taxes increase 9 percent.
Grazing Land (Tillable)
Average Value – Feb. 1, 2019


Grazing Land (Nontillable)
Average Value – Feb. 1, 2019


Hayland
Average Value – Feb. 1, 2019


Gravity Irrigated Cropland
Average Value – Feb. 1, 2019

Center Pivot Irrigated Cropland Average Value – Feb. 1, 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Value (ac)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>$3,905</td>
<td>-3%</td>
</tr>
<tr>
<td>Northwest</td>
<td>$2,565</td>
<td>-5%</td>
</tr>
<tr>
<td>South</td>
<td>$5,970</td>
<td>-3%</td>
</tr>
<tr>
<td>Southwest</td>
<td>$4,110</td>
<td>-4%</td>
</tr>
<tr>
<td>Central</td>
<td>$6,390</td>
<td>-2%</td>
</tr>
<tr>
<td>East</td>
<td>$8,485</td>
<td>-3%</td>
</tr>
<tr>
<td>Northeast</td>
<td>$7,210</td>
<td>-1%</td>
</tr>
<tr>
<td>East</td>
<td>$8,485</td>
<td>-3%</td>
</tr>
<tr>
<td>Southeast</td>
<td>$7,470</td>
<td>-3%</td>
</tr>
<tr>
<td>South</td>
<td>$6,150</td>
<td>-6%</td>
</tr>
<tr>
<td>State</td>
<td>$5,970</td>
<td>-3%</td>
</tr>
</tbody>
</table>


Rating of Factors Influencing Agricultural Land Values in 2019

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact on Area Land Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>1031 Tax Exchanges</td>
<td>0.00</td>
</tr>
<tr>
<td>Purchase for Farm Expansion</td>
<td>-0.03</td>
</tr>
<tr>
<td>Irrigation Water Availability</td>
<td>0.01</td>
</tr>
<tr>
<td>Non-Farmer Investor Interest in Land Purchases</td>
<td>-0.03</td>
</tr>
<tr>
<td>Federal Farm Program Payments</td>
<td>-0.27</td>
</tr>
<tr>
<td>General U.S. Economic Conditions</td>
<td>0.26</td>
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<tr>
<td>Fertility to Alternative Investments</td>
<td>-0.57</td>
</tr>
<tr>
<td>Global Economic Conditions</td>
<td>-0.53</td>
</tr>
<tr>
<td>Current Livestock Prices</td>
<td>-0.08</td>
</tr>
<tr>
<td>Expectations for U.S. Farm Imports</td>
<td>-0.77</td>
</tr>
<tr>
<td>Financial Health of Current Owners</td>
<td>-0.77</td>
</tr>
<tr>
<td>Future Property Tax Policies</td>
<td>-0.51</td>
</tr>
<tr>
<td>Farm Input Costs</td>
<td>-1.06</td>
</tr>
<tr>
<td>Property Tax Levels</td>
<td>-1.34</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>-1.54</td>
</tr>
</tbody>
</table>


Nebraska Cash Rental Rates

Dryland Cropland Rental Rates

Change in Real Farm Property Tax Expense

Nebraska Ranks #1 in Percentage Increase

Source: Farm Property Taxes, Part II: A Geographical Look, Agricultural Economic Insights, July 29, 2019

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Dryland Cropland
Average Rental Rates – 2019 Season

North $50/ac -6%
Northwest $27/ac -4%
Southwest $38/ac -7%
Central $84/ac -5%
East $200/ac 5%
Northeast $205/ac -2%
East $200/ac 5%
Southeast $155/ac -3%
South $73/ac -4%


Dryland Cropland
Rental Rate Ranges – 2019 Season

Northwest
H: $74/ac
A: $50/ac
L: $36/ac
North
H: $50/ac
A: $50/ac
L: $36/ac
Central
H: $110/ac
A: $84/ac
L: $67/ac
East
H: $230/ac
A: $200/ac
L: $160/ac
Northeast
H: $245/ac
A: $205/ac
L: $170/ac
South
H: $105/ac
A: $73/ac
L: $47/ac
Southeast
H: $185/ac
A: $155/ac
L: $125/ac

By Region
High Grade (H)
Average (A)
Low Grade (L)


USDA-National Agricultural Statistics Service Cash Rent Survey

- Biennial survey conducted by the USDA-National Agricultural Statistics Service (NASS) of farmers and ranchers
- Survey starts in late-winter and conducted through mid-summer of odd-numbered years
- Analysis published around the second week of September
- Nebraska county estimates in addition to other resources may be found at: www.nass.usda.gov/Statistics_by_State/Nebraska/Publications/County_Estimates/

Dryland Cropland
Rental Rates – 2019 Season

Source: Farmland Rental Rate Survey, USDA-NASS, Sept 10, 2019

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Nebraska Cash Rental Rates
Pasture and Cow-Calf Pairs
Rental Rates

Pasture per Acre
Rental Rates – 2019 Season


Pasture per Acre
Average Rental Rates – 2019 Season


Pasture per Acre
Rental Rate Ranges – 2019 Season

By Region
High Grade (H)
Average (A)
Low Grade (L)

Cow-Calf Pairs
Average Rental Rates – 2019 Monthly

North $57.35/pair 2%
Northwest $36.35/pair 1%
Southwest $45.80/ac -6%
Central $58.80/pair -3%
Northeast $49.25/pair 2%
East $49.15/pair 2%
Southeast $46.65/pair -4%
North $50.80/pair -3%
Northeast $72.90/pair 2%
Southeast $46.65/pair -4%


Cow-Calf Pairs
Rental Rate Ranges – 2019 Monthly

Northwest H: $46.75/pair A: $36.15/pair L: $27.10/pair
Southwest H: $58.20/pair A: $45.35/pair L: $40.45/pair
Central H: $62.25/pair A: $47.45/pair L: $39.55/pair
Northeast H: $72.60/pair A: $54.80/pair L: $42.35/pair
East H: $63.00/pair A: $49.15/pair L: $43.75/pair
Southeast H: $55.80/pair A: $45.15/pair L: $34.60/pair


Nebraska Cash Rental Rates
Irrigated Cropland
Rental Rates

North H: $165/ac -3%
Northwest H: $110/ac $110/ac -3%
Southwest H: $155/ac -6%
Central H: $195/ac -5%
Southeast H: $155/ac -5%
South H: $190/ac -5%
Northeast H: $255/ac 2%
East H: $245/ac -4%


Gravity Irrigated Cropland
Average Rental Rates – 2019 Season

Gravity Irrigated Cropland
Rental Rate Ranges – 2019 Season

North
H: $190/ac  A: $165/ac  L: $115/ac

Northwest
H: $135/ac  A: $110/ac  L: $88/ac

Southwest
H: $195/ac  A: $155/ac  L: $120/ac

Central
H: $245/ac  A: $195/ac  L: $160/ac

Northeast

East
H: $285/ac  A: $245/ac  L: $210/ac

By Region
High Grade (H)  Average (A)  Low Grade (L)

South
H: $230/ac  A: $190/ac  L: $155/ac

Southeast
H: $260/ac  A: $220/ac  L: $185/ac


Center Pivot Irrigated Cropland
Rental Rate Ranges – 2019 Season

North
H: $185/ac  A: $145/ac  L: $110/ac

Northwest
H: $145/ac  A: $110/ac  L: $88/ac

Southwest
H: $175/ac  A: $135/ac  L: $105/ac

Central
H: $215/ac  A: $175/ac  L: $140/ac

Northeast
H: $280/ac  A: $240/ac  L: $205/ac

East
H: $285/ac  A: $245/ac  L: $210/ac

Southeast
H: $250/ac  A: $210/ac  L: $175/ac

By Region
High (H)  Average (A)  Low (L)

South
H: $205/ac  A: $165/ac  L: $140/ac

Southeast
H: $300/ac  A: $260/ac  L: $220/ac


Center Pivot Irrigated Cropland
Average Rental Rates – 2019 Season


Irrigated Cropland
Rental Rates – 2019 Season

Source: Farmland Rental Rate Survey, USDA-NASS, Sept 10, 2019

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Agricultural Land Leases
Trends in Lease Arrangements for 2020

Cropland Lease Arrangements
Risk and Returns

- Risk and returns vary based upon expected prices and yields
- Crop share or flex leases allow for effective rent to vary based upon yield, price, or revenue
- Preferences for the lease type vary based upon land owner and tenant

Methods for Setting Cash Rental Rates

- Methods for estimating a cash rental rate in 2019 or 2020:
  - Adjusting survey data
  - Cash equivalent from crop share
  - Return on investment

Estimating Cash Rental Rates by Adjusting Survey Data

- Land rental rate survey data:
  - Evaluate available cash rental survey data to establish a baseline in the landlord and tenant negotiation process.
  - Average yields:

<table>
<thead>
<tr>
<th>County</th>
<th>Value</th>
<th>Farm</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Rental Rate</td>
<td>$135/ac.</td>
<td>County Rent/Bushel</td>
<td>$1.13/bu.</td>
</tr>
<tr>
<td>Corn Yield</td>
<td>120 bu./ac.</td>
<td>APH Yield x 105 bu./ac.</td>
<td>$118.13/ac.</td>
</tr>
</tbody>
</table>
Cash Equivalent From Crop Share

- Rent paid to landlord by tenant based on owner’s share of net returns per acre.
- Example 50/50 split:

<table>
<thead>
<tr>
<th>Value</th>
<th>Com.</th>
<th>Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield (50% share)</td>
<td>80 bu./ac.</td>
<td>25 bu./ac.</td>
</tr>
<tr>
<td>Price/bushel x $3.50/bu.</td>
<td>x $3.50/bu.</td>
<td>x $8.40/bu.</td>
</tr>
<tr>
<td>Income</td>
<td>$280/ac.</td>
<td>$235/ac.</td>
</tr>
<tr>
<td>Owner Expenses</td>
<td>-$155/ac.</td>
<td>-$95/ac.</td>
</tr>
<tr>
<td>Net Return to Owner (Effective Rent)</td>
<td>$125/ac.</td>
<td>$115/ac.</td>
</tr>
</tbody>
</table>

Return on Investment

- Multiply the estimated current market value by the expected rate of return to determine the rental rate per acre.

<table>
<thead>
<tr>
<th>Farm</th>
<th>Dryland Cropland</th>
<th>Irrigated Cropland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Value</td>
<td>$5,000/ac.</td>
<td>$8,500/ac.</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>x 2.4-2.8%</td>
<td>x 2.5-2.9%</td>
</tr>
<tr>
<td>Rental Rate per Acre</td>
<td>$120-$140/ac.</td>
<td>$213-$247/ac.</td>
</tr>
</tbody>
</table>

*Estimated net rates of return by land type are available in Table 5 of the Nebraska Farm Real Estate Market Highlights Report 2018-2019.

Entity Responsible for Maintaining Irrigation System as Part of Cash Lease in Nebraska

Discount on Cash Rent per Acre When Tenant Owns Pivot for Irrigation System in Nebraska

Discount on Cash Rent per Acre When Tenant Owns Power Unit for Irrigation System in Nebraska

<table>
<thead>
<tr>
<th>Power Unit</th>
<th>Discount per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>System Type</td>
<td>Percent of Respondents</td>
</tr>
<tr>
<td>Diesel Engine</td>
<td>23%</td>
</tr>
<tr>
<td>Propane or Natural Gas Engine</td>
<td>23%</td>
</tr>
<tr>
<td>Electric Motor</td>
<td>20%</td>
</tr>
</tbody>
</table>


Cover Crop Practices in Nebraska by Agricultural Statistics District

<table>
<thead>
<tr>
<th>Agricultural Statistics District</th>
<th>Planted Acres</th>
<th>Planted to Cropland Acres</th>
<th>Number of Operations</th>
<th>Cropland Operators Planted Cover Crops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwest</td>
<td>52,884</td>
<td>2,964,637</td>
<td>1.8</td>
<td>274</td>
</tr>
<tr>
<td>North</td>
<td>57,989</td>
<td>1,820,397</td>
<td>3.2</td>
<td>306</td>
</tr>
<tr>
<td>Northeast</td>
<td>133,885</td>
<td>3,630,051</td>
<td>3.7</td>
<td>960</td>
</tr>
<tr>
<td>Central</td>
<td>98,485</td>
<td>2,048,103</td>
<td>4.8</td>
<td>585</td>
</tr>
<tr>
<td>East</td>
<td>186,216</td>
<td>4,214,043</td>
<td>4.4</td>
<td>1,102</td>
</tr>
<tr>
<td>Southwest</td>
<td>60,853</td>
<td>2,489,757</td>
<td>2.4</td>
<td>265</td>
</tr>
<tr>
<td>South</td>
<td>83,247</td>
<td>1,878,089</td>
<td>4.4</td>
<td>343</td>
</tr>
<tr>
<td>Southeast</td>
<td>73,203</td>
<td>3,257,522</td>
<td>2.2</td>
<td>584</td>
</tr>
<tr>
<td>State</td>
<td>747,903</td>
<td>22,242,599</td>
<td>3.4</td>
<td>4,419</td>
</tr>
</tbody>
</table>

Source: 2017 Census of Agriculture, National Agricultural Statistical Service, USDA.

Reasons for Planting Cover Crops on Cropland in Nebraska


Rental Discount in Dollars per Acre on Land Lease When Tenant Plants Cover Crops in Nebraska


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Jansen et al.
Negotiations

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A back and forth process designed to reach an agreement when you and the other party have both shared and opposed issues.

- Competition - distributive or win-lose bargaining
- Collaborative – integrative or win-win bargaining
- Mixed motive – combination of the above
Traditional Bargaining Method

Commitment (extreme position)

Final Offer

Last Offer

Final Last Offer

Split the Difference

Compromise

Threat to walk

Value Creation

Types of Differences – “Value Creation”

- Resources and capabilities
- Relative valuations
- Forecasts
- Risk preferences
- Time preferences
Types of Differences – “Value Creation” Examples

- Cash Rent due after harvest
- Hunting rights
- Grain bin storage
- Flexible cash lease
- Farm clean up

Zopa - Zone of Possible Agreement

- What is your best alternative to a negotiated agreement?
  - What was the BATNA for the widest negotiation?
    - Can be good
    - Can be bad

Thomas — Kilmann Conflict Mode

- Complete survey
Thomas — Kilmann Conflict Mode

- Competing
  - High Concern For Own Agenda
  - High Concern For Other’s Agenda
  - Quick, decisive action needed
  - Important but competing issues are at stake and where there isn’t “right” way

- Collaborating
  - High Concern For Own Agenda
  - High Concern For Other’s Agenda
  - Both sides of concerns too important to be compromised
  - Needs insights from different perspectives
  - Increases others’ commitment to solution
  - Long-term major issues

- Compromising
  - Moderate Concern For Own Agenda
  - Moderate Concern For Other’s Agenda
  - Equitable agreement where both parties make some concessions
  - Two equal or strong parties committed to mutually exclusive goals
  - Expediency
  - Seek up competing/liberating

- Avoiding
  - Low Concern For Own Agenda
  - Low Concern For Other’s Agenda
  - No chance of getting what you want
  - Potential risk of confrontation outweigh benefit of resolving
  - Other better places to resolve the issue

- Accommodating
  - Low Concern For Own Agenda
  - High Concern For Other’s Agenda
  - Issue much more important to other party
  - To forestall damage of continued conflict
  - To be fair
  - Where is the wrong

Be an Investigative Negotiator

- Don’t just ask what, ask why
- Seek to reconcile interests, not demands
- Create common ground with uncommon allies
- Interpret demands as opportunities
- Don’t dismiss anything as their problem
- Understand the difference between selling and negotiating

Poor Communication – Common Issues

- Use effective pauses
- Don’t fill in silence
- Smile, keep calm, use encouraging body language and count to ten

- Negotiating against yourself
  - We avoid making request we feel the other party will say no to
  - Be gentle and fearless, can work favorably either way through reciprocity

- Play the short game
  - Don’t try to obtain the commitment right away
  - Work on moving closer to the goal to build collaboration

Adjusting Leases for Damaged (Flooded) Ground

Book: Negotiation Genius
Authors: Deepak Malhotra and Max Bazerman

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Adjusting Leases for Damaged (Flooded) Ground

Understanding the damages

Heavy Work

- **Party Primarily Responsible** - Landlord
  - The landlord bears the responsibility for providing the tenant with the land ready to farm

- **Tasks included** – removing branches, corn stalks, trash debris, and other obstacles deposited on the field

- **Equipment** – light equipment and lots of hand labor

Heavy Work - Sand

- **Push the sand back into the river**
  - Need permit from US Army Corps of Engineers
  - Permit – RGP-11-02-WEH
  - Phone Number 402-896-0896
  - Permit may have conditions such as volume per day and time of year.

- **Disposal**
  - If the sand contains fecal matter, oil, or other chemical products it should be disposed of in a municipal solid waste landfill

- **Reuse**
  - If free of contaminants may be available for resale for erosion repair, dairy operation bedding, road repair, and other construction related projects.
Adjusting Leases for Damaged (flooded) Ground

What are the current provisions in the lease on disaster?

**Crop Share**
- Already shares production risks
- May not need to be adjusted

**Cash Rent**
- Full payment likely expected but the lease needs to be examined
- Under general contractual law if an event renders the property unusable for the entire growing season, the tenant may have a case for vacating the premise and not making any lease payments for 2019.

What insurance and farm programs are available during these events?

- Prevent Plant
- EQIP – Cover Crop
- Emergency Conservation Programs
  - Through Farm Service Agency
  - Must document
    - Before and after pictures
    - Equipment use, supplies, and labor

Talk with your Crop Insurance provider and Farm Service Agent to understand any implications from changes to a lease agreement or entrance into a program.

When Rebuilding – What Should You Rebuild?

Need a complete SWOT analysis

- Strengths
- Weaknesses
- Opportunities
- Threats

Rushing to make things the way it was may not be the most long-term beneficial course of action.
Leasing Considerations &
Farm or Ranch
Succession and Transfer

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Topics

• Value of a written lease
• Appropriate lease provisions
• Lease tricks and tips
• Farm or ranch succession and transfer concepts

It's Not Your Grandfather’s Place Anymore!

• Imperative to have a written lease

• Verbal or handshake lease termination of farmland
  • Nebraska leases assumed to start 3/1/20
  • Notify by 6 months prior – so by 9/1/2019 (so too late for ‘20)
  • Use registered mail

• Not the same for pasture leases

Professional Farm Manager

• Consider use if custom farming or renting
• Take care of managing the assets – especially valuable for absentee owners
• Charge 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
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

Comments: Crop Share Rent Agreements

- 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

Variation of Cash Leases – Flex Leasing

- Base cash lease amount is established
- The lease varies by some variable (metric)
  - Usually price, yield, or total revenue
- Consider establishing limits on the ‘flex’
  - Usually a lower and an upper limit

- Both landlord and tenant share some risk in this type of lease

Cash Leases

- Most common lease in Eastern Nebraska is a straight cash lease
- The landlord receives $xx amount for leasing one acre per year
- Leases typically start around 3/1 and end 2/28 (specified by the written lease!)
- Production risk is completely born by tenant
- Means that they receive all govt. payments
Issues for Leases

• 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

Lease Tips and Tricks

• Set lease termination notification date (is lease allowed to roll-over?)
• Set lease terms re-negotiation period
• Include penalties for things like
  • Using too much water (from allocation)
• Minimum communications – (both parties)
• If both parties agree to any term – write it down

Issues for Leases

• 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

PDF Leases – AgLease101.org

Lease Publications

- Fixed and Flexible Cash Rental Arrangements For Your Farm (NCTMEC 02)
- Crop Share Rental Arrangements For Your Farm (NCTMEC 020)
- Pasture Rental Arrangements For Your Farm (NCTMEC 02a)
- Rental Agreements For Farm Buildings and Livestock Facilities (NCTMEC 04)
- Purchasing and Leasing Farm Equipment (NCTMEC 05)
- Beef Cattle Rental Arrangements For Your Farm (NCTMEC 05a)
- Farm Building, Rental Rate Survey (NCTMEC 07)

Leases Forms

- Cash Farm Lease (NCTMEC 01a)
- Crop Share Farm Lease (NCTMEC 02a)
- Pasture Lease (NCTMEC 02a)
- Rental Lease (NCTMEC 04a)
- Farm Building or Livestock Facility Lease (NCTMEC 04a)
- Farm Machinery Lease for Non-commercial Transactions (NCTMEC 05a)
- Livestock Rental Lease (NCTMEC 05a)
- Farm Building, Rental Rate Survey (NCTMEC 07a)
Farm/Ranch Succession/Transfer

• Why we don’t plan
• Assumptions that parents make
• Importance of having a plan (vision)
• Steps to transferring the farm/ranch

When Are We Planning to Retire?

• 20% within the next 15 years
• 15% later than 15 years
• 9% Say that they never plan to retire (maintain full control)
• 24% Say they plan to semi-retire (giving up some control)
• 21% Say they are already semi-retired (gave up some control)

So – 54% are not planning to fully retire from farming!

Nebraska survey completed in fall 2017

Why Are Farmers Retiring at a Later Age – or Only Semi-retiring?

• Percent of those responding either important or very important
• 75% Have a difficult time giving up control of farm
• 69% Modern equipment – allows them to farm longer
• 66% Relate retirement to their own mortality
• 62% Cannot afford to retire
• 60% Healthier longer/longer life
• 55% Don’t have a successor
• 54% Don’t know what else they’d do

• On-line survey, fall 2017
Estate Planning

“...many farm families experience significant difficulty in discussing the future of the family farm. More often than not, planning... tends to be deferred until some critical life event occurs which forces the family to address the matter.”


Why Don’t We Plan?

- Too Complicated (we assume)
- Don’t like to Plan
  - It is mental ‘work’
- Facing our own Mortality
  - Some just don’t want to think about death
- We are afraid that if we do something, it will be wrong (in the future)

Circle of Inaction

1. I should have a plan
2. I go to a meeting, or meet with a lawyer
3. Wow! This is hard, complicated, I have a headache
4. NO action taken at this time

Ideal Planning - Sequential

1. I should have a plan or there is a catastrophic event
2. I go to a meeting and/or meet with a lawyer
3. Family meets to explore options
4. Options picked
5. Succession plan developed/signed – Congratulations!
The Parent’s Generations Make Several Assumptions – Are They Right?

• Our business is OUR business, it does not get shared with anyone!
• The kids all get along great now – I know that will continue…. 
• I know that my children will want to keep this asset in the family – even when we are gone
• The kids will just have to figure out how to divide – I’ll be gone I don’t care what happens
• Since I have four children – my assets have to be divided 25% to each – equally – that will be the fair way to do it
• “Some day, this will all be yours!”

  * In some cases – these assumptions are great – however…….

Phases of Transfer to Next Generation

1. Testing (will the next generation do ‘all’ tasks?)
2. Management Transfer (planned with timing)
3. Asset or Enterprise Transfer (livestock or machinery)
4. Whole Farm/Business (farmland) Transfer

  • Do all with written plans (Business Plan)
  • Have a management structure
  • Include exit plans
  • Use job descriptions

What do Your Assets Look Like at Retirement?

Begin with the end in mind!

• Turning in the keys on retirement day – what does that operation look like?
• Who are you handing the keys to?
  • Next generation
  • Auctioneer
  • Renter
• Establish that “Vision” first

Successful Farm Transitions

• Consider both the older and younger generations
• Know that fair and equal are not the same
• Have a plan that is equitable
• Use combinations of wills, trusts, LLCs, and other tools to control how the assets are passed
• Have a good team of professionals helping
Farm/Ranch Succession/Transition Team

Get your “Team” together!
- Lawyer
- Ag Banker
- Financial Advisor
- CPA
- Insurance Agent

Items to get together - before seeing an attorney
- List of your assets
  - What you own – how you own it
  - What you owe (if anything)
- What do you want to do with your assets

Websites to Get More Information

- [http://agecon.unl.edu/succession](http://agecon.unl.edu/succession)
  - Resource from the University of Nebraska-Lincoln

- [https://farmerandrancher.org/articles/](https://farmerandrancher.org/articles/)
  - Articles written by Joe Hawbaker – attorney, Omaha

- [https://www.extension.iastate.edu/bfc/](https://www.extension.iastate.edu/bfc/)
  - Iowa State’s Beginning Farmer Center

- [http://agrilegacy.com/blog/](http://agrilegacy.com/blog/)
  - Blog posts from Agri legacy

- [https://ag.purdue.edu/programs/areyouprepared/readyestate/Pages/default.aspx](https://ag.purdue.edu/programs/areyouprepared/readyestate/Pages/default.aspx)
  - Purdue University’s estate planning information
2019 Non-Irrigated Cropland Cash Rent Paid Per Acre
Nebraska

Cash Rent Paid
Dollars Per Acre

179.01 - 244.00
136.01 - 179.00
76.01 - 136.00
46.01 - 76.00
23.50 - 46.00
Not Published

Website: https://www.nass.usda.gov/Statistics_by_State/Nebraska/Publications/County_Estimates/
2019 Irrigated Cropland Cash Rent Paid Per Acre
Nebraska

Cash Rent Paid
Dollars Per Acre

- **267.01 - 294.00**
- **240.01 - 267.00**
- **199.01 - 240.00**
- **165.01 - 199.00**
- **135.00 - 165.00**
- Not Published

Website: https://www.nass.usda.gov/Statistics_by_State/Nebraska/Publications/County_Estimates/
2019 Pasture Cash Rent Paid Per Acre
Nebraska

Cash Rent Paid
Dollars Per Acre

- 58.01 - 80.50
- 45.51 - 58.00
- 33.51 - 45.50
- 21.01 - 33.50
- 9.50 - 21.00
- Not Published

Source: USDA National Agricultural Statistics Service
September 10, 2019

Website: https://www.nass.usda.gov/Statistics_by_State/Nebraska/Publications/County_Estimates/
2018 Cash Lease Adjustments on Irrigation Equipment for Cropland Rental Arrangements in Nebraska

The Nebraska Farm Real Estate Market Highlights Report 2017-2018 provides recent trends on land values and rental rates for landowners, tenants, and stakeholders. Each year the special feature section covers topics on new or emerging issues related to agricultural land in Nebraska. These topics reflect interest expressed by panel members and readership of the Nebraska Farm Real Estate Market Highlights Report. The special feature section in 2018 focuses on cash lease adjustments on irrigation equipment for cropland rental arrangements in Nebraska. Results from this special feature section of the survey are summarized in this article.

Nebraska farmers use irrigation systems across the state on cropland acres for grain and forage production. These systems require large financial outlays for the purchasing and installation of the irrigation equipment. Repairs and maintenance are required for the upkeep on the system each year. Landlords and tenants commonly negotiate the maintenance for irrigation equipment on rented cropland. The entity responsible for annually maintaining and repairing the irrigation systems as part of a cash lease contract is typically either the landlord and tenant, tenant, landlord, or other.

Panel members reported the entity responsible for maintaining an irrigation system as part of a cash lease arrangement in Nebraska for 2018 (Figure 1). Ranked in order of which entity maintains the system includes the landlord and tenant, tenant, landlord, and other at 48.4, 34.7, 14.7, and 2.2 percent. An other entity may be an irrigation company or related business providing professional upkeep, maintenance, and installation services for a fee.
In cases where tenants are solely responsible for maintaining the system, a discount on the cash rent paid for the irrigated cropland might be made to account for the investment of time and repairs. In certain instances, panel members indicated that the landlord may still be responsible for repairs after a tenant has met a certain monetary deductible for repairs on the system. The skill, interest, and time of the landlord and tenant engaged in an irrigated cropland lease arrangement have a strong influence on the negotiations for which entity maintains the system necessary for delivery of the water across the parcel of ground.

A tenant might pay for the replacement of a pivot on irrigated cropland after an older system becomes depreciated out or functionally obsolete and the landlord does not have the financial ability or desire to update equipment. In these cases, a discount may be applied to the irrigated rent when the tenant provides the center pivot. According to panel members, the discounts of $26 to $50 and $10 to $25 per acre account for 58.5 and 30.6 percent of the discounts on cash rent when the tenant owns the center pivot (Figure 2). About 8.5 percent of discounts are greater than $51 per acre and 2.4 percent account for a discount of $0 per acre.

The other major irrigation system component a tenant might bring to a cash lease agreement could be the power unit for pumping the water. Common power units used on irrigated cropland in Nebraska include either a diesel engine, propane or natural gas engine, or electric motor. In these cases, a discount may be applied to the irrigated rent when the tenant provides the power unit for the irrigation system. In Table 1 about 70 percent of the discount per acre rates for the three power units were divided between $1 to $9 and $10 to $20. About 20 percent of irrigated cropland did not receive a discount and a very small percent have a

<table>
<thead>
<tr>
<th>Power Unit</th>
<th>Discount per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0</td>
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<tr>
<td>Percent of Respondents</td>
<td>--------</td>
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<tr>
<td>System Type</td>
<td>--------</td>
</tr>
<tr>
<td>Diesel Engine</td>
<td>23</td>
</tr>
<tr>
<td>Propane or Natural Gas Engine</td>
<td>23</td>
</tr>
<tr>
<td>Electric Motor</td>
<td>20</td>
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</tbody>
</table>

Table 1. Discount on Cash Rent per Acre When Tenant Owns Power Unit for Irrigation System in Nebraska

Source: UNL Nebraska Farm Real Estate Market Survey, 2018.
discount greater than $20 per acre. Panel members reported newer diesel, propane, or natural gas engines might have higher discount rates due to the expenses associated with complying with the emissions standards on these power unit exhausts.

Survey results shown and discussed in this report are findings from the University of Nebraska–Lincoln 2018 Nebraska Farm Real Estate Market Survey. Complete results from the survey may be found at the Nebraska Farm Real Estate website: http://agecon.unl.edu/realestate

Please address questions regarding the 2018 Nebraska Farm Real Estate Survey to Jim Jansen at 402-261-7572 or jjansen4@unl.edu.

References


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July 3, 2019
agecon.unl.edu/cornhuskereconomics

Cornhusker Economics

Cover Crop Utilization across Nebraska and Implications for Cropland Lease Arrangements in 2019

The Nebraska Farm Real Estate Market Survey and Report 2018-2019 provides insight on recent trends in the market value of land and cash rental across the state. Each year the special feature section from this report covers topics on new or emerging issues related to the agricultural land industry in Nebraska. These topics reflect interest expressed by panel members and readership of the Nebraska Farm Real Estate Market Highlights Reports. The special feature section in 2019 focuses on trends and considerations for cover crops across Nebraska and implications on cropland lease arrangements.

Findings from the 2017 Census of Agriculture in Table 1 provide an overview of the utilization of cover crops across the eight districts of the state (USDA-NASS, 2019). Approximately 748 thousand acres of cover crops were grown by about 38 thousand operators on approximately 22 million acres of cropland across Nebraska in 2017. Cover crops were planted on about 3.4 percent of cropland acres across the state by 4,419 operators.

The number of cropland acres in each district varied greatly across the state. Utilization of cover crops also varied greatly across the eight regions. Arid areas such as the Northwest, North, and Southwest Districts tended to grow around 50 thousand acres of cover crops on roughly 2.4 percent of the cropland acres. The Northeast, Central and East Districts each planted around 100,000 acres or more of cover crops on roughly 4.2 percent of the cropland acres. The number of operators in each of these regions planting cover crops also varied. In percentage terms, the cropland operators planting cover crops varied from a low of 7.4 percent in the Northwest District compared to a high 14.8 percent in the Central District.

<table>
<thead>
<tr>
<th>Market Report</th>
<th>Year Ago</th>
<th>4 Wks Ago</th>
<th>6-28-19</th>
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<tr>
<td><strong>Livestock and Products, Weekly Average</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nebraska Slaughter Steers, 35-65% Choice, Live Weight</td>
<td>NA</td>
<td>*</td>
<td>*</td>
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<tr>
<td>Nebraska Feeder Steers, Med. &amp; Large Frame, 550-600 lb</td>
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<td>NA</td>
<td>175.56</td>
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<td>Nebraska Feeder Steers, Med. &amp; Large Frame 750-800 lb</td>
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<td>NA</td>
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<td>Choice Boxed Beef, 600-750 lb. Carcass</td>
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<td>Western Corn Belt Base Hog Price Carcass, Negotiated</td>
<td>NA</td>
<td>75.47</td>
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<td>Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.</td>
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<td>182.86</td>
<td>72.66</td>
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<tr>
<td>Slaughter Lambs, woolled and shorn, 135-165 lb. National.</td>
<td>NA</td>
<td>155.52</td>
<td>156.37</td>
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<tr>
<td>National Carcass Lamb Cutout FOB</td>
<td>NA</td>
<td>389.08</td>
<td>392.01</td>
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<td><strong>Crops, Daily Spot Prices</strong></td>
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<tr>
<td>Wheat, No. 1, H.W.</td>
<td>NA</td>
<td>4.41</td>
<td>3.94</td>
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<td>Corn, No. 2, Yellow</td>
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<td>4.02</td>
<td>4.05</td>
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<td>Columbus, bu.</td>
<td>NA</td>
<td>7.80</td>
<td>7.92</td>
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<tr>
<td>Soybeans, No. 1, Yellow</td>
<td>NA</td>
<td>6.50</td>
<td>6.34</td>
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<tr>
<td>Oats, No. 2, Heavy Minneapolis, Mn, bu.</td>
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<td>3.55</td>
<td>3.20</td>
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<tr>
<td><strong>Feed</strong></td>
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<tr>
<td>Alfalfa, Large Square Bales, Good to Premium, RFV 160-185</td>
<td>NA</td>
<td>*</td>
<td>177.00</td>
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<tr>
<td>Northeast Nebraska, ton.</td>
<td>NA</td>
<td>150.00</td>
<td>*</td>
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<tr>
<td>Grass Hay, Large Rounds, Good</td>
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<td>97.50</td>
<td>*</td>
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<td>Dried Distillers Grains, 10% Moisture</td>
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<td>Wet Distillers Grains, 65-70% Moisture Nebraska Average</td>
<td>NA</td>
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</table>

* No Market
When planting a cover crop across Nebraska, the motivation of the landowner or operator may vary depending upon their agronomic needs and/or management requirements. Increased interest in cover crops in recent years has come from the perceived benefits to the land and mitigation of environmental issues. Cover crops are used to reduce soil degradation (i.e. erosion) as well as enhance soil quality (i.e. organic matter and nutritive content). These effects may take multiple years to fully materialize but they also tend to persist for several years into the future. Grazing the cover crops or harvesting for forage are perceived as viable options for generating benefits on a more immediate basis.

The underlying motivation for utilizing cover crops remains important as the operator may incur additional establishment and termination expenses for the land in the year of use while the benefits provided may be spread out over several years into the future. Figure 1 summarizes the major reasons for planting cover crops across Nebraska.

Panel members reported environmental benefits such as soil health and conservation accounted for nearly 60 percent of the reasoning or motivation behind utilizing cover crops. Livestock grazing and use as a secondary forage in a rotation accounted for an additional 33.6 percent of the reasoning for planting a cover crop on an agricultural property. An ability to obtain cost-share funding only attributed to about eight percent of the motivation behind adopting this practice.

Division of cover crop establishment expenses remains a provision to consider in a cropland lease arrangement. Benefits from utilizing a cover crop may exceed the length of the current lease. Figure 2 summarizes the dollar per acre rental discount on a cropland lease provided to a tenant when planting a cover crop.

Panel members indicated that slightly over 80 percent of land leases do not provide a discount to tenants for planting cover crops. About 15 percent of leases provided a small discount, between $1 and $9 per acre. Opportunities exist in lease negotiations to more equitably divide cover crop expenses.

Survey results shown and discussed in this report are findings from the University of Nebraska-Lincoln 2019 Nebraska Farm Real Estate Market Survey. Complete results from the survey may be found at the Nebraska Farm Real Estate website: http://agecon.unl.edu/realstate.

Please address questions regarding preliminary estimates from the 2018 Nebraska Farm Real Estate Survey to Jim Jansen at (402) 261-7572 or jjansen4@unl.edu.
<table>
<thead>
<tr>
<th>County and Agricultural Statistics District</th>
<th>Planted Acres Cropland</th>
<th>Cropland Acres Planted to Cover Crops</th>
<th>Number of Operators Cropland</th>
<th>Cropland Operators Planted Cover Crops</th>
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<tr>
<td></td>
<td>- - - - Acres - - - -</td>
<td>- - Percent - - - -</td>
<td>- - - - Number - - - -</td>
<td>- - Percent - - - -</td>
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<td>Dawes</td>
<td>2,383</td>
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<td>Deuel</td>
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<td><strong>Northwest</strong></td>
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<td>Hooker</td>
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<td>Thomas</td>
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<td>7,828</td>
<td>87,779</td>
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<td><strong>North</strong></td>
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<td><strong>1,820,397</strong></td>
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<td>Antelope</td>
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<td>364,429</td>
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<td>Burt</td>
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<td>Cedar</td>
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<td>393,200</td>
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Table continued on next page.
Table 1. Cover Crop Practices for Cropland and Operators in 2017, by Agricultural Statistics District in Nebraska

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<tr>
<th>County and Agricultural Statistics District</th>
<th>Planted Acres</th>
<th>Cropland Acres Planted to Cover Crops</th>
<th>Number of Operators Planted Cover Crops</th>
<th>Cropland Operators Planted Cover Crops</th>
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Table continued on next page.
Table 1. Cover Crop Practices for Cropland and Operators in 2017, by Agricultural Statistics District in Nebraska\textsuperscript{a} (continued)

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<tr>
<th>County and Agricultural Statistics District</th>
<th>Planted Acres</th>
<th>Cropland Acres Planted to Cover Crops</th>
<th>Number of Operators Planted Cover Crops</th>
<th>Cropland Operators Planted Cover Crops</th>
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<td>Number</td>
<td>Percent</td>
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<td>73,203</td>
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</table>

| State | 747,903 | 22,242,599 | 3.4 | 4,419 | 38,084 | 11.6 |

Source: \textsuperscript{a} 2017 Census of Agriculture, National Agricultural Statistical Service, USDA.
\textsuperscript{b} Value not released due to county-level disclosure.
\textsuperscript{c} District values may not sum to state totals due to county-level disclosure.

References


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THOMAS-KILMANN CONFLICT MODE QUESTIONNAIRE

Consider situations in which you find your wishes differing from those of another person. How do you usually respond to such situations?

On the following pages are several pairs of statements describing possible behavioral responses. For each pair, please circle the "A" or "B" statement which is most characteristic of your own behavior. In many cases, neither the "A" nor the "B" statement may be very typical of your behavior, but please select the response which you would be more likely to use.

When done answering, transfer your answers to the scoring sheet on the last page, and sum each of the columns.

1. A. There are times when I let others take responsibility for solving the problem.

   B. Rather than negotiate the things on which we disagree, I try to stress those things upon which we both agree.

2. A. I try to find a compromise solution.

   B. I attempt to deal with all of another's and my concerns.

3. A. I am usually firm in pursuing my goals.

   B. I might try to soothe the other's feelings and preserve our relationship.

4. A. I try to find a compromise solution.

   B. I sometimes sacrifice my own wishes for the wishes of the other person.

5. A. I consistently seek the other's help in working out a solution.

   B. I try to do what is necessary to avoid useless tensions.

6. A. I try to avoid creating unpleasantness for myself.

   B. I try to win my position.
7. A. I try to postpone the issue until I have had some time to think about it.
   B. I give up some points in exchange for others.

8. A. I am usually firm in pursuing my goals.
   B. I attempt to get all concerns and issues immediately out in the open.

9. A. I feel that differences are not always worrying about.
   B. I make some effort to get my way.

10. A. I am firm in pursuing my goals.
    B. I try to find a compromise solution.

11. A. I attempt to get all concerns and issues immediately out in the open.
    B. I might try to soothe the other's feelings and preserve our relationship.

12. A. I sometimes avoid taking positions which would create controversy.
    B. I will let another have some of their positions if they lets me have some of mine.

13. A. I propose middle ground.
    B. I press to get my points made.

14. A. I tell another my ideas and ask them for theirs.
    B. I try to show him the logic and benefits of my position.
15. A. I might try to soothe the other's feelings and preserve our relationship.
   B. I try to do what is necessary to avoid tension.

16. A. I try not to hurt the other's feelings.
   B. I try to convince the other person of the merits of my position.

17. A. I am usually firm in pursuing my goals.
   B. I try to do what is necessary to avoid useless tensions.

18. A. If it makes the other person happy, I might let them maintain their views.
   B. I will let the other person have some of their positions if they let me have some of mine.

19. A. I try to get all concerns and issues immediately out in the open.
   B. I try to postpone the issue until I have had some time to think it over.

20. A. I attempt to immediately work through our differences.
   B. I try to find a fair combination of gains and losses for both of us.

21. A. In approaching negotiations, I try to be considerate of the other person's feelings.
   B. I always lean toward a direct discussion of the problem.

22. A. I try to find a position that is intermediate between mine and another person's.
   B. I assert my wishes.
23. A. I am often concerned with satisfying all my wishes.
   B. There are times when I let others take responsibility for solving problems.

24. A. If the other's position seems important to them, I would try to meet their wishes.
   B. I try to get the other person to settle for a compromise.

25. A. I try to show the other person the logic and benefits of my position.
   B. In approaching negotiations, I try to be considerate of the other person's wishes.

26. A. I propose a middle ground.
   B. I am nearly always concerned with satisfying all my wishes.

27. A. I sometimes avoid taking positions that would create controversy.
   B. If it makes the other person happy, I might let them maintain their views.

28. A. I am usually firm in pursuing my goals.
   B. I feel that differences are not always worth worrying about.

29. A. I propose middle ground.
   B. I feel that differences are not always worth worrying about.

30. A. I try not to hurt the other person's feelings.
   B. I always share the problem with the other person so that we can work it out.
SCORING THE THOMAS-KILMANN CONFLICT MODE QUESTIONNAIRE

<table>
<thead>
<tr>
<th>Competing (Forcing)</th>
<th>Collaborating (Problem Solving)</th>
<th>Compromising (Sharing)</th>
<th>Avoiding (Withdrawal)</th>
<th>Accommodating (Smoothing)</th>
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</table>

Total the number of letters circled in each column.

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<th>Competing (Forcing)</th>
<th>Collaborating (Problem Solving)</th>
<th>Compromising (Sharing)</th>
<th>Avoiding (Withdrawal)</th>
<th>Withdrawing (Smoothing)</th>
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44
SUDDEN PREP NEGOTIATIONS

If time is short, if the substance is of limited importance, and you need a little quick help getting ready

SELLER’S settlement range

ZOPA

BUYER’S settlement range

Buyer’s Walkaway Position

THINGS I SHOULD BE READY TO PUT “ON THE TABLE”

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<th>Options</th>
<th>Legitimacy</th>
<th>Their Interests</th>
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<td>What I really care about. My wants, needs, concerns, hopes, and fears</td>
<td>Possible agreements that we might reach</td>
<td>External standards or precedents that might convince one or both of us that a proposed agreement is fair</td>
<td>What I think they really care about. Their wants, concerns, hopes, and fears.</td>
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BATNA “My walk-away alternative.”

What can I do if I walk away without agreement? Which is the best? What would I really do?

1.                                                                                   

2.                                                                                   

3.                                                                                   

Commitment

If we reach agreement, we commit to some option

<table>
<thead>
<tr>
<th>Commitment</th>
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<tbody>
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45