The increasing levels of cash rents are an issue of primary concern for farmers in Illinois and throughout the Corn Belt region. According to University of Illinois crop budgets, land costs have represented 30-35% of total production costs for Illinois grain operations over the past 6 years. Despite consistent upward trends in cash rent levels, this actually represents a decline in similar measures from the early 90s. Since 1990, the average cash rent in Illinois has increased by about 70% from $100 per acre to $169 per in 2010 according to USDA’s Agricultural Land Values and Cash Rents Annual Summary. Over the same twenty year period, both crop revenues and non-land production costs for grain operations have more than doubled. These trends have been most pronounced over the past 5 years due to the significant rise in both agricultural commodity and energy prices.

A number of factors have been found to impact rent levels beyond the expected profitability of crop production. Rent levels tend to exhibit a benchmarking effect based on their levels from previous crop years, which tends to slow rental rate adjustment. Farm size is positively related to the cash rents paid by Illinois farm operators. While this implies economies of scale, the difference in average cash rent levels reported by small and large grain operations is relatively small. Significant increases in commodity futures prices throughout this fall suggest that expectations are for cash rents to continue to increase at least over the short-term.

Furthermore, over the past decade there has been a shift away from share rental agreements to cash rent arrangements in Illinois. The average proportion of total acres that are operated under a share rent agreement has fallen from about 48% in 1997 to 37% in 2009. Over the same time period, the proportion of total acres operated under cash rent agreements has increased from just over 25% to approximately 40%, while ownership rates among grain farm operators have declined slightly from 25% to about 23%.

These trends have significant implications for farm profitability and the risk exposures facing both the producer and the landowner. Under a typical share rental agreement, the farmer and landowner share crop revenues, production costs, and the risk associated with production and input and commodity prices. Under a cash rent agreement, the farmer bears all production and price risk. While economic theory would suggest that farmers should earn a premium for taking on additional risk, lower farm returns have been linked to Illinois farms which cash rent a significant portion of their total acreage.

The availability and breadth of crop insurance programs has expanded considerably over the last 10 years as policies which cover crop revenues at both the farm and county levels have been introduced. The increased use and effectiveness of crop insurance as a risk management tool could be one justification for producers’ taking on additional risk through cash rent agreements. Landowner preferences are also likely to be driving this change. Cash rent
agreements relieve the landowner of many difficult decisions, including crop marketing and the timing of input purchases. Furthermore, under a cash rent agreement, the landowner can rely on the farmer to understand and manage the tasks associated with Federal commodity programs.