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Cash Rents in 2006

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The level at which cash rents will be negotiated for the 2006 cropping year is an open question. Budgets suggest that 2006 cash rents should be lower than in previous years. However, lowering rents would go against historical trends of cash rent increases.

According to Illinois Farm Business Farm Management (FBFM) data, average cash rents in Illinois have increased about $3 per acre per year since 2000. In 2004, the average cash rent was $135 per acre in northern Illinois, $143 per acre for central Illinois farms with high-quality farmland, $131 per acre for central Illinois farms with low-productivity farmland, and $95 per acre in southern Illinois.

The above averages mask extreme variability in cash rents. Farmland within a narrow geographical area may have rents that vary more than $75 per acre. A survey by the Illinois Society of Farm Managers and Rural Appraisers reported in the 2005 Illinois Farmland Values and Lease Trends publication quantified cash rents at the high-end of the market (www.ispfmra.org). According to this survey, cash rents for farmland with excellent productivity averaged $164 in 2004. Levels for cash leases in the high 1/3 of the range averaged $192 per acre, $28 above the average for the survey and significantly above FBFM averages.

Farmers paying high rents may have made profits in 2003 and 2004. Estimates of operator and farmland returns for central Illinois farms with high productivity farmland were $201 per acre in 2003 and $217 in 2004 (see the Illinois Farm Economics: Facts and Opinions article entitled “2005 and 2006 Crop Budgets: Implications for Cash Rents and Production Decisions” on farmdoc). For cash rented farmland, subtracting cash rent from operator and farmland return leaves operator return. In 2003 and 2004, operators could have paid high cash rents and still have had positive returns.

However, remaining profitable while paying high cash rents will be more difficult in 2005 and 2006. Operator and farmland returns in 2005 are projected at $78 per acre, significantly below 2003 and 2004 returns because of lower yields and higher costs. The 2006 level is projected at $148 per acre. This suggests that farmers paying more than $148 per acre for cash rent in 2006 will lose money, given current projections of prices, yields, and costs.

Much of the decrease in returns is due to higher costs, lead primarily by fertilizer and fuel price increases. Overall, costs in 2005 are $22 per acre higher than in 2002 for a 50% corn – 50% soybeans rotation. It is likely that 2006 costs will be significantly above
2005 levels. Increasing costs reduce farming profits and suggest that cash rents should decline.

Competition for farmland is keen, which may prevent cash rents from declining. However, farmers paying high cash rents are not likely to make money unless yields in 2006 are extremely high or some other event causes returns to exceed expectations. Continuing losses may require future adjustments in cash rent levels.