FARM BUSINESS MANAGEMENT

Landlord Returns from Illinois Farmland

University of Illinois
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LANDLORD RETURNS FROM ILLINOIS FARMLAND

Returns to farmland can be thought off in a similar manner as returns to stock. They're maybe a cash return, or dividend, and there can be appreciation in the value of the stock. With farmland, there is a cash return to the landowner in the form of a net return from leasing the land. There can also be a return to landowners in the form of an increase in the value of the land. However, like a stock investment, farmland values can also decline. The intent of this paper is to examine the historic cash or net return to landlords leasing Illinois farmland utilizing typical crop share leases.

DIFFERENT SOIL PRODUCTIVITY LEVELS

Data from the Illinois Farm Business Farm Management (FBFM) Association is used to estimate the landlord's net return for three different soil productivity levels. The different soil productivity levels or soil productivity ranges (SPR) include the high quality soils for northern and central Illinois (SPR of 86 – 100), the lower quality soils for northern and central Illinois (SPR of 56 – 85) and southern Illinois soils (SPR of 36 – 85). These soil ratings use the basic management productivity index published by the University of Illinois in Circular 1156, Soil Productivity in Illinois. Soil productivity indexes have been updated in Bulletins 810 and 811 published in 2000. For purposes of how FBFM uses the soil productivity index, as a relative ranking of a farm to a group of farms, using the 1156 index still is workable.

Farm operator returns and costs are used to estimate landlord net returns. These estimates are based on typical crop share leases. Landlord net returns are defined as the landlord's share of gross revenue less all expenses that are paid by the landlord under a typical crop share lease. This is the share of grain sales and government payments less the landlord's share of crop expenses, insurance and real estate taxes. Returns to landlords will vary depending on the type of lease and variations in lease terms.

LANDLORD'S NET RETURNS

Landlord's net returns per acre for 1999 through 2008 for the three different soil productivity levels are illustrated in Figure 1. As would be expected, the highest net returns per acre are for the most productive land while the lowest returns are from the soil productivity range found in southern Illinois. Farmland with the highest net return per acre does not necessarily have the highest return on investment. Year-to-year changes in the value of the land along with the value itself must be considered when calculating return on investment. In some years, southern Illinois farmland may have the highest rate of return on investment because of the lower investment per acre.

Since 1999, the highest landlord net return per acre for the most productive soil occurred in 2008 with a return of $239 per acre. The second highest was in 2007 with a net return of $226 per acre. The lowest net return, $84 per acre, occurred in 1998. The second lowest net return of $88 per acre occurred in 2001.

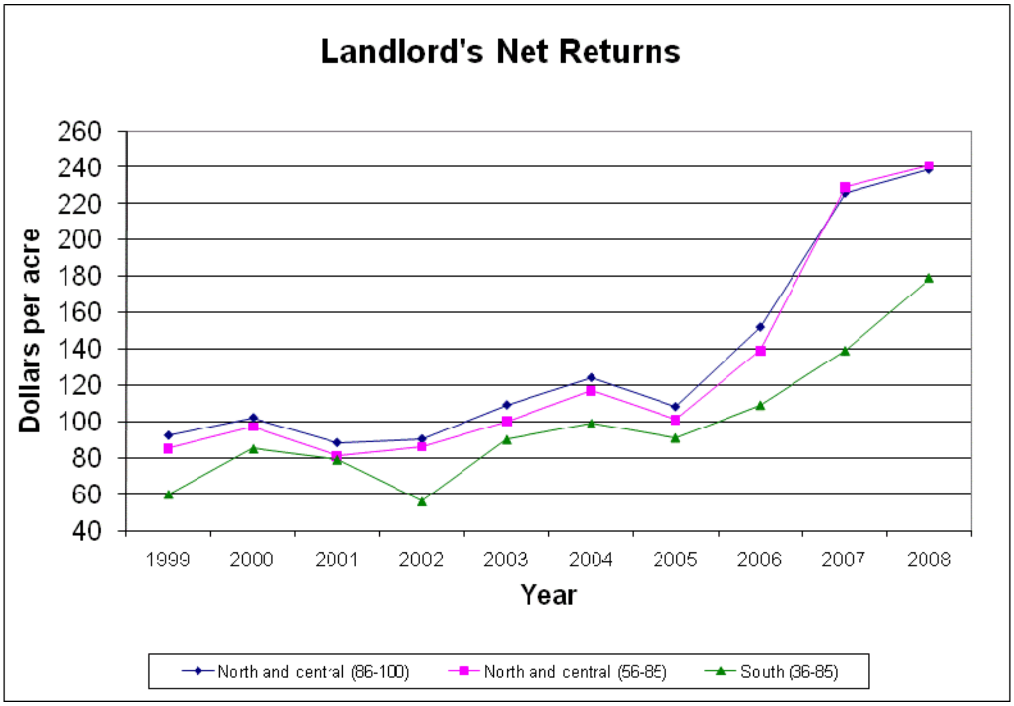

Figure 1. Landlord's net returns from Illinois farmland, 1999 – 2008.

The highest net return for the northern and central Illinois farmland with a SPR of 56 – 85 occurred in 2008 with a return of $241 per acre. The second highest return occurred in 2007 with a net return of $229 per acre. The lowest net return was in 1998 with a return of only $73 per acre. The highest net return for southern Illinois, $139 per acre, occurred in 2007. The lowest net return of $56 per acre was in 2002. Net returns for all three groups for 2006, 2007, and 2008 have been significantly above previous years' returns.

TRENDS IN NET RETURNS

Landlord's net returns to farmland (with crop share leases) vary from year-to-year depending on a number of factors, including crop yields and prices. Looking at returns over time by calculating a moving average provides an indication of the trend in returns. Figure 2 illustrates landlord's net returns based on a four-year moving average for the three different soil productivity ranges. Based on the four-year moving average for the last ten years, net returns reached their low point in 2001 and 2002 and have been increasing since then. The four-year moving average has increased significantly the last two years.

SUMMARY

Landlord's net returns from farmland (based on typical crop share leases) from 1998 through 2007 for three different soil productivity levels were illustrated. Net returns have been increasing significantly the last two years. Net returns based on a four-year moving average reached their low point in 2001 and 2002 and have increasing since then. Future returns to landowners utilizing crop share leases, to a great extent, will depend on the level of corn and soybean prices and the degree of continued increases (or decreases) in input costs.

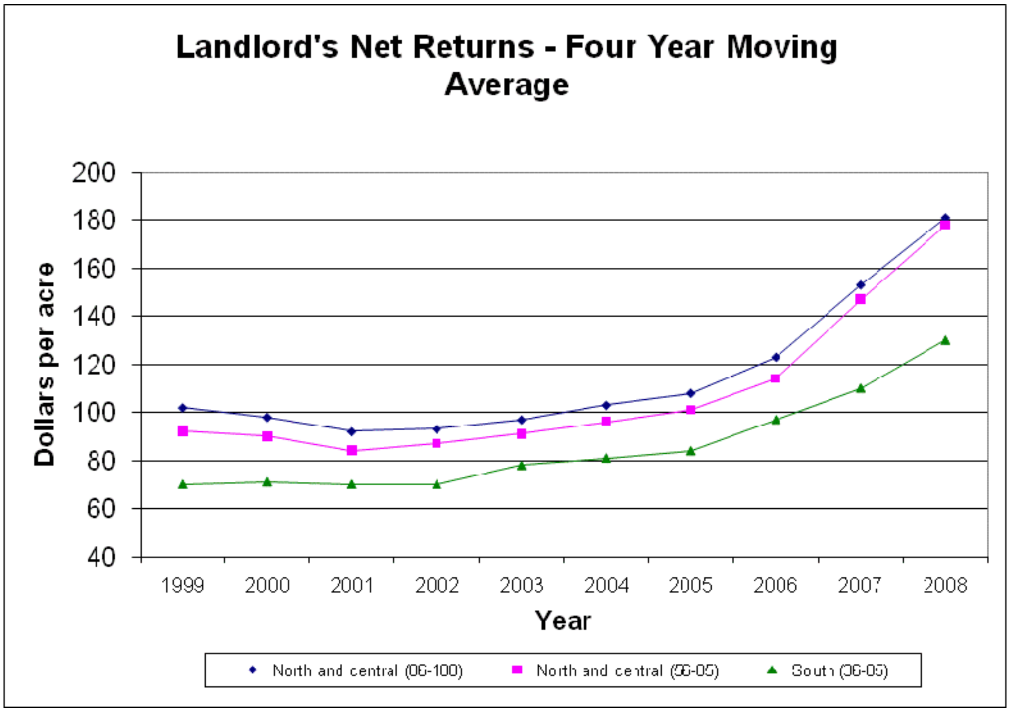

Figure 2. Landlord's net returns, four-year moving average, 1999 – 2008.

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