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The Market Approach

There is enough conversation between farmers and others in the agricultural support industry to provide some insight on the prevailing cash rent in a local farmland rental market. Ask at the local elevator, the fertilizer dealer, and the local bank to find a range of rents being paid or charged in the area. This method should not be used as the only method of estimating cash rents. The rental rate for your land should be based upon the productivity of the farm.

The Income Approach

Determine the amount of income an operator and a landowner would receive from the farm using a crop-share lease. Use your own input costs if possible. Last year's income tax records will provide an estimate of this information. Average costs for recent years are available from the University of Illinois Extension if a farm cost history is unavailable.

Under a cash rent lease, **all** the risk (price and yield) is carried by the operator. The return to owner without these risks should probably be **less than** the returns under a crop-share lease (with more risk). However, a strong demand for farmland in a local area may provide owners with a greater income than would have been received under a crop-share lease.

Producer's Income Approach

This method starts with the gross income (yield X price) then subtracts the cash production cost, machinery depreciation, interest, and an unpaid labor charge. According to Farm Business Farm Management (FBFM) records, unpaid labor charge averages \$30 per acre. The amount left after all expenses is the maximum amount a producer can

- Multiply standing rent by average per bushel value.
- Average these figures for all crops and soil

afford to pay for rent. Each producer needs to know their cost of production to estimate what residual amount they have to pay.

The Return-on-Investment Approach

Using Illinois Farm Business Farm Management Association income averages, the ten-year rate-of-return to land value equals about 3.9 percent after real estate taxes are paid.

If this method is to be chosen to calculate rent, the percent of return on investment desired would be multiplied times the land value and then added to taxes paid. Based on a recent farmland leasing survey, average rent as a percent of land value is 4.57 percent.

For example: \$2,000 per acre land at 4.57% return would give a rent \$91.40. Under this formula, it is important to note that returns to land (rents) drive changes in land values and not vice-versa.

Standing Rent. A number of leasing agreements call for rent to be paid in bushels rather than in cash and may be referred to as a **standing rent** or **bushel** lease. The University of Illinois has developed a chart to establish a standing rent for the major crops. These figures come from FBFM records and have been tested over a variety of conditions and locations using typical equivalent returns to owners under crop-share conditions. A standing rent lease functions in a manner similar to the cash lease, except the rent is paid with an agreed-upon amount of grain instead of dollars. The following is an example of how to establish cash rent from standing rent.

- Determine productivity index for primary soils.
- Select appropriate standing rent

groups.

The standing-rent lease increases operator risk. The

trap occurs during poor crop years when grain prices move higher. The operator may have to buy enough grain to make the lease payment in short crop years and may have to pay an unusually high price to get it. The result is that the rental expense may be highest for the operator in the very year that production and income suffer most.

Bushel Rent

This approach estimates cash rent based upon the productivity of the land. According to the most recent leasing survey, cash rent for corn ground ranged from \$.59-\$.86 per bushel. During the last five years, we have seen extreme fluctuations in

yields, so it is critical not to use just one year's yields or the highest or lowest yields. A five-year

average corn yield should be used if possible. For example, land with a five-year average corn yield of 150 bushels would rent for about \$120 per acre (150 bushels X \$.80=\$120). If you do not have historical yields, you can get estimated yields for each soil from the Natural Resource and Conservation Service (NRCS).

Cash Rent based upon Various Factors

The following table list was developed from a 1998 University of Illinois land rental survey:

Amount of Cash Rent Based Upon Various Factors

	North-west	North-east	West	Central	East	West South-west	East South-east	South-west	South-east	State
1998 Cash Rent	\$109	\$116	\$105	\$107	\$120	\$104	\$93	\$61	\$59	\$103
1997 Cash Rent	\$108	\$117	\$105	\$106	\$119	\$105	\$91	\$61	\$59	\$101
1996 Cash Rent	\$105	\$113	\$106	\$106	\$116	\$103	\$88	\$62	\$58	\$98
Rent per bu/corn	\$.82	\$.82	\$.77	\$.75	\$.86	\$.78	\$.71	\$.61	\$.59	\$.78
Rent per bu/beans	\$2.37	\$2.52	\$2.39	\$2.37	\$2.72	\$2.36	\$2.11	\$1.56	\$1.55	\$2.34
Corn Yield	1.33	1.42	1.36	1.42	1.40	1.32	1.30	1.03	1.06	1.32
Rent as a % of Land Value	5.2%	3.4%	5.3%	4.18%	4.77%	5.42%	4.22%	3.52%	5.62%	4.57%