2015 Guide to Pricing Farmland for Rent: What Should I Charge?

Published on Nov 13, 2014 by Mollie Aronowitz, AFM

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There has been a lot of chatter in the past few months regarding rental rates for 2015.Corn and bean prices are significantly down from the record-high prices we saw of the past few years. But as a landowner, how do you know how low prices will really go in 2015? We want to be fair to the farm operator and adjust leases if the market indicates it is necessary.

But we also don't have a crystal ball to see the future – we do not want to leave money on the table.

Calculating Cost of Production

As we look at the numbers for 2015, let's first consider the farm operator's cost of production. Research from Iowa State University Extension shows us that cost of production (seed, chemicals, fertilizer, storage, drying, et cetera) increased as prices increased over the past several years. Between 2007 and 2014, the cost of corn production increased by $300 per acre and cost of bean production increased by $200 per acre. And while we may see a slight decrease in cost of production, it won't decrease at the same rate as corn and bean prices.

Year	Corn $/acre	Soybeans $/acre
2007	479.4	336.29
2008	567.84	389.61
2009	699.08	490.60
2010	617.57	433.65
2011	706.28	472.64
2012	775.29	545.92
2013	788.45	547.71
2014	782.28	556.6

Source: http://www.extension.iastate.edu/agdm/crops/pdf/a1-21.pdf

Knowing that cost of production will play a significant role in the farm operator's bottom line for 2015, let's do some quick back of the envelope math for 2015.

For the following charts, we are going to:

- Calculate **GROSS REVENUE PER ACRE** by multiplying bushels per acre times price

- Subtract **EXPENSE PER ACRE**

This number will be a projection of the cost of seed, fertilizer, chemicals, crop insurance, drying, storage and interest. Costs were estimated by checking local elevator prices.

- Subtract 65% ISU'S CUSTOM MACHINE COST AND DELIVERY CHARGE.

This number takes into account machine cost and harvest delivery charge. For this number, we'll use 65 percent of ISU's Custom Machine Cost ($125 per acre) as an estimate of the operator's out of pocket expenses for labor and machinery, plus $0.10 per bushel harvest delivery charge.

- GROSS LESS VARIABLE COSTS is the available cash for landowner and farm operator to share at the end of the day.

Gross Less Variable Costs will an estimate of the cash available to pay cash rent and operator return. This is the money left in the pot at the end of the day for landowner income (in the form of rent) and farm operator income.

Gross Revenue per Acre (bushels per acre x price)

- Expense per Acre

- 65% ISU Custom Machine Cost and Delivery Charge

= Gross Less Variable Costs

Let’s calculate the cash available for a low, average and high-yielding farm. For this exercise, we will assume corn prices for October 2015 delivery of $3.50 for corn and $9.30 for beans.

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Remember, I did not include rent into either expense column so rent due to the landowner still needs to come out of the far right column (Gross Less Variable Costs). These numbers certainly do not paint a pretty picture.

Rental Rates vs Cost of Production

I was curious to know how these numbers lined up with rent rates I have in place for the 2015 growing season. I tallied up the farms I manage in Warren County, Iowa, with the leases in place for 2015 and averaged rent/acre. The average rent per acre on my Warren County farms is $247 per acre and CSR2 is 70. If we plugged $247 rent/acre into our equation, how would the farm operator end up?

	CORN	**BEANS**
Bushels per Acre	170	50
x Price	$3.50	$9.30
- Expense per Acre	$331.11	$175.91
- 65% ISU Custom Machine Cost	$86.00	$86.00
= Gross Less Variable Costs	$177.89	$203.09
- Rent per Acre	$247.00	$247.00
= Farm Operator’s Share	-$69.11	-$43.91

Using $3.50 corn, the farm operator will lose $69.11 an acre and the farm operator will lose $43.91 an acre with $9.30 beans.

How much to corn and bean prices have to rise for the farm operator to make $50 an acre?

	CORN	BEANS
Bushels per Acre	170	50
x Price	$4.20	$11.18
- Expense per Acre	$331.11	$175.91
- 65% ISU Custom Machine Cost	$86.00	$86.00
= Gross Less Variable Costs	$297.00	$297.00
- Rent per Acre	$247.00	$247.00
= Farm Operator’s Share	$50.00	$50.00

Using the same rent of $247/acre, the farm operator would need to see corn at $4.20 and beans at $11.18 to make $50 an acre. Only a 70-cent increase in corn prices to get the farm operator out of the red. A slightly larger increase ($1.88) in bean prices is needed to get the farm operator out of the red.

If corn and bean prices remain as low or dip farther, will we see 2015 rent rates decrease as significant as my simple math calculations may warrant? I don’t think so. Farm operators still have an appetite to retain and rent additional lease acres. I had very few lease terminations by the farm operator this past August and receive calls weekly from farm operators looking for new acres to rent.

In fact, in northwest Iowa I recently requested bids for an average yielding farm with 300 acres. I received bids with a $177 range from the lowest to highest bid and the highest bidder was $25/acre higher than how much the farm rented last year! And if we plugged these rent rates into our equation, almost all of the bidders were offering a rent rate that put him in the red next fall. While not as significant of a range, I’m seeing the same aggressive bids in the farm bids received for southern Iowa farms.

Property Calculations Applied

Considering our quick math, how should the landowner respond? I have really played both sides of the coin here and have not given a definitive answer either way of staying strong at current prices or reducing for 2015. At this point, I think it is more important for us to realize that rental rates for 2015 are still across the board and not in line with the market. And I foresee many landowners will get by next year without a rent adjustment as many farm operators will hope for prices to increase and smart marketing with the 2015 crop.

If you are in the position of renegotiating your lease for 2015 and getting pushed to reduce rent, there are still opportunities to maintain the income you have become accustomed to in the past few years. This isn’t a promise – but potential.

Flex Leases

A FLEX lease sets a base rent with a bonus structure that takes into account market volatility. If there is a bump in the market or the farm yields high numbers, the landowner gets to share in the increased revenue. This lease structure takes some of the uncertainty out of the picture for the landowner as there are still so many unknowns as what the 2015 year will bring.

Custom Farming

Custom farming is a good option if you have an appetite to take on some of the risk of farming. In this scenario, the landowner pays all of the crop expenses; hires a local operator to plant and harvest the crop for a flat fee per acre; and receives all of the crop revenue. This may sound contradictory to our discussion as we have shown a financial loss for 2015. But if we do see increased prices and/or yield the landowner will be all to gain.

Iowa Beginning Farmer Tax Credit

Iowa Beginning Farmer Tax Credit allows landowners to earn tax credits for leasing their land to beginning farmers. Administered by the Iowa Finance Authority, landowners can receive a 7 percent tax credit for cash rent leases, 17 percent tax credit for crop share leases, and additional credit available if the beginning farmer is a veteran.

No one knows where yields and prices will end up next year. And to add another layer of complexity, we are still learning how the new Farm Bill payments will affect the bottom line. In general, we know PLC and ARC payments will be significant this year and next so landowners and farm operators should take that into consideration. Running through October 2015 price projections is simply a good exercise to better understand current volatility and prepare us for potential lease negotiations moving forward.

Peoples Company land managers are well equipped to discuss the options landowners have for the 2015 growing season. Pending on the landowner's request, we can simply provide a lease analysis laying out the landowner's options; negotiate a 2015 with a farm operator; or provide full land management services including accounting and production reports.

For more information, please contact Peoples Company today.