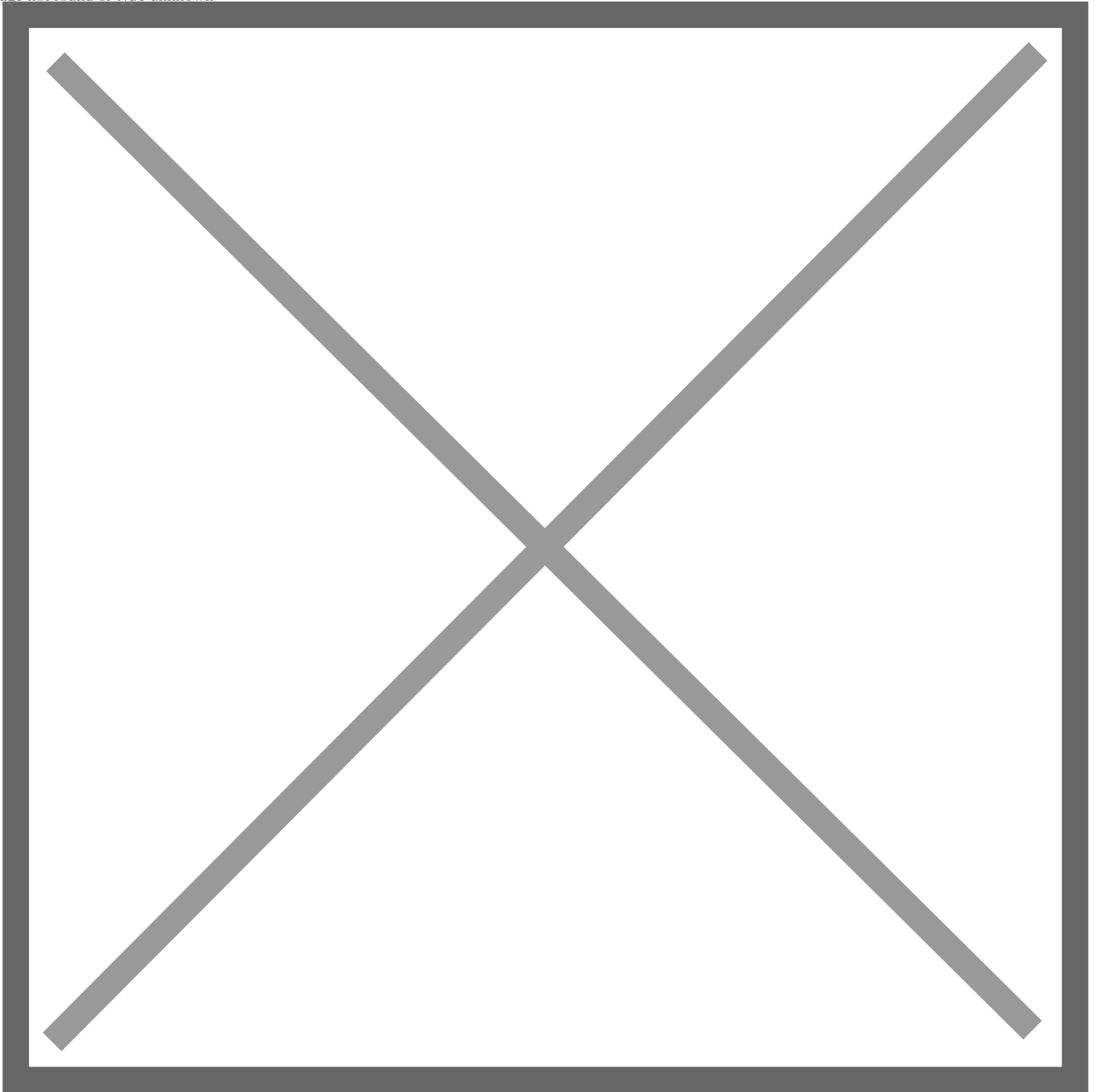


2016 Iowa Farmland Rental Rates: What Should I Charge?

Published on Nov 3, 2015 by Mollie Aronowitz, AFM

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A year ago, I made the argument in a blog post that [2015 rent reductions may have merit](#). This was certainly a turning of the table from previous years. Two-thousand-and-fourteen was the first in many that the operator was asking for a change in rent (reduction) versus the landowner asking for a change (increase). But it was hard to deny the numbers when fostering equal and transparent working relationships with farm operators is the core of our asset management philosophy.

Fast forward one year and I feel like a broken record: Corn and bean prices are significantly down from the record-high prices we saw of the past few years. As a landowner, how do you know what prices and yield lie ahead for 2016? We want to be fair to the farm operator and adjust leases if the market indicates it is necessary. But we also want to be competitive in the local renter market.

And the operators are asking the same questions as well: As an operator, do you terminate your farm lease with the intention of negotiating a lower rate but also at the risk of losing the farm? In 2014, many operators decided to wait a year before renegotiating in hopes that the market might turn. Can you afford to wait another year?

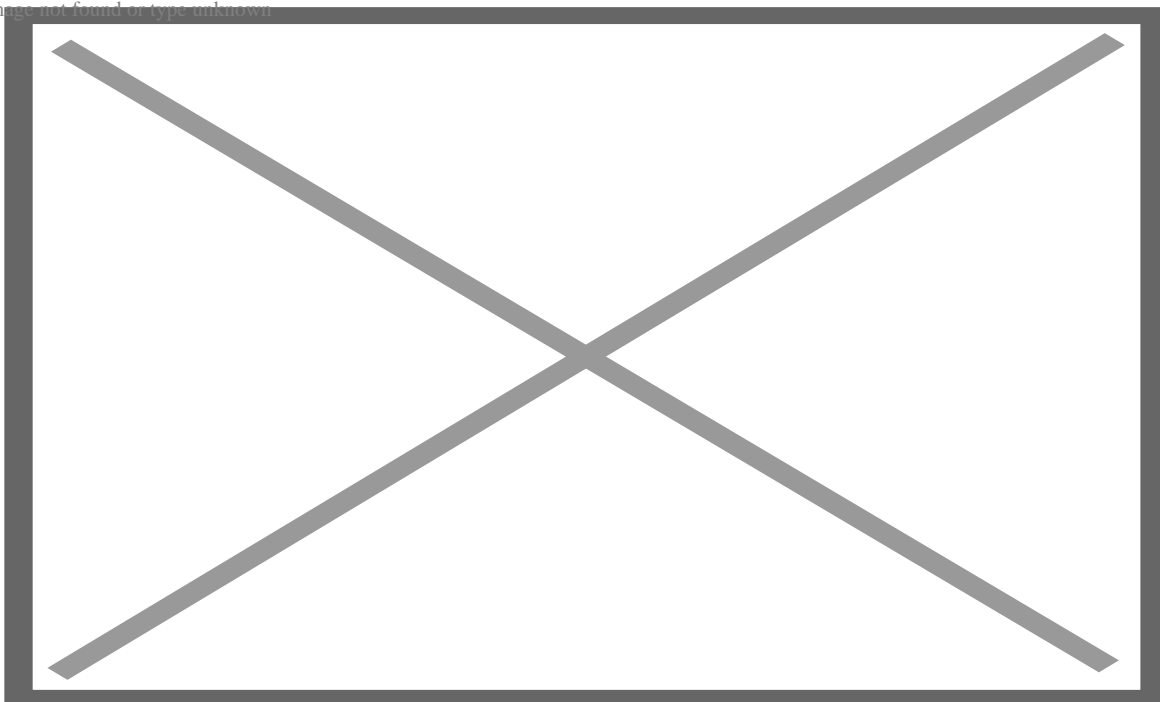
Let's revisit my calculations from a year ago to see how we turned out using today's state average on corn at \$3.44/bushel and soybeans \$8.31/bushel. The following calculations are to help us understand the farm operator's bottom line using estimated expenses and today's average grain prices.

For the following examples, we are going to:

1. Calculate **GROSS REVENUE PER ACRE** by multiplying bushels per acre times price.
2. 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.
3. Subtract 65 percent (**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.
4. **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.

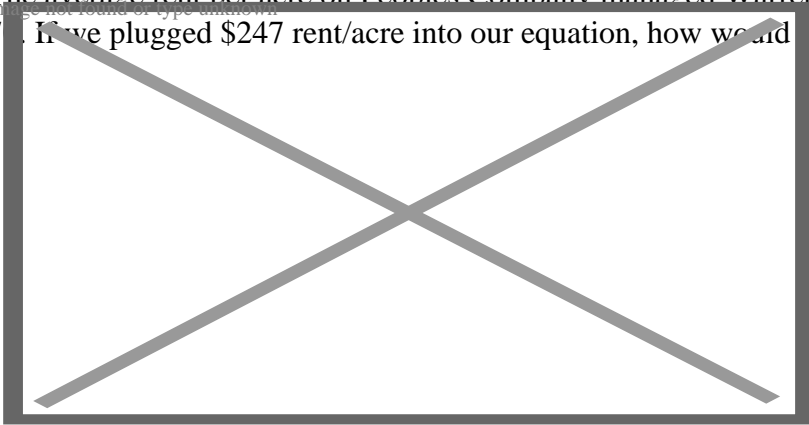
Using \$3.44 corn and \$8.31 soybeans, let's run through this calculation for low, average and high-yielding farm.

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Please note 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).

The average rent per acre on Peoples Company managed Warren County farms is \$247 per acre and CSR2 is 71. If we plugged \$247 rent/acre into our equation, how would our average Warren County operator end up?



(It is important to note that my

calculations do not include farm program payments. I use Warren County in my example because there won't be a payment this year. Some counties in northern Iowa will receive payments as much as \$70/acre.)

My Warren County example certainly does not paint a rosy picture for the operator. I think it is safe to say many 2015 rental rates agreed upon last fall were not in line with today's market. And I think we will see the same trend for 2016: rents will come down but perhaps not to the extent that they could. On high producing farms, local competition to collect additional farm acres will continue to put a premium on rent rates.

Knowing we are likely in a cycle of decreased annual return, is all lost? More than ever it is important to recognize the long term appreciation of the farm. There are steps we can take now to set farms up for higher future return when the market rebounds.

First, we need to take a critical eye to the tillable acres on each farm. At \$8.00/bushel corn, it made more sense to farm more acres than we should today. In many cases, those poor producing acres are the soils where we are also seeing erosion and nutrient loss.

Instead of farming from fence line to fence line, let's begin [maximizing the productive acres and protecting the sensitive acres](#). Let's get the sensitive acres into a conservation program where there is a federal payment (and we don't have any row crop production costs). In many cases, conservation program rent/acre rates are higher than what an operator is willing to pay.

And perhaps there are other opportunities to create income from non-tillable acres. If the farm includes timber or other recreation area, perhaps a hunting lease is an option.

On the productive acres on each farm, let's make sure we are maximizing yield potential. Repairs or improvements to terraces, waterways, tiling, etc. could make a significant difference. Federal funding for these projects may be available through county offices. Or with the right operator, there may even be terms included in a lease where the operator pays/completes some of the work in exchange for a multiple year lease or different rent rates.

And finally, there must be an operator reporting requirement written into the lease. Operators are able to collect highly advanced yield data from their equipment and landowners need to capture that information. Along with just general monitoring of the farm, this data will bring the premium when it is time to renegotiate rent and/or sell the farm.

Peoples Company land managers are well equipped to discuss the options landowners have for the 2016 growing season. Pending on the landowner's request, we can simply provide a lease analysis laying out the landowner's options; negotiate a 2016 with an operator; or provide full management services including accounting and production reports.

For more information, please [contact Peoples Company](#) today.