

Coming Home to Roost: Landowners Seeing Downward Pressure on 2016 Rent Rate

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As the 2016 growing season quickly approaches, landowners and farm operators are in the thick of cash rent negotiations. Landowners have been in control of setting cash rent rates for several years as commodity prices soared and competition to gain new acres increased.

But now the trend is reversing as commodity prices remain low and expenses remain high. Now a third party – farm lenders – is playing a larger role in the conversation as they are pressuring their borrowers to negotiate lower rent with landowners.

Where we are today: Previous to 2015, we were in a long term trend of rent rates increasing. Commodity prices were high and farm operators were willing to pay aggressive rates to expand farming acres. In many cases, local competition drove up rates higher than what made financial sense.

Though commodity prices came down in 2015, rent rates were slow to adjust. Those very high cash rents we all heard about started to back down, yet many operators chose to hold on for a year. Many operators were willing to farm 2015 at higher rates in the hopes of improved corn-and-soybean prices the following year.

Now, in 2016, many farm operators have burned through significant working capital and may not have enough to cover production costs for the coming year. Crop revenue (yield times prices minus cost) has become an issue for farm operators of all sizes. The cost of production (seed, fertilizer, chemicals) has decreased very little over the past year so the most pressure will be on decreasing rent.

While a decrease 2016 rent may be warranted, the landowner still has options when negotiating with a farm operator.

Type of Lease

The typical straight cash rent lease is most common, but not the only option. Pending the farm and the landowner's appetite for risk, other lease arrangements may provide additional reward to the landowner.

Custom Farming: Landowner assumes all production and economic risks; pays all of the crop expenses and receives all crop revenue while hiring a local farm operator to plant and harvest the crop for a flat fee.

Crop Share Leases: Landowner and farm operator share in the expenses and revenue in proportions established in the lease document.

Flexible Cash Lease: Landowner receives a guaranteed cash rent payment, plus a bonus when gross revenue exceeds a predetermined base amount.

Cash Lease: Landowner receives a fixed rent payment annually.

Iowa Beginning Farmer Tax Credit

The Iowa Agriculture Development Division administers a tax credit to incentivize landowners to lease farmland to beginning farmers. Pending the type of lease, a tax credit to the landowner can be 7-17 percent of gross rental income.

Capital Improvements

Are there permanent structural improvements that can be made to the farm to increase production potential and enhance overall property value? Many farm operators also own or have access to tiling and dirt moving equipment and may be willing to exchange labor for decrease in rent. This is an opportunity to improve the farm to capture future annual income potential as well as premium appreciation.

Additional Income

There may be opportunity for income beyond the standard rent from crop production. Many farms have areas more susceptible to soil erosion and nutrient loss that cause lower production. These areas may be better suited for a conservation program administered by the USDA. Environmentally sensitive acres can be enrolled in programs with annual payments if planted to perennial grass/forbes mixes. This leaves the most productive acres for the farm operator to improve average field yield and potentially increase rent.

Other opportunities for additional income could be wind tower easements, hunting leases, cell tower easements, mineral royalties, manure easements, timber sales, conservation easements, wetland easements, and development potential.

Landowners finding themselves in tough rent negotiations are encouraged to [call Peoples Company](#) today. Our land managers are expertly equipped to help landowners capture market-rate rent and identify additional areas of opportunity.