

Three Approaches to 2019 Cash Rent

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Many landowners and operators have put off settling on farm cash rent rates for 2019. The pre-harvest hope was that we would have a better grasp of 2019 markets with progress on the tariff talks and a new farm bill signed by the end of the 2018 calendar year.

Progress has been made on both fronts, but our hopeful optimism for future grain markets has yet been reached. But time marches on with operations making plans for the coming season, and 2019 farm leases need be finalized soon.

How should a landowner and operator approach 2019 rental rates? Many variables go into a cash rent number: the quality of the farm, history with the operator and income expectations of the landowner certainly play a big role. But as rent discussions begin, there are several numbers available publicly that are helpful for both parties to consider.

As an example farm, let's take an 80-acre farm in northeast Polk County, Iowa. The farm has a CSR2 of 85 with 5-year yield average of 200 bushel/a corn and 60 bushel/a soybeans.

To get an idea of 2019 gross revenue on this farm, we can look online at the nearest elevator's grain prices for fall 2019 delivery. The elevator in Bondurant, Iowa is showing futures prices of \$3.47 per bushel (\$0.49 basis) for corn and \$8.44 per bushel (\$0.89 basis) for fall 2019 delivery. The following chart shows projected gross revenue with 200 bushel per acre corn and 60 bushel per acre soybeans.

2019 Gross Revenue Projection

Crop	Yield bu/a	Futures Oct/Nov 2019	Average/A
Corn	200	\$3.47	\$694.00
Soybeans	60	\$8.44	\$506.40
		Average	\$600.20

Having an average gross revenue per acre could also be helpful when discussing farms in crop rotation. We will use the farm description and average gross revenue per acre to consider potential 2019 rental rates using:

- Land Value x Capitalization Rate
- Percent of Gross Revenue
- Crop Share 50% Landowner and 50% Operator

Land Value x Capitalization Rate: Iowa State University recently announced findings from the 2018 Farmland Value Survey (<https://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-70.pdf>) for every county in the state of Iowa. The survey reported average price per farm acre in Polk County as \$7,534. With Polk County's average Corn Suitability Rating (CSR2) of 63.9, the price per point for an average farm in the county is \$118. The farm in our example has a higher CSR2 of 85, so we could reasonably value our example farm at \$10,030 (85 CSR2 x \$118/point = \$10,030).

The following chart shows potential rent rates per acre using \$10,030 land valuation and cap rates between 2 and 4 percent.

APPROACH 1: Land Value x Capitalization Rate

Polk \$/A	Cap Rate	Rent/Acre
\$10,030	2.00%	\$200.60
\$10,030	2.50%	\$250.75
\$10,030	3.00%	\$300.90
\$10,030	3.50%	\$351.05
\$10,030	4.00%	\$401.20

Percent of Gross Revenue: Referring to our chart projecting gross revenue, we could consider a percentage of gross revenue as the landowner's share. The following chart shows potential rent rates using \$600.20 gross revenue and percentages to the landowner between 30 and 40 percent.

APPROACH 2: Percent of Gross Revenue

Average Gross Revenue	Percent	Rent/Acre
\$600.20	30%	\$180.06
\$600.20	33%	\$198.07
\$600.20	35%	\$210.07

\$600.20	37%	\$222.07
\$600.20	40%	\$240.08

Crop Share 50% Landowner and 50% Operator: Iowa State University annually reports Estimated Cost of Crop Production in Iowa (<https://www.extension.iastate.edu/agdm/crops/pdf/a1-20.pdf>) that lists cost per practice from start to finish. With this data in hand, we can create a simple budget to estimate a crop share budget with the landowner paying 50% of expenses and collecting 50% of the crop.

The following chart estimates expenses of a corn-soybean rotation farm with pre-harvest tillage and our 200 bushel per acre average corn yield and 60 bushel per acre average soybean yield.

APPROACH 3: Crop Share 50% Landowner and 50% Operator

	Corn Following Soybeans	Herb Tolerant Soybeans Following Corn	Average
Pre-Harvest Machinery	\$17.70	\$19.20	
Seed, Chemical, Etc	\$265.29	\$160.46	
Harvest Machinery	\$57.91	\$10.58	
Total	\$340.90	\$190.24	\$265.57
50% Landowner Share Expense	\$170.45	\$95.12	\$132.79
50% Landowner Share 2019 Projected Gross Revenue	\$347.00	\$253.20	\$300.10
50% Landowner Share Profit	\$176.55	\$158.08	\$167.32

Reviewing several data sets can take the emotion out of a possible uncomfortable conversation between landowner and operator. Our Iowa farm example provided public data easily found online, but a phone call to a university extension or USDA office could offer similar reference numbers for farms in other parts of the country.

With leases across a large territory, Peoples Company Land Managers have a strong understanding of the cash rent market and can help facilitate this process and add value to both parties. We can also seek out additional income opportunities in the form of hunting leases, wind turbine contracts, or logging. There may also be opportunity to remove marginal acres from production and put into a Conservation Reserve Program (CRP) to maximize productivity of the overall farm while collecting a federal payment.

To learn more about Peoples Company Land Management, please visit www.peoplescompany.com or email landmanagement@peoplescompany.com.