

Will 2021 Land Rents Decline?

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As farmers head into the “home stretch” of 2020, one thing is for certain, despite a topsy-turvy landscape due to COVID, weather in some areas, and unstable world markets, quality farmland remains a rock-solid investment.

Appraisers and farm managers are tasked to predict the future by often looking into the rearview mirror. Land values for quality cropland throughout the Midwest appear to be holding steady with slight to moderate increases in some areas, buoyed by the recent upturn and commodity markets and increased demand from investors due to uncertainty of the stock market.

However, what about land rents? History is the best teacher in many instances, and it has shown in the past that rents are slow to rise when raw land increases and slow to come down when land values decline. With that being said, many ag economists see slight downward pressure in 2021 rents.

Ag economists may see downward pressure on 2021 cash rents, but changes could be relatively small. Price rallies for corn and soybeans in late August and early September improved the picture for 2020 actual crop budgets and refocused what’s expected in 2021 for a farm with average land and a 50-50 corn-soybean rotation. However, they did not change the fundamentals. Net return to land will remain well below average cash rent for both 2020 and 2021 according to [Purdue University Extension agricultural economists](#) Jim Mintert and Michael Langemeier.

“Increasing prices means bottom-line numbers in crop budgets look better than they did in August when we ran budgets,” Langemeier says. “However, the numbers in August 2020 were extremely bleak. So, while we saw improvement, we still expect tight margins to continue. Look for some downward pressure on cash rents for 2021. However, average cash rent per acre may not fall as much for 2021 as some people might expect.”

Fundamentals and Budgets

Langemeier defines net return to land for crop budgeting purposes as the amount of money left per acre after all expenses, but land is subtracted from total revenues, including government payments. That includes charges for machinery and family labor.

The average cash rent in Langemeier’s data is \$252 per acre for 2020. In August, the net return to land, based on crop prices at the time for a farm with average land in a 50-50 corn-soybean rotation, was about \$100 under average cash rent for 2020.

“Net return to land increased \$25 per acre when we ran it on September 11, using updated corn and soybean prices,” he explains. “That still leaves it well below breakeven compared to net return per acre of land.”

Looking into 2021, using current budget projections, even after price increases, the expected net return to land in 2021 is still substantially below the expected average cash rent. If cash rent in 2021 remains constant at \$252 per acre, net return to land, at \$168 per acre, would be \$84 per acre shy of breaking even.

“That’s why we still expect downward pressure on cash rents when negotiations occur this fall for 2021,” Langemeier says. “But based on trends we’ve seen in the past, the reduction in average cash rent statewide [in Indiana] in 2021 may be relatively small.”

If you’re negotiating, that may mean asking landowners to consider alternatives, including flexible cash rents. It may also mean that if you want to hang on to a tract, consider how much you’re willing to lose based on 2021 budgets to hold on to the land, expecting better times ahead, Langemeier concludes.