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Cash rental rates jump in 2007

William Edwards

Iowa State University, wedwards@iastate.edu

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Cash rental rates jump in 2007

by William Edwards, extension economist, (515) 294-6161, wedwards@iastate.edu

As anyone who is involved with the rental market for Iowa farmland knows, rental rates have been jolted by the sharply higher corn and soybean prices that have been available since last fall. Results from Iowa State Uni-

versity Extension survey estimated that the average cash rent for corn and soybean land in the state for 2007 was \$150 per acre, compared to \$137 in the 2006 survey. This is the largest increase in a single year since the statewide survey was initiated in 1994. All of the 12 areas in Iowa that were surveyed showed increases, ranging from \$11 to \$22 per acre.

The surge in grain prices began after the September 1, 2006, deadline for terminating or revising lease contracts. Thus, many rents for 2007 reflect expectations of market prices below current levels. Other lease contracts were negotiated later in the fall or winter, usually at higher levels. Some tenants and owners have entered into flexible lease agreements in which the actual rent will not be determined until the crop is harvested.

The intent of the ISU survey is to report average rents in force for 2007, not the highest or lowest values heard through informal sources or expected rental rates for next year. Rental values were estimated by asking over 1,000 tenants, landowners, farm managers, lenders and other people familiar with the land market what they thought were typical rates in their county for high, medium and low quality row crop land, as well as for hay and pasture acres. Opinions about rental rates varied widely, even within counties, indicating a great deal of uncertainty this year.

The most positive factor affecting rents has been higher grain prices, especially for corn. Consistently good yields in recent years have also *continued on page 2*

Handbook updates
For those of you subscribing to the handbook, the following update is included.

Historical Costs of Crop Production – A1-21 (2 pages)

Matching Tractor Power & Implement Size – A3-26 (2 pages)

Cash Rental Rates for Iowa 2007 Survey - C2-10 (14 pages)

Farmland Values Survey – C2-75 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

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lent support. On the negative side, escalating costs for fuel, fertilizer, seed, pesticides and machinery have offset some of the higher revenues.

The latest survey also presents typical dollars of rent per bushel of corn and soybean yield for each county, based on the county average yield for each crop during the last 10 years. This year the rent per bushel ranged from \$.93 to \$1.10 for corn and from \$3.20 to \$3.60 for soybeans across the 12 areas.

Survey results are intended to be used as guidelines, only. The appropriate rent for an individual farm should take into account factors such as fertility levels,

drainage, USDA program parameters, size and shape of fields, existence of seed production or manure application contracts, local grain prices, and other services provided by the tenant.

Other resources include Ag Decision Maker information file C2-20, "Computing a Cropland Cash Rental Rate," and file C2-21, "Flexible Farm Lease Agreements." Both of these include decision file electronic worksheets to help analyze leasing questions.



Energy agriculture - who will own it?

by Don Hofstrand, value-added agriculture specialist, co-director AgMRC, Iowa State University Extension, 641-423-0844, dhof@iastate.edu

The lack of profitability of agriculture over the last 50 years had a silver lining – nobody bothered us. Rates of return in production agriculture of 4 to 7 percent did not attract many outsiders. Although we have seen outside investment in the livestock sector, much of the rest of production agriculture was left untouched. So we were relatively isolated from outside intruders. This allowed us to run this industry the way we wanted to.

This is changing. Outside investors are attracted to "rates of return" like a moth is to a flame. And the recent returns to ethanol production have attracted a lot of attention. So we need to get used to sharing our turf with outsiders.

However, the concern is not with the outside investors. Rural America probably cannot adequately capitalize the array of renewable fuel companies emerging over the next decade. And outsiders bring business expertise. So outside investment is crucial for fully developing the renewable fuels industry in rural America. But to generate the maximum impact of the renewable fuels movement on rural economic development, we need to provide for rural ownership of these companies so that rural investors receive a portion of the profits.

Economic developers often look to job creation, tax base expansion and related economic activity as the

benefits of developing the renewable fuels industry. And these are important aspects. However, ownership and the returns that ownership provides are other components of rural development. Farmers and rural residents have a long history of making ownership investments in agriculture and rural America. So ownership plays an important role in rural economic development.

To the credit of many of the current renewable business projects seeking funding, they are attempting to provide investment access to rural residents. However, conducting fifty or more investor meetings to access local small investors takes a lot of time and effort. Moreover, the Security and Exchange Commission exemptions provided for small business ventures often don't fit the needs of these types of rural businesses. So it is easier to bring in two or three large outside investors than 1,000 small local investors.

Investment Funds

Investment funds could be an attractive alternative for rural investors and for equity seeking agribusinesses. Rural investors could pool their money in an investment fund which would subsequently invest in a variety of renewable fuels and other rural companies. This would provide the individual investor with a diversified portfolio of investments without personally investing