

2015

How is farmland leasing for 2014 shaping up?

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Recommended Citation

Leibold, Kelvin (2015) "How is farmland leasing for 2014 shaping up?," *Ag Decision Maker Newsletter*: Vol. 17 : Iss. 10 , Article 1.
Available at: <http://lib.dr.iastate.edu/agdm/vol17/iss10/1>

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Ag Decision Maker

A Business Newsletter for Agriculture

Vol. 17, No. 10 www.extension.iastate.edu/agdm August 2013



How is farmland leasing for 2014 shaping up?

by Kelvin Leibold, extension farm management specialist, 641-648-4850, kleibold@iastate.edu

After several years of large increases in rents and land values, 2014 might be the year we start to see a different kind of change.

In May, the ISU Extension and Outreach leasing survey was released reporting on the 2013 values for rental rates. AgDM File C2-10, Iowa Cash Rental Rate Survey, <http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-10.pdf>, reports the rental rate survey for each county,

crop reporting district and the total average for the state of Iowa. Along with the overall average for the county, averages for the high-, medium- and low-quality cropland are also reported, along with a range for the three averages. In recent years, the range for cash rents has widened considerably as rents have increased with some rents increasing much faster than others.

The intent of the survey is to report typical rents being paid each year, not the highest nor the lowest values heard through informal sources. Rental values were estimated by asking people familiar with land rental markets what they thought were typical rates in their county. Information about rents for individual farms was not collected. The survey gives the number of respondents for each county, the last five-year average for corn and soybean yields, and the average row crop CSR (Corn Suitability Rating).

The report also gives the average rent in dollars per bushel for corn and soybeans as well as dollar per CSR point.

Some rents are based or indexed on the crop yield or CSR rating of the soils. The CSR system is currently undergoing changes and by this winter we should have a new system called CSR2. Information on the CSRs and other soil topics can be found at <http://www.extension.iastate.edu/soils/ispaid>. The proposed CSR values can be found at http://www.extension.iastate.edu/soils/sites/www.extension.iastate.edu/files/soils/ISPAID_8.0%20with_preliminary_CSR2_071213.xlsx.

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Handbook updates

For those of you subscribing to the handbook, the following new updates are included.

Transferring Ownership of Farm Machinery – A3-32 (8 pages)

Joint Machinery Ownership – A3-34 (3 pages)

Lease Supplement for Investing in Improvements on a Rented Farm – C2-07 (3 pages)

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

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Typical rents per bushel for corn range from \$1.40 to \$1.80 per bushel. Compare this to North Dakota, where the typical rent per bushel of corn is often less than \$.50 and you can see why there has been an increase in corn production in North Dakota. This difference is also why in recent years corn production in North Dakota has been more profitable than corn production in Iowa.

Figure 1. December 2014 Corn - CME Group



Issues to consider for 2014

When landlords and tenants establish rental rates they often look at the following: what others are paying, average crop yields, CSR Index, share of the gross crop value, the return on investment, percentage of the crop and the tenant's residual. The factors affecting next year's rents are looking different than what we've seen the past several years.

Looking ahead to issues impacting rents in 2014, one major issue to consider for the coming year will be grain prices. A shift is occurring from the past several years of continuously rising prices with a recent decline in grain prices. Figure 1 shows the dramatic price decline based on estimates for the 2014 corn crop. The change in the Chicago Board of Trade (CBOT) only partially reflects the severity of the situation. The other issue is the drop in "basis" – the difference between CBOT prices and what the local elevators are paying. In Table 1, you can see that the elevator was paying \$1.22 above the futures price for 2012 old crop corn. For new crop corn coming out of the field, they are paying \$.35 less than the futures prices and for 2014 new crop corn they are offering \$.50 cents under the CBOT price. The result is that it looks like many farmers will see offers for 2014 corn at prices that are almost \$2 per bushel less than what the market was offering on old crop corn just a month ago.

Table 1. Basis for #2 Yellow Corn

| Delivery | Futures Month | Basis | Cash Price |
|----------|---------------|-------|------------|
| Aug | @C3U | 1.22 | 5.88 |
| Oct | @C3Z | -0.35 | 4.18 |
| Jan | @C4H | -0.40 | 4.27 |
| Mar | @C4H | -0.40 | 4.27 |
| May | @C4K | -0.40 | 4.35 |
| Jul | @C4N | -0.40 | 4.41 |
| Oct | @C4Z | -0.50 | 4.40 |

A second issue that will be a major factor in 2014 will be input costs. Land is the residual of all profits and with one-year leases, for the most part, land rents have captured the increase in profits relatively quick. The question for 2014 may be, "If profits decline, will land rents reflect that as quickly?" Table 2 shows land rents have increased by almost 50 percent over the past five years.

A recent Iowa State University survey looking at land tenure indicates that about 16 percent of the cash rent leases in Iowa have attempted to balance out some of the risks of price and yield volatility by going to some type of flexible cash rent lease. As volatility continues for both grain prices and crop inputs, we may see more usage of flexible leases across the state. Additional information on flexible cash rent leases can be found at <http://www.extension.iastate.edu/agdm/wholefarm/html/c2-21.html>.

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Conclusions

The recent dramatic grain price drop will result in many producers facing challenges to make a profit at some of the current rental rates. Looking forward, it is likely that some of the rental rates that are on the high side for the level of productivity will need to be reviewed. We may still see others that are on the very low side that will continue to increase.

More information on leasing can be found at the Ag Decision Maker website, <http://www.extension.iastate.edu/agdm/wdleasing.html>.

Table 2. Overall Average of Typical Cash Rents 2009-2013, Corn and Soybean Acres

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--------------|--------------|--------------|--------------|--------------|--------------|
| District 1 | \$187 | \$188 | \$224 | \$267 | \$283 |
| District 2 | 196 | 191 | 220 | 277 | 294 |
| District 3 | 186 | 192 | 223 | 266 | 281 |
| District 4 | 196 | 195 | 227 | 279 | 294 |
| District 5 | 197 | 195 | 226 | 275 | 297 |
| District 6 | 193 | 196 | 219 | 252 | 284 |
| District 7 | 170 | 176 | 213 | 246 | 257 |
| District 8 | 146 | 151 | 177 | 193 | 210 |
| District 9 | 173 | 169 | 198 | 217 | 229 |
| State | \$183 | \$184 | \$214 | \$252 | \$270 |



Minimize risk by monitoring farm energy costs

by Dana Petersen, ISU Farm Energy Conservation and Efficiency Initiative, 515-294-5233, petersen@iastate.edu, and Mark Hanna, extension ag engineer

As harvest approaches, my colleagues in ISU Extension and Outreach are urging farmers to remain cautious regarding commodity prices. The same can be said for farm fuel and energy prices, including a more detailed look at managing farm energy costs.

Take a moment to review the past 5 to 10 years. Did your recorded expenses for propane, electricity, diesel or gasoline used on the farm change noticeably during any of those years? Are the increases—or decreases—primarily due to fluctuations in your energy consumption? Changes in the market price? Other factors?

“Fluctuating energy prices can be troublesome,” says Mark Hanna, ag engineer with ISU Extension and Outreach. “Knowing whether energy costs are related to changing prices or specific changes in your energy needs is a useful first step to cutting expenses.”

The weather offers an explanation for some of the variations you will find. Undoubtedly, your grain drying costs the past few years will reflect the weather conditions, with fluctuations in your demand for propane, electricity or natural gas. However, adding a little more detail in your records

may help you to manage the potential risks of farm energy expenses, come rain or shine.

You might begin by reviewing your monthly and yearly accounting records to ensure that they are up-to-date. Many of the farmers I met this past year explained that, generally speaking, they know their total monthly electricity or diesel costs. Their bills are entered each month into the farm’s financial records, but that’s often as far as it goes. Once a bill is paid, well... “out of sight, out of mind” is how one farmer described it.

As you’re getting your bills in order, consider entering the information from them into a farm energy log. A simple Microsoft Excel version is available under the Farm Energy Publications link on our website, http://farmenergy.exnet.iastate.edu/?page_id=11. Look for the fact sheet “Tracking the Energy Use on Your Farm,” PM 2089C, and the corresponding farm energy log under the Energy Consumption subheading. This form can be customized to fit your needs using formulas or additional worksheets.

When monthly energy consumption and cost are entered into the form, the cost per unit is automatically calculated. As an example, consider