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Record pasture rents are likely to ease

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Record pasture rents are likely to ease

Abstract

Survey shows average rental rate for Iowa pastures reached a record high in 2016.

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Record pasture rents are likely to ease

Survey shows average rental rate for Iowa pastures reached a record high in 2016.

Oct 06, 2016

Editor's Note: Lee Schulz is the Iowa State University Extension livestock economist. He writes the monthly Livestock Outlook column in Wallaces Farmer magazine.

Each August USDA's National Agricultural Statistical Service publishes U.S. and state estimates of farmland values and cash rental rates. The estimates are based on the June area survey by USDA's National Ag Statistics Service. For 2016, the average rental rate for Iowa pastures was \$52 per acre. This is a new record, up \$2 from last year and up \$14 from 10 years ago.

The average sales value of Iowa pastureland was \$3,400 per acre. This maintains the record high of the last two years and is up \$2,000 from 10 years ago.

Record pasture rents are likely to ease



HEADED DOWN: If cropland prices continue to fall, pasture prices and rents will face down-pressure as well. The decline in cattle prices, 28% in calf and feeder cattle and 14% in fed cattle over the past year, will also apply downward pressure.

Source: USDA-NASS, updated August 5, 2016

Beginning with the September 2016 release, USDA publishes bi-annual county level cash rent estimates of cropland and pasture. These rental rates do not include land rented for a share of the calf-crop, on a fee per head, per pound of gain, by animal unit month, rented free of charge, or land that includes buildings such as barns.

On average, counties in Iowa's west-central crop reporting district had the highest pasture rental rates. Southeast counties had the lowest rental rates. In 2016, Audubon County had the highest at \$76 per acre. Wapello County was the lowest at \$30.50 per acre.

2016 Iowa pasture cash rent by county, \$/acre

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Source: USDA-NASS, updated September 9, 2016

While these estimates can be used as a reference point for determining an appropriate cash rental rate for a particular pasture several factors may justify a higher or lower than average rent. These include, but are not limited to:

- Pasture size and quality
- Grazing value (including diversity of forage species and fertility)
- Proximity to home farm
- Accessibility of pasture
- Fence and water system requirements and characteristics
- Longevity of the lease
- Pasture maintenance costs and landlord's share of expenses
- Other services performed by the landlord and tenant

Cash flow vs. wealth accumulation

Producers in the cattle business are also usually in the land business. This is particularly true for cow-calf operations. Cows spend much of the year on pasture and stocking rates can require several acres per cow. Given current pasture values and a stocking rate of say, 1.8 to 2 acres per cow, a typical Iowa cow-calf operation would have a land investment per cow in the \$6,120 to \$6,800 range.

Land typically accounts for a significant portion of the investment in a cow-calf operation. As such, changes in land value often have a greater impact on the overall

financial condition than profits from selling cattle. Cattle prices provide the cash flow for living expenses. Land values provide the wealth for the estate.

Pasture prices vs. cattle prices

One might wonder which has risen faster during the past decade, cattle prices or pasture prices. Over the last 10 years, Iowa fed steer prices rose by 48%, steer calf and feeder steer prices both climbed 39%. Rental rates for Iowa pastures are up 37% while market value of Iowa pastureland zoomed 143%.

So why has the sale value of pastureland risen much faster than cattle prices, while the rental rate for pasture advanced more slowly than cattle prices? One key factor is the record crop prices in recent years, notwithstanding the last couple of years. Crop earnings have driven cropland value up 158% over the last decade and pulled pasture value up with it.

Second, falling interest rates have buoyed all land prices. In the second quarter of 2016, the farm real estate loan rate reported by the Federal Reserve Bank of Chicago was 4.57%. A decade ago, it was 69% higher at 7.72%. Lower interest rates make buying land more attractive. Low interest rates do relatively little to boost rental rates or cattle prices.

Cattle producers contemplating buying land should keep several things in mind. History says that the period after a big jump in land prices is not a good time to buy. Years of price declines, or modest gains, often follow land price spikes.

USDA predicts record corn and soybean harvests this fall and a lower season-average price than last year. Cropland prices will likely continue to fall from their 2014 peak.

If cropland prices continue to fall, pasture prices will surely face pressure as well. The decline in cattle prices, 28% in calf and feeder cattle and 14% in fed cattle over the last year, will also apply downward pressure.

A number of factors drive pasture rent

Pasture cash rental rates per acre vary widely, even with fairly small geographic areas. Several factors contribute to pasture value. The list includes:

- * Access to drinking water.
- * Quality of drinking water.
- * Who pays for electricity to pump water.
- * Condition of fences.
- * Whether the tract is divided into paddocks to facilitate rotational grazing.
- * Quality of forage in terms of species, stand, vigor of existing forage species.
- * Whether the tract has weed issues.
- * Expected productivity of the pasture during the part of the growing season when the lessee needs forage most.
- * Who pays for seed, seeding, fertilizer, weed control and other expenses to maintain and improve productivity of pasture.
- * Whether the tract has any livestock pens or other livestock working facilities.
- * Who pays to maintain fences, watering equipment and any other facilities.
- * Proximity to other tracts or facilities the lessee may own or rent.
- * Access to roads for transporting livestock to and from the pasture.

- * Does lessee have direct access, or will lessee need to cross someone else's property to gain access. If so, is the proper easement in place?

- * Who carries and pays for appropriate insurance, particularly liability insurance.

- * Special considerations or related negotiations, such as using livestock pens, working facilities or barns for "free" in exchange for a higher rental rate on pasture land.

All of those factors, and more, impact value of the pasture. All are negotiable. Preserving the details of terms agreed to during those negotiations on paper can avoid later disputes over what was agreed upon. The faintest ink is more reliable than the fondest memory.

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