

2015

Land rents decline but margins do not improve

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Recommended Citation

Plastina, Alejandro (2015) "Land rents decline but margins do not improve," *Ag Decision Maker Newsletter*: Vol. 19 : Iss. 7 , Article 1.
Available at: <http://lib.dr.iastate.edu/agdm/vol19/iss7/1>

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Ag Decision Maker



A Business Newsletter for Agriculture

Vol. 19, No. 8

www.extension.iastate.edu/agdm

June 2015



Land rents decline but margins do not improve

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A 2015 survey shows that cash rental rates for farmland in Iowa fell by 5 percent in 2015, accumulating a 9 percent decline since 2013. This is consistent with the recently observed decline in Iowa land values. However, average marketing year prices for corn and soybeans are projected to decline, respectively, by 47 percent and 30 percent from their 2012-13 levels in 2014-15. As a result, profit margins are expected to fall further, and likely turn negative for the average Iowa farmer.

Survey shows decline in all districts

For the state as a whole, reported rental rates for land planted to corn and soybeans were down from \$260 per acre last year to \$246 in 2015, or nearly 5 percent according to a [survey conducted by Iowa State University Extension and Outreach](#). This is about half the change in Iowa farmland values over the past 12 months reported in surveys conducted by the

Iowa REALTORS Land Institute and summarized in *AgDM File C2-75, Farmland Value Survey* (REALTORS Land Institute). But the 9 percent accumulated decline in rental rates since 2013 is aligned with the 8.9 percent decline in land values reported in the 2014 Iowa Land Value Survey published by the ISU Center for Agriculture and Rural Development (*AgDM File C2-70, Farmland Value Survey* (Iowa State University)).

Iowans supplied nearly 1,450 responses about typical cash rental rates in their counties for land producing corn and soybeans, hay, oats and pasture. Of these, 49 percent came from farmers, 27 percent from landowners, 12 percent from agricultural lenders, 10 percent from professional farm managers, and 2 percent from other professionals. This is not to say that all cash rents were lowered for 2015. The intent of the survey was to report typical rents being paid for the current

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Handbook updates

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

Cash Corn and Soybean Prices – A2-11 (4 pages)

Replacement Strategies for Farm Machinery – A3-30 (7 pages)

Computing a Cropland Cash Rental Rate – C2-20 (4 pages)

Flexible Farm Lease Agreements – C2-21 (4 pages)

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

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crop year, including those that may have been negotiated in prior years as well as those that were set more recently.

AgDM File C2-10, [Cash Rental Rates for Iowa 2015 Survey](#) provides detailed results by county and crop. There was considerable variability across counties in year-to-year changes, as is typical of survey data, but 89 percent of the responses showed at least a small decrease in average rents for corn and soybeans. Grundy County showed the highest average rent, at \$316 per acre. The report also shows typical rents for alfalfa, grass hay, oats, pasture, corn stalk grazing and hunting rights in each county and district.

Rents slowly adjust to lower crop revenues

Table 1 shows the average rent reported for land planted to corn and soybeans in each of the nine crop reporting districts in Iowa for last year and this year. Northeast Iowa had the highest average rental rate in 2015. All districts showed a decrease. The largest decreases in average rents were recorded in the central and west central districts. Those districts had the highest rents among all crop reporting districts in 2014, as well as 2013.

All areas of the state faced significantly lower grain prices at harvest for the 2014 crop, as well as decreased forward pricing opportunities for the 2015 crop. This was the major factor impacting rents.

Table 1. Typical cash rental rates reported for land producing corn and soybeans, \$ per acre.

| Crop Reporting District | Average, 2014 - \$ | Average, 2015 - \$ | Change - \$ | Change - % |
|-------------------------|--------------------|--------------------|-------------|------------|
| Northwest | 270 | 259 | -11 | -4% |
| North Central | 270 | 254 | -16 | -6% |
| Northeast | 277 | 273 | -4 | -1% |
| West Central | 288 | 265 | -23 | -8% |
| Central | 284 | 261 | -24 | -8% |
| East Central | 273 | 255 | -19 | -7% |
| Southwest | 249 | 242 | -7 | -3% |
| South Central | 202 | 187 | -15 | -7% |
| Southeast | 229 | 217 | -12 | -5% |
| Statewide | 260 | 246 | -14 | -5% |

Table 2 shows state average yields for corn since 2010 and the average marketing year cash prices received

in Iowa as reported by the National Agricultural Statistics Service (NASS), the resulting average crop revenue per acre, and the non-land costs of corn production for a typical Iowa farm from AgDM File A1-20, [Estimated Costs of Crop Production in Iowa - 2015](#). The tenant's residual, or maximum cash rent to break even, is calculated as crop revenue minus non-land cost of production. The return to management is calculated as the difference between the tenant's residual and the average cash rent reported in AgDM File C2-10, [Cash Rental Rates for Iowa 2015 Survey](#). The estimated yield for 2015 is based on a trend projection of corn yields in Iowa since 2005, excluding the extremely low yield observed in 2012. The projected corn price for 2014 is calculated as the 2013 price in Iowa adjusted by the rate of growth in national prices between the 2013-14 marketing year average price and the mid-point forecast for 2014-15 from the April 2015 edition of USDA's World Agricultural Supply and Demand Estimates report. The estimated price for 2015 is calculated as the 2014 price forecast adjusted for the expected decline in corn prices reported by the USDA Office of the Chief Economist in the 2015 edition of the Long-term Agricultural Projections report.

Return to management for a typical corn operation was positive in 2010-12, but turned negative in 2013 and increased in absolute size in 2014. Since 2013, the typical Iowa farm has had to come up with additional revenue from other sources to cover fixed costs of corn production. In 2013, the average multiple peril crop insurance indemnity payment received per planted acre more than offset the \$43 gap, and the return to management after indemnity payment was positive. But in 2014, the average indemnity payment was insufficient to cover the negative return to management. As a result, the \$11 gap had to be financed with income from livestock operations, non-farm income, asset liquidation, savings, or debt. In the projected scenario for 2015, the return to management before indemnity payments would amount to -\$128: revenue from corn production would cover all variable costs but would fall short of covering fixed costs by \$128. The marketing year average corn price would have to climb to \$4.36 in 2015-16 for the typical tenant to break even with a yield of 171 bushels per acre; or to \$4.19 with a yield of 178 bushels per acre.

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Table 2. Return to management for the typical corn operation in Iowa, 2010-2015

| Year | Yield bu/acre | Price \$/bu | Crop Revenue \$/acre | Non-land Cost of Production \$/acre | Tenant's Residual \$/acre | Land Rate \$/acre | Return to Mgmt. \$/acre | Crop Ins. \$/acre | Return to Mgmt. after Crop Ins. \$/acre |
|------|------------------|----------------|----------------------------|---|---------------------------------|-------------------------|-------------------------------|----------------------|--|
| 2010 | 165 | 5.46 | 901 | 422 | 479 | 184 | 295 | 21 | 316 |
| 2011 | 172 | 6.35 | 1,092 | 491 | 601 | 214 | 387 | 12 | 399 |
| 2012 | 137 | 6.94 | 951 | 517 | 434 | 252 | 181 | 123 | 304 |
| 2013 | 164 | 4.51 | 740 | 513 | 227 | 270 | -43 | 132 | 89 |
| 2014 | 178 | 3.72 | 662 | 495 | 166 | 260 | -94 | 83 | -11 |
| 2015 | 171 | 3.61 | 617 | 499 | 118 | 246 | -128 | | |

Table 3. Return to management for the typical soybean operation in Iowa, 2010-2015

| Year | Yield bu/acre | Price \$/bu | Crop Revenue \$/acre | Non-land Cost of Production \$/acre | Tenant's Residual \$/acre | Land Rate \$/acre | Return to Mgmt. \$/acre | Crop Ins. \$/acre | Return to Mgmt. after Crop Ins. \$/acre |
|------|------------------|----------------|----------------------------|---|---------------------------------|-------------------------|-------------------------------|----------------------|--|
| 2010 | 51.0 | 12.08 | 616 | 239 | 377 | 184 | 194 | 7 | 200 |
| 2011 | 51.5 | 13.08 | 674 | 258 | 416 | 214 | 202 | 11 | 212 |
| 2012 | 45.0 | 14.54 | 654 | 288 | 366 | 252 | 114 | 27 | 141 |
| 2013 | 45.5 | 13.38 | 609 | 272 | 337 | 270 | 67 | 25 | 93 |
| 2014 | 51.5 | 10.32 | 531 | 270 | 262 | 260 | 2 | 26 | 27 |
| 2015 | 48.0 | 8.77 | 421 | 275 | 146 | 246 | -100 | | |

Table 3 reports a similar analysis for the typical soybean operation in Iowa. In this case, return to management prior to crop insurance was positive in 2010-14. However, the \$100 gap projected for 2015 would require financing from other sources of income or debt. The marketing year average price for soybeans would have to climb to \$10.85 per bushel in 2015-16 for the tenant to break even with a yield of 48 bushels per acre; or to \$10.11 with a yield of 51.5 bushels per acre.

Farm program payments (ARC/PLC) are expected to contribute only marginally at most to covering the negative returns to corn and soybean production in Iowa in 2015.

The estimated return to management in Tables 2 and 3 is based on cash rented land. Return to management on owned land does not depend on rental rates, but on interest payments on land loans, property taxes, and maintenance and upkeep costs. For example, return to management on fully owned land will be positive as long as crop revenue exceeds land property taxes, maintenance and upkeep costs plus non-land cost of production.

Setting rents for next year

Survey information can serve as a reference point for negotiating an appropriate rental rate for next year. However, rents for individual farms should vary based on productivity, ease of farming, fertility, drainage, local price patterns, longevity of the lease and possible services performed by the tenant.

Other resources available for estimating a fair cash rent include the AgDM Information Files [Computing a Cropland Cash Rental Rate](#) (C2-20), [Computing a Pasture Rental Rate](#) (C2-23) and [Flexible Farm Lease Agreements](#) (C2-21). All of these fact sheets include decision tools (electronic spreadsheets) to help analyze individual leasing situations.

For questions regarding the cash rent survey, contact the authors. For leasing questions in general, contact a farm management field specialist, www.extension.iastate.edu/ag/farm-management-0.