

Computing a Cropland Cash Rental Rate

Cash rent lease agreements are popular because the lease is simple, the rent is fixed, and the owner is relieved of making operating and marketing decisions. Likewise, the tenant has maximum freedom to plan and develop the cropping and livestock programs. The risk and returns from changing prices, yields, and costs are all borne by the tenant.

Types of Cash Rent

A farm may be rented for a fixed amount per acre for all acres in the farm (e.g., 160 acres in a quarter section) regardless of the number of acres of cropland, pasture, buildings, or waste. This is referred to as a whole farm rental rate. Or, the farm may be rented for a fixed amount per cropland acre (i.e., 145 acres cropland in a 160-acre farm) with a different rental rate for any pasture or buildings.

Normally, whole farm rental rates are lower than cropland rental rates because the land that is not cropped is often of lower productivity or not used. Exceptions are building sites and grain storage facilities.

Several methods for computing cropland rental rates are outlined below. A separate rental rate should be used for pasture, storage, and livestock facilities. All of the rental items can be included in the same lease agreement.

Approaches for Determining Rental Rate

Determining a fair rate is not easy. Cash rents are likely to be too low during periods of rising prices and high yields and too high during periods of declining prices and low yields. Rates often reflect the results of the past few years more than the upcoming year.

Estimating a cash rental rate for cropland can be based on:

- What others are charging/paying
- Average yields
- Corn suitability rating (CSR2 index)
- Share of gross crop value
- Return on investment
- Crop share equivalent
- Tenant's residual

What Others are Charging/Paying

The most common method of establishing a cash rent is to set a rate similar to what other people in the area are charging. Iowa State University Extension and Outreach publication *Cash Rental Rates for Iowa* (FM 1851/

AgDM C2-10), (<https://store.extension.iastate.edu/Product/1841.pdf>), shows typical rental rates reported for high-, medium-, and low-quality cropland in each county in Iowa, as well as land in oats, hay, and pasture.

This method assumes that what others are charging is fair and equitable. A landowner receiving less rent per acre than the neighbor feels that they are not receiving what is rightfully due. However, a landowner receiving more than a neighbor may feel that they are being unfair to the tenant.

There are three potential pitfalls with this approach:

- Charging what others are charging may not be appropriate for a particular farm. Remember that most other tenants and landowners are in the same position you are. They are looking for someone to tell them what rental rate is fair and equitable. If you use this method, compare your rate to many other rates instead of just one.
- Rumors about cash rental rates may be quite different than the typical rates, especially in a rapidly changing market.
- Differences in the quality of land should be taken into account when comparing your rental rate to others. Landlords who are unfamiliar with farming often assume all land is of equal productivity. So, when using this method, be sure to compare your rate to rates for land of comparable quality, based on actual yields or productivity indices.

Average Yields

A cash rental rate can be based on a farm's average yields (e.g., 5-year or 10-year average). For example, assume the average rental rates in your county are \$1.20 per bushel for corn and \$4.15 per bushel for soybeans, based on the latest survey information. If your farm has an average corn yield of 180 bu. per acre, this results in a rental rate of \$216 ($\$1.20 \times 180 \text{ bu.} = \216) per acre. An average soybean yield of 55 bushels per acre results in a rental rate of \$228 ($\$4.15 \times 55 \text{ bu.} = \228) per acre.

ISU Extension and Outreach publication, *Cash Rental Rates for Iowa* (FM 1851/AgDM C2-10), (<https://store.extension.iastate.edu/Product/1841.pdf>) shows rental rates per bushel of corn and soybeans by county. Remember, use a long-term average yield (both good and bad years) and don't just pick out the good years.

Corn Suitability Rating

The Corn Suitability Rating System (both CSR and CSR2) are farmland productivity indexes developed for property tax assessment purposes. Values range from 5-100, with higher numbers indicating higher land productivity. Each soil type in Iowa has a CSR2 value. The ISU Soil and Land Use website (www.extension.iastate.edu/soils) explains CSR2 in greater detail. By identifying the soil types and acres of each soil type in a tract of land, the weighted average CSR2 can be calculated for the tract. **Computing the Corn Suitability Rating for Your Farm** (AgDM File C2-87), (www.extension.iastate.edu/agdm/wholefarm/html/c2-87.html), shows how to use the Web Soil Survey website (<http://websoilsurvey.nrcs.usda.gov/>) from the USDA Natural Resource and Conservation Service (NRCS) to find your farm's CSR2 value. Include only the land suitable for row crop production in the "area of interest" to find the CSR2 for row crop land.

A cropland cash rental rate can be computed by multiplying the average CSR2 by a rental rate per CSR2 point. For example, assume a typical rental rate per CSR2 index point of \$2.75 for your county. A tract of land with a CSR2 of 80 would have a rental rate of \$220 ($\$2.75 \times 80 \text{ CSR2} = \220) per acre. ISU Extension and Outreach publication *FM 1851/AgDM C2-10, Cash Rental Rates for Iowa*, shows typical rental rates per CSR2 index point by county.

Share of Gross Crop Revenue

Cash rental rates tend to follow the gross revenue generated from the crop being produced. Table 1 shows average cash rents in Iowa as a percent of the

gross crop value for the past 10 years. Gross crop value is the USDA NASS state average yield times the state average price from October through December. Gross crop revenue is also shown, which includes gross crop value plus USDA commodity program payments and crop insurance indemnity payments.

These percentages and expected yields and prices for the coming year can be used to estimate a fair cash rental rate. Expected crop insurance payments are zero when average yields and prices are assumed, so there is no need to try to estimate crop insurance payments that would be received the following fall when setting cash rents in advance.

Return on Investment

Another method is to multiply the estimated current market value for cropland by an expected rate of return. Surveys show that cash rents for good cropland in Iowa in recent years have averaged about three to four percent of current land values.

Land value	\$5,000	\$7,000
Rate of return	3-4%	3-4%
Rental rate	\$150-\$200	\$210-\$280

Estimates of current land market values are available in ISU Extension and Outreach publications *Farmland Value Survey - Iowa State University* (AgDM C2-70), (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-70.pdf) or *CARD Iowa Land Value Survey* (www.card.iastate.edu/land-value/), and *AgDM C2-75, Farmland Value Survey - Realtor's Land Institute* (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-75.pdf). This method is rather imprecise, especially during periods of rapidly changing land values.

Table 1. Average Iowa cash rent as a percent of gross crop value and gross crop revenue (\$/acre)

Year	Average Cash Rent ^{1/}	Average Gross Crop Value ^{2/}		Cash Rent as % of Gross Crop Value		Average Gross Crop Revenue ^{3/}		Cash Rent as % of Gross Crop Revenue	
		Corn	Soybeans	Corn	Soybeans	Corn	Soybeans	Corn	Soybeans
2008	\$176	\$743	\$463	24%	38%	\$846	\$537	21%	33%
2009	\$183	\$672	\$488	27%	38%	\$730	\$516	25%	35%
2010	\$184	\$756	\$552	24%	33%	\$819	\$577	22%	32%
2011	\$214	\$985	\$596	22%	36%	\$1,037	\$626	21%	34%
2012	\$252	\$948	\$641	27%	39%	\$1,111	\$687	23%	37%
2013	\$270	\$732	\$579	37%	47%	\$905	\$625	30%	43%
2014	\$260	\$655	\$513	40%	51%	\$780	\$558	33%	47%
2015	\$246	\$681	\$484	36%	51%	\$741	\$509	33%	48%
2016	\$230	\$661	\$563	35%	41%	\$699	\$582	33%	40%
2017	\$219	\$644	\$519	34%	42%	\$665	\$531	33%	41%
Average 2008-2017	\$223	\$748	\$540	31%	42%	\$833	\$575	27%	39%

^{1/} Cash Rental Rates for Iowa Survey, AgDM File C2-10.

^{2/} USDA NASS Iowa average yield x Iowa average cash price in Oct.-Dec.

^{3/} USDA NASS Iowa average yield x Iowa average cash price in Oct.-Dec., plus USDA payments and crop insurance indemnity payments.

Crop Share Equivalent

Another way of calculating cash rental rates is by comparing the rental rate to the return that would be received from a 50-50 crop-share lease. With a crop share lease, the owner's return is automatically adjusted by changes in yield, selling price, and input amounts and prices. However, to compute a cash rental rate using this method, estimates of yields, selling prices, and input costs must be made for the coming year, which is sometimes difficult to do.

An example using this method is presented in Table 2. Use 5-year or 10-year average yields and current prices for harvest delivery. Then subtract the landowner's half of seed, fertilizer, pesticides, and other shared expenses.

Table 2. Crop share equivalent

Income	Corn	Soybeans
Yield (1/2)	88 bu.	24 bu.
Price	\$3.50	\$9.50
Total income to owner	\$308	\$228
Expenses		
Seed (1/2)	\$51	\$26
Fertilizer (1/2)	43	20
Pesticides (1/2)	13	20
Crop insurance (1/2)	5	4
Drying and storage (1/2)	25	0
Miscellaneous (1/2)	5	5
Interest (1/2)	5	4
Total expenses paid by owner	\$147	\$79
Net return to owner	\$161	\$149

In the example, the landowner will receive a net return of \$161 and \$149 from corn and soybeans, respectively. With a corn/soybean rotation, the average return will be $(161 + 149) / 2 = \$155$ per acre.

Tenant's Residual

Another approach is to calculate how much income the tenant has available for rent payments after subtracting all the tenant's costs associated with producing the crop.

As in Table 2, you first need to estimate yields, selling prices, and other crop income received. Then subtract the operating expenses. Next, subtract the tenant's cost of machinery and equipment ownership. This includes depreciation, a return on investment, insurance, and machinery housing. Some people contend that these

costs (fixed costs) are incurred by the tenant whether the land is rented or not and need not be subtracted when determining a rental rate. But in the long run, these costs are incurred on all acres farmed and must be paid. Finally, a charge for the tenant's labor and management is subtracted. The remaining amount is available for the payment of cash rent.

Using the example values in Table 3, \$178 is available for rent payment from corn and \$187 from soybean production. With a corn/soybean rotation, the average amount available for rent payment is \$183 per acre.

Table 3. Tenant's residual

Income	Corn	Soybeans
Yield	176 bu.	48 bu.
Price	\$3.50	\$9.50
Total income	\$616	\$456
Operating costs		
Seed	\$102	\$52
Fertilizer	86	40
Pesticides	26	40
Crop insurance	10	8
Drying and storage	50	0
Miscellaneous	10	10
Fuel and repairs	34	29
Interest	10	8
Total	\$328	\$187
Machinery ownership	\$60	\$41
Labor	29	28
Management (estimate at 5% of other costs)	21	13
Total costs	\$438	\$269
Residual to tenant	\$178	\$187

Remember, no allowance has been made for risk due to variations in crop prices and yields. With a cash rent lease, the tenant assumes all of the risk. So the tenant should be compensated for assuming this risk. Do this by either using conservative price and yield estimates or adjusting the rental rate downward.

To compute a rental rate for your situation, use the worksheet on the following page or enter your figures into **Cash Rental Rate Estimation (Decision Tool C2-20)**, (www.extension.iastate.edu/agdm/wholefarm/xls/c2-20croplandcashrent.xlsx).

Cropland Cash Rent Worksheet

Gross Income

Expected yield, bu. per acre
 Expected selling price, \$ per bu.
 Revenue from sales (bu. x price)
 Other crop income received
Total gross income

Corn – per acre

Soybeans – per acre

Production Costs

*(Production costs are needed for tenant's residual only.
 See FM 1712/AgDM File A1-20 for suggested costs.)*

Seed
 Fertilizer
 Lime
 Pesticides
 Crop insurance
 Interest, miscellaneous
 Custom hire
 Fuel, repairs
 Machinery ownership
 Drying
 Storage
 Hauling
 Labor
 Management (5% of total gross income)
Total of all nonland costs

Corn – per acre

Soybeans – per acre

A. Share of Gross Income

Corn: Gross income _____ x share _____ % (25 to 30%) = \$ _____/acre
 Soybeans: Gross income _____ x share _____ % (35 to 40%) = \$ _____/acre

B. Tenant's Residual

Corn: Gross income _____ minus nonland costs _____ = \$ _____/acre
 Soybeans: Gross income _____ minus nonland costs _____ = \$ _____/acre

C. Expected Yield

Corn: Expected yield _____ bu./acre x \$ _____ per bu. for rent = \$ _____/acre
 Soybeans: Expected yield _____ bu./acre x \$ _____ per bu. for rent = \$ _____/acre

D. Corn Suitability Rating 2 Index

CSR2 index: Average CSR2 _____ x \$ _____ per point for rent = \$ _____/acre

E. Percent of Land Value

Current market value of land \$ _____/acre x _____ % return expected = \$ _____/acre