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Cropland Leasing Decisions for 2008

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ECONOMICS

Cropland Leasing Decisions for 2008

Market Report	Yr Ago	4 Wks Ago	9/7/07
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$90.79	\$89.83	\$93.99
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	132.66	132.81	128.76
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	124.02	115.87	121.49
Choice Boxed Beef, 600-750 lb. Carcass.....	148.06	144.53	148.47
Western Corn Belt Base Hog Price Carcass, Negotiated.....	69.33	70.44	62.54
Feeder Pigs, National Direct 50 lbs, FOB.....	52.66	56.00	56.39
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	74.94	70.85	68.23
Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct.....	97.75	103.75	103.25
National Carcass Lamb Cutout, FOB.....	235.31	258.47	260.65
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	4.28	5.74	7.13
Corn, No. 2, Yellow Omaha, bu.....	2.00	3.20	3.07
Soybeans, No. 1, Yellow Omaha, bu.....	4.89	7.74	8.16
Grain Sorghum, No. 2, Yellow Columbus, cwt.....	3.34	5.23	5.27
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.12	2.64	2.65
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	87.50	85.00	85.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton.....	82.50	*	*
* No market.			

With more than 40 percent of Nebraska's agricultural land being leased, thousands of landowners and tenants face important lease decisions each year. Currently, the economic magnitude of these decisions is even greater, given the circumstances for 2008 crop prospects.

Of course, September 1st was the deadline for either party to notify the other of lease termination for 2008. There is also a minority of leases that are binding multi-year contracts which are not negotiated annually and would not be up for negotiation this fall. That said, however, there is still a vast majority of leases with details for 2008 still to be worked out. In these volatile economic times, the more that landowners and tenants can work together towards fair and equitable lease arrangements, the better.

In facilitating this process, we would advise all parties involved in cropland lease arrangements to access various information and analysis tools from the land grant institutions around the country. The University of Nebraska–Lincoln has the *Farm Lease Calculator* that can facilitate analysis of a host of leasing decisions regarding either crop-share or cash leasing arrangements. It is an Excel spreadsheet program designed to analyze and evaluate crop budgets and various lease options from the standpoint of both the tenant and the landowner. It can be accessed directly from the UNL Agricultural Economics web site at:

<http://www.agecon.unl.edu/resource/farmcalc.html>

As for leasing decisions for 2008, here are some things to keep in mind.

Crop-Share Leases

With the recent upward surge in crop prices, many land owners are taking a renewed interest in the crop-share lease, thinking it may lead to a larger dollar return than under a straight cash lease. To be sure, that may well be true for this 2007 crop year and quite possibly even for 2008 if the land owner is willing to take on the greater risk, and more of the direct management of production/marketing, etc.

However, in many areas of the state the old traditional crop-share arrangements and the associated inputs shared in the same proportion are no longer equitable. The nature of farming practices and capital investment has changed to a point that the relative contributions of the tenant and the landowner under the traditional patterns may no longer be in sync with output shares. Using the *Farm Lease Calculator* noted above and some typical farming situations, our analysis would suggest the following:

- * For center-pivot irrigated parcels in which the landowner provides the complete irrigation system, the historical 50-50 tenant-landowner share with fertilizer, seed and chemicals shared equally will often lead to a rather severe warp (tenant contribution of total inputs may be less than 45 percent). One way to reduce this dilemma is for the tenant to cover 100 percent of the seed costs.
- * Likewise, for 50-50 tenant-landowner shares on dry-land parcels, there appears to be an imbalance of contributions. Again, a partial solution is for the tenant to cover the entire seed cost.
- * Under 60-40 tenant-landowner shares the landowner paying 40 percent of just the fertilizer cost (and not any herbicide or insecticide inputs) brings the 60-40 share closer to balance of the relative contributions. Historically, seed costs have not been shared under this arrangement, and that should continue.
- * As for 67-33 tenant-landowner shares, used widely in the wheat producing areas of Western Nebraska, the historical pattern with the sharing only of fertilizer input still remains generally equitable on the basis of relative contributions.
- * Under more recently developed share-lease arrangements where the tenant is paying for all of the variable inputs, a 65-35 tenant-landowner share of the crop production appears to be an equitable arrangement.

Cash Leases

For cash leases negotiated annually, the 2008 crop-year prospects suggest some strong upward rental advances. With favorable commodity prices for corn, soybeans and wheat going into next year, the income generating expectations are much stronger on both sides of the cash rent bargaining table. While there are already reports of “*can you top that?*” 2008 rental rates, these should not be the determining factors in the negotiations. Both tenant and landowners need to sit down together with realistic numbers and expectations and arrive at a mutually agreeable level. Here again, we believe the *Farm Lease Calculator* can be helpful.

To illustrate, we constructed the following scenario for tenant revenues less all expenses except cash rent for a center-pivot irrigated parcel in Eastern Nebraska in a

corn/soybean rotation (Figure 1). Under our assumptions for 2008 average yields and commodity prices, the tenant could expect a net revenue (before cash rent) of about \$206 per acre. This can be seen as the maximum cash rent payment that tenant would want to make. Conversely, landowners can view this level as their highest average returns for 2008 under a crop-share lease, albeit with some greater risk. Of course, the sensitivity of this average to different yields and price levels in Figure 1 show a wide disparity of outcomes for the various conditions that market participants might expect. Nevertheless, given that Eastern Nebraska’s 2007 irrigated cash rents averaged about \$175 per acre (with the higher end of the range at about \$205), this analysis suggests that cash rent bidding for the 2008 crop season may well take average irrigated cash rents up another 15 to 20 percent higher from average 2007 levels.

Yields		Below		Average	Above	
		25%	10%		10%	25%
Irr Corn		158	189	210	231	263
Irr Soybeans		45	54	60	66	75
Prices						
25% Below	Irr Corn	\$2.55				
	Irr Soybeans	\$5.78	(\$45.35)	\$17.54	\$59.47	\$101.39
10% Below	Irr Corn	\$3.06				
	Irr Soybeans	\$6.93	\$20.80	\$96.92	\$147.67	\$198.41
Average	Irr Corn	\$3.40				
	Irr Soybeans	\$7.70	\$64.90	\$149.84	\$206.47	\$263.09
10% Above	Irr Corn	\$3.74				
	Irr Soybeans	\$8.47	\$109.00	\$202.76	\$265.27	\$327.77
25% Above	Irr Corn	\$4.25				
	Irr Soybeans	\$9.63	\$175.15	\$282.14	\$353.47	\$424.79

Figure 1. Irrigated Crop Revenues Less All Expenses Except Cash Rent

As for cash lease rates on dry-land cropland, we also see similar upward percentage trends for 2008, using the crop prices that both landowners and tenants are anticipating.

One caution to 2008 cash lease negotiations is that 2008 farm commodity program payments remain an unknown as Congress now deliberates on the new five-year program. Cash lease tenants, who have been receiving these full payments over recent years, should not count on them continuing at a similar rate. Thus, even with strong commodity price levels going into the year, tenants and landowners both need to exercise some caution in their lease negotiations.

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