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## Farmland Rental Terms In Eastern and Central South Dakota

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# Economics Newsletter



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## Farmland Rental Terms In Eastern and Central South Dakota



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Between 35 and 40% of South Dakota's farmland and rangeland is rented each year. Information on land rental terms is of considerable interest to landlords, renters, lenders, and others as evidenced by numerous telephone and letter inquiries received by Extension agents and specialists each year.

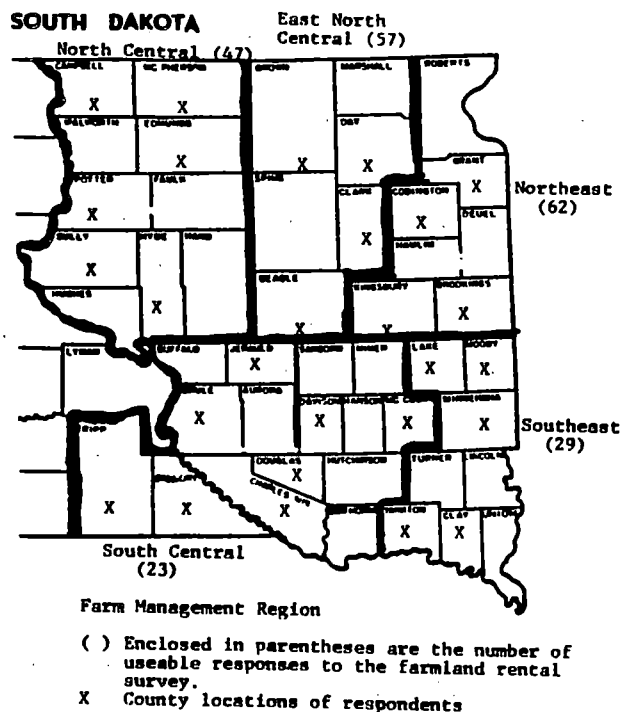
In this Newsletter, we discuss typical cash rents for crop, hay, and pastureland and crop share rental terms in different regions in central and eastern South Dakota. This information is based on findings from a survey completed in late 1984.

### Procedures

Farmland rental questions were included as part of a machine custom rate survey. This survey was sent to 2,974 farmers, custom work businesses, and farm managers via the Extension offices in 42 cooperating South Dakota counties. Of the 343 surveys returned, 221 from 27 counties in central and eastern South Dakota contained useable farmland rental data.

Land rental terms (share and cash rental rates) are related to farmland market value, productivity, and climate. Since the factors which affect rental terms vary considerably across South Dakota, survey results are presented by region. Farm management region boundaries are shown in Figure 1 along with the number of respondents from each region and their county locations. Data for western South Dakota are not

Figure 1. Farm Management Regions of South Dakota.



presented, since too few survey returns were returned from that part of the state.

The survey included questions on cash rent and market value of cropland, alfalfa hayland, native hay, and native pastureland. Also included were questions on cow-calf grazing rates, crop output shares, and crop input expense shares.

### Cash Rent Terms

Cash rents are widely used in crop, hay, and pastureland rental arrangements. Cash rents are easy to calculate and dollar amounts of payments (returns) are known in advance. The tenant often has greater managerial freedom concerning crop selection, input allocation, and timeliness of field operations. However, with cash rents, the tenant also assumes all of the

Table 1. Average (Mean) Cash Rents and Ratio of Rent to Market Value, by Region.

Farm Management Region	Cropland		Alfalfa Hayland		Native Pastureland		Native Hayland		Cattle Grazing (per Cow- calf unit/mo)
	Rent per acre	Ratio- rent to value	Rent per acre	Ratio- rent to value	Rent per acre	Ratio- rent to value	Rent per acre	Ratio- rent to value	
	\$	%	\$	%	\$	%	\$	%	
Northeast	41.20	7.0	31.70	6.0	17.30	6.0	13.90	5.2	12.00
East North Cent.	38.00	6.9	22.60	5.6	16.10	5.9	14.40	5.9	13.75
North Cent.	18.10	6.6	13.50	5.8	10.20	6.2	8.00	5.2	11.75
South Cent.	27.10	8.4	25.00	6.7	13.30	6.1	*	*	12.60
Southeast	58.30	7.3	57.30	7.6	19.50	4.3	*	*	*

Source: Farmland Rental Survey, S.D. Cooperative Extension Service, Dec. 1984

- Notes:
1. Rent per acre is the average (mean) rent of all respondents reporting cash rent information, rounded to the nearest 10 cents.
  2. Ratio of rent to value is the average (mean) ratio of cash rent to current market value of the rented land estimated by respondents.
  3. The number of respondents varied for each type of rental land. The \*'s reflect instances of insufficient numbers of useable responses.
  4. The per acre market value of land can be calculated by dividing the rent per acre by the ratio of rent-to-value and multiplying by 100 (e.g., [ $41.20 / 7.0$ ] x 100 = \$589).

production risk.

Cash rents in dollars per acre are quite variable within each region and highly variable among regions in the state. Within each region, average (mean) cash rent is highest for cropland, followed by alfalfa hayland, native pastureland, and native hayland (Table 1). For each land use, average cash rents are highest in Southeast South Dakota, followed by the Northeast. Cash rents are lowest in the North Central region of the state.

Cash rents are closely related to the level of and changes in farmland market values. Market values of agricultural land are fundamentally derived from current net returns and expected changes in net returns to farmland. Cash rents minus property taxes and landlord maintenance expenses represent a close approximation of current net returns to farmland.

For all regions, except the South Central, the cropland cash rent to market value ratio is between 6.6 and

7.3% (Table 1). Alfalfa hayland, native hayland, and native pastureland average (mean) rent-to-value ratios are lower--generally between 5.2 and 6.7%. For each land use, there are few cases of statistically significant differences in rent-to-value ratios among regions.

Grazing land is frequently rented on a monthly or seasonal basis according to cow-calf units instead of on a seasonal per acre rate. Average cow-calf grazing rental rates vary among regions from \$11.75 to \$13.75 per month.

#### Cropland Share Terms

Share rental arrangements provide a mechanism for the sharing of risks in land use between the landlord and tenant. A tenant's risk is less with share than cash rents. Share rental arrangements also permit landlords to more effectively insure the maintenance of soil fertility, prevent erosion, and control weeds.

With cropland share rental arrangements, the landlord's share of

Table 2. Landlord's Share of Crop Output, by Region

Farm Management Region	No. of usable responses	Landlord's Share of Crop Output					Total
		1/4	3/10	1/3	2/5	1/2	
--percent of respondents--							
Northeast	44	-	-	64	30	6	= 100
East North Central	42	-	-	100	-	-	= 100
North Central	27	33	11	56	-	-	= 100
South Central	28	-	-	90	10	-	= 100
Southeast	25	-	-	-	88	12	= 100

Source: Farmland Rental Survey, S.D. Cooperative Extension Service Dec. 1984

Note: See Figure 1 for map of regions.

crop output ranges from 1/4 to 1/3 in North Central South Dakota to 2/5 in the Southeast region (Table 2). Some cropland is also shared on a 1/2-1/2 basis in the Northeast and Southeast.

Respondents from the East North Central region unanimously reported a 1/3 landlord crop share. Most reports from the South Central region also reflected a 1/3 landlord share. A majority of reports from the Northeast showed a 1/3 landlord share, with several also reflecting a 2/5 share.

Landlord share of crop input expense varies greatly by input and by region (Table 3). Fertilizer expenses are most commonly shared, followed by weed control expenses and insecticide expenses. Seed and harvest costs are seldom shared by the landlord. In almost all cases, if an input expense is shared, it is shared in the same proportion as crop output.

Over two-thirds of the respondents in the Northeast and Southeast reported landlords sharing fertilizer, weed control, and insecticide expenses. By contrast, few North Central respondents reported landlords sharing fertilizer or weed control expenses and none reported landlords sharing insecticide expenses.

Overall, crop input expenses are shared more frequently in the cornbelt agricultural areas (where 2/5 landlord shares are common) and less frequently in the spring wheat and small grains areas (where 1/3 and some 1/4 landlord shares are common).

## Trends in cash and share rental arrangements

The predominant rental arrangement in particular periods of time tends to reflect the economic conditions of those times. During the 1960's and 1970's, a general shift to cash rent occurred in South Dakota and throughout the U.S. This shifted input costs and production risks to tenants. Tenants were generally able to assume the risks because of yield and price protection available through Federal farm programs. Farmers were also generally experiencing high profit margins and relatively unrestricted cashflows and credit availability.

The U.S. Congress is now writing a new farm bill. Several proposed bills call for market-oriented prices. If this occurs, farmers could expect more volatility in prices. Farmers are also experiencing, at this time, high real interest rates, low profit margins, and restricted cashflows. Tenants who function under these conditions have a need to reduce cash costs and shift risk to others. Under current and prospective economic conditions, tenants who have traditionally paid cash rents may find it advantageous to explore with their landlords the possibility of shifting to input and crop sharing arrangements.

Table 3. Proportion of Respondents Reporting Input Shares on Crop Share Leases by Region

Farm Management Region	No. of usable responses	Input Expense		
		Fertilizer	Weed Control	Insecticide
--percent of crop share leases where input expense is shared--				
Northeast	44	86	78	68
East North Central	42	71	67	52
North Central	27	22	7	8
South Central	28	88	58	38
Southeast	25	88	76	72

Source: Farmland Rental Survey, S.D. Cooperative Extension Service, Dec. 1984

Note: See Figure 1 for map of regions.

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