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NEGOTIATING FAIR CASH RENTAL RATES

Each year Bruce Johnson, a UNL Ag Economics professor, publishes the Nebraska Farm Real Estate Market Development Highlights. He surveys by regions in Nebraska the same small, sampling of people each year. In 2010, he reported cropland rental rates tended to be up across the state, while pasture rates were steady to slightly below 2009 levels. Johnson publishes the preliminary survey results on land values and cash rent information each March with a final report published in June each year.

The survey was never to be used to establish a specific rent on a specific piece of property but it can be used to analyze trends across Nebraska and over time. The survey can be found at: www.agecon.unl.edu/realestate.html. Out-of-state landlords need to realize the soils and rainfall diversity in Nebraska across regions. For instance, annual rainfall average tends to change by one inch every 25 miles east to west and makes a large bearing on Nebraska dryland cropping potentials and cash rents.

A sampling of this survey indicated center pivot land was typically being rented for \$178 to \$256 per acre and an average of \$214 per acre in Southeast Nebraska in 2010. Does the crop have full irrigation availability? What has been the yield history and gross revenue potential over time? Is the land highly erodible and/or lower nutrient status? Who owns the pivot and/or motor? Is family involved? (If so, even more important to get things in writing). Is the landlord working with a new farmer to help him out some? Is the tenant willing to share information and taking outstanding care of the land? These questions and more become very important when establishing a fair cash rent.

More and more landlords are removed from agriculture and now a generation of out-of-state nephews and nieces are owning farm land. Rather than crop shares, many ask for cash rent which puts the most risk on the tenant's shoulders.

Another source of cash rent information is from the Nebraska Agricultural Statistics Service (NASS). By law, the farm bill requires NASS to ask tenants each year for their cash rent information (old or newly negotiated) by mail and/or interview. The intent was to compare these numbers to existing CRP payment rates. Once again, these cash rent averages by county do not answer the questions I just outlined, but the averages are statistically valid by county. To find this information, go to: www.nass.usda.gov/Statistics_by_State/Nebraska/Charts_and_Maps/index.asp

I personally like the UNL cash lease calculator: www.agecon.unl.edu/resource/farmcalc.html. You can input the estimated expenses such as your current seed, fertilizer and herbicide costs and estimate machinery and overhead expenses using a computer spreadsheet. It is safe to say if a cash rent being charged causes the tenants estimated cash flow to be below \$50 per acre (over cash expenses) it is not a sustainable or a fair cash rent lease. With the current commodity price bubble of \$4.70 corn and \$11.00 dollar beans for 2011 fall delivery, how will that affect the cash rent market? If fixed cash rents become too high, they can quickly plow a tenant under if market volatility returns the wrong direction.



Iowa State University has one of the best flexible cash rent websites I have seen. If you have a flex cash lease that you think is working really well for you, please share or tell me about it. I need more examples. To study this go to: www.extension.iastate.edu/agdm/wholefarm/html/c2-21.html.

Another resource is the UNL Ag Econ resource page: www.agecon.unl.edu/resource.html. Click on the link that says Developing a Fair Lease Arrangement. Even with all this information in this digital age, I am still trying to find that crystal ball website on agricultural land values in the future, but no luck yet.

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