Farmland IN PERSPECTIVE

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Lease Dates to Remember

As landowners review a lease with their tenant(s), they will want to be aware of important lease dates. In many states, the tenant's lease is reinstated automatically "as is" unless the tenant is notified by a certain date. This date should be specified in a written lease. If a verbal lease exists, the accompanying traditional dates may apply. Consult your farm manager or attorney.

State	Traditional Verbal Lease Year*	Traditional Verbal Notification Date*
Arkansas	Jan. 1 – Dec. 1	July 1
Illinois	Mar. 1 – Feb. 28	Oct. 31
Indiana	Mar. 1 – Feb. 28	Nov. 30
Iowa	Mar. 1 – Feb. 28	Sept. 1
Minnesota	Not well defined. Consult your farm manager.	Not well defined. Consult your farm manager.
Mississippi	Jan. 1 – Dec. 31	Oct. 31
Missouri	Jan. 1 – Dec. 31	60 days before end of term
Nebraska	Mar. 1 – Feb. 28	Sept. 1
Wisconsin	Mar. 1 – Feb. 28	Dec. 1 (90 days advance notice is required to terminate a verbal lease)

** Traditional lease year and notification date for verbal leases. In some states, the lease continues unless notified by a specified notification date. Lease years and notification dates may vary based on the terms of a written lease. Consult your farm manager or attorney for confirmation.*

Farmland Leasing: Where are We Going?

by Nick Paulson and Gary Schnitkey

Farmland that is rented by a landowner to a farmer is a significant portion of the land farmed in the US. Nearly 60% of the land used in corn, soybean, wheat, and sorghum production is rented. The proportion of rented land used for peanut and cotton production exceeds 60%, and is greater than 80% for rice. Higher proportions of rented land are also associated with younger farm operators, as well as larger family and non-family farms.

USDA data collected in 2014 shows that fixed cash rent agreements are used on more than 70% of total rented acres. However, the prevalence of lease types varies by region and also has changed over time. In most regions, fixed cash leases have been increasing in use relative to share rent leases. Flexible cash leases, while used on a relatively small proportion of rented acres, are becoming more prevalent. In addition, along with other production expenses, cash rent levels for cropland across most of the US have been on the rise during the past 30 years, reaching peak levels in 2014. During the past two years, average cash rent levels have declined moderately due to lower commodity prices and lower farm income projections.

Lease Types

The three major lease types used for U.S. farmland:

- **Fixed Cash Rent Lease.** Under a fixed cash lease, the farmer pays the landowner a fixed amount. This amount is typically negotiated before field work begins and is paid to the landowner. The timing of rental payments vary. For example, some have the lease payment due in spring before planting begins. Other leases use two payments: one typically paid in the spring and the other in the fall. The major advantages of a fixed cash rent lease are its simplicity and the known level of payments. The primary disadvantage is in negotiating the cash rent. As economic conditions change, adjustments to the cash rent amount may be required, and determining the change can be difficult, particularly when economic conditions suggest decreases in cash rents.
- **Share Rent Lease.** Under a share rent agreement, the landowner and tenant share in gross revenues and direct costs. Specific terms of share rent contracts vary, but a 50-50 share lease has been historically typical in highly productive areas. In a 50-50 share lease, 50% of the harvest revenue and government payments are shared between the landowner and farmer. The landowner and tenant would also typically share 50% of the direct input (seed, chemical, fertilizer, etc.) expenses. In areas where crop yields are lower, the

Continued on page 2

conditions have supported a continual increase in average cash rent levels, providing consistently increasing returns to landowners. Increases in cash rents were even more significant from 2008 to 2014 (see Figure 3). However, commodity prices declined in 2013 reducing farmer returns and putting downward pressure on cash rent levels.

One of the major advantages of the variable cash lease is that it does provide some automatic adjustment when farmer returns are lower through the lower base rent and bonus design. In contrast, the bonus component and overall rent payment will become larger as prices, yields and/or revenues increase, providing the landowner with greater upside potential for their land returns. As shown in Figure 1, use of flexible cash leases remains relatively small, but there is evidence of increased use in recent years.

Summary

The majority of farmland in the US is controlled under some type of rental agreement. Fixed cash, share rent, and flexible cash leases are the three most common lease types currently in use. The proportion of acres controlled by each major lease type varies considerably by region. In the Midwest, at least 50% of rented acreage is controlled under a fixed cash lease, but in some states this may be as high as 80% or more. In the south, the proportion of acres controlled under fixed cash leases is lower. In Arkansas, for example, share rent agreements are the dominant lease type. In both the Midwest and Southern regions, flexible cash leases represent a relatively small percentage of rented acreage but their use is increasing.

In general, the use of fixed cash leases has been increasing over time while share rent agreements have become less popular. This trend has been attributed to the relative simplicity of the fixed cash rent agreement as well as increasing rent levels. Average cash rent levels have consistently increased over much of the US since the late 1980s, with larger increases experienced from 2008 to 2014. Since 2013, agriculture returns have been coming down, putting downward pressure on cash rent levels. Flexible cash leases provide tenants with an alternative which provides some risk sharing while also allowing for large rental payments to the landowner if and when conditions improve.

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SOURCES

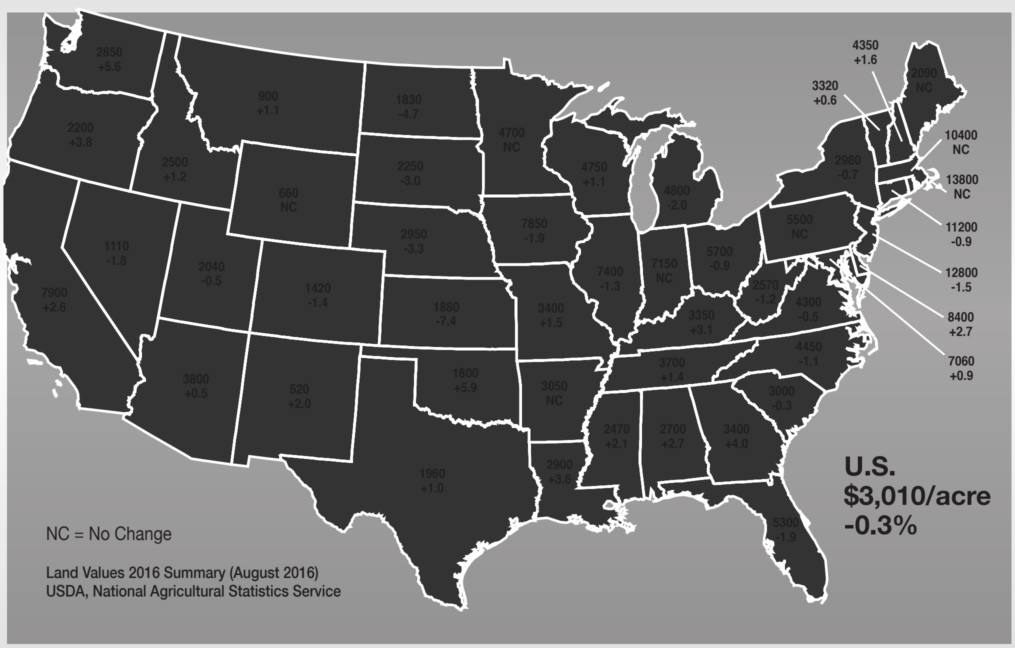
Bigelow, D., A. Borchers, and T. Hubbs. 2016. U.S. Farmland Ownership, Tenure, and Transfer. Economic Information Bulletin 161, Economic Research Service, United States Department of Agriculture. Available online at: http://ers.usda.gov/media/2133230/eib161.pdf

Illinois Farm Business Farm Management Association (IL FBFM).

USDA National Agricultural Statistics Service (USDA NASS). QuickStats 2.0 Database.

2016 Farm Real Estate Value by State

Dollars per acre and percent change from 2015



The United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged $3,010 per acre for 2016, down $10 per acre (0.3%) from 2015 values, according to the Economic Research Service of the U.S. Department of Agriculture. Regional changes in the average value of farm real estate ranged from a 3.3% increase in the Pacific region to 4.3% decrease in the Northern Plains region. The highest average farm real estate values were in the Corn Belt region at $6,290 per acre. The Mountain region had the lowest average farm real estate value at $1,110 per acre. The average United States cropland value decreased by $40 per acre (1.0%) to $4,090 per acre from the previous year. In the Southeast region, the average cropland value increased 4.0% from the previous year. However, in the Northern Plains region, average cropland values decreased by 5.4%.

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