

Determining Farmland Rental Rates in Greene County

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What is the farm land rental rate in Greene County? This is a common question. Landowners seeking to rent their farm land and land renters or tenants are both trying to seek out what is a fair price to rent farm land. Though the question is basic there is not one easy answer. There are a number of variables that have an effect on determining a fair rental rate. Land rental surveys, such as those conducted by OSU Extension are not meant to be the answer to the question but may provide a starting point as the landowner and the tenant address the variables and negotiate an agreement.

What cash rental rate is fair?

Ownership costs of land are summarized in the DIRT I five acronym. Those costs are: Depreciation, Interest, Return on Investment, Taxes and Insurance. These costs provide a starting point for land rental negotiations from the landowner perspective. What portion of these costs do you need or want to have covered in a land rental agreement? I often hear landowners say that they need to at least have their taxes covered. In a land rental agreement consideration should also be given for other services or work a tenant might provide to the landowner. This includes weed control on non-tillable acres, mowing, fence repair, snow removal, general land care stewardship and/or other tasks that may have value to the landowner.

On the tenant side of the equation, land rental has to produce a return after crop input costs, transportation, marketing, machinery depreciation, labor and management costs are covered. The productivity potential of the land is important. The tenant may want to know if the extra things they are willing to do for the landowner are valued.

Factors that determine rental value:

All land in Greene County is not of equal rental value. Many factors need to be considered when negotiating a land rental rate. Rental factors include land productivity, site characteristics, previous cropping history, CAUV tax values, and supply and demand.

Land Productivity: Factors that determine land productivity include topography, soil type, soil pH and soil fertility. Landowners can contact the Greene County Soil and Water District (937-372-4478 ext.3) to learn more about their specific soil type and agricultural production potential. Soil pH and soil fertility can be determined through a soil test. Land that will require significant investment in lime and fertilizer to restore a soil's productivity has a lower rental value than land that has been well maintained. Recognize that soil drainage is an important crop production factor. Wet, poorly drained fields have a lower rental value than fields that have been tilled to improve drainage.

Site Characteristics: Location is important. The closer the proximity of the rental field to neighboring farms, the more attractive the field is to rent. How large is the rental package? Larger tracts of land as well as more uniformly shaped tracts of land have a higher rental value compared to small, and/or irregularly shaped parcels of land. What else is around the rental parcel? For example, the amount and type of housing around a parcel of land plays a role in determining rental value.

Previous Cropping History: Fields that have been fallow for a number of years and/or have brush growing in them represent an added cost to prepare the field for crops. Land that has been recently cropped lessens those costs. In addition, if there is a known cropping history with yields, this can be helpful in determining rental value.



CAUV tax: Current Agricultural Use Valuation taxes are less than non-agricultural tax rates. Even so, these tax rates are adjusted on a 3-year cycle. In 2012, many agricultural landowners were shocked to find that their CAUV tax rates had in many cases doubled or more. Many of those landowners that rented their land decided that they needed to re-negotiate land rental rates to cover these increased tax rates.

Supply and Demand: One of the more important factors in determining land rental rate is the demand by farmers willing to rent the land. If the supply of land is large relative to the demand, the tenant can shop around for lower rates or their current landlord will have to be competitive. On the other hand, large demand with limited supply can cause land rental values to be bid up higher than other market factors might suggest.

Methods of determining a land rental rate:

Here are several methods that can be used to determine a land rental rate. This is by no means an exhaustive list, but rather a starting point:

1. **Use a land rental survey county average.** If you do not want to put much thought or effort into determining a rental rate, this method will provide a number. Remember that the average may not and in fact, probably does not, accurately reflect the value of the land. For example, a USDA 2011 land rental survey indicated the average land rent in Wayne County was around \$82/acre. That reflects a range, and is based on a limited number of surveys actually turned in. Land rent could range from \$40/acre to over \$150/acre. This was before the 2012 CAUV tax adjustment.
2. **Share of gross income.** Some landowners estimate a cash rent as a share of expected gross income, based on the proportion of total costs contributed. Common shares are 35 to 40 percent of gross income, including USDA payments.
3. **Yield potential.** Another approach is to multiply the potential yield under average conditions by a fixed rate per bushel. Surveys show that rates for corn have been in the \$.85 to \$.95 per bushel range, while rates for soybeans have averaged from \$2.65 to \$2.90 per bushel in recent years. (Iowa State University Extension publication, May 2001). Note the date of the publication, if this method is used there should be an adjustment to reflect current conditions.
4. **Percent of land value.** Multiplying the estimated current market value for the land by an expected rate of return is a simple method of determining a rental rate. I have seen 3 to 4 percent commonly used in Ohio over the years. However, during periods of rapid changes in land values this method is rather uncertain

5. **Flexible cash lease.** This is a lease that is a form of risk management with risk split between the landowner and the tenant. It is attractive with potentially high land rental rates, high input costs, volatile markets, and potentially high returns to production. One such lease is termed cash lease with bonus provision. The basic features include a fixed base and maximum rental rate, a base gross or net revenue calculated with yield and crop price plus verified expenses if net revenue is used, and then a percentage share of additional per acreage revenue going to the landowner if actual revenue is greater than the base revenue. Barry Ward, OSU Extension Production Leader provided the following example at a 2012 Ag outlook meeting:

- Base rent: \$150/acre, with a maximum of \$250/acre
- Base revenue (based on crop history and price estimate):
155 bu/acre x \$5.80 /bu = \$900/acre
- Excess revenue share agreement: 1/3 to landowner
- Actual revenue (post-harvest):
180 bu/acre x \$5.50/bu = \$990/acre
- Bonus to landowner: (990 -900) x 0.333 = \$30
- Total cash lease/acre: \$150 base + \$30 bonus = \$180/acre

Again, this is only an example, but the key factors that make this approach work are willingness for the landowner and tenant to agree to the terms and provisions. An important aspect is that the base rent can't be set too high. This is the downside risk protection.

There are other ways of structuring flexible leases, but the important aspect is that there is flexibility to handle volatile markets and/or a bad production year. A good publication entitled "Fixed and Flexible Cash Rental Arrangements for Your Farm" is available through the Wayne County Extension office. This publication provides more background information, options and sample flexible cash rental arrangement worksheets and agreements.

Closing Comments:

It is recommended that landowners and tenants discuss land rental rates and land rental rate options. Once an agreement is reached a written lease containing all the agreed upon provisions should be signed by both parties. A written lease provides protection for both parties and can serve as a guide for future land rental agreements.

For more information about farm rental agreements contact the Greene County Extension office. We are located at 100 Fairground road, Xenia, Ohio 45385. Reach us by phone at: 937-372-9971. Brian Kleinke, Extension Educator in Agriculture and Natural Resources can also be reached by email at: kleinke.3@osu.edu.