# Trends in 1987 Farmland Rents

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Cash rents appear to have firmed up in 1987 compared to conditions of recent years. Rental markets facilitate adjustments in land resource uses and ownership. These markets played important roles in the turbulent 1970s and 1980s. Rental rates rose less than land values increased in the 1970s, and declined much less in the early 1980s as potential buyers waited for land to again become a good buy or felt they could afford to purchase.

Cash versus share renting changed in recent years with changing economic conditions and financial strengths of renters and landlords. Cash leases dominate in North Dakota, with some give toward cropshare and combined cash-cropshare arrangements in some areas. The cash-cropshare fits situations involving good, useful buildings that should be maintained for continued use.

The mix of cash, cropshare and cash-cropshare leasing arrangements has varied only a few percentage points in any of the farming areas in recent years (Figure 1). Overall, about 62 percent of all leases were for cash, one-third were cropshare, and about 5 percent were cash-cropshare leases at the state level in 1987.

The cash lease remained about the same (60 percent of all types of leases) at the state level and has prevailed for the last five years. Cash leases are most dominant in the North Red River Valley (78 percent of all leases) and the South Red River Valley (73 percent), followed by 62-63 percent of all leases in the Southwest Central and Southwest farming areas. The cash lease is particularly applicable in specialty crop areas and in transitional areas of the state, such as the Red River Valley and the Southeast Central farming areas. It is often favored by farm operators who lease many tracts from different operators, because it reduces the amount of paperwork needed in many differing share rental arrangements. It is also favored by those landlords who have limited sources of income and cannot afford to hold crops in storage awaiting a better price.

Cash leases have been growing in strength in the Northwest (to about one-half of all leases) and Southeast Central

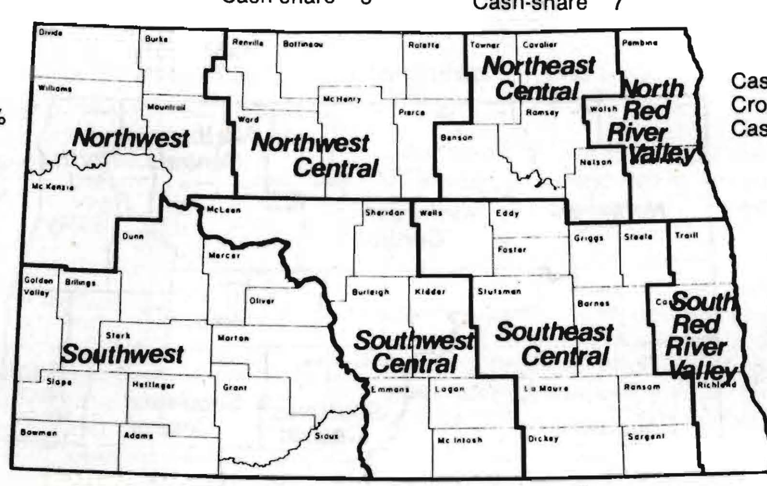


**Figure 1. Percent of Farmland Leases by Type, 1987.**

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areas. It has been in the 45 to 60 percent range in the Northeast Central area, an area that has experienced great changes in land values in recent years.

Cash-cropshare leases are in limited use in North Dakota and make up only 5 percent of these three lease types. They show some strength in the Northwest and Southwest Central farming areas. Their role is to compensate landlords for good buildings for tenants' use, and to provide the landlord an incentive to maintain the buildings in good usable condition. They add another, though small, dimension of flexibility to our leasing system.

Cropshare leases made up about 35 percent of all types of leases across the state for the past seven years. They have great strength in the Northwest area, but have slowly declined from nearly 80 percent in the late 1970s to about 40 percent in 1987. They also show strength in the Northwest Central area. They make up the least but still sizable portion of leases in the two Red River Valley farming areas, though seldom over 22-25 percent in the northern portion of the Valley.

The most frequently used crop-sharing ratios for wheat and barley land are shown in Figure 2. Although most localities have numerous local variations, the one-third share to the landlord and two-thirds to the tenant sharing ratio continues to dominate. Landlords frequently share in costs of various farming practices in localities and often encourage adoption of certain practices by sharing in their costs for a number of years.

The clear dominance of the one-third/two-thirds cropshare lease is most evident in all except the South Red River Valley and Southeast Central farming areas. The 50-50 lease has the most strength in the South Valley, but it appears with some regularity in the Southeast Central area. It shows up in the production of some speciality crops such as sugarbeets and potatoes. The 30/70 cropshare lease has some users.

## AVERAGE CASH RENTALS

Estimates of cash rents were asked of respondents for wheat/barley land, hayland, and pastureland; those able also provided rents on land used for sugarbeets and potatoes. Average rents were computed for farming areas (Figure 3) and are presented with the range in rents within farming areas. No hayland or pastureland rentals were calculated for the two Valley areas because of their limited acreages in those areas.

The state average hayland rent per acre rose in 1987 to \$10.70 an acre, up from \$10.10 in 1986, for an increase of \$0.60 an acre or nearly 6 percent. This follows declines of nearly 10 percent in 1986 and 7 percent in 1985. The Northeast Central area showed the largest increase in 1987, up to \$15.20 from \$10.00 per acre in 1986. A 16 percent increase in hayland rent was reported for the Southwest Central area, and a 1 percent rise was indicated for the Southwest farming area. Little change in hayland rentals was noted in the Northwest farming area, but reporters felt that rents had firmed up. Cash rent for hayland in the Southeast Central area was calculated to have fallen to \$9.90 per acre from \$11.64 in 1986.

Average pastureland cash rents also rose or firmed up across the state in 1987. All six farming areas with pastureland rents shown in Figure 3 reported some increase, with the state average up almost 7 percent in 1987. The increase was calculated at 82 cents an acre (up from \$4.60 to \$5.42 an acre) in the Northwest farming area, which computes as nearly an 18 percent increase. The average was up 19 percent in the Northeast Central area and 9 percent increase for the Northwest Central area. Pasture and hayland rents will vary due to adverse weather conditions affecting the supply of these vital livestock feeds.

Estimated cash rents for wheat/barley lands rose nearly 1 percent for the state average in 1987. Larger increases were reported for the Northwest (up 10 percent) and North Red River Valley (8 percent rise), with 3 percent increases in the

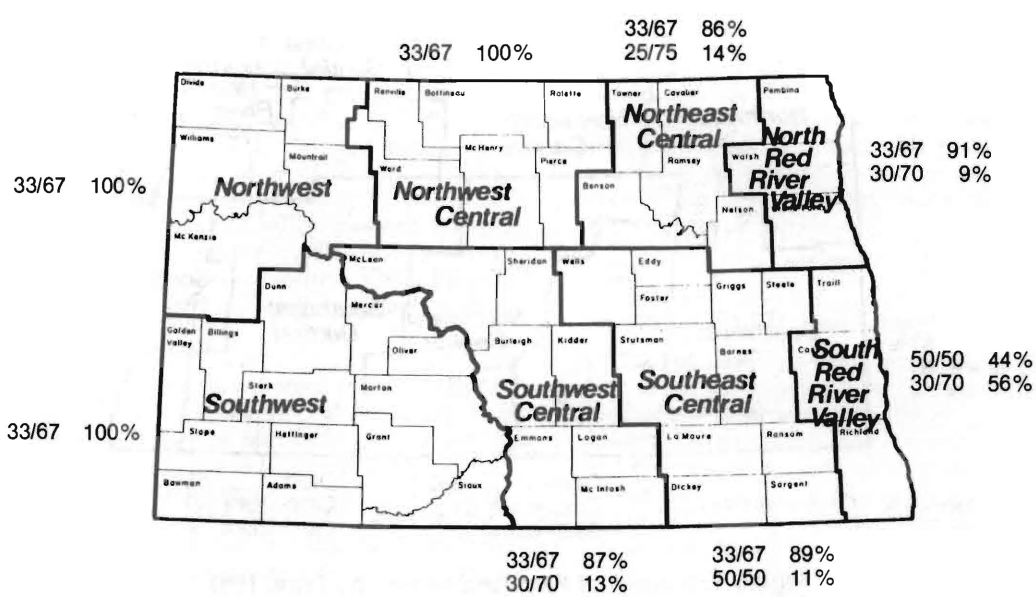
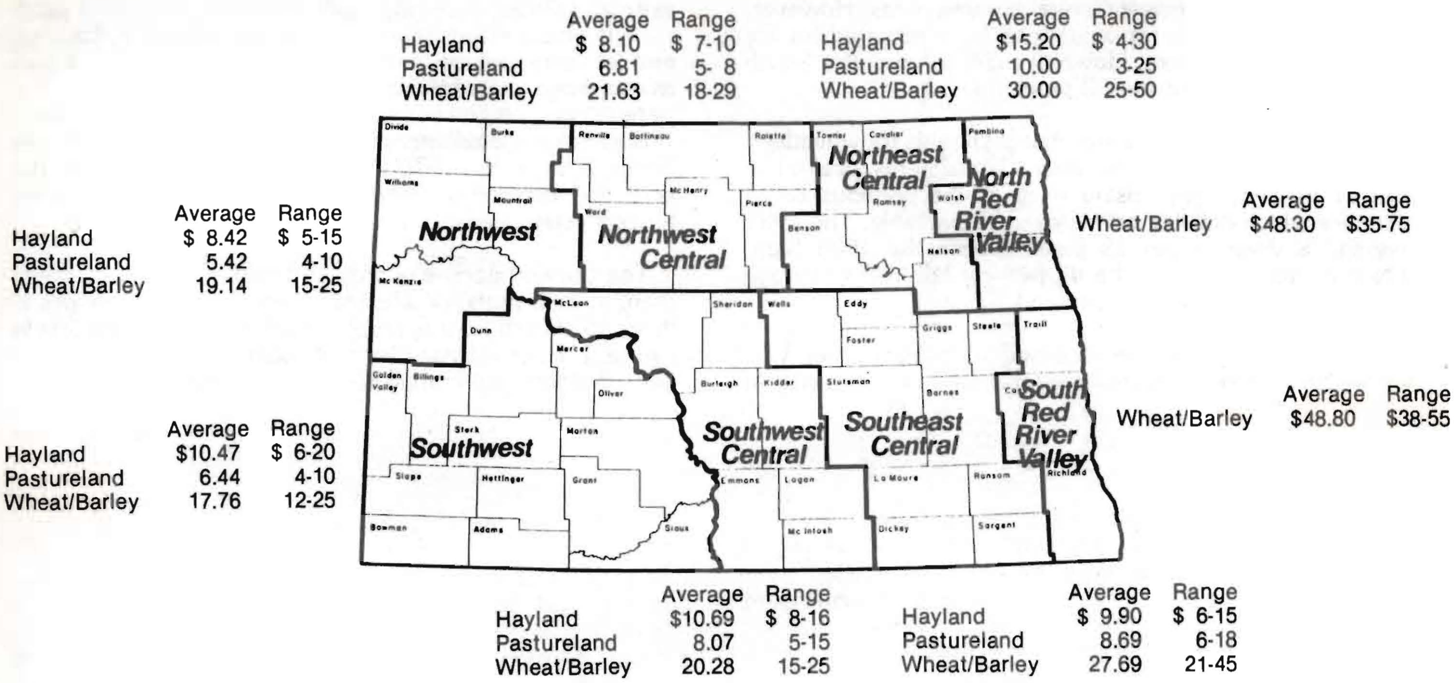



**Figure 2. Percent of Cropshare Leases Reported for Wheatland, 1987.**




State: Hayland:$10.70, Pastureland: $8.05, and Wheat/Barley: $28.66/acre.

**Figure 3. Average Cash Rent Per Acre for Hayland, Pastureland, and Wheat/Barley Land and the Ranges in Estimates for Eight Farming Areas, 1987.**

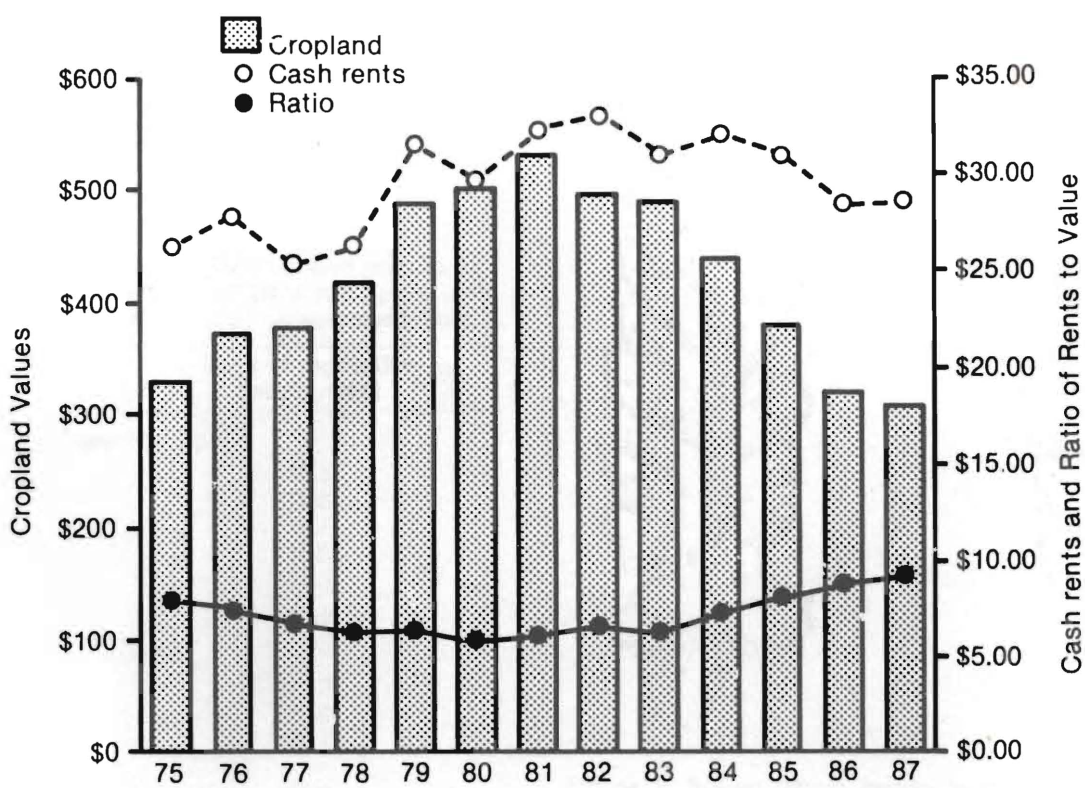



**Figure 4. North Dakota Average Cropland Values/Acre, Average Cash Rents Per Acre for Wheatland, and Ratio of Cash Rents to Cropland Values, 1975 to 1987.**

Southwest and Southwest Central farming areas. However, declines in cash rents for wheatland were reported for the Northwest Central area (down 9 percent) and the South Red River Valley (just over 2 percent fall).

The overall picture indicates that cash rents for wheatland have firmed up across the state. These rents peaked at $32.67 in 1981, after rising most of the previous seven years for which detailed estimates were available. The 1987 average is down about 13 percent from the 1981 high, which is much less than the 42 percent fall in the average value of all North Dakota farmland.

Rents have held up or declined much less than land values because rents offered potential land buyers a way to expand without incurring high financing costs, let landowners obtain reasonable returns without selling at the time, and let others adjust their farming operations without borrowing large capital investments.

Figure 4 presents estimated values of cropland per acre in North Dakota for 1975-1987, wheatland cash rents per acre, and their ratios. The cash rents have not been adjusted for real estate taxes.

The rise and decline of cropland values, with least movement in cash rents for wheatland, and resultant changes in the ratio of cash rents to cropland values are most evident in Figure 4. Even adjusted for real estate taxes, the ratio suggests that land again may be a good investment.