

Trends in North Dakota Farmland Rentals in 1988

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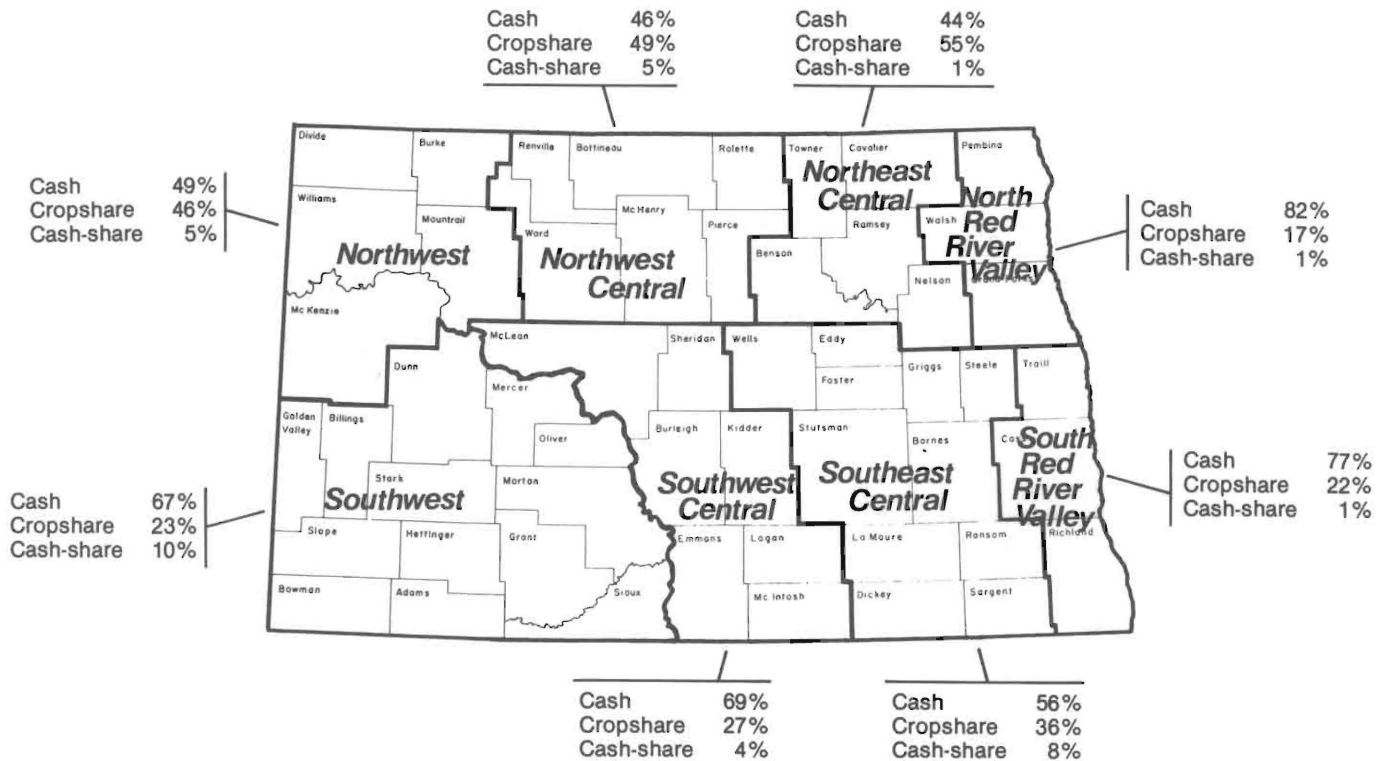
Cash rents in 1988 did not materially change from what they have been for the last three years. Cash rents for wheat/barley land averaged \$28.22 an acre in 1988, \$28.66 in 1987, and \$28.40 in the 1986 study. Hayland average cash rents per acre were \$10.29 in 1988, \$10.70 in 1987, and \$10.10 in 1986. Cash rents per acre for pastureland had the same statewide average of \$8.05 in 1988 as in 1987. Some changes were observed among the eight farming areas.

The land rental market continues to expedite adjustments in the land ownership and resource use markets. It permits using another's resources for an annual charge without incurring purchase contractual liabilities in times of change or

stress. Rental rates measure the strengths of landlords and tenants in relatively local markets. Cash leases continue to dominate in North Dakota with some using cropshare, but specialty crops or use of buildings and pasture and hay land often lead to the combination cash-cropshare arrangements.

The mixture of leasing arrangements of cash, cropshare, and cash-cropshare remains close to the long-term norm among the farming areas (see Figure 1). The state-level blend in 1988 was about 62 percent cash leases, one-third cropshare, and 5 percent cash-cropshare.

The cash lease varies from just under one-half of all leases in the Northwest, Northwest Central, and Northeast Central



State: Cash: 62%, Cropshare: 33%, Cash-Cropshare: 5%

Figure 1. Percent of Farmland Leases by Type in North Dakota in 1988.

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areas to a high of about 80 percent in the Red River Valley. The Valley has potatoes, sugarbeets, and other specialty crops that favor use of cash leases for additional acreages. Land for grazing livestock is often cash leased, often using an animal unit month carrying capacity measure, especially in the Southwest and Southwest Central farming areas.

The cropshare lease dominated in the three northern areas outside of the Red River Valley. It works well with cash grain production. The Southwest and Southeast Central areas had the greatest amount of cash-cropshare leases, both areas having grazing lands.

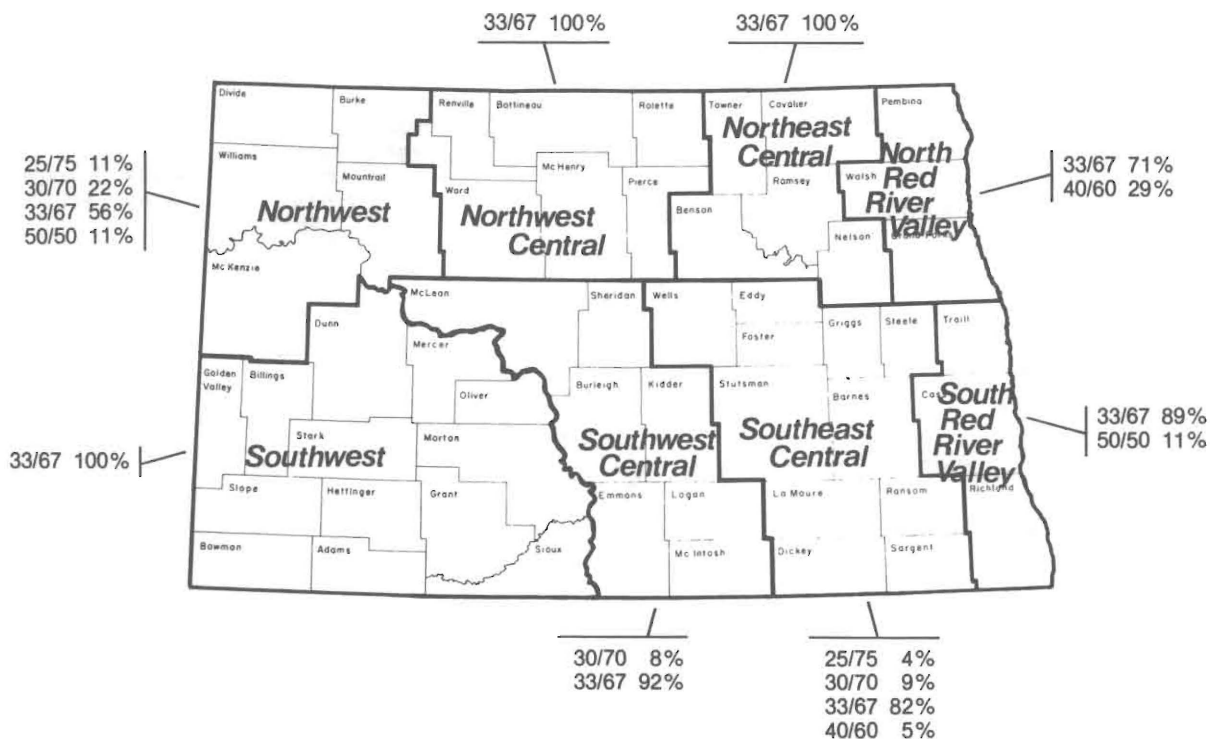
The cropshare lease has declined in use in the South Red River Valley from about half of all leases in the early 1970s to about one-fifth of the leases in the 1980s. It also declined some in use in the North Red River Valley, but it was only about a third of all types in the early 1970s. For the state as a whole, cropshare leasing has declined from nearly one-half of all leases in the mid-70s to a third of the leases in recent years.

Although cropshare leases make up only one-third of all leases, they are very important to many landlords and tenants. These leases permit landlords and tenants to share inputs and products in various combinations, for quite typically these sharing arrangements vary by communities in the state. Cropsharing ratio averages by areas for the more common wheat and barley cropland are shown in Figure 2. Area averages are based on estimates by the cooperators for their service areas and indicate what is generally true in the communities they serve.

The most frequently used cropsharing ratio for wheat and barley land provides for one-third to the landlord and two-thirds to the tenant. Some landlords have several tenants, and some tenants rent land from a number of landlords, often with different sharing arrangements with each. Landlords may share the cost of a new pesticide or crop treatment to encourage its adoption, and sometimes these sharings become the norm in the community.

The one-third/two-thirds cropsharing lease arrangement makes up 86 percent of all cropsharing leases for wheat and barley land in North Dakota. It dominates in all farming areas, with other combinations appearing in the Northwest and Southeast Central areas. The specialty crops in the Red River Valley would introduce more variations. The 50/50 share lease, with its near alternative the 40/60 combination, indicates that landlords are sharing inputs and demanding more returns from their more valuable lands. It takes good pencil pushing by the tenant to assure that he is going to get a good reward for the share of the crop he's paying the landlord for use of that land.

The Southeast Central area is a transitional farming area, growing a wider range of crops plus livestock in its grazing areas. It includes much of the irrigated cropland of North Dakota with its specific sharing arrangements. The area does not have the rich soils of the Valley but does have a long growing season.



State: 33/67: 86%, 25/75: 2%, 30/70: 6%, 40/60: 1%, 50/50: 4%

Figure 2. Percent of Cropshare Leases by Sharing Ratios for Wheatland, 1988.

AVERAGE CASH RENTALS PER ACRE

Cooperators provide estimates of average cash rents paid for hayland, pastureland, and wheat/barley lands in their service areas. The severe drought of 1988 resulted in more rent variability within farming areas than was apparent in other years, especially in rentals of hay and pasture lands. The statewide average pastureland cash rent in 1988 is unchanged from the 1987 study (Figure 3).

Individual rental estimates of the cooperators are averaged within each county and then weighted by the acres of land in farms in each county to create the area averages. The range in estimates by respondents from the lowest to the highest is presented to indicate the variations in rents in each farming area.

Hayland tracts rented for cash have fluctuated at the state level from a 14-year high of \$12.62 an acre in 1982, to a recent low of \$10.10 in 1986, up to \$10.70 in 1987, and down a bit to the current average of \$10.29 an acre. Hayland rent increases in 1988 were observed in all farming areas but the Northeast Central and Southwest areas. The Northeast Central area averages have varied in recent years, probably due to changing weather and economic conditions and to a varying group of respondents. The Northwest and Northwest Central averages for hayland have varied less than 50 cents an acre during the last four years.

Cash rents for pastureland tracts gradually rose statewide from \$7.76 an acre in 1975, to \$10.15 in 1983, declined to \$8.05 an acre in 1987, and did not change in 1988. Average pastureland cash rents have gradually risen in the last three years for the Northwest and Northwest Central areas. The Southeast Central pastureland cash rent averages changed little--from about \$8.65 an acre in 1986 and 1987 to \$9.11 in 1988.

Cropland rented for cash is measured in terms of rented wheat/barley land. The statewide average for cash rented wheatland was \$28.20 an acre in 1988, down 44 cents from the 1987 average of \$28.66, and down 18 cents an acre from the 1986 average.

Average wheatland cash rents in the Northwest area rose from \$19.14 an acre in 1987 to \$24.62 in 1988, and also greatly increased in the Northwest Central area from \$21.63 in 1987 to \$24.72 an acre in 1988. The Northwest average is a rebound from the declines of the last two years. The range from the lowest to the highest rents per acre also increased in both farming areas in 1988.

Both the Southwest and Southwest Central areas showed small declines in average rents for wheatland in 1988. The range in low to high rents did not change in the Southwest and only rose a dollar on the high end in the Southwest Central area in 1988. The Northeast Central area has been

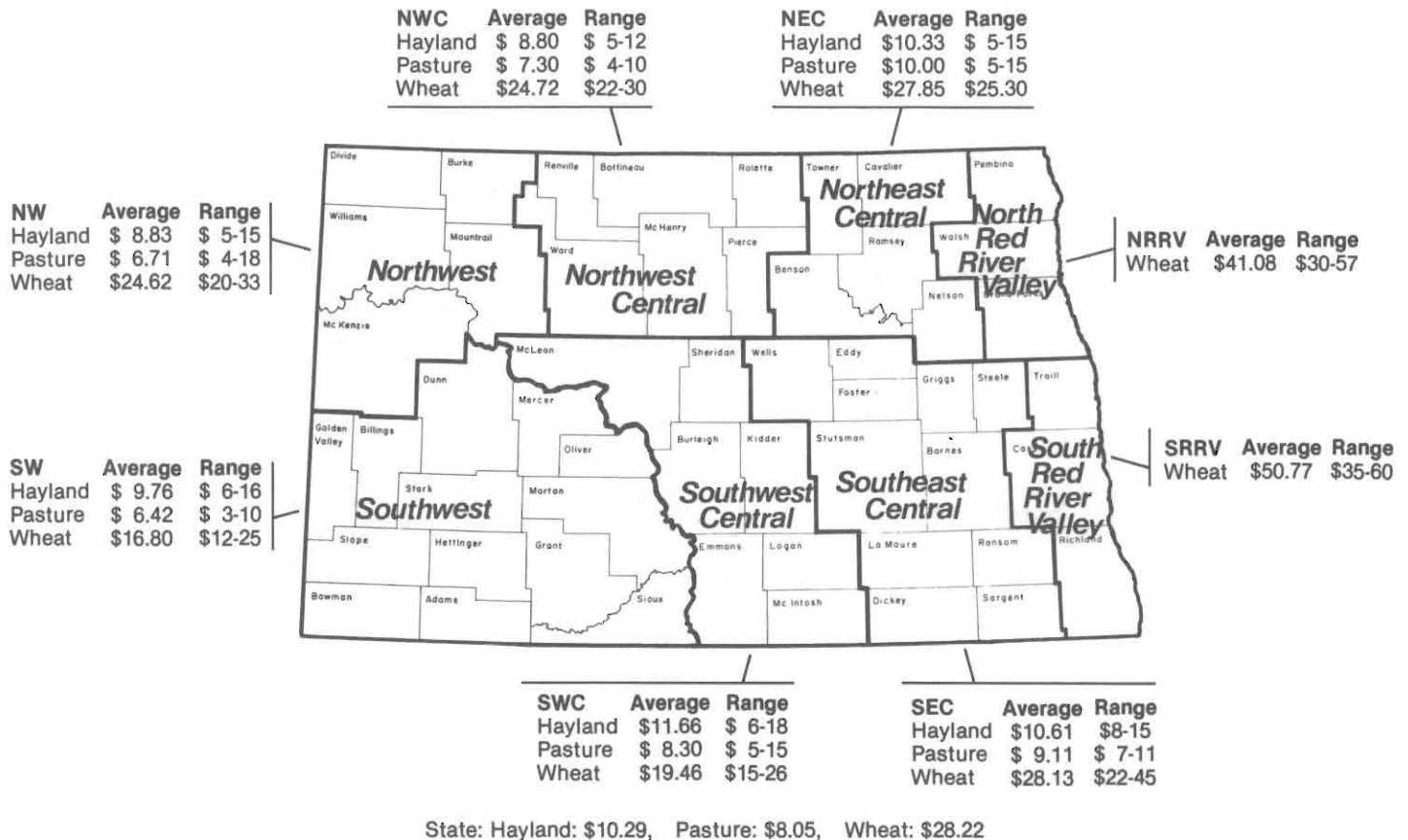


Figure 3. Average Cash Rents Per Acre for Hayland, Pastureland, and Wheatland and the Ranges in Estimates for Eight Farming Areas, 1988.

showing a slow decline in wheatland cash rents the past six years to the current low of \$27.85 an acre. Wheatland cash rents in the Southeast Central area at \$28.13 showed a small increase from the previous year, so the decline from the high of \$36.64 in 1982 may have ended.

The two Red River Valley areas have shown a weak trend toward lower cash rents for wheatland in the last five years but also display more fluctuations than do the other farming areas. The changing demand for and increased production of specialty crops, especially potatoes and sugarbeets, probably induced greater fluctuations in the North Valley wheatland rentals in 1988. In contrast, average cash rents for wheatland rose over \$2 an acre in the South Red River Valley area, and the range in estimates widened in 1988.

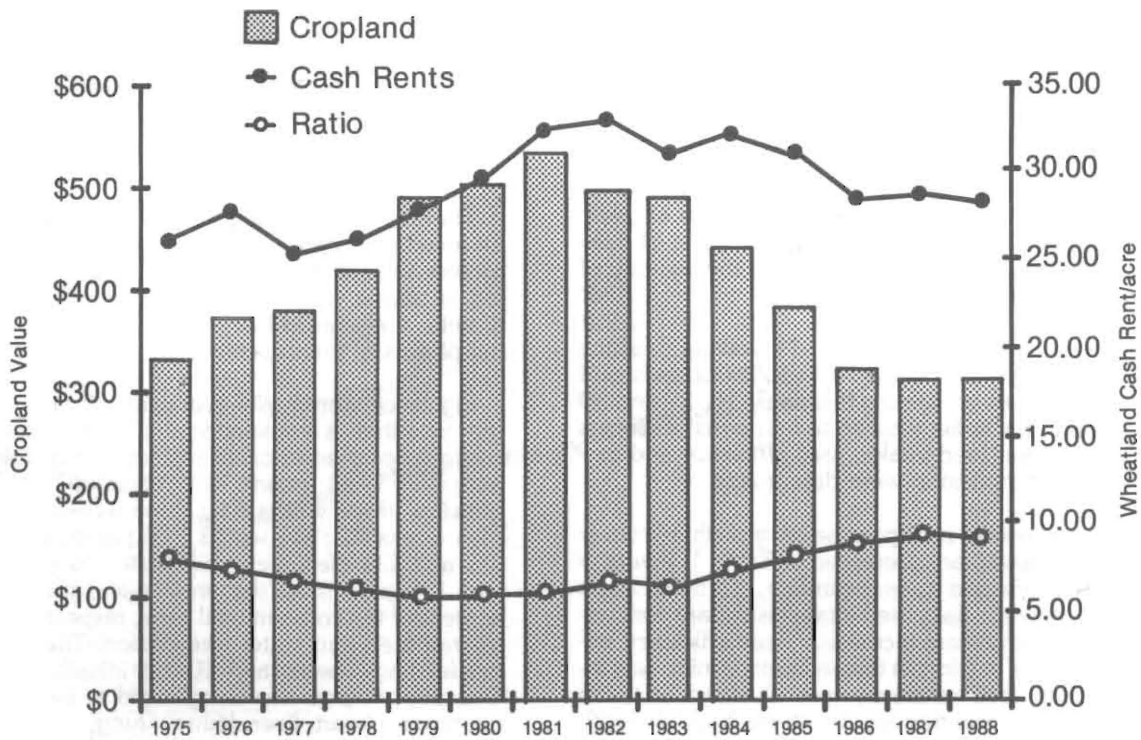
RATIO OF CASH RENTS TO CROPLAND VALUES

The recent 14-year period of the rise and fall in cropland values is characterized in Figure 4. Measured by column heights, the average cropland values per acre for the state are marked on the left vertical axis. The right vertical axis is used for two items: the average state wheatland cash rents per acre in the upper line and the calculated ratio of those cash rents to cropland values per acre in the line within the

columns. Cash rents for wheatland moved from a low of \$25.40 in 1977, to a high of \$32.97 in 1982, to the 1988 average of \$28.22 an acre.

The ratio of rents to cropland values presents a declining curve from 1975 through 1980, strongly rising ratios from 1984 to 1987, and then the ratio declined to 9.04 in 1988. The ratio of 7.92 in 1975 dipped to a low of 5.71 in 1979 and then climbed to the 9.25 high in 1987. The 1987 state average cropland value was \$310 and wheatland rents averaged \$28.66. The 1988 market obtained a small increase in cropland values to \$312 an acre, while average rents declined a bit to \$28.22 an acre for a ratio of 9.04. The 1987 and 1988 ratios are clearly above all ratios for the previous 12 years and have strengthened the interest in buying farmland by active farmers, businessmen, and some investors.

Average cropland values per acre for the state dropped a total of 41 percent from their high of \$533 in 1981 to \$312 in 1988, which includes a small increase from the 1987 average of \$310 an acre. State wheatland cash rents peaked at \$32.97 in 1982, up a bit from their \$32.30 average in 1981, but signifying that rents only declined 14.5 percent from their 1982 high to their current average. This would indicate that the rents rose as the rental markets were used by those hesitating to buy and many others needing to expand but without incurring the risks of purchasing while land values were declining or still not at the bottom.



Note: Cash rents per acre and the ratio of rents to values are plotted on the right vertical axis.

Figure 4. Average Cropland Values, Average Wheatland Cash Rentals Per Acre, and the Ratios of Rents to Cropland Values, North Dakota, 1975-1988.