TRENDS IN 1984 NORTH DAKOTA FARMLAND LEASING PATTERNS

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The cash lease continued in 1984 as the most commonly used type of farmland lease in North Dakota. A recent mail survey drew 125 reports on rental arrangements and lease rates throughout the state. Most reporters were real estate brokers or county supervisors of the Farmers Home Administration, plus some attorneys and other knowledgeable persons. The data were coded and tabulated for averages or percentages and ranges in estimates for the eight farming areas of the state.

The most commonly used rental arrangements are presented in Figure 1. Cash leases dominated in six of the eight farming areas, from a high of 78 percent in the North Red River Valley to 54 percent in the NE Central area. Cash leases came in second in the Northwest and NW Central farming areas.

The crop-share lease is foremost in the Northwest and NW Central farming areas, and it came in second in all other farming areas. "Cash/crop-share" leases appeared most frequently in the South Red River Valley and Northwest farming areas, closely followed by the SE Central area.

Looking further at the crop-share leases for wheat land, the various sharing ratios are presented in Figure 2. The most common sharing was one-third to the landlord and two-thirds to the tenant. The one-third landlord share was clear of costs in most cases, but in some leases the landlord shares or pays some costs.

The one-third/two-thirds crop sharing arrangement for wheat dominated in all farming areas. Leasing arrangements providing somewhat more return to the tenant are evident in the Northwest and Southwest farming areas. The NW Central and SW Central farming areas used the traditional one-third/two-thirds rental arrangement.

The eastern half of the state showed the emergence of other sharing ratios for wheat land. The two northern areas, the NE Central and North Red River Valley, used the 50-50 sharing ratio for about 10 percent of the leased wheat land. The SE Central area has commonly used a wider range of sharing ratios. It is a transitional farming area, growing corn for silage and grain and other crops where the landlord and tenant have agreed upon various leasing arrangements.

The two Red River Valley farming areas produce specialty crops such as potatoes and sugarbeets, which require different sharing arrangements. Yields are higher, and competition from potatoes, sugarbeets, and other crops introduces more variations in the lease market. Landlords alter the traditional sharing arrangement, either sharing less in the 30/70 arrangement or more by using the 50-50 lease.

Average Cash Rentals

Average cash rents per acre were calculated for wheat or barleyland, hayland, and pastureland. Cash rental averages and ranges for the eight farming areas of the state are presented in Figure 3. The Red River Valley has too little hay or pastureland to develop meaningful averages for these two farming areas.

Statewide average cash rental for wheat and barley cropland was $32.14 in 1984, compared to $31.00 in 1983, $32.97 in 1982, and $32.30 per acre in 1981. These averages show real strength in the leasing market, in contrast to the declines shown in real estate values.

Wheat land rentals per acre for the past four years show a trend of rising rentals in the two Red River Valley areas and SW Central farming area. These rentals appear to have eased downward in the NE Central and SE Central farming areas. They have changed little in the Northwest, NW Central, and Southwest farming areas over the last four years, although land values have fallen.

Average hayland rental rates per acre held firm in 1984, as they have over the last four years. Only in the NE Central area has there been some downward adjustment. The state average hayland rental rates were $12.67 per acre in 1981, $12.62 in 1982, $12.91 in 1983, and $12.04 in 1984.

The average pastureland rental per acre for the state was $9.25 in 1984, compared to $9.77 in 1981, $10.15 in 1982, and $8.65 in 1983. Rentals in several farming areas display patterns similar to that of the state averages. Average pastureland rentals have trended

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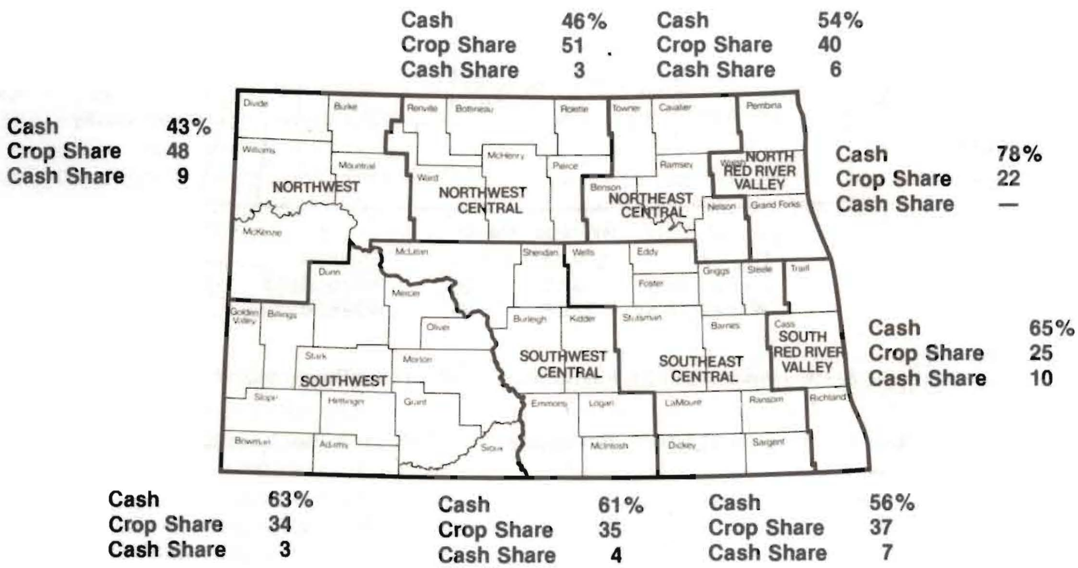
downward in the NE Central farming area, although pastureland value increased in this farming area in 1984.

The results obtained for the rental market in 1984 are quite similar to those observed during the last four years. Although land values have declined since the fall of 1981, the rental market shows great strength and stability. The rental market serves both landowners and expanding operators well.

Operators can adjust the size of their farm operating unit readily by leasing land in or out. Expanding farm operators can inexpensively try operating a larger farm without incurring the high interest costs that go with buying farmland. The lease payment gives the tenant access to and use of much land for a relatively low cost.



State: Cash 60%, Crop Share 35%, Cash/Crop Share 5%

Figure 1. Percent of Farmland Leases by Type, 1984

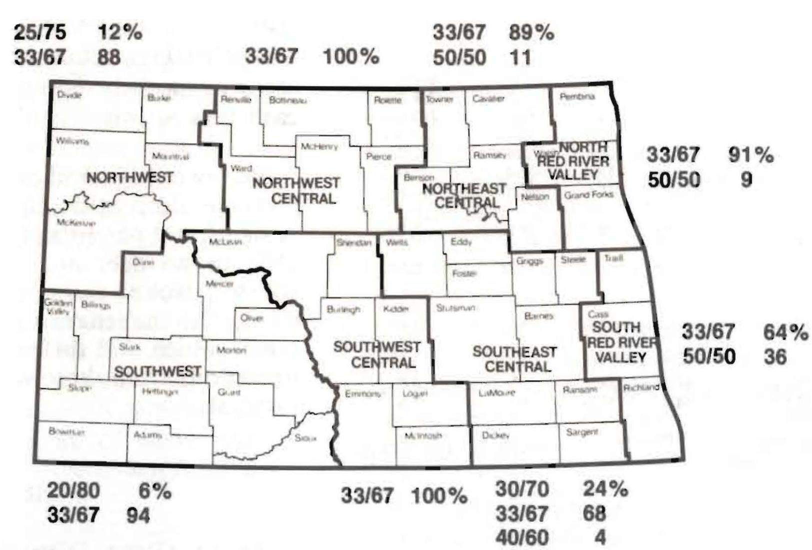


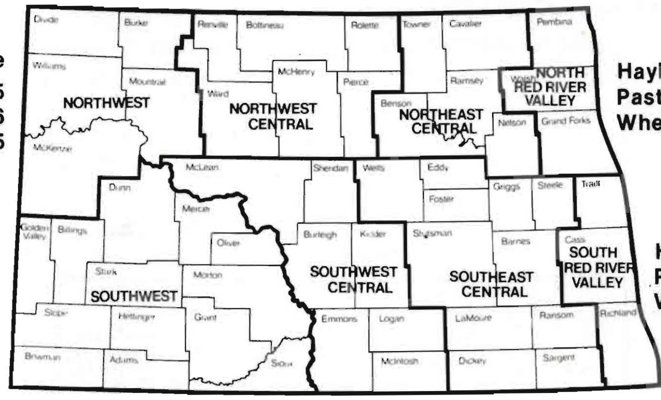
Figure 2. Percent of Crop-Share Leases Reported For Wheat Land, 1984

Northwest Central	Average	Range
Hayland	$ 9.66	$ 7-12
Pastureland	8.90	7-15
Wheat/Barley	25.70	25-30

Northeast Central	Average	Range
Hayland	$11.42	$ 5-20
Pastureland	8.50	5-11
Wheat/Barley	33.00	25-37

Northwest	Average	Range
Hayland	$ 8.83	$ 5-15
Pastureland	5.16	5- 6
Wheat/Barley	20.62	15-25

North Red River Valley	Average	Range
Hayland	$ NA	
Pastureland	NA	
Wheat/Barley	52.25	$40-70



Southwest	Average	Range
Hayland	$12.94	$ 6-20
Pastureland	7.05	3-10
Wheat/Barley	18.11	14-24

South Red River Valley	Average	Range
Hayland	$ NA	
Pastureland	NA	
Wheat/Barley	57.50	$40-70

Southwest Central	Average	Range
Hayland	$ 9.64	$ 7-15
Pastureland	9.12	6-20
Wheat/Barley	22.06	15-35

Southeast Central	Average	Range
Hayland	$14.14	$ 8-23
Pastureland	10.92	8-20
Wheat/Barley	32.75	25-45

State: Hayland $12.04, Pastureland $9.25, Wheat/Barley $32.14

Figure 3. Average Cash Rent Per Acre for Hayland, Pastureland, and Wheat/Barley Land and the Ranges in Estimates for Eight Farming Areas in 1984

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Table 7. Average Farm Financial Position by Number of Years Respondents Indicate They Will Be Able to Farm

		Number of Years Able to Farm			
Item	Unit	One Year or Less	2-5 Years	6-10 Years	Until Retirement
Complete Reports[1]	(#)	167	542	109	465
Percent of Farmers		13.1	42.5	8.4	36.0
Assets	($000)	421.0	408.0	397.0	447.0
Real Estate	($000)	296.0	274.0	265.0	298.0
Nonreal Estate	($000)	125.0	133.0	132.0	149.0
Liabilities	($000)	263.0	157.0	150.0	73.0
Real Estate	($000)	172.0	102.0	106.0	46.0
Nonreal Estate	($000)	91.0	55.0	44.0	27.0
Equity	($000)	158.0	251.0	247.0	374.0
Debt/Asset Ratio		0.62	0.38	0.38	0.16
Real Estate Debt/ Total Debt Ratio		0.65	0.65	0.71	0.63
Income from Non-farm Sources	(%)	10.2	12.6	10.5	12.8
Delinquencies[2]					
Real Estate	(%)	41.2	14.1	3.7	2.8
Nonreal Estate	(%)	54.7	23.0	5.5	2.6

[1] Complete reports include asset and debt information.

[2] Percent of all operators, not just borrowers.

analysts have advocated that the situation requires an infusion of equity into the farm sector to restructure existing debt and finance it at interest rates consistent with the current level of farm earnings. This may require some form of governmental intervention due to the size and scope of the farm debt problem. Interest rate reduction schemes offer relief for some financially stressed farmers. The survey indicated that a substantial amount of delinquency is related to nonreal estate debt. A reduction of currently high interest rates will likely have a beneficial impact on a significant segment of the farm sector, especially farms which can generate a positive cash flow at somewhat lower interest rates.

Survey data do indicate that a wide variety of financial conditions exist among farm operators in the state. A significant percentage of the farmers responding have little or no debt and are, therefore, not financially stressed. Not all farms will survive the current financial crisis. The challenge to policymakers is to develop programs which will differentiate potentially viable farm operations from those which have a low probability of survival.

References

Pederson, Glenn, Diane Bertelsen, and Michael Janke. "A Financial Profile of North Dakota's Farm Sector." **North Dakota Farm Research** Vol. 42(1), July/August 1984.