

# Cash Rents Continue Adjusting

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Cash rents per acre in North Dakota for 1990 continued near levels observed during the past five years. The 1990 statewide average cash rent for wheat or barley land of \$28.13 an acre is within the last five-year range of values: 1989: \$28.71, 1988: \$28.22, 1987: \$28.66, and 1986: \$28.40. Cropland rents have changed in many North Dakota localities in recent years due to good rainfall and some commodity prices (like potatoes and sugarbeets) or the lack of rainfall, but this study does not have a sufficiently strong database to measure some small area changes. A 2 percent increase in state average cropland values in 1990 yielded a decline in the ratio of cash rents to cropland values.

The 105 respondents who provided information on farmland values and sales in 1990 also estimated cash rents per acre for hayland, pastureland, and wheat or barley lands in their service areas. Respondents were mostly farm real estate brokers and county supervisors of the Farmers Home Administration.

Average hayland cash rents in North Dakota in 1990 show virtually no change, from an average of \$11.51 per acre in 1989 to \$11.47 an acre in 1990. Average hayland cash rents have ranged from a high of \$12.62 an acre in 1982 to a low of \$10.10 in 1988 and to a current plateau of about \$11.50 an acre in 1990.

North Dakota pastureland average cash rents rose again in 1990 from an average of \$9.09 an acre in 1989 to \$9.25 per acre in 1990. Good livestock prices, along with a measure of underlying support from the CRP program across the state and from improved oil revenues in western North Dakota, increased buyer optimism and both pastureland prices and rents in some localities. Many respondents also commented that the lingering drought created the need for more acreage to operate while the CRP program reduced the number of rentable acres. These factors, added to the uncertainty concerning the 1990 farm bill and lack of credit, created a reluctance to act among buyers.

Low rainfall in many areas across the state in 1988, 1989, and again for some in 1990 caused some farmers with the economic means and incentives to expand acres rented or to purchase land if they needed it. The older and often the more prosperous farmers were a strong force in both the land purchase and rental markets in 1990. Many felt that farm operators would rather rent than purchase additional land at this time.

The farmland rental market facilitates adjustments in the use of land resources, letting the tenant control land for a small annual charge. But many landlords prefer cash leases, demanding the full cash payment, often at top rental rates, at contract time so that the tenant pays an amount equivalent to the share rental while bearing the uncertainties of weather and price risks. The CRP program has reduced the amount of land available for purchase or rent but, like other federal income support programs, has enabled some farmers, facing a credit squeeze or cashflow bind, a chance to farm another year and has given other farmers the needed resources with which to buy land. In ordinary years, the CRP and similar forces would have increased both pastureland rental rates and land prices, but the uncertainties and the effects of low rainfall have prevailed in the rent-determining markets.

The mixture of leasing arrangements of cash, cropshare, and cash-cropshare showed a continued adjustment toward cash rents in 1990 (Figure 1). Because multiple-peril crop insurance has involved more paperwork in cropshare arrangements, some have returned to the cash lease. Many landlords with rented property as their major income source place a heavy premium on the certainty of income that the cash lease assures. Others feel that they cannot manage the desired crop combinations and rotations but can obtain information on cash rental rates from friends and public sources to support their use of the cash lease.

Figure 1. Percent of farmland leases by type, North Dakota, 1990.

Cash	60%	61%	70%	74%
Cropshare	34	36	28	16
Cash-Cropshare	6	3	2	10



Cash	65%	70%	62%	74%
Cropshare	32	26	33	24
Cash-Cropshare	3	4	5	2

State: Cash 66%, Cropshare 29%, and Cash-Cropshare 5%.

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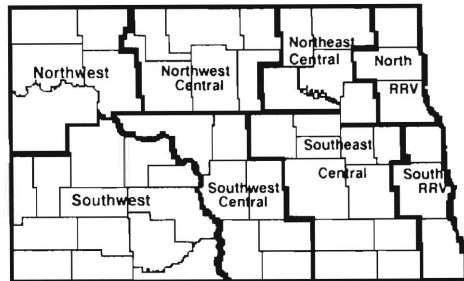
The state distribution of lease types shows the strength of cash leasing is fairly uniform in all farming areas across the state with high percentages in the specialty crop areas of the North and South Red River Valley. The two Valley areas grow a combination of potatoes, sugarbeets, and other specialty crops that encourage the use of cash leases for the additional acreages operated and may increase as irrigation expands. The proportion of cash leases in recent years has increased substantially in the Southeast Central, Southwest Central, and Northwest farming areas.

Among the eight farming areas, the Northwest area had reported a decline in cash leases in 1989, but the proportions among lease types for 1990 is closer to that area's long-term trend. The cash-cropshare lease has an advantage where both farmland and buildings are rented or where some specialty crops are grown in a mixed enterprise system.

Many landlords and tenants favor cropshare leases for sharing both the inputs and products in various combinations. These sharing ratios vary with cropping alternatives and communities across the state. Such cost sharing can favor certain farming practices thought to be advantageous to the long-run health of land, or can encourage or avoid the use of certain chemicals or other cultural practices. Cropsharing ratios for wheatland by farming areas are presented in Figure 2. These area averages were calculated from estimates of respondents for their service areas or counties and indicated what is generally believed to be true for the communities they serve.

**Figure 2. Percent of cropshare leases by sharing ratios for wheatland, North Dakota, 1990.**

25/75:			20%	
30/70:			10	
33/67:	89%	100%	60	100%
40/60:	11			
50/50:			10	



25/75:	18%			
30/70:	6	27%	29%	14%
33/67:	76	73	63	58
40/60:			8	14
50/50:				14

State: 25/75: 5%, 30/70: 15%, 33/67: 75%, 40/60: 3%, 50/50: 2%.

The most commonly used cropsharing ratio for cropland distributes one-third of the return to the landlord and two-thirds to the renter. Many landlords rent to more than one tenant and many tenants serve several landlords, each with different arrangements of rent that have voluntarily been agreed upon because of the differing soils, crop combinations, and economic conditions. Economic incentives often encourage certain soil conservation, wildlife enhancing, or erosion reducing practices.

The one-third/two-thirds sharing arrangement prevailed across the state at 75 percent of all cropshare leases for wheatland in 1990, with the highest proportions in the Northwest Central, North Red River Valley, and Northwest farming areas. The 30/70 ratio was strong in the transitional Southeast Central and Southwest Central farming areas, where warm summers permit the growth of a wide range of crops.

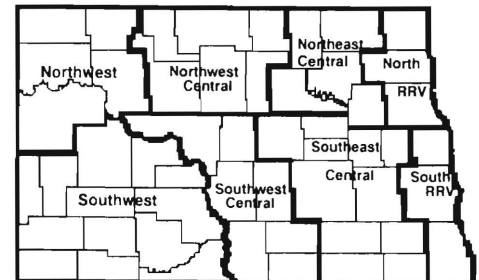
The South Red River Valley area uses both 40/60 and 50/50 sharing leases for the production of a mixture of specialty crops. Some of these ratios were observed in the major irrigation areas in the Southeast Central farming area and along the Missouri River in its northern stretches. The transitional Southeast Central area has a long growing season and a wide range of crops plus livestock grazing.

### AVERAGE CASH RENTALS PER ACRE

Respondents estimated average cash rents paid per acre for hayland, pastureland, and wheatland, which are treated to create farming area averages as shown in Figure 3. The 1990 average hayland rental for the state of \$11.47 did not change from the 1989 estimate of \$11.51 and remained within the averages reported for the last five years. Hayland cash rentals decreased an estimated 6 to 10 percent in the Northwest, Southwest, and Northwest Central farming areas in 1990, showing the effects of slightly better growing conditions for hay in 1988 and 1989. The Northeast Central area increased \$2 an acre in 1990 while the Southeast Central area rose nearly a dollar an acre, but the estimates for these two farming areas tend to fluctuate from year to year.

**Figure 3. Average and range of cash rents per acre for hayland, pastureland, and wheatland for the eight farming areas, North Dakota, 1990.**

	Avg.	Range	Avg.	Range	Avg.	Range	Avg.	Range
Hayland	\$ 9.33	\$ 6-12	\$ 8.72	\$ 7-11	\$13.00	\$ 5-25		
Pastureland	\$ 7.66	\$ 5-10	\$ 8.36	\$ 6-11	\$10.71	\$ 5-25		
Wheatland	\$19.28	\$15-23	\$25.00	\$22-30	\$27.00	\$22-40	\$44.00	\$38-48



	Avg.	Range	Avg.	Range	Avg.	Range	Avg.	Range
Hayland	\$10.62	\$ 8-17	\$11.69	\$ 8-15	\$12.26	\$ 8-15		
Pastureland	\$ 7.37	\$ 5-10	\$ 9.14	\$ 6-15	\$10.40	\$ 8-15		
Wheatland	\$17.82	\$12-25	\$21.92	\$18-28	\$30.57	\$23-47	\$52.85	\$35-65

State: Hayland: \$11.47, Pastureland: \$9.26, Wheatland: \$28.13.

The state average pastureland cash rental increased an estimated 2 percent to \$9.26 per acre in 1990 and appears to be part of a continuing upward trend since the low average of \$7.54 an acre in 1986. Pastureland values in the state have risen an estimated 10 percent since 1988, so increased rents are expected.

Estimated cash rents per acre to grow wheat, the most widely grown crop in the state, is used to measure changes in cropland rentals for North Dakota in this study. Both annual number of acres in each wheat-producing county and average returns per acre during the last 12 years have fluctuated greatly.

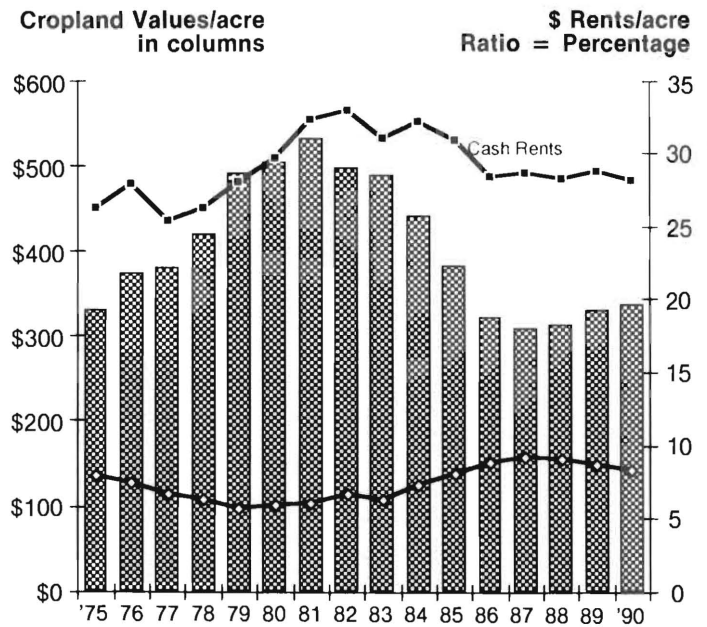
The state average cropland cash rent per acre changed little during the past five years, although average cropland values are up nearly 10 percent since 1987. Average cash rents for cropland in 1990 decreased in four farming areas, didn't change in two, and increased only in the South Red River Valley and Southeast Central farming areas. The declines probably reflect the pervasive effects of several years of low rainfall across much of the state.

Low rainfall impacted some areas of the North Red River Valley in 1990, similar to 1988. The South Valley showed signs of drought in both 1987 and 1989. But many localities in the four western farming areas had drought for one, two, and three years, causing great variations in crop incomes. Disaster, deficiency, and other government payments, plus the rising transfer payments of the Conservation Reserve Program, supported the agricultural economy of the state. Many farmers continued farming or ranching for another year because of the federal assistance. The energy industry also supported both land values and rents.

### RATIO OF CASH RENTS TO CROPLAND VALUES

The 16-year history of the rise, fall, and recovery in cropland values for the state is presented as columns in Figure 4, and are measured as dollars per acre on the left-hand scale. North Dakota cropland values peaked at an average of \$533 per acre in 1981, declined to \$310 in 1987, and rose to \$313 in 1988, \$330 in 1989, and \$337 in 1990.

**Figure 4. State average cropland values and wheatland cash rentals per acre and the ratio of rents-to-value, North Dakota, 1975-1990.**



The top line presents the state average cash rents for wheatland, measured in dollars per acre on the right-hand scale, which also is used to measure the ratio of average cash rents per acre to wheatland values, with the ratio displaying a low of 5.7 in 1979 and a high of 9.25 in 1987. The small increase in land values for the past three years with little change in cash rents has driven the ratio down to 9.0 in 1988, 8.7 in 1989, and 8.35 in 1990.

The rent-to-value ratio is a measure of the gross return the landlord receives from the farming operations on his land. The ratio is the estimated annual rent paid for wheatland, as measured in this study, divided by the market value of that cropland. Rent-to-value ratios vary because land values rise and fall more quickly than do rents as landowners change expectations of returns.

Higher rents are paid for irrigated lands or those with higher net returns. Lower rents are paid for rangelands. Lands producing higher valued crops tend to have higher rents and higher values.