Study Shows Kansas Cropland, Pasture Values Higher than Traditional Reporting Methods Indicate part 2

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Cropland Rental Rates Also Understated

Last weeks article focused on cropland and pasture values. This week, we will look at the study findings pertaining to the cash rental rates.

A separate part of the study that looked at cash rental rates also indicated that USDA-KAS estimates are significantly lower than cash rent estimates using a method of calculating revenue from a crop share arrangement. The decision aid used to guide the latter is the KSU-Lease.xls Excel spreadsheet.

"As with crop and pasture land values, many people want to know how recent changes in both the land and commodity markets have affected rental rates for cropland," K-State's Taylor said.

Historically, the ratio of cash rent-to-land value (rent-to-value ratio) has been in the range of 5 to 7 percent, she said. This ratio indicates the annual return landowners can expect on their capital investment from renting land out, excluding capital gains. If that relationship still holds, then a state-level estimate for non-irrigated cropland of $2,516 per acre would imply cash rental rates ranging from about $126 to $176 per acre.

"That leaves a large amount of negotiating room for landowners and tenants," Taylor added, which prompted the economists to use another method. Rather than targeting a particular rate of return on non-irrigated cropland, which may or may not reflect the productivity of the land or current crop prices, cash rents were estimated using a method of calculating revenue from a crop share arrangement.

A comparison of the rental rates from USDA-KAS and those estimated using the KSU-Lease.xls crop share approach adjusted for risk reveals the USDA-KAS estimates are significantly lower – as much as 71.6 percent in the Southwest CRD and 57.4 percent in the Central CRD.

The higher rental rates estimated by Taylor and Dhuyvetter reflect current grain prices, which have been strong. However, any changes in either expected commodity prices or yields (from a continuation of the drought, for example) will alter the rental rate estimates.

"The most important part of negotiating equitable rental rates is to recognize that market and production conditions may change quickly, making continued communication essential to long-term profits for both farmers and landowners," Taylor said.