

# Cash rent still frustrating



**My Generation**  
By HOLLY SPANGLER

**I**NK bearing the phrase “\$300 cash rent” was barely dry on the pages of farm papers this winter when the calls and e-mails began rolling in.

The figure appeared on these pages, where I discussed it last month, and in the farm sections of various local papers. Before long, reports trickled in of landlords appearing on their tenant’s doorstep, the paper under their arm.

Tenants complained that their landlords read just enough to see that someone else might be getting more than them, then stopped reading in their rush to re-negotiate and missed the part about three years of tight margins, or the part about why \$3 corn may not be here to stay.

Other stories were discussed at farm meetings, where nervous growers vented frustration — occasionally later directed at farm magazine editors — because they’re tired of landlords wanting so much more money this year, but yet aren’t interested in share rent because they don’t want any risk.

Landlords had plenty to say, as well. Some wrote of choosing relationships over returns. Others went for both, choosing to get just enough return to make the farm payment with interest, while still renting for a reasonable price to someone with whom they valued a good relationship. Those are the kinds of folks you hope to do business with someday.

## Rate of return

One former farmer and now farm owner wrote that because labor input has lessened over time, the “50-50 crop share is from another time in farming.” He goes on to say that from a landowner’s point of view, higher land values increase his opportunity cost, and therefore require

## On the web

**F**OR more detailed budgets on other crops, and in other rotations and soil productivities, visit [www.farmdoc.uiuc.edu](http://www.farmdoc.uiuc.edu) or [www.agecon.purdue.edu](http://www.agecon.purdue.edu).

a higher cash rent. To guarantee 4% return on \$3,000 land, he’d need \$120 per acre, after taxes and insurance. For the same return on \$4,500 land, he’d need \$180 per acre, after taxes and insurance. “Farm land,” he wrote, “is the only investment where the investor is satisfied with a 4% return.”

The counter argument is almost too easy; farmland is by nature (and by Mother Nature) an elastic market, though the past few years are a poor example of that. While crop insurance and government payments help, there are real risks in farming, much less a guaranteed 4% annual return. If you’re looking for guaranteed year-in-and-year-out returns during your retirement, don’t bank on farming.

The most common protest landing both at my desk and apparently at those of ag economists was that landowners don’t understand the cost of putting out a crop. In some cases, the tenant doesn’t either, choosing to count only variable costs, while farming away their equity and equipment. Ag economists like Craig Dobbins at Purdue University are fielding questions from owners and tenants who are taking a closer look at rental agreements.

## By the budgets

Dobbins admits that according to Purdue’s annual budgets, if farmers do a full costing, including return to land, labor and machinery replacement, there is not and typically never has been much profit in being average. The answer from his economist standpoint is that you have to be better than average to survive. This will not come as news to many of you.

What may be surprising is how tough margins really have been. The period from 2004-06 was marked by such slim margins that going into 2006, a reasonable comparison could be made to the \$8 hog year.

“Margins were tight heading into ‘06, with low crop prices and higher inputs,” Dobbins explains. Between 2004 and 2006, prices jumped in nitrogen, fuel and fertilizer, yet rents did not go down. The tenant’s share of the income declined significantly during that time period.

For many, high prices of this past fall presented the opportunity to make up for some of those tight margin years.

Three-dollar corn meant a chance to catch up. Yet a substantial part of the ‘06 crop was already sold at \$2.50 to \$2.70. Higher rents — especially so quickly — won’t let those farmers catch up.

What will it take to turn the tide? That’s where the story gets sticky.

Dobbins says the last time we saw a big jump in prices was in the early 1970s, and rents went up 20% to 25% annually. He thinks we could see that again. And history reminds what it took to turn it all around: the ‘80s.

Dobbins says it best: “If that’s what it takes to drive rents down, I’m not sure we ever want to go there again!”

Amen, brother.

## A look inside crop budgets

University of Illinois  
2007 crop budgets for high-productivity soil

	Corn after soybeans	Soybeans after corn
<i>Yield per acre</i>	180	53
Price per bushel	2.75	6.25
LDP per bushel	0.00	0.00
Crop revenue	495	331
LDP revenue	0	0
Other government payments	27	27
Crop insurance proceeds	0	0
<b>Gross revenue</b>	<b>\$522</b>	<b>\$358</b>
Fertilizer	73	27
Pesticides	43	32
Seed	46	32
Drying	12	1
Storage	6	4
Crop insurance	8	6
<b>Total direct costs</b>	<b>\$188</b>	<b>\$102</b>
Machine hire/lease	7	5
Utilities	4	3
Machine repair	13	12
Fuel and oil	16	13
Light vehicle	1	1
Machinery depreciation	21	20
<b>Total power costs</b>	<b>\$62</b>	<b>\$54</b>
Hired labor	9	9
Building repair and rent	4	4
Building depreciation	3	3
Insurance	7	7
Miscellaneous	6	6
Interest (nonland)	15	13
<b>Total overhead costs</b>	<b>\$44</b>	<b>\$42</b>
<b>Total non-land costs</b>	<b>\$294</b>	<b>\$198</b>
<b>Return</b>	<b>\$228</b>	<b>\$160</b>

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## Letters

of Illinois on a hill farm is quite different than that on rich prairie land upstate. Even so, arriving at an equitable figure for both of us is a dilemma for me. A variable cash-rent agreement should be beneficial to both parties, but it must be considerate of both tenant and landlord.

**Clark Williams**  
Metropolis

## Simple is best

While enjoying a late-morning cup of coffee yesterday, I decided I needed to work on the pile of magazines that had accumulated during the holidays. I just wanted to let you know I loved your “Little House Christmas” article (My Generation, December 2006, Page

16). While I have never read any of the books, I watched plenty of the TV shows.

I also have done quite a bit of genealogy research, and I am amazed when I think what our ancestors went through. I cannot imagine moving to an unknown country now, let alone a couple of hundred years ago.

Your article made me thankful for what I have; I won’t grumble so much about emptying the dishwasher or doing laundry from now on! Your comment about epidurals had me laughing out loud!

I agree with you that it would sure be nice to make Christmas simpler. Maybe if the stores would wait until after Halloween to bring out the Christmas stuff, it would at least seem simpler. Anyway, I loved the article.

**Rhonda Musgrave**  
Oblong

## Cash-rent consideration

Being a landlord, though quite small by today’s standards, this (cash rent) subject (My Generation, January 2007, Page 12) has occupied a lot of my thinking. Two things aroused my concern: corn prices soaring and a record soybean yield on our farm. We got over 63 inches of rain this year. For years I believed that crop share was a more fair arrangement for both tenant and landlord, but times are different now.

Having had some farming experience, talking to our tenant, as well as reading to try to somewhat keep up with the times, by my nature I find myself thinking about the operator’s situation. I want to keep our operator, so I want him to stay in business. I’m retired; he is still working. Sure, I have taxes, etc., that I have to pay.

Our situation here in the southern tip