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Comparison of Returns for Cash or Crop Share Rentals

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CORNHUSKER ECONOMICS

University of Nebraska–Lincoln Extension

Comparison of Returns for Cash or Crop Share Rentals

Market Report	Yr Ago	4 Wks Ago	6/17/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$87.06	\$88.32	\$83.18
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	131.19	139.28	154.75
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	113.12	118.65	116.86
Choice Boxed Beef, 600-750 lb. Carcass	147.92	156.25	139.63
Western Corn Belt Base Hog Price Carcass, Negotiated	76.04	68.20	69.64
Feeder Pigs, National Direct 45 lbs, FOB	42.36	56.11	49.93
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	80.15	74.71	68.52
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	97.50	109.00	116.00
National Carcass Lamb Cutout, FOB	238.56	251.20	256.56
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.76	3.02	3.02
Corn, No. 2, Yellow Omaha, bu	2.59	1.94	1.98
Soybeans, No. 1, Yellow Omaha, bu	7.35	6.54	7.11
Grain Sorghum, No. 2, Yellow Columbus, cwt	4.11	3.09	3.11
Oats, No. 2, Heavy Minneapolis, MN , bu	1.62	1.61	1.79
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	115.00	115.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	62.50	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	57.50	57.50
* No market.			

The popularity of cash leases as opposed to crop share leases has increased in recent years. Historically, crop share leases have predominated, but it is estimated that about half of the cropland leases in Nebraska are now cash leases and half are crop share. There are a number of reasons for this trend. With the competition for land, cash leases establish a specific rental rate which can easily be negotiated or bid-up. The equivalent cash for a crop share situation cannot be determined until after harvest when the yield and market price of the crop are known. The land owners in many cases, are getting further away from the land and have less familiarity with production practices and grain markets. As a result, many landowners don't want to be involved with selling their grain or with paying a share of the production costs.

The trend raises some questions: How do the returns compare from the landowner's point of view? Are the returns commensurate with the risks involved?

To make a comparison, data was used from the enterprise analyses conducted by the Nebraska Farm Business Inc. over the past 10 years. I compared the equivalent returns for a landowner for share versus cash rentals, based on the selling price of the grain at harvest.¹ Next, these returns, or costs, were compared from the tenant's point of view, with cropland rental rates reported each year in the

Calculation procedures:

¹ The average of the shares reported by the operators was used for share rental calculations.

² It was assumed fertilizer, crop chemical, drying fuel and irrigation energy costs were shared in the same ratio as the yield.

³ The Farm Real Estate survey rate used was an average of the Northeast, Central, East, South and Southeast Agricultural Statistics Districts. For irrigated crops, gravity and center pivot irrigated rates were both included in the average.

⁴ The Farm Real Estate survey does not distinguish between rental rates for corn and soybeans. The NFB enterprise analyses show specific rates for corn and soybeans.

University of Nebraska *Nebraska Farm Real Estate Developments* survey. The table shows the comparison for dryland corn and soybeans, and irrigated corn and soybeans. The bar chart shows the year by year comparisons for irrigated corn.

Comparison of Returns for Cash or Crop Share Rentals by Crop, Nebraska, 1995 to 2004

	Dryland Corn	Irrigated Corn	Dryland Soybeans	Irrigated Soybeans
-----Per Acre-----				
NFB Cash Rent	\$79.52	\$107.52	\$78.73	\$112.43
NFB Net Equivalent Share Rent	61.60	111.51	73.07	112.32
Nebraska Farm Real Estate Survey	67.08	129.20	67.08	129.20

Discussion of Results

Example Comparison of Results for Irrigated Corn from 1995 to 2004, per acre:

Average NFB cash rent paid for irrigated corn cropland - \$107.52

Average NFB net equivalent rent paid for share crop irrigated corn cropland - \$111.51

Average cash rent for irrigated cropland reported in Farm Real Estate Survey - \$129.20

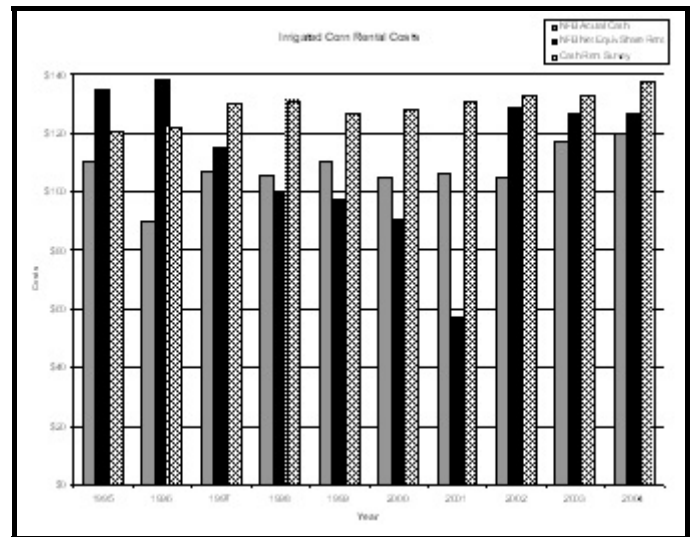
For NFB members who rented irrigated cropland for corn, they paid an average of \$107.52 per acre. The Real Estate Survey showed an average of \$129.20 per acre, when gravity and center pivot land were averaged together for the same period. Over the 10 year period the NFB tenants paid the equivalent of \$111.51 per acre for crop share rentals or \$4 more per acre than they paid for cash rent.

Irrigated soybeans show similar results, except the average cash rent and equivalent share crop rent are almost identical and both are less than the survey results.

Dryland crops are quite different. For both corn and soybeans the average cash rents paid by the NFB members was above the survey rates and were also higher than the equivalent share crop rents. There probably is some variation in land quality which is not accurately reflected in the comparison data.

Conclusions: Cash rentals are essentially risk-free. The tenant bears all the yield and commodity price risks. Theoretically, the equivalent crop share rents should

provide a higher return to the land owner, as part of the risk is being shared with the owner. In this comparison, dryland soybeans was the only situation where a risk premium for share rentals occurred. The NFB crop share rental equivalent of \$73.07 averaged \$6 per acre above the survey market cash rental rate of \$67.08 over the past ten years. The bar chart shows the risk for irrigated corn rental over the past ten years. The equivalent share rents ranged from a low of about \$60 per acre in 2001 to a high of nearly \$140 per acre in 1996. As more land moves to cash rents and those cash rents get bid up, tenants are bearing more and more risk. Business planning of tenants needs to increasingly account for this shift.



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