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Weekly Farm Economics: Share-Rent Landowner Returns Compared to Cash Rents

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August 13, 2013

farmdoc daily (3):154

Recommended citation format: Schnitkey, G. "[Share-Rent Landowner Returns Compared to Cash Rents](#) ." *farmdoc daily* (3):154, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 13, 2013.

Permalink: <http://farmdocdaily.illinois.edu/2013/08/share-rent-returns-compared-cash-rents.html>

Illinois Farm Business Farm Management (FBFM) data were used to calculate returns to share-rent landowners over the period from 2000 through 2012. As expected, share-rent landowners' returns increased since 2006, with returns for high-productivity farmland averaging \$343 per acre in 2011 and \$371 per acre in 2012. These returns were above average cash rents and roughly similar to the average cash rents on professionally managed farmland. This suggests moves away from share-rental arrangements should not be necessarily be based on the expectation of higher returns from cash rental arrangements.

Share-Rent Landowner Returns

Data on share-rent landlord returns are not available. Therefore, share-rent returns were imputed using FBFM data from central Illinois farms. Calculations were based on leases that share 50% of crop returns and 50% of cropping expenses (i.e., seed, fertilizers, pesticides). These 50-50 share-rent leases are common in central Illinois. Share-rent returns do not include charges for property taxes and other landowner expenses. As such, imputed share rent landowner returns are comparable to cash rents. Share-rent returns were calculated for two types of farmland: high-productivity farmland has expected corn yields over 190 bushels per acre while low-productivity farmland has corn yields around 184 bushels per acre.

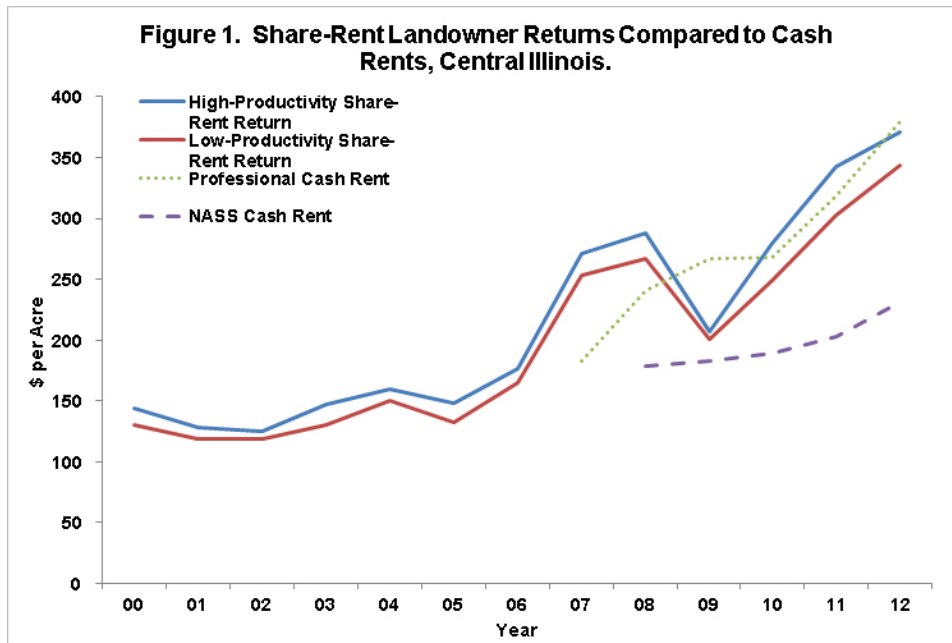


Figure 1 shows share rent returns from 2000 through 2012. From 2000 through 2005, share-rent landowner returns averaged \$148 per acre for high-productivity farmland and \$132 per acre for low productivity farmland. Landowner returns have been higher since 2006. For high-productivity farmland, share-rent returns were \$177 per acre in 2006, \$271 in 2007, and \$288 in 2009, falling to \$207 in 2009. High-productivity returns then increased to \$280 per acre in 2010, \$343 in 2011, and \$371 in 2012. Trends were similar for low-productivity farmland. In 2012, share-rent returns were \$344 per acre on low-productivity farmland.

Comparison to Cash Rents

Average cash rents as reported by NASS increased. Cash rents were \$179 per acre in 2008, \$183 in 2009, \$189 in 2010, \$203 in 2011, and \$231 in 2012. Overall, average cash returns have been below share-rent returns. From 2008 through 2012, cash rents averaged \$197 per acre, compared to share-rent returns of \$298 and \$272 per acre for high- and low-productivity farmland, respectively.

Also shown in Figure 1 are returns on professionally managed farmland as reported by the Illinois Society of Professional Farm Managers and Rural Appraisers (see [here](#) for details here). These rents are available from 2007 through 2012. These rents are the mid-point of cash rents on land with expected yields over 190 bushels per acre and are comparable to share-rent returns on high-productivity farmland. As with all rents for a productivity class, there is considerable range in rents on professionally managed farmland. Some cash rents are significantly higher than these mid-points and some are lower.

Cash rents on professionally managed farmland increased since 2006. Professionally managed cash rents were \$183 per acre in 2007, \$241 in 2008, \$267 in 2009, \$268 in 2010, \$319 in 2011, and \$379 in 2012. These cash rents roughly equal high-productivity share-rent returns. From 2007 through 2012, cash rents on professionally managed farmland averaged \$276 per acre compared to \$293 per acre returns for share rent returns on high-productivity farmland.

Summary

There continues to be a movement away from share-rent leases to cash rental arrangements. While a number of reasons can be given for this switch, one of those should not necessarily be higher returns from cash rental arrangements. Since 2006, during a period of relatively high agricultural returns, share rent landlords received higher returns than the average cash rent as reported by NASS. Share rent landlords had comparable returns to negotiated average cash rents on professionally managed farmland. Of course, many professionally managed acres have higher than average returns, likely following the

desires of the owners of that farmland.

Comparison of share-rent returns to cash rents will be of interest in the next several years. Lower agricultural returns likely will lead to lower cash rents. How fast cash rents will come down is an open question. Share rent returns will react to the market; hence, share-rent returns will closely follow changes in market conditions. Just as share-rent returns moved up since 2006 as a reflection of higher agricultural returns, they will move down when agricultural returns are lower. This characteristic of share-rental arrangement may be an advantage, as renegotiations of cash rents do not have to occur during times of changing agricultural returns. It also could cause share-rent returns to be below cash rents in a declining agricultural return environment.