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## **PERSPECTIVES ON LEASING FARMLAND IN ILLINOIS**

Alternative sources suggest that Illinois farmers own somewhere between 20 to 40 percent of the land they farm. Therefore, Illinois farmers rent the majority of land they farm. They rent this farmland from retired farmers, non-farm investors, and institutional and government agencies. This paper reviews the agreements governing the relationships between farmers as tenants on farmland and landowners as lessors of farmland. This information is useful as farmers and landowners review the leasing arrangements for the coming year.

### **TENURE CHARACTERISTICS**

Data from the Illinois Farm Business Farm Management (FBFM) Association provides insights into leasing arrangements in Illinois. Table 1 contains data summarized from Illinois grain farms enrolled in FBFM. These farms receive the majority of their farming income from grain operations and farm at least 260 acres. This data is representative of commercial grain farms in Illinois.

For the year 2000, farm operators enrolled in FBFM owned 23 percent of the land they farmed, crop shared 47 percent, and cash rented 29 percent (Table 1). For crop share arrangements, farmers and landowners share in the revenue and expenses associated with farming. For cash rent arrangements, farmers pay landowners a cash payment and receive all the revenue and pay all the operating expenses from farming the land.

While there sometimes seems to be the perception that the majority of land leased in Illinois is on a cash rent basis, this data indicates that more farmland is share rented. In Illinois, 47 percent of the farmland is share rented. Over the past five years, however, there has been a slight trend toward cash rental arrangements, with the percentage of farmland cash rented increasing from 25 percent in 1996 to 29 percent in 2000.

The amount of land leased under a crop share or cash rent basis varies by geographic region in the state. In 2000, farmers in northern Illinois cash rented 43 percent of their land and crop shared 36 percent while central Illinois farmers cash rented only 21 percent and crop shared 65 percent. Farmers in the southern part of the state cash rented 22 percent of their land and crop shared 53 percent.

The amount of land owned by farm operators also varies by geographic region in the state. Southern Illinois farm operators own 25 percent of their land while central Illinois operators own only 14 percent.

Operators in northern Illinois own 21 percent. There seems to be a slight trend in farm operators owning less of the land they farm. On a statewide basis, operators owned 25 percent of their land in 1996 and 1997, 24 percent in 1998 and 1999 and 23 percent in 2000. This is probably due to the fact that farms are increasing in size and most of the additional land being farmed is leased rather than purchased.

Table 1. Percentage of land owned, leased and cash rent per acre for Illinois farms.

	1996	1997	1998	1999	2000
Northern Illinois Pure Grain Farms					
260+ acres, 56-100 SPR					
% owned	22	20	21	21	21
% crop shared	41	41	39	35	36
% cash rented	37	38	40	43	43
Cash rent per acre	\$114	\$117	\$120	\$122	\$123
Central Illinois Pure Grain Farms					
260+ acres, 86-100 SPR					
% owned	15	15	16	14	14
% crop shared	68	67	67	66	65
% cash rented	17	18	18	20	21
Cash rent per acre	\$127	\$135	\$136	\$130	\$132
Southern Illinois Pure Grain Farms					
260+ acres, 36-85 SPR					
% owned	27	27	26	26	25
% crop shared	53	51	54	51	53
% cash rented	20	22	20	22	22
Cash rent per acre	\$81	\$80	\$77	\$82	\$85
State of Illinois					
All farms					
% owned	25	25	24	24	23
% crop shared	50	49	49	48	47
% cash rented	25	26	27	28	29
Cash rent per acre	\$110	\$116	\$116	\$116	\$117

Source: Illinois Farm Business Farm Management Association and the University of Illinois.

## CASH RENTS

Table 1 provides some benchmark cash rent amounts. For northern Illinois grain farms, cash rents have averaged from \$114 to \$123 per acre during the last 5 years. Central Illinois grain farms have averaged \$127 to \$136 on the higher productive soils while southern Illinois grain farms have averaged from \$77 to \$85 per acre. The statewide average has ranged from \$110 to \$117 over the same time frame.

The cash rent paid for a particular parcel of farmland is influenced by many factors including productivity of the land, improvements to the property (e.g., grain bins and machinery storage facilities), goals of the landowner, relationship between the operator and landowner, timing of cash rent payments, local market conditions and additional services provided to the landowner by the farm operator. The value the farm operator and landowner place on these factors is an integral part of the negotiation process in determining the level of cash rent for a particular tract of land.

One way of determining whether cash rents should be increasing or decreasing is to analyze equivalent cash rents. An equivalent cash rent is the payment a landowner would have received under a traditional crop share arrangement. Over time, a share rent landowner is receiving a higher return from farmland if the equivalent cash rent is increasing. This may indicate that cash rents also should increase. In contrast, decreases in equivalent cash rents may indicate that cash rents also should decrease.

Table 2. Equivalent cash rents from FBFM records.

Year	Landlord Net Rent	Landlord Expenses	Equivalent Gross Cash Rent
Northern and central Illinois - higher productive soil			
1991	\$80.79	\$25.71	\$106.50
1992	107.84	25.64	133.48
1993	121.75	25.85	147.60
1994	109.78	26.04	135.82
1995	104.51	33.94	138.45
1996	126.23	36.76	162.99
1997	114.61	37.33	151.94
1998	80.37	37.54	117.91
1999	96.91	40.24	137.15
2000	107.37	41.21	148.58
1996 - 2000 average	\$105.10	\$38.62	\$143.71
1991 - 2000 average	\$105.02	\$33.03	\$138.04
Northern and central Illinois - lower productive soil			
1991	\$59.28	\$22.53	\$81.81
1992	100.53	21.29	121.82
1993	100.62	25.13	125.75
1994	100.21	21.13	121.34
1995	97.05	27.97	125.02
1996	105.36	30.45	135.81
1997	104.87	32.32	137.19
1998	72.99	32.31	105.30
1999	85.00	34.41	119.41
2000	96.99	36.71	133.70
1996 - 2000 average	\$93.04	\$33.24	\$126.28
1991 - 2000 average	\$92.29	\$28.43	\$120.72

Source: Illinois Farm Business Farm Management Association and the University of Illinois.

Table 2 shows equivalent cash rents for two soil productivity levels. The landlord net return is the estimated net return (after all costs) to landlords based on a traditional crop share lease. Landlord expenses are the expenses a landlord would generally be responsible to pay with a cash rent lease. This is primarily the real estate tax on the land. Equivalent gross cash rent is the sum of the landlord net return and expenses. Receiving a cash rent similar to the equivalent gross cash rent would yield the same return to the landowner as a share rent arrangement.

For the higher productive soils in northern and central Illinois, the 1996 through 2000 equivalent gross cash rent amount is \$143.71 per acre. The 1991 through 2000 average is \$138.04 per acre. For the lower productive soils, the 1996 through 2000 equivalent gross cash rent amount is \$126.28 per acre. The 10-

year average is \$120.72. While these figures should only be used as guidelines, it provides a starting point for cash rent negotiations based on actual returns and costs for farm operators and landlords.

## **TERMINATING LEASES**

In many cases, the last day of October will be the last day to give notice to terminate an Illinois farm lease. In the absence of notice by the landlord or tenant, the current lease terms are automatically renewed. Absent of a written lease and language otherwise outlining the termination procedure, termination of leases are governed by Illinois law.

The Illinois Compiled Statutes provide as follows: "In order to terminate tenancies from year to year of farm lands . . . the notice to quit shall be given in writing not less than 4 months prior to the end of the year of letting. Such notice may not be waived in a verbal lease. . . ." This provision applies only to a year-to-year lease of farmland. A "year to year" lease can be a written lease, which expressly states that it continues from year to year unless notice is given to terminate the lease, or it can be a verbal lease where the tenant has been in possession for several years without a clear understanding about when the lease will end. More information about terminating farmland leases can be found in the agricultural law section of the *farmdoc* website: [http://www.farmdoc.uiuc.edu/legal/leasing\\_farmland\\_abs.html](http://www.farmdoc.uiuc.edu/legal/leasing_farmland_abs.html)

### **More information**

More information about leasing farmland can be found in the management section of the University of Illinois *farmdoc* website: <http://www.farmdoc.uiuc.edu/manage/index.html>

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