FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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LANDLORD RETURNS FROM ILLINOIS FARMLAND

Farmland returns are conceptually similar to stock returns. For a stock there may be a cash return, or dividend, and there may be appreciation in the stock's value. Similarly, farmland has a cash return to the landowner in the form of a net return from leasing the land. Farmland also may increase in value. However, like a stock investment, farmland values also can decline. This paper examines historic cash returns, or net returns, to landlords leasing Illinois farmland using typical crop share leases.

DIFFERENT SOIL PRODUCTIVITY LEVELS

Data from the Illinois Farm Business Farm Management (FBFM) Association is used to estimate the landlord's net return for three different soil productivity ranges (SPRs). SPRs include higher quality soils for northern and central Illinois (SPR of 86 – 100), lower quality soils for northern and central Illinois (SPR of 56 – 85), and southern Illinois soils (SPR of 36 – 85).

For 1991 through 1994, actual landlord records are used to calculate net returns per acre. Since 1995, farm operator returns and costs are used to estimate landlord net returns. These estimates are based on typical crop share leases. Landlord net returns are defined as the landlord's share of gross revenue (grain sales and government payments) less all expenses that are paid by the landlord (crop expenses, insurance, and real estate taxes) under a typical crop share lease. These net returns are not comparable to cash rents. Insurance and teal estate taxes must be subtracted from cash rents to be compared to net returns. Returns to landlords will vary depending on variations in lease terms.

LANDLORD'S NET RETURNS

Figure 1 shows landlord's net returns per acre for 1991 through 2000 for the three different soil productivity levels. As expected, the most productive farmland has the highest net returns while lower productivity farmland has lower returns. Farmland with the highest net return per acre does not necessarily have the highest return on investment. Year-to-year changes in the value of the land along with the value itself must be considered when calculating return on investment. In some years, lower productivity farmland may have the highest rate of return on investment because of the lower per acre investment values.

Since 1991, the highest landlord net return per acre for the most productive soil occurred in 1993 with a return of $122 per acre. The second highest was in 1996 with a net return of $119 per acre. The lowest net return, $81 per acre, occurred in 1991. The second lowest net return of $84 per acre occurred in 1998. The highest net return for the northern and central Illinois farmland with a SPR of 56 – 85 occurred in 1996 and 1997 with a return of $105 per acre. The lowest net return was in 1991 with a return of only $59 per acre. The highest net return for southern Illinois, $89 per acre, occurred in 1993. The lowest net return of $56 per acre was in 1998. Net returns for all three groups have been increasing since 1998.

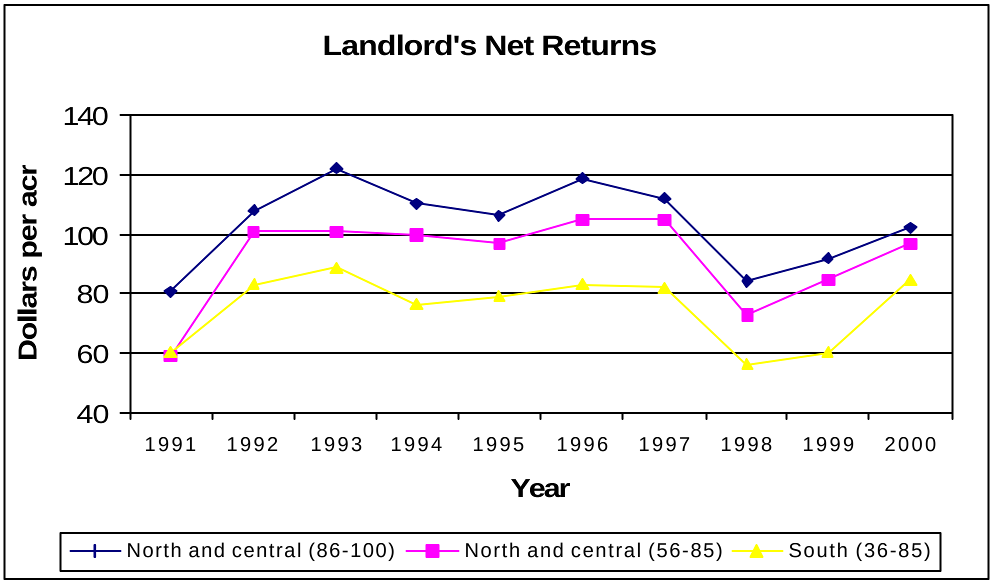

Figure 1. Landlord's net returns from Illinois farmland, 1991 – 2000.

TRENDS IN NET RETURNS

Landlord's net returns to farmland (with crop share leases) vary from year-to-year depending on a number of factors, including crop yields and prices. Looking at returns over time by calculating a moving average provides an indication of the trend in returns. Figure 2 illustrates landlord's net returns based on a four-year moving average for the three different soil productivity ranges. Based on the four-year moving

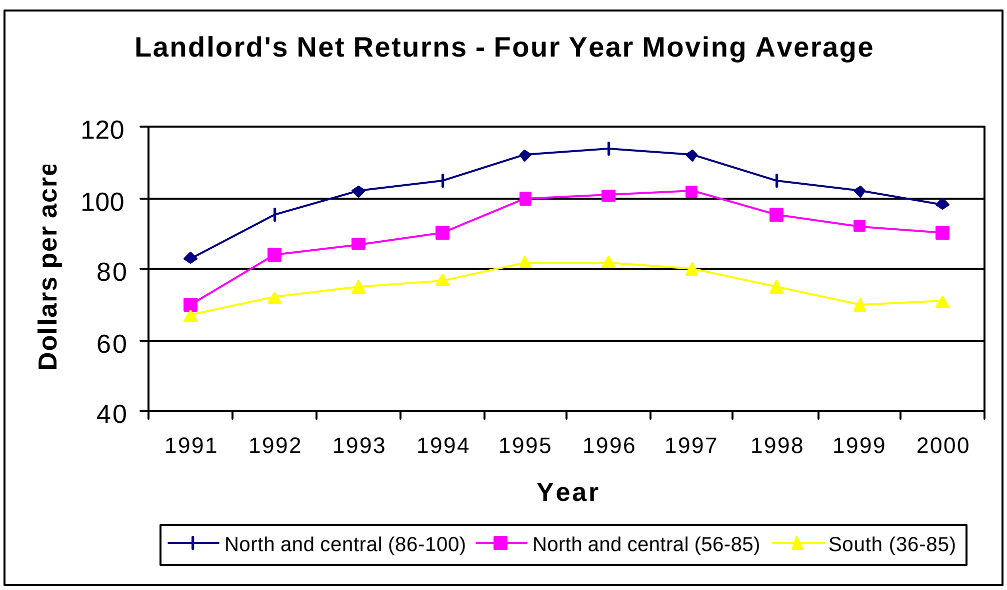

Figure 2. Landlord's net returns, four year moving average, 1991 – 2000.

average, net returns peaked in the 1995 through 1997 time frame and have been declining since. However, the rate of decline is slowing down and if net returns in 2001 are similar to 2000 net returns, the trend in net returns should level off.

SUMMARY

Net returns have been increasing the last two years but are at lower levers than the early to mid 1990s. Net returns based on a four-year moving average peaked in the mid 1990s and have been trending downward since. However, the downward trend is beginning to level off. Future returns, in part, will depend on the new government farm program scheduled to begin in 2003.

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