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FARMLAND LEASING UPDATE

The University of Illinois – Extension conducted a leasing survey in 2002 in which farmers and landowners were asked to describe their share rent and cash rent leases. This *Farm Economics: Facts and Opinions* summarizes findings from this survey and is divided into three sections:

1. Land tenure in Illinois,
2. Cash rents in Illinois, and
3. Share rent characteristics in Illinois.

Land Tenure in Illinois

Of the leased land in Illinois, 58 percent was share rented and 40 percent was cash rented. Two percent was leased with share rent leases that include supplemental rents. Results of the survey indicate that share rent leases continue to be the most used lease.

Table 1. Land Control on Farms Enrolled in Illinois Farm Business Farm Management, 1995 -- 2001.

Tenure Type	Year						
	1995	1996	1997	1998	1999	2000	2001
Panel A. Northern Illinois.							
	----- Percent of Farmland -----						
Owned	17	22	21	21	21	21	22
Cash rent	41	37	38	40	43	43	45
Share rent	42	41	41	39	36	36	33
Panel B. Central Illinois.							
	----- Percent of Farmland -----						
Owned	14	15	15	16	14	14	14
Cash rent	18	17	18	18	20	21	23
Share rent	68	68	67	67	66	66	63
Panel C. Southern Illinois.							
	----- Percent of Farmland -----						
Owned	22	27	27	26	26	25	25
Cash rent	20	20	22	20	22	22	22
Share rent	58	53	51	54	52	53	53



However, the most used lease type varies by region of Illinois. In northern Illinois, cash rent leases are more common than share rent leases. Data from Illinois Farm Business Farm Management (FBFM) for 2001 indicated that 45 percent of land in northern Illinois is controlled using cash rent leases compared to 30 percent by share rent leases (see Table 1). By comparison, 23 percent of central Illinois was cash rented and 22 percent was cash rented in southern Illinois.

Over time, more farmland is being cash rented. In northern Illinois, 41 percent of farmland was cash rented in 1995 compared to 45 percent in 2001 (see Table 1). In central Illinois, 18 percent of farmland was cash rented in 1995 compared to 23 percent in 2001. In southern Illinois, the cash rented percentage moved from 20 percent in 1995 to 22 percent in 2001.

Cash Rents in Illinois

The Extension survey indicated that the average cash rent in Illinois during 2001 was \$114 per acre. There is considerable variability around this average. The average cash rent by Crop Reporting District (CRD) ranged from \$50 for the southeast CRD up to \$134 per acre for the East CRD (see Figure 1).

Differences in expected corn yields explain some of the variability in cash rents. Figure 2 shows each cash rent in the Extension survey. A dot represents a cash rent

observation with the per acre cash rent indicated on the vertical axis and the expected corn yield indicated on the horizontal axis. There is a general trend upwards as expected corn yield increases. However, there is variability in cash rents at a given corn yield. For example, cash rents range from \$64 per acre up to \$185 per acre at an 150 bu. corn yield.

Figure 1. 2001 Cash Rents by Crop Reporting District

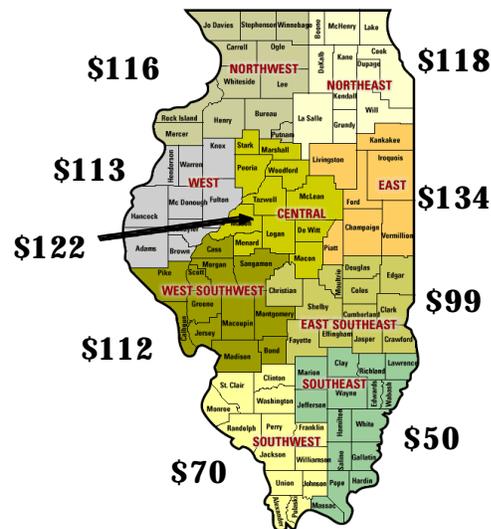
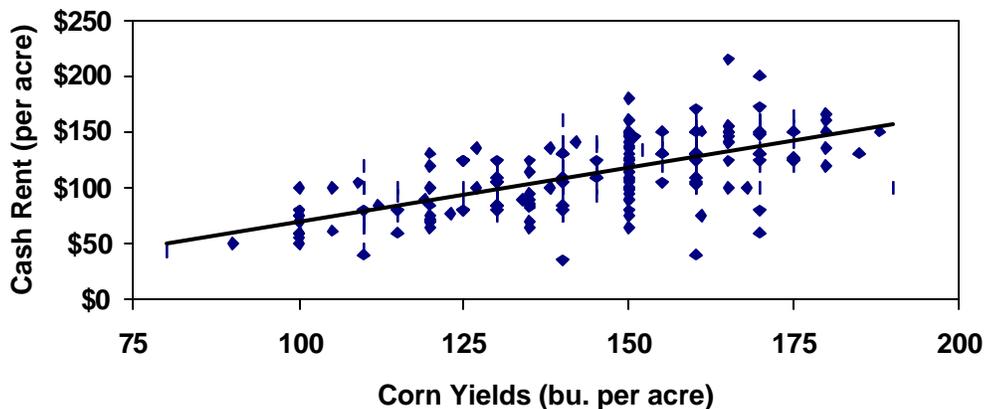


Figure 2. Cash Rents and Crop Yields, 2001.



Cash rents have increased over time. An Extension survey conducted in 1998 indicated that cash rents across Illinois averaged \$103 in that year. Since 1998, cash rents have increased by \$11 per acre up to \$114 per acre.

Cash rent leases vary in the number of payments required under the lease. The Extension survey indicates that:

1. 41 percent of the leases had one payment. Twenty-nine percent of these leases have payments due in December, 16 percent in March, and 14 percent in November.
2. 50 percent had two payments. The first payment typically is due in March or April and the second payment is due in November or December
3. 5 percent had three payments. One payment typically is due in spring, one in summer and one in fall.
4. 4 percent had more than three payments.

In the Extension survey, 60 percent of the cash rent leases had a written agreement between the tenant and landlord. The length of the agreement varied: 75 percent of the leases had a one-year term, 4 percent a two-year term, 4 percent a three-year term, and 17 percent had more than a three year term.

Share Rent Characteristics in Illinois

Share rent leases in northern and central Illinois typically are 50 – 50 leases, in which the tenant and landlord equally share in revenue from the farm. The Extension survey asked how these leases split production costs. Results are presented in table 2.

Table 2 reports the percent of leases in which the tenant pays 50 or 100 percent of the costs. For seed, tenants pay 50 percent of the costs under 96 percent of the leases and 100 percent of the costs in 3 percent of the leases. Percentages will not always add up to 100 as some leases may share costs in a different split than the 50 and 100 percent splits reported in the table. Most 50 – 50 share leases had the landlords and tenants share equally in productions costs. Burndown herbicide is the cost where more tenants paid 100 percent of the costs. Even in this case, however, only 5 percent of the leases had tenants paying all of the costs.

There are a number of 2/3 – 1/3 leases in southern Illinois in which the tenant received 2/3 of the revenue. Percentages of costs paid by the tenant are shown in Table 3. Under this lease, 93 percent of the leases had tenants pay 100 percent of the seed costs. Breakdowns for the other costs vary considerably. Compared to 50 – 50 leases, 2/3 – 1/3 leases have much more variability in the way in which costs are shared.

Table 2. Tenant's Share of Costs for 50-50 Share Rent Leases in Illinois, 2001.

Input Item	---- % of Costs ---	
	50%	100%
	-- % of leases --	
Seed	96	3
Nitrogen	99	
Other Fertilizer	98	
Lime	96	3
Burndown herbicide	93	5
Other herbicide	97	1
Insecticide	98	1

Table 3. Tenant's Share of Costs for 2/3 -- 1/3 Share Rent Leases in Illinois, 2001.

Input Item	---- % of Costs ---	
	50%	100%
	-- % of leases --	
Seed	6	93
Nitrogen	66	32
Other Fertilizer	28	65
Lime	57	28
Burndown herbicide	36	63
Other herbicide	27	60
Insecticide	31	67

Only 27 percent of the share rent leases had a written agreement between the tenant and landlord. Of the written leases, 67 percent had a one-year term, 5 percent a two-year term, 19 percent a three-year term, and 9 percent had more than a three-year term.

Summary

This survey confirms that a number of trends continue. The first is that per acre cash rents continue to increase. This survey does not contain many cash rents that are extremely high; however, the general trend is upward. It appears that whenever a cash rent lease is negotiated the cash rent is increased.

While cash rents are increasing, overall returns to farming have not increased over time. Therefore, the trend of higher cash rents means that land owners are getting more of the return to farming. Farmers are getting less of the return. To remain equal in this type of environment, farmers must either be reducing costs or farming more acres to maintain the same income.

Higher cash rents, and a move to more cash rent leases and less share rent leases, means that farmers are bearing more risks. Hence, risk management strategies such as use of crop insurance and pre-harvest marketing take on increased importance as tenure relationships evolve in Illinois.

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