FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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CASH RENTS AND EQUIVELENT CASH RENTS IN ILLINOIS

Most Illinois farmers rent the majority of their farmland. Alternative sources suggest that in Illinois somewhere between 60 to 80 percent of the land that is farmed is rented. This *Illinois Farm Economics: Facts and Opinions* reviews payments that farmers make to landlords for rented farmland. This information can aid farmers and landowners as they review their leasing arrangements.

Payments are reviewed for both cash rent and share rent agreements. Under a cash rent agreement, the farmer pays the land owner a fixed payment called a cash rent. Average cash rents are reported in the following section of this paper. Under a share rent agreement, the farmer and landowner share the revenue and direct expenses (e.g., seed, fertilizer, pesticides). In northern and central Illinois, the most common share lease type is 50-50 in which the farmer and landowner equally share in the revenue and direct expenses. For share leases, we calculate the payments that landowners receive under share rent agreements. These imputed payments, called equivalent cash rents, are reported in the second section of this paper.

Data for these calculations are provided by Illinois Farm Business Farm Management (FBFM). Illinois FBFM is a farm record-keeping and financial consulting service that has around 6,500 farmers using its services. Averages in this report are given for farms that operate over 260 acres and receive the majority of their income from grain operations.

Cash Rents under Cash Leases

Table 1 shows average cash rents for farms located in northern, central, and southern Illinois for years between 1996 through 2001. In general, cash rents have increased. For northern Illinois grain farms, cash rents averaged $114 per acre in 1996 moving up to $126 in 2001, an increase of $12 per acre. Cash rents for high productivity farmland in central Illinois increased by $10 per acre moving from $127 per acre in 1996 to $136 in 2001. Cash rents in southern Illinois increased by $5 per acre moving from $81 in 1996 to $87 in 2001.

Table 1. Cash Rents Paid by Farmers Enrolled in Illinois Farm Business Farm Management (FBFM).

Year	Northern Illinois[1]	Central Illinois[2]	Southern Illinois[3]	Illinois
	------------------------ $ per acre ---------------------			
1996	114	127	82	110
1997	117	135	80	116
1998	120	136	77	116
1999	122	130	82	116
2000	123	132	85	117
2001	126	137	87	121

[1] For farmland with soil productivity ratings between 56 and 100.
[2] For farmland with soil productivity ratings between 86 and 100.
[3] For farmland with soil productivity ratings between 36 and 85.

The cash rent paid for a particular parcel of farmland is influenced by many factors including productivity of the farmland, 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 serviced provided to the land owner by the farm operator. The value the farm operator and landowner place on these factors is an integral part of the negotiation process used in determining the cash rent for a particular tract of farmland.

Equivalent Cash Rents under Share Leases

Equivalent cash rents are inputted using FBFM data for share rent agreements. An equivalent cash rent equals the dollar value that a land owner receives under a traditional share rent agreement. The equivalent cash rent equals the land owner's share of revenue from crop sales and government payments minus the land owner's share of expenses from direct items (e.g., seed, fertilizer, and pesticides).

The equivalent cash rent under a share rent agreement is directly compared to cash rents under cash leases. A landowner receives the same monetary return from share and cash rent agreements when the equivalent cash rent under the share agreement equals the cash rent under the cash rent. Both equivalent cash rents and cash rents are gross returns to landowners. From either equivalent cash rents or cash rents, landowners must subtract property taxes and other landowner costs to arrive at a net return to farmland.

Equivalent cash rents by year are shown for high and low productivity farmland located in northern and central Illinois. Between 1992 and 2001, the equivalent cash rent for high productivity farmland averaged $141 per acres (see Table 2). Equivalent cash rents averaged $125 per acre for low productivity farmland.

In general, there is considerable variability in equivalents cash rents from year to year. For high productivity farmland, the low equivalent cash rent was $118 (see Table 2). This rent occurred in 1998, the year in which commodity prices fell dramatically. The high equivalent cash rent of $163 per acre occurred in 1996, the year in which commodity prices were relatively high. Equivalent cash rents generally follow the economic conditions impacting the grain farm economy.

Table 2. Equivalent Cash Rents in Northern and Central Illinois for Farms Enrolled Illinois Farm Business Farm Management (FBFM).

Year	High Productivity Farmland	Low Productivity Farmland
	--------- $ per acre -------	
1992	133	122
1993	148	125
1994	136	121
1995	138	125
1996	163	136
1997	151	137
1998	118	105
1999	137	119
2000	148	133
2001	133	123
1992 to 1996 average	144	126
1996 to 2001 average	137	123
1992 to 2001 average	141	125

Summary

Average cash rents have been increasing over time.   There is considerable variability in cash rents across farms. Equivalent cash rents vary from year-to-year reflecting the general agriculture economy.

More information about leasing farmland is available in the management section of *farmdoc* (www.farmdoc.uiuc.edu/manage). In specific, another *Illinois Farm Economics: Facts and Opinions* entitled Farmland Leasing Update summaries additional information about leasing in Illinois.

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