



Illinois Farmland Rent Factors and Trends

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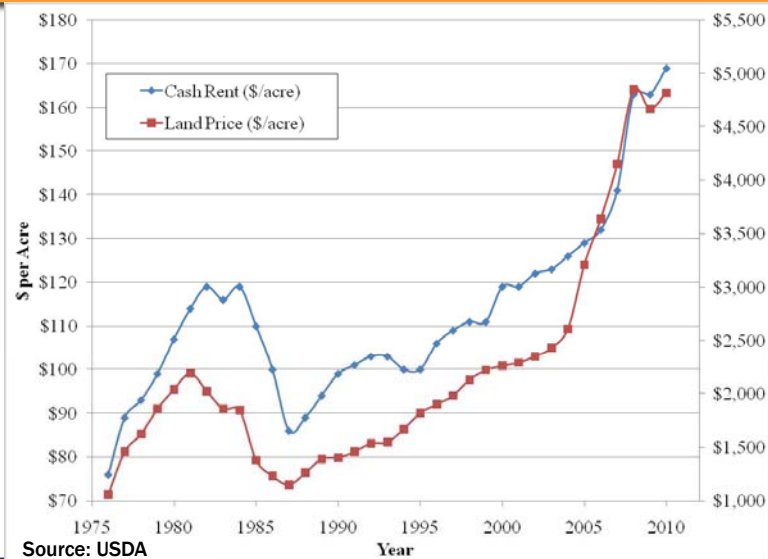
2010 Illinois Farm Economics Summit
The Profitability of Illinois Agriculture: Managing in a Strong Ag Economy

In the News: Cash Rents and Land Values



- **New York Times: “The Farm Belt Boom”(12/9/10)**
 - “A boom is under way across much of the rural Midwest, with agricultural land prices growing at a double-digit clip and farm auctions in certain counties fetching record sales.”
 - “Is this boom rooted in genuine economic gains, or is it another Federal Reserve-induced asset bubble? We lean toward the bubble view.”

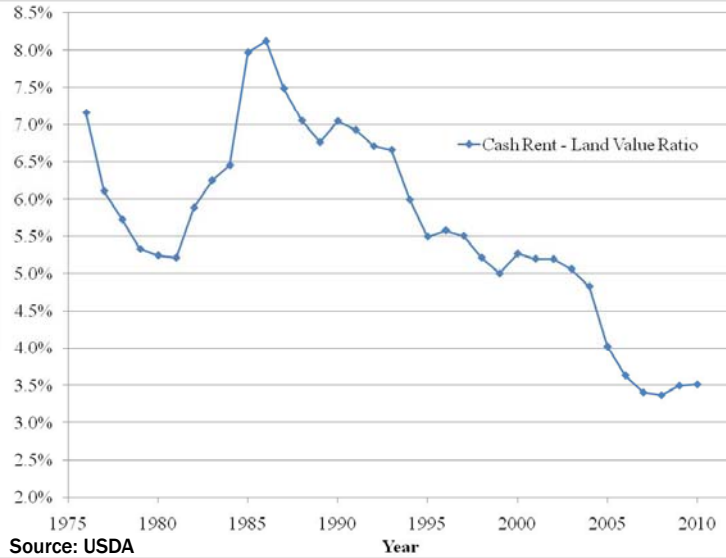
- **Des Moines Register: “Why Farmland is Skyrocketing”(12/5/10)**
 - “Farms are throwing off a lot of cash now, and farmers have it to spend....Everybody's bullish on farmland.”
 - "Corporate buyers are going to Illinois, which isn't as restrictive.”
 - "I'm looking around the Midwest for land for some stockbrokers...Stockbrokers are bullish on farmland. The stock market is largely hype. Farmland is real."



Illinois Trends



Harness the Power of the Internet



Source: USDA

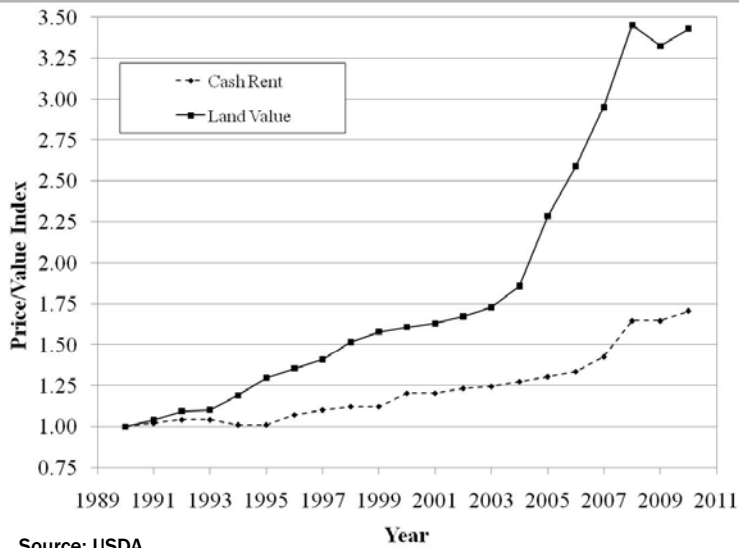
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Source: USDA

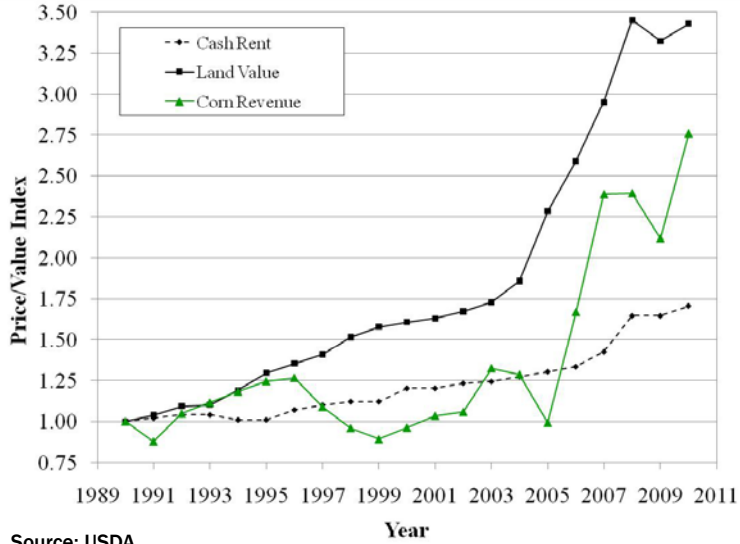
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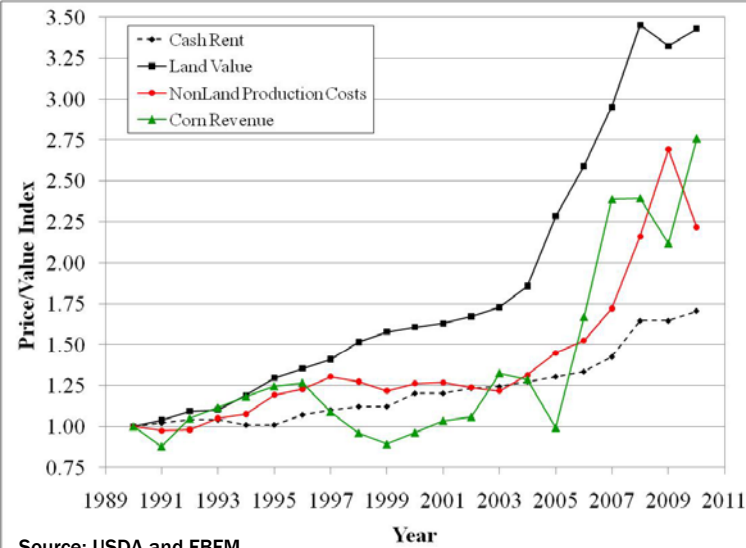
Source: USDA

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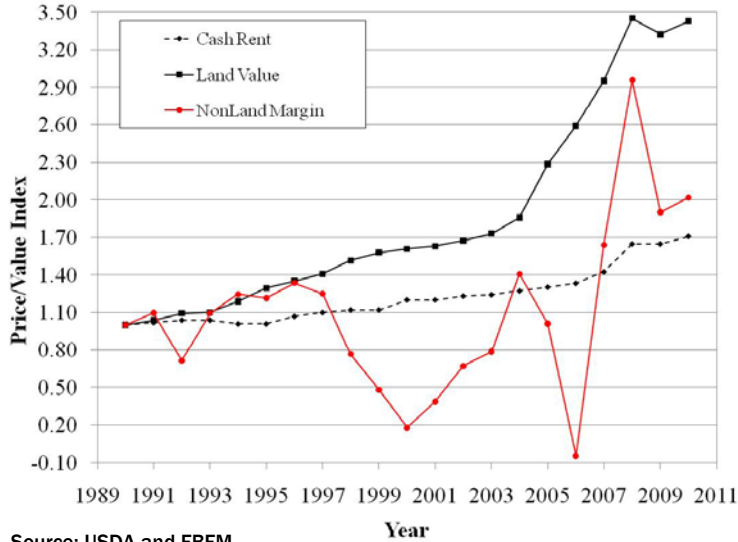
Source: USDA and FBFM

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Source: USDA and FBFM

Central IL Rents (USDA)



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County	2008	2009	2010
McLean	\$190	\$208	\$205
Piatt	\$205	\$218	\$210
Macon	\$211	\$237	\$242
DeWitt	\$196	\$183	
Logan	\$210	\$237	\$242

Northern IL Rents (USDA)



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County	2008	2009	2010
DeKalb	\$180	\$192	\$189
Ogle	\$180	\$179	\$190
Lee	\$177	\$181	\$178
LaSalle	\$176	\$181	\$187
Bureau	\$185	\$210	\$202

Western IL Rents (USDA)



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County	2008	2009	2010
Knox	\$179	\$171	\$182
Warren	\$196	\$184	\$199
McDonough	\$195	\$182	\$196
Schuyler	\$175	\$147	\$166
Fulton	\$160	\$181	\$180

Southern IL Rents



County	2008	2009	2010
Marion	\$93	\$94	\$94
Wayne	\$107	\$112	\$110
Jefferson	\$82	\$95	
Franklin		\$72	\$103
Washington	\$95	\$87	\$101

Illinois Cash Rents



- **What about the cash rents ranging from \$300-400/acre?**
 - Current cap rates around 3.5%
 - Recent land auction prices
 - \$8,000 to \$10,000 per acre
 - Suggests resulting rental rates could easily be in the range of \$250 to \$350
 - Are these levels justified?

2011 Projections - Central IL



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	— Corn —		
	2009	2010P	2011P
Yield	192	165	195
Price	\$3.52	\$5.15	\$4.80
Revenue	\$713	\$896	\$960
Direct cost	\$400	\$296	\$336
Power costs	80	89	91
Overhead costs	53	54	55
Total costs	\$533	\$439	\$482
Opr and Land Return	\$180	\$457	\$478

2011 Projections - Central IL



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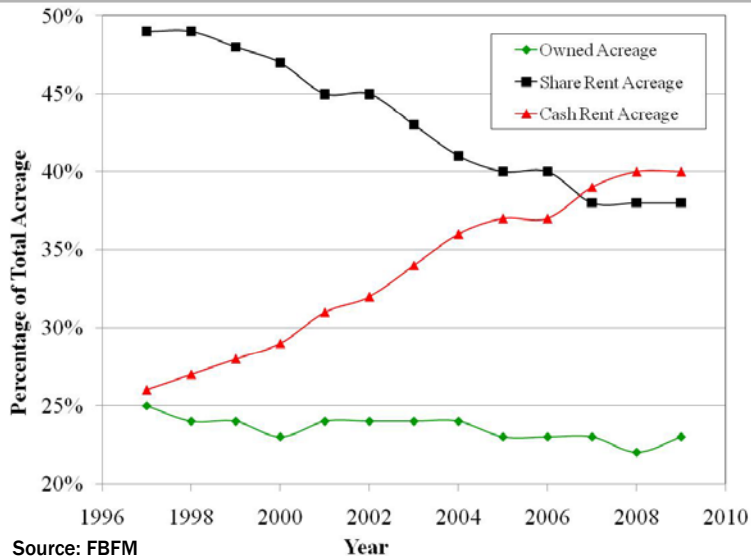
Operator and Land Returns (\$/acre)

Yield	Price						
	3.84	4.08	4.32	4.56	4.80	5.04	5.28
156	117	154	192	229	267	304	342
166	154	194	234	274	314	353	393
176	192	234	276	318	360	403	445
185	229	274	318	363	407	452	496
195	267	314	360	407	454	501	548
205	304	353	403	452	501	550	599
215	342	393	445	496	548	599	651

Cash vs. Share Lease Trends



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Cash vs. Share Leases



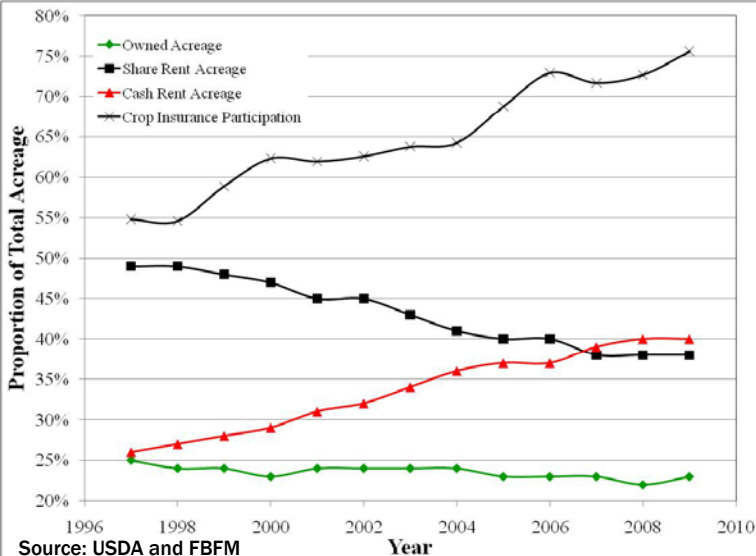
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- **Share rents significantly reduce producer risk**
 - Risk premium on cash rented acres not apparent in Illinois
- **Factors**
 - Shift in landowner characteristics
 - Government programs
 - Crop insurance?

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Cash vs. Share Lease Trends



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Rental Rate Factors



- **Farm Size**
 - Larger farms do pay higher cash rents
 - Magnitude of effect is relatively small
- **Government Payments**
 - Full incidence?
 - Limited evidence from recent research

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- **What does matter?**
 - Rent paid last year
 - Rent paid by neighbors
 - Commodity prices
 - Soil productivity

- **Cash rents are increasing**
 - Slower pace relative to land values
 - Similar pace to commodity prices, productions costs, and margins
 - Short-term outlook suggests continuing increases
- **Agreements continue to move away from share arrangements to cash**

- **Policy uncertainty**
 - Future of farm programs
 - Biofuel policy
 - Environmental concerns
 - Budgetary concerns will drive reform

- **Managing rental rate risk**
 - Variable cash or hybrid leases
 - Communication with landowner is key