

# Land Rent Situation



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# Outline



- **What can be paid for land rent ?**
- **Betz observations**
- **Different Rent Methods**

# 2013 Variable or Direct Cost Estimates

		<u>CornGrain</u>	<u>SoyBean</u>	<u>SRWheat</u>
1. Paid on Yield per Acre in Bushels		160.0	50.0	78.0
2. TIMES Cash Selling Price per Bu	x	<u>\$6.00</u>	<u>\$13.00</u>	<u>\$ 8.50</u>
3. EQUALS Gross Income per Acre	=	\$960.00	\$650.00	\$663.00
<b>DIRECT COST/AC</b>				
4. Seed		\$ 106.56	\$ 56.67	\$ 54.00
5. Fertilizer		\$ 154.89	\$ 72.03	\$ 109.92
6. Herbicides		\$ 20.00	\$ 15.00	\$ 10.00
7. Insecticides		\$ 12.00	\$ 7.50	\$ 5.00
8. Drying Fuel		\$ 57.60		
9. Crop Fuel & Oil		\$ 31.50	\$ 14.00	\$ 14.00
10. Crop Repairs		\$ 36.00	\$ 31.00	\$ 26.00
12. Crop Utilities		\$ 2.00	\$ 2.00	\$ 2.00
13. Crop Custom Hire/Trking		\$ 25.60	\$ 15.00	\$ 23.40
14. Crop, Marketing and Storage		\$ 40.00	\$ 12.50	\$ 7.80
15. Crop Insurance		\$ 33.60	\$ 22.75	\$ 23.21
16. Labor		<u>\$ 30.00</u>	<u>\$ 20.00</u>	<u>\$ 20.00</u>
17. TOTAL DIRECT COST/Ac		\$ 549.75	\$ 268.45	\$ 295.32

# Estimate of 2013 Gross Margin “Gross Income” minus “Direct Cost”



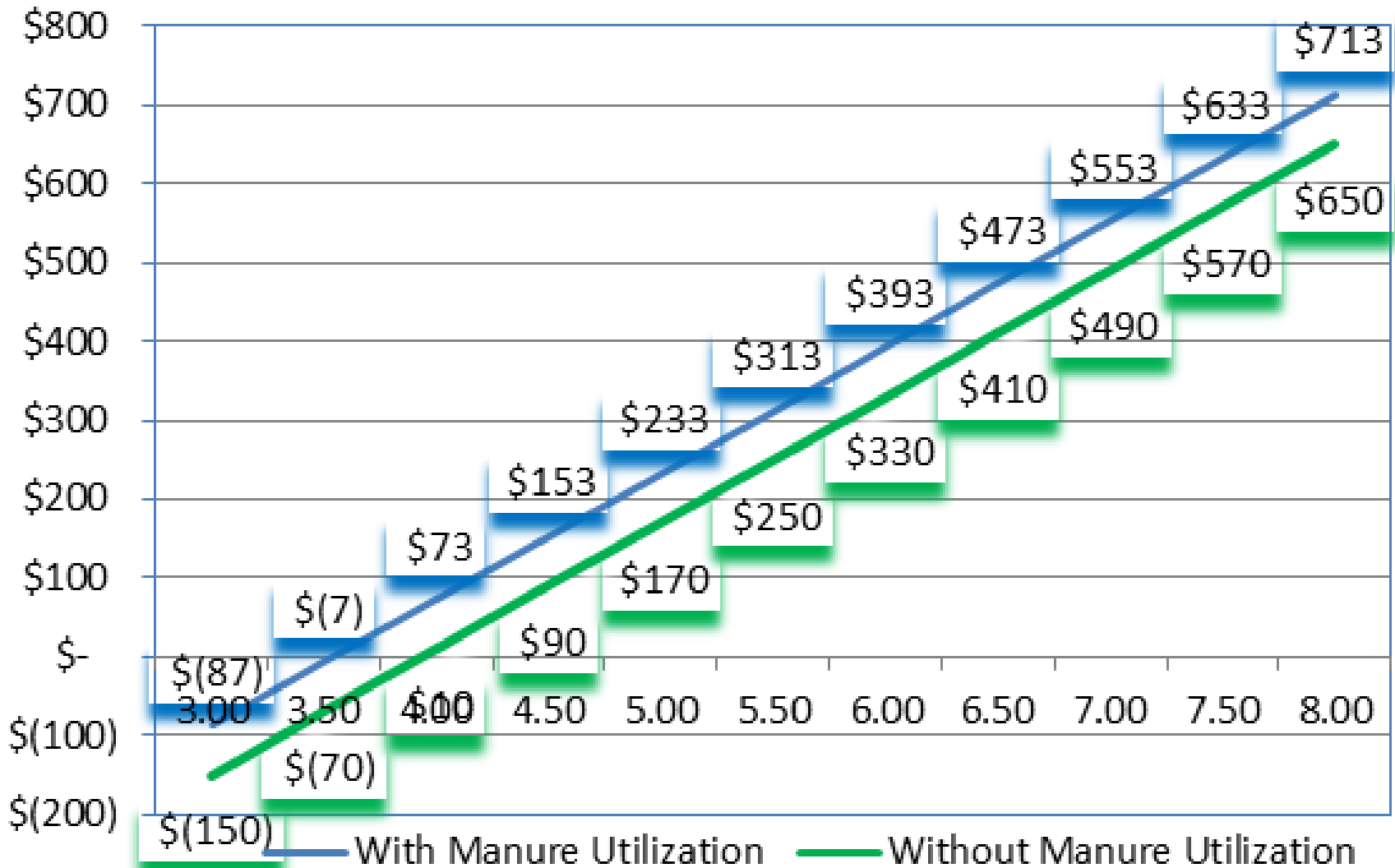
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18. GROSS MARGIN=G.I.-D.C./Ac		\$ 410.25	\$ 381.55	\$ 367.68
	Comparison to Corn		\$ (28.70)	\$ (42.57)

# What is the maximum price you can pay to rent land?



- **Cover all cost?**
- **Cover only Direct Cost?**
- **Get some return to Overhead Cost**

# Max/Break Even Land Rent to Cover Direct Cost and Machinery Overhead (corn 160 bu)



# Betz Observations



- **80% or more are straight cash rent**
- **More interest in “shared revenue”**
- **Lots of methods**
  - Tied to crop price only
  - Tied to yield only
  - Tied to crop revenue (both price and yield)
- **Landlord Response when tied to Gross Revenue**
  - More interested in land improvements
  - Cultural practices
- **Landlord/Tenant trust and communication**

# Revenue/Rent Expense RISK!!



- **Variable cash rent**
  - Negotiate at end of year
  - Pay “Bonus” if good year
- **“Flex Cash” Rent**
  - 20 to 40 bu corn X harvest price
  - Percent of gross revenue with actual yield
    - ✦ Combo insurance price (Dec futures in November)
    - ✦ Local elevator cash
    - ✦ Depends on expected yields
    - ✦ Possible Crop Insurance Issues
      - Who is at risk?
      - Share in cost and revenue of insurance
    - ✦ Income Tax issues – earned income?



# Flex Cash Rent -Example



<b>Base Rent</b>	<b>\$ 60.00</b>	<b>\$ -</b>
<b>Multiplier</b>	<b>15</b>	<b>25</b>
<b><u>Corn Price</u></b>	<b><u>Rent</u></b>	<b><u>Rent</u></b>
<b>\$ 4.00</b>	<b>\$ 120.00</b>	<b>\$ 100.00</b>
<b>\$ 4.50</b>	<b>\$ 127.50</b>	<b>\$ 112.50</b>
<b>\$ 5.00</b>	<b>\$ 135.00</b>	<b>\$ 125.00</b>
<b>\$ 5.50</b>	<b>\$ 142.50</b>	<b>\$ 137.50</b>
<b>\$ 6.00</b>	<b>\$ 150.00</b>	<b>\$ 150.00</b>
<b>\$ 6.50</b>	<b>\$ 157.50</b>	<b>\$ 162.50</b>
<b>\$ 7.00</b>	<b>\$ 165.00</b>	<b>\$ 175.00</b>
<b>\$ 7.50</b>	<b>\$ 172.50</b>	<b>\$ 187.50</b>
<b>\$ 8.00</b>	<b>\$ 180.00</b>	<b>\$ 200.00</b>
<b>\$ 8.50</b>	<b>\$ 187.50</b>	<b>\$ 212.50</b>

# Revenue/Rent Expense RISK!!



- **Percent of Tenant's Crop Gross Revenue**
  - 15 to 30% ??
  - Yield potential and expectations
  - Management decisions influence results
  - Crop insurance issues
  - What cost if any subtracted
  - Yield X what price?
    - ✦ Crop insurance price
    - ✦ Local elevator price
    - ✦ Futures
    - ✦ When and how determined?
  - $160 \text{ Bu} \times 6.00/\text{bu} \times 15\% = \$144$
  - $160 \text{ Bu} \times 6.00/\text{bu} \times 30\% = \$288$

# What are your observations?



# Betz Conclusion



- **Land Rent prices will continue to rise**
- **More farmer competition**
- **More discussion on “Flex Rents”**
  - Share Risk
  - Way to get rents back down when prices are lower
- **Ag Econ/Extension Survey**

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**Resource Economics**

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**2011 MICHIGAN LAND VALUES**  
**and**  
**Leasing Rates**

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# Michigan 2011 Lease Rate

**Table 4 Average Cash Rent and Value Multipliers for Michigan Agricultural Land Use, 2011**

Region	Type of Land Use							
	Field Crop Tiled		Field Crop Non-Tiled		Sugar Beet		Irrigated	
	Rent	Value/ Rent	Rent	Value/ Rent	Rent	Value/ Rent	Rent	Value/ Rent
Michigan	\$117	33	\$85	40	\$165	26	\$197	25
Southern Lower Peninsula	126	32	95	36	173	26	206	24
Upper and Northern Lower Peninsula	58	38	37	61	94	28	121	33