Situation and Outlook for Irrigated and Non-Irrigated Cash Rents in Kansas

GREGG IBENDAHL

DANIEL O'BRIEN

AgManager.info

Kansas State University | Agricultural Economics

Purpose of publications

NOT an endorsement for what a tenant should actually pay a landlord

Instead, they are provided to give a starting point in lease negotiations

What is a "fair" or "equitable" lease?

- Any lease that a tenant and landlord willingly agree to in which they have both utilized the best information they have available to them in making a decision, is considered here to be a "fair" and/or "equitable" lease.

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Why produce these publications

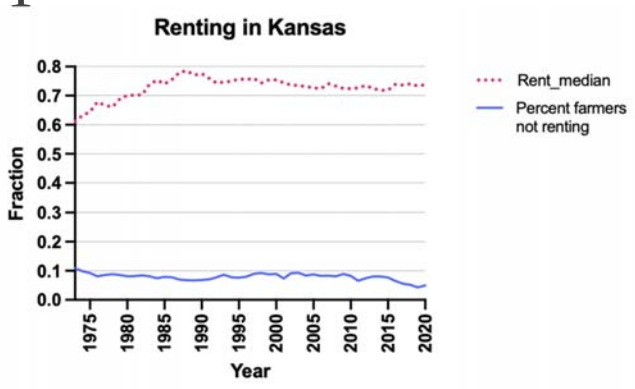
Nearly every farm leases some land

Local rental rates may not reflect the ability of the land to support going market rental rates

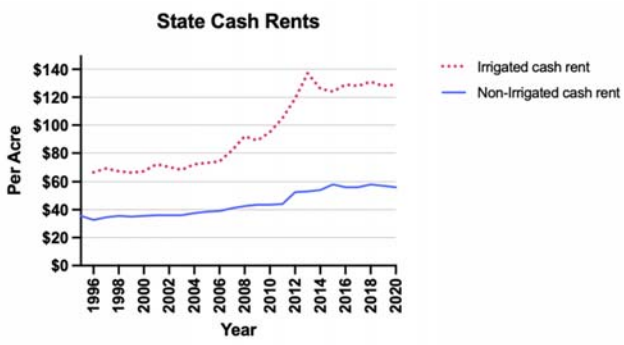
Issues from surveys of county rental rates

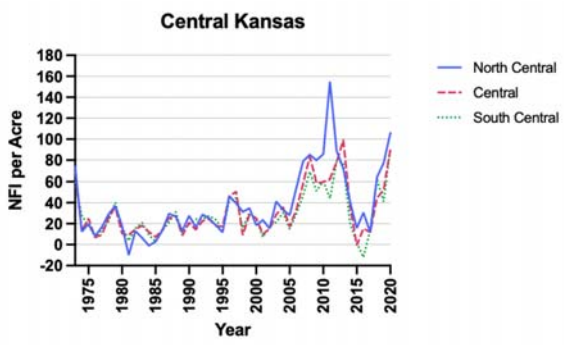
- Information may be outdated – time from survey until reported
- Truthfulness in survey responses
- Surveys could reflect multi-year leases from previous year

A lack of information about lease rates that incorporate land productivity into the rate calculation



Why survey data may not be the best





USDA-NASS Estimate of Kansas Irrigated and Non-Irrigated Cash Lease Rates

Why leasing is important to farmers

Farmland will never cashflow
- Land is non-depreciable
- Typically, half of a farm's real net returns occur as land appreciation

Because land will not cashflow, land income will not cover principle and interest payments
- Rented landed is thus needed to help cover cashflow needs from purchased land.

Our approach

Tenant's residual method
- County yield history
- Recent grain prices
- KFMA farm expenses

Covers all expenses
- Cash or direct cost of production
- Includes fixed costs on machinery
- Includes unpaid operator labor
- Includes overhead and management fees

FULL ECONOMIC COSTS

Details of tenant's residual approach

Income – yields, prices, and government payments

- Yields – NASS no longer provides separate irrigated and non-irrigated yields
  - FSA does have this info and also number of crop acres in a county
  - Use of last 5 years of data
- Prices – Use of weighted average with more weight being given to most recent years

Expenses

- Use of KFMA data
- Developed at the enterprise level to account for different crop mixes each year
- Only corn, soybeans, wheat, and grain sorghum used
- Developed at the farm level but then aggregated up to the Crop Reporting District level
  - This might account for some of the differences you see on the graphs

Other details

75% of unpaid operator labor is included

- This allows for farm activities not related to crop production

2% management fee based on gross revenue

- This includes management and also the interest charge for any owned machinery equity on the farm.

Weights used for the estimates

- 2021 – 20%
- 2020 – 25%
- 2019 – 25%
- 2018 – 20%
- 2017 – 10%

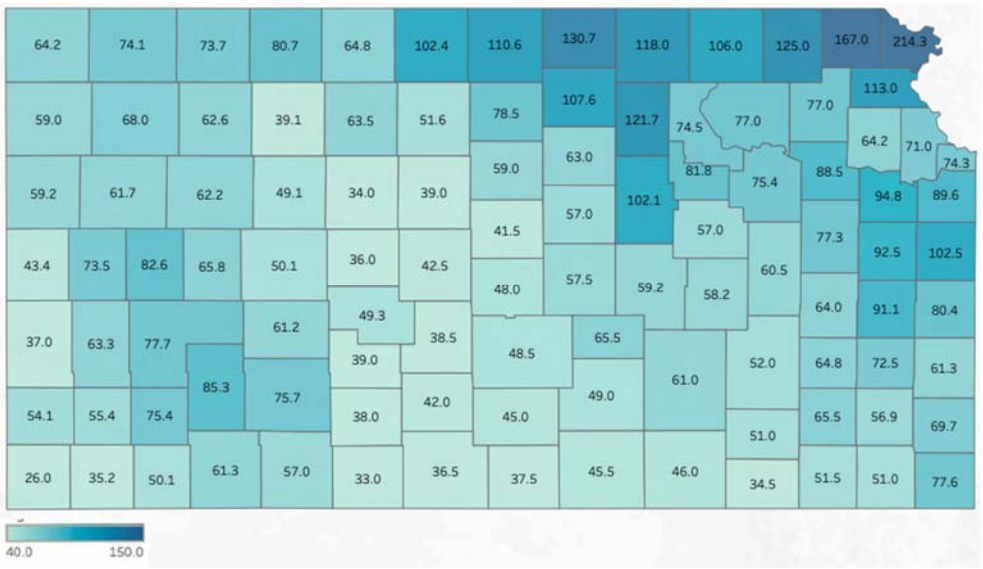
Other details

Adjustment to NASS reported cash rent
- Helps to smooth the estimate

Adjustment for land use intensity
- Needed to account for fallow and double cropping

Incorporating a range of values
- 25th and 75th percentile

Non-Irrigated Crop Land in Kansas



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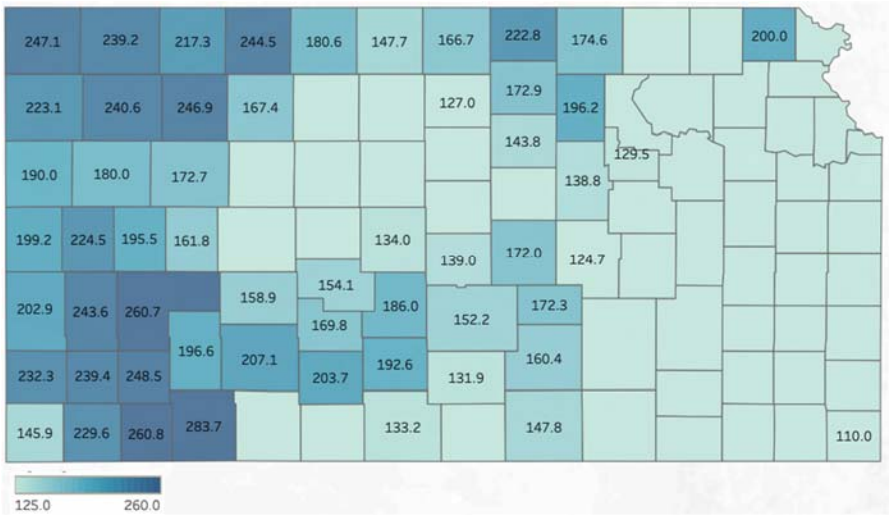
Irrigated Crop Land in Kansas



Thank you!

Gregg Ibendahl
- email: ibendahl@ksu.edu
- twitter: @Ibendahl

Daniel O'Brien
- email:
- twitter

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