



# Ag Decision Maker



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## Cash rental rates fall for a third consecutive year in Iowa

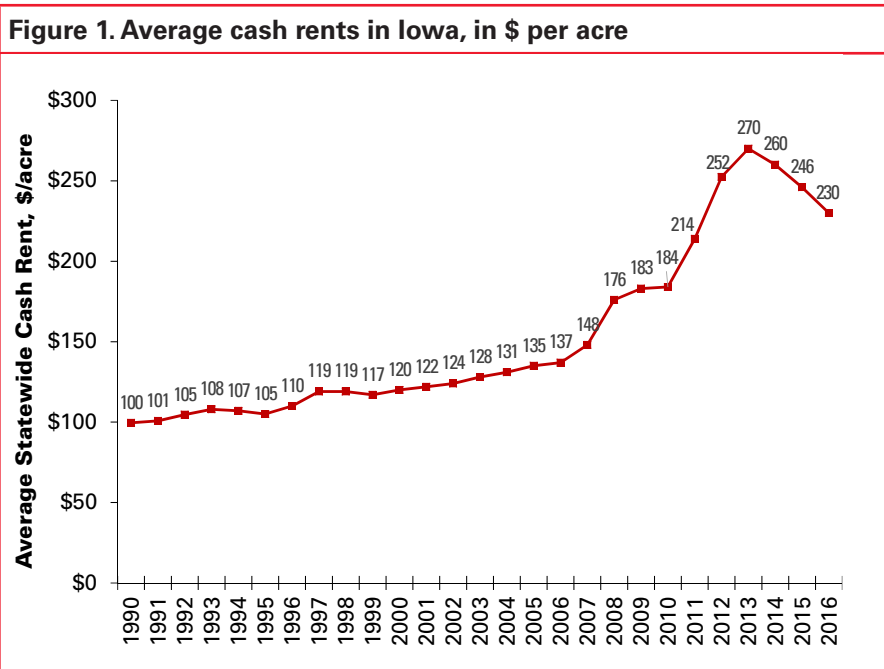
By Alejandro Plastina, extension economist and assistant professor in economics, 515-294-6160, plastina@iastate.edu

A 2016 survey shows that cash rental rates for farmland in Iowa fell by 6.5 percent in 2016, accumulating a 14.7 percent decline since 2013. Despite falling for a third consecutive year at an increasing rate, the average cash rent in 2016 is the fifth highest on record (Figure 1).

Iowans supplied 1,585 responses (10 percent higher than last year) about typical cash rental rates in their counties for land producing corn and soybeans, hay, oats and pasture. Of these, 47 percent came from farmers, 25 percent from landowners, 14 percent from agricultural

lenders, 12 percent from professional farm managers and realtors, and 2 percent from other professions. Respondents indicated being familiar with a total of 2.5 million cash rented acres across the state.

AgDM File C2-10, [Cash Rental Rates for Iowa 2016 Survey](#) provides detailed



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### Handbook updates

For those of you subscribing to the handbook, the following new updates are included.

Cash Rental Rates for Iowa 2016 Survey – C2-10 (12 pages)

Examining Your Farm Business Choices – C6-41 (4 pages)

Please add these files to your handbook and remove the out-of-date material.

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results by county and crop. There was considerable variability across counties in year-to-year changes, as is typical of survey data, but 85 counties experienced declines in average rents for corn and soybeans. The report also shows typical rents for alfalfa, grass hay, oats, pasture, corn stalk grazing, and hunting rights in each county and district.

### Survey shows decline in all districts

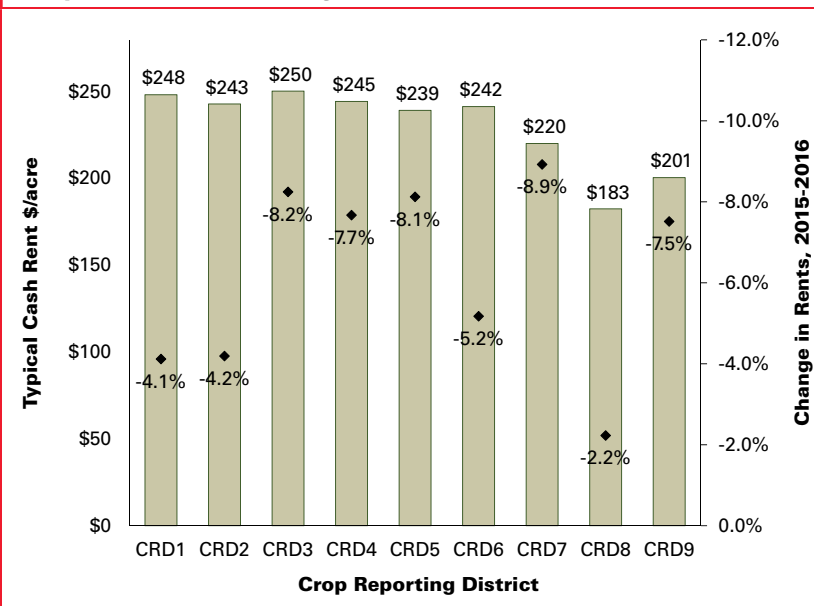
The survey was carried out by Iowa State University Extension and Outreach. Statewide, reported rental rates for land planted to corn and soybeans were down from \$246 per acre last year to \$230 in 2016, or 6.5 percent. This is equivalent to about three-quarters of the change in Iowa farmland values over the past 12 months reported in surveys conducted by the Iowa REALTORS Land Institute and summarized in AgDM File C2-75, [Farmland Value Survey \(REALTORS Land Institute\)](#). The 14.7 percent accumulated decline in rental rates since 2013 is aligned with the 12.4 percent decline in land values reported in the [2015 Iowa Land Value Survey](#) published by the ISU Center for Agriculture and Rural Development (AgDM File C2-70, [Farmland Value Survey](#)).

Different regions experienced different declines in cash rents: from 2.2 percent in Crop Reporting District (CRD) 7 to 8.2 percent in CRD 3 (Figure 2). Northern and Central Iowa (CRD 1-6) continue to have higher cash rents than Southern Iowa (CRD 7-9).

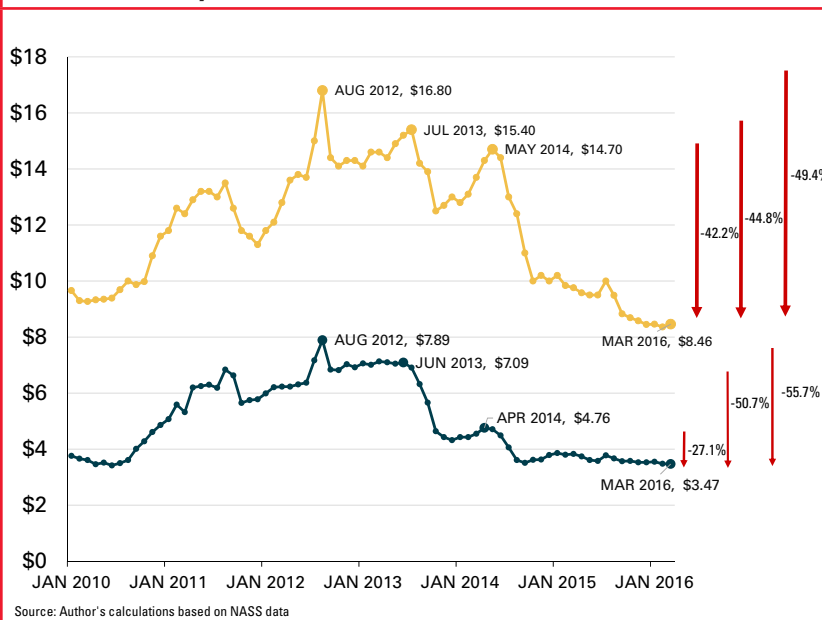
### Rents for high quality land rents declined the most

Not all land qualities have seen their cash rents decline proportionately. High quality land experienced a 7.5 percent decline, from \$292 per acre in 2015 to \$270 in 2016, accumulating a 17.7 percent decline since 2013.

**Figure 2. Average cash rents in 2016 by Crop Reporting District, in \$ per acre and % change from 2015**



**Figure 3. Prices received in Iowa for corn and soybeans, in \$ per bushel, January 2010-March 2016**



Medium quality land experienced a 6.9 percent decline, from \$247 per acre in 2015 to \$230 in 2016, accumulating a 14.8 percent decline since 2013.

Low quality land experienced a 5 percent decline, from \$200 per acre in 2015 to \$190 in 2016, accumulating a 10 percent decline since 2013.

Cash rental rates fall for a third consecutive year in Iowa, continued from page 2

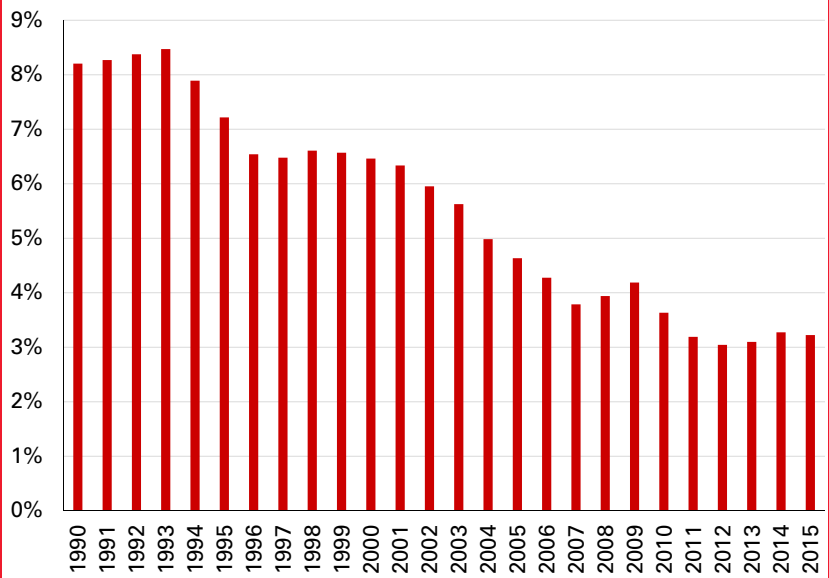
## Setting rents for next year

Survey information can serve as a reference point for negotiating an appropriate rental rate for next year. However, rents for individual farms should be based on productivity, ease of farming, fertility, drainage, local price patterns, longevity of the lease, and possible services performed by the tenant.

Two major factors with the potential to influence future cash rents are crop prices and land values. Corn and soybean prices received in Iowa peaked in August 2012 at \$7.90 and \$16.80 per bushel, respectively. In March 2016, corn and soybean prices were \$3.50 and \$8.50 per bushel, respectively, and have accumulated a 55.7 percent and 49.4 percent decline from their peak values (Figure 3). Due to current and projected low crop prices, profit margins in corn and soybean production on cash rented acres are expected to remain very tight or negative, and most operators will likely attempt to negotiate lower rents to cash flow the operation.

The second major factor affecting cash rents is the return on investment for landowners. Figure 4 shows the evolution of the ratio of average cash rents to average land values in Iowa. It suggests that the average return on investment for landowners who cash rent their land to operators has followed a declining trend since the early 1990s, and it has stabilized at around 3 percent after 2010. Note that this ratio does not measure net returns because ownership costs, such as real estate taxes, are not taken into account in its calculation. However, it is indicative that landowners (whose goal is to obtain a reasonable rate of return on their real estate assets) will likely be reticent to accept lower cash rents in the future. If land values continue to decline and the rate of return to comparable assets remains stable, then a stable ratio might be consistent with lower cash rents.

**Figure 4. Ratio of average cash rent to average land value in Iowa, 1990-2015**



Source: Author's calculations based on IA Farmland Values Surveys and Cash Rental Rates for IA Surveys

Other resources available for estimating a fair cash rent include the AgDM Information Files [Computing a Cropland Cash Rental Rate](#) (C2-20), [Computing a Pasture Rental Rate](#) (C2-23) and [Flexible Farm Lease Agreements](#) (C2-21). All of these fact sheets include decision tools (electronic spreadsheets) to help analyze individual leasing situations.

For questions regarding the cash rent survey, contact the authors. For leasing questions in general, contact a farm management field specialist, [www.extension.iastate.edu/ag/farm-management-0](http://www.extension.iastate.edu/ag/farm-management-0).



## Selling spring and summer price rallies

By Steven D. Johnson, PhD, farm management specialist, 515-957-5790, [sdjohns@iastate.edu](mailto:sdjohns@iastate.edu)

Futures price volatility is a friend of row crop farmers. Higher price volatility during the spring months leading to higher futures prices can be expected nearly every year. That's because weather uncertainty in the Northern Hemisphere influences futures prices where the majority of global feed grain and oilseed crops are grown. Futures prices tend to become more volatile than those witnessed during winter months.

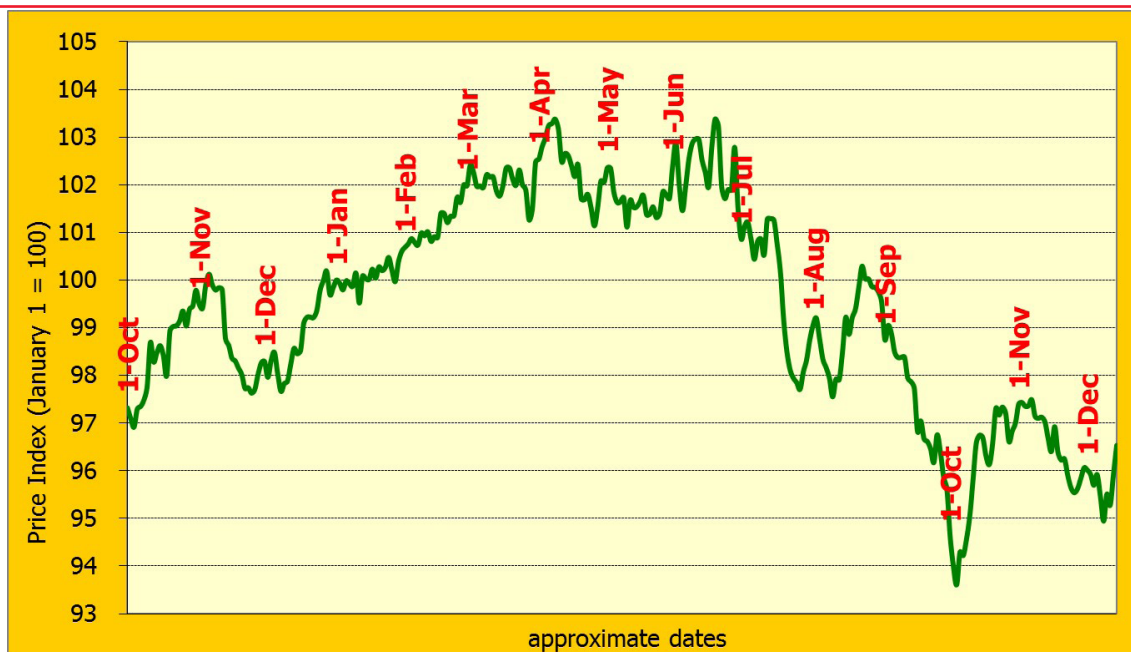
In most years, farmers should consider using this price volatility during spring to finish marketing most of their old crop bushels. By April and May, expect attractive basis levels especially for corn as processors bid to gain access to stored bushels. Making sales by mid-June can also help avoid the risk of storing multiple years of crops that could lead to constraints on cash flow and working capital.

Use this same spring timeframe to sell a portion of your new crop corn and soybeans. This can generate cash for the fall and winter months and avoid long-term storage and interest costs. Year in and year out, these marketing strategies will pay off as higher seasonal futures prices tend to favor the spring months. However, there's no guarantee that these price highs always occur in this same timeframe.

### The seasonals

A rally in the new crop December corn futures price happens nearly every year by April or May. The December futures contract tends to move higher from its winter doldrums. Prices remain relatively high until at least mid-June when more is known about the planted acreage and yield prospects. New crop November soybean prices also tend to rally during the spring and sometimes lasts into the summer months. These higher new crop futures prices are referred to as the Seasonals.

Figure 1. December corn seasonal trends (1990-2015 indexed)



Selling spring and summer price rallies, continued from page 4

The December corn futures (Figure 1) and November soybean futures price charts (Figure 2) featured are for the period 1990-2015 and were created by Ed Usset, grain marketing specialist with the University of Minnesota. Prices are indexed annually with the January 1 price equal to 100. He then records the weekly futures price closes for the calendar year as a line graph beginning in January and ending 12 months later. By indexing the futures prices annually on January 1, he reduces reflecting the price extremes realized in years with weather problems like 1993, 1995, 2010, 2011, and 2012.

Note that over this 26-year period, both December corn and November soybean futures prices tend to rally by the late winter months. Prices remain relatively high into the late spring or early summer months.

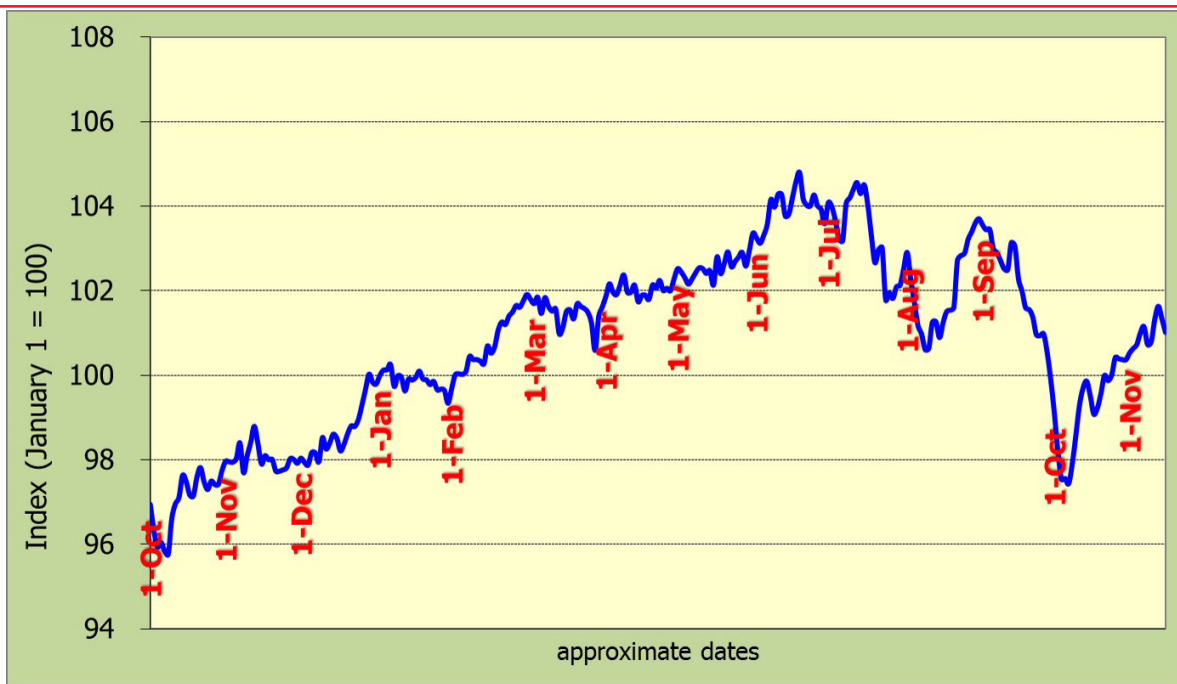
The decision to take Revenue Protection (RP) crop insurance in 2016 now provides the ability to pre-harvest sell for delivery a portion of your guaranteed new crop corn and/or soybean bushels.

Selling these insurance bushels between March and early July is often complimented by the seasonal futures highs. A goal in 2016 might be to sell some of these guaranteed bushels when futures prices are above the *crop insurance* projected prices, which are \$3.86 per bushel for corn and \$8.85 per bushel for soybeans, respectively.

**Choosing the right marketing tool**

New crop sales can be made using forward cash or hedge-to-arrive (HTA) contracts. These marketing tools work well with RP crop insurance which guarantees revenue reflecting both bushels and futures prices. Both contracts require the delivery of a specific quality and quantity of bushels in a designated time frame. The forward cash contract fixes both the futures price and the basis when the contract is initiated, thus the cash price for delivered bushels is known. The HTA contract leaves the basis open, and fixes only the futures price. If a farmer thinks that the basis might improve prior to delivery of those bushels, then an HTA contract is preferred.

Figure 2. November soybean seasonal trends (1990-2015 indexed)





Selling spring and summer price rallies, continued from page 5

Summary

Keep these key points in mind:

- 1) Consider the importance of seasonal futures price trends in making old and new crop marketing decisions.
2) Futures prices tend to move higher in spring months with the uncertainty of the northern hemisphere crop supply.
3) By the mid-summer time frame, futures prices typically have peaked and tend to reach their lows for the year around harvest. This combines with the typical wide harvest basis to create what is often called the "harvest low."

Updates, continued from page 1

Internet Updates

The following Information Files and Decision Tools have been updated on www.extension.iastate.edu/agdm.

- Computing a Cropland Cash Rental Rate - C2-20 (4 pages)
Flexible Farm Lease Agreements - C2-21 (4 pages)
Understanding Farm Business Transfers - C4-10 (3 pages)
The Farm Business Transfer Process - C4-13 (3 pages)
Examining Your Farm Business Choices - C4-41 (3 pages)
Farm Business Strategies - C6-46 (3 pages)
Portfolio Analysis and Enterprise Strategy Development - C6-48 (2 pages)

Current Profitability

The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

- Corn Profitability - A1-85
Soybean Profitability - A1-86
Iowa Cash Corn and Soybean Prices - A2-11
Season Average Price Calculator - A2-15
Ethanol Profitability - D1-10
Biodiesel Profitability - D1-15

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