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CASH LAND RENT IN SOUTH DAKOTA

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Average cash rent continues to rise in South Dakota as well as throughout the country. However, the rate of increase in cash rent has been slower than the rate of increase in the market value of farm real estate. From 1970 to 1978 farm real estate market value increased nearly 170%, whereas, cash rent only increased about 125% in the same period. Assuming these relationships continue, we can expect 8% to 13% increases in the dollars of cash rent per acre for 1978 compared with 1977 rates if farm real estate values increases 15 to 20%. (Table 1)

Landlord's Estimates. The owner of the land is concerned about getting a return on his land investment and paying the taxes. Currently, most taxes in South Dakota are between 0.6% and 2.0% of market value of the land. If the rate isn't known use a figure between 1.0% and 1.5%. The landlord's expected net returns typically range from 4.5% to 5.5%. Adding taxes to these results in expected cash rents of 5.5% (4.5 + 1.0) to 7.0% (5.5 + 1.5). In 1977 the range for the Dakotas, Nebraska and Kansas was 6% to 7.3%.

Tenant's Estimates. The renter of the land is concerned about getting paid for all of his costs plus a return for risk and management. In Table 2, four productivity levels are shown with typical costs and expected gross sales as well as an estimated current market value for each type of land. If the expected yields are attained and the renter receives the equivalent of \$2.10 for his corn at the farm gate, the rent that he can afford to pay is nearly equal to a 6.6% rental rate on the assumed market values for the land.

Bargaining Range. In these examples, since the landlord's and tenant's estimated values are close together, there is no real bargaining range. In other cases though one could have situations for better quality land where the landlord would ask \$75 per acre, whereas the tenant's calculation of break-even rent might be only \$60 per acre. In this case the tenant may have to forego several dollars of his risk and management return. His offer would then be in the mid 60's. In the bargaining process they would likely settle on a figure of about \$70 per acre.

Table 1. TYPICAL AVERAGE CASH RENT IN SOUTH DAKOTA AS A PERCENT OF CURRENT FARM REAL ESTATE MARKET VALUE

Year	Whole Farm			Cropland Only	Pasture Only
	Value	Rent	Ratio		
1970	\$ 84	\$/A 6.13	7.3 %	8.1 %	6.3 %
1971	85	6.38	7.5	8.4	6.2
1972	89	6.59	7.4	8.4	6.5
1973	97	6.98	7.2	8.0	6.5
1974	129	8.77	6.8	8.0	6.2
1975	160	10.72	6.7	7.4	6.0
1976	175	11.55	6.6	7.2	5.9
1977 prelim.	190	12.35	6.5	7.0	5.8
1978 proj.	225	13.73	6.1	6.6	5.5

Table 2. ESTIMATING PER ACRE BREAK-EVEN RENT THAT CAN BE PAID
AND COVER ALL COSTS, CORN GRAIN, 1978

Charge Item	Yield Expected				Your Estimate
	75	56	49	38	
Seed	9.00	8.00	7.00	5.30	
Fertilizer	18.00	15.00	13.00	5.00	
Chemicals	12.50	9.00	8.00	4.00	
Machine					
Operating	12.50	12.00	11.50	11.00	
Fixed	18.50	18.50	18.00	18.00	
Dry-Store	9.00	7.00	5.50	4.00	
Overhead	3.00	3.00	3.00	3.00	
Labor	8.50	8.00	7.50	7.00	
Interest, Risk Management	<u>8.50</u>	<u>7.90</u>	<u>7.50</u>	<u>6.85</u>	
A. Total Charge	\$99.50	\$88.40	\$81.00	\$64.15	
B. Yield	75	56	49	38	
C. Price/Bu.	\$ 2.10	\$ 2.10	\$ 2.10	\$ 2.10	
D. Gross (B x C)	\$157.50	\$117.60	\$102.90	\$79.80	
E. Break-even Rent (D - A)	\$58.00	\$29.20	\$21.90	\$15.65	
	<u>Landlord's Expected Rent</u>				
F. Land Value	\$880	\$460	\$340	\$255	
G. Rental Rate	6.6%	6.6%	6.6%	6.6%	
H. Expected Rent (F x G)	\$58.08	\$30.36	\$22.44	\$16.83	

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