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## Farmland Cash Rental Terms in South Dakota


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Farmland Cash Rental  
Terms in South Dakota

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Cash rents per acre for cropland and pasture continue to decline in most regions of South Dakota, but at a lesser rate than the declines in farmland sale prices. Cash rents vary greatly across South Dakota by land use and cropping patterns.

These findings are based on results from a May 1986 SDSU farmland rental survey of South Dakota landlords and renters. In this Newsletter issue, we also discuss historical statewide trends in cash rents and typical cash rental agreements for 1985 and 1986 for crop, hay and pasture (including rangeland) land in different regions of South Dakota. Cropshare leases are discussed in the next Economics Newsletter.

Cash Leases are Widespread

Cash rents are widely used in leasing South Dakota crop, hay and pasture land. Based on the SDSU survey, an estimated 75% of South Dakota farm renters and 60% of landlords are involved in one or more farmland cash leases.

Cash rents are easy to calculate and dollar amounts of payments (returns) are known in advance. Compared with cropshare rentals, cash renters have greater managerial freedom concerning crop selection, input allocation, and timeliness of field operations. However, with cash rents, the tenant also assumes all of the production risk.

Many landlords prefer cash rental agreements because the amount of cash income is known in advance and they are not responsible for participating in most farm management decisions. Cashrent landlords do, however, assume some risk of their tenants being unable to make their rental payments and do not share in benefits from high production/income years.

Cash rents are closely related to the level of and changes in farmland market values. Market values of agricultural land are fundamentally derived from current net returns and expected changes in net returns to farmland. Cash rents minus property taxes and landlord maintenance expenses represent a close approximation of current net returns to farmland.

Statewide Trends, 1976-1986

Cash rents per acre for South Dakota cropland and whole farms increased 55% and 65% respectively from 1976 to 1983. From 1983 to 1986, cropland cash rents declined an average of 16% while whole farm cash rents declined 10%. Pasture cash rents peaked in 1981 at \$10.00 per acre, and have declined since then by 26% (Table 1).

The ratio of rent-to-value is the average (mean) cash rent divided by estimated current market value of land rented. Rent-to-value ratios reflect estimated rates of current gross return (before payment of property taxes and maintenance expenses) to landlords from farmland ownership.

From 1976-1984, statewide cropland rent-to-value ratios varied from 5.9-7.1%, whole farm rent-to-value ratios varied from 5.7-6.9% and pasture rent-to-value ratios varied from 5.0-5.5% (Table 1).

Table 1. South Dakota Farmland Rental Trends, 1976-1986.

Year	Dollars per Acre and Ratio of Rent-to-Value <sup>a</sup>					
	Farms Rented for cash		Cropland Rented for cash		Pasture Rented for cash	
	Per Acre \$	Rent/ Value %	Per Acre \$	Rent/ Value %	Per Acre \$	Rent/ Value %
1976	13.90	6.6	20.50	7.1	6.70	5.4
1977	15.60	6.4	23.00	6.8	7.80	5.5
1978	16.50	6.1	23.40	6.4	7.90	5.2
1979	17.20	5.9	25.20	6.1	9.20	5.4
1980	19.20	5.7	27.30	5.9	9.50	5.2
1981	20.90	5.8	29.50	5.9	10.00	5.2
1982	21.30	5.7	31.10	5.9	9.50	5.0
1983	22.90	6.3	31.70	6.5	9.30	5.5
1984	21.66	6.9	30.75	7.0	8.83	5.5
1985	20.35	8.4	29.35	8.3	8.11	7.3
1986	20.90	8.4	26.45	9.2	7.34	7.5

Source: U.S. Department of Agriculture, Agricultural Resources, AR-2, June 1986 and various earlier issues of Farm Real Estate Market Developments.

a. The rent/value ratios are the average percentages of gross cash rent to estimated farmland market value for whole farms, cropland and pasture.

Rent-to-value ratios climbed to historically high levels in 1985 and 1986, reflecting sharper declines in farmland market values than in cash rents. Cash rent-to-value ratios have increased in recent years because landowners are no longer receiving "paper returns" in the form of capital appreciation. Furthermore, current returns on other financial investments are generally above pre-1980 levels and a wider array of financial instruments is readily available to potential investors (farmers and others) in both rural and urban areas.

### SDSU Farmland Rental Survey

Cash rental questions were included in the 1986 SDSU farmland rental survey sent to a random sample of 4,110 South Dakota farmland renters and landlords in April-May, 1986. This represents 5-8% of farmland renters and landlords in every county. Of the 1,410 surveys returned, 1,155 contained complete and usable rental information.

The characteristics of respondent landlords and renters are quite representative of all South Dakota farm landlords and renters. For example, a majority (56%) of respondents are non-operator landlords and only half of the landlords live in the same county as the farmland they rent out. A majority (54%) of nonoperator landlords are 65 years or older.

Five of six farm operators responding to the survey also own land and nearly one-fourth rent some owned land to others. Most farm operators are between 35-64 years old.

### Cash Rents-Current Situation

Three-fifths of respondent landlords and 75% of farm renters are involved in one or more cash leases for crop, hay or pasture. Almost 65% of 770 respondents with cash leases also report separate cropshare leases.

The average tract sizes are 273 acres for crop and hay cash leases and 416 acres for pasture cash leases. The average (mean) length of time respondents have leased these acres is 10-11 years.

A majority of cash leases involve verbal agreements and two-thirds involve annual leases. A majority of crop and hay cash leases are paid in two installments per year. A few leases are paid quarterly and the remainder are paid once a year.

Cash rents are quite variable within each region and highly variable among regions in the state. Within each region, the average (mean) cash rent per acre is highest for cropland, followed by alfalfa hayland, native hayland and native pasture (Figure 1, Tables 2 and 3). For each land use, average cash rents are highest in southeast and east central South Dakota. Cash rents are lowest in the west and northwest regions of the state.

### Cropland Cash Rents

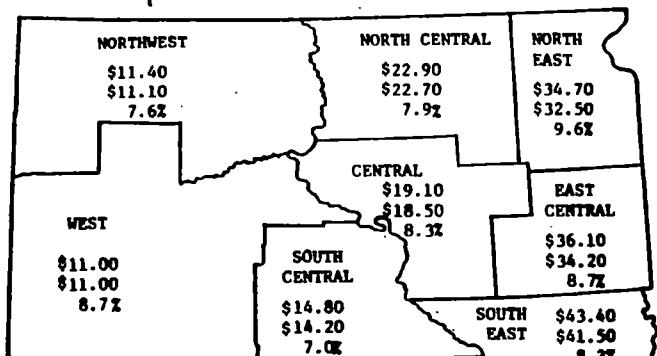
Cropland cash rents per acre declined from 1985 to 1986 for all regions and cropping patterns, except for wheat-grain farmland in western South Dakota (Figure 1, Table 2).

In eastern South Dakota, pronounced differences in cash rents per acre occur by region and cropping pattern. For example, the average 1986 cash rent per acre varies from \$48 for corn/soybean farmland to \$29.70 per acre for farmland growing wheat, corn and other grains (Table 2). Average cash rents vary from

\$41.50 in the southeast to \$32.50 in the northeast (Figure 1).

In central South Dakota, cash rents are highest in the north central region and lowest in the south central region. Cropland cash rents average \$11/acre in both regions of western South Dakota.

Figure 1. Cropland Cash Rents by Region of South Dakota



Top No: 1985 Average Cropland Cash Rent - \$/acre  
 Middle No: 1986 Average Cropland Cash Rent - \$/acre  
 Bottom No: 1986 Rent-to-Value Ratio - %

Table 2. Average (Mean) Cropland Cash Rents by Region and Cropping Pattern.

Region and Cropping Pattern	Rent per acre		Rent/Value ratio 1986
	1985	1986	
<b>Eastern South Dakota</b>			
Corn/soybeans	50.70	48.00	8.8
Corn/soybeans/grain	39.70	37.40	8.3
Corn/wheat/grain	30.90	29.70	8.3
<b>Central South Dakota</b>			
Corn/wheat/grain	20.90	20.10	8.2
Wheat/grain	17.70	17.60	7.3
<b>Western South Dakota</b>			
Wheat/grain	11.00	11.00	8.0

Source: South Dakota Farmland Rental Survey, May 1986.

- Eastern S.D. includes the southeast, east central and northeast regions. Central S.D. includes the north central, central and south central regions. Western S.D. includes the west and northwest region. See Figure 1 for a map of the regions.
- Cropping patterns are combinations of major crops raised on the rented land. Only major cropping patterns are included in this table. Explanation:
  - Corn/soybeans - corn and soybeans are the only major crops raised.
  - Corn/soybeans - grain - corn, soybeans and other grains (oats, wheat, etc) are raised.
  - Corn/wheat - grain - corn, wheat and other grains are raised. No soybeans are grown.
  - Wheat/grain - wheat and small grains are raised but no corn or soybeans are grown.

Notes for Table 2 and Figure 1

- Rent per acre is the average (mean) rent of all respondents reporting cropland cash rents for 1985 and 1986, rounded to the nearest 10 cents.
- The rent/value ratio is the average (mean) ratio of gross cash rent to current (1986) market value of the rented cropland as estimated by respondents.
- The per acre market value of land can be calculated by dividing the rent per acre by the ratio of rent-to-value and multiplying by 100 [e.g.  $(\$41.50/8.3) \times 100 = \$500$ ].

Hay and Pasture Cash Rents

Cash rents per acre for alfalfa are considerably higher than cash rents for native hay and pasture in all regions of South Dakota. The dollar amount and percentage difference is greatest in eastern regions of the state where the yield differential is also greatest (Table 3).

Table 3. Average (Mean) Cash Rent for Alfalfa, Native Hay and Pasture, by Region, 1985 and 1986.\*

Region	Alfalfa Rent per acre		Native Hay Rent per acre		Native Pasture Rent per acre	
	1985	1986	1985	1986	1985	1986
South-east	35.40	35.00	18.50	17.70	18.50	17.80
East Central	30.70	30.00	18.20	18.00	16.50	15.90
North-east	31.80	27.80	17.50	16.60	14.70	13.60
North Central	18.20	17.60	12.00	11.80	11.70	11.30
Central	17.50	17.00	14.10	13.30	11.90	11.20
South Central	12.00	11.70	10.20	9.90	8.40	7.50
West	13.20	13.20	*	*	5.50	5.50
North-west	10.40	10.20	6.20	5.90	4.70	4.60

\* Insufficient number of reports.

\* Based on respondents reporting alfalfa, native hay or native pasture cash rental rates in 1985 and 1986. Rental rates are rounded to the nearest 10 cents. This includes 110 reports on alfalfa, 107 reports for native hay and 440 reports for native pasture.

Cash leases are used more frequently for native pasture and hayland in central and western regions of South Dakota. Further, native hay and pasture per acre cash rents in west and northwest South Dakota are about one-third of those in east central and southeast South Dakota.

Respondents report declines from 1985 to 1986 in hay and pasture cash rents in all except the west region, where cash rents are reported as unchanged. Annual percentage declines in hayland cash rents vary from 2% in northwest South Dakota to 12% in the northeast.

One of every nine renters report leasing their major grazing tract from state, Federal or tribal governments. The other renters lease from individual landlords.

Leased pasture tracts usually require added time for checking livestock, maintaining and repairing fences, and

fertilizing pastures. Rental rates are affected by agreements on which party (tenant or landlord) performs specific tasks. More than 90% of respondents indicate the tenant is solely responsible for checking livestock and providing salt and minerals. The remainder indicate the landlord or both parties perform these tasks.

Three of five respondents indicate the landlord pays for fencing materials, but only one of five landlords provides the labor for maintaining fences. Landlords living in the same or adjacent county to their leased pasture tracts are much more likely to pay for fencing materials than are "absentee" landlords.

Nearly two-thirds of respondents report their leased pasture tract to be periodically fertilized. In most (79%) cases, the tenant pays for the fertilizer.

#### Concluding Remarks

Cash rents are the most common leasing agreement for hay and pasture tracts in South Dakota. Cash rental agreements are also used on about 40% of leased cropland in the state.

Cash rents have been declining for cropland and other land uses in most regions of the state. In most cases, the rates of decline in cash rents have been less than for farmland sale prices. Cash rent-to-farmland value ratios are now at historically high levels. This could be good news for potential farmland buyers if cash rents (and returns to farmland) are expected to remain stable. However, considerable pressure exists for continued declines in cropland cash rents, reflecting lower crop prices, high dependence on Federal commodity programs and continued uncertainty about the future direction of farm programs.