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November 5, 1986

Crop Share Rental Terms in South Dakota

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Crop share leases are the most common cropland rental agreement used in South Dakota. The information on current crop share lease agreements reported in this newsletter is based on results from a May, 1986 SDSU farmland rental survey of South Dakota landlords and renters.

Survey procedures and general respondent characteristics are reported in the previous Economics Newsletter (No. 242) on cash rental agreements.

Reasons for Crop Share Agreements

Share rental arrangements provide a mechanism for sharing risks in land use between landlords and tenants.

From the landlords' perspective, share leases require their involvement in crop production decisions which permit them to more effectively protect soil fertility and prevent soil erosion. Taking a crop share as payment adds risk on the amount of return received by landlords but also permits them to share benefits from above average yields and tenant management. Another source of risk for some landlords (especially absentee or elderly landlords) is the verification of yields on which their share payments are based.

For tenants, share rental arrangements are a method for sharing yield risks from crop production. Since the rental payment is directly related to the amount produced, the risk of lower yields (and income) is shared with the landlord, but so also is the benefit of extra production

(and potential profits) in favorable years. The sharing of input costs, as many leases provide, and the lack of a cash rental payment for land reduce an operator's cashflow requirements. This feature can be attractive to farmers with cashflow shortages and to their lenders. Shared management decisions, however, can reduce operator flexibility and independence in selecting crop production and marketing practices.

Share Leasing is Common

Based on results from the 1986 SDSU farmland leasing survey, 65% of respondent renters and landlords (748 of 1155 responses) are involved in share leasing. Most (90%) of these respondents are involved in crop share leases and about 25% report hay share leases.

Nearly one-half of crop share lease respondents are also involved in separate cash leases for pasture, hay or cropland. Also, half of farm operator respondents report involvement in three or more leases, compared to only 16% of landlords.

Landlords share lease an average of 311 acres, while renters share lease an average of 550 acres. The average tract size per share lease is 282 acres, and the average (mean) period for leasing is 13 years.

Output Shares

Statewide the most frequently used share arrangement involves a 2/3 tenant share of the crop (Table 1). Typical tenant output shares vary from a 2/3 or 3/4 share on spring wheat farms in northwestern and north central South Dakota to a 3/5 or 1/2 share on corn-soybean farms in southeastern South Dakota.

The tenant's share most frequently reported in each county is shown in Figure 1. A 3/5-2/5 tenant-landlord share agreement is most frequently used in counties

along the east and southeastern border of the state. Most of the 1/2-1/2 tenant-landlord share agreements are reported in Clay, Lincoln and Union counties.

corn and soybeans are the only crops raised. The 3/5 or 2/3 tenant share leases are commonly found on tracts (in eastern South Dakota) where soybeans, corn and other grains are rotated. A 2/3-1/3 tenant-landlord share is reported by over 80% of respondents listing wheat as a major crop on their rented land.

Table 1. Tenants' Share of Dryland Crop Output: by State, Region and Cropping Pattern

	Number of usable responses	Tenants' Share of Crop Output				
		1/2	1/2	3/5	2/3	3/4
-----percent of responses-----						
South Dakota	628	2	10	24	60	4
Region^a						
Southeast	170	4	13	44	39	0
East Central	130	1	8	53	37	1
Northeast	97	1	8	7	83	1
North Central	75	1	11	1	71	16
Central	45	4	7	0	85	4
South Central	56	2	9	0	87	2
Western	32	6	10	0	84	0
Northwest	23	4	0	0	74	22
Cropping Pattern^b						
Corn/soybeans	104	2	20	60	18	0
Corn/soybeans/grain	161	1	9	45	44	1
Corn/wheat grain	175	3	6	7	82	2
Wheat/grain	129	2	6	0	81	11

a See Figure 1 for a map and description of these regions.

b 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.

The 2/3-1/3 tenant-landlord crop share lease is clearly the dominant share lease in western, south central, central and most of northeastern South Dakota. This leasing arrangement is reported by 82-88% of crop share renters and landlords in these regions.

A few respondents in each region report a majority share of output received by the landlord. In these special cases, however, landlords also share most inputs and often provide some machinery.

Share leasing arrangements correlate very closely with cropping patterns. The 3/5 tenant share lease is predominant on tracts (in eastern South Dakota) where

Sharing of Inputs

The number and percent of respondents reporting input costs shared by landlords and tenants varies widely across the state. The number of inputs shared also shows wide variation by region and cropping pattern (Table 2).

Fertilizer expenses are the most commonly shared input expense, followed by the sharing of herbicide and insecticide outlays. Fertilizer expenses are shared by more than 85% of respondents share leasing farmland and raising corn and soybeans in east central and southeastern South Dakota. Fertilizer expenses are also shared by 79% of northeast region respondents and over 60% of respondents share leasing cropland in the central and north central regions of South Dakota.

Herbicide and insecticide expenses are shared in a majority of crop share leases (55-70%) in eastern regions of South Dakota and on rented farms where corn and soybeans are raised.

The incidence of sharing fertilizer, insecticide and herbicide expenses decreases sharply in the central and western regions of South Dakota and on farms where wheat and other small grains are the dominant crops.

Chemical application costs are shared in 25-40% of crop share leases reported in eastern and central South Dakota. Grain drying expenses are reported as shared by one-third or more respondents raising corn in all regions east of the Missouri River.

Seed costs are shared in 27% of corn-soybean crop share leases, and in less than one-fifth of other crop share leases. Harvesting costs are seldom shared.

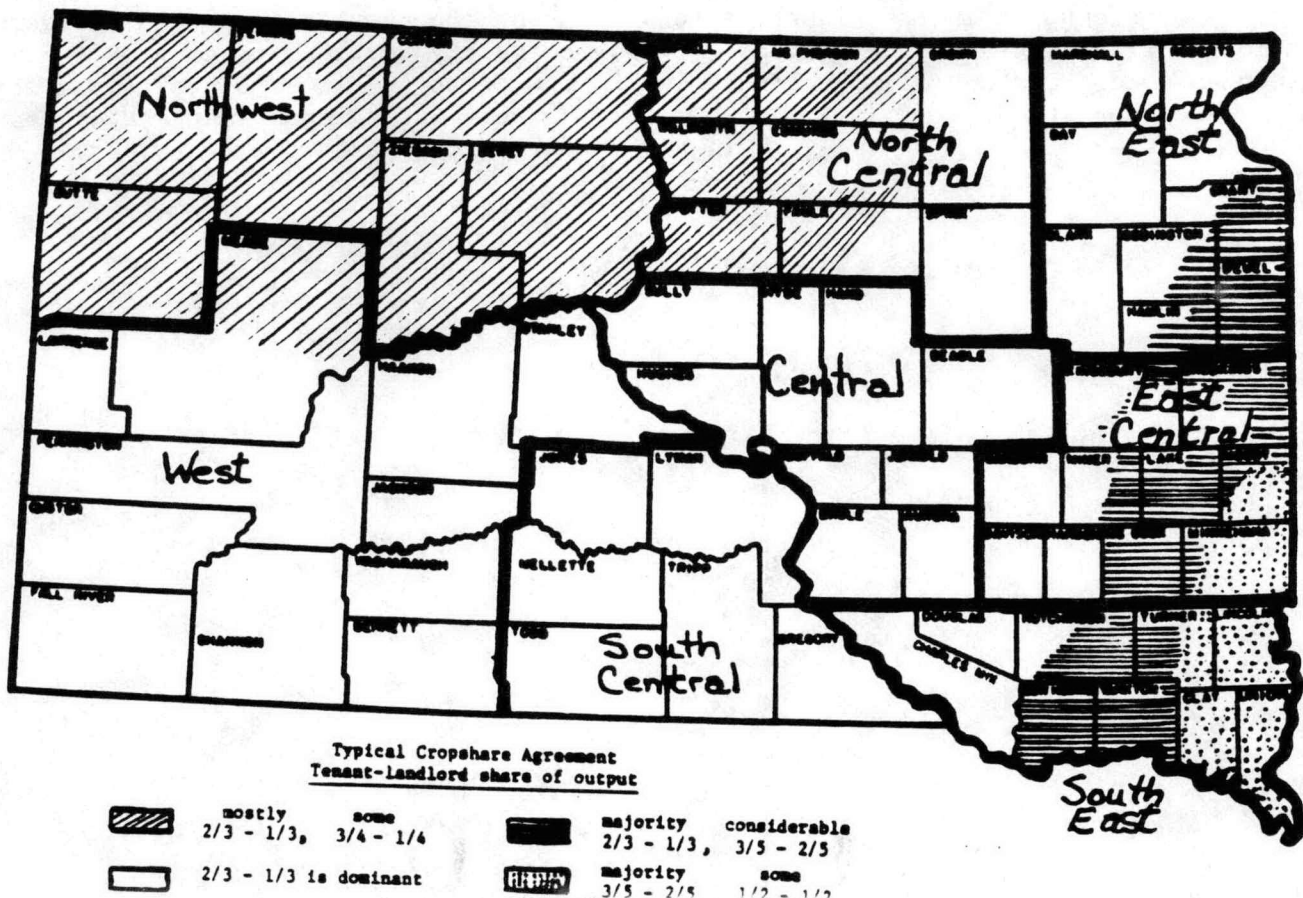
Input costs are more frequently shared on leased tracts where corn and/or soybeans are grown and the tenants share

Table 2. Proportion of Respondents Reporting Shared Inputs on Crop Share Leases by Region and Cropping Pattern

Region	Number of us responses	Input Costs						
		Seed	Fertilizer	Herbicide	Insecticide	Chemical Application	Harvesting	Drying
-----percent of respondents reporting cost of inputs shared-----								
Southeast	170	18	88	58	53	22	5	33
East Central	130	11	85	69	62	33	3	34
Northeast	98	6	79	63	44	25	9	36
North Central	75	9	61	47	32	40	11	36
Central	45	4	62	36	27	22	7	36
South Central	56	13	57	46	39	25	5	16
Western	32	19	31	25	19	16	13	9
Northwest	24	8	29	13	13	13	0	4
Cropping Pattern								
Corn/soybeans	104	27	89	70	65	27	4	43
Corn/soybeans/grain	161	9	87	68	55	31	8	34
Corn/wheat/grain	175	8	78	52	42	30	6	39
Wheat/grain	129	11	42	29	25	20	5	8

a See Figure 1 for a description of regions. See Table 1 for a description of cropping patterns.

Figure 1. South Dakota Cropland Share Rental Terms and Regions



is 1/2 or 3/5 of the crop. By contrast, crop share leases for wheat and small grains (usually 2/3-1/3 tenant-landlord share) include few shared input costs. For these leases, fertilizer expense is more frequently shared (41%) than are expenses for other inputs.

Other Characteristics

Respondents with 12% of crop share leases include an additional cash payment for hay or pastureland (or both) in the same lease agreement. In these cases, hay or pasture acres are part of the same tract and are not the dominant land use. Nearly half of the crop share leases include provisions for tenants to have forage rights to harvested cropland. Only a few leases require tenants to pay an additional fee for this privilege.

Approximately one-half of the share leases reported are verbal, annual agreements. The remaining crop share leases are verbal multi-year, written annual or written multi-year leases in about equal (1/6) proportions.

Changes in Crop Share Leases

All respondents were asked to indicate whether, in the last five years, certain changes had occurred in their lease provisions or in the identity of landlords or tenants. Relatively few respondents reported any major changes in these characteristics.

The change reported most frequently, by 11% of respondents, is that a different tenant is now leasing that tract of land. Ownership of the leased land has changed in just under 4% of the cases.

For 5% of respondents, the lease has changed from cash to crop share over the last 5 years. The landlord's share of the crop has increased in 3% of the leases, and was reported as having decreased in only 1.5% of the leases.

In lease agreements where input costs are shared, almost 4.5% reported that the landlord's share of input costs has changed. Another 3.5% of respondents indicated that the number of inputs shared in their leases had changed.

Conclusions

Share leasing of South Dakota farmland continues as an important part of modern agricultural crop production. Input costs are shared more often on leased tracts for higher valued cropland and for crops (corn and soybeans) requiring more intensive production practices. For these leases, the landlords' share of the crop is also increased. Despite the increased financial complexity of modern agriculture, the most typical share lease is verbal and annually renewed. Finally, even though there has been increased uncertainty in the farm economy, relatively few changes in the provisions of crop share leasing agreements have been made during the past five years.