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4-30-1984

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### Recommended Citation

Aanderud, Wallace G., "Trends in South Dakota Cash Rent" (1984). *Economics Commentator*. Paper 204.  
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No. 208

April 30, 1984



## TRENDS IN SOUTH DAKOTA CASH RENT

by

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During the past few months, several questions have been raised on how much cash rent should be paid or how much should be asked. Most of these questions relate to cropland. A simple answer could be somewhere between 6 and 7% of current value for cropland and 0.2 to 0.3 percentage points lower for whole farm units. Pasture alone tends to rent at least one percentage point lower than cropland.

The purpose of this newsletter is two-fold: to review the recent history of cash rent levels and to provide a system of budgeting that will enable the computation of "reasonable" cash rental rates--from the standpoints of both landlord and tenant.

Throughout the 60's, the rate of increase in the price of land per acre was faster than that for cash rent. As a percentage of the market value of land, cash rent peaked for whole farms at 7.5% in 1971. Rent for pasture alone peaked at 6.4% in 1972. Cropland alone showed a high in both 1971 and 1972 of 8.4%.

Although cash rent in dollars per unit continued to rise, it represented a declining percentage of value until 1981, when it began to increase for some types of land. Due to low income from grazing, livestock pasture rents have been erratic (Table 1).

Table 1. Average Cash Rent in Dollars Per Acre and as a Percentage of Current Market Value, South Dakota

Year	Whole Farm Units			Cropland Only		Pasture Only	
	Value	Rent	Ratio	Rent	Ratio	Rent	Ratio
	(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)
75	170	11.40	6.7	17.70	7.6	8.10	6.3
76	210	13.90	6.6	20.50	7.1	7.70	5.8
77	243	15.60	6.4	23.00	6.8	7.80	5.7
78	270	16.50	6.1	23.40	6.4	7.90	5.2
79	292	17.20	5.9	25.20	6.1	9.20	5.0
80	337	19.20	5.7	27.30	5.9	9.50	4.4
81	360	20.90	5.8	29.50	5.9	10.00	5.1
82	384	21.30	5.7	31.10	5.9	9.50	4.7
83*	364	22.90	6.3	31.70	6.5	9.30	5.1
84**	355	23.10	6.5	32.00	6.7	9.50	5.3

Source: Farm Real Estate Market Developments, Out. and Sit. USDA, ERS CD-88  
ann 155.

\*Preliminary data.

\*\*Projected data.

Discussions with renters and owners of land indicate that the market value of land has continued to decline into 1984, with cash rent in 1984 the same or slightly higher than in 1983. Based on these discussions, projected estimates for 1984 would be 6.5% of current value for whole farms, 6.7% for cropland only and 5.3% for pasture.

Bargaining Range. Rental rates in a given area are established based on the felt need of a land-owner for a level of rent and how many dollars a renter has left to spend after covering all other charges for the crop. Often the landlord's felt need is higher than the tenant's calculated rent that he can pay. The difference between these two becomes the bargaining range.

In early 1984 in an area of east central South Dakota, owners of land were asking \$55 per acre rent for cropland. Neighbors, who were potential renters, were saying that they wouldn't consider paying more than \$35 at that time. As a result of bargaining, much of the land was rented for \$45 with some parcels being rented for the full asking price of \$55 per acre.

Table 2. Estimating per Acre Break Even Rent that Can Be Paid and Cover All Costs, Corn Grain, South Dakota, 1984

Charge Item	Yield Expected				Your Estimate
	86	70	60	52	
Seed	11.00	10.00	8.50	7.00	_____
Fertilizer	20.00	15.00	12.00	9.00	_____
Chemicals	25.00	21.50	18.00	14.50	_____
Machine					_____
Operating	21.00	20.50	20.25	20.00	_____
Fixed	32.00	31.50	20.75	30.00	_____
Dry Storing	15.00	12.70	10.80	9.25	_____
Overhead	5.00	4.75	4.50	4.25	_____
Labor	9.00	8.60	8.30	8.00	_____
Interest, Risk Management	10.00	9.00	9.00	9.00	_____
A. Total Charge	\$148.00	\$133.55	\$122.10	\$111.00	_____
B. Yield (bu/acre)	86	70	60	52	_____
C. Price/Bu	\$2.55	\$2.55	\$2.55	\$2.55	_____
D. Gross (B x C)	\$219.30	\$178.50	\$153.00	\$132.60	_____
E. Break-even rent (D - A)	\$71.30	\$44.75	\$30.90	\$21.60	_____
F. Land Value	\$1,100	\$700	\$480	\$340	_____
G. Rental Rate	6.7%	6.7%	6.7%	6.7%	_____
H. Expected Rent (F x G)	\$73.70	\$46.90	\$32.16	\$22.78	_____

Based on farmer information with each charge item dollar value rounded for clearer presentation of data.

In Table 2, sample calculations are given that show how one might calculate rent that the tenant can pay after covering all costs other than rent (Lines A-E). Further, the rent expected by landlords for owning the resource is demonstrated (Lines F-H). In these examples, the bargaining range is narrow since the break even rent for the tenant (Line E) and the expected rent by the landlord (Line H) are close together. The actual difference is only \$2.40 for the highest cost land and \$1.18 for the lowest cost land.

Landlords' Estimates. Owners of land are concerned about a return on land investment and paying real estate taxes. Taxes on most South Dakota cropland are currently between 0.7 and 1.2% of market value. Surveys taken in 1980 and 1982 indicated that individual landlords were receiving from cash rent a 5 to 6% return on current value. With current tax rates and these returns to landlords for investing cash rental rates are expected to range from 5.7% (0.7 + 5.0) to 7.2% (1.2 + 6.0) in the immediate future for cropland.

Tenants' Estimates. Renters need to be concerned about getting a return to cover all of their out of pocket costs, fixed costs and family labor plus a charge for risk and management if they are to survive. In Table 2, four budgets based on different productivity levels are shown with typical costs and expected yields assumed. These expected yields, with corn priced at \$2.55 per bushel at the farm gate, show that the renter cannot quite pay these costs plus the landlord's expected rent with an assumed rate of 6.7% of the values shown. In order to cover the landlord's expected rent, he would either need about a bushel higher yield or three cents a bushel higher price per bushel.

A "your estimate column" is available at the right of Table 2 in which interested readers can show information for their particular situation.

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Cooperative Extension Service  
U.S. Department of Agriculture  
South Dakota State University  
Brookings, SD 57007

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