Factors Determining Land Rental Rates in 2015

Land rental rates increased dramatically from 2009-2013 due to the demand for farmland in the county. This demand was driven by higher commodity prices, larger farms seeking more land for both manure disposal and feed, and larger equipment allowing grain producers to run more acres. The higher cost and limited availability of land in the surrounding counties also contributed to higher rental as more operators were looking for land.

Due to much lower commodity prices in 2014 Green County farm land rental rates dropped for the first time in several years. According to the USDA the average farm land rental rate was $157/acre for Green County in 2014 a decrease of 1.9%. We are likely to see continued downward pressure on farm land rental rates. However, the decline will likely not be large or rapid as most of the surrounding counties had increases in rental rates in 2014 and there is still a good demand for farm land. A factor that will also temper significant reductions in farmland rental rates include the current level of farm land prices. Although land prices have already peaked we are not likely to see a drastic reduction in land values like they are seeing in other states because our values did not spike as high.

Another factor that may temper the decline in land rental rates include the fact that we have a lot of multi-year rental contracts that are still locked in at higher rates that will run through the 2015 cropping season. Since there is still a solid demand for crop land we will likely also see some farmers willing to again accept very small profit margins for another year just to maintain their future access to the land they currently rent. However, the biggest factor that ultimately sets any price is supply and demand. Each time a contract is signed for a higher rental rate it raises the bar for everyone that is competing for land.

There are many factors that influence land rental rates. These factors start with the quality of the land and soil types. Obviously a deep Tama soil is going to be worth more than a shallow sloping hillside top that contains lower yield capacity soils such as Sogn. Other factors that impact the value of renting bare ground are as follows:

**Location:** land parcels located near large livestock farms will be higher as will land that adjoins other parcels that are already being farmed by another party. In either case these parcels are worth more to the nearby operators and they will usually be willing to pay more.

**Fertility:** land with low fertility levels will result in lower rental rates. Soil test levels should always be requested when renting new farm land to determine the fertility level of the soils.

**Size of Parcel:** smaller parcels will generally bring lower rates and larger parcels more due to the cost of transporting large equipment. In fact some small parcels of less than 5 acres are rented for free by landowners to reduce their property tax liability through the Farmland Use Assessment law.

**Accessibility:** fields with narrow, steep or poor farm road access for large farm equipment and tractor trailers will bring less than those fields bordering a paved road.
**Contract Length and Payment:** the number of years that the land lease runs and when payment is required will impact the price. Some landlords require 100% of the payment up front. There is usually some discount given on these contracts due to the time value of money. However, most contracts still require half of the rental payment up front and the other half at the end of the year. Many farmers are also looking at flexible cash rental agreements to help reduce rental rates. However, they may find resistance from landlords on fixed income that are not interested in taking on any of the risk in the crop prices or yields even if it could potentially mean higher returns.

**Conservation Plan:** a farm that requires hay in the rotation and containing contour strips may bring lower rental rates because many grain producers are not interested in hay, and don’t want to deal with strips and waterways, therefore you have smaller pool of producers interested in the land.

**Personal factors:** many landlords place a big value in how they are treated (plowing their snow, giving a quarter of beef, etc.) timeliness of payment, and how the land is cared for when determining rates. Many times these personal factors trump all the others listed when determining rental rates.

The bottom line on land rental rates is that the land is worth whatever another party is willing to pay for it and that is set by local supply and demand. If you want to see rental rate charts or get farm cash lease forms, both fixed and flexible go to the UW-Extension Green County Agriculture Web page at: [green.uwex.edu/agriculture/](green.uwex.edu/agriculture/)

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