Considerations in Setting a Cash Rent

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Establishing an appropriate cash rental rate for a farm is difficult and is often influenced by several factors. While it is likely that each situation will have some features that make it unique, the items in this list are common considerations for many situations.

1. Land Quality - It is important to know the soil types on a farm and the natural productive capability of the land.
2. Fertility - Soil fertility levels are often overlooked. Farms with high soil test levels for phosphorus and potassium will require considerably less fertilizer for crop production, and thus may have more rental value. Similarly, farms with low fertility levels may require extra applications of phosphate and potassium to raise nutrient levels to an acceptable level. If the tenant is responsible for the cost of building the fertility level of the farm, this will lower the rental value of the farm. The removal of crop residues such as corn stalks or wheat straw is removing additional nutrients. These nutrients should be replaced through heavier fertilizer applications. The pH level and the party responsible for this expense is also an important consideration.
3. Tile and Drainage - It is important to know the drainage capabilities on a farm and the condition of the existing tile. A farm in which the drainage system has been well maintained will allow for timely planting and harvest. It is also important to determine if the farm includes "wetlands" or "highly erodible" land, as designated by the Natural Resources Conservation Service. This could affect future drainage and cropping practices.
4. Use of Facilities - Use of grain drying and storage units, machinery storage, livestock buildings, and other facilities can add to the cash rent value on a farm unit. In some cases, the use of these facilities is included in rent paid for the tillable land. In other cases, lease terms call for a separate rent to be paid for facilities.
5. Expected crop returns - The potential profit or net return from crop production is a major determinant in the rental rate for a farm. The crop budgets and lease comparison spreadsheets found on the [Farmland Leasing Resources](http://www.agecon.purdue.edu/extension/pubs/farmland_values_resources.asp) Web site <http://www.agecon.purdue.edu/extension/pubs/farmland_values_resources.asp> may be helpful in developing these estimates.
6. Risk - For a fixed cash rent lease, the tenant is bearing all the risk associated with variations in crop yields, crop prices, and crop production inputs. With the increase in grain prices, the variation in crop and input prices has also increased significantly. Economic principles indicate that the reward for taking a greater risk is receiving a larger average return. While the increase in crop prices has increased the net return for the payment of rent, it also needs to be recognized that a part of this residual return is payment for the tenant's increased risk.

7. Services provided by tenant – In many cases, tenants perform services for which they are not paid. These may include such things as providing the labor, fuel, and equipment to mow road ditches, repair tile lines, make building repairs, snow removal, maintenance of lanes and roadways on the farm, etc. These services need to be recognized in establishing the lease amount.
8. The “Going Rate” - The typical or average cash rental rates in an area is also used to determine final rental rates.
9. Previous History – The reputation of the tenant or landlord and/or the working relationship and previous experiences between landlord and tenant is often an important factor in determining final cash rental rates.
10. Payment Dates - The payment dates for cash rental payments can change the “Net Rental Rate” due to interest on the payment. For example, the “Net Rental Rate” is $5.00-$6.00 per acre higher if 100% payment is required in the spring rather than only 40% - 50% percent, with the remainder due in the fall.
11. Tillage System – The long-term use of conservation or no-till systems can often improve soil structure, organic matter content, and overall productivity of the farm. These attributes may have a positive influence on the value of the property when it is sold.
12. Previous Crops - Cropping history can limit your crop options in the coming year. Specialty crops such as tomatoes and potatoes can only be grown one a farm every few years for pest control reasons. Past herbicide usage can also influence crop rotations.
13. Federal Farm Program - The Federal Farm Program was rewritten in 2008. The target prices, loan rates, and loan deficiency provisions were extended with only slight modification. The market price for corn, soybeans, and wheat are at such levels that counter cyclical payments or LDPs are unlikely. The direct payments will continue at their previous level. The new ACRES program needs to be evaluated.
14. Logistics of crop movement.– Having a good set of lanes on the farm and roadways next to the farm that allows grain to be quickly moved from the field to storage or market is becoming increasingly important as the market encourages farmers to produce more corn.
15. Size and Location of Farm – Since the amount of time required to move machinery to a farm is the same regardless of its size, a farm with a small number of acres will likely be less attractive to a new farmer in the area. A farm next to or close to another farm already operated by a tenant in the area may be more attractive. Location relative to streams and rivers is also an important consideration.
16. Size and Shape of Fields – Large rectangular fields that don’t have drainage ditches or waterways through them are easier to farm than those that do. Small and irregularly shaped fields are more difficult to farm with the large machinery that is used by many farmers. This makes farms with these features less attractive.