

## Cash Rent - 2024

### How to Establish Cropland Rental Rates and Formulas

Landlords and tenants can choose from several types of formulas in rental arrangements. In addition to a simple annual cash rent, lease agreements can be formulated around a crop share or a hybrid flexible rental rate calculation, which shares the risks of price and yields.

It is important in a lease agreement to detail the parties' responsibilities and the agreement's period. **Cash Rent is the simplest form of payment: an agreed-upon amount paid** at a set time during the year.

#### Advantages of straight cash rent:

- Income is known for the upcoming year
- Landlord does not have to make any marketing or cropping decisions

#### Disadvantages of straight cash rent:

- Potentially poor tax status as income treated at higher tax rate (generally)
- Does not encourage the tenant to take a long-term perspective
- It does not encourage investment in best management practices such as tillage, cover crops, or soil organic development.
- Discourages multi-species crop rotations

### Things to consider when looking at cash rents:

- What are others doing in the area, although every property is different, you cannot ignore what is happening in the area
- The qualities of the farm: acreage, slope, soil type, access, prior uses, condition of soil historical yield and fertility relative to surrounding properties.
- What are the historic yields on this property and insurance claims relative to County averages?

### Establishing a Fair Cash Rent:

- 1) A useful method to estimate a cash rent is called a “crop-share equivalent,” or the rental rate that would be received from a typical 75:25 crop-share lease. Computing the rate using this method requires estimates of long-term average yields in the area and realistic prices for the coming year. Then, apply a 25 percent discount for variability in weather, yields, and prices since the tenant is assuming all of these risks.

The formula is (yield x 25 percent) x price x 75 percent. You should complete this calculation for more than one crop grown in the area and take the average.

Using some real data: 10-year average yield data: Huron County, Hullett Township:

Corn 160bu/acre, Soy 44bu/acre, Winter Wheat 89bu/acre

Sample rent calculation:

Corn:  $(160\text{bu} \times .25) \times \$5.25 \times .75 = \$159$

Soy:  $(44\text{bu} \times .25) \times \$13 \times .75 = \$103$

Winter Wheat:  $(89\text{bu} \times .25) \times \$6.23 \times .75 = \$103$

The average price in this 3-year rotation should be \$121 as a place to start.

- 2) Another option is to look at long-term yields in your area. Compare cash rents in your area over the past five to ten years against the gross crop value of crops grown per acre. In many areas, cash rent is approximately 20 to 24 percent of gross crop return. This can serve as a starting point for discussing a simple cash payment.