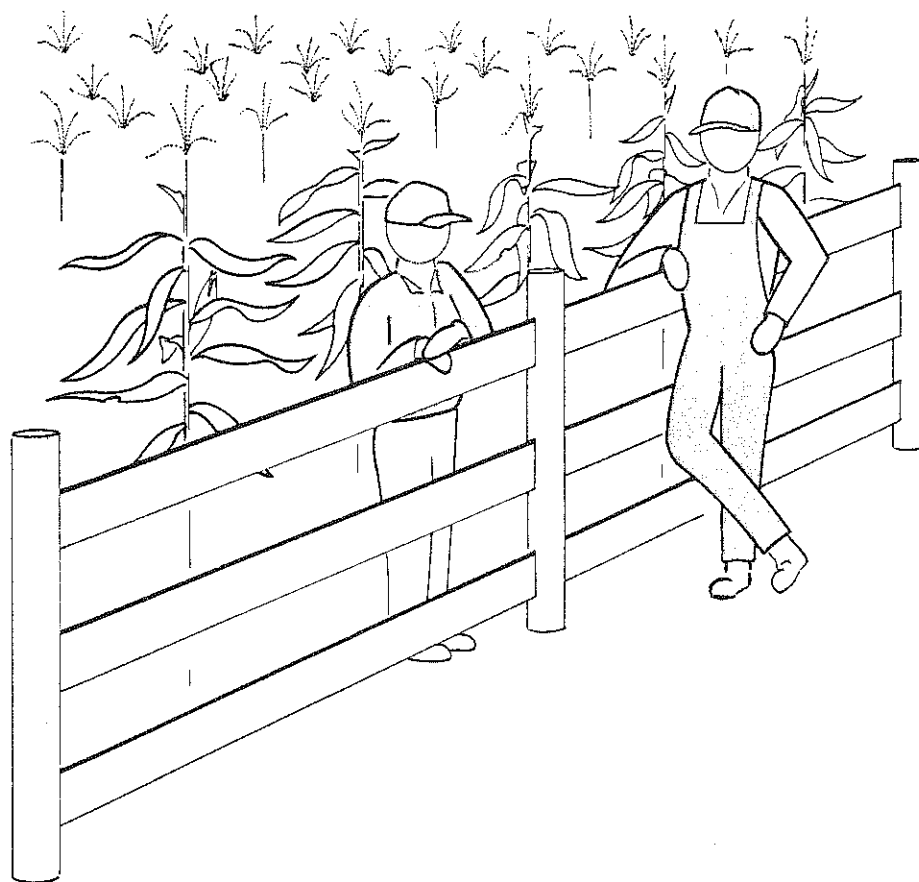


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LAND RENTAL RATES PAID BY NEW YORK DAIRYMEN AND PROCEDURES FOR CASH RENT DETERMINATION



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INTRODUCTION

Land rental information has recently been in increasing demand. Much attention is being directed to the economics of crop production on all land including rented land as a result of rapidly rising fuel and fertilizer costs and increasing property taxes. Both farmer and landowner are in many instances reevaluating the terms of the land rental arrangement. The Federal Tax Reform Act of 1976 which allows for capitalization of land rental rates as an alternative method for valuing eligible cropland for estate taxation purposes has added to the demand for land rental information.

The purpose of this report is to provide descriptive data on land rental rates and arrangements and the characteristics of the rented cropland for use by farmers, landowners and cooperative extension personnel with the numerous management decisions regarding rental of cropland. Also contained in this report is a discussion of methods that can be used for determination of cash rental rates from a renter and landlord perspective.

METHOD OF OBTAINING LAND RENTAL INFORMATION

A Land Rental Rate Survey was conducted during the winter and spring of 1979. Cooperative Extension agents and specialists collected the data either simultaneously with check-in of Cornell Dairy Farm Business Summary records or upon subsequent visits or communications with Business Summary cooperators. Survey forms were completed either by the farmer or by the agent or specialist in consultation with the farmer. All survey forms were sent to the Ithaca campus for summarization and analysis.

The resulting sample is, therefore, neither a stratified or random sample

nor representative of all rented cropland in New York. It is, however, thought to be representative of additional cropland rented by dairymen in the State. Cropland rented exclusively for vegetable or cash field crop production is not included in this survey.

The State is divided into seven regions for summarization and analysis (Figure 1). These regions closely approximate those used in the Cornell Dairy Farm Business Summary Project.

CASH RENTAL RATES

Cash rent for farmland in New York averaged \$13.50 per crop acre during 1978 (Table 1). Cash rents ranged from a high of \$50 per crop acre to a low of zero cash rent being paid by 9 percent of the respondents. Excluding those paying no cash rent increases the average cash rent paid to \$14.70 per crop acre.

FIGURE 1. REGIONS USED IN CORNELL LAND RENTAL RATE SURVEY

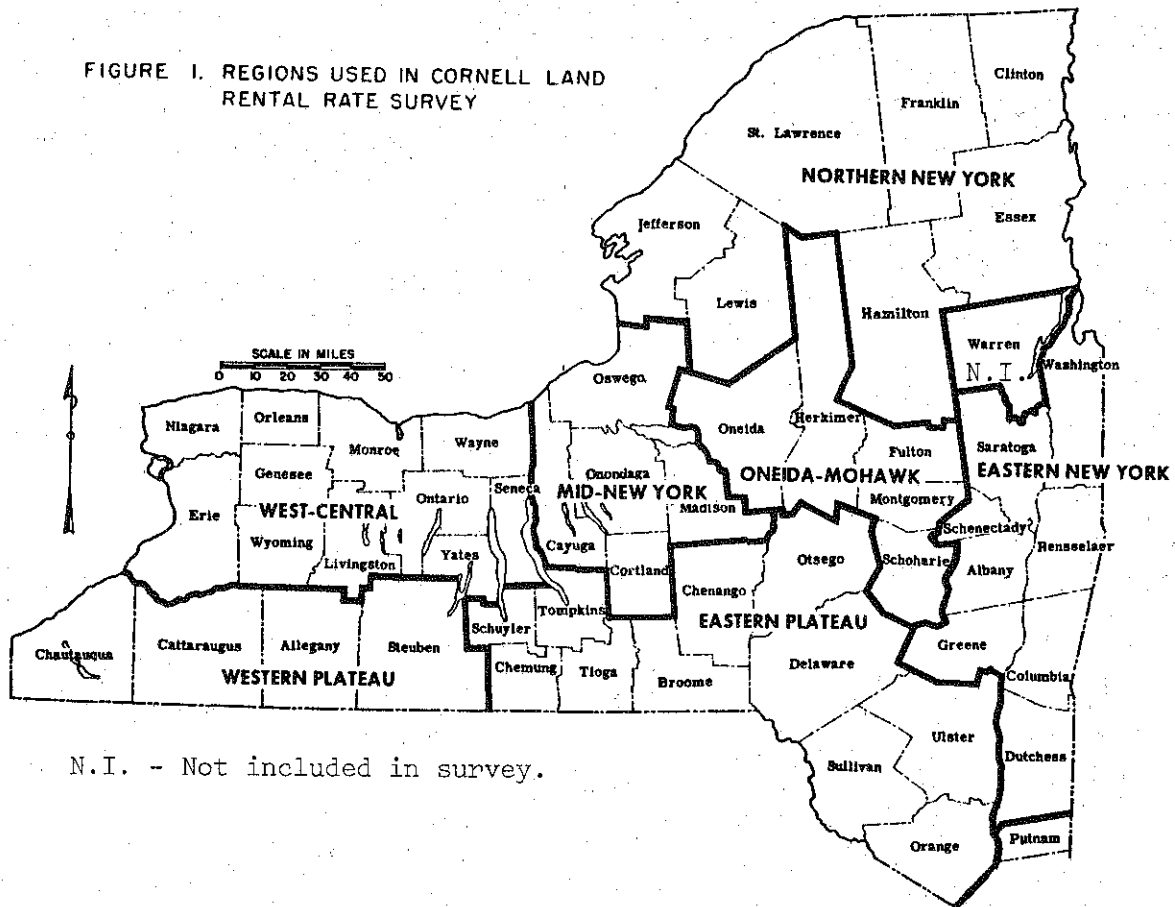


Table 1. CASH LAND RENTAL RATES PER CROP ACRE PAID BY NEW YORK DAIRYMEN
BY REGION, 1978

Region	Average		Percentage Distribution ^{a/}						Number of Observations
	All Observations	Excluding Those Paying None	None	\$1 to \$10	\$10 to \$20	\$20 to \$30	\$30 to \$40	\$40 to \$50	
West-Central	\$14.20	\$15.90	10	21	47	21	--	--	38
Mid-New York	\$19.50	\$19.50	--	11	52	22	15	--	27
Oneida-Mohawk	\$18.90	\$19.90	5	29	19	29	19	--	21
Northern New York	\$10.00	\$10.50	6	52	34	4	3	--	79
Western Plateau	\$13.70	\$15.30	12	37	29	14	6	2	84
Eastern Plateau	\$12.40	\$13.60	9	45	30	10	6	1	89
Eastern New York	\$14.50	\$16.00	9	26	47	15	--	3	76
Average or Total	\$13.50	\$14.70	9	36	36	13	5	1	414

Source: Cornell Land Rental Rate Survey

a/ Detail may not add to 100 due to rounding.

Regions reporting the highest cash rent were the Oneida-Mohawk and Mid-New York. The Eastern New York and West-Central regions had the next highest rents, although some counties in the West-Central region ranked among the very highest in the State. The Western Plateau and Eastern Plateau followed in rankings with Northern New York recording the lowest average cash rent paid per crop acre.

LEASE CHARACTERISTICS AND PROVISIONS

A high proportion of the farms responding indicated that in addition to cash rent, capital inputs were purchased by the renter (Table 2). The most frequent additional cost mentioned was lime, followed by drainage system and fence maintenance.

Only 19 percent of the rental arrangements included use of any buildings (Table 2). The West-Central region reported the highest proportion with

Mid-New York, Northern New York and the Eastern Plateau the lowest.

Most of the cropland had been rented for ten or more years (Table 2) although some regions averaged much shorter periods. In Northern New York a two or three year period was the most frequent.

A written lease was in existence in only 28 percent of the observations (Table 2). In every region the most common length of a lease agreement, whether written or verbal, was for a single year. In 70 percent of all observations the renters and landowners were unrelated neighbors - the dominant arrangement in all regions.

Table 2. LEASE CHARACTERISTICS AND PROVISIONS BY REGION, 1978

Region	Percent	Common Types	Building Use Included	Most Common Number of Years Rented	Percent With Written Lease
West-Central	47	L & A	34	4 or 5	42
Mid-New York	78	L	11	10 or more	22
Oneida-Mohawk	77	L & A	24	10 or more	24
Northern New York	44	L	11	2 or 3	25
Western Plateau	47	L	10	4 or 5 & 10 or more	26
Eastern Plateau	75	L & A	25	4 or 5	28
Eastern New York	67	L	26	10 or more	26
Average/Most Common	61	L	19	10 or more	28

Source: Cornell Land Rental Rate Survey

Key: Input Type
 A = All, Including Lime, Fencing and Drainage System Maintenance
 L = Lime
 F = Fencing Maintenance
 D = Drainage Maintenance

CHARACTERISTICS OF THE RENTED CROPLAND

The reported characteristics of the rented cropland revealed relatively minor differences from region to region (Table 3). The rented cropland was

mainly rolling to gently rolling, moderately well drained to fair drainage, and fertility and pH levels average for their areas. The distance from the farmstead to the rented acreage was less than 1 mile for 51 percent of the farms. In only 17 percent of the responses was the rented cropland more than 4 miles from the farmstead. Seventy percent of the observations indicated large rectangular fields and 88 percent indicated the fields were easily accessed with machinery.

Table 3. REPORTED CHARACTERISTICS OF THE RENTED CROPLAND BY REGION, 1978

Region	Topography			Drainage				Fertility		pH Level				
	Steep Slope	Gently Rolling	Level or Rolling Valley	Well Drained	Mod. Well Drained	Fair	Poor	High	Ave. Low	High	Ave. Low			
----- Percent ^{a/} -----														
West Central	--	13	74	13	10	53	26	11	14	78	9	9	65	25
Mid-New York	--	41	41	18	15	33	37	15	15	74	11	26	60	15
Oneida-Mohawk	--	38	43	19	11	30	54	5	29	52	19	10	67	24
Northern New York	3	21	56	20	20	27	44	9	17	58	25	15	61	23
Western Plateau	--	25	45	30	33	24	31	11	24	60	15	21	53	26
Eastern Plateau	4	41	39	16	27	35	33	5	15	70	16	12	56	32
Eastern New York	<u>3</u>	<u>40</u>	<u>40</u>	<u>18</u>	<u>26</u>	<u>41</u>	<u>25</u>	<u>7</u>	<u>12</u>	<u>78</u>	<u>10</u>	<u>9</u>	<u>61</u>	<u>29</u>
Average	2	31	47	20	24	33	34	9	17	67	16	14	59	26

DETERMINING THE AMOUNT OF CASH RENT

When a farm manager investigates renting additional cropland, two approaches to determine a rental rate can be used. One approach is to estimate the expenses and the returns. If the crops are fed to livestock, the price that would be paid for similar quality products if purchased from other sources should be used to calculate returns.

The difference between expenses and returns is the amount remaining for cash rental and profit. A desired profit, therefore, needs to be estimated and subtracted to arrive at a maximum rental rate. Worksheet 1 can be used to assist in organizing these calculations.

One must, however, remember to account for transportation, storage and any special services that may be included in the price of purchased feeds when using the replacement cost of feeds to value production. Labor is another important factor which cannot be overlooked. When selling cash field crops, if the value of the operator's labor is not deducted as an expense then profit includes any return to labor. In the case of feeding the crops to livestock, remember that none, or very little, operator labor could be required (for example to purchase baled hay). If one is to grow hay on rented cropland, labor must be considered as an input cost especially where profitable alternative uses for that labor exist.

A second approach to determining cash rents is to estimate the annual fixed costs of the landlord for items such as property taxes, insurance and maintenance expenses. Add to the annual fixed costs an estimate of the landlord's profit for an estimate of cash rent. Worksheet 2 can be used to assist in organizing these calculations.

These two approaches will seldom yield identical rents. Dependent upon the number of renters in the local market and bargaining power of landlord and renter, a rental arrangement closer to the farmer's or landlord's position may be agreed upon.

WORKSHEET 1

Renter's Estimated Crop Production Returns and Expenses for Determination of Amount Available for Cash Rent and Profit

	CROP			
RETURNS				
Average Yield Per Acre	_____	_____	_____	_____
Price Received/Value of Production/Unit	_____	_____	_____	_____
Total	\$ _____	\$ _____	\$ _____	\$ _____
VARIABLE EXPENSES				
<u>Growing</u>				
Seed	_____	_____	_____	_____
Fertilizer	_____	_____	_____	_____
Herbicide, Other Chemicals	_____	_____	_____	_____
Fuel, Oil & Grease	_____	_____	_____	_____
Machinery Repairs	_____	_____	_____	_____
Other, (Lime, etc.)	_____	_____	_____	_____
<u>Harvesting</u>				
Fuel, Oil & Grease	_____	_____	_____	_____
Machinery Repairs	_____	_____	_____	_____
Other (Baler Twine, etc.)	_____	_____	_____	_____
<u>Selling</u>				
Transportation & Marketing	_____	_____	_____	_____
Drying	_____	_____	_____	_____
<u>Labor</u>				
Hours/Acre x \$ _____/hr.	_____	_____	_____	_____
<u>Interest on Operating Capital</u>	_____	_____	_____	_____
ADDITIONAL FIXED EXPENSES				
<u>Machinery Depreciation</u>	_____	_____	_____	_____
<u>Interest on Investments</u>	_____	_____	_____	_____
Total Expenses	\$ _____	\$ _____	\$ _____	\$ _____
RETURNS MINUS TOTAL EXPENSES ^{a/}	\$ _____	\$ _____	\$ _____	\$ _____

a/ Amount available for cash rent and profit. Multiply the yearly average number of acres in each crop to be grown on the rented cropland by Returns Minus Total Expenses for each crop for an estimate of the amount available for cash rent and profit for the total acreage. Subtracting a desired profit results in dollars remaining for cash rent.

WORKSHEET 2

Landlord's Estimated Annual Fixed Expenses and Desired Profit
for Determination of Cash Rent

Property Taxes	\$	<hr/>
Insurance	\$	<hr/>
Real Estate Maintenance	\$	<hr/>
Other	\$	<hr/>
Total Annual Fixed Expenses	\$	<hr/> <hr/>
Estimated Landlord's Profit ^{a/} (Dollars invested multiplied by desired rate of return \$ _____ x _____ %)	\$	<hr/> <hr/>
Total Expenses and Estimated Landlord Profit = Estimated Cash Rent ^{b/}	\$	<hr/> <hr/>

a/ Consideration must be given any appreciation in real estate values when formulating a desired rate of return.

b/ Divide by number of acres to obtain rental per acre.