



Ag Decision Maker

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Cash rental rates slightly up in Iowa

By Alejandro Plastina, extension economist, 515-294-6160, plastina@iastate.edu

A survey shows that cash rental rates for farmland in Iowa increased by 1.4 percent in 2018, after four years of continuous decline from the historical peak at \$270 per acre in 2013. The average cash rent in 2018 is still higher than the average rate in 2011, and only 17.8 percent lower than in 2013 (Figure 1). In comparison, corn and soybean prices received by

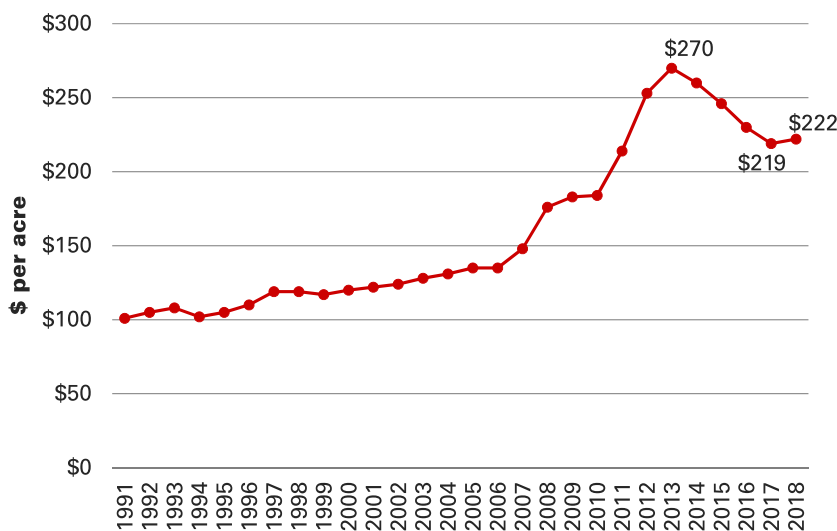
farmers in Iowa declined by 52 and 37 percent, respectively, since mid-2013.

Iowans supplied 1,596 responses about typical cash rental rates in their counties for land producing corn and soybeans, hay, oats and pasture. Of these, 47 percent came from farmers, 29 percent from landowners, 13 percent from professional farm managers

and realtors, nine percent from agricultural lenders, and two percent from other professions. Respondents indicated being familiar with a total of 1.8 million cash rented acres across the state.

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Figure 1. Average cash rents in Iowa, in \$ per acre



Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Replacement Strategies for Farm Machinery – A3-30 (7 pages)

Cash Rental Rates for Iowa 2018 Survey – C2-10 (12 pages)

Please add these files to your handbook and remove the out-of-date material.

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AgDM File C2-10, Cash Rental Rates for Iowa 2018 Survey (<https://store.extension.iastate.edu/product/1841>) provides detailed results by county and crop. There was considerable variability across counties in year-to-year changes, as is typical of survey data, but 59 counties experienced increases in average rents for corn and soybeans. The report also shows typical rents for alfalfa, grass hay, oats, pasture, corn stalk grazing, and hunting rights in each county and district.

Survey shows increase in most districts

The survey was carried out by Iowa State University Extension and Outreach. Statewide, reported rental rates for land planted to corn and soybeans were up from \$219 per acre last year to \$222 in 2018, or 1.4 percent. This percent increase is equivalent to about half the increase in Iowa farmland values between March 2017 and March 2018 reported in surveys conducted by the Iowa REALTORS Land Institute and summarized in AgDM File C2-75, Farmland Value Survey (REALTORS Land Institute) (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-75.pdf).

But the 17.8 percent accumulated decline in rental rates since 2013 is in line with the cumulative 15.9 percent decline in land values reported in the Iowa Land Value Survey published by the ISU Center for Agriculture and Rural Development (www.card.iastate.edu/land-value/).

Different regions experienced different changes in cash rents: from a 3.9 percent increase in Crop Reporting District (CRD) 5 to a 3.3 percent drop in CRD 9 (Figure 2). Northern and Central Iowa (CRD 1-6) continue to have higher cash rents than Southern Iowa (CRD 7-9).

Rents for low quality land increased the most

Not all land qualities have seen their cash rents decline proportionately. High quality land experienced a 0.8 percent increase, from \$256 per acre in 2017 to \$258 in 2018.

Medium quality land experienced a 0.9 percent increase, from \$220 per acre in 2017 to \$222 in 2018.

Low quality land experienced a 1.1 percent increase, from \$183 per acre in 2016 to \$185 in 2018.

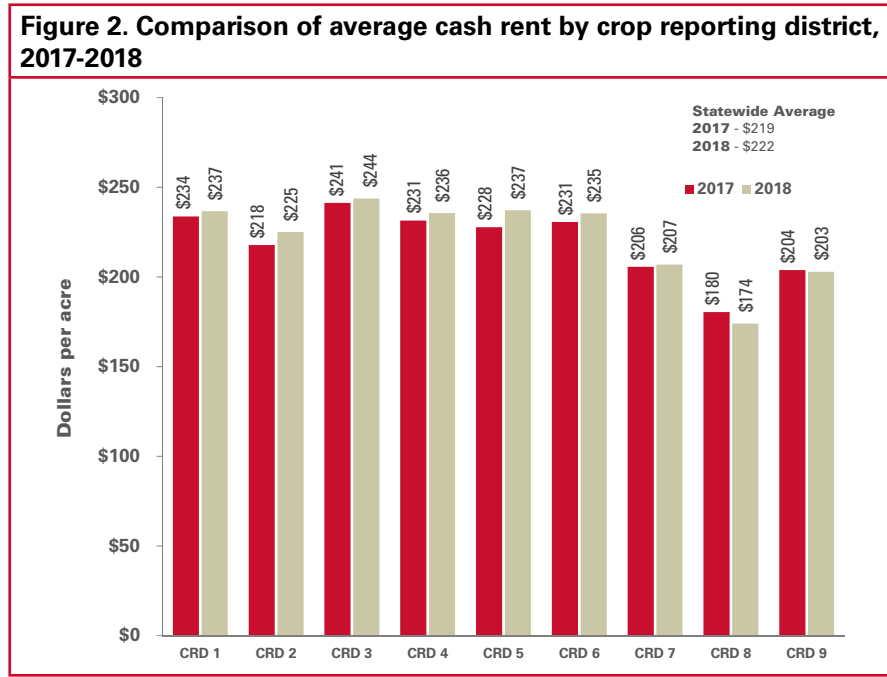
Setting rents for next year

Survey information can serve as a reference point for negotiating an appropriate rental rate for next year. However, rents for individual farms should be based on productivity, ease of farming, fertility, drainage, local price patterns, longevity of the lease, and possible services performed by the tenant.

Two major factors with the potential to influence future cash rents are crop prices and land values. Corn and soybean prices received in Iowa peaked in August 2012 at \$7.90 and \$16.80 per bushel,

respectively. In March 2018, corn and soybean prices were \$3.40 and \$9.60 per bushel, respectively, and have accumulated a 57 percent and 43 percent decline from their peak values (Figure 3). Due to current and projected low crop prices, profit margins in corn and soybean production on cash rented acres are expected to remain very tight, and tenants will likely be using profits made in owned land to cover any negative profit margins on rented land.

The second major factor affecting cash rents is the return on investment for landowners. Figure 4 shows the evolution of

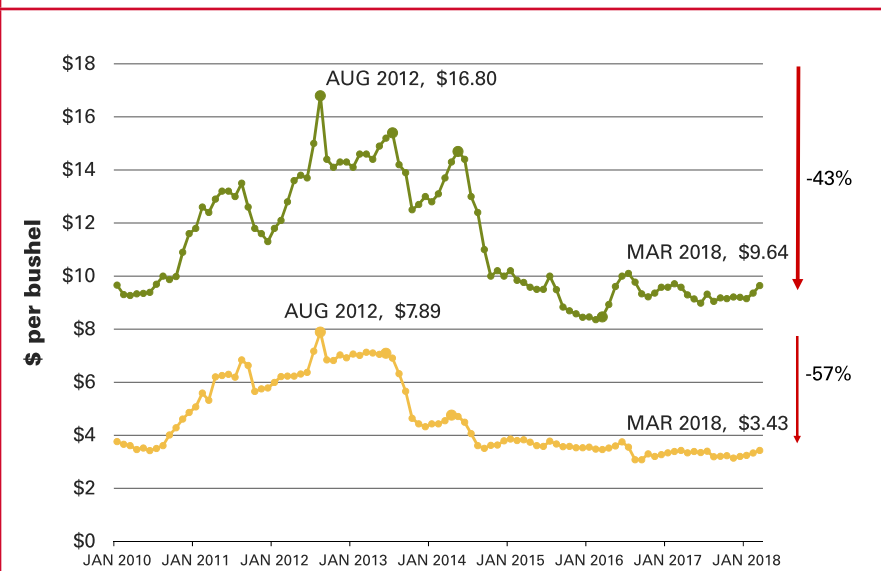


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the ratio of average cash rents to average land values in Iowa. It suggests that the average return on investment for landowners who cash rent their land to operators has followed a declining trend since the early 1990s, and it has stabilized at around three percent after 2010. Note that this ratio does not measure net returns because ownership costs, such as real estate taxes, are not taken into account in its calculation. However, it is indicative that landowners (whose goal is to obtain a reasonable rate of return on their real estate assets) will likely be hesitant to accept lower cash rents in the future unless land values continue to decline (in which case cash rents calculated as a percent of land values will also fall). Furthermore, in a scenario of increasing interest rates, the opportunity cost for landowners will increase and pressure will mount to increase the asking price for renting their land out.

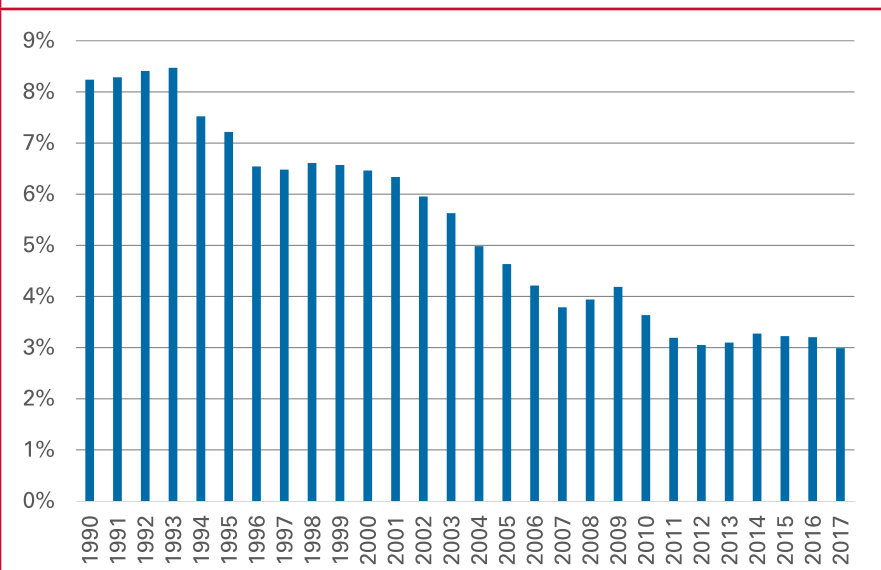
Other resources available for estimating a fair cash rent include the *AgDM Information Files Computing a Cropland Cash Rental Rate* (C2-20, www.extension.iastate.edu/agdm/wholefarm/pdf/c2-20.pdf), *Computing a Pasture Rental Rate* (C2-23, www.extension.iastate.edu/agdm/wholefarm/pdf/c2-23.pdf) and *Flexible Farm Lease Agreements* (C2-21, www.extension.iastate.edu/agdm/wholefarm/pdf/c2-21.pdf). All of these fact sheets are on the **Ag Decision Maker Leasing page**, (www.extension.iastate.edu/agdm/wdleasing.html), include decision tools (electronic spreadsheets) to help analyze individual leasing situations.

Figure 3. Prices received in Iowa for corn and soybeans, in \$ per bushel



Source: Author's calculations based on USDA NASS data

Figure 4. Ratio of average cash rent to average land value in Iowa, 1990-2017



Source: Author's calculations based on Iowa State University Extension and Outreach Iowa Farmland Value Survey and Cash Rental Rates for Iowa Survey

For questions regarding the cash rent survey, contact the authors. For leasing questions in general, contact a farm management field specialist in your area (www.extension.iastate.edu/ag/farm-management).

New online tool can help farmers see value of cover crops and paths to profitability

Contact Tamsyn Jones, Outreach and Publications Coordinator Practical Farmers, 515-232-5661, tamsyn@practicalfarmers.org; Meghan Filbert, Livestock Coordinator, Practical Farmers, 515-232-5661, meghan@practicalfarmers.org

A new decision-making tool that can help crop and livestock farmers assess the economics of cover crops in their operations is now available for free on Iowa State University's Ag Decision Maker website.

The tool, "Economics of Cover Crops," consists of three in-depth budgeting worksheets designed to help farmers analyze the costs and benefits of cover crops – and paths to profitability – in their row crop operations with or without the integration of livestock:

- **Cover Crops Budget** looks at the economics of cover crops in systems without grazing or harvesting
- **Grazing Cover Crops Budget** estimates the costs and benefits with grazing or harvesting for feed
- **Grazing Cover Crops Results** uses farmers' farm data to calculate the actual economic value of grazing or harvesting cover crops from the prior year

The unique three-in-one tool was developed by Practical Farmers of Iowa (PFI), in partnership with retired ISU agricultural economics professor William Edwards, to let farmers see the potential added value they could gain when cover crops are used for forage.

Recent Practical Farmers research, (www.practicalfarmers.org/news-events/newsroom/news-release-archive/28152/), has found that, when properly managed, grazing cover crops can result in sizeable profits within the first year.

The worksheets are available at www.extension.iastate.edu/agdm/crops/html/a1-91.html, and were created with funding by Iowa Department of Agriculture and Land Stewardship's Water Quality Initiative.

"Before we created this decision-making tool, there wasn't an easy-to-use tool that assessed the value of grazing or harvesting cover crops in this way," says PFI Livestock Program Manager Meghan Filbert, who initiated the project last fall and supplied critical data used to build the tool.

"Our tool is unique because it provides a complete economic analysis of costs and revenues for a full cover crop year – and it uses the data farmers already keep to help them figure out their animal feed requirements."

An accurate economic picture of cover crops

Another key motive for creating the tool was to help farmers more accurately assess the value of cover crops in their systems, particularly when cover crops are used as forage.

"Farmers know how much it costs to feed hay in the winter, and how many days they need to feed hay," Meghan says. "But they don't usually know what it actually costs them to establish and graze cover crops. As a result, they often overestimate the value of cover crops and can't identify what to tweak in their management to be profitable."

The new tool takes the guesswork out by showing how a range of costs, income streams, and management practices affect the ultimate profitability of cover crops.

"You can plug in the current market value for your hay or winter feed," Meghan says. "It adds potential yield variabilities; factors in cost-share and insurance premium discounts; and breaks out factors related to fall and spring grazing."

"If you harvest cover crops to make ryelage or baleage, the tool also lets you plug in the costs associated with mechanical harvesting in lieu of grazing."

Help available to use the tool

To ensure farmers feel confident using the new tool, Meghan is available to help farmers get started. Contact her at 515-232-5661 or meghan@practicalfarmers.org with questions or to request assistance working with the tool.

New online tool can help farmers see value of cover crops and paths to profitability,, continued from page 4

"I recognize that spreadsheet tools can be daunting," Meghan says. "We want farmers to use this tool so they can find out if cover crops are a viable practice for them – so I encourage all farmers with questions to contact me."

In addition to farmers, the tool's creators hope other land-grant universities, agricultural economists, and other agricultural professionals will use the decision-making tool in their work and outreach on cover crops. More from the author can be heard in a recent

radio interview: <https://brownfieldagnews.com/news/new-online-tool-helps-farmers-assess-value-of-cover-crops/>.

Practical Farmers of Iowa works to equip farmers to build resilient farms and communities. Our values include: welcoming everyone; farmers leading the exchange of experience and knowledge; curiosity, creativity, collaboration and community; resilient farms now and for future generations; and stewardship of land and resources. To learn more, visit <http://practicalfarmers.org>.



Watershed improvement practices highlighted in publication series

By Jamie Benning, Water Quality Program, 515-294-6038, benning@iastate.edu

A new series of publications that highlights a variety of practices that can be implemented to reduce flooding and improve water quality are now available through the ISU Extension Store. This publication series, titled "The Iowa Watershed Approach," walks readers through the impact these practices have on flood reduction, water quality, watershed management, wildlife benefits and more.

"Our purpose was to create a set of publications that can be used in the education and outreach efforts by the Iowa Watershed Approach, (www.iowawatershedapproach.org/)," said Jamie Benning, water quality program manager with Iowa State University Extension and Outreach.

"All publications feature practices that have the ability to reduce runoff or to store water and improve water quality by reducing nitrogen or phosphorus loss."

The 10 publications in the series are written by Benning and Kristina TeBockhorst, with Iowa State University Extension and Outreach:

- Wetlands (WQ 0022, <https://store.extension.iastate.edu/Product/15357>)

10-part series helps lowans learn about the Iowa Watershed Approach



Photo by: Nicholas A. Tonelli, American Rivers

- Farm Ponds (WQ 0023, <https://store.extension.iastate.edu/Product/15358>)
- Water and Sediment Control Basins (WQ 0024, <https://store.extension.iastate.edu/product/15359>)
- Grade Stabilization Structures (WQ 0025, <https://store.extension.iastate.edu/product/15360>)
- Oxbow Restoration (WQ 0026, <https://store.extension.iastate.edu/product/15361>)

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- Channel Stabilization (WQ 0027, <https://store.extension.iastate.edu/product/15393>)
- Terraces (WQ 0028, <https://store.extension.iastate.edu/product/15394>)
- Buffers (WQ 0029, <https://store.extension.iastate.edu/product/15395>)
- Floodplain Restoration (WQ 0030, <https://store.extension.iastate.edu/product/15396>)
- Perennial Cover (WQ 0031, <https://store.extension.iastate.edu/product/15397>)

Additional publications are available from ISU Extension and Outreach that provide more information on woodchip bioreactors (WQ 0004, <https://store.extension.iastate.edu/product/14530>) and saturated buffers (WQ 0005, <https://store.extension.iastate.edu/product/14441>). Both have been recently updated to reflect their impact in minimizing flooding.

The publications are designed to both raise public awareness and to provide information to landowners who might be interested in implementing one or more of the practices.

“We want the public to be aware of what they might see on the landscape and how a particular practice is positively impacting water quality and reducing downstream flooding,” Benning said. “We also want to be able to introduce these practices to landowners who might be considering implementing one or more of these practices. The publications gives them a quick overview of the practice, its effectiveness, how it functions and other benefits it can provide.”

Many of the practices have cost share or other financial incentives available to landowners who install them on their property. The publications provide basic information about those programs and who landowners can contact to learn more.

The Iowa Watershed Approach is a program through which Iowans are working together to address factors that contribute to floods. The IWA is working in nine distinct watersheds in Iowa to reduce flooding and improve water quality.

Updates, continued from page 1

Internet Updates

- The following Information Files and Decision Tool have been updated on www.extension.iastate.edu/agdm.
- Farm Machinery Financing Analyzer – A3-21-35 (Decision Tool)
- Developing Capable Business Managers – C4-75 (2 pages)
- Iowa Farm Transition Case Studies – C4-78 (1 page)
- Conducting Market Research – C5-30 (3 pages)

Current Profitability

- The following tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.
- Corn Profitability – A1-85 (Decision Tool)
- Soybean Profitability – A1-86 (Decision Tool)
- Iowa Cash Corn and Soybean Prices – A2-11
- Season Average Price Calculator – A2-15
- Ethanol Profitability – D1-10
- Biodiesel Profitability – D1-15

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