

Cash Rental Rates in Kansas

2024 Kansas Landowners Conference
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GREGG IBENDAHL



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Why leasing is important to farmers

Farmland will never cashflow

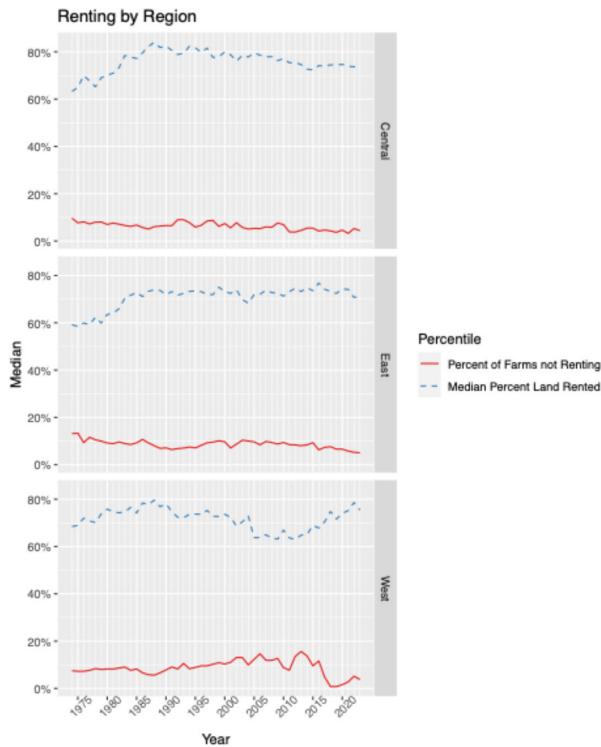
- Land is non-depreciable
- Typically, half of a farm's real net returns occur as land appreciation

Because land will not cashflow, land income will not cover principle and interest payments

- Rented land is thus needed to help cover cashflow needs from purchased land.



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Renting of farmland

Over 90% of farms rent some amount of farmland

Of the land farmed, nearly 80% of it is rented

Even though land rental costs amount to 7% of total production costs, rent still is very important

- One of the few farm expenses where negotiation is possible
- Neither side in rent negotiation SHOULD have an advantage
 - Landlords not up to speed on the profitability of farming will be at a disadvantage

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Purpose of K-State publications

NOT an endorsement for what a tenant should pay a landlord nor what a landlord should accept from a tenant

Instead, they are provided to give a **starting point** in lease negotiations

What is a “fair” or “equitable” lease?

- Any lease that a tenant and landlord willingly agree to in which they have both utilized the best information they have available to them in making a decision, is considered here to be a “fair” and/or “equitable” lease.

<https://www.agmanager.info/farm-management/land-rental-rates>



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Why produce these publications

Nearly every farm leases some land

Many landlords disconnected from agriculture

Local rental rates may not reflect the ability of the land to support going market rental rates

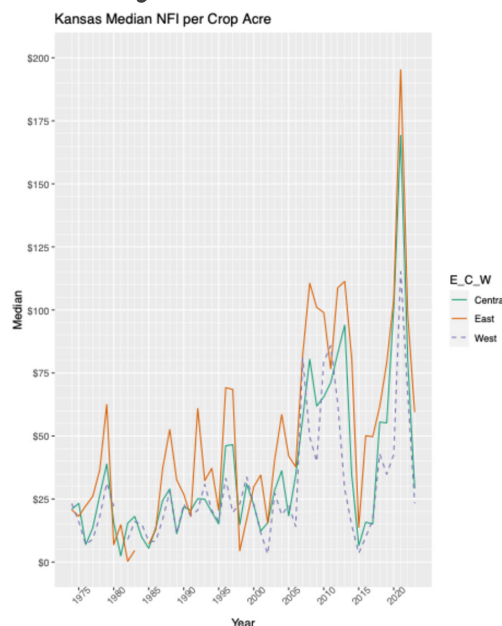
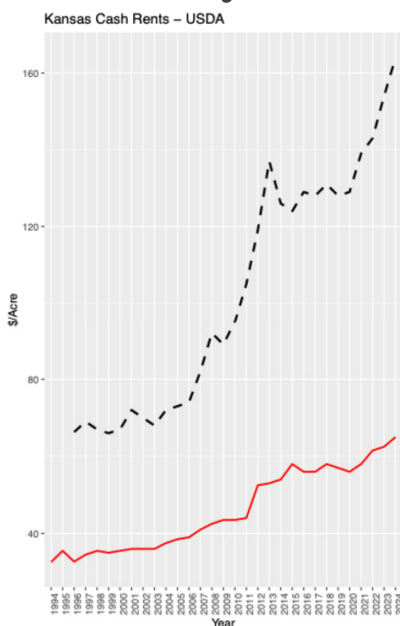
Issues from surveys of county rental rates

- Information may be outdated – time from survey until reported
- Truthfulness in survey responses
- Surveys could reflect multi-year leases from previous year

A lack of information about lease rates that incorporate land productivity into the rate calculation



Why survey data may not be the best



1. Survey reflects both old and new leases
2. Survey reflects conditions at least a year in the past
3. Tendency to underreport rates
4. Not reflective of actual profitability

Our approach

Tenant's residual method

- County yield history
- Recent grain prices
- KFMA farm expenses

Covers all expenses

- Cash or direct cost of production
- Includes fixed costs on machinery
- Includes unpaid operator labor
- Includes overhead and management fees

FULL ECONOMIC COSTS



Details of tenant's residual approach

Income – yields, prices, and government payments

- Yields – NASS no longer provides separate irrigated and non-irrigated yields
 - FSA does have this info and also number of crop acres in a county
 - Use of last 5 years of data
- Prices – Use of weighted average with more weight being given to most recent years

Expenses

- Use of KFMA data
- Developed at the enterprise level to account for different crop mixes each year
- Only corn, soybeans, wheat, and grain sorghum used
- Developed at the farm level but then aggregated up to the Crop Reporting District level
 - This might account for some of the differences you see on the graphs



Other details

75% of unpaid operator labor is included

- This allows for farm activities not related to crop production

2% management fee based on gross revenue

- This includes management and also the interest charge for any owned machinery equity on the farm.

Weights used for the estimates

- 2023 – 30% (this also includes future years)
- 2022 – 25%
- 2021 – 20%
- 2020 – 15%
- 2019 – 10%
- Shifting of yearly weighting to put more emphasis on more recent years



Other details

Adjustment to NASS reported cash rent

- Helps to smooth the estimate
- Averaging the NASS estimate into the tenant's residual calculation
 - 60% weighting to NASS –
 - Capping the difference from NASS at 40%
 - This provides a smoothing effect

Adjustment for land use intensity

- Needed to account for fallow and double cropping

Incorporating a range of values

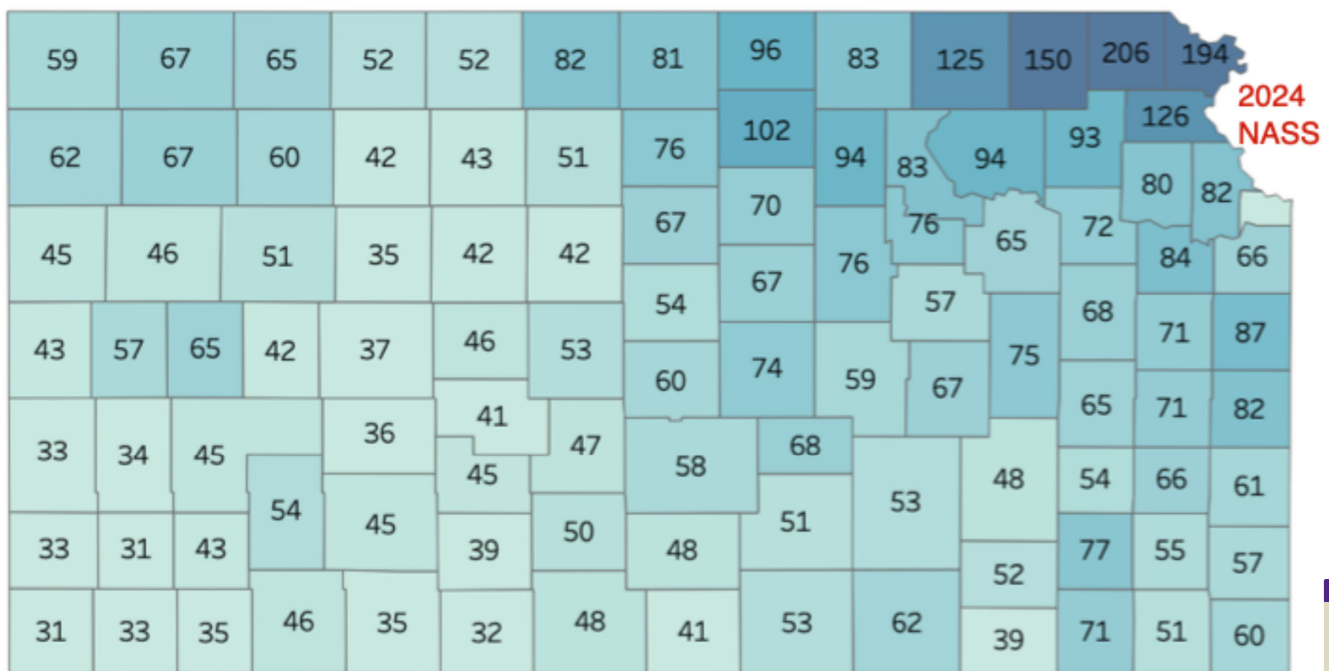
- 25th and 75th percentile



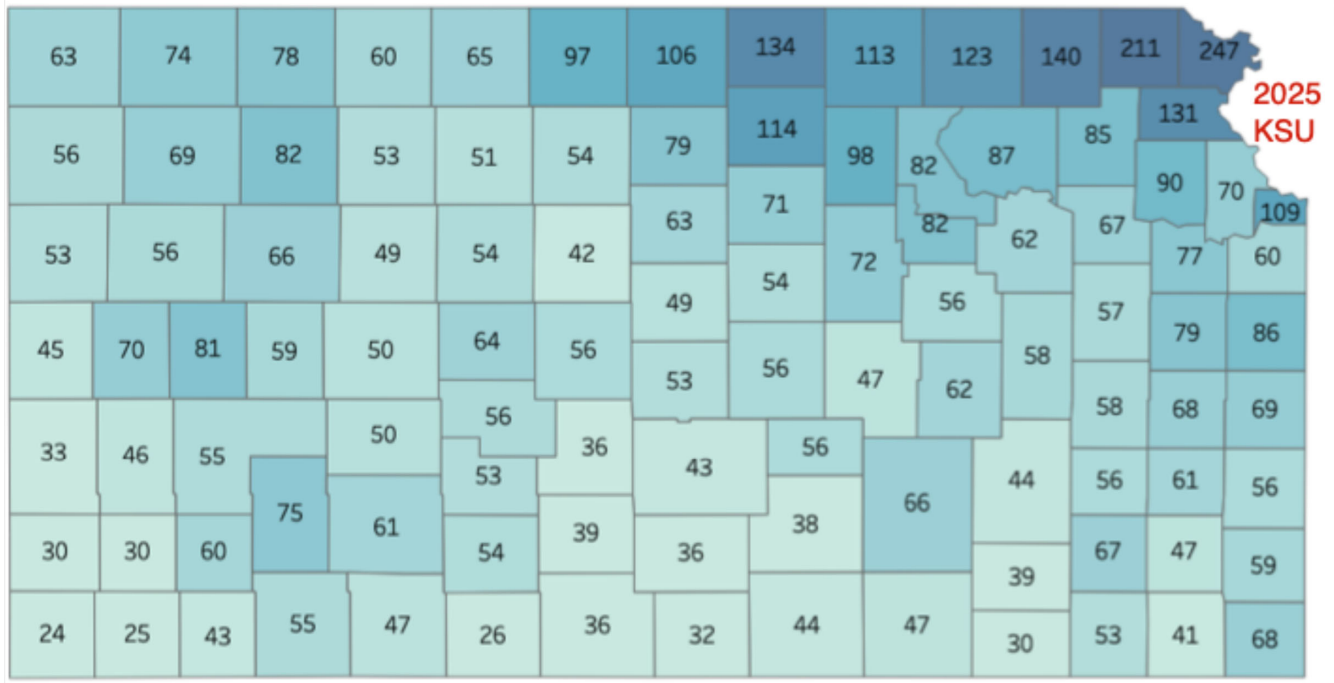
Non-Irrigated Cash Rents



2024 USDA Non-Irrigated Cash Rents



2025 KSU Non-Irrigated Cash Rents



NASS vs K-State comparison

		KSU	NASS
EAST	Northeast	127	123
	East Central	67	72
	Southeast	52	57
CENTRAL	North Central	89	75
	Central	56	58
	South Central	42	47
WEST	Northwest	67	59
	West Central	59	47
	Southwest	45	38

Irrigated Cash Rents



Irrigation details

Based on growing corn only

Center pivot irrigation

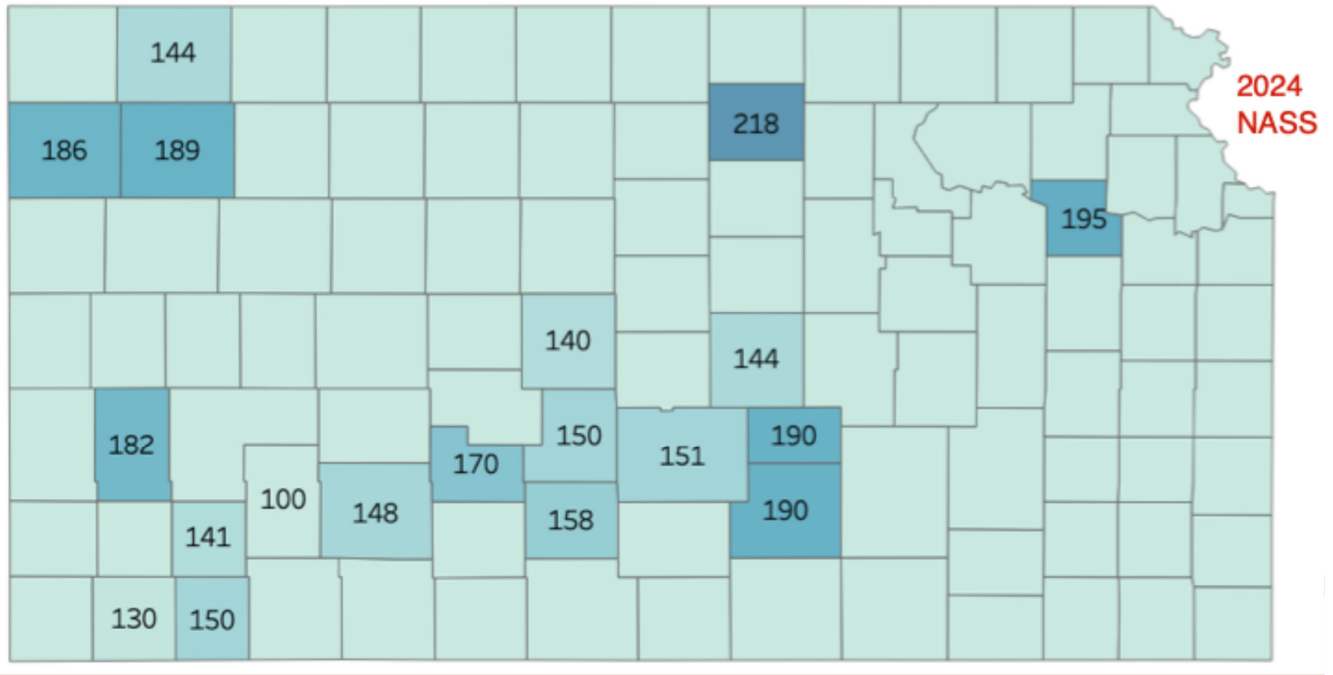
Landlord owns all irrigation equipment

- Adjustment if tenant owns part

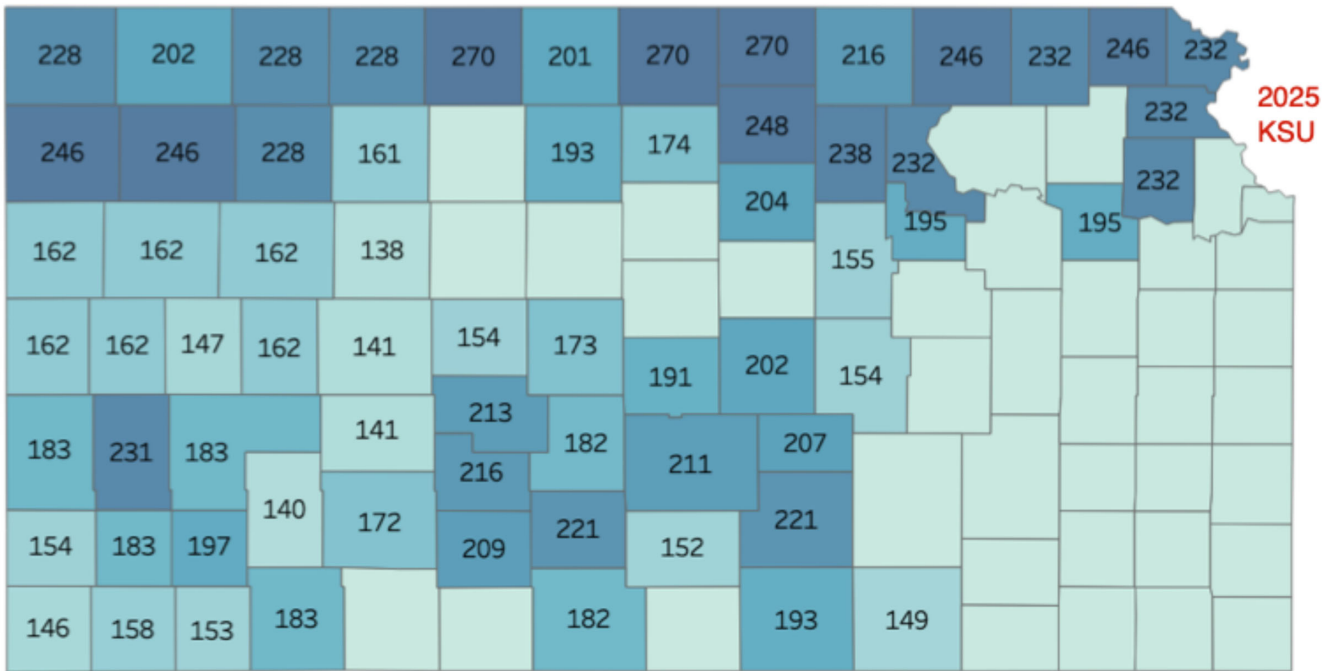
	Western, KS		Central, KS	
Center Pivot	\$	89.25	\$	89.25
Power unit	\$	31.29	\$	17.67
Well, pump, and gearhead	\$	113.49	\$	75.90



2024 USDA Irrigated Cash Rents



2025 KSU Irrigated Cash Rents



Outlook for Cash Rents Beyond 2025

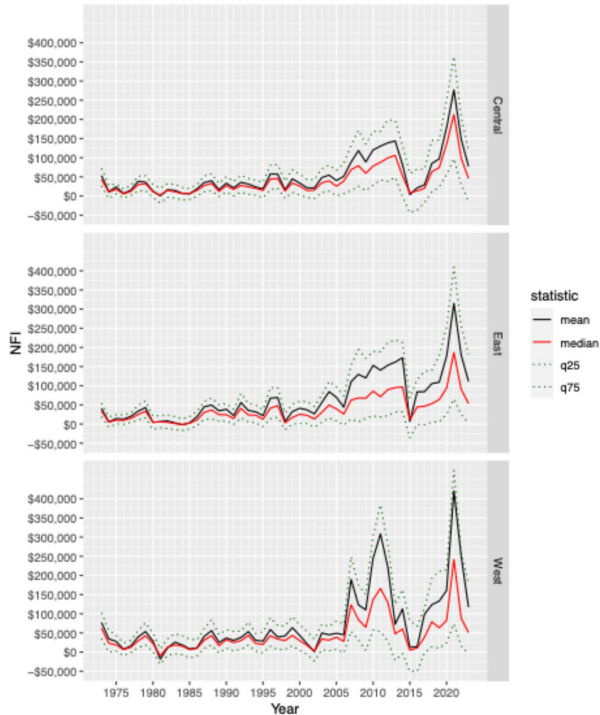


Even worse in 2024?

	Net Farm Income - state			
	2022	2023	2024(p)	Est 2025
NFI	\$ 203,445	\$ 89,667	\$ 44,999	\$ 73,473
% Change		-56%	-50%	63%



Net Farm Income by Region



Historical NFI –
a new level of
profitability?

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Questions for landowners

- Do you have a written lease with your operator?
- Do you and your operator review your lease at least once a year?
- Do you contact your operator to see how “things” are going?
- Does your operator contact you to offer you a tour of your fields?
- Is your operator related to you?
- Have you seen recent soil tests on your fields?
- Does your operator clearly explain things to you when you ask questions?
- Do you feel comfortable talking to your operator?
- Does your operator report crops to the FSA for you?
- Are you satisfied that your operator is farming as good as, or better, than what you would do?

Thank you!

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