



Cash Rents in Kansas - What does the Future Hold

2025 Winter Wednesday Webinar Series

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2025-02-19

First, an overview of KFMA farm financials

- Debt levels
- Interest costs
- Net Farm Income
- Farm Expenses

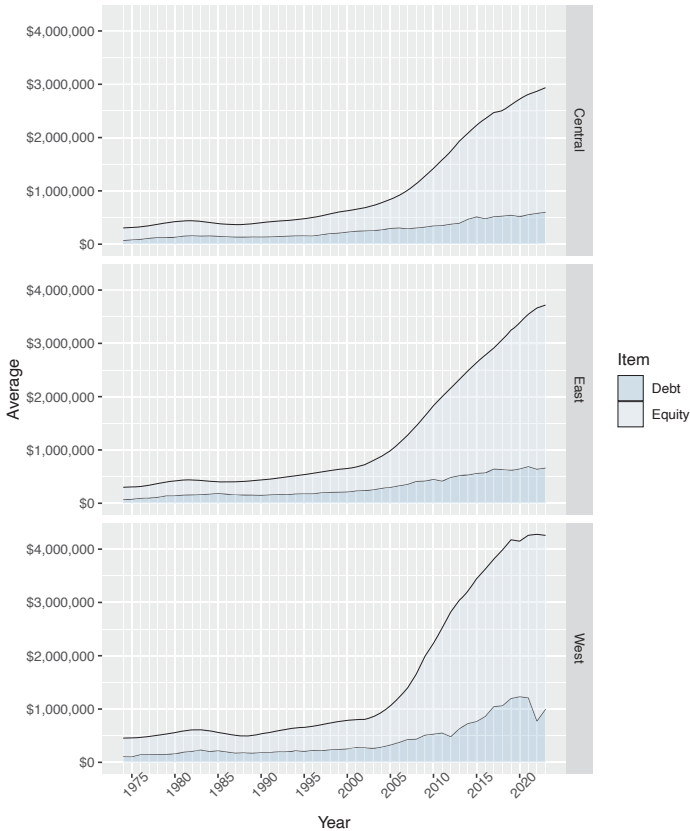
Kansas Debt/Asset Ratio



Debt/Asset Ratio

- D/A ratios remain at historic lows (KFMA 50 year history)
- Not quite the same in western Kansas
-Possible explanations
- Increase in asset values?
- Decrease in debt?
- Is the D/A ratio a leading or trailing indicator of farm financial problems?

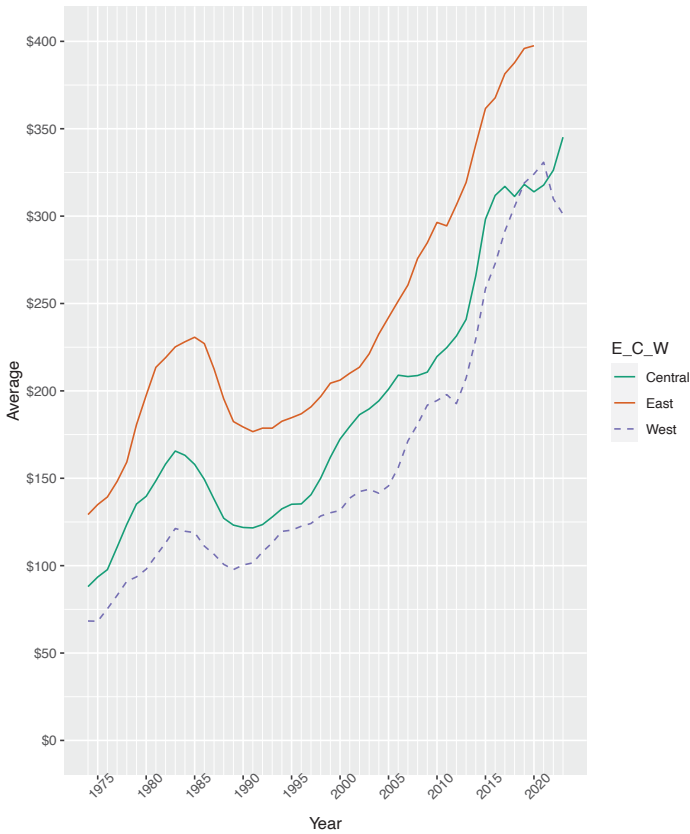
Kansas Balance Sheet by Region



KFMA Balance Sheet

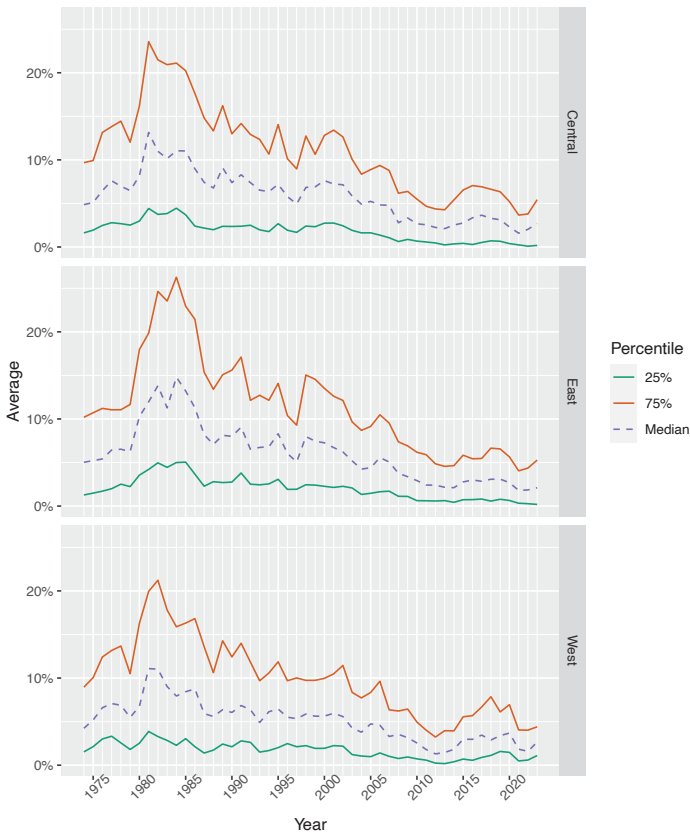
- Most of improvement in D/A ratio can be attributed to increase in land values
- Additional debt varies by region
- Some improvement in western Kansas

Kansas Farm Debt per Crop Acre



- Farms have increased their debt levels on a per crop acre basis
 - Decrease in western Kansas
 - Leveling off in central Kansas
- What are the consequences of higher debt?
 - Farming is more expensive than it's ever been so higher levels of debt might be needed
 - Higher levels of debt can be supported if gross income is also higher
 - Interest expense ratio
 - Lower interest rates allow for higher levels of debt

Interest Expense Ratio by Region



Interest expense ratio

- Ratio is nearly at lowest level in the history of KFMA farms
 - Interest expense / VFP
- 10% is considered the red flag level
 - Interest expense was a big problem in the 1980's farm crisis
 - Farms just couldn't make P and I payments when 10 cents of every dollar the farm produced went to pay interest
 - This is one of the reasons the FFSC set up financial statements the way they did
- Ratio is strong because of:
 - Low interest rates
 - Lower farm revenue will make this ratio worse
 - Which way will interest rates go after the election?

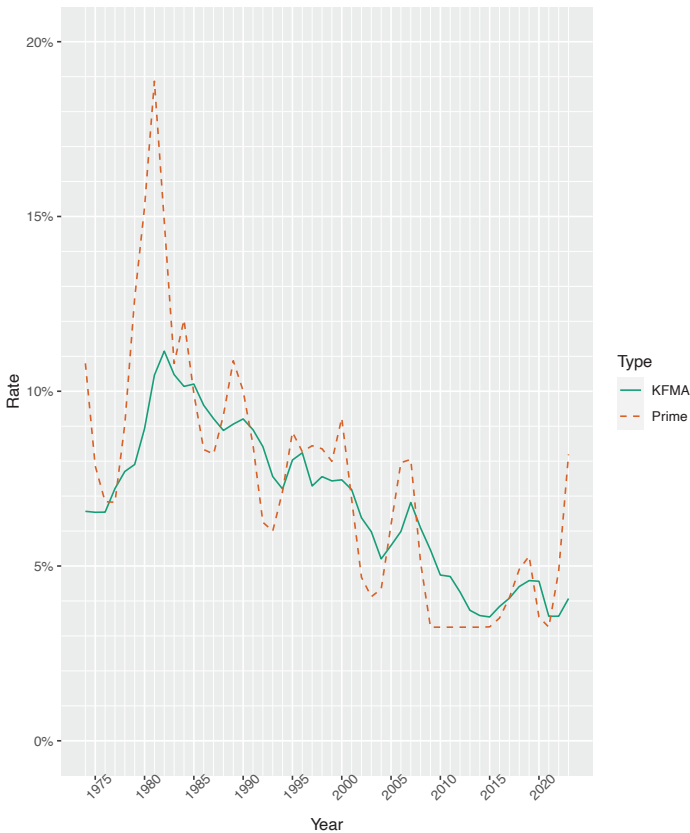
Interest Rate on Farm Debt



Average farm interest rates

- Interest rates are still at near historic lows on KFMA farms
- Rising interest rates haven't affect the average rate paid by farmers
- This number likely lags the current interest rate because of loans already in place with a fix interest rate

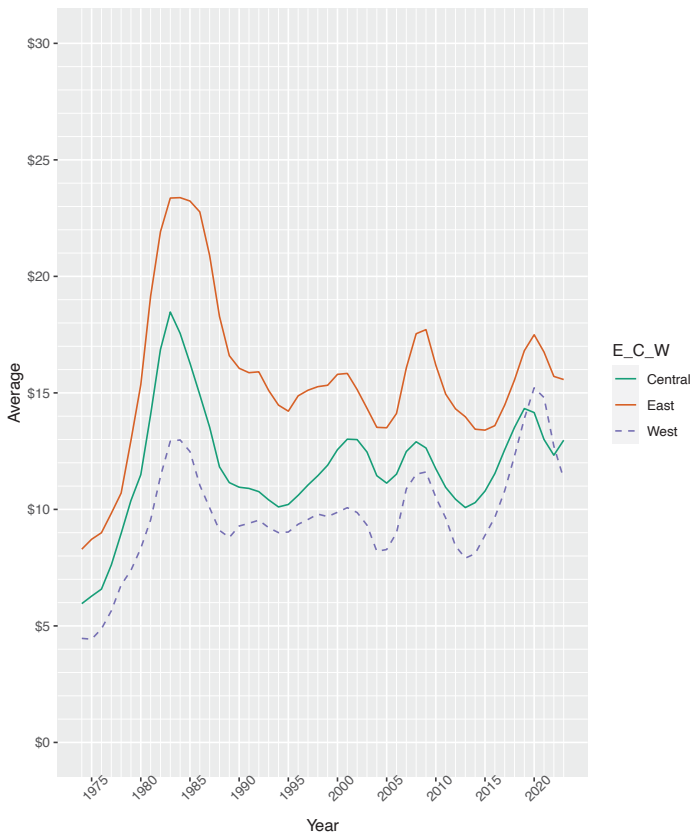
Comparison of Interest Rates



Comparison of KFMA interest cost and Prime

- Very high correlations
- The fixed debt on a farm reduces the interest rate volatility seen with the Prime rate
- Even with a rate cut, KFMA interest costs are likely to continue to rise

Kansas Farm Interest per Crop Acre



Interest per crop acre

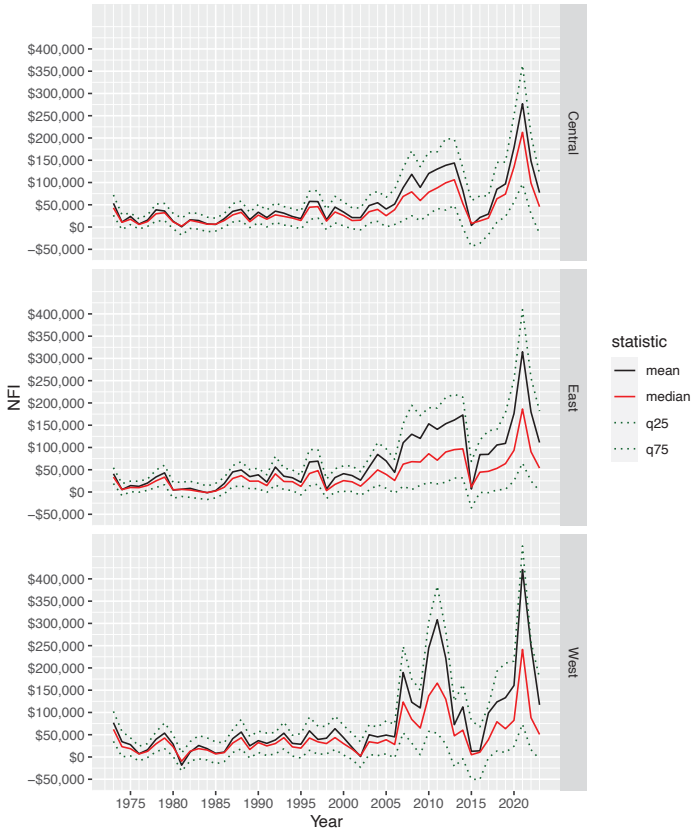
- Despite debt levels per crop acre increasing, the interest per crop acre has remained more stable
- Reflection of lower interest rates than in prior decades
- The lower interest rates (compared to the 1980's) has made debt less important
- Constant debt per acre combined with higher farm revenue (VFP) has helped make the interest expense ratio look very strong

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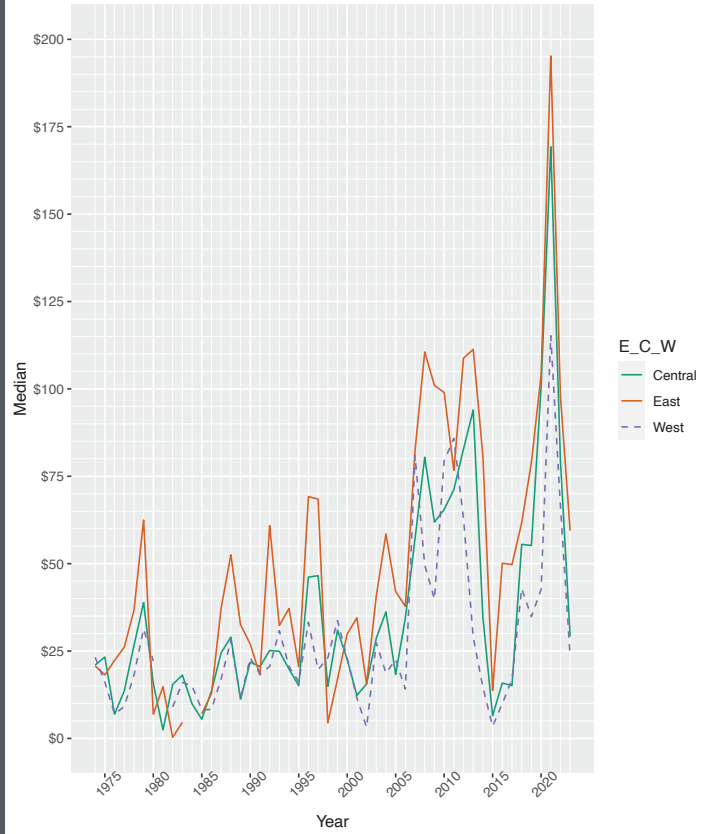
What about Net Farm Income?

- NFI will drive the cash rental rate

Net Farm Income by Region



Kansas Median NFI per Crop Acre

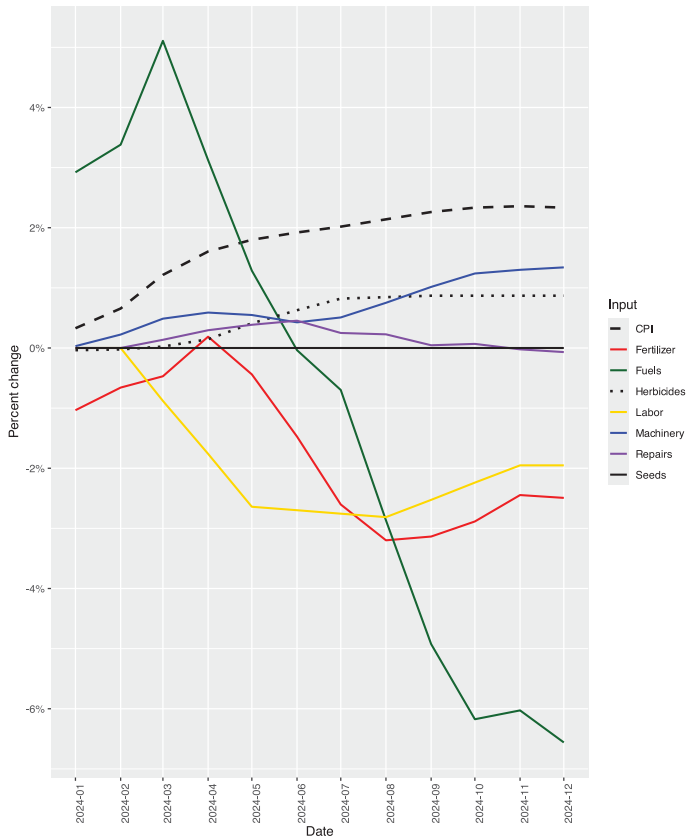


NFI should be better than my August forecast

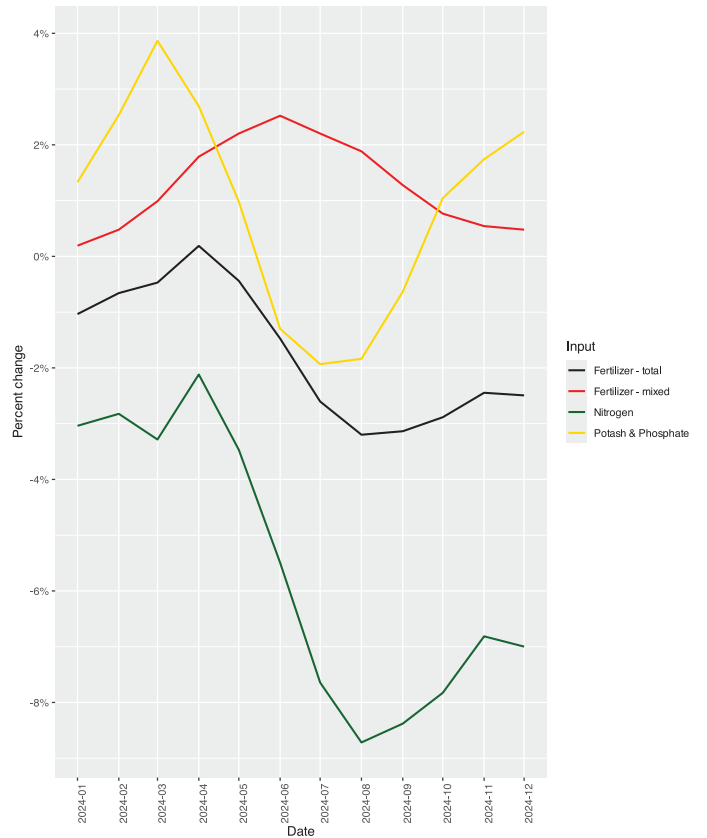
- Higher grain prices than in August
- Some emergency payments
- Will we ever have \$8 corn and \$16 soybeans again?

What about input costs?

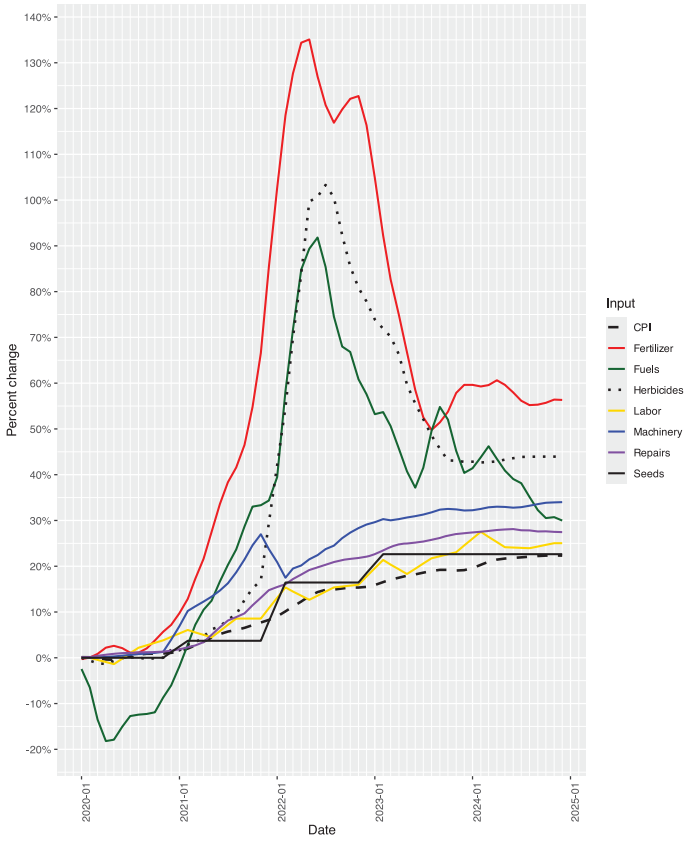
USDA Price Indexes Relative to 2024-1-01



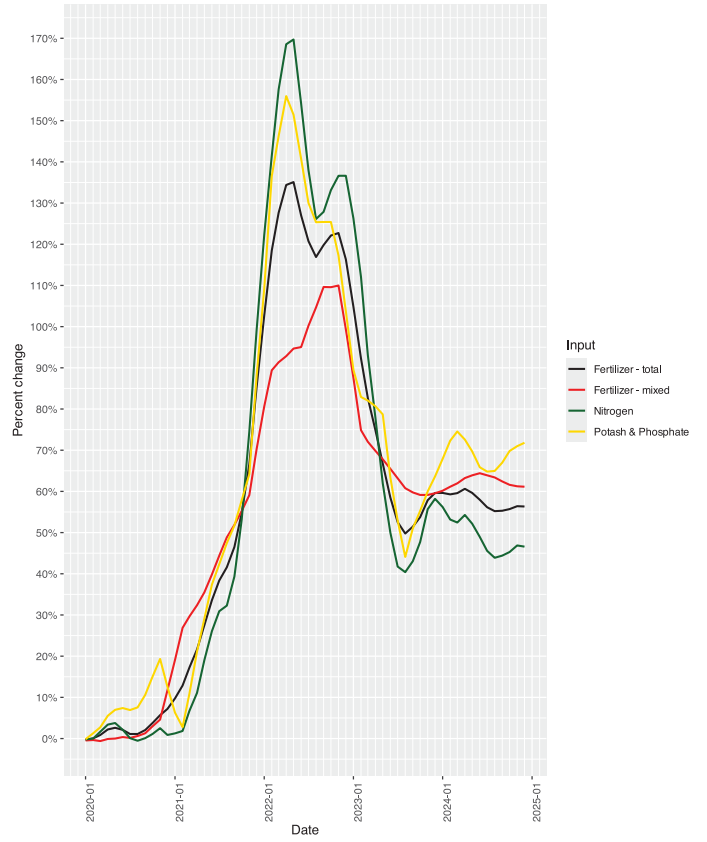
USDA Fertilizer Indexes Relative to 2024-1-01



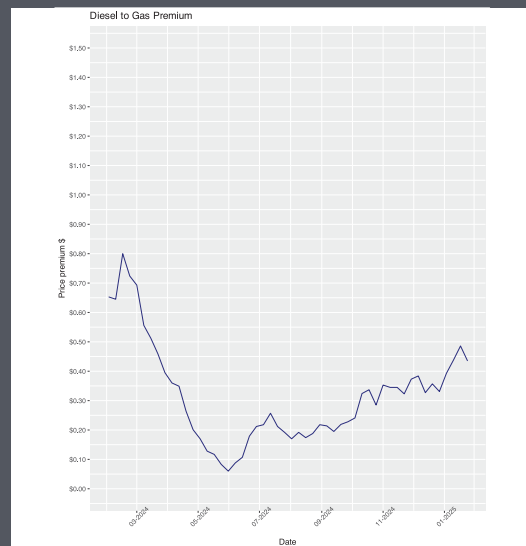
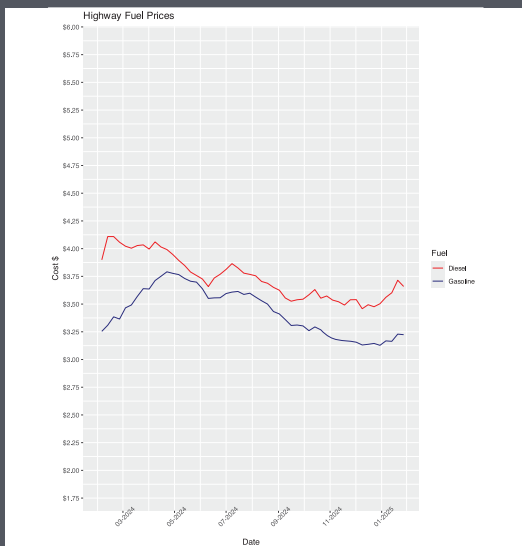
USDA Price Indexes Relative to 2020-1-01



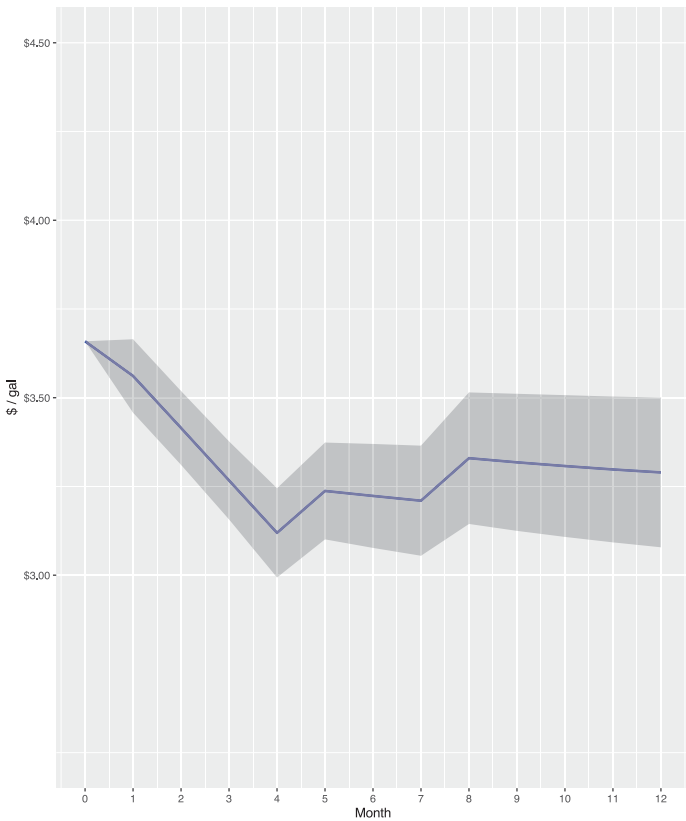
USDA Fertilizer Indexes Relative to 2020-1-01



Price premium of diesel for last 12 months



Predicted U.S. Highway Diesel Price for Next 12 Months
confidence interval in gray



Diesel price prediction for the next 12 months

- Based on oil futures market and the diesel premium
- Assumption that the premium is following the same pattern as last year
- Is the oil futures price too low?
 - should there be a bigger confidence interval on estimate?

Latest fertilizer prediction model

Term	Coefficient	P-value
Intercept	-320.05	< 0.001
Oil (lag 6 mo)	3.04	< 0.001
Corn	38.22	0.001
Inflation (lead 2 mo)	196.54	< 0.001

- based on corn futures price
- oil price
 - lag 6 months
- inflation expectations
 - 2 month lead

Anhydrous Price - Actual vs Predicted



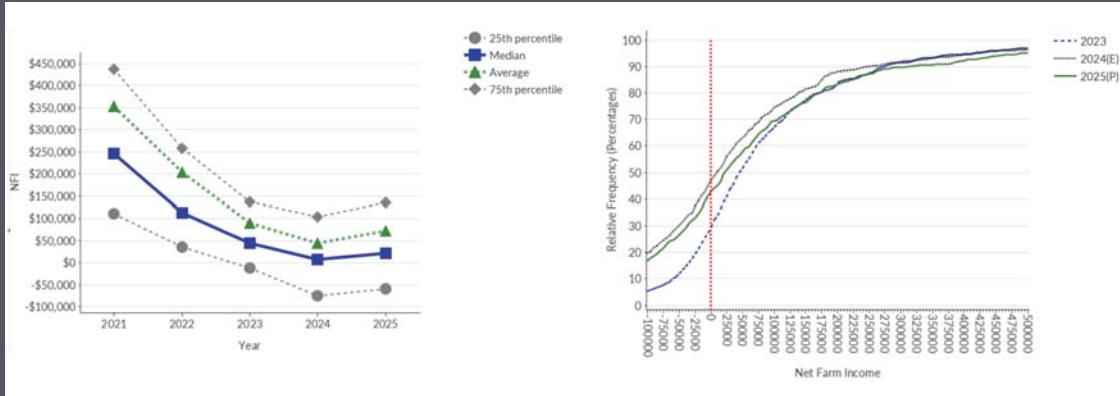
Prediction for next 12 months

- Using inflation rate of 4%
- Oil prices in the low to mid \$70's

More detail on NFI prediction

What is happening at the margins

- 50% of farms could have negative NFI this year and next (based on August forecast)

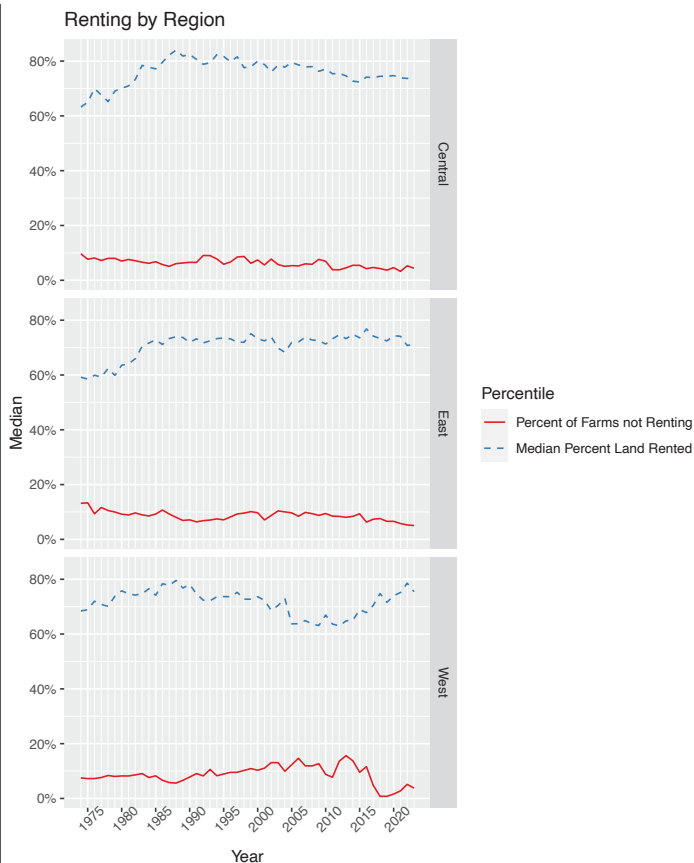


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	Budget	Override	Budget	Override	Budget	Override	Budget	Override	Budget	Override
	Corn - North Central KS_		Wheat - Southwest KS_W-S_C-F rotation		Soybeans - Southeast KS_		Grain Sorghum - South Central KS_		Wheat - South Central KS_Rotation	
	120		54		45		110		62	
	\$ 4.28		\$ 5.49		\$ 9.61		\$ 4.32		\$ 5.62	
	\$ -		\$ -		\$ -		\$ -		\$ -	
	\$ 513.60		\$ 296.46		\$ 432.45		\$ 475.20		\$ 348.44	
Returns above direct expenses	\$	161.58	\$	51.85	\$	175.48	\$	283.12	\$	151.05
Returns above total specified expenses	\$	106.97	\$	(5.51)	\$	109.76	\$	226.03	\$	96.19
Return to total cost										
Breakeven price	\$	3.39	\$	5.59	\$	7.17	\$	2.27	\$	4.07
Breakeven yield		95.0		55.0		33.6		57.7		44.9

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Cash leasing of farmland



Use of rented 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
- Purchased land will typically not cashflow with some level of rented land

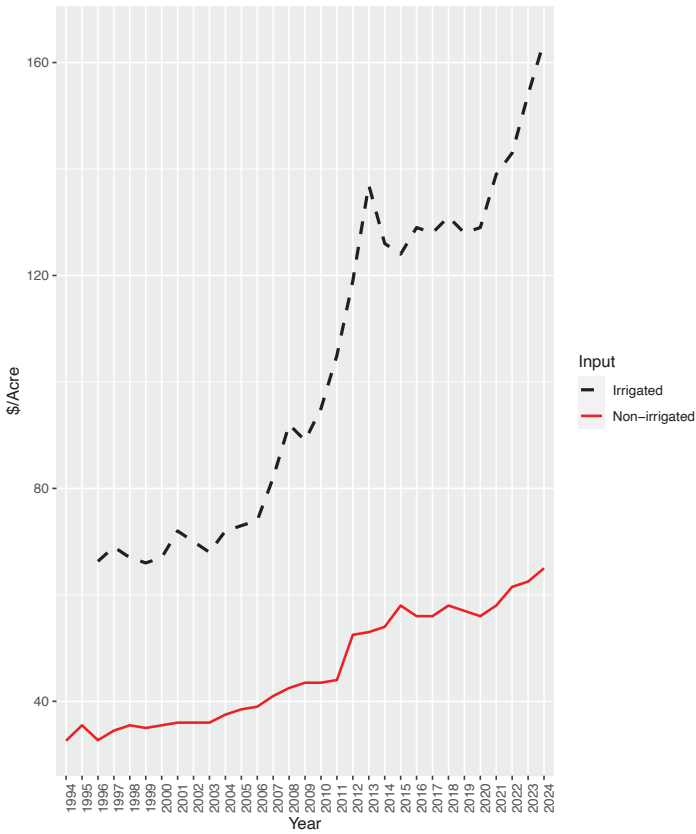
Purpose of publications

- NOT an endorsement for what a tenant should actually pay a landlord
- 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.

Why produce these publications

- Nearly every farm leases some land
- 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 response
 - Surveys could reflect multi-year leases from previous year
- A lack of information about lease rates that incorporate land productivity into the rate calculation

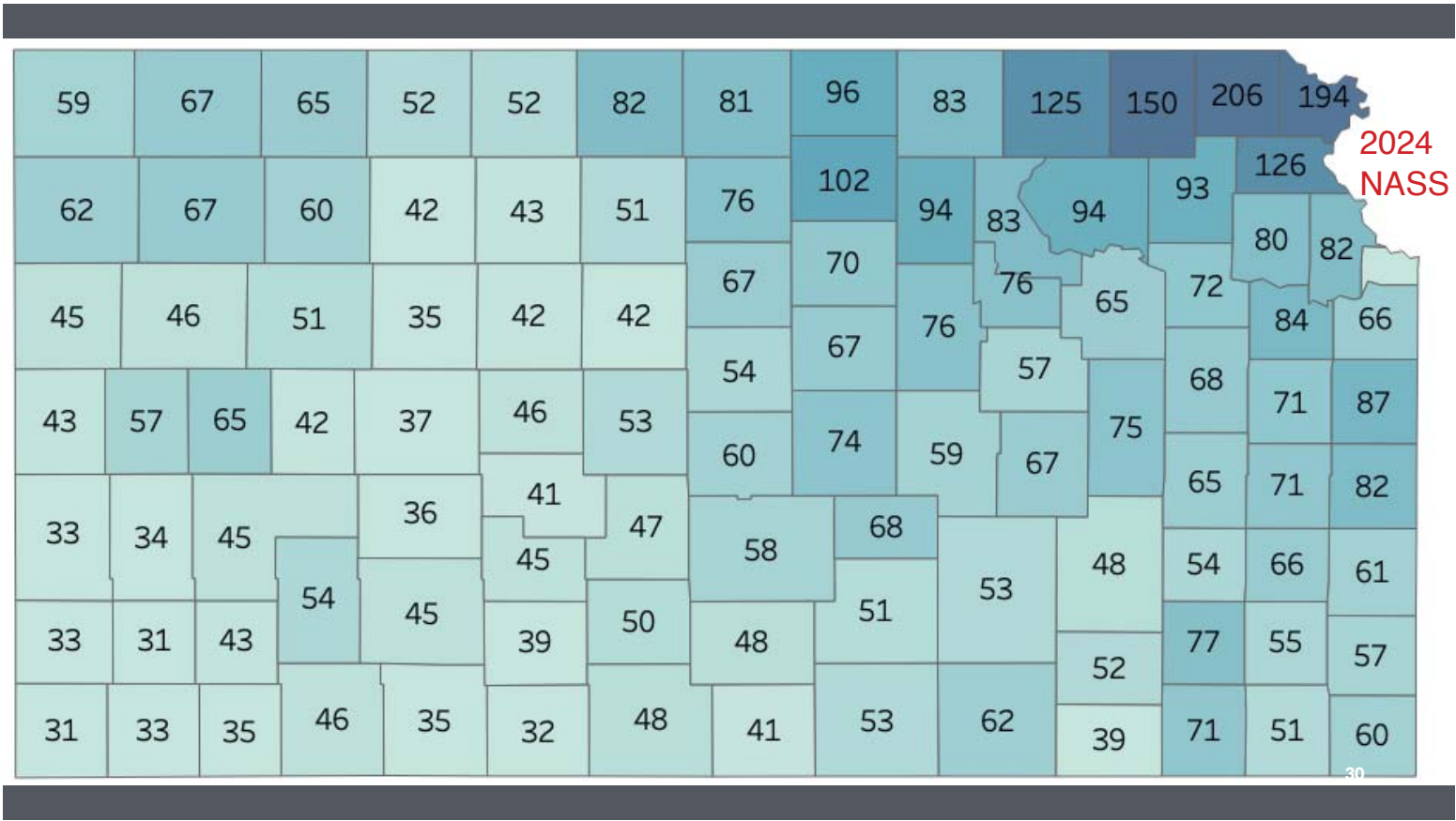
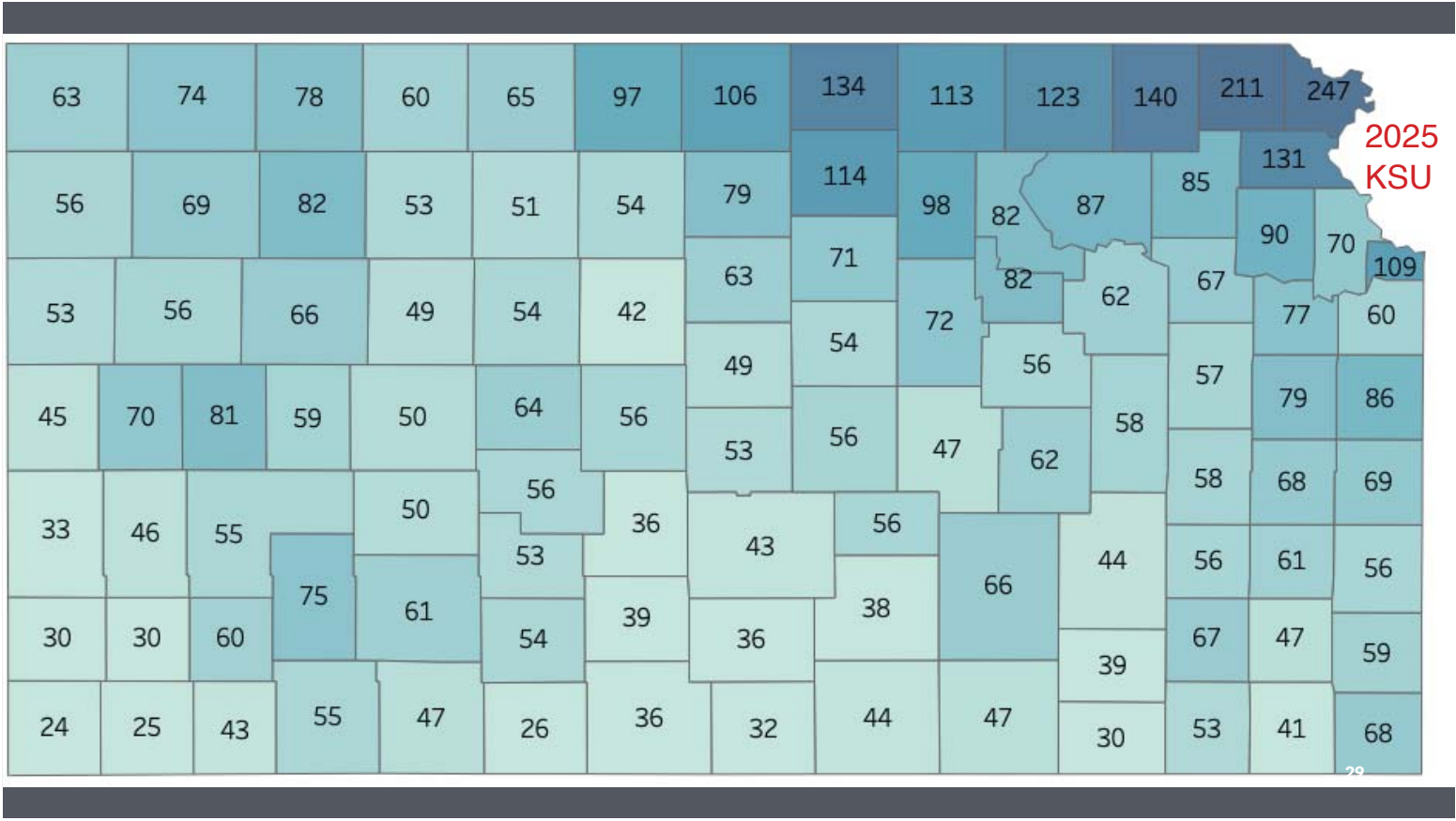
Kansas Cash Rents – USDA



2024 USDA survey results

- Increases in both irrigated and non-irrigated rates
- Why increase
 - Survey was done last spring/winter
 - Mixture of both old and new leases
 - Still playing catchup to those good years of high NFI

		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



Tips for Landlords and Tenants

Questions?

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