

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Landlords and the cash rent issue

With the setting of land rent becoming a critical to maintaining profitability in the current price environment, it is important to understand the current shape of farmland ownership and tenure.

The USDA recently released a document, "Farmland Ownership and Tenure: Results from the 2014, Tenure Ownership, and Transition of Agricultural Land Survey" (<http://tinyurl.com/nuq7boo>). Drawing on the results of the 2012 Census of Agriculture, the document tells us that 38.8 percent of agricultural land is "rented or leased from someone else," though there is wide variation at the county level. In the broad US grain belt that stretches from western Ohio and southern Michigan through the three I states into much of southern and western Minnesota and then from the Dakotas to Texas, along with land abutting the Mississippi River, over 60 percent of the land in most counties is rented.

With land as the single largest cost in the production of corn, soybeans, wheat, and other crops, renters do not have the luxury enjoyed by those who farm their own land of ignoring the opportunity cost of land when prices are below the full cost of production like they are today. While we don't have a magic wand that we can offer renters who need to get land rents back to more manageable levels, we do think it cannot hurt to understand a little more about the landlords.

Of the more than 2 million landowners who rent out their land, "87 percent...do not operate a farm (non-operator landlords)." Looking at the acres rented out, "20 percent were rented out by operator landlords, and 80 percent by non-operator landlords." Three-quarters of the landlords are "principal landlords'.... either individual owners or the principal in a partnership arrangement."

In 2014, principal landlords (average age of 66.5) were older than principal farm operators (average age 58.3). Those "65 years or older in 2014.... account for 67 percent of the rent received." Most of the principal landlords are college educated.

"Fifty-four percent of principal landlords are not currently in the paid workforce," a fact one would expect given their average age. Just under half (45 percent) of all principal landlords have never farmed.

Operator landlords received \$6.9 billion in rental income, spent 1.9 billion in expenses and carried \$7.9 billion in debt on land and buildings worth \$200.1 billion on acres rented out. Non-operator landlords received \$24.3 billion in rent with \$7.4 billion in expenses on land and buildings worth \$931.9 billion. They carried a debt load of \$24.8 billion on the acres they rented out. Some of the listed expenses are for land that is share rented.

Fifty-four percent of the land rented out by non-operator landlords was acquired through inheritance or gift, while 31 percent was purchased from a non-relative, and 11 percent of their land was purchased from a relative. Among operator landlords, 41 percent of the land they rented out was purchased from non-relatives, 37 percent was acquired as a gift and 17 percent was purchased from a relative. "Eighty-nine percent of the acres rented out by operator landlords, and 94 percent of acres rented out by non-operator landlords, were fully paid for."

Since landlords, as a group, have relatively little debt on their land that would seem to suggest that they have some negotiating room when it comes to land rents. On the other hand, because most landlords are in or are near retirement, they may have become accustomed to the increase in rents of the last few years and they may not want to jeopardize their living style, etc. for other considerations.

It seems to us that the renter should do his/her best to carefully prepare per acre revenue against expected per acre non-land costs using a) the high prices of the past and b) the low prices expected next year. All farmers certainly know their landlords well, but given the fact that a significant number of them have no farming experience, they may not keep up with many changes that agriculture faces today, and may live at some distance from the land they own, a little time spent talking to them about the nature of farming and the challenges agriculture faces could be a wise investment.

From the renters' perspective hard facts are probably going to be the best hope to convince the owner of the seriousness of the situation and to move him/her to a negotiated number that makes sense and is acceptable to both. Consideration of adding a term in the agreement that would allow the level of rent to increase if prices increase could be seen by the landlord as a sign of good faith on the part of the renter/farmer. Honest numbers and even-tempered explanations/discussion are essential elements of any negotiation.

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