

Considerations When Renting Land

With commodity prices near or at historical high prices, many questions have been raised concerning a “going price” for cash land rent by land owners and farm operators.

Traditionally, the response was 5-6% of the value of the land. This price accommodated the value of the money invested in the land, taxes and general maintenance.

However, these days are anything but traditional. With volatile markets, interest rates and uncertainty in the general economy, plugging in a simple formula is less feasible. The following are just some of the factors to consider.

What is the value of land? “That depends if you are buying, selling or holding!” What we hear that others have paid for land may not be the total story. Motivation to sell, alternate uses, and proximity may have determined the price that was paid for land. So the price of land may be skewed by factors other than the free-market.

Another way of looking at the value of land is to determine what was paid for the land expenses such as tiles (cost basis). This would remove the inflationary factors and the speculative factors. Then apply the 5-6% factor to determine land rent. This could give a base price for rent.

Renter’s ability to pay. “A bird in the hand is worth two in the bush.” A major factor to consider is assurance that the renter will fulfill the obligation to pay. If you are surer of receiving \$200 per acre, you might be better off than a 50% chance of receiving \$300 per acre.

Stewardship of the Land. Many landowners have owned and farmed their land for many years and possibly generations. The health and well-being of the land is an important factor to the landowner. The renter’s commitment to follow a well defined nutrient/conservation plan, use of conservation tillage, organic matter management and crop rotation goes a long way in a landowner’s choice of renter and price paid. Guidelines for the renter and involvement by the landowner can result in a wide variation in land rent price.

“People Factor” is often used in selecting a renter. Most if not all of the farmers that are interested in renting land are either neighbors or friends of the land owner. Choosing which person to whom you rent your land, is often based on previous experiences with the renter. That relationship is cultivated over a time period. Some landowners would prefer to rent to a young farmer in order to “get him started.” Putting the land rent up for bid (either closed bid or open bid) with the highest bidder being accepted removes all human factors and simply allows the market to choose.

Land rent is taxable income, but is considered “unearned income” under the tax codes. There are very few allowable “right-offs” on farmland that is owned debt-free. Also consider property taxes and tax credits available on farmland.

Often overlooked by a landowner is the comfort level that is needed to live. There are lots of bragging rights that go along with receiving “the top rent paid in the county.” However, if the farmland is considered the owner’s 401k, focusing on your desired standard of living will be helpful. Anything above that is gravy. Keep in mind that the renter has to make a living too and may be a friend or neighbor.

Deciding to rent your land or choosing a renter is a big decision. Because of this, discussing with family, friends, financial advisors or your cooperative extension agent, can provide confidence in making the right decision. Alternative rental agreements, such as crop-share and adjustable rate rent are also available; however the land owner assumes more risk as the potential for greater return increases.

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