

# Establishing a rental rate and agreement that work



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For The News

As fall harvest is nearing completion and farm machinery is being put back into the shed for winter, plans for next year are already in the works. One of these planning tasks is reviewing farmland rental agreements, establishing new contracts and determining what rental rate you should be charging for your farmland.

The most common and popular is the cash rent lease agreements because the lease is simple, the rent is fixed and the owner is relieved of making operating and marketing decisions. Likewise, the tenant has maximum freedom to plan and develop the cropping and livestock programs. The risk and returns from changing prices, yields and costs are all borne by the tenant.

## Types of cash rent

A farm may be rented for a fixed amount per acre for all acres in the farm (e.g. 160 acres in a quarter section) regardless of the number or acres of cropland, pasture, buildings, etc. This is referred to as a whole-farm rental rate.

Or the farm may be rented for a fixed amount per cropland acre (i.e. 145 acres cropland in a 160-acre farm) with a different

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rental rate for any pasture or buildings. Normally whole-farm rental rates are lower than cropland rental rates because the land that is not cropped is often of lower productivity or not used. Exceptions are building sites and grain storage facilities.

## Approaches for determining rental rate

Determining a fair rate is not easy. Cash rents are likely to be too low during periods of rising prices and high yields and too high during periods of declining prices and low yields. Rates often reflect the results of the past few years more than the upcoming year. As a result, rental rates are likely to increase for 2013.

When landlords and tenants establish rental rates they often look at the following components, though each party may look at these from different perspectives:

1. What others are charging/paying
2. Current commodity prices
3. Average historical yields
4. Land ownership costs
5. Location, distance from tenant
6. Size of farm field
7. Productivity of the soil type
8. Slope of land

## What others are charging/paying

The most common method of establishing a cash rent is to set a rate similar to what other people in the area are charging. USDA National Agricultural Statistics Service provides an average rental rate for each Wisconsin county.

In December 2011, 10 UWEX offices in western Wisconsin conducted an informal farmland rental rate survey to better assist in answering this question. These surveys provided us with an average county rental rate as well as rental rates for specific sections or townships of the county.

Reported farmland rental rates for western Wisconsin indicate a range of \$0-\$450 per acre. To review the 2011 information, visit Dunn County UW-Extension website at <http://dunn.uwex.edu/agriculture/farm-management/farm-lease-information>.

UWEX offices will again look to conduct this farmland survey in December. This method assumes that what others are charging is fair and equitable. A landowner receiving less rent per acre than the neighbors feels that he/she is not receiving what is rightfully due. However, a landowner

receiving more than a neighbor may feel that he/she is being unfair to the tenant.

There are three potential pitfalls with this approach:

1. Charging what others are charging may not be appropriate for a particular farm. Remember that most other tenants and landowners are in the same position you are.

They are looking for someone to tell them what rental rate is fair and equitable. If you use this method, compare your rate to many other rates instead of just one.

2. Rumors about cash rental rates may be quite different than the typical rates, especially in a rapidly changing market.

3. Differences in the quality of land should be taken into account when comparing your rental rate to those of others. Landlords who are unfamiliar with farming often assume all land is of equal productivity.

So, when using this method, be sure to compare your rate to rates for land of comparable quality, based on actual yields or productivity indices.

ADAPTED FROM "COMPUTING A CROPLAND CASH RENTAL RATE," WILLIAM EDWARDS, IOWA STATE EXTENSION ECONOMIST

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