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G98-1355 Cropshare Leasing Patterns in Nebraska - 1996

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Cropshare Leasing Patterns in Nebraska — 1996

Leasing agricultural land is very common in Nebraska. This NebGuide discusses the most common leasing arrangements in the state in 1996.

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- [Crop Output Shares for Dryland Cropland](#)
- [Crop Output Shares for Irrigated Cropland](#)
- [Output Shares for Alfalfa and Other Hayland](#)
- [Input Share Arrangements](#)
- [Summary](#)

Nearly half, 47 percent, of Nebraska's agricultural land is leased each year; and of the cropland acreage, cropshare leasing remains the primary leasing arrangement used throughout most of the state. In cropshare arrangements, the landowner and the tenant agree to specific shares of the crop production as well as shares of certain key crop input costs. In principle, the division of the output between the landowner and the tenant should reflect the relative level of contributions of inputs each make to the production process.

Each cropshare lease can be unique, reflecting the specific negotiation process between the landowner and the tenant. However, general patterns of output and input shares within the rental market tend to develop across regions of the state over time. They evolve from the market negotiation process and reflect what is considered fair and acceptable to both parties. These patterns tend to be based on the types of crops grown as well as the soils, climate, and crop productivity of the area. And since Nebraska is a very transitional agricultural state from west to east and north to south, the patterns vary substantially by sub-state area. Both landowners and tenants can benefit from familiarity with the customary leasing arrangements of their area.

This NebGuide is based on the 1996 UNL Cropland Rental Arrangement Survey. It was a statewide mail survey of tenants who provided specific information on over 1,000 cropshare leases. The findings reported here reflect average statewide or sub-state regional conditions; so specific arrangements appropriate for a particular county or local market may differ. Likewise, the circumstances of a particular lease may require cropshare arrangements that vary from what is deemed typical in that area. Nevertheless, the patterns presented here provide important benchmark information from which market participants can build equitable share rental agreements.

Crop Output Shares for Dryland Cropland

The most common dryland output shares vary by area of the state. In the western two-thirds of the state, the 2/3-1/3 tenant-landowner share is the predominant arrangement (*Figure 1 and Table I*). For the eastern third of Nebraska, the 3/5-2/5 output share was generally the most common reported in 1996. However, in some of the eastern counties, there was a higher incidence of 1/2-1/2 shares, the arrangement that is nearly universal in states east of Nebraska. It is therefore not surprising to find that most of the Nebraska counties where 1/2-1/2 shares were most typical also bordered Iowa.

Figure 1. Most Common Shares of Dryland Cropshare Leases - 1996

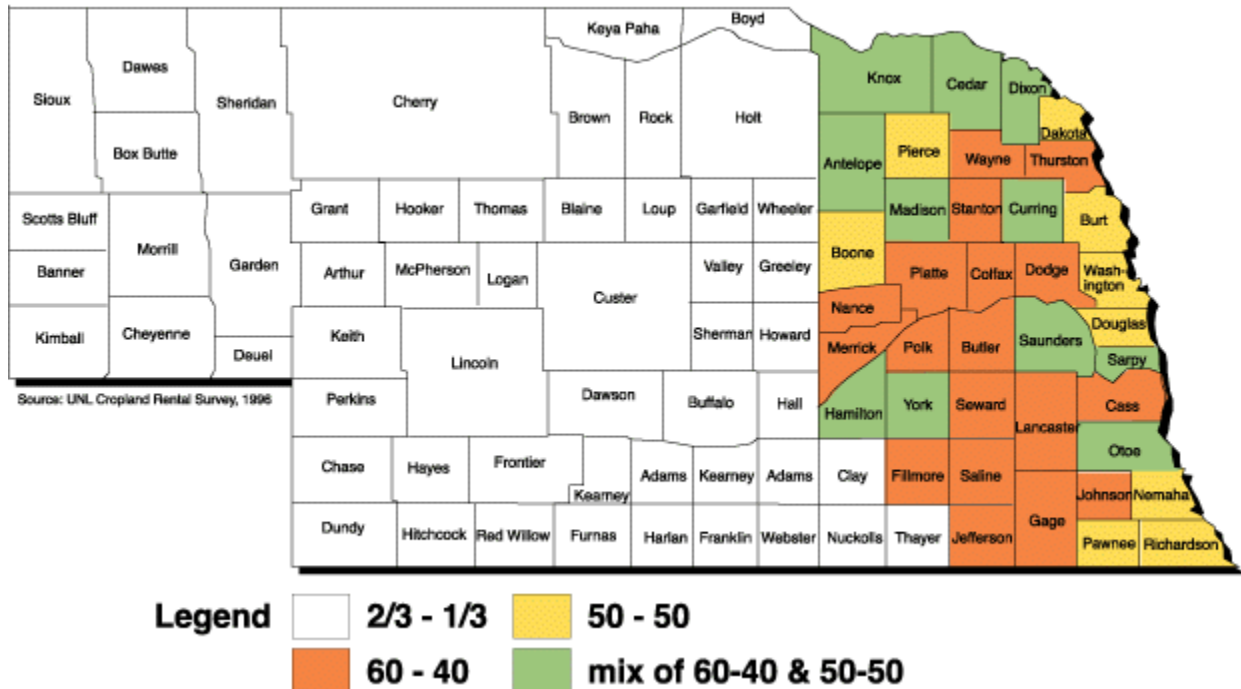


Figure 1. Most common shares of dryland cropshare leases in 1996.

These 1996 patterns for dryland cropland are generally similar to those of a 1986 benchmark. (See [Common Cropshare Leasing Arrangements in Nebraska-1986](#), NebGuide G87-832). This would indicate that cropshare leasing arrangements change slowly over time. However, some change is evident in the east, particularly the Northeast Agricultural Statistics District where the incidence of 1/2-1/2 shares has increased to nearly as high as that of the 3/5-2/5 shares for dryland cropland.

Crop Output Shares for Irrigated Cropland

For irrigated cropland, the predominant output shares vary by region and type of irrigation. In the Northwest District the most common share arrangements were 2/3-1/3 for both gravity-irrigated and center-pivot irrigated cropland (*Table I*). For the North and the Northeast Districts, the 1/2-1/2 share was most frequently used for both types of irrigated land in 1996. In the East and Central Districts the most common reported share in 1996 was 3/5-2/5; although the presence of 1/2-1/2 and 2/3-1/3 shares was also common. As for the remainder of the state, the 3/5-2/5 share on gravity irrigated land and 1/2-1/2 on center-pivot irrigated land showed up with highest frequency among the 1996 survey respondents.

Table I. Reported Tenant's Share of Output in Crop-Share Leasing in Nebraska by Type of Cropland and Agricultural Statistics District, 1996.*

Type of Cropland and Agricultural Statistics District		Tenant's Share of Output					
		33%	50%	60%	67%	75%	Other
		-----Percent Distribution-----					
Dryland Cropland:							
	Statewide	1.7	21.3	40.6	32.1	1.4	3.9
	Northwest	10.0	3.3	□	76.7	10.0	□
	North	20.0	□	□	80.0	□	□
	Northeast	1.6	43.5	45.2	6.5	□	1.6
	Central	□	9.4	21.9	62.5	□	6.2
	East	1.1	28.8	62.8	2.1	1.1	4.1
	Southwest	□	19.1	64.7	16.2	□	□
Gravity Irrigated Cropland:							
	Statewide	□	23.8	47.6	22.5	3.4	2.7
	Northwest	□	□	□	62.5	37.5	□
	North	□	100.0	□	□	□	□
	Northeast	□	71.4	14.3	14.3	□	□
	Central	□	17.2	41.4	34.5	□	6.9
	East	□	34.9	60.0	2.9	□	2.2
	Southwest	□	9.1	54.5	36.4	□	□
	South	□	13.5	59.5	24.3	□	2.7
	Southeast	□	31.6	47.4	15.8	5.2	□
Center-Pivot Irrigated Cropland:							
	Statewide	□	54.2	26.3	16.9	□	2.6
	Northwest	□	□	33.3	66.7	□	□
	North	□	100.0	□	□	□	□
	Northeast	□	94.7	□	5.3	□	□
	Central	□	30.8	46.2	23.1	□	□
	East	□	41.9	45.2	6.5	□	6.4
	Southwest	□	73.3	□	26.7	□	□
	South	□	40.0	33.3	20.0	□	6.7
	Southeast	□	42.8	28.6	28.6	□	□

Source: UNL Cropland Rental Survey, 1996.

*Bold entries represent the most common tenant's share for that type of land in that area.

When compared against the patterns observed 10 years previously, the output shares for irrigated cropland are also generally unchanged. However, one noteworthy adjustment is the higher incidence of 2/3-1/3 shares in some of the districts for both gravity and center-pivot irrigated cropland. This arrangement is coming into greater practice in cases where the landowner prefers not to pay for a portion of the various input costs and, thus, accepts a smaller share of the output.

Output Shares for Alfalfa and Other Hayland

Alfalfa and hay production represent multiyear crops which create different configurations of tenant-landlord contributions to the production process. As a result, the output shares tend to differ from those of annual crops (*Table II*). For alfalfa, the predominant share for essentially all of the state was 1/2-1/2 tenant-landlord shares in 1996. However, in the South, East and Southeast Districts, other output shares were also common in 1996. Generally, if the landlord has been responsible for establishing the alfalfa crop on the land, then s/he will negotiate for half of the output. But if the tenant participates in the cost of establishment during the initial year of the alfalfa crop, then the tenant output shares may be somewhat higher.

Table II. Reported Tenant's Share of Output in Crop-Share Leasing of Alfalfa and Hayland in Nebraska by Type of Cropland and Agricultural Statistics District, 1996.*					
<i>Type of Land and Agricultural Statistics District</i>		<i>Tenant's Share of Output</i>			
		<i>50%</i>	<i>60%</i>	<i>67%</i>	<i>Other</i>
					<i>-----Percent Distribution-----</i> <i>----</i>
Alfalfa:					
	Statewide	71.3	12.9	7.9	7.9
	Northwest	66.6	16.7	16.7	□
	North	100.0	□	□	□
	Northeast	88.0	□	8.0	4.0
	Central	89.5	□	10.5	□
	East	52.2	34.8	□	13.0
	Southwest	83.3	16.7	□	□
	South	50.0	□	50.0	□
	Southeast	45.5	27.3	□	27.2
Tame Hay:					
	Statewide	62.1	13.8	10.3	13.8
	Northwest	100.0	□	□	□
	North	100.0	□	□	□
	Northeast	100.0	□	□	□

	Central	100.0	□	□	□
	East	57.7	14.3	□	28.6
	Southwest	66.7	33.3	□	□
	South	25.0	□	75.0	□
	Southeast	42.8	28.6	□	28.6
Native Hay:					
	Statewide	77.8	8.3	8.3	5.6
	Northwest	100.0	□	□	□
	North	100.0	□	□	□
	Northeast	100.0	□	□	□
	Central	100.0	□	□	□
	East	80.0	20.0	□	□
	Southwest	50.0	□	50.0	□
	South	40.0	□	60.0	□
	Southeast	50.0	25.0	□	25.0
Source: UNL Cropland Rental Survey, 1996					
*Bold entries represent the most common tenant's share for that type of land in that area.					

In the case of tame hay and native hay, the typical output shares were 1/2-1/2 for all but the southern parts of the state. Across the southern districts, cases of somewhat larger tenant shares were also reported. In those instances, the hayland portion of the tract being leased is often rather inconsequential; and therefore the parties may opt to divide hay output the same as the rest of the lease for the cropland portion.

Input Share Arrangements

Economic theory suggests that the cost of key output increasing variable inputs in crop production should be shared by the tenant and landowner in the same proportion as the output is shared. In so doing, these inputs will be used to the level of maximum efficiency in the crop production process. In reality, whether specific inputs are shared and whether they are shared in the same proportion as output depends on the negotiation between the landowner and the tenant as well as on the relative proportion of the fixed input costs contributed by each party in the production process.

For dryland cropshare arrangements with 1/2-1/2 output shares, several inputs are typically shared between the tenant and the landlord (*Table III*). Seed, fertilizer, herbicide and insecticide materials, lime, and crop drying were almost universally shared in the same proportion as output in 1996. Less common among shared expenses were hired chemical application costs and hauling expenses. Landowners often perceive the chemical application costs as substituting for mechanical weed control which has traditionally been the responsibility of the tenant; and therefore have not been as willing to share in that expense. In the case of hauling, tenants may negotiate for a share of this expense if the crop is to be hauled some distance from the point of harvest.

Table III. Reported Sharing of Crop Inputs Under Crop Share Leasing by Type of Land and Output Shares, Nebraska, 1996.

Type of Land and Output Share/Input Share	Selected Inputs										
	Seed	Fert.	Herb.	Insect.	Chem. Appl.	Lime	Harv.	Hauling	Crop Drying	Irr. Energy	
	-----Percent of Respondents Reporting-----										
Dryland Cropland:											
50-50											
	Same as	97	99	97	100	41	100	15	21	81	
	Different from	3	1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3	2	<input type="checkbox"/>	
	Not shared	<input type="checkbox"/>	<input type="checkbox"/>	3	<input type="checkbox"/>	59	<input type="checkbox"/>	82	77	19	
60-40											
	Same as	6	94	72	74	23	83	<input type="checkbox"/>	8	77	
	Different from	1	2	1	1	1	8	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Not shared	93	4	27	25	76	9	100	92	23	
67-33											
	Same as	7	77	52	47	27	69	1	2	66	
	Different from	2	5	4	<input type="checkbox"/>	1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Not shared	91	18	44	53	72	31	99	98	34	
Gravity Irrigated Cropland:											
50-50											
	Same as	81	100	94	100	60	100	6	19	100	97
	Different from	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2
	Not shared	19	<input type="checkbox"/>	6	<input type="checkbox"/>	40	<input type="checkbox"/>	94	81	<input type="checkbox"/>	1
60-40											
	Same as	17	100	84	94	39	100	<input type="checkbox"/>	2	71	77
	Different from	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1	2
	Not shared	83	<input type="checkbox"/>	16	4	61	<input type="checkbox"/>	100	98	28	21

67-33											
	Same as	4	44	22	26	13	36	4	4	38	5
	Different from	4	8	8	9	4	14	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5
	Not shared	92	48	70	65	83	50	96	96	62	90
Center Pivot Irrigated Cropland:											
50-50											
	Same as	90	100	98	100	56	100	7	18	94	95
	Different from	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Not shared	10	<input type="checkbox"/>	2	<input type="checkbox"/>	44	<input type="checkbox"/>	93	82	6	5
60-40											
	Same as	10	95	75	80	25	100	3	15	81	74
	Different from	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Not shared	90	5	25	20	75	<input type="checkbox"/>	97	85	19	26
67-33											
	Same as	18	82	55	64	20	60	<input type="checkbox"/>	<input type="checkbox"/>	50	55
	Different from	9	9	9	9	<input type="checkbox"/>	20	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	27
	Not shared	73	9	36	27	80	20	100	100	50	18
Source: UNL Cropland Rental Survey, 1996.											

Dryland cropland leases involving 3/5-2/5 shares do not usually involve sharing seed expense. Likewise, under 2/3-1/3 arrangements, seed costs are usually covered fully by the tenant. Given these input cost configurations, the relative contributions of the parties have traditionally been relatively close to the output shares and therefore equitable. However, with the advent of new seed varieties with built-in qualities of pest resistance or greater profit potential, it may become increasingly important for the seed costs to be shared (or at least the additional price premium of the seed due to these added qualities).

In the case of irrigated cropland, cost sharing of inputs were basically similar to dryland leases under 1/2-1/2 and 3/5-2/5 shares. However, the additional cost of irrigation energy is added to the shared input list. Because production output is often closely correlated with irrigation application rates, the sharing of irrigation energy expense is usually quite appropriate.

While patterns of sharing various input costs are evident, the results from the 1996 survey suggest that considerable variability does exist. What explains this? There are several reasons.

First, each rental arrangement can vary in its structure due to the relative interests of the parties involved and the services rendered. In short, non-economic as well as economic factors involved in the lease may alter its structure from typical patterns.

Second, since a sizable portion of leases are between relatives, this may also explain the many variations which are observed.

Third, there are often specific aspects of the leasing agreement which create an economic rationale to deviate a lease arrangement from the prevailing patterns. Take, for example, the case of 2/3-1/3 share arrangements on irrigated cropland. The pattern of shared inputs for this leasing arrangement is markedly different from one area of the state to another. In areas of the state where this output share has existed for some time, the inputs shared will tend to be similar to those of 2/3-1/3 dryland leases. And given the risk involved, the relative contributions of the parties involved would tend to merit this arrangement. But, in other parts of the state where the advent of the 2/3-1/3 share on irrigated cropland has been relatively recent, the pattern has been typically one of the landowner not sharing in **any** of the variable inputs. In this case, the tenant gets a larger share of the output in exchange for covering all of the variable input costs. Given the likelihood of higher and more stable yields associated with irrigation in these areas, the relative contributions of each party, without sharing of key variable inputs, is perceived to justify the output shares.

Summary

Both output and input shares associated with cropshare leasing vary across the regions of the state. However, within the sub-state areas, predominant share arrangements tend to exist which are influenced by the crops grown, the presence of and type of irrigation, perceived yield variability, and general preference patterns of both landowners and tenants.

Compared with a decade earlier, the general patterns of cropshare leasing observed in the 1996 statewide survey were fairly similar. Some modest changes were evident, but the new 1996 benchmark suggested basic stability over time. In essence, the institution of cropshare leasing is stable with leasing arrangements which may continue unchanged for years-even decades. Change occurs slowly and deliberately.

Also noteworthy is the fact that significant deviations from the general patterns were observed in the 1996 survey. This suggests that, when merited, tenants and landowners do negotiate unique arrangements to suit their particular situation and needs. In turn, this provides for some adaptability within the cropshare leasing which has made it a resilient and viable institution over time.

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