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Cornhusker Economics

What Do Higher Commodity Prices Mean for Cash Rent?

Anyone watching the corn and soybean prices of the last six months or so must be amazed at how fast and how high prices have gone. Just a year ago, cash prices for 2020 corn were bouncing around the \$3.00 per bushel area. Now the cash price for 2020 corn delivered to an ethanol plant is nearly \$7.00+ per bushel. What do, or what should, these change in prices do to cash rent?

At first you may think this rapid increase in prices would automatically equate to higher cash rents for 2022. However, I would encourage you to consider several things.

First, did the landowner give the tenant a reduction in rent last year when prices were lower? If they did not, then should they expect the tenant to pay more when prices are higher? This is part of the risk involved for a landowner in a cash lease arrangement. When landowners agree to the rental rate in the winter for the upcoming growing season, they are subject to that rate regardless of actual prices received by the tenant or yields produced. In years of low prices, the landlord with higher cash rental rates has done well. In years with higher commodity prices, the tenant has done better.

Secondly, the \$7.00+ per bushel price for corn is for the 2020 crop that is sitting in the bin. Many producers have already sold their 2020 production so are not receiving these higher cash prices.

Currently, the 2021 crop can be contracted in the \$5.50 to \$5.75 per bushel range for delivery at harvest. Prices for the last six months have been very volatile, and it is yet unknown if these price levels will remain in the fall when the majority of grain is sold.

Cash rent became popular from the early 1980s through 2005. This was a period of relatively stable commodity prices. For those economies, cash rent was easier to determine because the prices did not change that much from winter to harvest in the fall. Now that prices have become more volatile, setting a cash rental rate has become more difficult. The better solution for setting an equitable rental rate in a volatile price climate is to use the crop share rent agreement. Another suggestion might be some type of flexible lease where the rental rate flexes depending on price, yield, or gross revenue per acre.

Landlords need to be very careful where they are getting comparable rent information. If it is coming from a place of socialization, i.e., the coffee shop or the local lunch stop, please consider that information with a grain of salt. In some cases, this information can be *inflated* like the fish the person caught the day before. In other cases, you can have the exact right information being shared, but it represents the best ground in the

neighborhood that was wanted by two adjoining neighbors who would not stop bidding. This may or may not represent your farm quality or neighborhood competition where your farm is located.

The other factor to consider when working on rental rates is how other expenses change the tenant's budget. Fertilizer, fuel, repair, equipment purchase, and all chemical costs have risen dramatically with the increase in corn and soybean prices. The producer is not pocketing all that extra cash. In many cases that extra cash is headed out the door as fast as it comes in.

Thinking about what the cash rental rate for farmland in 2022 should be is not as simple as it seems. There are several factors that need to be considered when determining a rate. The most important part is good communication. Be sure that the landlord and tenant are sharing information all year long, not just when it is time to renegotiate the lease.

Another factor that can be considered when thinking about rental rates is how satisfied you as a landlord are with the work being done by the tenant. Are they providing extra services without charging you? Examples are terrace or waterway maintenance, volunteer tree or shrub control, pivot maintenance above normal items, and controlling weeds appropriately so the farm looks good. If you are completely satisfied with these services, why would you need to get *top rent*?

The responsibility for good communication belongs to both parties. Tenants need to let landlords know about changing growing conditions during the season. Landlords need to be clear about their expectations for how the land will be managed and treated. Those are just the starting points.

Good luck to all as you think about and work on those 2022 lease agreements.

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