

Land rent. What's a fair price?

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How much should farmland rent for this year? That's a question on the minds of many landowners and land renters. The owner who asks too much will have trouble finding a tenant. On the other hand, if he doesn't ask enough he loses potential income.

These days it seems to be an owner's market with plenty of farmers available to bid for good cropland. The investor or retired farmer can pick and choose among renters and can get a rental sum that appears quite attractive.

So the risk of land renting seems to be on the tenant who must pay a fairly high land charge, then meet all the other expenses of putting in a crop with little assurance of yield or price. He can easily spend a couple of hundred bucks an acre, including rent. If he has a good year, he makes some money. But if the Spring is too wet or the summer too dry, he can lose his shirt.

A few years back there were a lot of sharecroppers—farmers who tilled the land on shares with the owners. It used to be common practice for the tenant to provide everything but the land and get two-thirds of the crop. If he was a good farmer and the weather cooperated, both he and the owner make out pretty well. In this situation, the owner shared in the risk and the tenant didn't have to cough up hard money at the beginning of the crop year.

Gradually that custom changed to one where owner and renter shared certain production costs like seed and fertilizer and then split the harvest 50-50.

But the sharecropper arrangements are pretty much gone in this part of the country. Owners want a guaranteed income and renters seem to prefer that also.

The big question becomes how much rent is appropriate? And, of course, there are two ways to look at the question. From the owner's point of view, the rent must be enough to yield some income on his investment beyond taxes and a fair rate of interest on the money invested or in the case of land that's been in the family for years, a fair return for the value represented.

The renter, on the other hand, can't pay too much or he loses money. He estimates crop yields and prices, subtracts estimated production expenses, figures how badly

he needs the additional acres and comes up with a figure. But then he has to compete with other farmers who may want additional acres even more than he does. So they bid up the price. Reports of land renting for \$50, \$60, even \$80 an acre are common. Land that rented for \$25 an acre a few years ago is snapped up at triple that amount.

Are landowners gouging renters? Not necessarily. You see, depending on what an investor actually paid for that land, he may have to get \$75 to pay his interest and taxes. That leaves nothing to pay off the principle. So to make it a worthwhile investment, he either needs to get even more rent, or wait for rising land values to bail him out when he decides to sell.

The real paradox in this mess is that, depending on the productivity of the land, the renter may not be able to pay that much rent and make any money. So what happens? The renter pays a little more than he should to get the land and hopes for good weather and high yields; the owner settles for enough to pay interest and taxes or maybe even less and waits till he sells the land to get the big pay off.

What this situation means is simply this—farmland in this area is overpriced for agricultural purposes. With today's commodity prices, a farmer can't buy land and pay for it with field crop income. An investor can't buy it and expect to pay it off with rent. And a renter can't continue to pay higher and higher rents just because land prices keep going up. There comes a time when he must back off—do a better job of farming the acreage he has and not try to be the biggest operator around.

The economics of big farm machines require large acreages. But that may not be every farmer's answer. When the rent payment takes all the profit, there's no point in large-scale farming.

Where's all this headed? To a system of controls that will take prime farmland out of the speculation market. Farmers will sell development rights to their farms to the government. That will lock their property into farm use forever and will adjust selling prices and rents down to the farm's potential as an agricultural unit.

This is already happening in a few states. Many farmers are supporting the idea as the only sensible way to keep good farms in production and to stop the spread of non-farm development into the country. It also stops spiraling rents that are beyond a farm's ability to produce.

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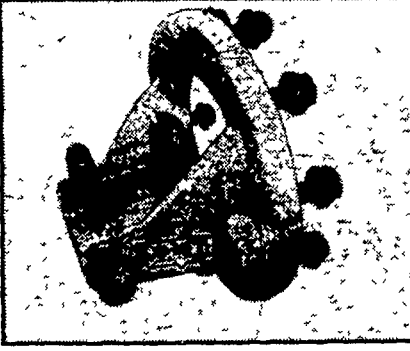
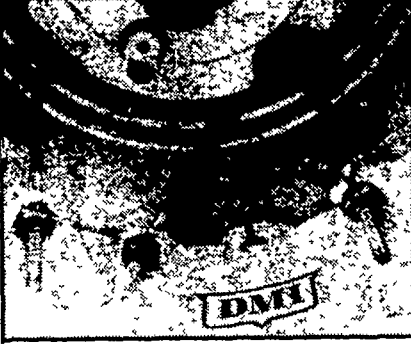
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