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Weekly Farm Economics: Proportion of Farms with High Cash Rent Percentages and Levels

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Commodity prices likely will be lower in the next several years than in the past several years, leading to lower crop farm returns. Lower returns may require some cash rents to decline, particularly on farms having larger percentages of acres with high cash rent levels. In this post, proportions or farms that most likely will have to adjust cash rents are presented. These farms are judged as having over 90% of their acres cash rented and having average cash rents that exceed county cash rents by more than $25 per acre. About 4% of grain farms meet the proceeding criteria. A higher proportion of larger farms meet these criteria.

Criteria for Classifying Farms

Herein, grain farms enrolled in Illinois Farm Business Farm Management are classified by:

1. Percent acres cash rented. A value of 90% means that 90% of tillable acres are cash rented. The remaining 10% of acres either are owned or share rented.
2. Farm-minus-county cash rent. The average cash rent on a farm is subtracted from the county average rent for the county in which the farm is located. For example, take a farm whose cash rent averages $300 per acre and comes from a county with an average cash rent of $275 per acre. Farm-minus-county cash rent for this farm is $25 per acre, indicating that its average farm rent is $25 higher than the county average.

Data from 2012 are used to classify farms that receive the majority of their gross revenue from grain operations. These grain farms tend to rent more of their farmland than all farms in Illinois.

Particular attention is given to farms meeting two criteria:

a. cash rent more than 90% of their acres, and
b. have $25 per acre or greater farm-minus-county cash rents.

Results from farm financial simulations suggest that these farms will face more difficulty in generating positive farm incomes than farms with lower cash rent percentages and levels. Not all farms that meet these two criteria will face difficulties. Cost levels, off-farm income sources, and debt-to-asset position also impact the ability to absorb lower returns.

Farms Meeting Criteria

On average, 51% of acres on grain farms are cash rented (see Table 1). The amount of farmland controlled by cash rent is higher for the two largest farm sizes: 64% of acres are cash rented on farm with between 4001 and 5000 acres and 77% of acres are cash rented on farms with over 5000 acres.

Table 1. Cash Rent Acres and Farm-Minus-County Cash Rents, Illinois Grain Farms Enrolled in FBFM, 2012.

Tillable Acres	Percent Acres Cash Rented	Percent of Farms Having 90% of More Acres in Cash Rent	Farm-Minus-County Cash Rent	Percent Farms Meeting Two Criteria[1]
			$/acre	
All grain farms	51%	12%	2	4%
Less than 500 acres	54%	21%	-33	4%
501 to 1000 acres	48%	11%	-16	2%
1001 to 2000 acres	49%	10%	-3	3%
2001 to 3000 acres	49%	9%	17	4%
3001 to 4000 acres	56%	12%	9	3%
4001 to 5000 acres	64%	25%	44	25%
Over 5000 acres	77%	28%	52	28%

[1] These farms have 90% or more of acres cash rented and have farm-minus-county cash rents that are above $25 per acre.

For all grain farms, only 12% of the farms cash rent 90% or more of their farmland. These percentages are the lowest for 2001 to 3000 acre farms, at 9% of the farms (see Table 1). Percentages increase for larger farm size: 12% for 3001 to 4000 acre farms, 25% for 4001 to 5000 acres, and 28% of farms with over 5000 acres.

For all grain farms, the average farm-minus-county cash rent is $2 per acre (see Table 1). Average farm-minus-county cash rents generally increase from smaller to larger farm sizes. Farms with less than 500 acres average -$33 of farm-minus-county cash rent average. Farms with over 5000 acre have an average farm-minus-county cash rent of $52 per acre.

There are only 4% of the farms meeting both criteria: a) cash rent more than 90% of their acres and b) have average farm-minus-county-cash-rent over $25 per acre. A higher proportion of these farms are in larger farm sizes. Twenty-five percent of farms between 4001 and 5000 acres meet both criteria and 28% of farms with over 5000 acre meet these criteria.

Summary

Commodity prices likely will be lower in the next several years than they have been in the past several years. As a result, per acre returns will decline, decreasing the ability to pay high cash rents from returns. This situation may require some farms to adjust. Those farms with over 90% of their acres cash rented and having farm-minus-county cash rents over $25 per acre may face the most financial pressures. However, these farms also may do well if they have lower than average costs. In any case, about 4% of farms cash rent more than 90% of their acres and have $25 per acre or more farm-minus-county cash rents. A higher proportion of larger farms meet these criteria.