

RENTAL RATES
as a percent of
CROPLAND VALUES

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JUN 6 1987

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An analysis of 1982 rental rates per tillable acre and 1982 land values per tillable acres indicates the following relationship:

Ratio Of Cash Rent/Tillable Acre
To Land Price/Tillable Acre

Locational Characteristics

less than 4%	very limited demand for cropland (e.g. northeastern Minnesota)
4 to 4.5%	urban areas, small acreages (e.g. Twin City area)
4.5 to 5%	dairy area with few rental arrangements (e.g. central Minnesota) and high value farmland (e.g. south central Minnesota)
5 to 6%	most farming areas (Red River Valley, southwestern and southeastern Minnesota)
more than 6%	high risk production area (west central Minnesota) or rough, hilly land (along Mississippi River) where land prices are low relative to soil productivity

The cash rents per tillable acre were those obtained from a survey conducted by the Minnesota Department of Revenue (see FM 661, revised 4/83). The respondents to that survey also reported estimates of the market values of those same tillable parcels. The above ratio estimates were derived by dividing the tillable acre rental averages in each county by the average estimated sales value of those parcels. Observations of these ratios by counties revealed the patterns indicated under the heading--"Locational Characteristics."

The above calculated ratios are about one percentage point greater than they were two years ago because land prices declined while cash rents did not. Cash rents are down slightly (perhaps 5%) in 1983, and would have been down more had not PIK picked them up a bit this spring.

Land prices have likely bottomed out because improved farm income prospects and lower interest rates have made current real estate price/income ratios appear relatively attractive. Also, inflation expectations are apt to increase during the coming months.

Assuming current annual land taxes are about 1 percent of land prices, the ratio of net returns to cropland (the market capitalization rate) appears to be in the 3.5 percent to 5 percent range depending on location. However, current bare land value estimates can be estimated by simply dividing the current market rental rate value of the land in question by the fraction indicated in the above table. For example, base farmland renting for \$100 per acre might sell for about \$2,000 per acre ($100 \div .05 = 2,000$).

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