

## 2011 Illinois Society of Professional Farm Managers and Rural Appraisers Mid-Year Survey

### **Key points**

*Note: In the following, reference is made to different qualities of farmland. Excellent quality farmland averages over 190 bushels of corn per acre, good quality farmland averages between 170 and 190 bushels per acre, average quality farmland averages between 150 and 170 bushels per acre, and fair quality farmland averages below 150 bushels per acre.*

The Illinois Society of Professional Farm Managers and Rural Appraisers conducts a survey half way through the year to obtain general directions on farmland prices and cash rents. This information supplements the Society's larger efforts at year-end to document farmland prices and cash rents across Illinois. The 2011 mid-year survey also focused on use of variable cash rental arrangements to gain information on this lease type that is growing in use. Below are the key points from the survey.

### **Farmland Prices**

1. Respondents indicate that land values increased by 14 percent during the first half of 2011.
2. On July 1, 2011, farmland prices averaged \$10,000 for excellent quality farmland, \$8,500 for good quality farmland, \$7,500 for average quality farmland, and \$5,800 for fair quality farmland.
3. Volume of sales was roughly the same in the first half of 2011 compared to the first half of 2010. Thirty percent of respondents indicated that the volume of sales was the same, 38 percent indicated the volume was more, and 32 percent indicated that the volume was less.
4. Most respondents expect the volume of sales to be more during the second half of 2011 as compared to the second half of 2010. Fifty-seven percent expect more volume, 40 percent expect the same while only 3 percent expect less volume.
5. Most respondents expect farmland prices to increase over the next 12 months: 33 percent expect farmland prices to increase more than 5 percent and 48 percent expect increases between 0 and 5 percent, meaning that 81 percent expect price increases. Thirteen percent of the respondents expect stable prices while 6 percent expect price declines of between 0 and 5 percent.
6. Most respondents expect corn prices to average between \$6 and \$7 per bushel for the 2011 crop. Thirty-two percent expect prices between \$7 and \$8 while 57 percent expect average prices between \$6 and \$7. Eleven percent expect prices between \$5 and \$6.
7. For soybeans, 56 percent of the respondents expect soybean prices between \$13 and \$14 per bushel. Four percent expect prices above \$14 while 40 percent expect prices below \$13 per bushel.

### **2011 Rents**

8. Respondents expect 2012 rents to average higher than 2011 levels:
  - a. Excellent quality farmland: Respondents indicated that average cash rent in 2011 was \$329 per acre and expect 2012 rents to average \$367 per acre, a \$38 per acre increase.
  - b. Good quality farmland: Respondents indicated that average cash rent in 2011 was \$285 per acre and expect 2012 rents to average \$321 per acre, a \$36 per acre increase.
  - c. Average quality farmland: Respondents indicated that average cash rent in 2011 was \$241 per acre and expect 2012 rents to average \$269 per acre, a \$28 per acre increase.
  - d. Fair quality farmland: Respondents indicated that average cash rent in 2011 was \$190 per acre and expect 2012 rents to average \$214 per acre, a \$24 per acre increase.

9. Respondents' expectations of the selling price for 2012 corn center around \$6 to \$7 per bushel: 7 percent believe prices will be above \$8 per bushel, 15 percent between \$7 and \$8 per bushel, 36 percent between \$6 and \$7 per bushel, 17 percent between \$5 and \$6 per bushel, and 25 percent below \$5 per bushel.
10. All respondents expect 2012 production costs to increase over 2011 levels. Forty-six percent believe they will increase a great deal and 54 percent believe they will increase slightly.

### **Leasing Arrangements**

11. For 2011, survey respondents indicate that the following leasing arrangements were used as a percent of rented acres:
- Share rent – 26 percent,
  - Share rent with modifications – 19 percent,
  - Fixed cash rent – 32 percent,
  - Variable cash rent – 16 percent,
  - Custom farming – 7 percent.
12. Variable cash rental arrangements are expected to increase in use in 2011 by 65% of the respondents. Percent of respondents expecting decreasing, the same, and increase use of different lease types are:
- Share rent (Decrease – 54 percent, The same – 42 percent, Increase – 4 percent)
  - Modified share rent (Decrease – 12 percent, The same – 54 percent, Increase – 34 percent)
  - Cash rent (Decrease – 26 percent, The same – 33 percent, Increase – 41 percent)
  - Variable cash rent (Decrease – 0 percent, The same – 19 percent, Increase – 81 percent)
  - Custom farming (Decrease – 5 percent, The same – 72 percent, Increase – 23 percent)

### **Type of Variable Cash Rent Arrangements**

13. Variable cash rents are becoming more prevalent as a lease type. There is a great deal of variability in variable cash rent arrangements. Survey respondents indicated that variable lease arrangement fell in the following broad categories:
- 13 percent of variable cash rents had cash rent payments tied to gross revenue with no minimum cash rent specified.
  - 72 percent of variable cash rent arrangements had minimum cash rents with chance of bonuses.
  - 7 percent of variable cash rent arrangements had cash rents tied to production only.
  - 8 percent of variable cash rent arrangements had the owner receiving grain.

**Bonus Cash Rent Arrangements** (The following points deal with the 72% of the variable cash rent arrangements that have minimum cash rents with bonus rents.)

14. Bonus cash rents generally have minimum cash rents that are below the average cash rent for similar quality farmland: 5 percent indicate that the minimum cash rent is \$100 below the average cash rent, 41 percent indicate it was \$50 to \$100 below the average cash rent, and 54 percent indicate that the minimum was \$0 to \$50 below the average cash rent.
15. Costs of production do not enter in the calculation of the bonus on most of these leases. Costs or production only enter into the calculation on 16 percent of the leases.
16. The bonus is usually based on gross revenue: 84 percent of the leases have the bonus based on gross revenue and 16 percent on prices only.

17. Farm yields are used in calculating gross revenue. Respondents indicated that county and other yields are not used in gross revenue calculation.
18. Price at a delivery point is used in 66 percent of the leases to determine the price used in gross revenue calculation. Future prices are used in 34 percent of the leases.
19. The average percentage on corn gross revenue used in calculating the bonus is 40 percent. The average percentage on soybean gross revenue is 38 percent.

**Miscellaneous**

20. The average charge for on-farm grain bin storage is \$.115 per bushel.
21. The average charge for pasture is \$35 per acre.
22. Respondents were asked an open ended question on what are the most important factors influencing farmland prices over the next 12 months. The most common answers are grain prices and interest rates. Other responses included the general U.S. economy, world economy, grain yields, returns on alternative investments, crop expenses, investor demand, and demand for operators looking to expand.