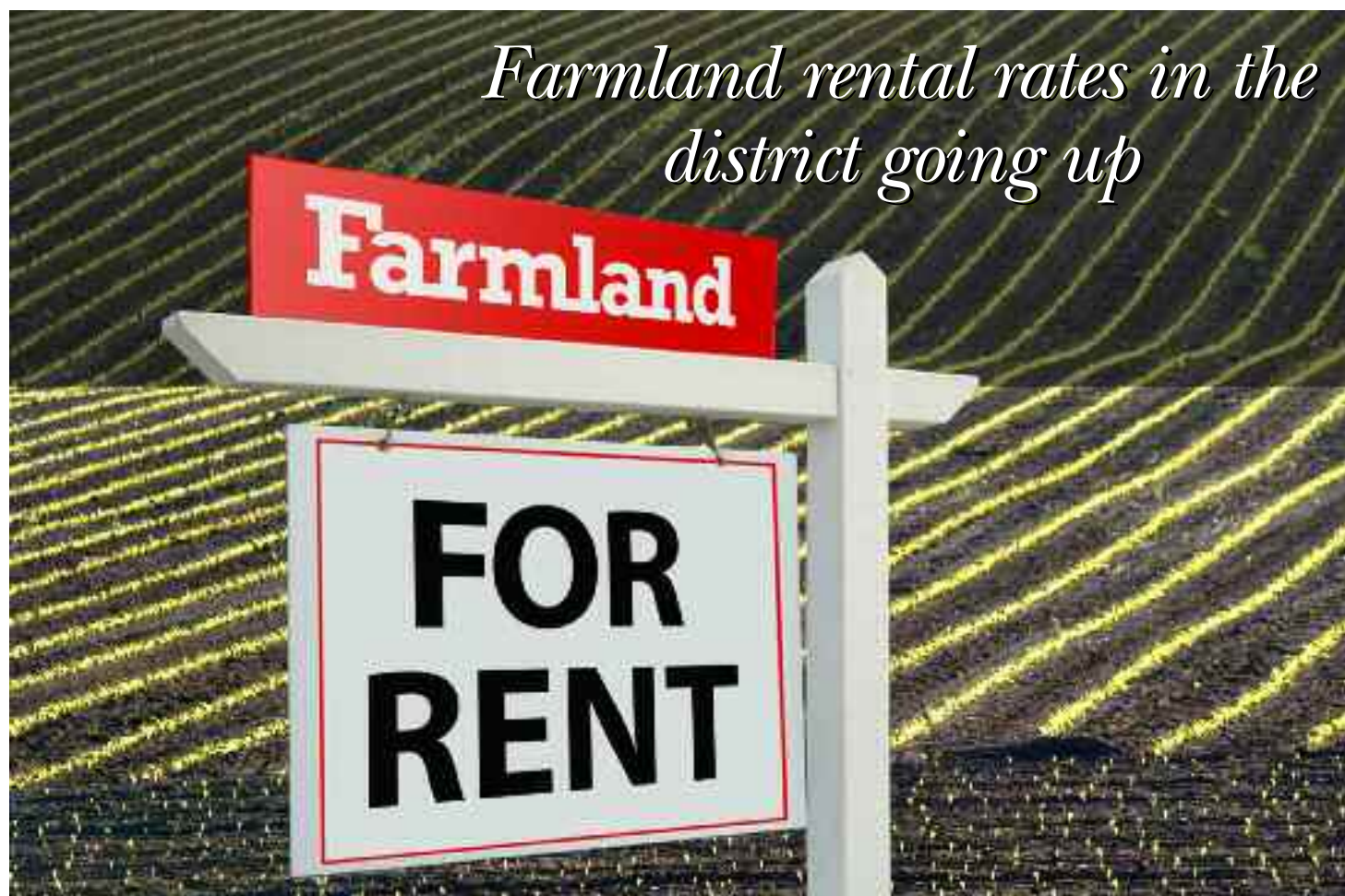


# This corn crop could be yours

## *Farmland rental rates in the district going up*



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Although not as attention grabbing as the big dollar signs growing on every acre of farmland in the Ninth District, another farmland trend might have lasting consequences. Over the past several years, as land values have grown, so has the amount of acreage being rented by farmers.

For example, in the 26 Wisconsin counties that are part of the Ninth District, the portion of cropland rented jumped 10 percentage points between 2001 and 2007. The same pattern holds, in differing magnitudes, throughout the district with respect to both cropland and pastureland. The sole exception is Wisconsin pastureland, where rented acreage fell slightly (see chart).

There are several reasons for this shift toward renting, but most can be traced back to the accelerating farmland values. From 2001 to 2007, nonirrigated cropland values grew over 50 percent in every district state and almost three times that amount in South Dakota (see the July 2008 *fedgazette* for a more complete discussion of farmland purchase and rental values). That's nice for landowners, but it creates strong economic incentives for renting, from the perspective of both the owner and a prospective renter.

"Many farmers have owned their land for years, and may have purchased it for five dollars an acre. That same acre would now sell for thousands," said John

Youngberg, vice president of government affairs for the Montana Farm Bureau Association. The capital gains tax creates a "huge incentive" for farmers to rent their land, rather than sell and lose much of the equity in taxes. The new kid on the block has the opposite problem. Economies of scale demand expansion, but the capital constraint is a big problem for the young farmer.

Good old economic self-interest might not be the only force at work, however. "Some older people are certainly interested in helping the next generation get their start," said Scott VanderWal, president of the South Dakota Farm Bureau. This altruistic response, exhibited through friendly rental agreements, might also help explain why rental rates

have not risen as quickly as farmland values.

Still, that doesn't explain the diversity in land rental rates among district states. North Dakota and Montana offer a good example. In 2007, nearly 70 percent of North Dakota cropland was rented; at the other end of the spectrum, less than half of Montana cropland was cultivated by a renter. North Dakota pastureland is also more likely to be rented than that in Montana, with pastureland rental acreage about 10 percentage points lower than cropland in both states.

The source of that variability across states is difficult to pinpoint. It likely has to do with the proportion of landowners in each state who are nonfarmers or retired farmers, but such records are not available to investigate. High com-

modity prices have given farmers the financial ability to expand, which would likely reduce land rentals. But since 2001, the shift toward more renting suggests that many landowners prefer to hold onto their farmland.

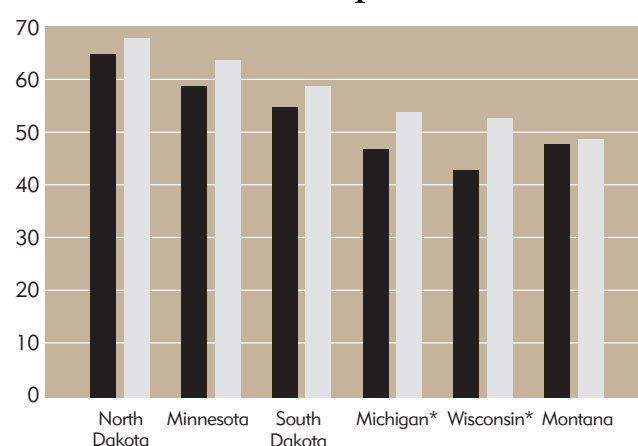
In some cases, it's family land, and the reasons to keep it as such are "as much cultural as economic," according to Dwight Aakre, an extension farm management specialist at North Dakota State University. Though crop prices have made farming profitable again, the cattle business is in the water trough. "It's hard to imagine why someone would want to be in the cattle business for strictly economic reasons," said Aakre.

But it's not hard to figure out why people want to be in the land business. Tom Isern is a professor of history at North Dakota State University, where he studies the North American Great Plains, but he bills himself as a "prairie person, landowner, farmer and sportsman." Isern believes the emotional attachment to hang onto the family farm is not particularly important. People want to hang onto land for different reasons, but mostly because they "still have great faith in the value of land."

That "hold" strategy is a hard one to argue with. Farmland values have been steadily rising, and the recent boom in commodity prices is giving landowners better leverage to increase rents and extend their investment winning streak. There is also the unknown future value, made all the more apparent in North Dakota by a recent oil boom and the possibility of carbon sequestration. Continued demand for farmland for recreational uses will also help keep land values up, Isern believes. "As long as there are dentists in Kansas City looking for a place to hunt pheasant, land values in the plains to the west are not likely to fall."

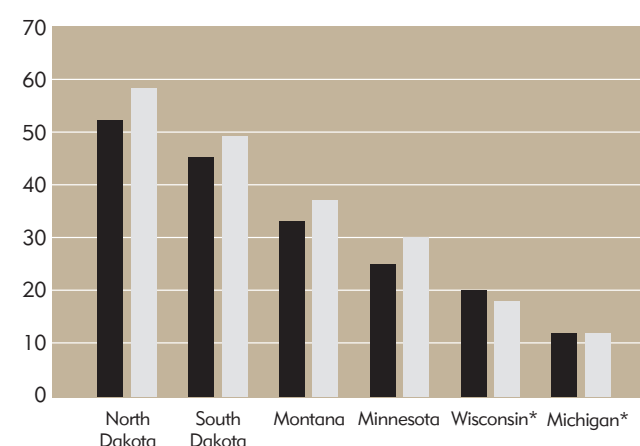
And as long as landowners—farmers and nonfarmers alike—are seeing good returns from their land, "for rent" signs might continue to dot the landscape. **f**

Percent of Cropland Rented



\*Average based on counties within Ninth District  
Source: USDA

Percent of Pastureland Rented



■ 2001 ■ 2007