

Survey of Iowa Leasing Practices, 2017

The Iowa farmland rental market has undergone considerable change in the past few years. Following the 2013 Iowa land value peak, the declining commodity prices and farm income, changes in technology and changes in the demographics of farmland owners have created uncertainty with respect to the farmland rental market.

This publication discusses the characteristics of Iowa farmland leases, based on the 2017 Iowa Farmland Ownership and Tenure Survey conducted every five years. The ISU cash rent survey with county-level cash rent information is updated annually every May. Both survey results and methodologies are available online from the Ag Decision Maker website, www.extension.iastate.edu/agdm.

The percentage of Iowa farmland that is leased has been relatively stable during the past few decades, but the mixture and the types of leases have changed. In particular, there is a clear shift from crop share agreements to cash rent leases. Major reasons for these changes include the aging farmland owner, increasing farm size, and the shift toward more land being owned by people living outside of Iowa.

Because the original data is designed to discuss farmland characteristics, the data presented here are based on the percent of leased farmland, not the percent of farmers or leases. Although in most cases the results would be similar, given the nature of the survey it is important to remember that it represents the percent of leased farmland and not individual leases.

The survey results are intended for informational purposes only. The characteristics of an individual farm lease should be determined by the landowner and the tenant.

Tenure

Tenure is defined as the relationship between the tenant and landowner. Table 1 provides a breakdown of Iowa farmland by type of tenure. As of July 2017, 53 percent of all land in Iowa was rented out to others, and 47 percent of land is owner controlled (Table 1). This represents a slight increase in the percent of land operated or controlled by the landowner, which could be a result of profitable crop production years in 2012 and 2013 and high livestock profits in 2014. Table 1 also shows the use of flexible cash rent has increased slightly, and flexible rental agreements now represent nine percent of all farmland in Iowa.

Table 1. Farmland tenure in Iowa as a percent of all acres, 2017

Percent of Iowa farmland as of July 2017		
Owner controlled:	47%	
Owner-operated		37%
Custom farmed		2%
Government programs and other uses		8%
Leased:	53%	
Cash rent (fixed)		35%
Cash rent (flexible)		9%
Crop share		9%
Other types of leases		<1%
Total:	100%	

Lease Characteristics

The general lease characteristics for all leased farmland in Iowa are presented in Table 3. Cash leases are the most prevalent, accounting for 49 percent of all farmland (Table 2) and 83 percent of leased farmland.

Table 2 shows that leased farmland in Iowa was equally divided between cash rent and crop share leases in 1982. The percentage of cash rent leases changed over time relative to crop share leases. The trend to cash rent and away from crop share

Table 2. Farmland tenure in Iowa as a percent of all acres, 1982 – 2017*

	1982	1992	2002	2007	2012	2017
Owner-operated	55%	50%	41%	40%	40%	41%
Cash rent lease	21%	27%	40%	46%	46%	49%
Crop share lease	21%	22%	18%	13%	13%	10%
Other type of lease	1%	1%	1%	1%	1%	<1%

* Does not include government program acres or custom acres.

continued between 2012 and 2017. Recent low or negative profit margins for crop production may have accelerated the switch away from crop share leases.

A few cases reported something other than a cash rent or crop share lease. These unique rental arrangements include a mixture of cash rent and crop share, or labor exchange between the tenant and landowner. Because these types of rental arrangements accounted for less than half a percent of all leased land, they will not be discussed further in this publication.

Table 3 reveals some of the differences between cash and crop share leases. The tenants typically have a shorter landowner-tenant relationship, 11 years on average, in cash rental arrangements compared to the average of 14 years for crop share leases. This is intuitive because landowners likely are more involved in the production decisions for crop share leases. However, this difference is narrowing. In 2017, there was a three-year difference on average, whereas in 2007 and 2012 there were nine- and four-years difference, respectively, between the length of time a cash rent

and crop share lease had been in effect with the same tenant. The narrowing of the gap in length of time between types of leases and in the overall average length of time a lease has been in place reflect the move toward cash rents and toward a more stable, long-term relationship between the tenant and landowner.

The crop share lease acres are more likely to be rented to a relative or a friend, whereas the cash rent agreement is more likely to be a written lease. The use of a professional farm manager is more common for crop share leases as well. Interestingly, the percent of crop share leased land with an owner who lives on a farm has significantly decreased from 44 percent five years ago to only 36 percent as of July 2017, which is even lower than the share for cash rent leases.

Cash Rent Lease Characteristics

Table 4 shows selected characteristics of the cash rented land in Iowa. Of the cash rented farmland under a fixed time period lease, over half (52 percent) is for more than five years, which represents a significant change from a decade ago when only 14 percent of the fixed cash rent leases

Table 3. Characteristics of leased Iowa farmland, 2017

	Cash rent	Crop share	All leased acres
Percent of leased acres	83%	17%	100%
Use written lease	69%	37%	64%
Leased to a relative	30%	39%	31%
Leased to a friend	21%	29%	22%
Professional farm manager used	2%	11%	4%
Owner lives on a farm	42%	36%	41%
Fixed-term lease	82%	13%	70%
Average tenure of current tenant (years)	11.6	14.4	12.1

were for more than three years. In the meanwhile, about one-third of the fixed leases are for one year. This may be a reflection of the volatility of returns over the past five years, shifting from high farming profits to low-to-negative margins and the desire to secure land for longer periods.

Rather than examining the length of a fixed term lease, the number of years the same tenant has been renting the land via a cash rent lease is arguably more informative. Cash rent tenancy tends to be stable in Iowa. The average length of tenancy was 11.6 years. Over 40 percent of the cash rent acres have been rented by the same tenant for more than 10 years, and another 31 percent have been rented by the same tenant for six to 10 years.

Flexible cash rent was used for 18 percent of all cash rented acres, which is similar compared to five years ago. However, the characteristics of flexible cash rental leases have experienced significant shifts: in 2017, about two-thirds of the flexible leases used both price and yield to

determine the rental payment, while just four percent of the flexible cash rents used only yield for the rent payment determination. This represents a marked change over the last decade. The share of flexible cash rents that used only yield for rent payments was 28 and 14 percent, in 2007 and 2012, respectively. In contrast, the percent of flexible cash rent leases using price for rent payments increased from 13 percent five years ago to 30 percent in 2017. This likely is a reflection of the substantial movements in commodity prices from 2012 to 2017.

Table 4 shows that 60 percent of the cash rented acres are visited by the landowner at least once a month. However, eight percent of the cash rented acres are never visited by the owner during the growing season. In addition, the landowner receives information on crop yields from tenants for two-thirds of cash rented acres. Ninety-two percent of the cash rented acres reported having either one or two payments per year. A two-payment schedule was used for a majority of the leased acres.

	1 year	2 to 5 years	>5 years			
Number of years for a fixed lease	34%	14%	52%			
	Yes	No				
Rent amount is flexible	18%	82%				
	Yield	Price	Price & yield			
Nature of flex for flexible rent payments	4%	30%	66%			
	1	2	3	Other		
Number of rent payments per year	33%	59%	5%	2%		
	1	2 to 5	6 to 10	11 to 20	> 20	Average
Number of years tenant has rented	6%	23%	31%	24%	17%	11.6 yr.
	Never	Once or twice	Monthly	Weekly	Daily	
How often landlord visits farm during year	8%	33%	24%	11%	25%	
	1	2	3	4 or more		
Number of tenants	73%	18%	5%	4%		
	Yes	No				
Tenant tells landowner crop yields	67%	33%				

As illustrated in Table 3, four percent of all leased acres were managed by a professional farm manager. Table 5 provides some more details for all acres handled by a farm manager, regardless of whether it is leased out or controlled by owners. It reveals that almost half of acres handled by farm managers were paid a percentage of gross income, 36 percent paid a flat dollar fee, and another 17 percent was either paid a percent of net income or some combination of land value and cash rent. The arrangements for land handled by a farm manager are also equally divided among fixed cash rent lease, crop share lease, and custom farming.

Crop Share Lease Characteristics

Table 6 presents several additional characteristics of crop share leased farmland. As shown in Table 4, two-thirds of all crop share leased land has been rented by the same tenant, and a quarter of all land with a crop share lease were rented by the same tenant. One interesting metric that serves as a nice proxy for landowners' involvement in decisions on rented land is how often the landowner visits the farm during a year. Table 4 shows that for 37 percent of crop shared leased land, landowners

visit the farm on a daily basis, which is much higher than the corresponding metric, 25 percent, for land rented out in cash rental arrangements. This is consistent with the common belief that landowners are typically more involved in crop share arrangements compared to cash rental agreements. However, Table 4 also shows that for 12 percent of land rented out with a crop share lease, the landowners never visit the rented farm.

Table 7 shows the percent of crop share acres in the state under alternative splits of crop yields and costs between landowner and tenant. The vast majority of crop share acres (89 percent) split both the corn crop and the soybean crop equally between landowner and tenant. Similarly, 88 percent of all acres under a crop share arrangement, split costs of inputs such as seed, fertilizer, herbicides, and insecticides equally between landowners and tenants. Custom work is used only in half of the acres under crop share. In those acres, custom work costs are typically equally split between landowners and tenants (42 percent out of the 50 percent of acres using custom work).

Table 5. Characteristics of farmland handled by a farm manager in Iowa, percent of acres, 2017

	Flat dollar fee	Percentage of gross income	Other		
How farm manager is paid	36%	47%	17%		
	Fixed cash lease	Flexible cash lease	Crop share lease	Custom farming	Other
Arrangement between farm manager and farm operator	31%	2%	32%	33%	2%

Table 6. Characteristics of crop share leased farmland in Iowa, percent of acres, 2017

	1	2 to 5	6 to 10	11 to 20		
Number of years for a fixed lease	18%	5%	14%	62%		
	1	2 to 5	6 to 10	11 to 20	> 20	Average
Years tenant has rented	6%	11%	15%	43%	25%	14.4
	Never	Once or twice	Monthly	Weekly	Daily	
How often landlord visits farm during year	12%	33%	13%	5%	37%	
	1	2	3	4 or more		
Number of tenants	77%	18%	3%	2%		

Demographic Characteristics

Tables 8-10 present some selected characteristics of leased Iowa farmland. The changing conditions with respect to Iowa land and land ownership are a source of concern for many citizens. Who will farm the land in the future and how will it be farmed are questions being asked.

The aging of Iowa's farmland owners has been a trend for a number of years. The increasing age of owners continued in 2017. Table 8 presents the distribution of land based on the age and tenure of the owner. It revealed an interesting contrast between owner-operated land versus leased acres by age of the landowner: while almost half of all

leased acres in Iowa were owned by an owner who was 75 years of age or above, the majority of owner-operated land was controlled by an owner who was between 55-74 years of age. Table 8 also shows that the majority of leased land, especially flexible cash rent leases were owned by elderly owners. The notable exceptions to this are landowners who use a professional farm manager.

Table 9 presents the breakdown of Iowa farmland based on the gender of the landowner. In estimating these percentages, farmland owned by a husband and wife is assumed to be equally owned so this source of possible gender bias can be removed.

Table 7. Distribution of crop share acres based on the portion of yield received or percent of costs paid by the owner, 2017

	0%	25-49%	50%	51-99%	100%	Not used/ reported
Corn yield	---	8%	89%	2%	---	1%
Soybean yield	---	8%	89%	2%	---	1%
Inputs - seed, fertilizer, herbicides, insecticides	6%	2%	88%	---	4%	---
Custom work - custom combine, custom fertilizer application, custom pesticide application	8%	---	42%	---	---	50%

Table 8. Distribution of Iowa land by age of owner and leasing relationship, 2017

Age of owner	Cash rent	Crop share	Flexible cash rent	Use a farm manager	All leased acres	Owner-operated
< 25	<1%	<1%	<1%	<1%	<1%	<1%
25 - 34	1%	<1%	<1%	<1%	1%	2%
35 - 44	1%	2%	<1%	5%	1%	7%
45 - 54	8%	7%	4%	12%	8%	14%
55 - 64	18%	18%	17%	10%	18%	31%
65 - 74	23%	32%	25%	44%	25%	25%
> 74	49%	41%	54%	30%	48%	20%

Table 9. Distribution of Iowa land by gender of owner and leasing relationship, 2017

Gender	Cash rent	Crop share	Flexible cash rent	Use a farm manager	All leased acres	Owner-operated
Male	47%	40%	42%	55%	45%	61%
Female	53%	60%	58%	45%	55%	39%

Table 10. Characteristics of Iowa land by residency of owner and leasing relationship, 2017

Iowa Residency	Cash rent	Crop share	Flexible cash rent	Use a farm manager	All leased acres	Owner-operated
Live in Iowa full-time	76%	57%	67%	23%	72%	89%
Live in Iowa part-time	10%	9%	16%	12%	10%	4%
Do not live in Iowa	14%	33%	17%	65%	18%	7%

Table 11. Distribution of leased Iowa farmland based on primary reason for owning and tenure, 2017

	Cash rent	Crop share	Flexible cash rent	Use a farm manager	All leased acres	Owner-operated
Current income	40%	35%	47%	25%	39%	59%
Long-term investment	23%	24%	27%	33%	23%	14%
Family / sentimental	34%	39%	27%	42%	35%	22%
Other	2%	2%	<1%	<1%	3%	4%

Notice in Table 9 there are considerable differences in the percentage of acres by gender based on the type of tenure. For farmland owner-operated, 61 percent was owned by males; but for rented farmland the percentage is almost reversed, with females owning 55 percent of the rented land.

Table 10 shows the percentage of farmland based on the residence and tenure of the owner. Across all tenure categories, a majority of landowners lived in Iowa full time. As would be expected, the largest proportion of land owned by landowners who live in Iowa full time was observed among the owner-operators (89 percent), followed by cash-rent landowners (76 percent). Seven percent of all owner-operated land was owned by someone who does not live in Iowa. Most of this land was located in counties that share a border with neighboring states. In contrast, almost a third of all crop share lease acres were owned by someone who does not live in Iowa at all. This could be driven by several factors: first, crop share leases tend to be a longer-term relationship with an existing tenant; women landowners and senior landowners have disproportionately higher percent of crop share leased land, which remained true when they lived out of state.

The landowners were asked their primary reason for owning the land. While most people have

multiple reasons, respondents were asked to select their primary reason. Understanding the motivation for owning land can help prepare for the future, especially with respect to the amount of land that will be changing hands in the next several years.

Table 11 shows the primary reason given for owning farmland based on the tenure of the landowner. It is interesting to note that, for the most part, there isn't much difference in the tenure styles with respect to why they own the land. But, for leased farmland under a flexible cash rent or owner-operated land, the predominant reason for ownership is current income. In contrast, more than 40 percent of leased land using a farm manager was primarily owned for family or sentimental reasons.

Table 12. Distribution of leased Iowa farmland by percent of household income from agriculture, 2017

	Cash rent	Crop share	All leased acres	Owner-operated
10% or less	27%	35%	29%	38%
11 - 40%	34%	44%	35%	15%
41 - 75%	23%	6%	20%	20%
76 - 99%	8%	15%	9%	7%
100%	8%	1%	6%	20%

In 2017, we added a new question “In 2016, about what percent of your total household income came from the sale of agricultural products or farmland rental income?” This question allows us to assess the financial reliance of farmland owners on owned acres.

Table 12 presents the breakdown of all Iowa landowners by five different categories of the percentage of income from farming and tenure of land. We found that 20 percent of Iowa landowners who are currently owner-operators rely solely on the sale of agricultural products for income, which is much higher than the six percent of landowners who rely solely on rental income. Importantly, we find that almost two-thirds of all leased land were owned by landowners who only rely on 40 percent or less of their household income coming from farmland rental income. This could be influenced by reduced commodity prices and lack of profits for 2016 and previous years. In 2016, thirty-eight percent of owner-operators obtained 10 percent or less of their household income from farming. This reminds us

the importance of off-farm employment at least by one of the family members and the need to control production costs, especially in the current farm downturn.

Regional Variation

Iowa is divided into nine crop reporting districts. These districts, shown in Figure 1, are used by the USDA to report various statistics and information.

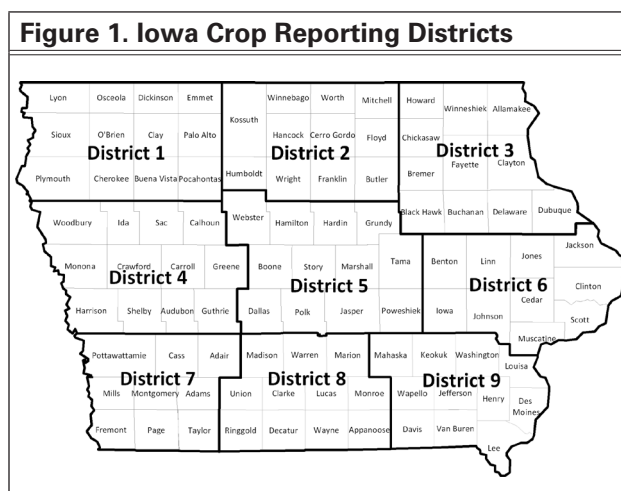


Table 13. Tenure of leased Iowa farmland by crop reporting district, 2017

	North-west	North Central	North-east	West Central	Central	East Central	South-west	South Central	South-east
Professionally farm managed	7%	8%	11%	10%	5%	<1%	<1%	2%	2%
Crop share	17%	14%	5%	30%	21%	8%	31%	16%	13%
Cash rent	82%	86%	95%	70%	79%	92%	69%	84%	87%
Flexible cash rent	23%	12%	13%	18%	21%	5%	---	16%	13%
Percent of district farmland leased	61%	70%	42%	59%	55%	49%	48%	47%	29%

Table 14. Selected lease characteristics of leased Iowa farmland by crop reporting district, 2017

	North-west	North Central	North-east	West Central	Central	East Central	South-west	South Central	South-east
Written agreement	64%	67%	58%	45%	60%	66%	38%	44%	50%
With relative	32%	25%	30%	36%	17%	18%	12%	18%	8%
With friend	13%	25%	7%	6%	9%	22%	28%	20%	48%
Owner lives on a farm	37%	29%	48%	49%	41%	34%	46%	44%	61%
Length of landowner-tenant relationship (yrs)	13.0	15.3	10.2	9.6	16.0	9.2	11.2	9.5	14.5

Table 13 presents the regional breakdown for leased farmland with respect to tenure characteristics. Notice there are regional variations for some of the characteristics. Most of the variations reflect the difference in the predominant type of agriculture, crop-livestock mix, prevalence of recreational land and the quality of land. For example, typically the districts that have higher land productivity, such as North Central Iowa, tend to have a higher percent of farmland leased out, while southern Iowa with more pasture, timber, and lower-soil-quality has a significantly lower percent of rented land. A comparison of the percent of farmland by district leased in 2017 versus the same concept in 2012 suggests that the largest increases in leased farmland occurred in the North Central and South Central districts (eight and five percent, respectively); and the largest declines occurred in the Southeast and Northeast regions (-14 and -12 percent, respectively).

Table 14 shows selected lease characteristics based on crop reporting districts. There are variations among the regions. Regional differences can be attributed to many different factors. Tradition, predominant agriculture, soils, and a host of other factors lead to the unique nature of each of Iowa's regions. Interestingly, compared to the southern districts, the leased farmland in northern Iowa was more likely to be rented out to a relative and use a written agreement. The share of leased land with a written agreement significantly declined in all three southern districts.

Conclusions

Leasing farmland has been a part of the Iowa farming scene for a very long time. Over time the extent and nature of the practices have changed.

Today we are in the midst of another change in Iowa agriculture. After a decade of significant increase in commodity prices, the agricultural economy in Iowa and the midwest are in the midst of a farm downturn. Rents are tied to prices and land values so it stands to reason that they are changing as well.

This publication has outlined some of the characteristics of Iowa farmland tenure and leasing practices. It is always in the tenant and landowner's best interest to develop their own lease, but sometimes it is helpful to know what practices are being followed. Regardless, in the end the decision has to be made by the two parties.

There has been a continual shift to cash rents, and that seems to have continued over the last five years. Only time will tell whether or not the change in the trend is permanent.

The data shows that the people who use crop share leases have had the leases in place for a longer period of time and they have had the same tenant for a longer time. They are also older. This means it is possible that the crop share lease of today may be converted to a cash rent lease.

Iowa agriculture has witnessed many changes over the past few decades. The next few decades will be no different. Sixty percent of the land is owned by people over 65 years of age and almost half of the rented land is owned by people over the age of 75. Due to Iowa farmland owners' age structure, we could see considerable change in ownership and tenure over the next several years. One thing that will remain constant is that good, sound leasing practices will help both the tenant and the landowner.

Iowa State University Extension and Outreach does not discriminate on the basis of age, disability, ethnicity, gender identity, genetic information, marital status, national origin, pregnancy, race, religion, sex, sexual orientation, socioeconomic status, or status as a U.S. veteran. (Not all prohibited bases apply to all programs.) Inquiries regarding non-discrimination policies may be directed to the Diversity Officer, 2150 Beardshear Hall, 515 Morrill Road, Ames, Iowa 50011, 515-294-1482, extdiversity@iastate.edu. All other inquiries may be directed to 1-800-262-3804.

Prepared by Wendong Zhang,
Alejandro Plastina,
extension economists;
and Wendiam Sawadgo,
graduate research assistant

www.extension.iastate.edu/agdm
store.extension.iastate.edu
