

Renting farmland becoming a common practice

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More land is being rented each year in Ontario. There are several reasons. Rapidly spiraling prices are making land purchase more difficult and impractical in many cases. There are more absentee landlords now who wish to rent their farm properties. Renting land is a natural way to take advantage of the trend to greater mechanization and expanded crop production. Often the necessary expansion in a farm business can be better achieved by renting some land rather than purchasing an entire farm.

One big problem in cash renting is the amount of the rent. How much should the landlord charge? How much can the tenant afford to pay? Each should have a satisfactory return to the resources he is supplying.

There are three main techniques of approximating a cash rent — the market, cost and income approaches. The market approach is based on local inquiry, i.e., the cash rents that are being paid on comparable properties. Farm record data also provide information on cash rents. The cost approach

is most useful where structures are a large part of the real estate.

First, establish a cash rent for the bare land. Suppose it's \$15 per acre or \$1,500 for 100 acres. Then add the owner's costs for depreciation, interest, repairs,

taxes and insurance. The thumb rule for these items is to charge 12 percent of the original cost as the annual cost.

If structures are valued at, say \$8,000, 12 percent annual cost is \$960.

The income approach calculates total value of

production and the value of all the tenant's inputs. The residual income is considered the cash rent. This method is excellent if accurately done. However, it re-

quires considerable knowledge of direct costs and other input values such as tenant labor.

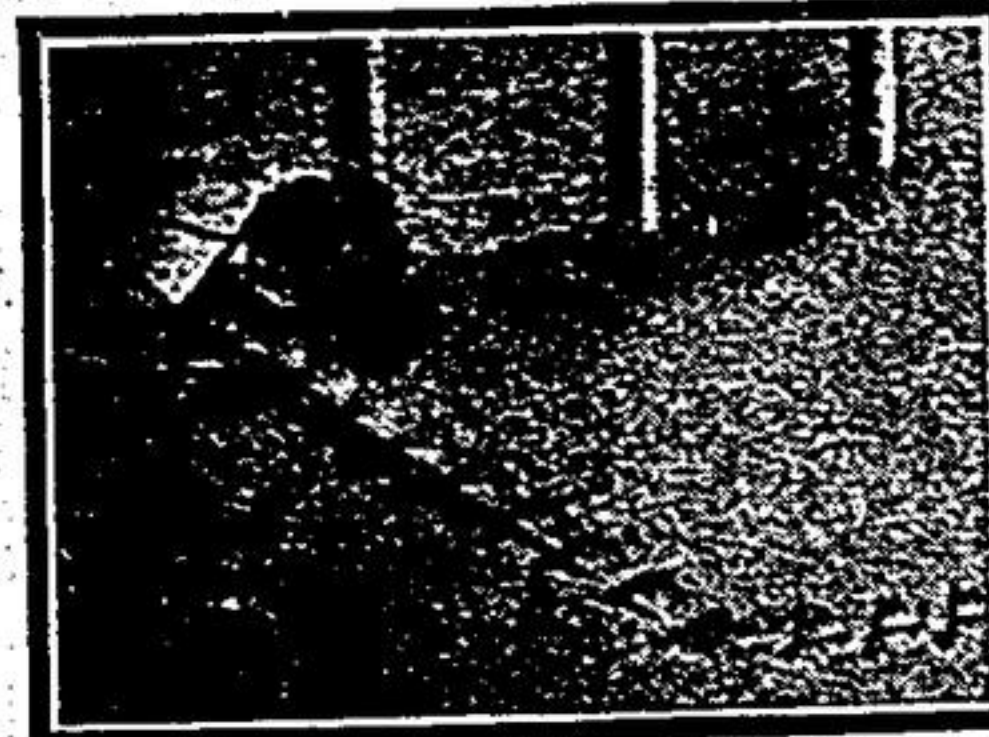
In general, it appears that cash rents are often

about 30 percent of the value of crop production. This figure can shift downward by 10 percent or more depending on the degree of risk faced by the tenant.

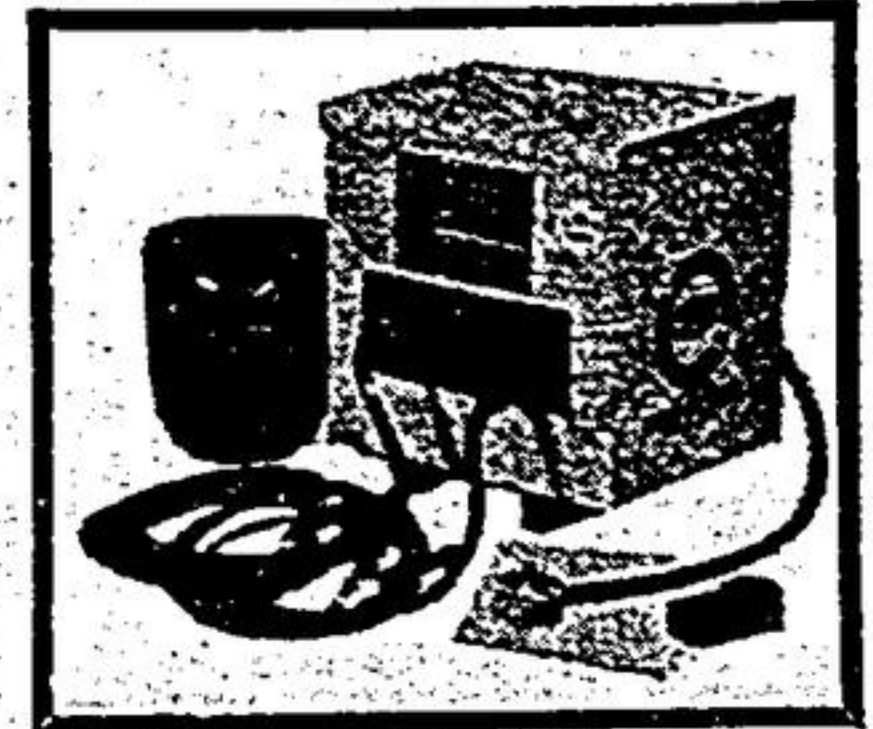


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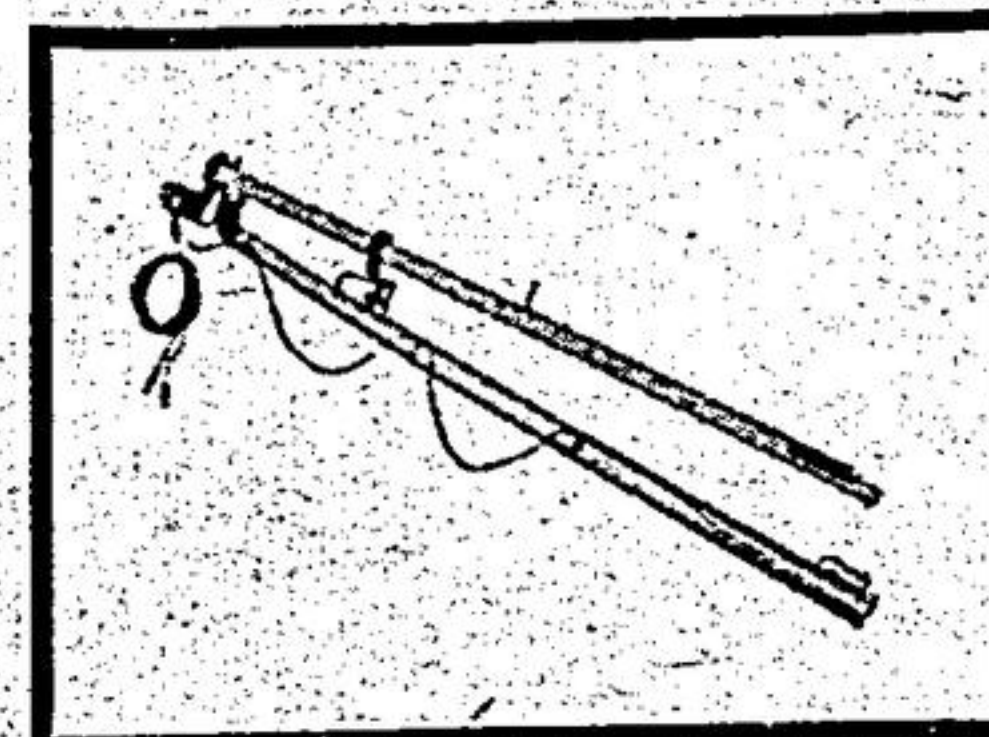
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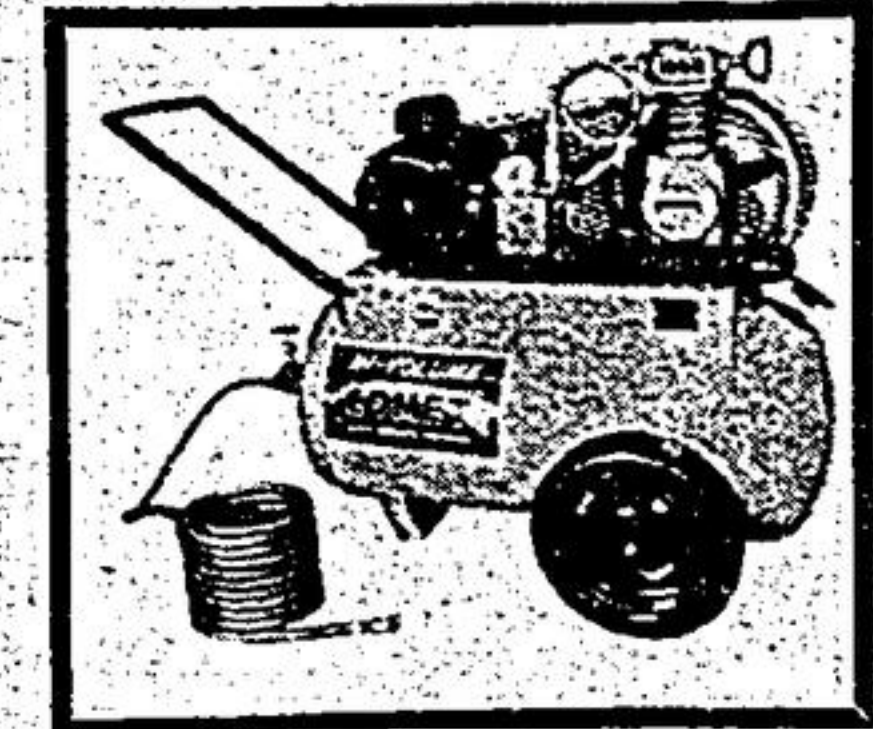
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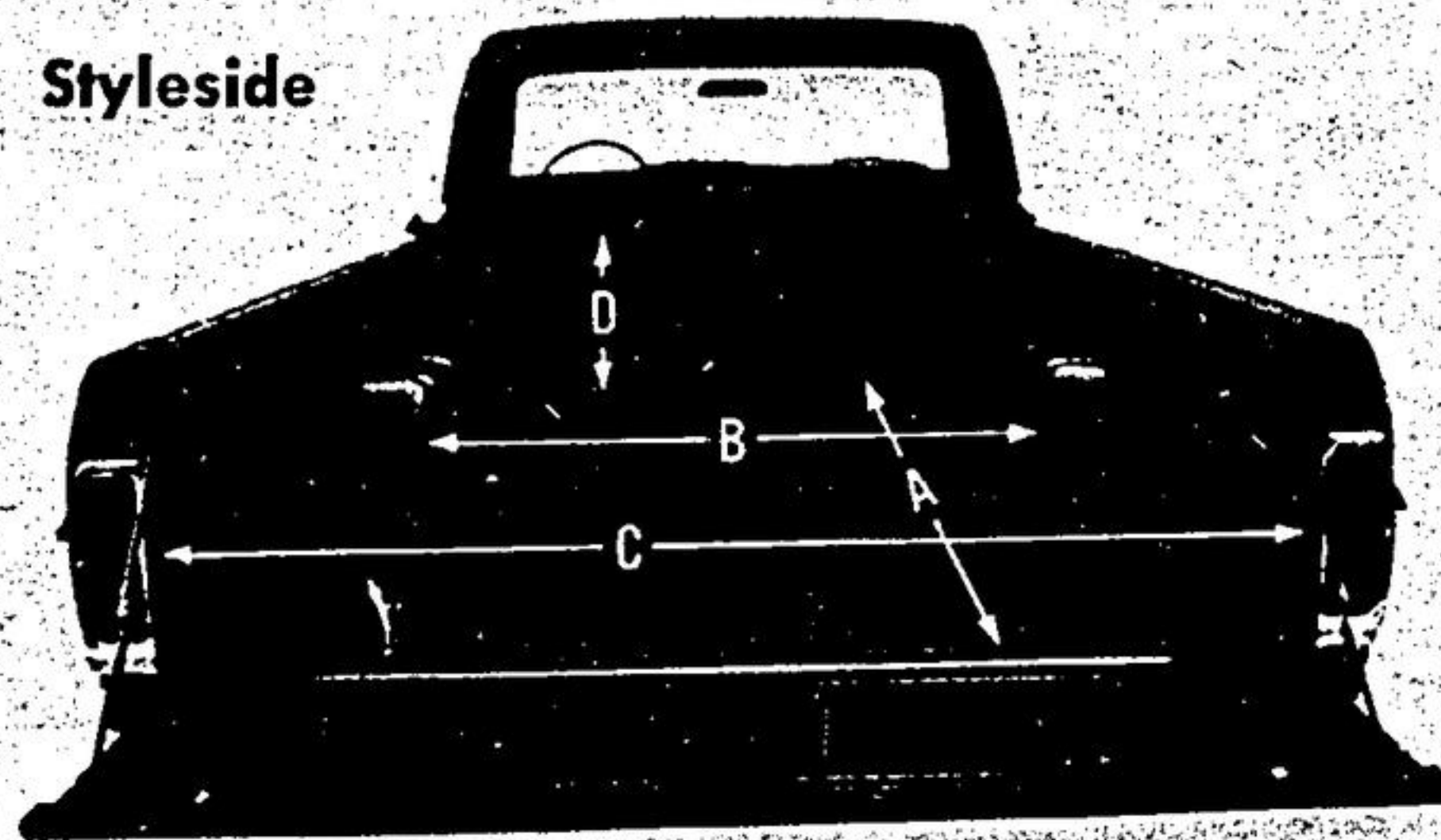
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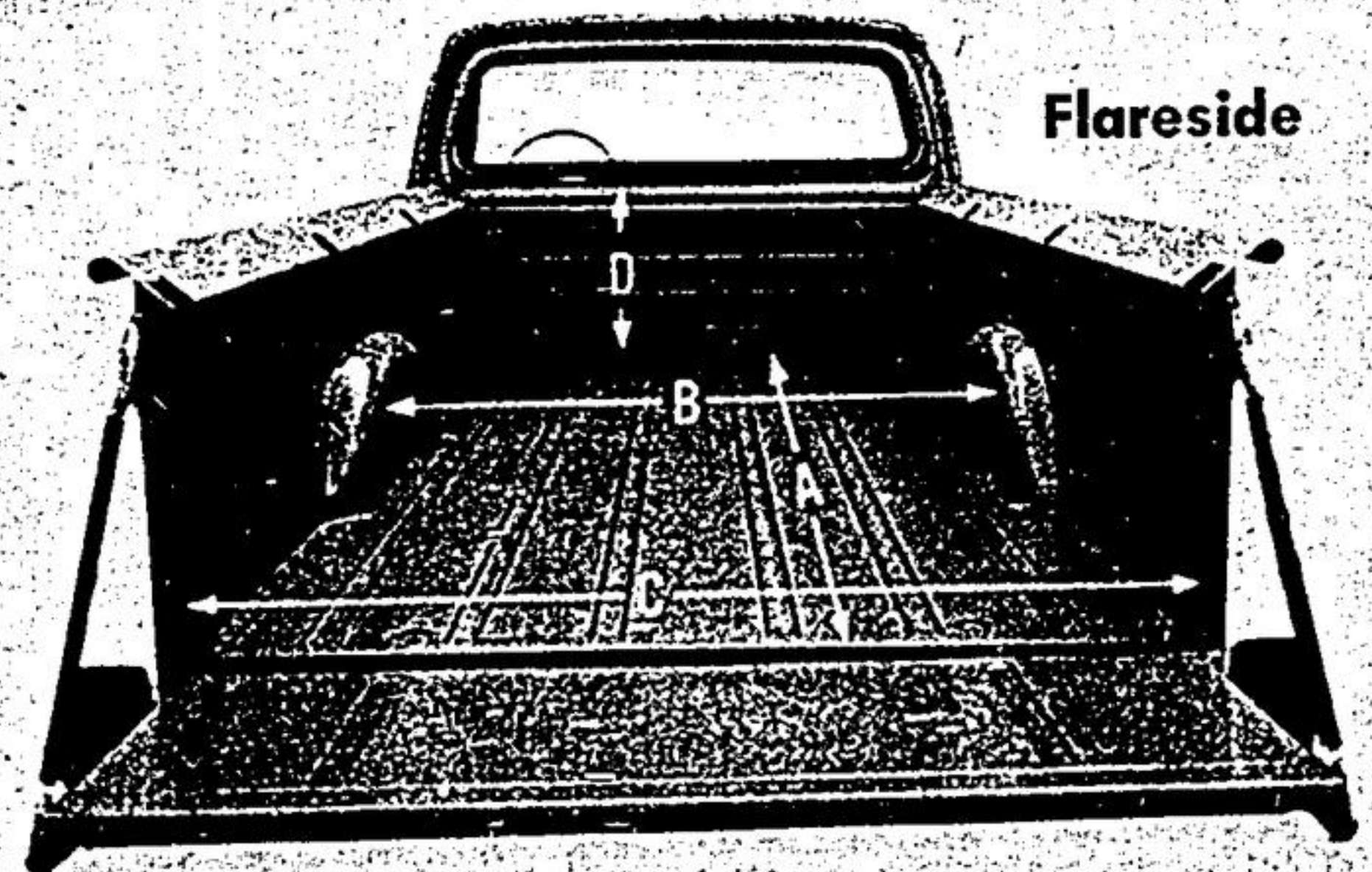
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