

The True Cost of Land:

Land Rental Values in Manitoba

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Production Economics | Manitoba Agriculture | Province of Manitoba
<https://www.gov.mb.ca/agriculture/business-and-economics/.../cost-of-production.htm...>
Knowing the cost of production is essential to management, marketing strategy and risk management planning and to giving a farm the best opportunity for overall profitability. Crop Production Costs (XLS 935 KB or PDF 605 KB) (canola, wheat - hard red spring, soybeans, barley, oats, wheat - winter, corn, wheat - northern ...

[PDF] Crop Production Costs
www.gov.mb.ca/agriculture/business-and-economics/.../cop-crop-production.pdf
The following budgets are estimates of the cost of producing the most commonly grown field crops in Manitoba. General Manitoba Agriculture recommendations are assumed in using fertilizers and chemical inputs. These figures provide an economic evaluation of the crops and estimated yields required to cover all costs.

Agriculture

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Production Economics

Put data to work for your farm using our **Cost of Production** guides, interactive **Farm Software and Worksheets** and **Machinery Costs**.

[Cost of Production](#)

These estimates can act as a starting point for farm budgets. They can be adapted to your operation using your own farm records.

[Farm Software and Worksheets](#)

Make data to work for your farm using our interactive farm software and worksheets. This will help you make informed decisions for your farm and family.

[Machinery Costs](#)

Farm machinery makes up a significant part of the fixed and variable costs for any farm operation

Our most asked question...what is rent in Manitoba??

- Not a transparent market
 - No rent transaction listing service
 - Both producers and landlords are reluctant to reveal rental rates
- Highly dependent on land productivity and competition
- Only way to truly know rental rates is to test the market by advertising
- But there are some things we do know...



Characteristics of good rental agreements

- The landlord and producer should be open and honest with each other, and be able to resolve disagreements cordially.
- To maximize long term profit, the terms of the lease should be fair to both the landlord and producer.
- Written agreements help to prevent conflict between the landlord and producer, and force them to think through an equitable and reasonable lease.

Characteristics of good rental agreements

- Leases should be flexible enough to permit fair adjustments to any unexpected situations.
- A lease should be adapted to suit each individual situation, yet remain simple enough to work.
- The lease period should also be long enough to allow the producer to adopt good farming practices.

But this doesn't answer the
question...
What is Land Rent??

- Excluding the market influences of competition (which can be considerable), rent comes down to 2 things:
 1. Production cost based land rental rate calculation
 2. Land value based land rental rate calculation





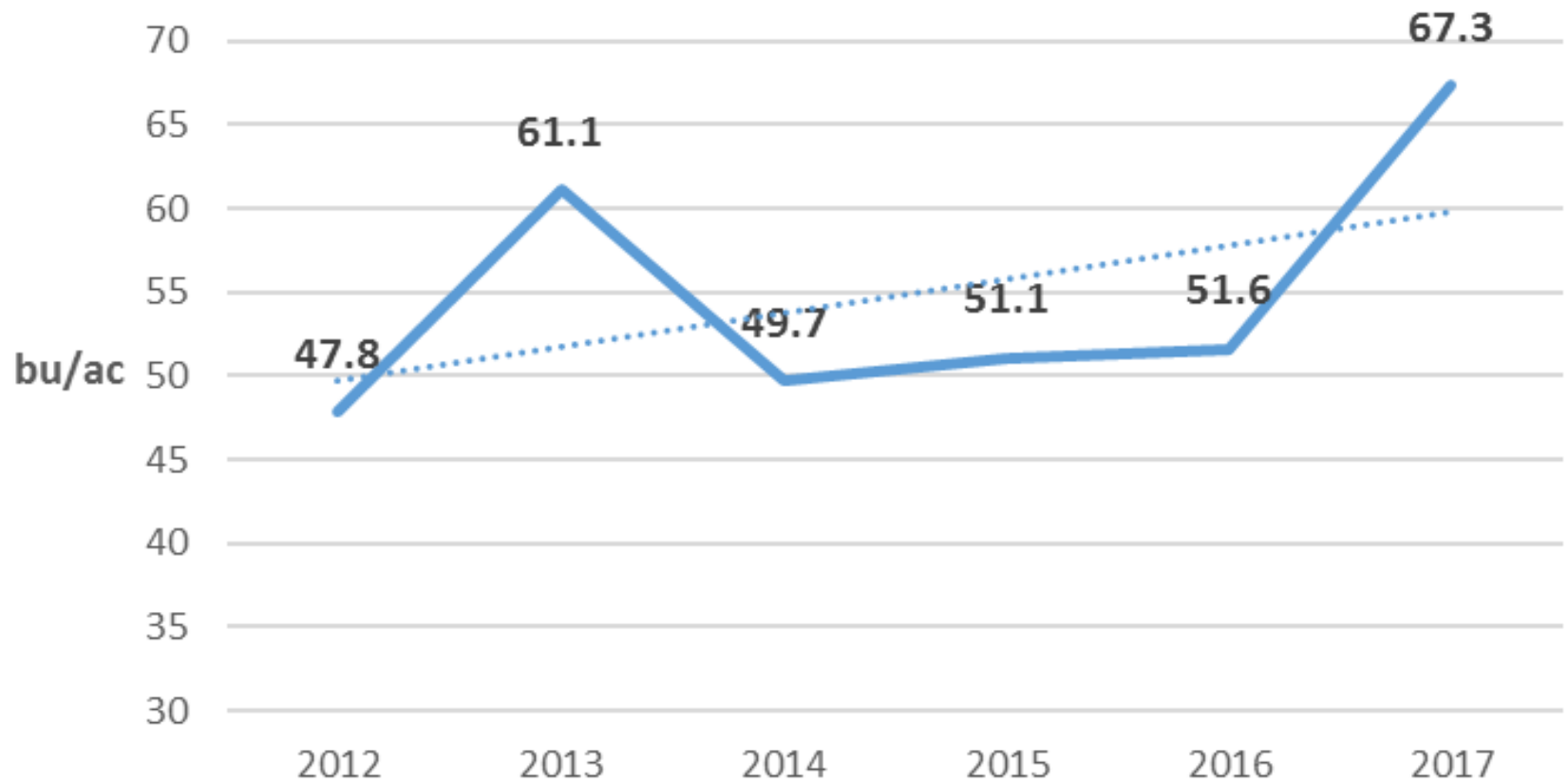
Guidelines for Estimating
Crop Production Costs
2019

in Manitoba

Factors in Production Cost Method

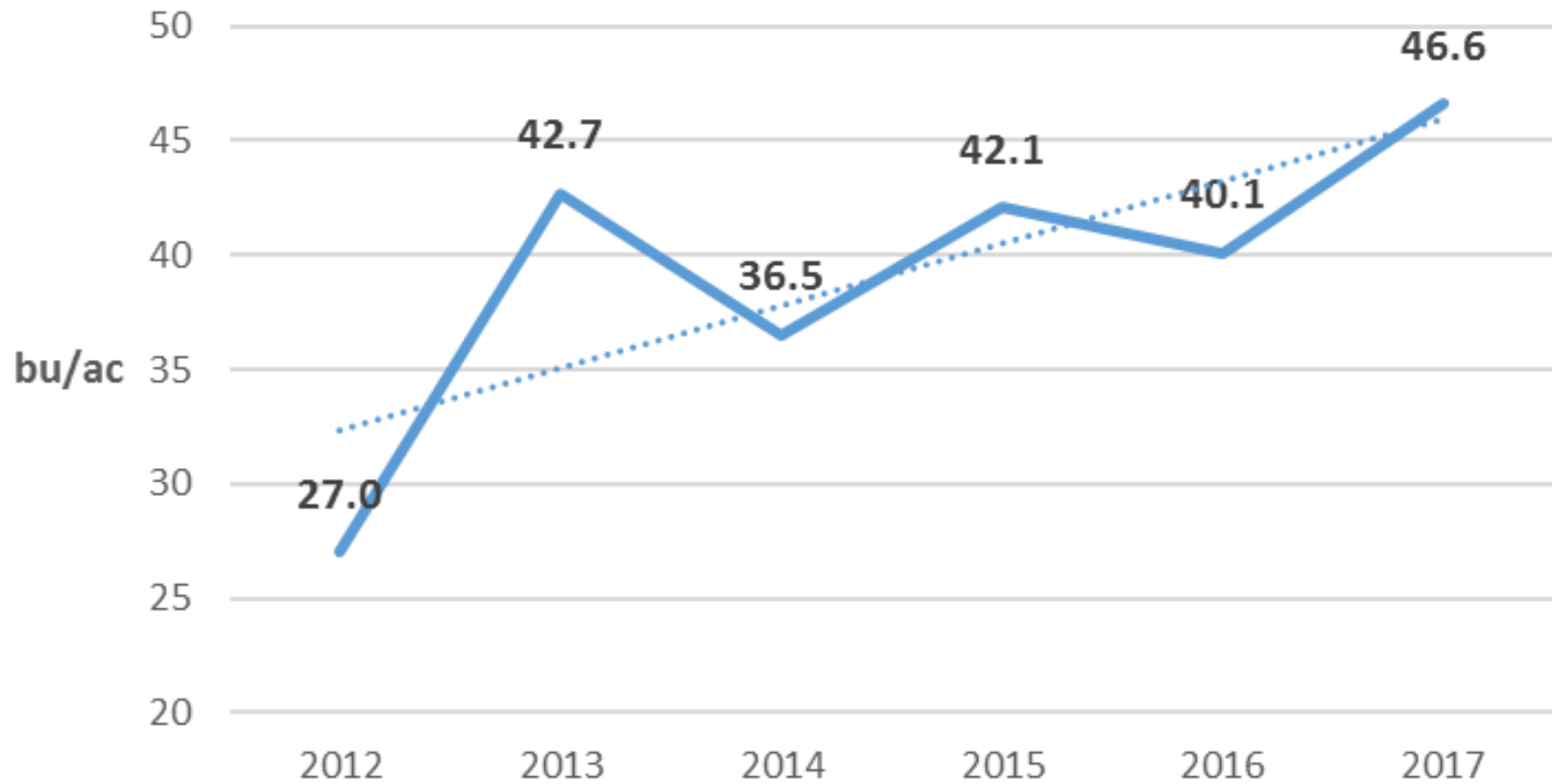
- Grain Yield
- Grain Price
- Operating Costs
 - Seed
 - Fertilizer
 - Pesticides
- Labour Costs
- Equipment Costs
- Storage Costs
- Producer Profit Expectation

Red Spring Wheat Average Yield 2012-2017



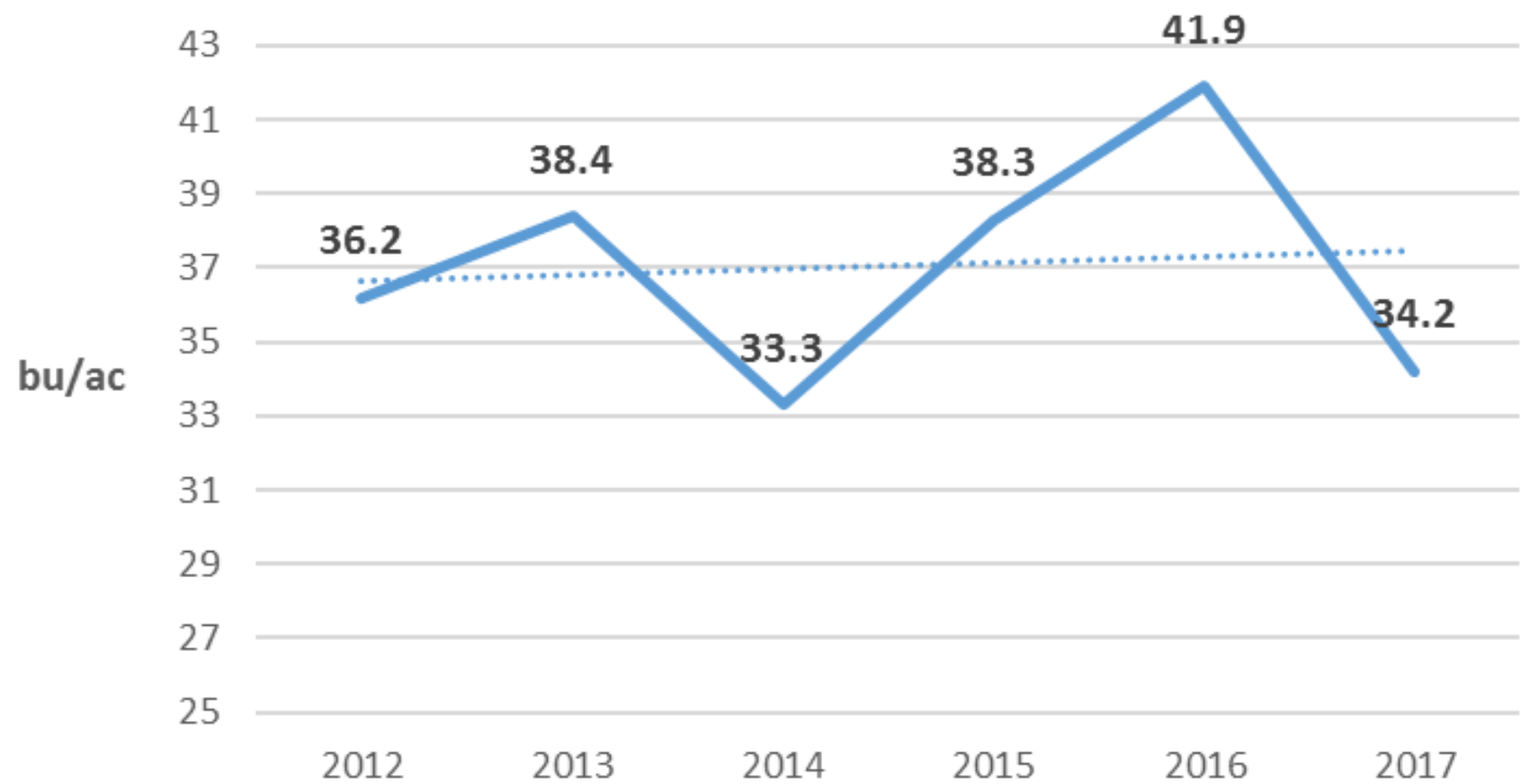
Source: MASC

Canola Average Yield 2012-2017

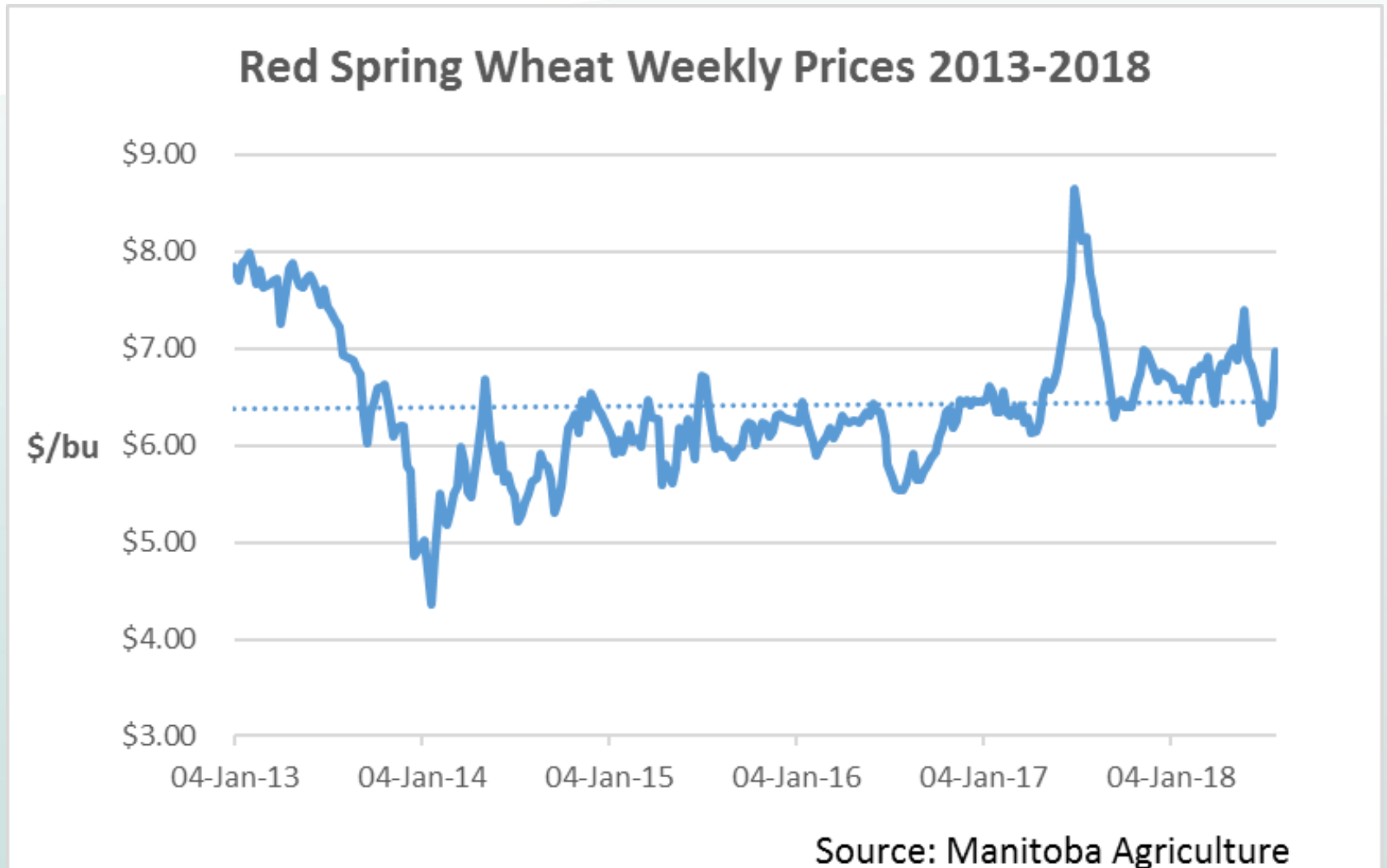


Source: MASC

Soybean Average Yield 2012-2017

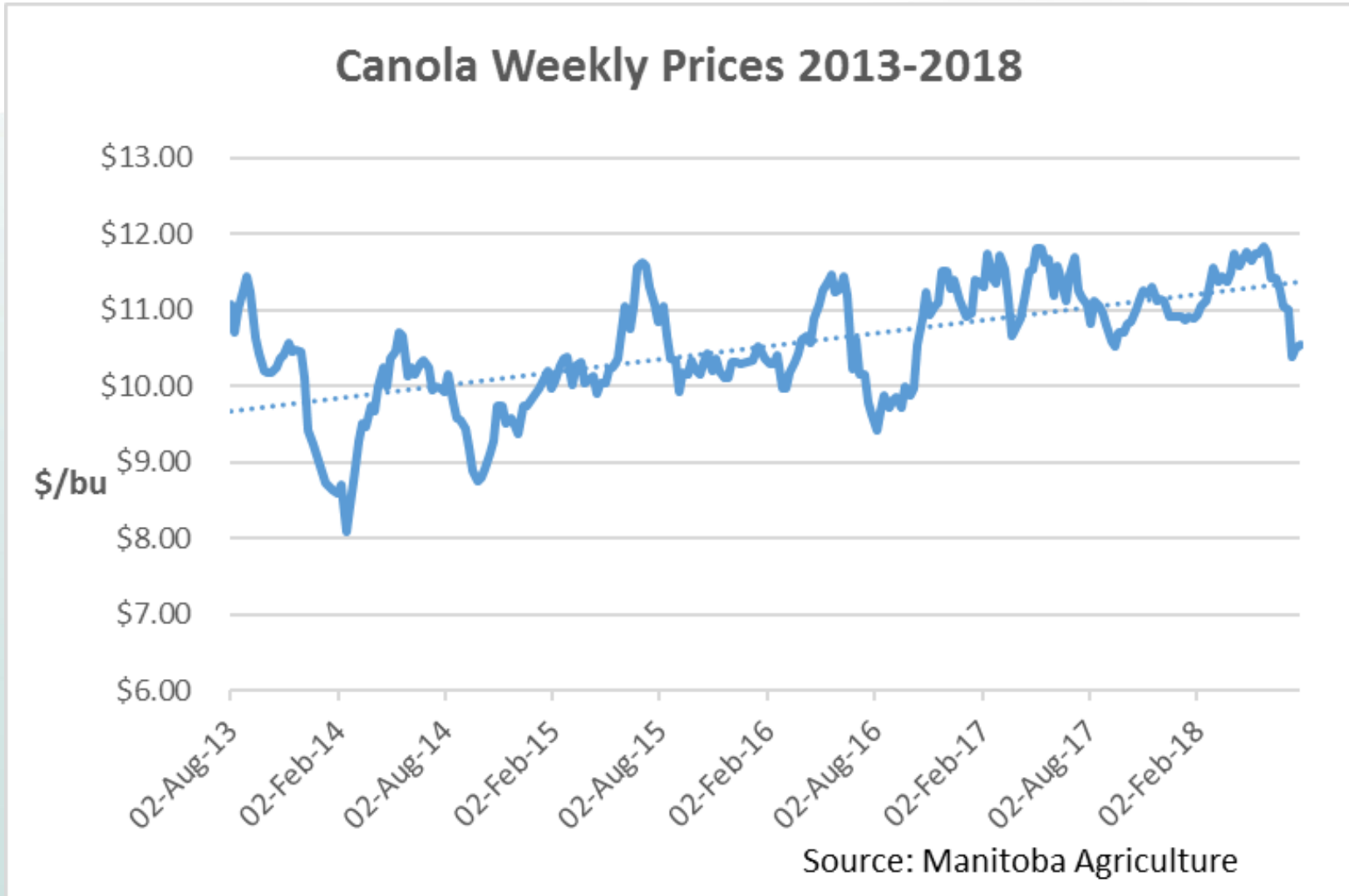


Source: MASC



2013-2018 CWRS ranged from \$4.35/bu - \$8.65/bu; Average - \$6.41/bu

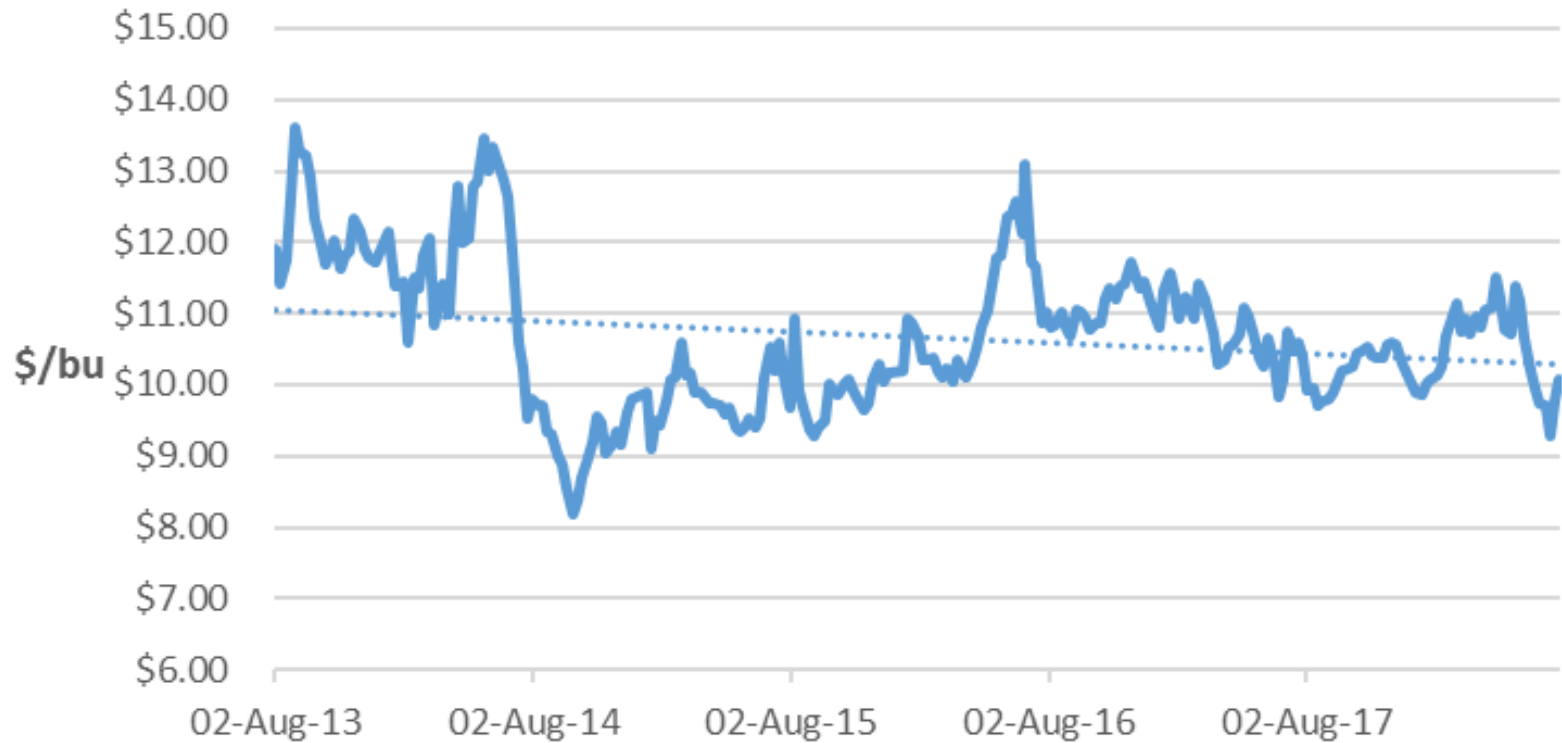
2017 Crop Year CWRS ranged from \$6.24/bu - \$7.59/bu; Average - \$6.73/bu



2013-2018 Canola ranged from \$8.08/bu - \$11.84/bu; Average - \$10.53/bu

2017 Crop Year Canola ranged from \$10.39/bu - \$11.84/bu; Average- \$11.15/bu

Soybean Weekly Prices 2013-2018

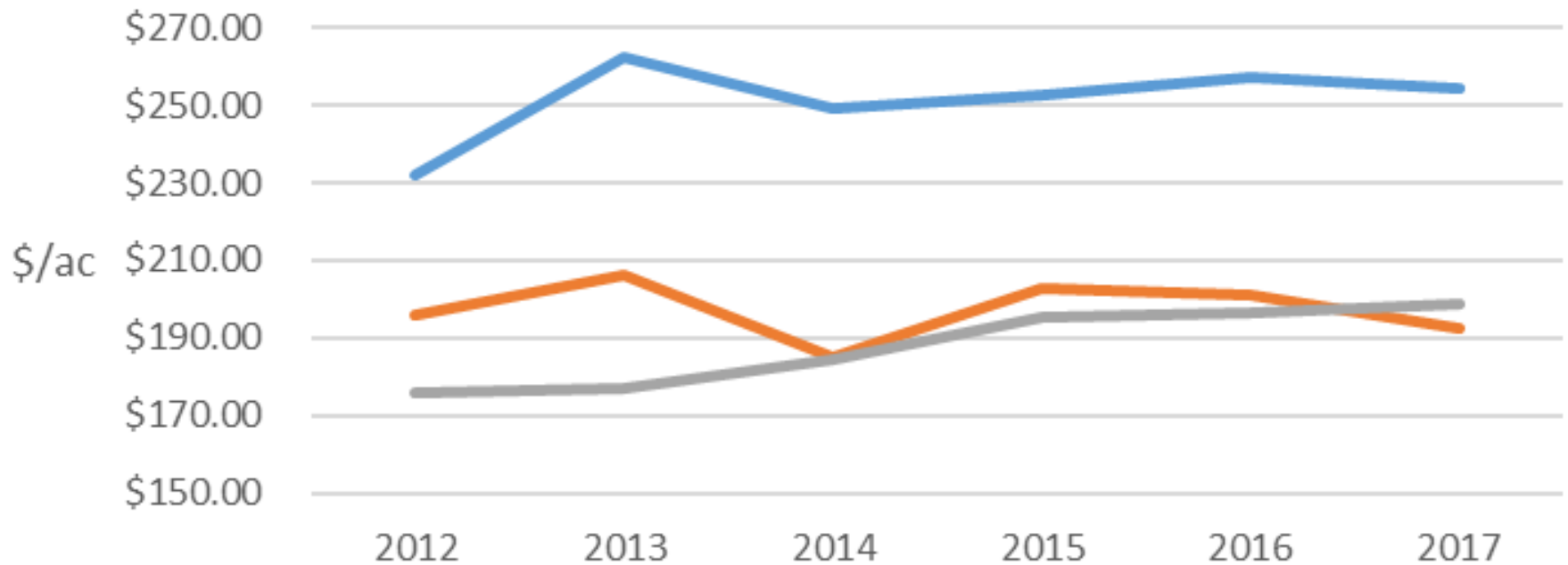


Source: Manitoba Agriculture

2013-2018 Soybeans ranged from \$8.17/bu - \$13.62/bu; Average - \$10.68/bu

2017 Crop Year Soybean ranged from \$9.29bu-\$11.52/bu; Average-\$10.39/bu

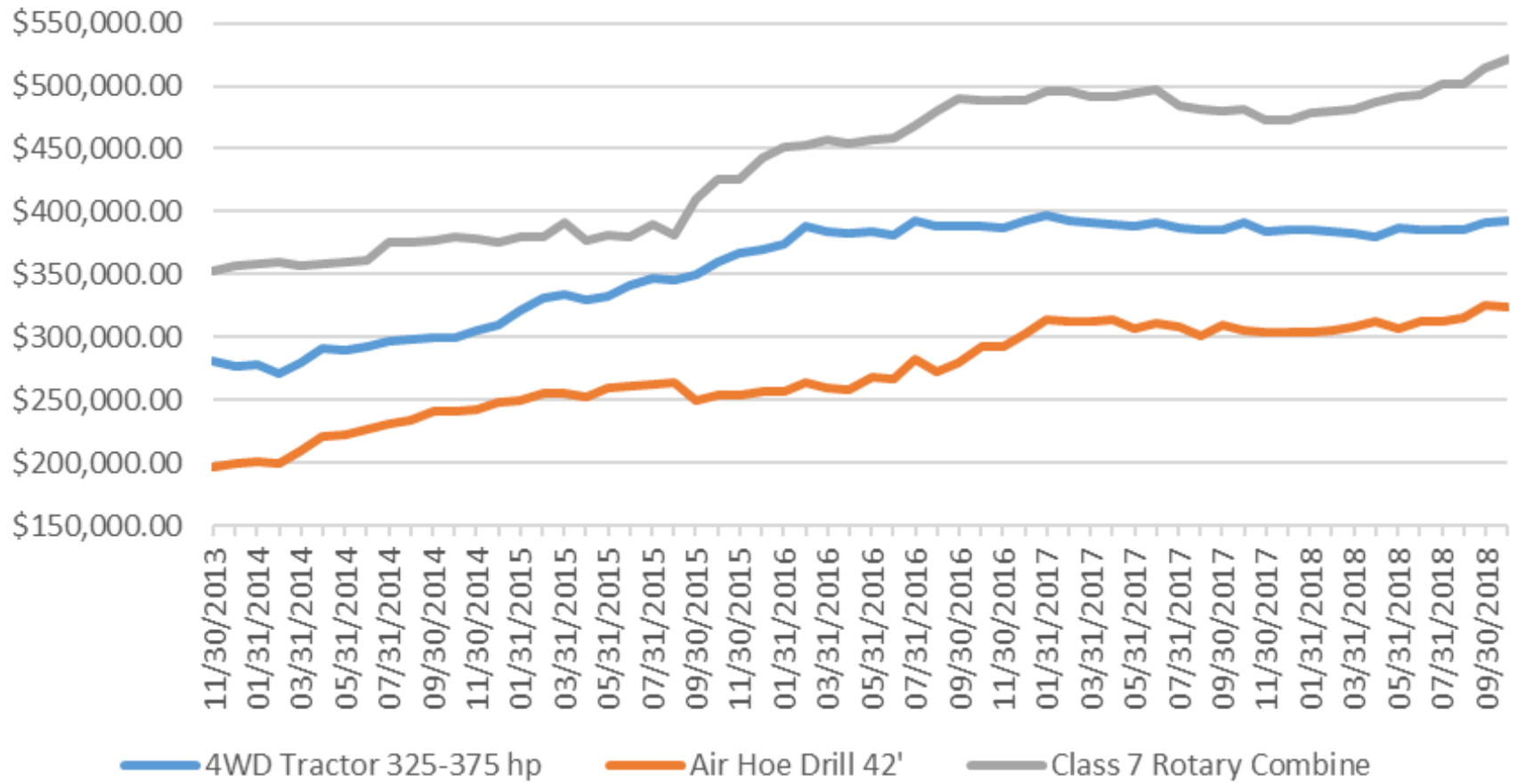
Operating Costs of Production 2012-2017



- Canola - Operating Costs of Production
- RSW - Operating Costs of Production
- Soybean - Operating Costs of Production

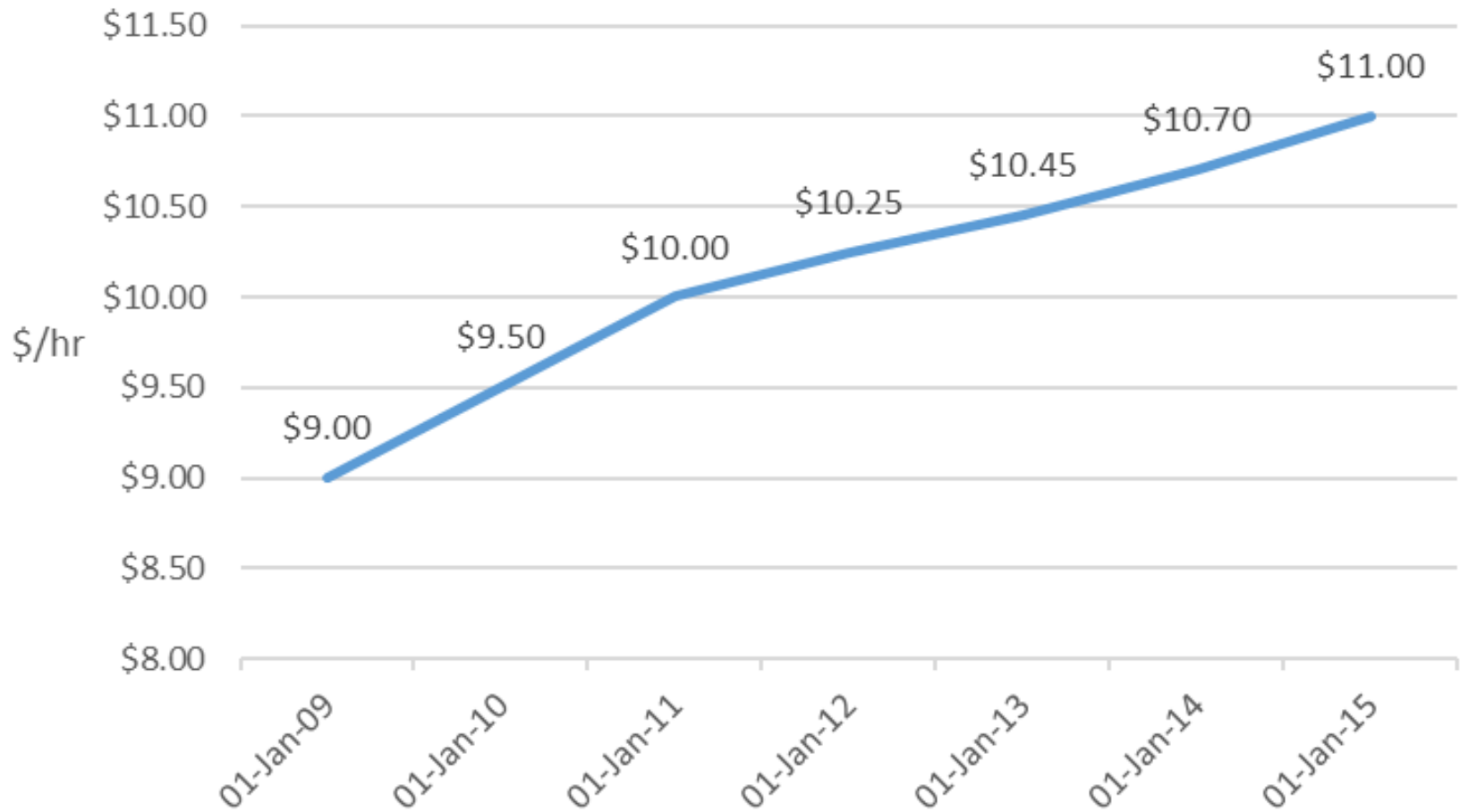
Source: Manitoba Agriculture

Machinery Costs 2013-2018



Source: Alberta Agriculture

Manitoba Minimum Wage 2009-2015



Source: Government of Manitoba

Production Costs Method Conclusions

- Yields for the most part are increasing at a modest rate
- Prices overall are flat to slightly increasing
- Operating costs of production are generally increasing 2-3%/year (depending on fertilizer costs)
- Machinery and labour costs are increasing
- Generally flat margins on a per acre basis
 - Farm expansion used to mitigate this

What do we do with this information to help determine land rents?

The most terrifying words in the English language are: I'm from the government and I'm here to help.

Ronald Reagan



Rentplan resource

- Basic premise:

Gross revenue (yield x price)

-Operating costs

-Labour

-Equipment costs

-Storage costs

-Producer profit expectation

=Maximum land rental amount from your farm



RentPlan

Calculating Crop Land Rental Rates

2019

in Manitoba



	Reset Initial Default Values	Canola	Wheat - Hard Red Spring	Soybeans
A. Operating Costs				
	Seed & Treatment	\$62.00	\$24.00	\$95.10
	Fertilizer	\$88.57	\$69.36	\$19.59
	Herbicide	\$14.41	\$30.83	\$10.67
	Fungicide	\$16.25	\$16.50	\$0.00
	Insecticide	\$0.00	\$0.00	\$0.00
	Fuel	\$24.21	\$25.95	\$22.86
	Machinery Operating	\$10.00	\$10.00	\$10.00
	Rental and Custom	\$0.00	\$0.00	\$0.00
	Crop Insurance - 80% Insured Value	\$7.47	\$7.70	\$12.66
	Hail Insurance - \$200/Acre	\$8.32	\$6.40	\$9.60
	Other Costs	\$7.75	\$7.75	\$7.75
	Drying Costs	\$0.00	\$0.00	\$0.00
	Interest on Operating	\$6.87	\$5.71	\$5.41
	Total Operating	\$245.84	\$204.20	\$193.64
B. Fixed Costs				
	Machinery Costs	\$66.65	\$66.65	\$66.65
	Storage Costs	\$4.84	\$6.65	\$4.84
	Total Fixed	\$71.49	\$73.30	\$71.49
	Total Operating & Fixed	\$317.33	\$277.50	\$265.13
C. Labour & Owner Salary Costs				
		\$26.40	\$26.40	\$26.40
	Total Costs	\$343.73	\$303.90	\$291.53

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Land Rental Rate Calculation

Printed: 2018-11-22

Note: Land rental rate analysis is part of long term strategic planning for your farm and caution should be exercised if short term crop yields and prices are utilized. It is generally recommended for land rental rate planning and analysis that a minimum of 3 to 5 year average crop yields and commodity price outlook should be considered.

2019 Crop Production, Revenue & Cost Summary

	Your Farm	Canola	Wheat - Hard Red Spring	Soybeans	(Select Crop)	(Select Crop)	(Select Crop)	(Select Crop)
Your Crop Acres	2500	1000	1000	500	0	0	0	0
(Percent of Crop Rotation)	100%	40%	40%	20%				
Probable Yield per Acre (bu or lb.)		40	54	36	0	0	0	0
Price (\$ per Unit)		\$11.00	\$6.75	\$11.00	\$0.00	\$0.00	\$0.00	\$0.00
Operating Costs/Acre	\$218.75	\$245.84	\$204.20	\$193.64				
Gross Revenue per Acre¹	\$399.53	\$436.70	\$362.48	\$399.30				
Marginal Return Over Operating Costs	\$180.78	\$190.86	\$158.27	\$205.66				

1. Gross Revenue Per Acre = Price per unit x Yield per acre (weighted based on % of crop rotation)

Calculation Option #1 - Production Cost Based Land Rental Rate

	<u>Per Acre</u>
Gross revenue	\$399.53
- Operating Costs	\$218.75
- <u>Labour /Owner Salary Costs</u>	\$26.40
- <u>Equipment Costs</u>	\$66.65
- <u>Storage Costs</u>	\$5.56
= Maximum Breakeven Land Rental (before profit)	\$82.17
	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <u>Per Acre</u> \$15 </div> <div style="text-align: center;"> <u>Per Acre</u> \$30 </div> </div>
Producer Profit Expectation (range)	
= Production Cost Based Rental Rate	\$52 to \$67 (Avg. \$60/acre)

Production Costs Method Strengths


- A clear way to calculate the amount you can pay for rent
- Allows producers to measure their profitability on rented land
- Makes it hard to lie to yourself on the profitability of rented land
- Gives landlords an appreciation for the margins producers are facing

Production Costs Method Limitations

- Does not factor in land rental market influences
- Producer profit expectation is ambiguous
 - How much should a producer expect for profit?
- Highly sensitive to price and yield estimates
 - Leases longer than 1 year require longer ranging estimations
 - The need for realistic estimations

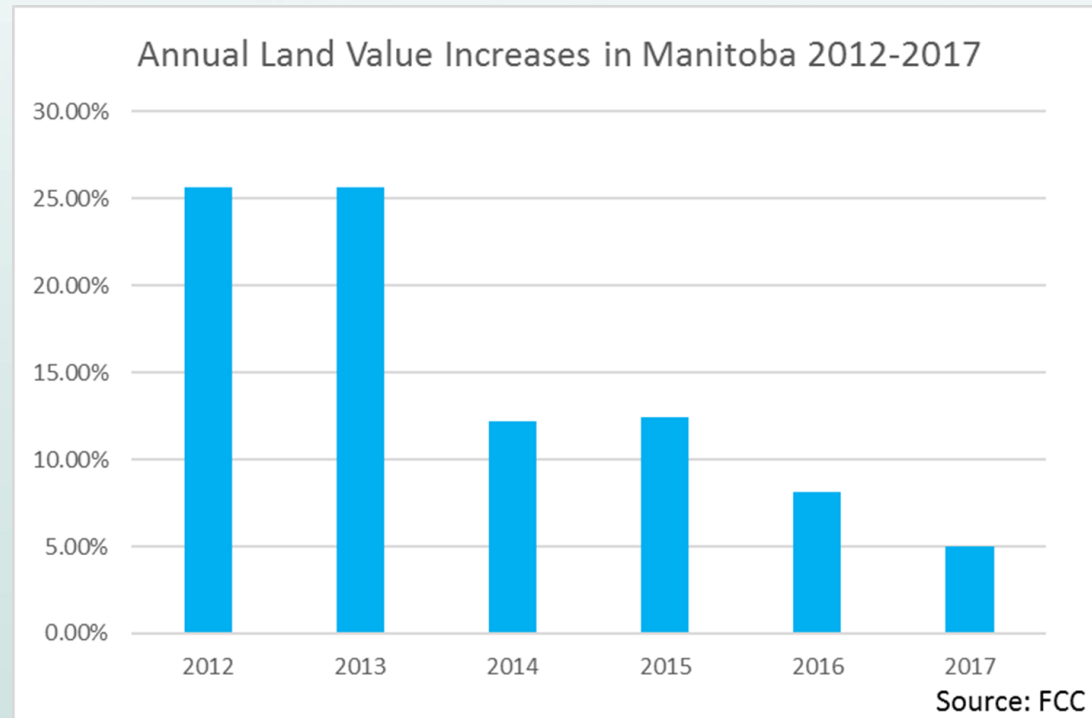
The amount available for rent with
\$10.50/bu canola & soybeans and
\$6.50/bu CWRS:

Calculation Option #1 - Production Cost Based Land Rental Rate

	<u>Per Acre</u>
Gross revenue	\$382.59
- Operating Costs	\$218.75
- <u>Labour /Owner Salary Costs</u>	\$26.40
- <u>Equipment Costs</u>	\$66.65
- <u>Storage Costs</u>	\$5.56
= Maximum Breakeven Land Rental (before profit)	<hr/> \$65.23
	
Producer Profit Expectation (range)	<u>Per Acre</u> \$15 \$30 <u>Per Acre</u>
= Production Cost Based Rental Rate	\$35 to \$50 (Avg. \$43/acre)

Factors in Land Value Based Method

- Land Value
 - On the rise
- Investment rate
 - Use a similar type investment like a GIC
- Property taxes
 - Follows the rise of land values



Calculation Option #2 - Land Value Based Rental Rate

Land Value (local market or assessed value)		\$2,950 /acre
x Investment Rate of Return - (approx. 5 year GIC rate)	1.50 %	to 2.00 %
+ <u>Property taxes (area average value)</u>		\$15 /acre
= Land Value Based Rental Rate		\$59 to \$74/acre (Avg. \$67/acre)

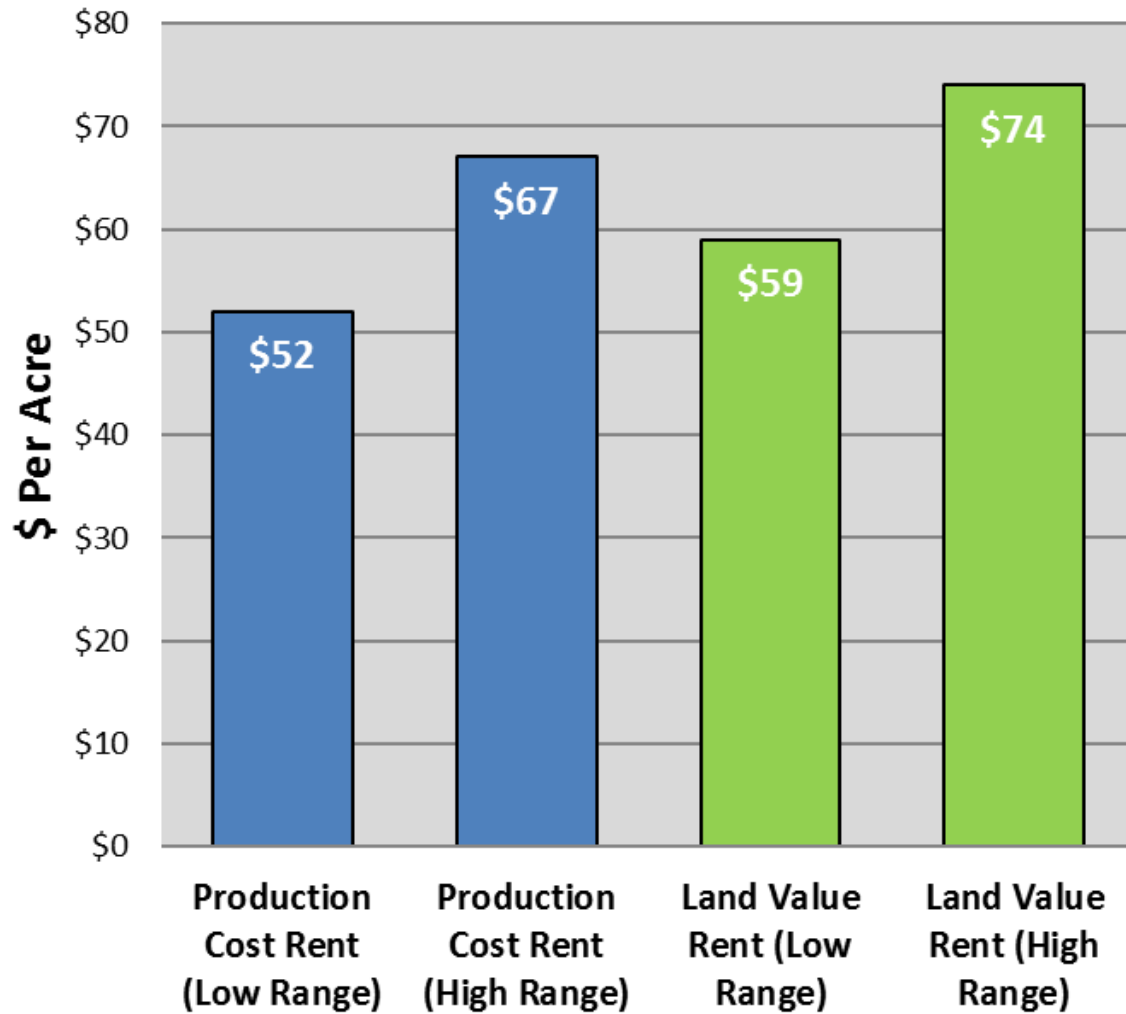
Land Value Based Method Strengths

- A clear and easy way to determine an idea of rental values
 - For every \$1,000 of land value there is \$15-\$20/acre land rent (before property taxes)
 - Assuming 1.5-2.0% Investment rate
- Allows landlords to compare investments
 - Analysis of is it worth it to own and rent land?

Land Value Based Method Limitations

- What is the land value?
 - Not always easy to determine a value
 - Other influences other than agriculture impacting land values
- What investment rate do you use?
 - Use like quality comparisons
 - Generally low risk, non-registered GIC type comparisons

Land Rent - Summary



Flexible Land Rental Agreements

- Land rental amounts ‘flex’ with actual yields and prices
- Lower rents in poor years, higher rents in better years
 - Allows landlords to give breaks to their producer in a poor year, but benefit more in a good year
 - Allows a producer to limit losses in a poor year
 - Floor and ceiling rental rates can be established

Flexible Land Rental Calculation

Printed:



Minimum & Maximum Rental Rate Calculation

Step #1 Current Year Crop to be Grown Wheat - Hard Red Spring

Step #2
 Probable Wheat - Hard Red Spring Yield per Acre 53.7 (bu or lb.)
 Probable Wheat - Hard Red Spring Price per Unit \$6.75 (bu or lb.)

Step #3 Land Rental Rate \$60 /acre

Step #4

$\begin{array}{r} \times \\ \hline = \end{array} \frac{\text{color: blue; font-size: 1.2em;">80\%}}{\text{color: blue; font-size: 1.2em;">\$48} \text{ /acre}} \text{ Minimum Rental Rate}$			$\begin{array}{r} \times \\ \hline = \end{array} \frac{\text{color: blue; font-size: 1.2em;">120\%}}{\text{color: blue; font-size: 1.2em;">\$71} \text{ /acre}} \text{ Maximum Rental Rate}$
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Flexible Land Rental Rate Calculation

Step #5

Enter Your Actual Harvested Yield & Market Price Here

61.0 Actual Wheat - Hard Red Spring Yield per Acre (bu or lb)
\$6.95 Actual Wheat - Hard Red Spring Price (\$/unit)

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53.7 Probable Wheat - Hard Red Spring Yield per Acre (bu or lb)
\$6.75 Probable Wheat - Hard Red Spring Price per Unit (bu or lb)
 117 % of Probable Yield & Price Factor

117% = (61 bu actual yield / 53.7 bu probable yield) X (\$6.95/bu actual price / 6.75/bu probable price)

\$60 Land Rental Rate
\$70 /acre Flex Rental Value (after harvest)

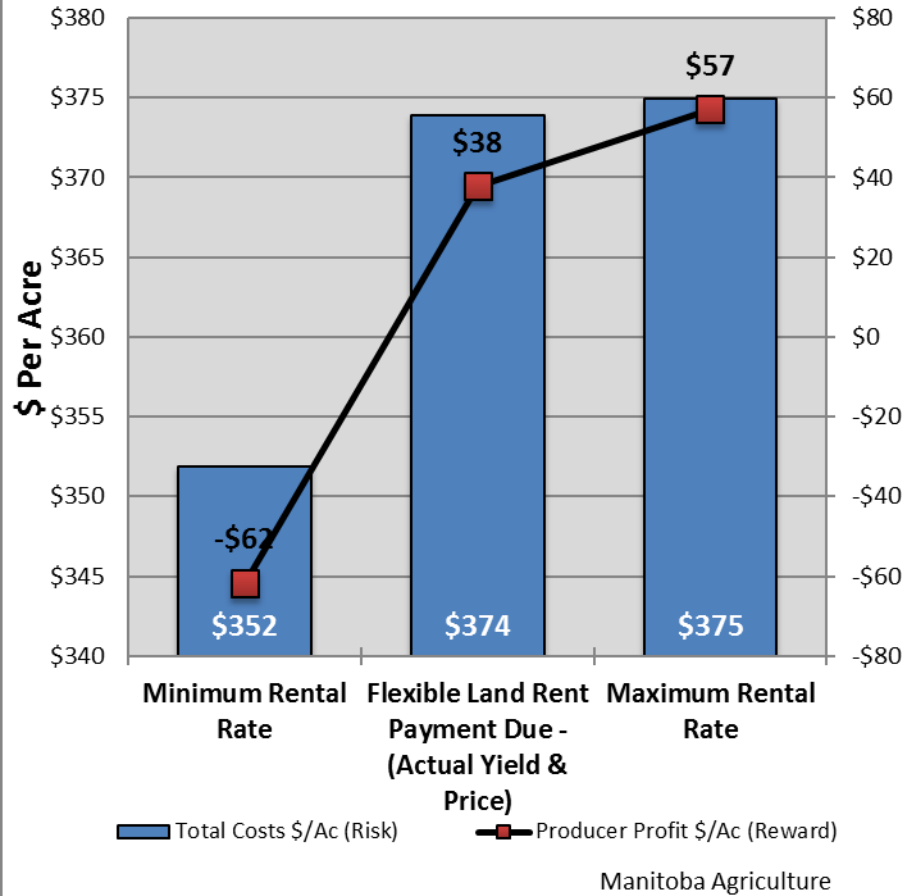
If less than Minimum Rate, then \$48/acre

If more than Maximum Rate, then \$71/acre

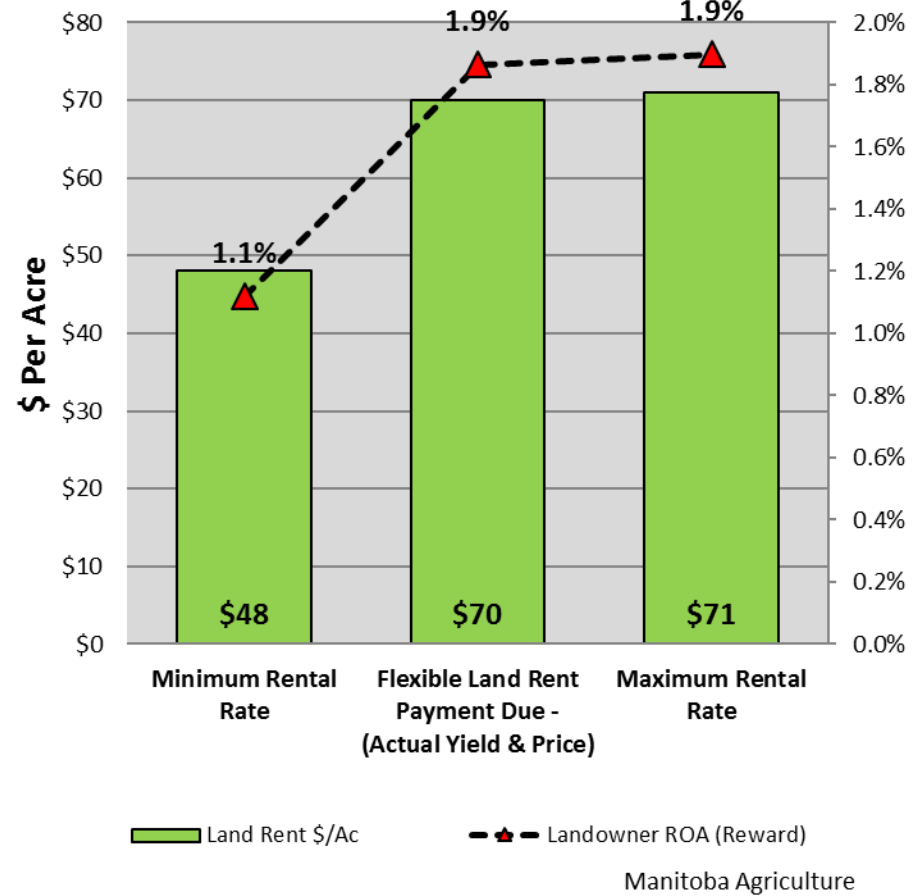
Step #6

Total Flexible Land Rental Payment Due = \$70/acre

Producer - Flex Rent Risk & Reward Analysis



Landowner - Flex Rent Profitability Analysis



Flexible Land Rental Agreements

- Takeaways:
 - Trust, communication and cooperation required on both sides to make it work
 - Can be complicated so it's best to keep the 'flex' portion to 1 or 2 variables (yield and/or price)
 - Important to determine how the price will be finalized
 - Grain cart scale/weigh scale slips for yield determination
 - If done properly, an effective way to deal with variability

Further Considerations

- When is the rent payment made?
 - Payments in spring carry a discount – less risk; time value of money
- Consider nutrient levels within the soil
 - ‘Mining’ the soil carries a cost
- Who are you dealing with?
 - Dealing with the best producers/landlords will bring the highest profitability in the long run
- Sleep at night factor
 - Happy tenant, happy landlord, happy life

Obviously you're telling me...

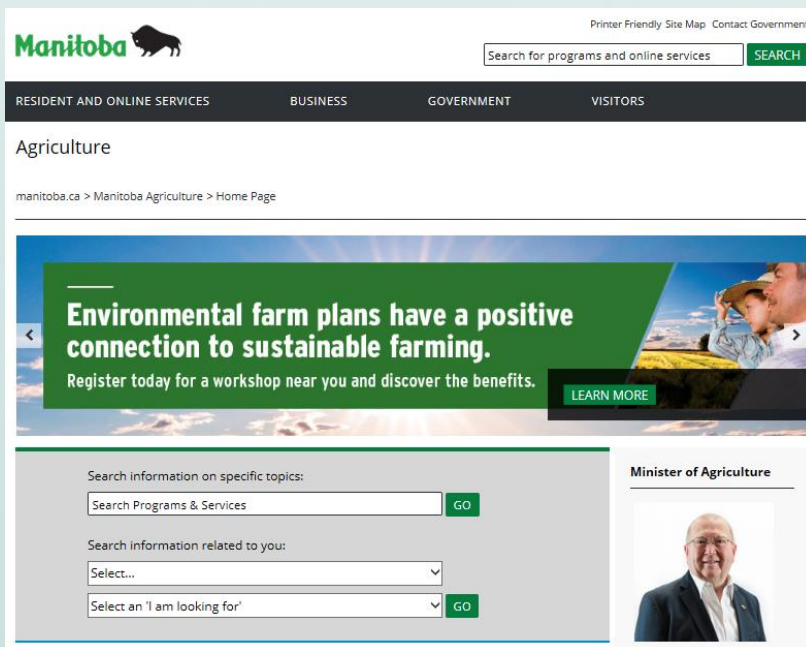


- The market ultimately determines land rental rates
- Trust, communication and cooperation will result in the best land rental situations
- Well written agreements clearly state responsibilities and expectations
- The highest (or lowest) dollar paid for land rent doesn't necessarily make for the best arrangement
- Rentplan allows both producers and landlords to appreciate each other's position

Farm Software & Worksheets

- <http://www.gov.mb.ca/agriculture/>

- Sample Land Rental Agreements
 - Cash Lease Agreement
 - Crop Share Lease Agreement
 - Cow-Calf Share Lease Agreement
 - Custom Cattle Feeding Agreement
 - Custom Pasture Agreement
 - Flexible Cash Lease Agreement
 - Pasture Cash Lease Agreement
- Rentplan
- Farm Machinery Custom & Rental Rate Guide Calculator – 2018/19



The screenshot shows the Manitoba Agriculture website homepage. At the top left is the Manitoba logo. To the right are links for 'Printer Friendly Site Map' and 'Contact Government'. Below this is a search bar with the text 'Search for programs and online services' and a 'SEARCH' button. A navigation menu includes 'RESIDENT AND ONLINE SERVICES', 'BUSINESS', 'GOVERNMENT', and 'VISITORS'. The main heading is 'Agriculture', with a breadcrumb trail 'manitoba.ca > Manitoba Agriculture > Home Page'. A large green banner features the text 'Environmental farm plans have a positive connection to sustainable farming. Register today for a workshop near you and discover the benefits.' with a 'LEARN MORE' button. Below the banner are search filters: 'Search information on specific topics:' with a 'Search Programs & Services' input and a 'GO' button; 'Search information related to you:' with a 'Select...' dropdown and a 'Select an 'I am looking for'' dropdown, both with 'GO' buttons. On the right, there is a profile for the 'Minister of Agriculture' with a photo of a man in a suit.

Questions ?

For more information

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