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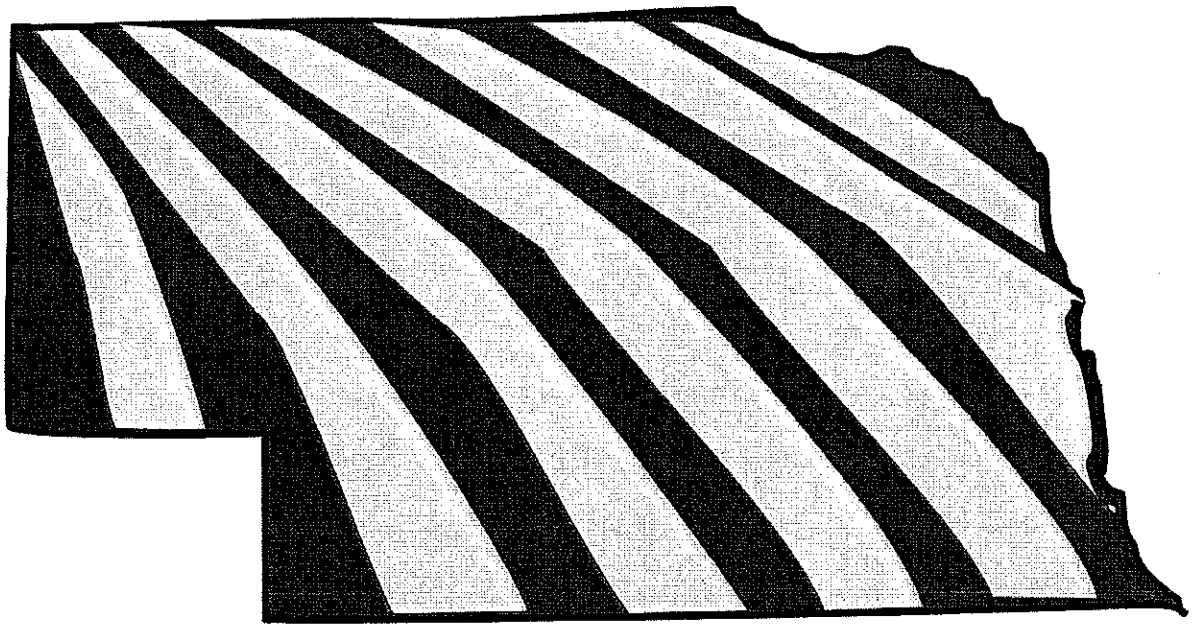

Nebraska Farm Real Estate Market Developments 2007-2008

by
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and
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2008 Cash Rental Market Conditions

Cash rental rates for cropland have moved substantially higher for the 2008 crop season as market participants, tenants and landowners alike became aware of the income advances with the new commodity price plateaus of late 2007 and early 2008. Coupled with strong competition among farmers for additional acres to plant in 2008, the stage was set for the 2008 increases in both dollar and percentage terms to be the highest one-year changes recorded in the 28-year history of the UNL cash rent series, surpassing the previously largest increase of last year (Table 9 and Appendix Table 6). Cash rents for most cropland classes across the sub-state regions were 17 to 24 % higher than 2007 levels. In essence, the cash rent percentage advances tended to mirror the percentage advances in values over the past year—unlike the historical pattern of cash rent changes tending to lag value advances. Nebraska's cropland cash rent advances were in-line with those of other agricultural states—23% in Iowa, 18% in Illinois, and 17% in Indiana (http://www.chicagofed.org/publications/agletter/may_2008pdf).

Across the state, the highest average per acre cash rents were for center-pivot irrigated cropland. Average rents on this land class exceeded $200 per acre in the Eastern and Northeast regions, with the high-quality center pivot land topping out in excess of $250 per acre for the 2008 crop season. (It should be noted, that some rental parcels were contracted at much higher levels, but our reporters indicated those were more the exception than the rule in local markets.)

Gravity irrigated land rents also advanced for the 2008 crop year, but continued to remain below the center pivot rates by as much as 12% in some areas of the state. Increasingly, the water, energy, and labor efficiencies associated center pivot irrigation verses gravity systems are being factored into the cash rental market as well as the transfer market.

Dryland cropland rents moved solidly upward for 2008, not only because of higher commodity price outlooks but also because of more favorable moisture patterns across much of the state through 2007 and into 2008 for dryland crop production.

While cropland rental rates were surging, 2008 pasture rents showed smaller gains over 2007 levels. Particularly, in the major range-producing regions, the percentage advances on pasture rents were less than half of the cropland rate advances. The economic shocks of rising feed costs to the fed-cattle industry have rippled backward to the range areas of the state which supply the feeder cattle. The economic returns to pasture generally have not kept pace with those of cropland.

However, there are some positive countervailing factors which have worked to enhance the forage producing land assets as well. First, the major incorporation of distillers grains (a corn-ethanol by-product) into cattle feeding rations has provided Nebraska feedlots with a comparative advantage over other cattle-feeding regions of the country farther removed from the ethanol industry. This advantage tends to spill over on the cow-calf industry located close by, which, in turn, gives Nebraska's grassland values and rents some upward movement. Secondly, there is an increasing tendency to back-ground feeder cattle on forage-based rations to heavier weights before placement into feedlots for finishing to market weights. In other words there is a partial substitution effect of forage for grain taking place, which eventually gets factored into rental returns and values of forage producing land.

Table 9. Reported Cash Rental Rates for Various Types of Nebraska Farmland: 2008 Averages and Ranges by Agricultural Statistics District. [ac]

Type of Land	Agricultural Statistics District							
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast
	Dollars Per Acre							
Dryland Cropland:								
Average	33	50	134	86	135	40	69	113
Range:								
High	38	69	179	109	173	50	95	142
Low	23	38	109	63	110	27	50	88
Gravity Irrigated Cropland:								
Average	126	142	188	173	189	116	168	185
Range:								
High	162	154	215	205	229	144	196	219
Low	90	125	151	146	156	102	133	154
Center Pivot Irrigated Cropland								
Average	140	159	208	185	211	159	183	198
Range:								
High	155	191	253	227	256	190	214	241
Low	90	131	166	153	174	132	146	170
Dryland Alfalfa:								
Average	b	b	126	73	120	b	b	b
Range:								
High	b	b	157	88	150	b	b	b
Low	b	b	101	65	95	b	b	b
Irrigated Alfalfa:								
Average	b	b	142	165	172	b	b	b
Range:								
High	b	b	184	192	197	b	b	b
Low	b	b	114	132	144	b	b	b
Other Hayland:								
Average	b	b	b	59	b	b	b	b
Range:								
High	b	b	b	80	b	b	b	b
Low	b	b	b	50	b	b	b	b
Pasture:								
Average	10	16	39	30	36	13	27	35
Range:								
High	13	21	59	37	51	17	34	43
Low	7	14	30	23	26	10	19	24

[a] SOURCE: Reporters' estimated cash rental rates (both averages and ranges) from the 2008 UNL Nebraska Farm Real Estate Market Developments Survey.
[b] Insufficient number of reports.
[c] A disclaimer: Cash rental rates provided in this table and in the Historical Cash Rent Series in Appendix Table 6 should be used as indicators of general patterns and trends for the sub-state regions and not necessarily as appropriate levels to be assigned to any specific land parcel.

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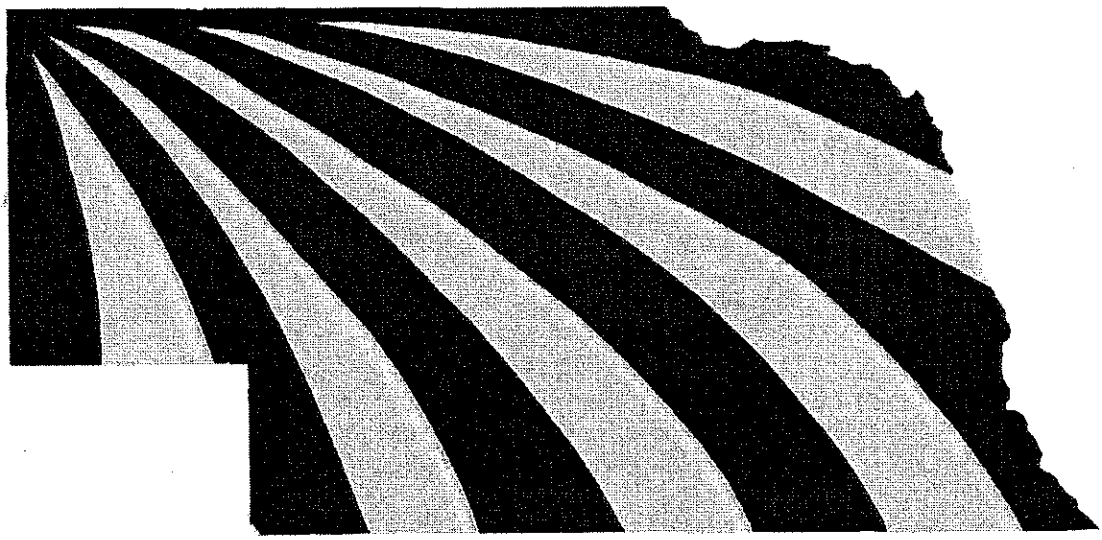

Nebraska Farm Real Estate Market Developments 2006-2007

by
Bruce B. Johnson

2007 Cash Rental Market Conditions

With strong surges in crop commodity prices in late 2006 and into 2007, the negotiated cash rental rates for cropland moved sharply upward for the 2007 rental season (see Appendix table 6 for historical annual averages). For both dryland and irrigated cropland classes, rates typically were up 10 to 12 % in most areas of the state. For the irrigated classes in the Northeast, the percentage increases were even higher. In contrast, per-acre rates for pasture were essentially unchanged from 2006 levels in most of the state.

The changes in cropland cash rental rates from 2006 to 2007 are, some of the largest percentage increases ever recorded in the 27 year history of the UNL cash rent series. Typically, the rent levels have moved either upward or downward rather modestly from one year to the next, reflecting the fact that cash rent levels in on-going rental contracts are not always renegotiated each year. And even when they are, the dollar adjustments on cash rental rates, in terms of percentage changes, tend to be more limited than annual percentage shifts in land values. In short, the rental rate shifts tend to lag land value shifts rather than precede value changes.

The 2007 averages as well as reported ranges are reported in Table 8. Dryland cropland rates show extreme geographic differences, with regional averages ranging from $26 per acre in the Northwest to $113 in the East. In addition, wide ranges in the lows and highs reported within each region were also observed, largely explained by productivity differences, both from region to region and from individual tract to individual tract.

The irrigated cropland classes also exhibit wide regional differences, albeit not as large as the dryland class. The East region had the high end of the regional averages, with 2007 gravity irrigated and center pivot irrigated rates being $160 and $176 per acre respectively. Moreover, for the high end of the productivity range, the East had center pivot irrigated land renting for an average of $207 per acre—the first time that the $200 per-acre level had been exceeded in the 27-year history of the UNL rental rate series. Clearly, the rental market for cropland has been aggressive, with tenants willing to bid rents to new levels in order to access the land base deemed necessary.

In addition to per-acre rates for pasture land, reporters also provide estimates on a *dollar per month* basis for cow-calf pairs and for stocker cattle. This is typically the more common rental arrangement for the primary grazing areas of the state, reflecting a five-month grazing season. However, it correlates closely with the per-acre pasture rental rates in Table 8 since it is reflecting a carrying capacity basis of the pasture in terms of how many months of grazing (or fraction thereof) can an acre sustain an animal unit. For example, if the carrying capacity is .5 animal unit months, then that would imply that it would take 2.0 acres per month of grazing (.5 / 1 = 2.0) or a total of 10 acres per animal unit for the five-month grazing season. And assuming a cow-calf pair to be 1.20 animal units, this would infer that it would take 2.4 acres for cow-calf pair per month or 12 acres for the full grazing season. Given that 2007 monthly rates for cow-calf pairs are around $30, this would convert to a per-acre annual rental rate of $12.50, much like the 2007 per- acre rates for pasture across much of the state's primary grazing areas.

Table 9 presents 2007 dollar-per-month pasture rates for both cow-calf pairs and stocker cattle. Cow-calf pair rates range from $25 in the Northwest and South to $29.55 in the North. The variation reflected in the ranges within each region tends to be the result of different rental packages involving the various inputs and services provided by the landowner.

Table 8. Reported Cash Rental Rates for Various Types of Nebraska Farmland: 2007 Averages and Ranges by Agricultural Statistics District. [a]

Type of Land	Agricultural Statistics District							
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast
	Dollars Per Acre							
Dryland Cropland:								
Average	26	41	109	71	113	34	56	93
Range:								
High	30	54	134	85	134	41	68	114
Low	18	30	88	53	92	25	45	73
Gravity Irrigated Cropland:								
Average	103	115	156	150	160	107	139	152
Range:								
High	124	133	179	170	188	126	161	176
Low	72	100	136	125	136	94	111	131
Center Pivot Irrigated Cropland								
Average	118	136	173	156	176	128	154	169
Range:								
High	130	155	200	181	206	135	184	196
Low	80	106	146	130	152	100	124	142
Dryland Alfalfa:								
Average	b	b	105	63	96	b	b	b
Range:								
High	b	b	119	75	116	b	b	b
Low	b	b	85	46	76	b	b	b
Irrigated Alfalfa:								
Average	b	b	b	138	162	b	b	b
Range:								
High	b	b	b	166	183	b	b	b
Low	b	b	b	114	138	b	b	b
Other Hayland:								
Average	b	b	b	51	b	b	b	b
Range:								
High	b	b	b	65	b	b	b	b
Low	b	b	b	43	b	b	b	b
Pasture:								
Average	9	15	38	26	36	12	21	30
Range:								
High	11	20	49	31	44	16	26	40
Low	7	12	25	20	24	10	16	21

[a] SOURCE: Reporters' estimated cash rental rates (both averages and ranges) from the 2007 UNL Nebraska Farm Real Estate Market Developments Survey.
[b] Insufficient number of reports.

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Nebraska Farm Real Estate Market Developments 2005-2006

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Table 7 Continued.

Type of Land and Year	Agricultural Statistics District								State Ave.
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast	
	Percent								
Grazing Land:									
1990	4.0	5.8	4.6	4.9	5.0	4.5	5.4	5.0	4.9
1991	5.5	5.9	5.4	5.0	5.3	5.8	5.5	5.5	5.4
1992	4.0	5.3	4.9	4.6	4.4	5.1	5.0	5.0	4.8
1993	4.3	4.6	5.0	4.6	4.3	4.6	4.5	4.6	4.6
1994	4.7	4.5	5.1	4.4	4.3	4.7	4.1	4.5	4.5
1995	3.7	4.7	4.9	4.0	4.2	4.5	4.2	4.0	4.3
1996	3.8	4.3	4.9	4.3	4.0	4.3	3.8	4.1	4.2
1997	3.6	4.3	4.9	4.5	4.0	4.0	3.6	4.2	4.1
1998	3.4	4.2	4.6	4.1	3.9	4.2	4.0	3.8	4.0
1999	3.1	3.5	4.4	4.2	3.6	3.2	3.6	3.9	3.7
2000	3.3	4.4	4.6	3.7	3.8	3.6	4.0	4.1	3.9
2001	2.9	4.0	4.3	3.9	4.0	3.4	3.5	4.1	3.8
2002	2.8	4.1	4.4	3.8	3.7	4.0	3.8	4.1	3.8
2003	2.4	3.3	3.8	3.3	3.4	3.4	3.9	3.8	3.4
2004	2.8	3.1	3.6	3.3	3.7	3.3	3.4	4.1	3.4
2005	2.6	3.3	3.7	3.8	2.9	3.1	3.6	4.3	3.4
2006	2.7	3.1	3.0	3.6	3.0	3.1	3.7	3.8	3.3

[a] SOURCE: UNL Nebraska Farm Real Estate Market Developments Surveys.

[b] Reporters' estimates of current annual net percentage rates of return given current values. Real estate appraisers refer to this percentage as the market-derived capitalization rate.

Cash Rental Market Conditions

Given the value levels of agricultural real estate and the ever-increasing size of agricultural units, most agricultural producers have neither the financial resources nor the personal interest in owning their total agricultural land base. Instead, they control a substantial portion of their land assets via leasing. Consequently, the rental market for agricultural land is a significant component in today's production agriculture.

Increasingly, land leasing is being done through cash arrangements instead of crop share leasing. Tenants and landowners typically negotiate an agreeable rent which tenants will then pay in two installments, one at the beginning of the crop year (March 1st) and the second at the end of the season.

The reported 2006 cash rental rates for cropland and pasture are presented in Table 8. Averages as well as reported ranges of per-acre rates are given. The diversity of agricultural productivity is clearly illustrated here–not only from region to region, but within region as well. For cropland, the low-quality dryland cropland in the Northwest District reportedly was renting for $17 per

acre, while high-quality center pivot irrigated land in the East District was reportedly renting for $177 per acre, a ten-fold difference.

Comparing these 2006 per-acre cash rental rates with those of previous years in Appendix Table 6, shows the 2006 rates to be up somewhat from 2005 levels in the eastern part of the state; while some modest declines are evident in the water-stressed areas of the south and southwest. But even in those areas with higher cash rents, the percentage increases usually fell below the corresponding increases to values.

Given higher input costs coming into 2006, particularly for energy-related inputs, many people expected cash rents to be negotiated downward somewhat. Prevailing drought conditions in the western areas was also expected to push rent levels downward somewhat. However, given the robust demand for rental land in most local markets, a widespread downward adjustment in per-acre rates did not materialize going into the 2006 crop year.

Specific Cash Rental Arrangements on Center Pivot Irrigated Land

In this year's survey, reporters were asked to provide additional information on rental rates as negotiated on center pivot irrigated land. Obviously, this type of irrigation usually involves leaving corners of the parcel unirrigated. On average, 132 acres of a 160-acre quarter section of cropland will be irrigated with a full circle, leaving 28 acres dryland cropland.

The reported per-acre rates for the dryland corners were actually below the average dryland cropland rates for the sub-state region. As can be seen in Table 9, these rates compared with dryland cropland rates in Table 8 show the negotiated rates for dryland corners are discounted in every area of the state. This is a logical adjustment for the market to be making since the tenant farming the irrigated circle can not efficiently make adjustments to input levels on these small, irregular-shaped corner parcels.

Other appropriate adjustments to cash rental rates on center pivot irrigated land need to be made depending on different ownership configurations of the associated irrigation system. The rates reported in Table 8 assume the land owner owns the entire irrigation system. When the tenant is providing part of the system, then the negotiated per-acre rates should be adjusted downward accordingly for the *payment-in-kind* he/she is making in addition to the cash payment.

As noted in Table 9, when the tenant owns the power unit for the irrigation system, the reported cash rates are from $6 to $9 per acre less than the averages reported in Table 8. This pattern of rent adjustment for the tenant-owned power unit would also hold true for gravity irrigated cropland as well.

It is also not uncommon for the tenant to be owning the center pivot itself, while the landowner is providing the rest of the irrigation system. When this occurs, survey respondents reported negotiated cash rents that were $15 to $19 per acre lower across the regions of the state for 2006. Given the ownership costs associated with such systems, these per-acre rental rate adjustments seem quite realistic; and could be used as a good proxy for negotiating shared ownership systems.

Table 8. Reported Cash Rental Rates for Various Types of Nebraska Farmland: 2006 Averages and Ranges by Agricultural Statistics District.[a]

Type of Land	Agricultural Statistics District							
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast
	Dollars Per Acre							
Dryland Cropland:								
Average	24	38	97	63	102	31	52	83
Range:								
High	29	50	117	80	123	38	66	100
Low	17	27	75	49	82	23	41	64
Gravity Irrigated Cropland:								
Average	97	105	135	135	144	101	130	138
Range:								
High	124	124	154	156	162	119	152	155
Low	72	93	119	109	123	85	107	118
Center Pivot Irrigated Cropland								
Average	102	120	147	140	157	120	139	152
Range:								
High	123	141	166	161	177	135	159	172
Low	84	98	131	114	137	100	119	134
Dryland Alfalfa:								
Average	b	b	89	54	87	b	59	80
Range:								
High	b	b	112	68	104	b	75	89
Low	b	b	69	43	68	b	44	56
Irrigated Alfalfa:								
Average	b	b	132	123	120	b	125	b
Range:								
High	b	b	151	142	143	b	141	b
Low	b	b	109	100	99	b	99	b
Other Hayland:								
Average	b	b	b	39	55	b	39	b
Range:								
High	b	b	b	51	67	b	50	b
Low	b	b	b	30	44	b	26	b
Pasture:								
Average	9	14	36	26	33	13	22	29
Range:								
High	12	18	49	31	43	15	29	37
Low	7	11	27	18	23	10	16	22

[a] SOURCE: Reporters' estimated cash rental rates (both averages and ranges) from the 2006 UNL Nebraska Farm Real Estate Market Developments Survey.
[b] Insufficient number of reports.