

Renting Farm Buildings and Equipment



IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Value of Facilities to the Renter

- Condition: repairs needed, performance
- Obsolescence
- Size or scale
- Convenience
- Do they fit the renter's needs?
- Location
- Alternatives available

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Establishing a Rental Rate: Owner's Costs

1. Establish current value

Replacement cost x remaining life/ initial life

Example: swine finishing building, 1,000 head

Replacement cost = \$200,000

Life = 20 years Age = 7 years

Remaining life = 13

Current value = $\$200,000 \times 13/20 = \$130,000$

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Establishing a Rental Rate: Owner's Costs

- Depreciation: annual rate = $1/13 = 7.7\%$
- Interest: annual rate 5.0%
- Insurance and taxes: 1-2% 1.5%
- Repairs and maintenance: 1-3% 2.0%
- Total ownership costs, % 16.2%
- Total ownership costs, \$:
Current value: $\$130,000 \times .162 = \$21,060/\text{yr.}$

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Other Considerations



- Include operating costs if owner pays (electricity, water, fuel)
- Adjust for partial year's use
- May charge per unit of production
Example: 1,000 hd. capacity x 2.5 turns/yr = 2,500 head per year
- \$21,060 / 2,500 head = \$8.42 per pig

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Caution!



- Building are fixed in location
- Limited number of potential renters
- **Owner may not be able to recover total costs from a renter.**
- Anything over variable costs is a plus.

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Establishing a Rental Rate

- Farm record summaries (costs)
- Commercial rates
Example: grain storage
May include management as well.
- Surveys: ISU Ag Decision Maker file C2-17
North Central Farm Management Extension Committee has grant to do a regional survey.



IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Items to Negotiate

- Operating costs
- Repairs and maintenance
- Water supply
- Manure disposal
- Insurance
- Time and means of payment

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Ag Lease 101 Website

- Publication NCFMEC-04
- Blank lease form
- Worksheet
- Slide presentation



IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Machinery Rental Custom Rate Approach

1. Average custom rate (tandem disk) \$13.60
2. Exclude fuel & labor (30% for tillage) \$ 4.08
(20% for planting and harvesting)
3. Rental value with tractor \$ 9.52
4. Subtract tractor rental value
\$.27 per hp-hr x 150 hp / 15 a/hr = \$ 2.70
5. Rental rate for tandem disk only \$ 6.82

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Machinery Rental Cost Approach

1. Estimate depreciated value
Example: round baler, 5 years old, 15 yr. life
New value: \$45,000 x 10/15 = \$30,000
Depreciation: 10 year left = 10%
Interest: 6%
Insurance and housing: 1%
Repairs: 2%
Total 19%

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Machinery Rental Cost Approach



2. 19% x \$30,000 = \$5,700 annual cost
3. Divide by annual use: 1,000 acres
4. Rental charge per acre = \$5.70

Can use same approach for entire machinery line.

IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Economics

Questions?



IOWA STATE UNIVERSITY
Extension and Outreach

William Edwards

Ag Decision Maker
Department of Management