Worksheet 1. Landlord’s Ownership Costs and Return to Equity

Property taxes on land (per acre) = $ ____________________ (A)

Improvements (average annual expenses per acre):

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Salvage Value</th>
<th>Life (years)</th>
<th>Average Annual Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repairs and maintenance</td>
<td>$ _________</td>
<td>_____________</td>
<td>_____________</td>
<td>___________________</td>
</tr>
<tr>
<td>Property taxes</td>
<td>$ _________</td>
<td>_____________</td>
<td>_____________</td>
<td>___________________</td>
</tr>
<tr>
<td>Insurance</td>
<td>$ _________</td>
<td>_____________</td>
<td>_____________</td>
<td>___________________</td>
</tr>
</tbody>
</table>

Depreciation

Total ____________________

Total depreciation ÷ number of acres in agreement = per acre cost ____________________ ÷ _____________ = $ ____________________ (E)

Landlord’s total cost per acre = (A) + (B) + (C) + (D) + (E) $ ____________________ (F)

Landlord’s desired return on equity: $ \text{Land value per acre}^2 \times \text{rate of return}^3 $

Per acre cash rental rate

\[ \text{Per acre cash rental rate} = \text{Landlord's total cost per acre} + \text{Landlord's desired return on equity} = (F) + (G) \]

\[ \text{Average annual depreciation using the straight-line method equals: } \frac{(\text{cost} - \text{salvage value})}{\text{years of life}} \]

\[ \text{Agricultural value rather than market value should be used.} \]

\[ \text{This is an opportunity rate of return. Remember that the only way to obtain a market rate of return is to sell the land. If the land was sold, it is likely that taxes would be paid, reducing the proceeds. Therefore, the rate of return should be somewhat less than a market rate.} \]