

Flexible Farm Lease Agreements

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Presentation Objectives

- **Summarize Tenant and Landowner Concerns regarding Cash Rent Arrangements**
- **Highlight the Types and Advantages of Flexible Farm Leases**
- **Summarize Iowa Cash Rent Trends and Rent as a % of Gross Revenue**
- **Compare different Flex Lease Arrangements**
- **Discuss how to determine Yield, Price and Government Payments**
- **Provide 5 Strategies for Flexible Farm Leases**

Why a Flexible Cash Farm Lease?

Tenant Concerns:

- Increase in crop price volatility
- Higher input costs (including cash rent)
- Uncertainty of farm profitability
- Lack of cash rent negotiations prior to the September 1st termination date
- Indecision regarding fall tillage, fertilization application and input buying decisions



Why a Flexible Cash Farm Lease?

Landowner Concerns:

- Fair and equitable cash rent amount
- Good stewardship of the farmland
- Collecting the entire cash rent amount
- Knowing the farm's final yields and tenant's profitability
- How much are these government farm program payments the tenant receives



Types of Flexible Leases

- Rent varies with both price and yield
 - Matches tenant's ability to pay
- Rent varies with yield only
 - Tenant has high yields, low prices
- Rent varies with price only
 - Tenant has low yields, high prices

Advantages of Flexible Leases

- Actual rent reflects the farm's yields and/or cash prices (revenue)
- Risk of revenue can be shared between the landowner and the tenant
- Landowner can be guaranteed a base rent, plus a bonus based on the revenue
- Landowner may receive the actual yields on the farm
- Tenant negotiates a multi-year lease

Average Iowa Cash Rent as a Percent of Gross Revenue

Year	Average Cash Rent Paid/acre ¹	Average Gross Revenue, \$/acre ²		Average Cash Rent as % of Gross Revenue	
	Iowa	Corn	Soybeans	Corn	Soybeans
1999	\$117	\$282	\$252	42%	46%
2000	\$120	\$272	\$229	44%	52%
2001	\$122	\$276	\$231	44%	53%
2002	\$124	\$368	\$256	34%	48%
2003	\$128	\$339	\$228	38%	56%
2004	\$131	\$371	\$266	35%	49%
2005	\$135	\$337	\$299	40%	45%
2006	\$137	\$459	\$300	30%	46%
2007	\$150	\$604	\$493	25%	30%
2008	\$177	\$602	\$382	29%	46%
Average	\$134	\$391	\$294	36%	47%

¹ Cash Rental Rates for Iowa, AgDM File C2-10

² Iowa average yield x Oct.-Dec. Iowa average cash price or USDA loan for Iowa (National Ag Statistics Service)

Source: ISU Ext. Publication FM-1724, February, 2009.

Rent as a Share of Gross Revenue

Example 1 - Corn

- Cash rent will be equal to 35 percent of the gross crop value.
- The actual yield of corn is 150 bushels per acre, and the actual price is \$3.53 per bushel.
- The gross income is equal to $(150 \times \$3.53) = \529.50 .
- The cash rent is equal to $(35\% \times \$529.50)$, or \$185.33 per acre.

Source: ISU Ext. Publication, FM-1724 February, 2009.

Base Rent plus % of Gross Revenue

Example 2 - Soybeans

- Base rent is \$140 per acre.
- Tenant's cost of production is \$260 per acre, excluding land.
- Base gross revenue is \$360 per acre.
- Bonus is 46% of the gross revenue in excess of \$360 per acre.
- Actual yield is 52 bushels of soybeans per acre and actual price is \$8.50 per bushel.
- Gross Revenue is equal to $(52 \text{ bu.} \times \$8.50) = \442 per acre.
- Revenue in excess of the base = $\$442 - \$360 = \$82$
- Rent is equal to \$140 plus 46% of \$82, or $\$140 + \$38 = \$178$.
- However, if the market price of soybeans is only \$7.00 per bushel, the gross revenue would be only \$364, the bonus would be $(\$364 - \$360) \times 46\% = \$2$, and the rent would be \$142 per acre.

Source: ISU Ext. Publication, FM-1724 February, 2009.

Creating a Seasonal Average Price

Example 3 - Determining Price

Local elevator prices on:

April 1	(October delivery)	\$4.06
June 1	(October delivery)	3.72
October 1	(cash)	3.48
November 1	(cash)	3.62
December 1	(cash)	<u>3.87</u>
Average		\$3.75

Source: ISU Ext. Publication, FM-1724 February, 2009.

Steps for Developing a Flexible Lease

- Record the rent formula in writing
- AgDM file C2-21 has a blank form
- Test with several examples
- Develop a table of possible results
- Set a minimum and maximum rent



Flexible Lease Agreement Worksheet

- Ag Decision Maker File C2-21 (Decision Tool included)
 - www.extension.iastate.edu/agdm/
- Actual rent for price and yield combinations.

Corn and Soybean Prices

Corn Yield	Soybean Yield	\$ 1.50	\$ 1.94	\$ 2.38	\$ 2.81	\$ 3.25	\$ 3.69	\$ 4.13
		\$ 4.00	\$ 4.75	\$ 5.50	\$ 6.25	\$ 7.00	\$ 7.75	\$ 8.50
50.00	25.00	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 101	\$ 104
75.00	31.25	\$ 100	\$ 100	\$ 100	\$ 101	\$ 104	\$ 113	\$ 124
100.00	37.50	\$ 100	\$ 100	\$ 103	\$ 112	\$ 127	\$ 141	\$ 156
125.00	43.75	\$ 104	\$ 104	\$ 117	\$ 135	\$ 152	\$ 170	\$ 188
150.00	50.00	\$ 114	\$ 117	\$ 136	\$ 157	\$ 178	\$ 199	\$ 220
175.00	56.25	\$ 129	\$ 133	\$ 155	\$ 179	\$ 203	\$ 228	\$ 243
200.00	62.50	\$ 145	\$ 149	\$ 174	\$ 202	\$ 229	\$ 244	\$ 250
225.00	68.75	\$ 160	\$ 165	\$ 193	\$ 224	\$ 244	\$ 250	\$ 250
250.00	75.00	\$ 176	\$ 181	\$ 212	\$ 242	\$ 250	\$ 250	\$ 250

Source: ISU Ext. Publication, FM-1724 February, 2009.

Typical Flexible Leases in Central Iowa

- Base Rent of \$200 to \$250 per acre
 - Average cash rent for land in the area
- Maximum Rent is \$100 more than the Base
- One-half the Base Rent is paid Pre-Plant
- Other-half Base Rent plus the Flexible Payment is paid Post-Harvest
- Actual Farm Yields are used, Prices and Gross Revenue Triggers Vary
- Most Flexible Leases are Year to Year

Setting Gross Revenue Triggers

- Need to know a farm's actual cost by enterprise (by crop rotation)
- Easy to allocate extra expenses to farms that have Flexible Cash Lease Agreements
- Consider use of the ISU's "Estimated Costs of Crop Production" released annually
- For 2009 by Rotation and Medium Yield
 - Corn following Corn: \$740/A
 - Corn following Soybeans: \$692/A
 - Soybeans following Corn: \$491/A

5 Strategies for Flexible Farm Leases

