

Flexible Cash Farm Leases that Work



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Presentation Objectives

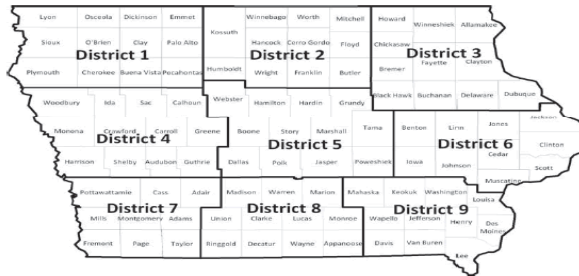
- **Overview of the 2011 Iowa Cash Rental Rate Survey**
- **Summarize Iowa Cash Rent Trends and Rent as a % of Gross Crop Value**
- **Discuss Potential for Flexible Cash Farm Leases**
- **Highlight an Iowa Flex Lease Case Study**
- **Provide 5 Strategies and 5 Websites for Flexible Cash Farm Leases**

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Iowa Cash Rent Survey Trends

Overall Average of Typical Cash Rents 2007-2011
Corn and Soybean Acres

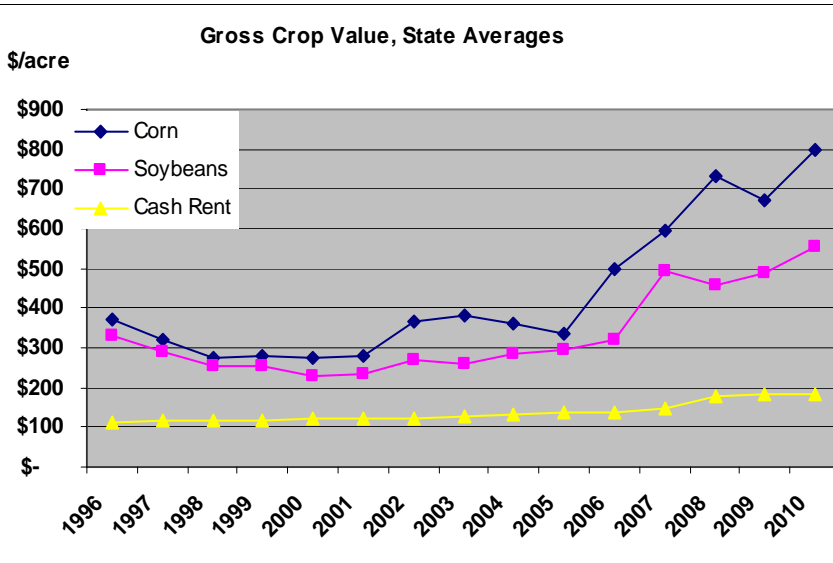
	2007	2008	2009	2010	2011
District 1	\$149	\$174	\$187	\$188	\$224
District 2	155	183	195	191	220
District 3	157	190	186	192	223
District 4	151	179	196	195	227
District 5	157	191	197	195	226
District 6	166	186	193	196	219
District 7	135	161	170	176	213
District 8	126	155	146	151	177
District 9	134	161	173	169	198
State	\$148	\$176	\$183	\$184	\$214



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Source: Cash Rental Rates for Iowa – 2011 Survey

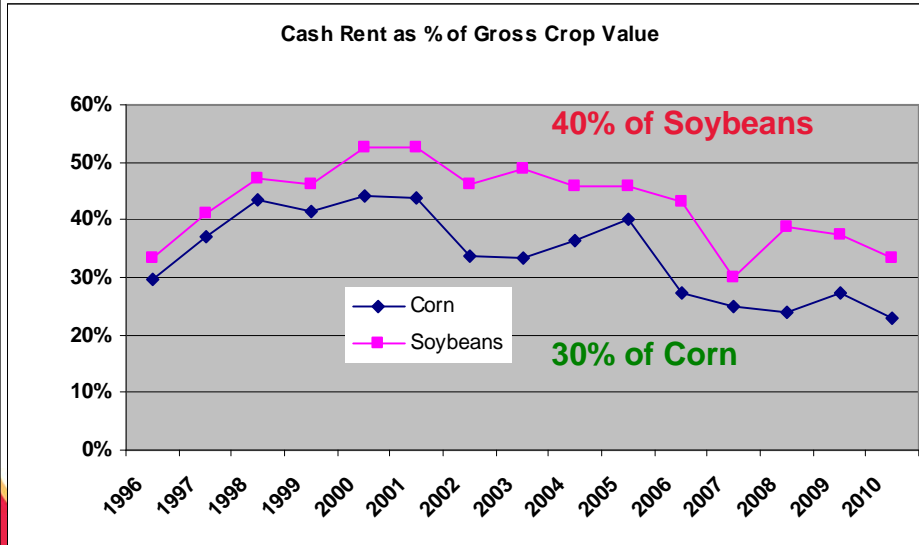
Crop Value vs. Cash Rent (\$/Acre)



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Source: Edwards, ISU Extension Economics, June 2011

Cash Rent as a % of Gross Revenue



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Source: Edwards, ISU Extension Economics, June 2011

Types of Flexible Cash Farm Leases

- Option A: Rent = % of gross revenue
- Option B : Rent = base rent + bonus
 - Bonus = (gross revenue – base revenue) x %
- Concept of “Profit Sharing” between Tenant and Landlord
 - Uses Actual Farm Yields and New Crop Harvest Delivery Bids



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Source: Johnson, ISU Extension, June 2011

ISU Extension Rental Rate Sources

- ISU Ag Decision Maker Web Site
 - www.extension.iastate.edu/agdm
- Cash Rental Rates for Iowa – 2011 Survey
- Computing a Cropland Cash Rental Rate
- Flexible Farm Lease Agreements
 - File C2-21



Why a Flexible Cash Farm Lease?

Tenant concerns:

- Increasing crop price volatility
- Rising input costs (including cash rent)
- Uncertainty of farm profitability
- Lack of a cash rent negotiation prior to the annual legal termination date (varies by state)
- Indecision regarding fall tillage & fertilizer, input purchases and crop sales.



Advantages of Flexible Leases

- Actual rent reflects the farm's yields and the forward cash price available (Gross 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 gross revenue
- Tenant can reflect increasing crop production costs in determining bonus
- Tenant and landlord negotiate a multi-year lease.

Iowa Flex Lease Case Study

- **Farm Overview:**
 - 375 Tillable Acres – productive, well drained soils
 - APH Yields of 170 bu/A Corn and 54 bu/A Sb
 - 2010 Yields of 187 bu/A Corn and 58 bu/A Sb
 - \$200/A Cash Rent in 2010
- **Average cash rent in the area jumped \$50 per acre in 2011**
- **Tenant is concerned about escalating cash rents and other input costs**
- **Landlord would like \$300/A if good yields and high prices occur.**

Flexible Lease Agreement Worksheet

Basic Information

	Corn	Soybeans
Expected acres planted to each crop	150 acres	225 acres
Share of gross revenue used to calculate rent or bonus-%	30%	40%
Base rent before bonus-\$ per acre (can be zero)	\$ 200 per acre	\$ 200 per acre
Base gross revenue before bonus-\$ per acre (can be zero)	\$ 697 per acre	\$ 477 per acre

USDA loan rate in county (optional)-\$ per bushel

	Corn	Soybeans
USDA loan rate in county (optional)-\$ per bushel	\$ 1.85 per bushel	\$ 5.00 per bushel

Minimum rent desired (optional)-\$ per acre

\$ 200 per acre

Maximum rent desired (optional)-\$ per acre

\$ 350 per acre

Expected Yield, Price and Rent Calculations

Expected Yield and Price Information

Expected yield-bushels per acre	187 bu. per acre	58 bu. per acre
Expected price-\$ per bushel	\$5.50	\$13.00 per bushel
Expected gross revenue under expected yield and price-\$/acre	\$1,029 per acre	\$754 per acre
Bonus for expected gross revenue-\$ per acre	\$99	\$111
Rent to pay under expected yield and price-\$ per acre	\$299 per acre	\$311 per acre
Average rent to pay for corn and soybeans-\$ per acre	\$306 per acre	

Adjusted Average Rent Calculations

Average Rent for Corn and Soybeans Combined Corn and Soybean Prices

Corn Yield	Soybean Yield	\$ 4.22	\$ 4.66	\$ 4.98	\$ 5.25	\$ 5.50	\$ 5.75	\$ 6.03	\$ 6.34	\$ 6.78
Yield	Yield	\$ 10.44	\$ 11.32	\$ 11.95	\$ 12.49	\$ 13.00	\$ 13.51	\$ 14.05	\$ 14.68	\$ 15.56
146	45	\$ 200	\$ 208	\$ 219	\$ 229	\$ 239	\$ 249	\$ 260	\$ 272	\$ 289
160	50	\$ 210	\$ 226	\$ 240	\$ 251	\$ 262	\$ 273	\$ 285	\$ 298	\$ 317
170	53	\$ 220	\$ 240	\$ 255	\$ 267	\$ 279	\$ 290	\$ 303	\$ 317	\$ 337
179	55	\$ 231	\$ 253	\$ 268	\$ 281	\$ 293	\$ 305	\$ 318	\$ 334	\$ 350
187	58	\$ 242	\$ 264	\$ 280	\$ 294	\$ 306	\$ 319	\$ 333	\$ 349	\$ 350
195	61	\$ 252	\$ 275	\$ 292	\$ 306	\$ 319	\$ 333	\$ 347	\$ 350	\$ 350
204	63	\$ 263	\$ 288	\$ 305	\$ 320	\$ 334	\$ 347	\$ 350	\$ 350	\$ 350
214	66	\$ 277	\$ 302	\$ 320	\$ 336	\$ 348	\$ 350	\$ 350	\$ 350	\$ 350
228	71	\$ 295	\$ 322	\$ 341	\$ 350	\$ 350	\$ 350	\$ 350	\$ 350	\$ 350

Tenant and Landowner's Profits

Total USDA direct payment for farm-\$ per year
 USDA direct payment-\$ per acre
 Tenant's cost of production excluding rent-\$ per acre

Corn	Soybeans
\$ 24.00	\$ 9,000
\$ 482	\$ 24.00
	\$ 258

TENANT'S PROFIT FOR CORN AND SOYBEANS COMBINED										
Corn Yield	Soybean Yield	\$ 4.22	\$ 4.66	\$ 4.98	\$ 5.25	\$ 5.50	\$ 5.75	\$ 6.03	\$ 6.34	\$ 6.78
Yield	Yield	\$ 10.44	\$ 11.32	\$ 11.95	\$ 12.49	\$ 13.00	\$ 13.51	\$ 14.05	\$ 14.68	\$ 15.56
146	45	\$6	\$47	\$72	\$92	\$111	\$129	\$149	\$173	\$205
160	50	\$47	\$85	\$111	\$133	\$153	\$173	\$195	\$221	\$256
170	53	\$74	\$111	\$139	\$162	\$183	\$205	\$228	\$256	\$293
179	55	\$94	\$134	\$162	\$187	\$210	\$232	\$257	\$285	\$330
187	58	\$113	\$155	\$185	\$210	\$234	\$258	\$283	\$313	\$379
195	61	\$132	\$176	\$207	\$233	\$258	\$283	\$310	\$355	\$421
204	63	\$153	\$198	\$231	\$258	\$284	\$311	\$351	\$401	\$470
214	66	\$177	\$224	\$258	\$288	\$318	\$357	\$402	\$454	\$527
228	71	\$210	\$260	\$297	\$336	\$380	\$425	\$473	\$529	\$603

Landowner's costs for ownership-\$ per acre

Corn	Soybeans
\$ 25	\$ 25

OWNER'S PROFIT FOR CORN AND SOYBEANS COMBINED										
Corn Yield	Soybean Yield	\$ 4.22	\$ 4.66	\$ 4.98	\$ 5.25	\$ 5.50	\$ 5.75	\$ 6.03	\$ 6.34	\$ 6.78
Yield	Yield	\$ 10.44	\$ 11.32	\$ 11.95	\$ 12.49	\$ 13.00	\$ 13.51	\$ 14.05	\$ 14.68	\$ 15.56
146	45	\$175	\$183	\$194	\$204	\$214	\$224	\$235	\$247	\$264
160	50	\$185	\$201	\$215	\$226	\$237	\$248	\$260	\$273	\$292
170	53	\$195	\$215	\$230	\$242	\$254	\$265	\$278	\$292	\$312
179	55	\$206	\$228	\$243	\$256	\$268	\$280	\$293	\$309	\$325
187	58	\$217	\$239	\$255	\$269	\$281	\$294	\$308	\$324	\$325
195	61	\$227	\$250	\$267	\$281	\$294	\$308	\$322	\$325	\$325
204	63	\$238	\$263	\$280	\$295	\$309	\$322	\$325	\$325	\$325
214	66	\$252	\$277	\$295	\$311	\$323	\$325	\$325	\$325	\$325
228	71	\$270	\$297	\$316	\$325	\$325	\$325	\$325	\$325	\$325

Case Study Summary

- Last-half Base Rent plus the Flexible Payment is paid Post-Harvest
- Actual Farm Yields (dry weight) are used following crop insurance requirements
- New Crop Cash Bids at local elevator are averaged using a minimum of 4 periods (ie. Jan. 15th, April 15th, July 15th and Oct. 15th)
- Create a Flexible Lease that adjusts Year to Year
- Adjust the Gross Revenue Trigger Annually based on Farm's Estimated Costs of Production for each Crop.

Setting Gross Revenue Triggers

- **Best to use the Cash Rent Farm's actual cost by Enterprise (by crop rotation)**
- **Concern for tenant allocates extra expenses to farms that have Flexible Cash Lease Agreements**
- **Consider using your State's "Estimated Costs of Crop Production"**
- **ISU Extension Releases Annually in December: 2011 Estimates by Rotation and Medium Yield**
 - Corn following Corn: \$743/A
 - Corn following Soybeans: \$697/A
 - Soybeans following Corn: \$473/A

5 Strategies for Flexible Cash Leases

Build Your
Knowledge on
Farm Leases

Understanding
Flex Leases will
take Time

Consider
Multi-Year
Arrangements

Use a
Spreadsheet
with Example
Calculations

Determine the Base Rent, Maximum Rent,
% Share & Gross Revenue Triggers

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Source: Johnson, ISU Extension, June 2011

5 Flexible Cash Farm Lease Web Sites

- ISU Ag Decision Maker – Extension Economics
www.extension.iastate.edu/agdm
- Farm Doc – U of Illinois Extension Economics
www.farmdoc.illinois.edu
- Ag Manager – Kansas State Extension Economics
www.agmanager.info
- Ag Economics – U of Purdue
www.agecon.purdue.edu
- Farm Management – ISU Polk County Extension
www.extension.iastate.edu/polk/farmmanagement

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