Ag Decision Maker

File C2-22
September 2008
www.extension.iastate.edu/agdm

Flexible Cash Rent Lease Examples

Many tenants and land owners agree to set their cash rental rates based on actual prices, yields and/or production costs each year instead of fixing a rate in advance. More information on flexible cash leases can be found in *Information File* **C2-21 Flexible Farm Lease Agreements**. Respondents to a recent survey conducted by Iowa State University Extension were asked to report on flexible cash rental agreements that they were using or with which they were familiar. The following list is a sample of the nearly 100 different types of agreements that were reported. Although no two agreements are exactly alike, most of them fall into a few general categories.

Flexible rent based on gross revenue

The most common type of flexible lease bases the final cash rent on an estimate of the actual gross revenue realized from the crop each year. In many cases the rate is simply a percent of the price times the yield. Some agreements also include government payments in the gross revenue, and some specify a maximum and/or minimum rent. Below are examples.

- Base cash rent or 1/3 value of crop whichever is greater. Example: $100 base guaranteed; 150 bushels of corn x Dec.15 price x 1/3; 50 bushels of soybeans x Dec.15 price x 1/3.
- Yearly base rent or 35% of gross revenue from farm, including FSA payment; farm yield times average price at local elevator on April 1, July 1, and Nov. 1.
- Yield x price established at local elevator x 35%; $125 minimum.
- 38% of gross for corn, 48% for beans. Gross equals average price the first of every month at local co-op times actual yield.
- Corn yield x price at local elevator x 30%.
- The landlord receives 40% of the gross revenue in cash.
- Higher of $165 or 42% of gross for beans or 33% of gross for corn, using county average yield x average of March 15 and October 15 local price.
- Corn: 35% of yield x price; Beans: 40% of yield x price. Price is determined at local elevator on certain dates picked by landlord, usually a spring and fall date.
- Actual yield times March 1st cash price times 40%.
- One-third of total bushels times average price received from last year's crop.
- Corn = 35% of yield x average price for year. Beans = 40% of yield x average price for year.
- January 1st – October 1st price of corn per bushel x bushels per acre, plus government payment = total return per acre, x 35% = per acre rent.
- 35% of corn. 41% of beans. Actual yield times average of whole marketing year price, paid at harvest and adjusted next summer.
- Corn = gross dollars x 35%; beans = gross dollars x 45%.
- Actual yield x price (3 different dates) x .35 = rent/acre. Example: 180 bu. x $4.00 x .35 = $252.
- Yields in fall are used; prices on first of each month June through October are used, rent is a percent of gross usually 25% up to 28%.
- 40% of bean yield x December 1st price at local co-op; 35% of corn yield x December 1st price at local co-op.
- It is based on the average county yield and price three different times of the year at local co-op.
- Corn: Multiple Peril Crop Insurance spring price ($5.40) less fall basis ($.50) = $4.90 price x county yield or something close to actual yield x 25%. Example $4.90 x 180 bu. yield = $882 x .25 = $220 rent per acre.
- One-third of gross income based on November 1 local cash prices.

Iowa State University
University Extension

William Edwards
extension ecnomist
641-294-6161
wedwards@iastate.edu

Base rent plus a bonus

Another common type of agreement fixes a base level of rent and then adds a bonus to it based on a percent of the gross revenue over a certain level. The base rent is often the minimum rent paid. The base revenue may be equal to a long-run average value for gross revenue, or the amount of revenue the tenant needs in order to pay all nonland production costs plus the base rent.

- Base price = 40% of typical yield (APH) + bonus of 33% x yield above typical yield (APH), x harvest price.
- Corn: everything over $450 per acre gross x 35%, not to exceed $250/acre. Beans: everything over $350 per acre gross x 45%, not to exceed $250/acre.
- Gross revenue minus $325/acre divided by 3, plus base rent.
- $175 + 1/3 of corn over 175 bu./acre or 1/3 of soybeans over 52 bu./acre, priced at local elevator on December 1.
- Base rent of $150/acre. Base revenue of $525/acre for corn and $375 for beans. Use local elevator price December 1 after crops harvested to establish gross revenue per acre.
- Bonus rent of 28% of corn yield if it exceeds base revenue of $525. Bonus rent of 32% of bean yield if it exceeds base revenue. Example: $600 gross revenue on corn – $525 = $75, x .28 = $21 extra rent.
- Split 50/50 on gross income/acre over $700/acre, up to maximum of $60 over base rent.
- Base and bonus calculated by (county index crop insurance yield x average price x 20%).
- Bushels per acre x price of crop on Dec. 1. $150 up front, ½ revenue over 150 bu./acre, maximum rent of $250.
- On the cash rent ground we split the bushels above 150 bu/acre (corn) & 50 bu/acre (soybeans).
- Cash base + 25% over $700 per acre gross.
- Base of $150/acre + 1/3 of corn bushels above APH yield at market price on November 1st.
- There is up to $30 per acre bonus on the soybean acres if gross income (yield x November cash price) is over $500/acre. There is a $40/acre bonus if corn gross income is over $650/acre. It is prorated if gross income is less.
- $200/acre plus corn yield over 180 bu./acre at $2/bu. premium.
- $175 base rent + 50% of gross greater than $700/a. for corn and $465/a. for beans (actual yield x Dec. 1 price).
- Add to base rent of two years ago. Average corn and bean yield x 12 month average of price, 30% of amount over $300 gross revenue.
- $150/acre + 10% of yield x average price (August-October-December 1st).
- Base rent such as $150, plus 1/3 of gross sales over $400 for corn or over $300 for soybeans on a per acre basis.

Flexible rent based on yield only

Some flexible lease agreements specify a base or minimum rent per acre plus a bonus based on the actual yields harvested. In these cases the tenant bears all of the price risk. Below are some examples.

- $1.25 per bushel for corn over 150 bushels and $3.00 per bushel for soybeans over 45 bushels on top of $130.
- Corn yield above 180 bu./acre adds $10 per acre. Bean yield above 56 bu./acre adds $10 per acre.
- Corn: base is $190 up to 170 bu. per acre. 175 bu. = $195; 180 bu.= $200; 185 bu. = $205; 190 bu. = $210; 195 bu. = $215; 200 bu. = $220.
- Beans: base is $190 up to 50 bu. per acre. 52.5 bu. = $195; 55 bu = $200; 57.5 bu. = $205; 60 bu. = $210; 62.5 bu. = $215; 65 bu. = $220.
- Corn yield over 165 bu./acre is shared 50/50. Bean yield over 50 bu./acre is shared 50/50. This keeps rent from getting too high on poor yield.
- Corn: actual yield x $1.40/bushel. Example: 200 bushels x $1.40 = $280/acre.
- Base cash rent plus bonus when yield exceeds a predetermined level. Example: $180/acre base + $50/acre if yield exceeds 200 bu/ac. for corn.

Flexible rent based on price only

Some flexible lease agreements base the final rent on price only, or the rent may be defined as a fixed number of bushels. With these agreements the tenant bears all of the yield risk. Crop insurance protection would be advisable in this type of lease. Below are some examples.

- Final rent is determined by using cash prices on Nov. 1 x 60 bushels of corn and 23 bushels of beans.
- We have a base (minimum) rent and a cap (all important). In between we use an average of 60 bu. of corn & 23 bu. of beans x November 1 local price.
- Take 35% x 160 bushel yield per acre x price (price determined from the average of 25 pricing dates using December bids at local co-ops).
- $175 base rent, $225 top based on price of corn on Nov. 1.
- Average price of 25 sale dates at local elevator x 175 bu./acre x 38%.
- River market price for corn on February 28 for October delivery x established sliding scale.
- 33 bushels of corn or 10 bushels of beans per planted acre, + $110 cash on March 1st.
- We pay a base price of $190/acre with a cap of $230/tillable acre, based on the price of corn and soybeans on October 31 at 2 p.m.
- Average of market price on January 15, March 15, May 15, July 15, September 15, November 15 for corn and soybeans, x 30% of 50 bu./acre for soybeans and 30% x 150/bu./acre for corn.
- High producing ground is 75 times December corn futures based on average of June 1, Sept. 1, Dec. 1.
- We use a simple average of the CBOT price Dec. futures for January through June x a factor of 50. Example: $5.00 corn price would equal $250/acre rent.

Profit sharing flexible rent agreements

Still other agreements estimate the profit each year after paying all other production costs and divide it between the tenant and the owner. Under these leases the owner bears some of risk of increasing production costs as well as yield and price risk.

- It is based off of a traditional 50/50 crop share except I pay all expenses and sell all grain, and landlord receives 50% “cash rent” based off of net income.
- Actual bushels x fall average price, minus inputs, divided by 2 = final rent.
- Take published county yield for the crops grown and the statewide published average price for crops grown to determine gross revenue. Gross revenue – cost of production and base land cost equals net revenue, and we share the net 35% landlord, 65% tenant.
- After expenses, about 10% of extra profits (figure 150 bu. @ $4 = cost).

Regardless of which type of flexible lease agreement is used, it is important to describe the procedure for determining the final rent in writing, with some examples to illustrate it. For farms enrolled in USDA commodity payment programs, the lease should be on file with the county Farm Service Agency. The terms of the lease may affect how some USDA commodity payments are shared.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Jack M. Payne, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.