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Flexible Land Rental Agreements

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Farmland Rental Rates have increased dramatically the last few years as commodity prices have reached record levels and remain high compared to historic averages. But as grain prices go lower again, rental rates often lag and do not decline as rapidly. This will leave farmers with high rental rates locked in that will create a loss for the year. One way to share the risk and rewards with the landlord is to enter into a flexible land rental agreement. In 2008, Iowa State Extension reported that nearly 12 percent of all cash leases were flexible. Flexible leases have several advantages:

- The actual rent paid adjusts automatically as yields and or prices fluctuate as determined by agreement.
- The yield and price risks are shared between the landlord and the tenant.
- Owners are paid in cash so they do not have to be involved in the cropping management decisions.
- If the agreement includes base cash rent agreement with a bonus, FSA will consider the lease a cash rental agreement; therefore, all government payments would go to the tenant and not have to be divided.

A common type of flexible agreement is a **Share of Gross Revenue.** What have the Minnesota cash rents been compared to percentage of gross revenue? Table 1 below utilizes FINBIN data from 1994 to 2012 crop years for farmers across southern Minnesota in the Adult Farm Management programs from the University of Minnesota and Minnesota State College and Universities. Average prices and yields and cash rents paid in the Southwest, South Central and Southeastern Minnesota were utilized for this analysis.

Table 1. Average Southern Minnesota Cash Rent as a Percentage of Gross Revenue

Average Cash Rent Paid Per Acre		Average Gross Revenue, Dollars per Acre		Average Cash Rent as % of Gross Revenue		Corn Price	Soybean Price
Year	**Southern Minnesota**	**Corn**	**Soybeans**	**Corn**	**Soybeans**		
1994	80.24	$260.31	$232.70	31%	34%	$1.81	$5.05
1995	84.51	$330.47	$246.69	26%	34%	$2.74	$5.78
1996	91.17	$329.89	$282.20	28%	32%	$2.46	$6.84
1997	94.89	$321.49	$272.32	30%	35%	$2.37	$6.37
1998	97.04	$287.29	$254.93	34%	38%	$1.77	$5.15
1999	95.61	$269.76	$228.68	35%	42%	$1.73	$5.10
2000	98.31	$267.31	$237.56	37%	41%	$1.75	$5.11
2001	97.89	$228.38	$208.52	43%	47%	$1.75	$5.15
2002	101.57	$344.09	$258.52	30%	39%	$2.18	$5.31
2003	103.74	$358.05	$246.81	29%	42%	$2.23	$6.85
2004	105.90	$351.40	$228.30	30%	46%	$2.00	$5.45
2005	110.40	$375.47	$300.10	29%	37%	$2.03	$5.65
2006	114.83	$511.27	$316.05	22%	36%	$2.90	$6.05
2007	125.44	$611.21	$472.76	21%	27%	$3.68	$9.52
2008	146.55	$681.06	$432.32	22%	34%	$3.89	$9.65
2009	158.86	$716.55	$474.32	22%	33%	$3.74	$9.66
2010	168.25	$884.41	$564.02	19%	30%	$4.68	$10.87
2011	169.32	$929.62	$493.04	18%	34%	$5.66	$11.40
2012	199.88	$1182.80	$693.11	17%	29%	$6.50	$13.77
Average				27.53%	36.32%		

Table 1 indicates corn cash rental rates were an average of 27.5 percent of gross corn revenue from 1994 through 2012 crop years. With soybeans the average was 36 percent of gross soybean revenue for the same 19 years. The last three years the percentages were much lower due to higher prices and higher gross revenue amounts. The last two columns in Table 1 show the average price farmers received in Southern Minnesota for the crop sold that year. When corn prices are above $2.50, the cash rent as percent of gross fall below 30 percent to an average of 21 percent of gross for 1995, 2006, 2007, 2008 2009, 2010, 2011 and 2012. When soybeans prices are above $9.50 in 2007 through 2012, the cash rent as a percent of gross declined to 31 percent from the 36 percent of gross average from 1994 to 2012.

Most Flexible Rental Agreements have a base rent component that assures the landlord this income and will allow the tenants to cover expenses even after a bad year with good crop insurance coverage. Base rents vary by area but for Southern Minnesota the range for base rents could be from $100 to $200. Then a flexible component is added, either based on price, yields, gross revenue or some combination of these components. There are many ways to set up a flexible land rental agreement. The farmer and landlord should determine what both are looking for. The higher the base rent the more risk the farmer has, the lower the base rent the landlord is increasing their share of the risk with no crop insurance to protect their revenue.
Here are some short definitions of different types of flexible rental agreements:

- **Flexible Rents based on gross revenue:**
  This is a rental agreement where rental payments are based on gross revenue of the farmland. It can include a base payment in the crop year and a final payment after the actual yield and price are determined.

- **Base rents plus a bonus:**
  This is a rental agreement where a base rent is paid and then a bonus may or may not be paid determined if yields exceed a base goal. Then these additional bushels would be shared between landlord and tenant. The bonus can also be determined by yield and price together or price alone as well.

- **Flexible rent based on yield only:**
  This is a rental agreement where the landlord receives a set base number of bushels with additional bushels if yields are higher than was determined for the base payment. This can also be done with a cash payment based on yield and then price at an elevator.

- **Flexible rent based on price only:**
  This is a rental agreement where the rental payment is based on crop prices. Often it is an average price of the previous twelve months or a quarterly price which is multiplied times the bushels agreed to. Rental payments can be made at the quarterly price setting times or half and half or after harvest.

- **Profit sharing flexible rent agreements:**
  This is a rental agreement where the landlord and the tenant share the profit from the farmland. This agreement is similar to a 50-50 crop share lease where they share crop yields 50% to landlord and 50% to the tenant and some of the expenses are paid by each party.