

2015

Flexible farm lease agreements

William Edwards

Iowa State University, wedwards@iastate.edu

Follow this and additional works at: <http://lib.dr.iastate.edu/agdm>



Part of the [Agribusiness Commons](#)

Recommended Citation

Edwards, William (2015) "Flexible farm lease agreements," *Ag Decision Maker Newsletter*: Vol. 11 : Iss. 4 , Article 4.

Available at: <http://lib.dr.iastate.edu/agdm/vol11/iss4/4>

This Article is brought to you for free and open access by the Ag Decision Maker at Iowa State University Digital Repository. It has been accepted for inclusion in Ag Decision Maker Newsletter by an authorized editor of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.



Flexible farm lease agreements

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Fluctuating markets and uncertain yields make it difficult to arrive at a fair cash rental rate each year. As an alternative, some owners and tenants have developed flexible lease agreements, in which the actual rent is not determined until after the crop is harvested. The final rental rate is based on actual prices and /or yields.

Flexible leases have the following advantages:

- The actual rent paid adjusts automatically as yields or prices change from year to year.
- Risks are shared between the owner and the tenant, as are profit opportunities.
- Owners are paid in cash--they do not have to be involved in decisions about crop inputs or grain marketing.

The most common type of flexible lease calls for the actual cash rent to be set as a fixed percentage of the gross revenue received from the crop. The

gross revenue is equal to the actual yield times an average market price available during harvest. If the market price is below the USDA loan rate, the loan rate can be used instead. A variation on this type of lease is to set a base rent and then add a bonus when gross revenue exceeds a certain level.

The Farm Service Agency (FSA) specifies that under lease arrangements in which yield or financial risk is shared between the tenant and the landowner, any direct payments and counter cyclical payments for which the farm may qualify must also be shared. Thus, these payments should not be included in the gross income used to set the rent each year.

For more details, see Information File C2-21, <http://www.extension.iastate.edu/agdm/wholefarm/html/c2-21.html>, and the associated Decision Tool, <http://www.extension.iastate.edu/agdm/wholefarm/html/c2-21.html>.

Updates, continued from page 1

Internet Updates

The following updates have been added to www.extension.iastate.edu/agdm.

What is Your Managerial Attitude – C6-66

Decision Tools

The following decision tool has been added to www.extension.iastate.edu/agdm.

Flexible Lease Agreement Worksheet – Use this *decision tool* to analyze flexible farm lease agreements.

... and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write

USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964. 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.

Permission to copy

Permission is given to reprint ISU Extension materials contained in this publication via copy machine or other copy technology, so long as the source (Ag Decision Maker Iowa State University Extension) is clearly identifiable and the appropriate author is properly credited.