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Flexible farm lease agreements

William Edwards
Iowa State University, wedwards@iastate.edu

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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.