

PURDUE UNIVERSITY PURDUE EXTENSION

Flexible Cash Rent and Farm Land Leases

Craig Dobbins
Department of Agricultural Economics

PURDUE UNIVERSITY PURDUE EXTENSION

Leases used for Indiana cropland

- Approximately 52% of Indiana farmland is leased
- Cash lease – 47.7% of leased acres
- Cash/Share lease – 24.5% of leased acres
- Share lease – 20.1% of leased acres
- Adjustable cash lease – 5.9% of leased acres

Source: 1997 Census of Agriculture

PURDUE UNIVERSITY PURDUE EXTENSION

Percentage of Iowa Farmland by Tenure

Tenure	1982	1992	2002	2007
Owner operated	55%	50%	40%	40%
Cash rent lease	20%	25%	40%	45%
Crop-share	20%	20%	15%	15%

Source: Iowa State University

PURDUE UNIVERSITY PURDUE EXTENSION

Producer / Landowner Risk-Return Tradeoff

The graph plots Average Return on the y-axis against Risk Level on the x-axis. A curve shows the tradeoff between these two factors. Points on the curve are labeled: Custom Farm (highest return, highest risk), Crop-share, Flex Cash, and Cash Rent (lowest return, lowest risk).

PURDUE UNIVERSITY PURDUE EXTENSION

Indiana State Cash Rent

Land Quality	Yield Bu/A	Value (\$/a) 2007	Value (\$/a) 2008	% Change
Top	179	171	194	13.5%
Aver.	148	139	157	12.9%
Poor	115	110	123	11.8%

Source: Purdue Land Value Survey

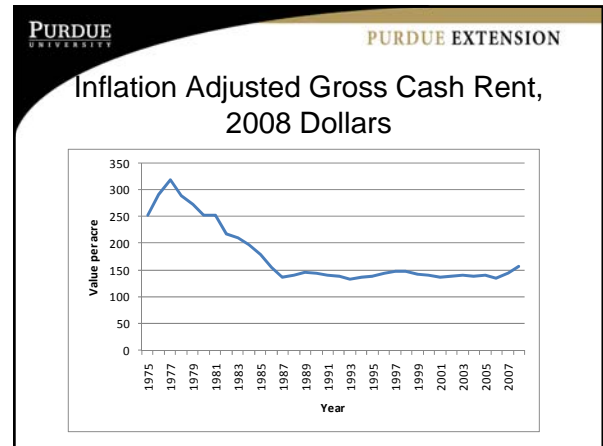
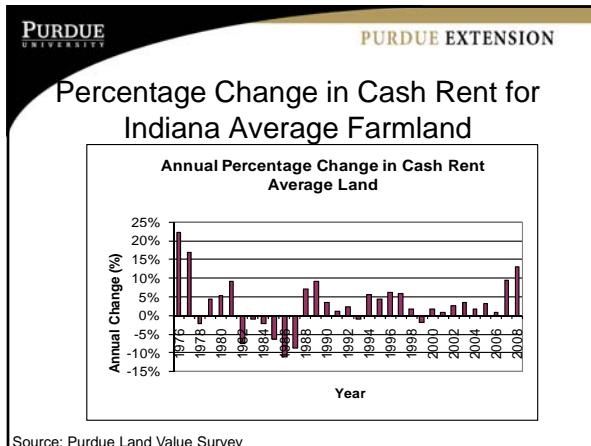
PURDUE UNIVERSITY PURDUE EXTENSION

Indiana Cash Rent - Average Land, 1975 to 2008

The graph shows a general upward trend in average cash rent per acre over the period. Key annotations include:

- Since 2006, increase of 24%
- Since 2000, increase of 38%

Source: Purdue Land Value Survey



Cash Lease Characteristics

Length of lease	Fixed	Indefinite			
Percent of acres	25%	75%			
Number of years for a fixed length lease	1 year	2 years	3 years	> 3 years	
	37%	20%	29%	14%	
Rent amount is fixed	Yes	No			
	88%	12%			
Number of years tenant has rented	1	2 to 5	6 to 10	11 to 20	> 20
	6%	27%	23%	28%	15%
Landlord visits farm during the year	Never	Once or Twice	Monthly	Weekly	Daily
	7%	23%	25%	17%	27%

Source: Iowa State University

- Establishing a Cash Rent**
- Comparison to
 - cash rents in the area
 - return with a crop-share lease
 - costs incurred by landowner for owning land
 - ability of tenant to pay

Tenant's Ability to Pay

Gross revenue from sales
 + government payments
 - Operating expenses
 = Contribution margin
 - Machinery ownership costs
 - Drying & storage overhead
 - Operator labor
 Return to land & risk

2009 Crop Estimates

Table 1. Estimated per Acre Crop Budgets for Average Indiana Soils

	Average Productivity Soil				
	Cont. Corn	Rot. Corn	Rot. Beans	Wheat	DC Beans
Expected yield per acre ²	149	158	49	70	29
Harvest price ³	\$4.20	\$4.20	\$9.60	\$5.40	\$9.60
Market revenue	\$626	\$664	\$470	\$378	\$278
Less variable costs ⁴					
Fertilizer ⁵	\$228	\$215	\$110	\$151	\$71
Seed ⁶	111	111	53	43	61
Pesticides ⁷	41	41	29	8	26
Dryer fuel ⁸	40	32	N/A	N/A	5
Machinery fuel	19	19	8	11	8
Machinery repairs ⁹	12	12	9	9	9
Hauling ¹⁰	22	24	7	11	4
Interest ¹¹	21	20	11	11	9
Insurance/misc. ¹²	27	27	22	3	4
Total variable cost	\$521	\$501	\$249	\$247	\$197
Contribution margin ¹³	\$105	\$163	\$221	\$131	\$81

PURDUE UNIVERSITY PURDUE EXTENSION

Estimated Return to Land & Risk

	Corn	Soybeans
Market revenue	\$664	\$470
Direct Government Payment	\$20	\$20
Total Revenue	\$684	\$490
Operating Costs	\$501	\$249
Contribution Margin	\$183	\$241
Average contribution margin	\$212	
Ownership & labor costs	\$97	
Return to land & risk	\$115	

PURDUE UNIVERSITY PURDUE EXTENSION

10% Lower Revenue

	Corn	Soybeans
Market revenue	\$598 10% less	\$423
Direct Government Payment	\$20 gross	\$20
Total Revenue	\$618	\$443
Operating Costs	\$501	\$249
Contribution Margin	\$117	\$194
Average contribution margin	\$156	
Ownership & labor costs	\$97	
Return to land & risk	\$59 49% less margin	

PURDUE UNIVERSITY PURDUE EXTENSION

Crop-Share Lease Characteristics

Length of lease	Fixed	Indefinite			
Percent of acres	12%	88%			
Number of years for a fixed length lease	1 year	2 years	3 years	> 3 years	
	40%	14%	8%	37%	
Number of years tenant has rented	1	2 to 5	6 to 10	11 to 20	> 20
	3%	10%	21%	27%	30%
Landlord visits farm during the year	Never	Once or Twice	Monthly	Weekly	Daily
	13%	27%	19%	12%	29%

Source: Iowa State University

PURDUE UNIVERSITY PURDUE EXTENSION

Portion of Yield or Cost to Owner with Crop-Share Lease

	0%	25-49%	50%	51-99%	100%	No Report
Yield	NA	4%	93%	3%		
Seed	2%	4%	88%		3%	3%
Fertilizer	1%	3%	88%		3%	4%
Custom fert. app.	14%	1%	64%		3%	18%
Herbicides	3%	4%	83%		5%	5%
Insecticides	<1%	3%	87%		5%	5%
Custom pest. App.	13%	1%	57%		2%	28%
Liming	1%	3%	66%	1%	15%	13%
Drying	3%	4%	77%	3%	10%	10%
Custom combine	12%	1%	13%			74%

Source: Iowa State University Note: Percentages are percent of acres

- PURDUE UNIVERSITY PURDUE EXTENSION
- ### Flexible Cash Rent
- How to flex
 - Price?
 - Yield?
 - Both?
 - Production Cost?
 - Limits to flex
 - Minimum/maximum rent level
 - Point at which rent begins to change
 - FSA position

PURDUE UNIVERSITY PURDUE EXTENSION

Flex Rent Using a Bonus

- Base rent
- Bonus based on total revenue (yield and price)

$$Bonus = (price * yield - trigger) * share to landlord$$

PURDUE UNIVERSITY **PURDUE EXTENSION**

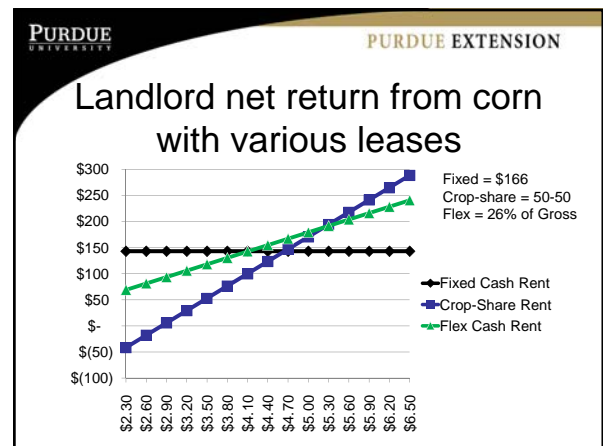
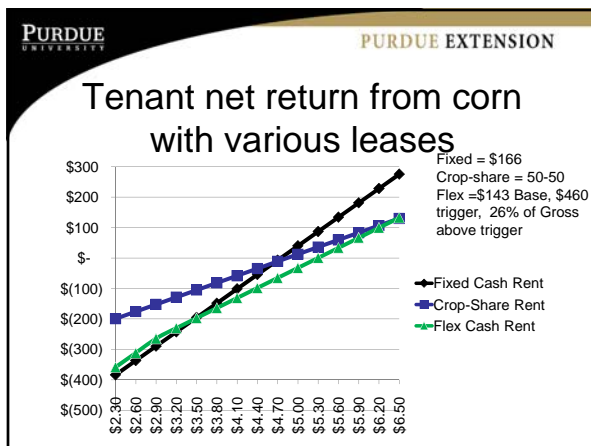
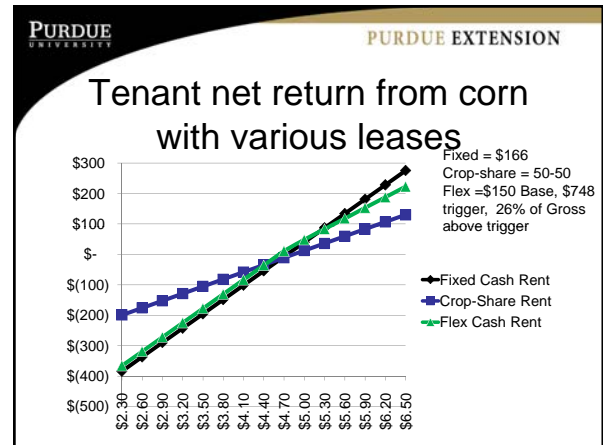
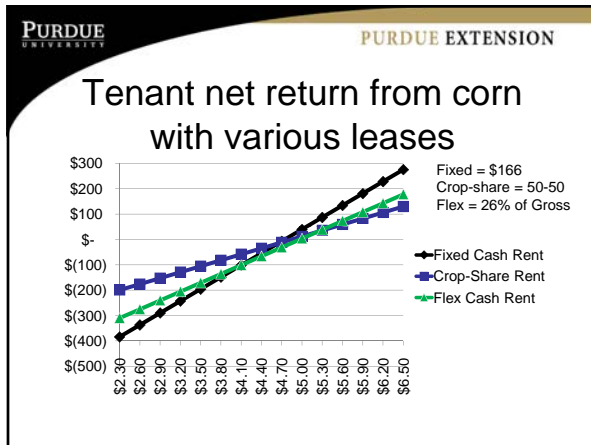
FSA Position

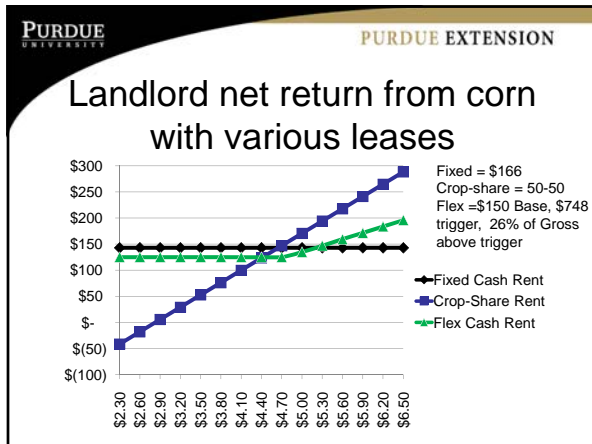
55105-55108. Accordingly, regulations will be issued to clarify that for purposes of determining payments made with respect to the 2009 through 2012 crop years, combination flex leases will be viewed as cash leases.

PURDUE UNIVERSITY **PURDUE EXTENSION**

Flexible Cash Rent Lease Types

- Share of Gross Revenue
 - 30 – 40% of gross
 - More productive land has higher percentage
- Base Rent plus Bonus
 - Specifies a base or minimum rent, plus a share of the gross revenue in excess of a certain base value





- ### Get lease terms in writing
- Date, Parties, Property Description, & Term
 - Rent Amount & Time of Payment
 - Dispute Resolution
 - Landlord Responsibilities
 - Tenant Responsibilities
 - Rights & Privileges

- ### Get lease terms in writing
- Cash rent contracts
 - Indiana Cash Farm Lease, EC – 257
 - Fixed & Flexible Cash Rental Arrangements for Your Farm, NCR – 75
 - Crop-share contracts
 - Crop Share or Crop-Share/Cash Rental Arrangements for Your Farm, NCR – 105

Evaluation of Leases for Your Business

Lease comparison spreadsheet
http://www.agecon.purdue.edu/extension/pubs/farmland_values_files/Flex_Rent.xls

Leasing references
http://www.agecon.purdue.edu/extension/pubs/farmland_values_resources.asp

