Flexible Rental Contracts for Farmland

High corn prices and the demand for oilseed production have increased the competition for rented farmland. This increased demand has prompted some landowners to increase cash rents by double digit figures.

As a result, owners and operators are considering flexible lease arrangements. Under this type of arrangement, the final cash rent is based upon actual price and/or actual yield.

Flexible leases have several advantages over simple cash rent. Profit opportunities are shared between landowner and operator as are the risks. The actual rental payment is adjusted automatically based upon the commodity price and yield. This eliminates negotiations between parties, and the landowner is paid a cash rent and not bothered with marketing the crop.

According to Gary Hachfeld, educator in agricultural business management with the University of Minnesota Extension, both a maximum and minimum rental rate should be included in the agreement. This will keep the rent paid in a desirable range. The landowner can share in a portion of the profit without the operator giving up all the upside benefit.

Once landowner and operator have decided on a flexible contract, they should test it by using several different price and yield numbers in the calculation. Determine if the ranges in price and yield result in reasonable cash rent values. As always, the rental contract should be put in writing. That way there is no opportunity for misunderstanding about the formula used or the values in the formula.

An excellent source of information about flexible leases, examples and an interactive spreadsheet, can be found on the Iowa State Extension website http://www.extension.iastate.edu/agdm. Click on the “Whole Farm” link and then, “Lease Agreements.” Scroll down the pages for “Flexible Farm Lease Agreements.” This information sheet also features an interactive spreadsheet. Click on the link at the bottom, and an Excel form will appear for your use.