

# Flexible Cash Leases for your Farmland

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## What type of Lease Arrangement(s) do you currently have?

- A.) Cash Lease
- B.) Crop Share
- C.) Net Share
- D.) Flexible Cash
- E.) Other

\*Select multiple if applicable

## Leasing Arrangements in Kansas

### "Traditional"

- Fixed cash rent
- Crop share (share income and some expenses)

### "New"

- Net share (share income but not expenses)
- Flex leases (flex on price, yield, or revenue)

## Why a flexible lease?

- Crop prices have been volatile in recent years
- Many leasing relationships are moving away from a traditional crop-share lease
  - Landlords may not want to pay input costs (or tenants may not want to keep track of billing them)
  - Landlords may not want to deal with crop marketing, crop insurance, or FSA programs
- *Awkward and difficult to have the conversation of what an equitable cash amount should be*

## Flexible Cash Leases Increasing in KS

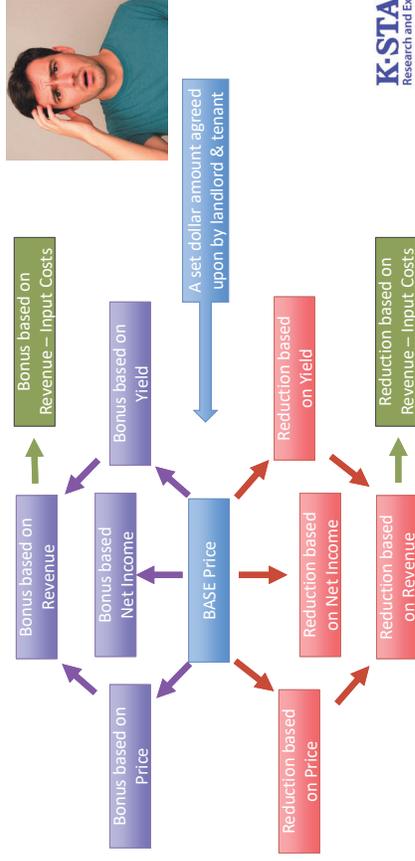
Year	Crop Share	Fixed Cash	CS & FC	Flexible Cash	Net Share	Other
2016	51.6%	29.8%	5.3%	3.2%	6.4%	3.7%
2020	44.5%	41.9%	1.9%	4.3%	6.9%	0.5%
2024	39.8%	40.1%	3.7%	9.9%	5.9%	0.6%

<https://www.kanresearch.org/files/research/land-cash-leases/2024-09-14-land-cash-leases-arrangements-leasez>  
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<https://www.kanresearch.org/files/research/land-cash-leases/2016-09-14-land-cash-leases-arrangements-leasez>

## Fundamental Question

*How do we create a cash lease that self-adjusts and is equitable to both the landowner and the tenant?*

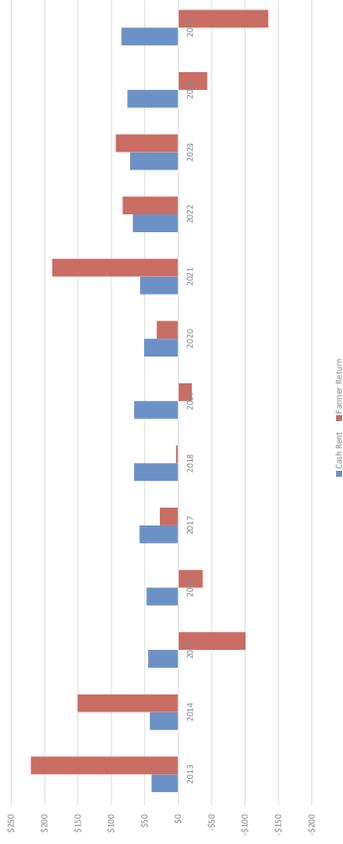
## There is no one Flex-Lease...



## Leasing Fundamentals- Risk



## Example Historical Farm Profitability



\*\*Farm Income and Costs are highly variable each year\*\*

## Leasing Fundamentals- Risk

- The less risk you want to share, the less “reward” you should expect in the long-run as a landowner
- “Risk Premium”

Example:

- Over a 10-year period, cash rent avg. = \$50/ac
- Flexible Cash Rent avg. = \$55/acre, but some years are as low as \$40/acre and as high as \$80/acre

## Leasing Fundamentals- Risk

- Decide what Risk you want to share
  - Price
  - Production (yield)
  - Input costs

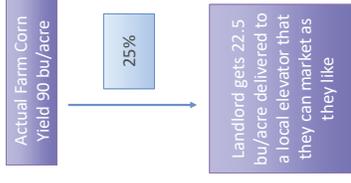
## What type of risk do you wish your landowner could share?

- A.) Price of Crops
- B.) Production/Yield of Crops
- C.) Input Cost of Crops
- D.) Price and Production
- E.) Price, Production, and Input Costs

\*Select only one

## Example #1 - Net Share

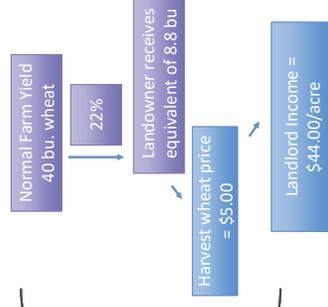
- If traditionally in your area, crop share is 1/3 of the crop to the landlord, 2/3 of the crop to the tenant
  - Landlord would traditionally pay 1/3 of the fertilizer, possibly chemical, seed or other expenses
- Net Share, landlord could receive 25% of the crop, tenant receives 75%
  - Landlord pays no crop expenses (other than purchasing their own crop insurance on the 25%)
  - Still receives and markets their own grain
  - Share price AND production risk



\*25% is just an example and not a recommendation

## Example #2 – Fixed Bushel Rent

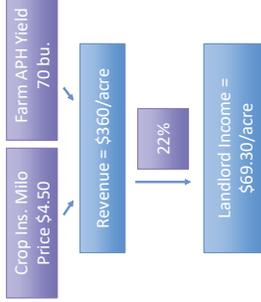
- Landowner receives the cash equivalent to a certain number of bushels, multiplied by the harvest price
- Flexible on price, but not on yield



\*22% is just an example and not a recommendation

## Example #3 –Crop Ins Flex

- Expected Revenue set using base Crop Insurance Data
  - Price = Crop Insurance Prices set in Feb. from Futures markets
  - Yield = Farm's Crop Ins. APH
- Landlord receives 22% of the Expected Revenue as cash rent
- Flexible year to year, but does not change during a single year

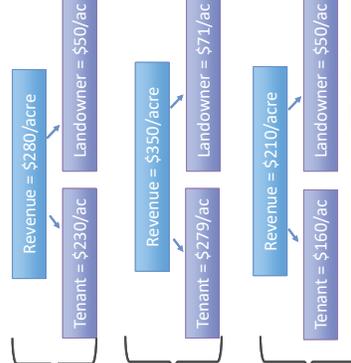


\*22% is just an example and not a recommendation

## Example #4

### Cash Lease with Bonus on Price

Landlord and Tenant agree upon \$50/acre cash lease at a \$4.00/bu. corn price, normal corn yield is 70 bushels/acre



1.) At harvest, corn price has increased to \$5.00 per bushel  
Landlord and tenant "share" in this extra income  
Landlord receives 30%\* or \$21, tenant receives 70% or \$49  
landlord receives 30%\* or \$21, tenant receives 70% or \$49  
*Why does the tenant receive more? They have the risk!  
(No flex down or yield component)*

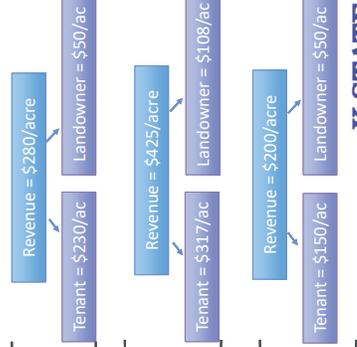
2.) At harvest, corn price has decreased to \$3.00 per bushel  
Bonus is not triggered because revenue is not above \$280/acre, landlord still receives \$50/acre

\*30% bonus percentage is just an example and not a recommendation

## Example #5

### Cash Lease with Bonus on Revenue

Landlord and Tenant agree upon **\$50/acre** cash lease at a **\$4.00/bu.** corn price, normal corn yield is **70 bushels/acre**



1.) At harvest, corn price has increased to **\$5.00** per bushel and actual corn yield is **85 bu/acre**  
Landlord and tenant “share” in this extra income  
Landlord receives **\$425/acre**-\$280/acre=\$145/acre extra,  
landlord receives **40%** or \$58, tenant receives **60%** or \$87

*Why does the tenant receive more? They have the risk!*  
(No flex down)

2.) At harvest, corn price is **\$4.00** per bushel, actual corn yield is **50 bu/acre**  
Bonus is not triggered, landowner still gets \$50/acre

*\*40% bonus percentage is just an example and not a recommendation*

## How do you define “Price”?

- Futures market
  - Chicago Board of Trade, Kansas City Board of Trade (wheat)
- Crop Insurance Prices
- Cash Price
  - Specific Local Elevator, USDA regional report
- When?
  - Last day of Harvest, Average Daily price of Month of Harvest
  - Average of June 1, October 1, December 1
  - When will you receive the check?

## Do you Share Government Payments?

- In a cash lease, government payments will go to the tenant
- Do you build them into your flex?
- What about crop insurance?

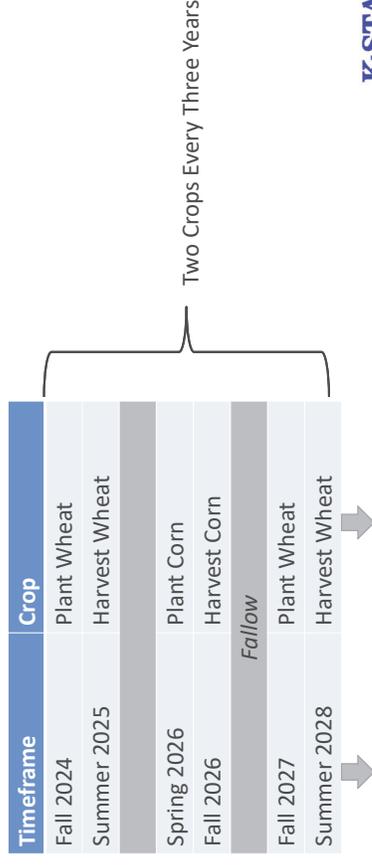
## Other considerations

- Put your flex lease in writing!
  - Make sure both landowner and tenant understand the parameters
  - Keep it simple, especially when you start
- Should there be a maximum amount?
- How often should the flex lease be renegotiated?

## Difficulties of a Flex-Lease

- Will be more complex than a straight-cash lease
  - More work for the farmer and the landowner
- Requires more working knowledge on the landowner's part of farming practices, crop insurance, government programs, etc.
- If you have fallow, wheat, annual forages, or double-crop, arrangements can get even more complex

## W-C-F Crop Rotation



## How do we handle this?

- 1.) Landowner agrees to receive rental income when crop is harvested**
  - Will only receive rental payments 2 out of every 3 years
  - Crop share, Net Share already do this, could do it in a flex lease
- 2.) Landowner gets a payment every year**
  - Cash leases already do this
  - Some Flex Leases could do this if there is not actual yield component
    - Each year the landowner could get a blended payment
    - Example: 1/3 wheat payment, 1/3 corn payment, 1/3 of fallow (nothing)

## What do you prefer?

### IF YOU ARE A LANDOWNER:

- A.) Tenant pays you every year, regardless of if a crop is harvested
- B.) Tenant only pays you if a crop is harvested that year

### IF YOU ARE A TENANT:

- C.) Landowner receives a payment every year, regardless if a crop is harvested
- D.) Landowner only receives payment if a crop is harvested that year

\*Select only one

# Case Farm Study

Harvested Crop Year	Crop
2014	Wheat
2015	Corn
2016	Fallow
2017	Wheat
2018	Corn
2019	Fallow
2020	Wheat
2021	Corn
2022	Fallow
2023	Wheat
2024	Corn
2025	Fallow

12 total years, 4 complete crop rotations

**Comparison of Lease Types**

Landowner gets paid every year:

- 1.) Cash Rent
- 2.) Fixed Bushel Rent

Landowner gets paid in years a crop is harvested:

- 3.) Net Share
- 4.) Revenue Flex
- 5.) Flex on Price Only
- 6.) Crop Insurance Flex

# Landowner gets paid every year

Crop Year	NASS* Cash Rental Rate	Fixed Bushel
2014	\$41	\$47
2015	\$41	\$43
2016	\$41	\$33
2017	\$46	\$34
2018	\$47	\$40
2019	\$47	\$40
2020	\$48	\$43
2021	\$47	\$60
2022	\$49	\$93
2023	\$54	\$61
2024	\$52	\$50
2025	\$48	\$44

- Normal Farm Yield is 90-bushel corn, 40-bushel wheat
- Landowner receives cash equivalent of 25%\*\* normal yield
- Yearly payment =  $\frac{1}{3}$  (22.5 bu corn \* harvest price) +  $\frac{1}{3}$  (10 bu of wheat \* harvest price) +  $\frac{1}{3}$  (fallow)

Harvested Crop Year	Harvest Wheat Price	Harvest Corn Price	Landowner Payment
2014	\$6.74	\$3.33	\$47.44
2015	\$4.85	\$3.57	\$42.94
2016	\$3.63	\$2.80	\$34.15
2017	\$3.67	\$2.93	\$34.08
2018	\$4.60	\$3.25	\$39.68
2019	\$4.19	\$3.42	\$39.59
2020	\$3.89	\$3.96	\$42.71
2021	\$3.89	\$3.84	\$42.75
2022	\$3.81	\$3.80	\$42.70
2023	\$7.74	\$4.70	\$61.09
2024	\$5.48	\$4.18	\$49.64
2025	\$4.70	\$3.83	\$44.39
Average			\$48.32

\*National Ag Statistics Service

\*\*Example and not a recommendation

## 3. Net Share

Harvested Crop Year	Crop	Farm Yield	Harvest Cash Crop Price	Crop Return	Net Share %	Landowner Payment
2014	Wheat	26	\$6.74	\$175.16	25%	\$43.79
2015	Corn	87	\$3.57	\$310.55	25%	\$77.64
2016	Fallow					\$0.00
2017	Wheat	39	\$3.62	\$141.25	25%	\$35.31
2018	Corn	107	\$3.25	\$347.45	25%	\$86.86
2019	Fallow					\$0.00
2020	Wheat	41	\$3.89	\$159.64	25%	\$39.91
2021	Corn	95	\$5.34	\$507.32	25%	\$126.83
2022	Fallow					\$0.00
2023	Wheat	21	\$7.74	\$162.62	25%	\$40.66
2024	Corn	98	\$4.18	\$409.77	25%	\$102.44
2025	Fallow					\$0.00
Average						\$46.12

- Landowner receives 25%\* of the crop, delivered to a local elevator and markets the crop themselves
- Price= Harvest Cash Price
- Yield = Farm yield
- *Note: Landowner should also be receiving 25% of government payments and have their own crop insurance, so returns displayed are lower than reality*

\*Example and not a recommendation

## 4. Revenue Flex

Harvested Crop Year	Base Rent	Crop	Farm Yield	Harvest Cash Crop Price	Farm Revenue	25% Crop Revenue	Landowner Payment
2014	\$40.00	Wheat	26	\$6.74	\$175.16	\$43.79	\$43.79
2015	\$40.00	Corn	87	\$3.57	\$310.55	\$77.64	\$77.64
2016	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
2017	\$40.00	Wheat	39	\$3.62	\$141.25	\$35.31	\$40.00
2018	\$40.00	Corn	107	\$3.25	\$347.45	\$86.86	\$86.86
2019	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
2020	\$40.00	Wheat	41	\$3.89	\$159.64	\$39.91	\$40.00
2021	\$40.00	Corn	95	\$5.34	\$507.32	\$126.83	\$126.83
2022	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
2023	\$40.00	Wheat	21	\$7.74	\$162.62	\$40.66	\$40.66
2024	\$40.00	Corn	98	\$4.18	\$409.77	\$102.44	\$102.44
2025	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
Average							\$46.52

- Base Rent set as \$40.00\* per year
- Crop Revenue = Harvest Cash Price x Farm Yield
- Landowner bonus = 25%\* of Crop Revenue – Base Rent
- *Could add government payments and or crop insurance payments over premium cost to revenue*

\*Example and not a recommendation

## 5. Price-only Flex

- Base Rent set as \$40.00\* per year
- Crop Revenue = Harvest Cash Price x Expected Farm yield
- Landowner bonus = 25%\* of Crop Revenue – Base Rent
- *Could add government payments related to crop price to crop revenue*

Harvested Crop Year	Base Rent	Crop	Expected Farm Yield	Harvest Cash Price	Farm Revenue	25%* Crop Revenue	Landowner Payment
2014	\$40.00	Wheat	40	\$6.74	\$269.47	\$67.37	\$67.37
2015	\$40.00	Corn	90	\$3.57	\$321.26	\$80.31	\$80.31
2016	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
2017	\$40.00	Wheat	40	\$3.62	\$144.88	\$36.22	\$40.00
2018	\$40.00	Corn	90	\$3.25	\$292.25	\$73.06	\$73.06
2019	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
2020	\$40.00	Wheat	40	\$3.89	\$155.75	\$38.94	\$40.00
2021	\$40.00	Corn	90	\$5.34	\$480.62	\$120.15	\$120.15
2022	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
2023	\$40.00	Wheat	40	\$7.74	\$309.76	\$77.44	\$77.44
2024	\$40.00	Corn	90	\$4.18	\$376.32	\$94.08	\$94.08
2025	\$40.00	Fallow			\$0.00	\$0.00	\$0.00
Average							\$49.37

\*Example and not a recommendation

## 6. Crop Insurance Flex

- Base Crop Insurance Price is multiplied by expected farm yield to get Expected Farm Revenue
- Cash Rent equals 23%\* of that Expected Revenue, regardless of actual yields or harvest prices.

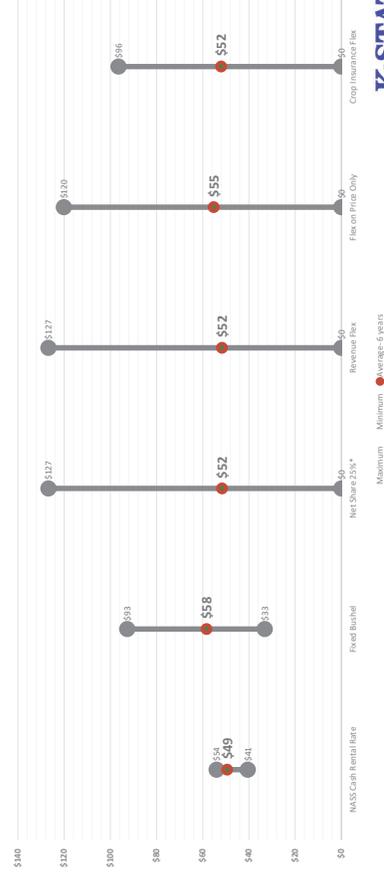
Crop Year	Crop	Base Crop Insurance Price	Farm Expected Yield	Expected Farm Revenue	Landowner Payment (23%*)
2014	Wheat	\$7.02	40	\$280.80	\$64.58
2015	Corn	\$4.15	90	\$373.50	\$85.91
2016	Fallow			\$0.00	\$0.00
2017	Wheat	\$4.59	40	\$183.60	\$42.23
2018	Corn	\$3.96	90	\$356.40	\$81.97
2019	Fallow			\$0.00	\$0.00
2020	Wheat	\$4.35	40	\$174.00	\$40.02
2021	Corn	\$4.58	90	\$412.20	\$94.81
2022	Fallow			\$0.00	\$0.00
2023	Wheat	\$8.79	40	\$351.60	\$80.87
2024	Corn	\$4.66	90	\$419.40	\$96.46
2025	Fallow			\$0.00	\$0.00
Average					\$48.90

\*Example and not a recommendation

## Comparison-Landowner Payment

	MASS Cash Rental Rate	Fixed Bushel	Net Share 25%	Revenue Flex	Flex on Price-Only	Crop Insurance Flex
Average Past 12 years	\$47	\$49	\$46	\$47	\$49	\$49
Average Past 6 years	\$49	\$58	\$52	\$52	\$55	\$52
Average Past 3 years	\$51	\$52	\$48	\$48	\$57	\$59
Maximum	\$54	\$93	\$127	\$127	\$120	\$96
Minimum	\$41	\$33	\$0	\$0	\$0	\$0

## Comparison-Landowner Payment



## Contact Information

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