

Flex Leases

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The Filters

- Grew up on a small farm along Des Moines River
 - Childhood farm
 - Conventional small Iowa farm with corn, beans, pasture, hay, cows, pigs, dog, cats
- Joined military after high school, returned 12 years later
 - Farm was transitioning to reduced tillage
 - Current farm
 - Strip-till corn, no-till beans, cover crops, hay, CRP, waterways, terraces, a rooster, and laying hens
- Sunderman Farm Management Company in Fort Dodge
 - Manage landowner-farmer relationship & goals
 - Farm leasing is a two-way street
 - Communication is key
 - Farm Manager, Real Estate Broker, Appraiser, Crop Ins.

Lease Types and Risk

Cash Rent

- Farmer pays landowner a specified rent per acre
- Farmer shoulders 100% of the risk
- Landowner shoulders 0% of the risk

Crop Share

- 50/50 division of crops & income
- 50/50 division of expenses
- Farmer shoulders 50% of the risk
- Landowner shoulders 50% of the risk

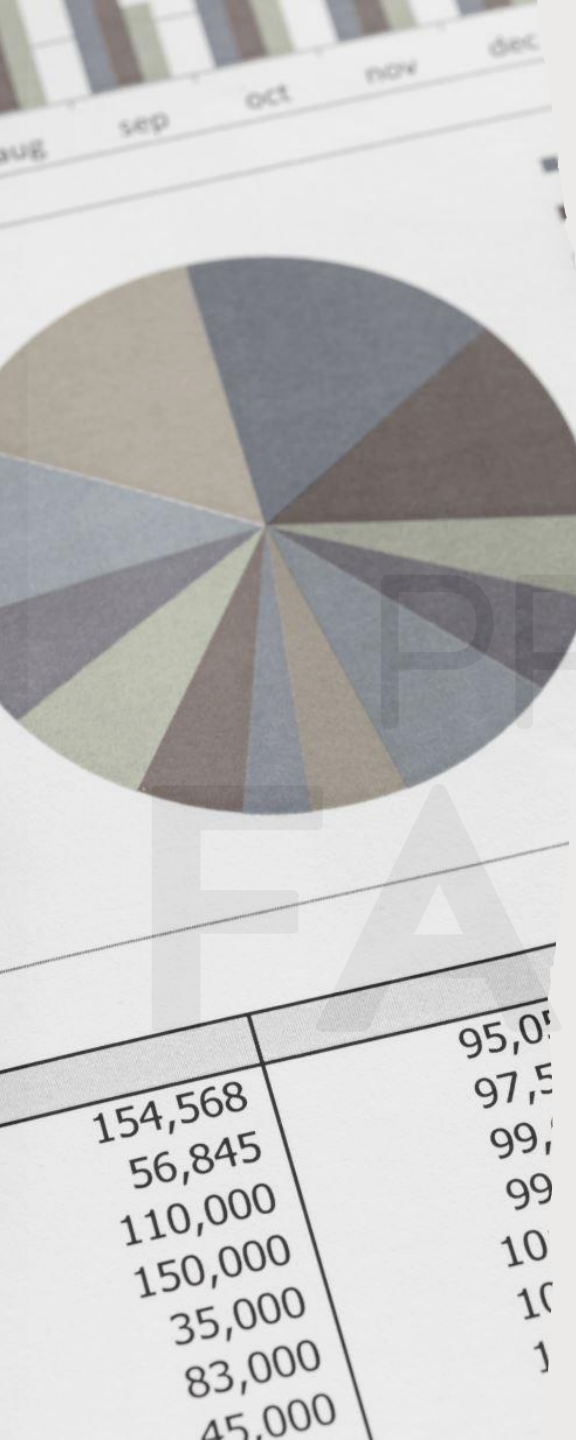
Flex lease

Custom Farming

- Landowner pays all expenses and gets all income
- Farmer gets paid for each operation performed
- Farmer shoulders 0% of the risk
- Landowner shoulders 100% of the risk

Types of Flex Leases

- Type 1: Based on Gross Revenue
- Type 2: Base Rent + Flex
- Type 3: Based on Yield Flex Only
- Type 4: Based on Price Flex Only
- Type 5: Based on Land Value ROI + Flex
- Type 6: Based on CSR2 + Flex
- Type 7: Profit Sharing





Where's The Info?

- The owner and the farmer: tile maps, yields (APH - Actual Production History), FSA?, CSR2-Web Soil Survey, soil tests
- Spring/fall crop insurance prices (Google, DTN online, web)
- ISU File C2-10 “Cash Rental Rates for Iowa 2023 Survey” (May)
 - Cash rent by county for high/middle/low quality land
 - Rent per bushel of corn/bean yield
 - Yields for high/middle/low quality land
 - Average row crop CSR2 by county
 - 5-year yield average by county
- ISU File C2-22 “Flexible Cash Rent Lease Examples” (Sep 2008)
- ISU File A1-12 “Historical Corn Yields by County In Iowa” (Mar 2023 is current through 2022 data)
- ISU File A1-14 “Iowa Corn & Soybean County Yields” (Mar 2023 is current through 2022 data)

Where's The Info?

- ISU File C2-21 “Flexible Farm Lease Agreements”
(May 2023 is current through 2022 data)
 - Cash rent as a percent of gross crop value
 - 10-year average (2013-2022) is 32% corn, 43% soybeans
- ISU File C2-70 “2023 Iowa State University Farmland Value Survey” (Dec)
 - Land values by county and % change from last year
 - High/medium/low quality land values by reporting district
- ISU File C2-32 “Fixed Bushel Rent” (Aug 2021)
- ISU File C2-09 “Iowa Farmland Rental Rates, 1994-2023 (USDA)”
 - Cropland cash rent as percent of land value
- ISU File A1-20 “Estimated Costs of Crop Production in Iowa - 2023” (Jan)





Helpful Basics To Understand

- Foundational Principle to guide our reasoning is the historic relationship of cash rent to crop value (yield x price)

- ISU File C2-21 “Flexible Farm Lease Agreements”

- 10-yr avg of cash rent as % of crop value

- 32% for corn (range 19% - 40%)

- 43% for soybeans (range 30% - 51%)

- 37.5% average if farm is half corn & half beans

- Example:

200 bu/ac corn yield X \$5.00/bu price =
\$1,000 crop value

32% of \$1,000 = \$320/ac cash rent

Helpful Basics To Understand

- How to determine crop value (yield x price)?
- Yield is based on what yield proof?
 - Yield monitor (calibrated?), co-op, bin, ethanol plant
 - Crop ins APH database - trend adjusted yield or avg?
 - At what moisture?
- Yield based on how many acres?
 - What is the source of acres? (combine, 578, taxable)
- Price based on what price(s)?
 - Local? CBOT? Dates?
- For flex leases based on CSR2 – what is the source of the CSR2?
 - Taxable CSR2, Web Soil Survey, Surety-Agridata
 - Which CSR2 date?
- Conservation efforts
 - Who paid for/benefits from conservation efforts?
 - Payment/credit for conservation efforts



Types of Flex Leases

Type 1: Based
on Gross
Revenue

Type 2: Base
Rent + Flex

Type 3: Based
on Yield Flex
Only

Type 4: Based
on Price Flex
Only

Type 5: Based
on Land Value
ROI + Flex

Type 6: Based
on CSR2 + Flex

Type 7: Profit
Sharing

Flex Lease Types

- **TYPE 1: Percentage of Gross Revenue**
- Landowner gets specified % of the total gross farm revenue
 - Example: Landowner gets 30% gross revenue including:
 - Crop value (actual yield x price/bushel)
 - Crop insurance income
 - Government farm program payments
 - ARC: agriculture risk coverage
 - PLC: price loss coverage
 - Government ad hoc payments
 - MFP: market facilitation program
 - CFAP: coronavirus food assistance program
 - ERP: emergency relief program
 - WHIP: wildfire & hurricanes indemnity program
 - HU: historically underserved
 - PCCP: pandemic cover crop program
- --continued on next slide---



Flex Lease Types

- **TYPE 1: Percentage of Gross Revenue**
 - Conservation program payments
 - PFI's cover crop incentive payments
 - CSP: conservation stewardship program
 - WQI: water quality initiative for cover crops
 - Soil & Water Outcomes Fund
 - IDALS crop insurance cover crop discount
 - Carbon Credit Programs
 - Considerations
 - Owner pay for part of crop insurance?
 - Field insured separately (OU v. EU)?
 - How to account for other income?
 - USDA marketing year extends through Aug. 31
 - Ad hoc payments can come years later

Flex Lease Types

- **TYPE 2: Base Rent + Flex**
- Landowner gets base rent + flex based on crop value, yield, price, etc.:
 - Flex can be a set % of crop value over base rent
 - Flex can be a set \$ if crop prices hit a certain target(s)
 - Flex can be a set \$ if yield hits a certain target(s)
- Example: Base rent \$250/acre + **flex % of crop value**
 - Flex = 30% of crop value minus \$250/ac base rent
 - Yield is 200 bu/ac X \$4.50/bu = \$900 crop value
 - \$900 X 30% = \$270/ac
 - \$270 - \$250 base rent = \$20/ac flex payment
 - Determine: base rent represents what base crop value?



Flex Lease Types

- -continued- **TYPE 2: Base Rent + Flex**
- Example: Base rent \$250/acre for yield under 200.0 bu/ac + **flex based on yield only**, \$15 for every 10 bu above 200 bu
 - Flex = \$15/ac if yield is 202 bu/ac
 - Flex = \$30/ac if yield is 219 bu/ac
 - Determine: base rent represents what base yield level?
- Example: Base rent \$250/acre if price stays under \$4.50/bu + **flex based on price only**, \$5/ac for every dime increment entered above \$4.50/bu
 - Flex = \$5/ac if price is \$4.51/bu
 - Flex = \$10/ac if price is \$4.69/bu
 - Determine: base rent represents what base price level?
- Graduated flex?

Flex Lease Types

- **TYPE 3: Based on Yield Flex Only**
- Price per bushel is fixed
- Rent is the fixed price/bu X actual yield
- Example:
 - Price/bu for corn is set at \$1.50/bu
 - Actual yield is 200 bu/ac
 - $\$1.50/\text{bu} \times 200 \text{ bu/ac} = \$300/\text{ac}$ cash rent
- Fixed price/bushel came from where?
 - ISU File C2-10 “Cash Rental Rates for Iowa 2023 Survey”

May2023



Flex Lease Types

- **TYPE 4: Based on Price Flex Only**

- Bushel/acre (yield) is fixed
- Rent is the fixed bu/ac X actual price

- Example:

- Bu/ac for corn is set at 60 bu/ac
- Actual price is \$4.50/bu
- $\$4.50/\text{bu} \times 60 \text{ bu/ac} = \$270/\text{ac}$ cash rent

- Fixed bushel lease

- Landowner gets a fixed number of bushels
 - Could do a fixed % of actual yield, or allow for flex bushels if yields get above a certain level
- Landowner sells the bushels on their own

Flex Lease Types

- **TYPE 5: Based on Land Value ROI Flex**
 - Land value is fixed based on owner's initial investment
 - Rent is the fixed land value/ac X percentage return on investment (ROI)
 - Example:
 - Owner bought farm for \$10,000/acre
 - The ROI percentage is set at 3.0%
 - Rent is $\$10,000 \times 3\% = \$300/\text{ac}$
 - Land value X %ROI as base? + flex on top of that?
- ISU File C2-70 "2023 ISU Farmland Value Survey" Dec 2023
 - Value of High/medium/low quality land by reporting district, annual percent change, average county farmland value

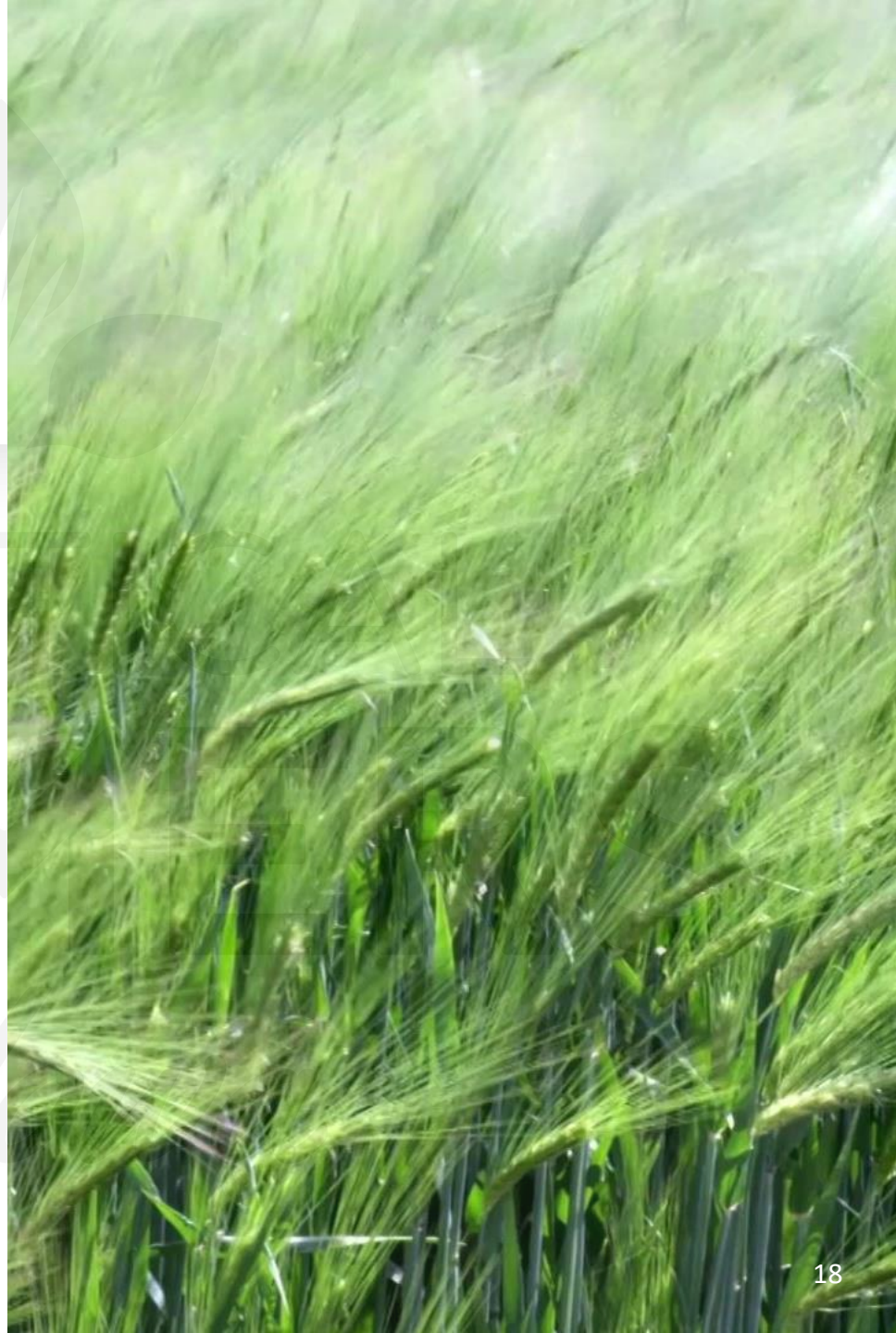


Flex Lease Types

- **TYPE 6: Based on CSR2 + Flex**
- Landowner gets base rent that is based on the farm's CSR2 X a price per CSR2 point, plus a percentage of the crop value in excess of the base rent
- Example for a farm with CSR2 = 80
 - \$3.25 per CSR2 point X 80 = Base rent \$260/acre
 - Plus 30% of crop value over \$260/ac plus
 - Yield is 200 bu/ac X \$4.50/bu = \$900 crop value
 - \$900 X 30% = \$270/ac
 - \$270 - \$260 base rent = \$10/ac flex payment

Flex Lease Types

- **TYPE 7: Profit Sharing**
- Yield X price, minus crop expenses, divide by 2 = cash rent
 - Example:
 - Yield 200 bu/ac corn X \$4.50/bu = \$900/ac crop value
 - \$900 - \$428 expenses = \$472 net income
 - \$472 divided by 2 = \$236 cash rent



Thoughts

- Receive/collect the income in one year, the same year crop was produced
- Is a cap or a graduated flex appropriate?
 - Preserves farmer's upside potential
 - Rewards farmer for great performance
 - Acknowledges the fact the most risk is carried by farmer
 - Or raise the bar for the flex payment so it triggers less frequently
- Payment/credit for conservation efforts
 - Who pays/who benefits?
- Put example calculations in lease
- Share yield info (10-Year APH Yield Database)
- Share soil test and fertility info
- UCC-1 & security interest verbiage

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