A faded background image of a Purdue University campus. In the foreground, there is a large, modern fountain with several tall, curved, metallic structures. In the background, a large, classical-style building with a portico and columns is visible, surrounded by trees and a clear blue sky.

Ag Leasing 101

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Outline

- Types of Leases
- Cash Rent, Flex Rent, and Share Rent Comparisons
- The Cash Rent Dilemma

Types of Leases

Crop-Share Lease

- Tenant and landowner share some input costs
 - Seed, fertilizer, and chemicals
- Landowner pays land ownership costs
- Tenant pays remaining input costs
- Income Shares
 - Landowner receives a share of revenue as rent
 - Price and yield risk shared

Cash Lease

- Tenant pays all operating costs
- Landowner pays all land ownership costs
- Tenant receives all revenue (crop, government payments, and crop insurance indemnities)
- Landowner receives a fixed rental amount
- Tenant takes all price and yield risk

Flexible Cash Lease

- Tenant pays all operating costs
- Landowner pays all land ownership costs
- Tenant receives all revenue (crop, government payments, and crop insurance indemnities)
- Rent amount varies based on price, yield, or gross revenue, etc.

Cash Rent, Flex Rent, and Share Rent Comparisons

Case Farm Example

- Estimated Landowner Net Returns for 2007-2023
 - Crop-Share Lease
 - Fixed Cash Lease
 - Flexible Cash Lease
- Case farm planted 50% corn & 50% soybeans

Case Farm Example

- Crop-Share Lease
 - Landowner pays 50% of seed, fertilizer, chemical, and crop insurance costs
 - Landowner receives 50% of all revenue (crop, government payments, and crop insurance indemnity payments)
- Fixed Cash Lease

Case Farm Example

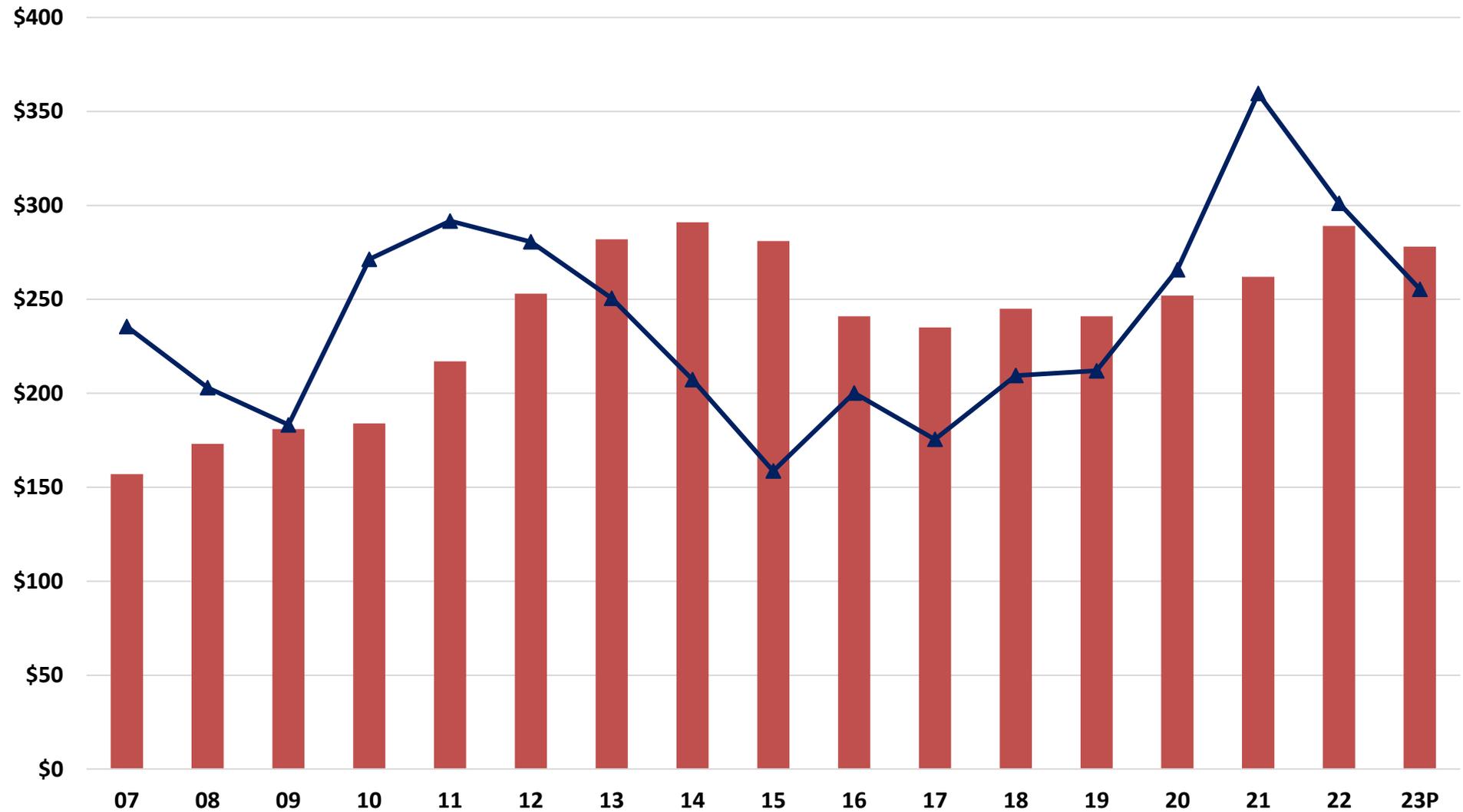
- Flexible Cash Lease
 - Base rent set at 90% of fixed cash lease.
 - Landowner receives, as a bonus, 50% of corn and soybean revenue above non-land cost plus base rent.

Case Farm Example

- Flexible Cash Lease
 - 2020:
 - Base Rent = \$227 (Cash Rent of \$252)
 - Non-Land Cost + Base Rent = \$682
 - Revenue = \$786
 - Bonus = $(\$786 - \$682) \times 0.50 = \$52$
 - 2023:
 - Base Rent = \$251 (Cash Rent of \$278)
 - Non-Land Cost + Base Rent = \$908
 - Estimated Revenue = \$918
 - Bonus = $(\$918 - \$908) \times 0.50 = \$5$

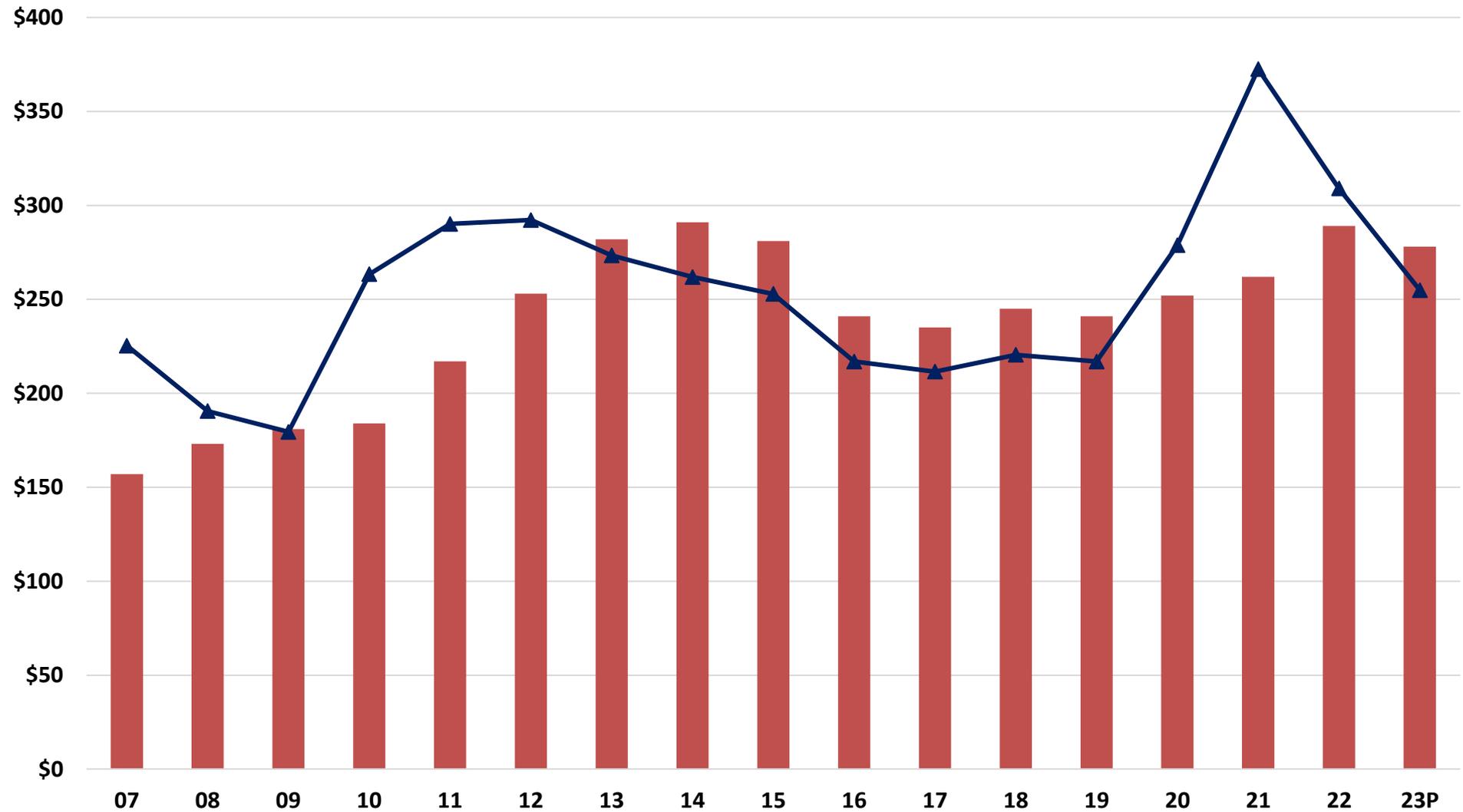
Comparison of Net Returns for Crop Share Lease and Fixed Cash Rent Lease (Per Acre Net Returns for Landowners)

Fixed Cash Crop Share



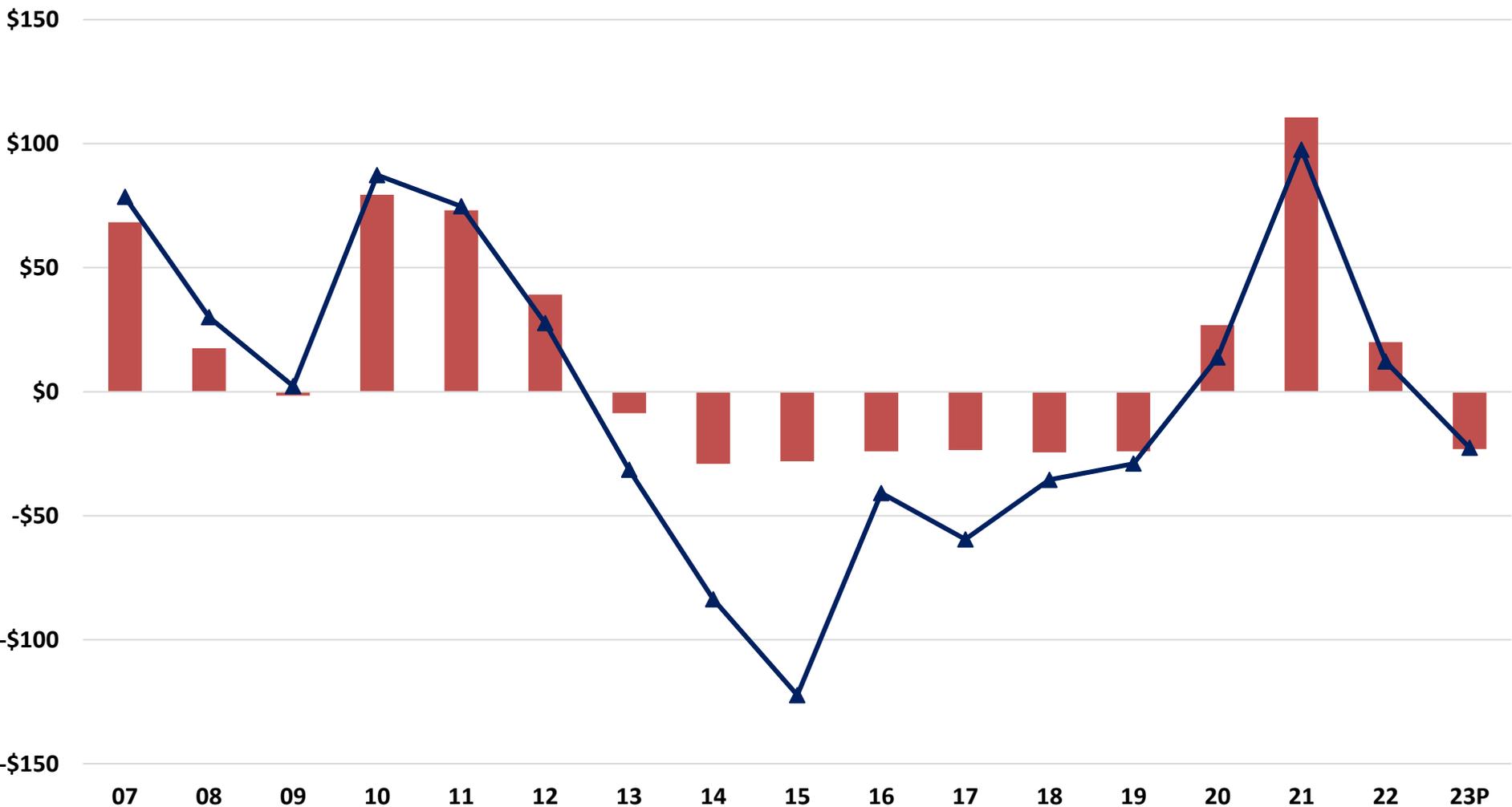
Comparison of Net Returns for Flexible Cash Lease and Fixed Cash Rent Lease (Per Acre Net Returns for Landowner)

Fixed Cash Flexible Cash

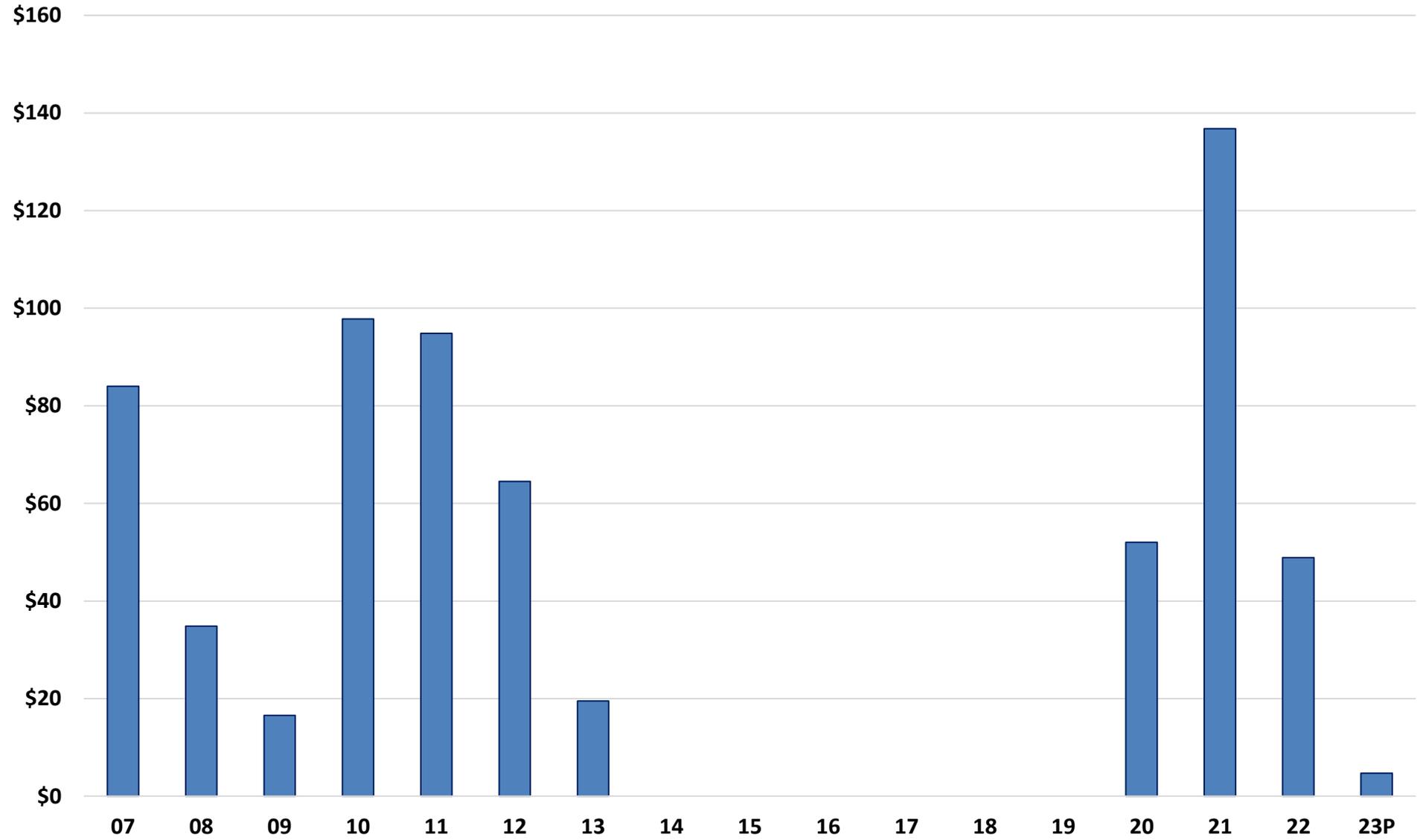


Differences Between Fixed Cash Rent Lease and Other Lease Arrangements (Per Acre Net Returns for Landowner)

Flexible - Fixed Share - Fixed



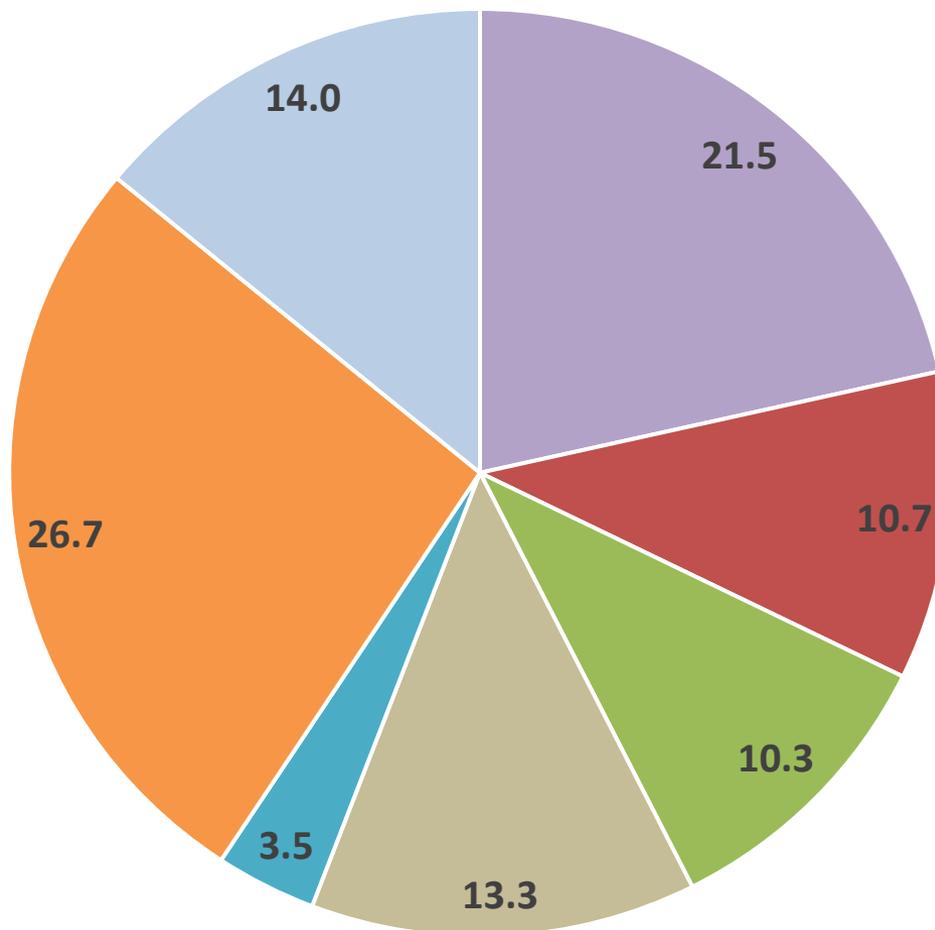
Bonus Payments (Per Acre) for Flex Cash Lease Arrangement



The Cash Rent Dilemma

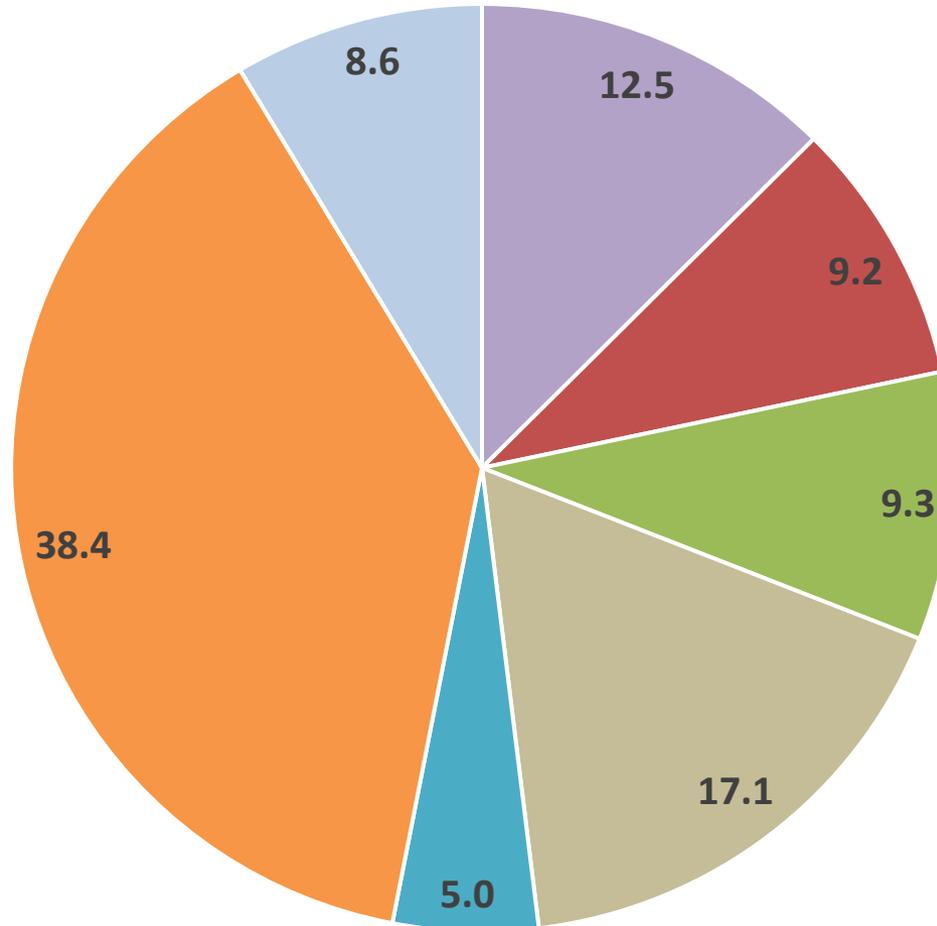
Cost Shares for Rotation Corn on High Productivity Land in Indiana

■ Fertilizer ■ Seed ■ Pesticides ■ Machinery ■ Labor ■ Cash Rent ■ Other



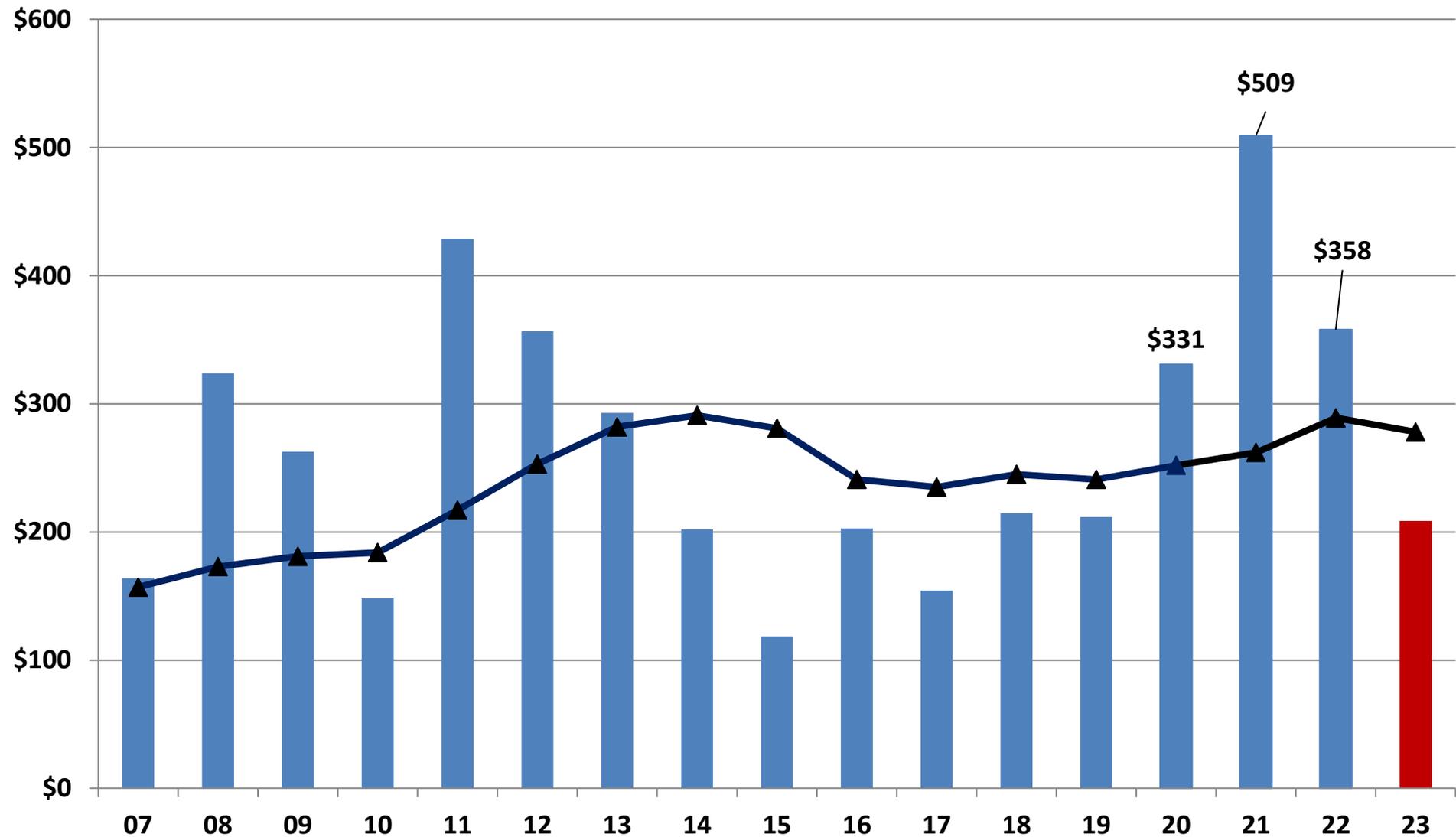
Cost Shares for Rotation Soybeans on High Productivity Land in Indiana

■ Fertilizer ■ Seed ■ Pesticides ■ Machinery ■ Labor ■ Cash Rent ■ Other



Cash Rent and Net Return to Land, West Central Indiana

Net Return to Land Cash Rents



Making Long-Run Decisions

- Farmers decision to rent farmland is complicated by
 - ✓ Downturn in expected net returns for corn and soybeans
 - ✓ Landowner's reluctance to reduce cash rents

- Questions that Need to be Addressed
 1. If you expect to lose money in 2024 on a tract of rented land, should you continue to rent the tract?
 2. How much of a premium can you pay to retain control of a tract until net return prospects improve?
 3. How does paying a premium affect your farm's liquidity?

Long-Run Cash Rent Spreadsheet

✓ Inputs for the spreadsheet tool

1. 2024 Budgets for Corn and Soybeans
2. Prices and Yields for Next Five Years
3. Working Capital at Beginning of the Year

✓ Outputs from the spreadsheet tool

- Rent Analysis
 1. Market Cash Rent
 2. Breakeven Cash Rent
 3. Premium of Market over Breakeven Cash Rent
- **Working Capital Analysis**

Questions, Comments

www.ag.purdue.edu/commercialag

