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Farm Update

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AGRICULTURE & NATURAL RESOURCES
EDUCATION

Clint Hardy

Daviess County Extension Office

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Landowners – Expect Less Income This Year

Grain prices have been trending downward. Current and futures prices are as low as they have been in 15 years. The price outlook for 2025 is not much better. Even the highest corn yields are not profitable for the renting farmer if prices stay around \$4/bushel and the landowner is receiving a cash payment agreed upon when corn was \$6/bushel, or crop share percentage above 25%. I anticipate a lot of discussion this winter between farm owners and their farmers about rental arrangements.

Cash rent is typically the easiest and most straightforward rental type. The landlord has a set number of acres to rent. An agreement is made with the renter to pay a set amount per acre for the use of that land. In the agreement, there may be other stipulations such as soil fertility management, crop rotation, and non-crop land area maintenance. Cash rent gives the landlord a set revenue per year and the renter a set cost per year. The landlord gives up any upside due to prices and yields. Likewise, the renter bears the full risk in a down year, no matter the revenue generated from the land, the same rent is due. Determining the cash rental rate is a science in and of itself as rental rates are dependent upon many factors.

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Crop share rent can be equally as popular as cash rent. One of the attractive qualities of crop share is that it helps to spread the risk and reward between the landlord and the renter. A crop share rent works just like it sounds. Under a crop share agreement, the landlord owns a portion of the crop. The landowner percentage can be anything but is typically somewhere between 25% and 50% of the crop. Sometimes the landlord receives a percentage of the crop “clear of expenses”, meaning that the landlord pays none of the costs of production. Other times landlord may receive a higher percentage of the crop in exchange for paying a percentage of the expenses. This requires an agreement on how and when the landlord will be paid for their crop. Again, these agreements can vary from one rental agreement to another. Under a crop share agreement, the landlord now bears part of the revenue risk associated with crop production and market prices. Likewise, the landlord may have the opportunity to experience the upside of revenue increases due to crop production and market rallies. The renter in a crop share agreement gets to share the risk of a down year with the landlord.

In recent years, a hybrid rental agreement seems to have gained popularity. This is referred to as a Flex Lease. The flex lease combines some attributes from the cash rent and crop share agreements. Like all rental agreements, the flex lease can vary widely. Typically, a flex lease sets a minimum cash rent. This cash rent might be lower than a traditional cash rent, helping to protect the renter in the case of decreased revenues, but locks in a minimum for the landlord. A flex lease also has a component to allow the landlord to gain in the case of increased revenues. This might be through a percentage of the crop when revenue hits or exceeds a predetermined threshold. Flex leases require more communication and knowledge of both the landlord and the renter. Many details must be worked out to determine the parameters that

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trigger increased rental payments. One of the most difficult parameters is what price to use and where and when to obtain that price to calculate revenue. It is important that both parties have a full understanding of the agreements and how increased payments are triggered and calculated.

One of the most important points around rental agreements is that all parties fully understand what has been agreed upon. While many rental agreements are made verbally with a handshake, it is recommended that any rental agreement be put in writing.

Upcoming Event

The Annual Rural Life Celebration will be Sunday, August 11 at the St. Peter of Alcantara Parish Hall in Stanley beginning at 5:00 p.m. The event is for all who enjoy the rural lifestyle. It provides an opportunity to gather, fellowship, and enjoy a great meal together.

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