Flexible cash rental agreements are designed so that landowner and tenant share in the boom-bust cycles of farming. The tenant assumes nearly all the risk in a cash rental arrangement. The tenant and landowner share risk in proportion to input costs paid or output received in a crop-share agreement. A flexible cash rental arrangement is a hybrid between a cash and a crop-share rental agreement that allows for some of the tenant's risk, had he/she been cash renting, to be shifted to the landowner. However, with increased risk there is a greater chance for higher profit. Therefore, over several years the landowner should receive a monetary return greater than had the landowner been involved in cash rental agreement, but less than had the landowner been involved in a crop-share rental agreement.

Flexible cash rental arrangements allow a landlord to share in high prices and/or yields; however, the landowner also must share in low prices and/or yields. The tenant decreases his/her risk relative to a cash lease agreement and in turn gives up some profit potential. One advantage is that if a flexible cash lease is designed that satisfies both parties, the arrangement can be used for multiple years. Of course a new written and signed lease should be completed each year (unless the lease is a multiple year lease), but the method for calculating the rent would stay the same.

Types of price flexible cash rents

There are many methods of flexing rent based on price. The rental payment is adjusted (whether higher or lower) based on a predetermined method of pricing. Following are two examples.

1. Basic Price Flex
Rent is determined by adjusting the base rental rate by the ratio of current price to some pre-established price level based on a local historical price. The tenant and landowner will need to determine the base rent and base price prior to agreeing to the contract. The location and time period used to determine the actual price should be agreed upon in advance and stated in the lease agreement.

Example: Assuming the tenant will plant corn on the acreage, the lease states the base rent is $80/acre and the base price is $2.50/bushel. The actual price will be based on the average local weekly Wednesday cash price from September 15 to December 1. The price used in flexing the rent is $2.00/bushel. The rent would be \[ \$80 \times \frac{2.00}{2.50} \] = $64/acre.
2. **Base rent with stated adjustments for prices outside a specified range**

Both parties agree on a base cash rent, as long as the price falls within a pre-specified range. If the price goes higher or lower, then adjustments to rent are made based upon predetermined adjustments. Ceilings and floors can be used on the total rent paid. This guarantees the landowner a minimum rent level, as well as allowing for the tenant to receive the rewards of good management when revenue is above the ceiling.

**Example:** Assuming the tenant is planting soybeans, the base cash rent is $75/acre. The local average price for soybeans between September 15 and December 1 is in the $5.25/bushel to $5.50/bushel range. For each $0.10 outside the range, the rent adjusts $1.50 per acre. If the current year’s price is $4.85/bushel, which is $0.40 outside the range, then rent would be lowered by $6 per acre. The rent paid to the landowner is $69/acre.

**Determination of Base Payment, Yield, and Price**

Many of the above methods require a base cash rent, base yield or base price. Here are a few tips in determining those values. These are only guidelines and individuals can choose to use whatever works best.

**Base Payment:** A good method for establishing a fair base cash rent, for both the landlord and tenant, takes some negotiating by each party. If the landlord calculates the cost of ownership and the desired return, and the tenant calculates the amount that he/she can afford to pay, then both parties can work together to reach a compromise and fair cash base rent. Return for the landlord is typically calculated at 5 to 7% of the current agriculture value of the land. Worksheets to help in determining tenant and landowner contributions can be obtained from County Extension offices, by purchasing publication NCR-75.

**Base Yield:** The Farm Service Agency office has production history on most farms. This is a good place to start. If the landlord or tenant has actual records from the farm to be rented, then those records would be ideal. County averages could be used if there are absolutely no records, keep in mind the county averages may not reflect an accurate picture of that farm. It is suggested that a historical three to seven year average be used as a beginning point in the negotiation.

**Base Price:** Several options exist for a base price. One method for determining a base price is to use the local historical (3 or 5-year) harvest season average. Why use the harvest average price, which is typically lower than yearly price? Because any increase in price, beyond harvest reflects the tenants marketing ability. Therefore the price increase would be a return to tenant management and not landowner contribution.

**Establishing a Minimum and Maximum Payment**

Many of the flex cash rental methods could easily have a clause for a rental rate floor and ceiling. Why would the tenant and landowner be interested in floors and ceilings? In a low price, low yield, year the landowner would still get a guaranteed payment. In a good year, high prices and high yields, the tenant would benefit as a return to management.
How do the tenant and landlord agree on floor and ceiling prices? There are no exact rules to do this, but here is one suggestion. The first step would be to set the base rent amount. Assume the base rent is $75. At this point, both parties consider how far they could or would be willing to go in an extreme year. For example, assume both parties would agree to go $25 either direction. Therefore, the floor or minimum rental payment would be $50 per acre, this amount would be guaranteed to the landowner, and in a bad year the rent could go this low. The ceiling or maximum price would be $100, so in an extremely good year, the landowner could get up to this amount.

**Minimal requirements of a Flexible Cash Rental Agreement**
When a flexible cash rental agreement is agreed upon, be sure to include the method of calculation for all crops grown. It is possible to use different rental methods for different crops. If the lease agreement is for different crops, include the number of acres of each crop and how rent will be calculated.

**Lease Requirements (Minimal)**
- name(s) of parties
- accurate description of land
- beginning and ending dates
- amount of rent to be paid
- statement of how and when rent is to be paid
- signature of all parties involved

**Other Guides of Interest and Sources of Information**
- G 404 Farm Land Values
- G 424 Missouri Crop-Share Leasing Patterns
- G 426 Farm Lease Agreement
- G 427 Cash Rental Rates in Missouri
- NCR-75 Fixed and Flexible Cash Rental Arrangements for your Farm