Crop Share and Flexible Rental Rates - 2024

How to Establish Cropland Rental Rates

Landlords and tenants can choose from several types of formulas in rental arrangements. In addition to a simple annual cash rent, lease agreements can be formulated around a crop share or a hybrid cash and crop share calculation, which shares the risk, costs, and yields.

There are many options for a flexible rental rate formula. Every renter and landowner will find a different way to figure out rental rates, but the principle is the same: if a landowner wants to share in the rewards of farming, they must also share in the risks.

A lease agreement must detail both parties' responsibilities and the agreement's period.

Share Crop/Lease: The tenant pays rent according to a pre-determined share of the value of crops produced on the farm that year. The landlord assumes some of the risks of production.

Advantages of Crop Share Arrangements:

- For the tenant, a lower risk of paying too much due to low yields or prices
- Crop sales and inputs can be timed better for tax purposes
- Often better income tax status for landlord vs cash rent earned vs investment income
- ** Need for annual landlord and tenant discussion of cropping practices and joint decision-making

Disadvantages of Crop Share Arrangements:

- Landlords income will be variable because of yield variations
- Accounting for shared expenses must be maintained
- Crop Yield (sales) must be tracked carefully, which can be a challenge in the heat of harvest
- Marketing decisions are made by the farmer tenant (some exceptions)
- Pricing formulas may need to be revisited over time
- ** Need for annual landlord and tenant discussion of cropping practices and joint decision-making

** Every lease and payment type should include an annual discussion of what is grown on the farm and what practices should be used. This regular communication is crucial for maintaining a healthy landlord-tenant relationship and ensuring that the agreement remains fair and beneficial for both parties.

5 Basic Principles in a Crop Share Agreement are crucial for a successful and fair agreement:

1. Variable expenses should be shared in the same percentage as the crop share
2. Both parties should share in the total return in the same proportion as they contribute resources
3. Arrangements need to be adjusted over time to reflect changes in the relative contributions of the landlord or tenant
4. Tenants and landlords should be compensated at the termination of the agreement for a non-exhausted portion of long-term investments. i.e. Fencing or pasture
5. Communication must be maintained between the landlord and the tenant.

Here are a few examples we've heard from Ontario farmers:

1. *"For a simple crop Share formula, I pay the landlord a percentage of the value of the crop once it's sold. We use different percentages for different crops as we have a three-crop rotation."* Rent is about 30% of the value of the Corn sold and 40% for soybeans.
2. "With precision equipment, I know my yields and my cost per acre. I multiply the yield by Agricorp's floating claim price minus my inputs. We figure out a base price, and I pay the landlord first, myself second, and whatever is left over, we split 50/50. The bonus is paid right at the year-end."

   "My base rent is $100, and the bonus is a fixed formula based on the December average price of corn, according to the Chicago Board of Trade. My landlord invoices me at the end of the year for a one-time payment, and it has been that way for decades."

   "I give my landlords the option to get 15-22% of my harvest (depending on the crop), and it is up to them to market it. It is fair; it is the simplest way to 'share crop' and means they get a taste of some of the prices farmers have to pay."

   Some farmers may prefer a 'base plus bonus' agreement, in which the base is a fixed rent paid upfront, and the bonus is calculated at the end of the year based on the crop yield and commodity prices. A base rent would be decided upon by considering the soil potential, the field's APH (actual production history), the property taxes paid by the owner, and the investments made by the renter.

   In an example from OMAFRA, base rates are set by both parties – in this case, the rent is at $120/acre, and a base price for corn is $3/bushel. Then, the actual current year's price of corn (based on Agricorp's floating claim price, announced after harvest) is divided by the base price. So if it was $5 that year, five divided by 3 equals 1.67. $120 x 1.67 = $200.40. If the corn prices stayed at $3, then rent would remain at $120. And if corn shot up to $7, then rent would be $276. However, this formula doesn't consider yield. With crop losses across Ontario, prices inevitably go up.

3. An ideal formula will consider both yield and commodity prices.

Kent Thiesse, a Farm Management Analyst in Minnesota, suggests having a flexible base rental and, in the case of grain corn, using 15% of the Actual Production History for the County (APH) available online each year and multiplying it by the expected crop insurance claim price on March 1st to get the base rent. This method requires some tweaking for Canadian numbers, but we can get the same historical numbers from OMAFRA reports. Then, he would calculate a final rent by multiplying the same 15% of APH with the *actual* crop insurance harvest price on November 1st, and if the second number is higher than the first, it will become the final rent. (For soybeans, he takes 20% of the APH.)

His calculation for corn: 30% of APH x 50% of $/bu = rent

- Pre-plant: 190 bu/acre x 0.3 (30%) x $3.75/bu x 0.5 (50%) = $106.88/acre
- Post-harvest: 190 bu/acre x 30% x $4.25/ bu x 50% = $121.13/acre

(in this case, $121.13/acre is the final rental price that year)

These formulas can be tweaked for your purposes. If rental rates are higher in your area, you might increase the percentage of crops (in corn from 15% to 20%). Or what if Thiesse's calculation for the final rent considered the *actual* harvest that year? If the field yielded 120 bu/acre and the price was $6.25, the renter would pay $112.50/acre instead of $178.13.