

Price And Yield Volatility Add Risk To Fixed-Rate Farm Leases

COLUMBIA, MO.

Over the years, most cropland has been rented on a fixed rate per acre, but recently there has been a lot of volatility in both crop prices and crop yields. University of Missouri Extension agricultural economist Ron Plain says this makes a lot of producers concerned about fixed-rate agreements.

"A lot of landlords are looking to get more money given the higher crop prices, and tenants are uneasy about locking themselves into a high fixed rate because of the yield risk," Plain said. "So there has been growing interest in a variable rate in which the payment is not a portion of the crop but a cash payment that will vary depending on crop prices and yields."

According to Plain, a common method is to look at historical averages of price, rent and yield, and use current prices and yields to whether to take the cash rent up or down compared to the historical average.

There are several other variations that can be used to determine a cash rent rate.

"One that varies just for price is where a tenant pays the landlord the value of X bushels of crop," Plain said. "In the case of beans, for example, say 8 bushels per acre is what the tenant is going to pay. You multiply that times

harvest price, and that's how many dollars per acre the operator pays."

When a tenant is worried about a drought year, sometimes there is an agreement to pay a percentage of the production times a fixed price per acre, Plain said.

"One of the drawbacks to these flexible arrangements is that until the harvest comes in and you see harvest-time prices, neither the landlord nor the tenant knows what the rent will be for the year," he said.

Plain says it is good advice to put all rental arrangements and lease agreements in writing. These discussions usually happen once a year and memories can fade over time. A written agreement also will ensure that should something happen to you, your family members will know the terms of the agreement.

According to USDA numbers, pasture and cropland rental rates have been going up quite fast in recent years. Plain cautions producers to remember that nothing can go up forever.

"If you look at how high we've pushed some cash rents, there are probably going to be some situations in which these cash rents are going to have to back down a bit," Plain said. "If it rains more in 2013 and we have a better crop, we are going to see crop prices back down." Δ



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