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# Cornhusker Economics

## Flexible Cropland Lease Arrangements Across Nebraska in 2022

The University of Nebraska-Lincoln's Nebraska Farm Real Estate Market Survey and Report 2021-2022 provides insight into recent trends on the market value of agricultural land and cash rental rates across the state. Each year, the special feature section covers topics on new or emerging issues related to the agricultural land industry in Nebraska. These topics reflect interest expressed by panel members and readership of the Nebraska Farm Real Estate Market Highlights Reports. The special feature section in 2022 evaluates changes made to cropland leases to account for higher input expenses, utilization of flexible lease arrangements across the state, and considerations for these contractual arrangements.

Agricultural operators in 2022 faced rising input expenses for seed, fertilizer, and chemicals necessary for the production of crops. Elevated commodity prices with heightened input expense provided the motivation for operators to reconsider the selected lease arrangement utilized on rented cropland. Higher input expenses, coupled with dry growing conditions, also raised the financial risk imposed on agricultural operators. Depending upon the selected lease type, risk may be mitigated between the landlord and tenant or remain solely with the tenant.

The three most commonly utilized cropland lease arrangements across Nebraska, as previously defined in 2015 (Jansen & Wilson), include: *crop share* – landowner receives a percentage of the actual crop yield as payment for leasing the agricultural land to the tenant; *cash lease* – landowner receives an agreed-upon cash payment for leasing the agricultural land to the tenant; and *cash lease with flexible provision (flex lease)* - landowner and tenant set a base cash rental rate, which can flex based upon actual crop yields, prices, or a combination of the two. Final cash payment made to the landlord for leasing the land to the tenant may have premiums or discounts made to the base rental rate depending upon the agreement between the two parties.

Depending upon the selected lease arrangement, the division of income, expenses, and risk will vary between the landlord and tenant in 2022. These parties may also have different risk preferences, financial capacities or direct knowledge of production systems. To account for these factors or constraints, panel members reported on changes made to cropland lease selection across Nebraska for 2022 (Table 1).

**Table 1. Reported Cropland Lease Changes to Account for Higher Input Expenses in 2022**

| Adjustment to Method | Response Rate |
|---|---|
| | - - - - - - - Percent - - - - - - - - |
| Switch to Crop Share | 8 |
| Switch to Flex Lease | 23 |
| Switch to Cash Rent | 14 |
| No Charge | 52 |
| Other | 3 |

Source: UNL Nebraska Farm Real Estate Market Survey, 2022.

As shown in Table 1, there was approximately an equal split between changing (48%) and not changing (52%) the leasing arrangement. Respondents indicated that when changing the lease arrangement, switching to a flex lease accounted for 23% of the changes while the remaining 25% of leases were either switched to a crop share, cash rent, or some other change. Switching to cash rent (14%) and crop share (8%) were the second and third most common adjustments.

The decision to switch to either cash rent, flex lease, or crop share impacts the mitigation of price and yield risk between the landlord and tenant. The risk associated with price or yield may vary based upon the district of the state. Table 2 summarizes the estimated distribution between crop share, cash lease, and flex leases indicated by respondents across Nebraska in 2022.

**Table 2. Land Lease Rental Arrangements by Agricultural Statistics District in Nebraska for 2022**

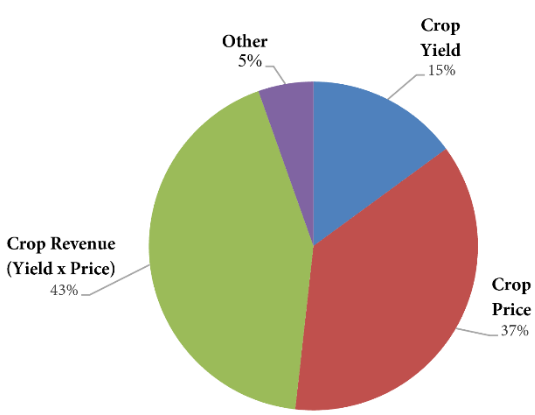
| Agricultural Statistics District | Average Percent Distribution | | |
|---|---|---|---|
| | Crop Share | Cash Lease | Cash Lease with Flexible Provisions |
| | - - - - - - - - - - Percent - - - - - - - - - - | | |
| **Northwest** | 65 | 27 | 8 |
| **North** | 38 | 51 | 11 |
| **Northeast** | 17 | 68 | 15 |
| **Central** | 32 | 55 | 13 |
| **East** | 40 | 48 | 12 |
| **Southwest** | 57 | 37 | 6 |
| **South** | 29 | 63 | 8 |
| **Southeast** | 45 | 42 | 13 |
| **State** | **37** | **51** | **12** |

Source: UNL Nebraska Farm Real Estate Market Survey, 2022.

Cash leases and crop share comprise 88% of rental arrangements at 51% and 37% each across the state (Table 2) while flex leases account for about 12% of the leases. Districts in western Nebraska have a higher portion of crop share — such as the Northwest and Southwest at 65% and 57% — than other regions, which have a higher proportion of cash leases. The Northeast and Central Districts reported the highest use of flex leases at 15% and 13%.

Flex lease arrangements mitigate risk between the landlord and tenant. The flex factor used in the design of lease arrangements of this type tend to focus on the element of risk posing concern in the rental contract. Figure 1 summarizes the different types of factors for basing a flexible cropland lease arrangement.

**Figure 1. Reported Factors for Flexing Cash Lease Payments**

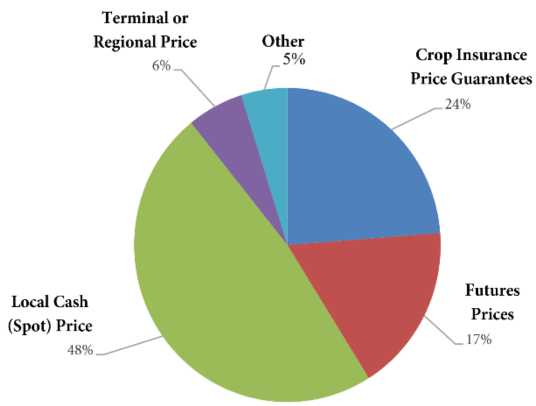



Source: UNL Nebraska Farm Real Estate Market Survey, 2022.

As seen in Figure 1, panel members reported crop revenue (43%) as the most common factor for flexing a lease followed by crop price (37%). Combined, these two account for 80% of the factors for setting a flex lease. Crop price remains a major concern between landlords and tenants. Crop yield and other factors accounted for the remaining 20% for basing a flex lease off of across the state in 2022. These factors may vary depending on the regional concerns surrounding the lease. For example, dryland operators may be more concerned with crop yield whereas irrigation producers might focus more on price fluctuations.

The price factor for flexing a cropland lease may be based on a local cash, regional, futures, or an established guarantee determined by another entity. Figure 2 summarizes the major prices respondents reported when used as part of a flex lease arrangement.

**Figure 2. Reported Crop Price for Flexing Cash Leases**




Source: UNL Nebraska Farm Real Estate Market Survey, 2022.

As seen in Figure 2, respondents indicated that the local cash (spot) price (48%) as the most common price factor for flex leases. Crop insurance price guarantees (24%) were reported as the second-most commonly used value. This form of price guarantee is based on the value of the 30-day futures price average during planting and harvesting. Futures and terminal or regional, along with other prices, accounted for 17%, 6%, and 5% of the values for basing a flex lease off of when using the price factor.

The majority of cropland rental arrangements in Nebraska did not change to another lease type to account for higher input expense in 2022. Cash leases remain the dominant rental type as respondents indicated 51% of leases in Nebraska were this type, followed by 37% being crop share. Flex leases account for approximately 12% of the remaining cropland leases across the state. Crop revenue and price serve as the most popular factors for basing flex leases off when mitigating risk between landlords and tenants. Operators utilizing price flexing cash rents most commonly utilize local cash (spot) prices.

Survey results shown and discussed in this report are findings from the University of Nebraska–Lincoln's 2022 Nebraska Farm Real Estate Market Survey. Complete results from the survey may be found at the Nebraska Farm Real Estate website: http://cap.unl.edu/realestate.

Please address questions regarding the 2022 Nebraska Farm Real Estate Report to Jim Jansen at (402) 261-7572 or jjansen4@unl.edu.

**References**

Jansen, J. & Wilson, R. (2015, June). Nebraska Farm Real Estate Market Highlights 2014-2015, retrieved June 21, 2022 from the UNL Digital Commons: https://digitalcommons.unl.edu/agecon_farmrealestate/.

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