Leases Active Topic

A common question at the Extension Office is about cropland and pasture leasing arrangements and usual values. This column is on some information about leasing which I think is important for landlords to consider.

Lease rates tend to rise slowly as land values increase and tax payments increase. The fact that we have a blip in high corn prices can lead both tenants and landlords to forget you have to produce the potatoes, wash them, and cook them before the gravy comes into play. A well managed dryland should have three crops and maybe four. Corn, soybeans, wheat, alfalfa, milo are common choices. Let's say we are in a corn, soybean, corn, soybean, wheat five year rotation. This means the high corn price would be considered in a two of fives years. Keep the lease simple and keep the important fundamentals in place.

There is only one tenant you want - the best there is. The best in terms of care of the land, producing crops or pounds of beef efficiently, effectively, profitably and improving the value and quality of the land. You want them to be a sound and well managed business operation. You want the tenant to use your asset to generate income for both you and the tenant. You want your asset to grow in value because it is preserved, protected, productive. If you select less than the best, all these good traits, even whether you get paid or not can become an issue.

The highest earnings for a landlord should come from having the farm custom farmed. The landlord now must made the decisions on crops, fertilizer, market trends, and marketing. The tenant is going to receive a set amount of money to perform field operations. Many times tenants are willing to do this because it generates income for their labor and equipment investment without risk, which they already have plenty. Share leases lie in between, where the input costs and output sales are shared. A net share lease would have the landlord only put in land and share the sales in like amount. In our area dryland crops that is approximately 1/3 of the costs plus or minus a bit. A 60% tenant-40% landlord split with the sharing of some of the costs is the most common share lease in our area.. Which costs are shared is up to discussion and agreement. They should be costs that are annual, easily divided and share inputs and outputs fairly.

The landlord should balance proper care of the land, which takes time and money, with a fair rental arrangement. If the list of expectations for land care like, terrace and waterway maintenance, tree cutting in fence rows and pastures, roadside mowing, weed control, reduced erosion, rising yields, etc. is not enough to make the tenant squirm a bit, it may not be long enough to guard the long term value of your asset.

You have a lease agreement, a contract, with the tenant regardless if it is written or not. I suggest a written lease. Your attorney can guide you in getting the details of land management in the lease. The cost of a lease is not high, especially when you consider it can be used for many years. It needs to be signed yearly or as per the term of the lease. If family is involved it is not suggested it is imperative.

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