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Economic and Legal Considerations for Leasing Cropland in Idaho

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Contents

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Economic and Legal Considerations For Leasing Cropland in Idaho

Clark F. Seavert, Russell V. Withers and Douglas L. Grant

Leasing is an important part of Idaho agriculture. In 1987, 37 percent of the nearly 14 million acres in farms was leased [7]. More than 40 percent of the farm operators rented part or all of the land they operated. Leasing is even more significant when units with less than $10,000 of annual sales of farm products are excluded (Table 1).

Leasing is a term used to describe a situation in which a tenant gains the right to use property or resources belonging to another person. A farmer can lease land, equipment, livestock or buildings from another. The payment made for this privilege is called "rent." This report deals with the leasing of land, primarily for crop production.

In a lease, a landowner gives a tenant or operator the right to possess and use a specific tract of farm real estate for a period of time in exchange for a rental payment. Farmland leasing is widely used because it can be advantageous to both the tenant and the landowner. The landowner maintains ownership of the property without major involvement in its use. The tenant obtains rights to use the property without the investment required for ownership. The landowner receives rent as a return on the investment and may benefit from appreciation to the property.

An owner may have several reasons for leasing land to a tenant rather than selling it. The landowner may want to keep the land because of a possible increase in value, for protection from inflation or to maintain it for posterity. There may also be perceived tax benefits from holding rather than selling the property. Some owner entities may hold land for diversification in a portfolio, or for other reasons.

Farm operators may prefer to lease land instead of buying it. Reasons vary, depending on the circumstances of the tenant. For a new farmer with limited resources, leasing may be the only way he or she can get started in farming. Leasing allows those operators to share risks and management decisions with a more experienced owner. Some prefer leasing because it allows greater expansion of production to make better use of equipment and labor than would be possible if financial assets were tied up in land. The cost economies resulting from a more efficient size of farm could benefit the landowner as well as the tenant.

A study of 1987 Idaho farm leases in selected counties was made with the following objectives:

1. To determine current leasing arrangements on crop farms.
2. To describe the merits and problems associated with different types of leases.
3. To propose methods for assessing equity in farm leases.
4. To identify risks associated with farm lease arrangements.

This information should be useful to landowners, tenants, bankers and others who deal with farming business. A knowledge of the benefits and pitfalls associated with farm leases will improve leasing arrangements and prevent many of the problems associated with inequitable and unsound leases.

Table 1. Summary of farms with $10,000 or more of annual sales by tenure of operator, Idaho, 1987.

	Number of farms	Percent of farms	Average acres per farm	Total acres (millions)	Percent of acreage
Full-owner	6,275	46	628	3.94	33
Part-owner	5,316	39	1,299	6.90	57
Tenant	2,076	15	577	1.20	10
Total	13,667	100	881	12.04	100

Source: U.S. Department of Commerce, Bureau of the Census, 1987. Census of Agriculture, Vol.1 Part 12, Idaho State and County Data, June 1989.

Leasing and Lease Arrangements

Farm leases are classified primarily by the type of rental payment involved. The two most common farm lease arrangements are fixed-cash and crop-share. Flexible-cash leases are also used on a few farms.

Fixed-Cash Rent

In a fixed-cash lease, the landowner consigns the management and use of the property, which may or may not include improvements, to a tenant in exchange for an agreed cash-rent. As a result, the tenant receives all of the income and usually pays all expenses except taxes, maintenance of improvements and irrigation water fees. The amount of rent and the payment dates are usually predetermined and fixed.

The fixed-cash lease is preferred by landowners who want a fixed return on their property, prefer to avoid the risk of low yields or prices, do not wish to be involved in management decisions or who are inaccessible to the property (such as absentee owners).

The fixed-cash lease is likely to be favored by tenants who have adequate financial resources to bear short-term risks, have good management skills and desire the freedom to make production and operating decisions. These are mostly experienced farm operators who have been successful over a period of several years.

Crop-Share Rent

Under the crop-share lease the landowner receives a predetermined share of the crop produced. The landowner generally supplies the land, taxes, water assessments or fees, if any, and a specified share of the operating expenses. The renter supplies the labor, machinery and equipment and a major portion of the operating expenses, depending on the type of crop-share lease.

The crop-share lease is likely to be preferred by landowners who want to be involved to a limited extent in the planning and management decisions on the farm or who want to be in a position to benefit from increased yields and higher prices. However, for this privilege, the landowner also loses when yields or prices are low.

The crop-share lease is favored by a tenant who does not want to bear all of the risk or who cannot bear all of the risk because of limited financial resources. This type of tenant may be young and inexperienced and may desire assistance with major management decisions as well. This type works well for those who are just getting established in farming.

Flexible-Cash Rent

Flexible-cash leases, or variable cash rents, involve arrangements that permit the cash-rent paid in a given year to vary with changes in prices and yields of the crop grown. Usually a base rent is agreed upon and this is adjusted when prices or yields occur outside of an agreed upon range.

While the flexible-cash lease is more difficult to calculate, it has advantages attributed to both cash and share leases. Unexpected gains or losses related to yield or prices are shared between the landowner and the tenant. The landowner does not need to deal with the crop as in a share lease but can benefit from yields or prices that are above average. On the other hand, the landowner receives a lower rent if yields or prices fall. This reduces the rent payment by the tenant.

Flexible-cash rental rates are usually calculated by one of three methods. The first method is called a modified rent for yield, which establishes a cash rental rate multiplied by a ratio of current year's actual crop yield to the average crop yield.

Modified rent for yield:

$$\text{Established cash rental rate} \times \frac{\text{Actual crop/acre}}{\text{Average yield/acre}} = \text{Adjusted cash rent}$$

The second method, called a modified rent for crop price, establishes a cash rental rate multiplied by a ratio of the current year's actual crop price to an agreed upon crop price.

Modified rent for crop price:

$$\text{Established cash rental rate} \times \frac{\text{Actual crop price/bushel}}{\text{Agreed upon price/bushel}} = \text{Adjusted cash rent}$$

The third method, called a modified rent for price and yield, establishes a cash rental rate multiplied by a ratio of the current year's actual crop yield to the average crop yield and the current year's actual crop price to an agreed upon crop price.

Modified rent for price and yield:

$$\text{Established cash rental} \times \frac{\text{Actual crop yield/acre}}{\text{Average crop yield/acre}} \times \frac{\text{Actual crop price/bushel}}{\text{Agreed upon price/bushel}} = \text{Adjusted cash rent}$$

The flexible cash-rent approach requires that both parties need to have previously agreed on what average commodity price and average crop yield to use in the calculations [3].

Government Programs and Leasing Arrangements

Government farm programs that deal with acreage allotments, acreage bases, set-aside acres, conservation reserve and similar conditions may present some significant challenges to a leasing situation. During periods of financial stress in agriculture, these government programs are often essential to the economic survival of the farm operator. Landowners and tenants should be aware that these programs need to be considered in the lease arrangement. The local Agricultural Stabilization and Conservation Service (ASCS) office should be consulted to learn what is permissible for the area where a lease exists.

In general, established rules that apply to leases will determine how government payments will be divided between the landowner and tenant. In cash-rent leases, the tenant receives the program benefits. In crop-share leases, government benefits are split in proportion to the lease. However, according to the Latah County ASCS office, a request can be made by the landowner and tenant to have benefits split in other proportions.

Landowners with highly erodable land who want to remain eligible for government program benefits were required to have designed and gained SCS approval of a conservation plan by January 1990. This plan must be fully implemented by January 1995 for the farm to remain eligible for program payments [5]. The landowner is responsible for compliance with the program, and the tenant must follow the provisions of the conservation plan for the farm to qualify for continuous program benefits. Tenants need to be aware of the status of the conservation plan before finalizing a lease negotiation.

Both landowners and tenants need to be aware of the status of government programs and crop base acres for the land being considered in a lease. The Latah County ASCS office noted that a landowner can lose base acres if a tenant transfers the base to another leased property. This can be prevented by agreement with the ASCS county committee before the lease is signed. If approval is obtained in advance, the landowner maintains base acres even if the tenant produces the crop on a different property. Crops with base acres include wheat, field corn, barley, oats and sorghum.

Leasing in Idaho

A mail survey was used to obtain information about farm leases in Idaho. A list of farm operators who lease cropland was obtained from the ASCS for each of 7 counties. These 7 counties — Bingham, Canyon, Cassia, Latah, Minidoka, Twin Falls and Washington — are major agricultural counties, containing one-third of Idaho's cropland. They were chosen to represent major crop production areas in Idaho. Completed questionnaires were obtained from 322 tenant farmers, or about 9 percent of the tenant farmers in the 7 counties.

Characteristics of each county as reported by the Census of Agriculture for 1987 are shown in Table 2. Note that between 40 and 52 percent of the total farms were tenant farms. In the 6 southern Idaho counties, farms of survey respondents averaged 384 acres, with an average of 320 crop acres. The average leased acreage was 252 acres. The averages including Latah County were 516 acres per farm with 433 crop acres and 354 rented acres (Table 3).

Table 3. Average tenant farm size and cropland acres, selected counties, Idaho, 1987.

County	Average farm size	Average total cropland	Average leased
	(acres)		
Bingham	357	274	219
Canyon	317	273	246
Cassia	442	425	312
Latah	1,305	1,114	961
Minidoka	289	257	181
Twin Falls	490	444	399
Washington	410	249	158

Table 2. Farm numbers and characteristics for selected counties, Idaho, 1987.

County	Number of farms	Average farm size	Number of farms with irrigation	Average acreage irrigated	Number of tenant farms	Tenant farms as a % of total
Bingham	1,466	960	1,227	300	605	41
Canyon	2,009	163	1,745	122	847	42
Cassia	873	749	723	328	376	43
Latah	644	548	42	73	334	52
Minidoka	858	242	748	195	409	48
Twin Falls	1,576	351	1,351	201	715	45
Washington	492	1,063	355	107	196	40
State totals	24,142	577	16,620	194		

Source: U.S. Department of Commerce, Agricultural Census, 1987.

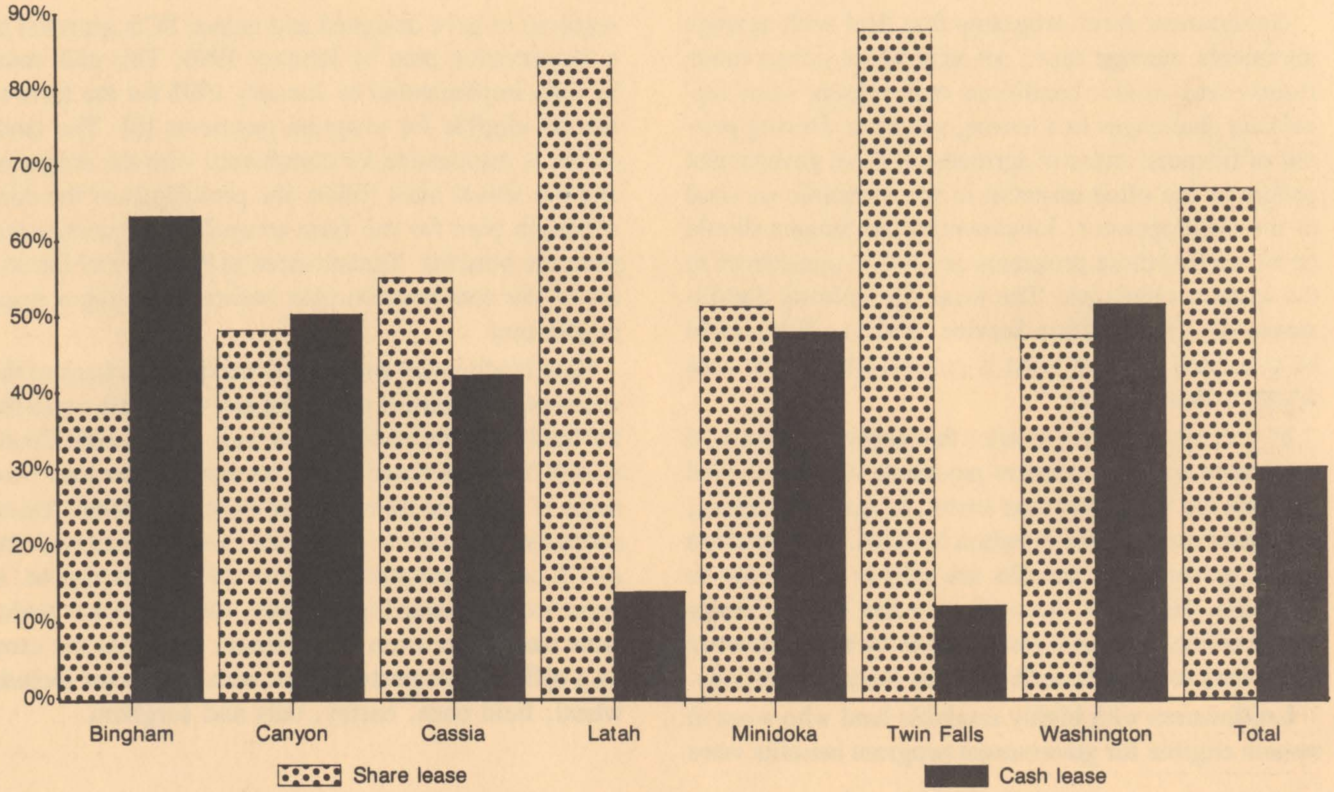

Fig. 1. Proportion of share and cash leases in selected Idaho counties, 1987.

When all leases were combined, 68 percent were share leases and about 32 percent were cash leases. The share lease was most popular in 4 of the 7 counties (Fig. 1).

The amount of rent to be paid by a tenant can be determined by several methods. In this survey, 91 percent of the tenants said their lease arrangements were governed by traditional terms that had become established in the area. Only 7 percent said they worked out a budget before terms were established, and 2 percent used some other method.

About 35 percent of the leases were renegotiated at the end of each lease period while 65 percent were automatically renewable at the end of the lease period if both parties were satisfied.

Crop-share lease arrangements varied regionally and between crops. In some areas, the landowner commonly received a smaller share of the more intensive crops such as sugarbeets and potatoes and a larger share of grain and hay enterprises. In other areas, the 50-50 share lease was the most popular. In each case, the landowner usually contributed to total production expenses in proportion to the share received. Averages for all farms in the survey are shown in Table 4.

The 97 cash leases paid an average of $80 per acre (Table 5). Cash rents were higher on irrigated land because the landowner usually paid water costs and the land tended to be more productive.

Much has been published about the merits of written leases. Even so, 49 percent of the leases were verbal (Table 6). Only 22 percent of the leases had been reviewed by an attorney before they were finalized.

Table 4. Number and percentage of crop-share leases in seven selected counties, Idaho, 1987.

Share to landowner	Number of leases	Percent of total
1/4	56	20
1/3	73	27
2/5	6	2
1/2	139	51
Other	1	-
Total	275	100

Table 5. Number of cash-rent leases and average payment per acre, selected counties, Idaho, 1987.

County	Number of cash leases	Average cash rent per acre
Bingham	12	$ 73
Canyon	25	104
Cassia	8	91
Latah	6	42
Minidoka	23	96
Twin Falls	14	89
Washington	9	64
Total	97	80

Table 6. Proportion of written and verbal leases, selected counties, Idaho, 1987.

County	Written	Verbal
	(%)	
Bingham	65	35
Canyon	38	62
Cassia	43	57
Latah	64	36
Minidoka	60	40
Twin Falls	46	54
Washington	55	45
Total	51	49

Table 7. Lease period preferred by tenants.

Lease period	Number	Percent
1 year, automatic renewal	175	56
1 year	7	2
2 years	11	4
3 years	31	10
5 years	60	19
10 years	20	6
Over 10 years	8	3
Total	312	100

Table 8. Types of irrigation systems used by tenants.

Type	Number of farms[1]	Percent of total
Flood	63	17
Furrow	185	51
Hand lines	52	14
Wheel lines	31	8
Center pivot	10	3
Solid set	6	2
Lateral move	2	1
Other	14	4
Total	363	100

[1]Some farms used more than one type of irrigation.

One problem with leasing is the lack of security in tenure on the part of the tenant. A possible solution to this problem is to increase the length of the lease period to 2 or more years. However, 56 percent of the leases were for 1 year with automatic renewal, and another 2 percent were 1-year leases with no provision for renewal (Table 7). The other 42 percent were for 2 years or longer.

A variety of irrigation systems was used on the farms in the sample (Table 8). Flood and furrow irrigation were most common but various forms of sprinkler irrigation were also popular.

Bingham County

In Bingham County, 63 percent of all leases were cash and 37 percent were crop-share. About 65 percent of the leases were written and 25 percent had been reviewed by an attorney. Half of the leased land had been farmed for 3 or more years by the present tenant. Half of the tenants viewed their current lease as excellent, 35 percent as good and 15 percent as only fair.

Half of the leased cropland used surface water supplied by a canal company or irrigation district at an average cost of $11.40 per acre, excluding pumping costs. The other half used groundwater with an average lift of 120 feet. Landowners generally paid all of the water assessment costs. In situations where water was pumped from wells, either the landowner or the tenant paid the pumping costs and the tenant paid for irrigation labor and basic maintenance and repairs toward the irrigation system.

In this county, 44 percent of the crop-share leases were one-third/two-thirds, 33 percent were one-fourth/three-fourths, and 23 percent were fifty/fifty. Lease terms usually depended on crop, with one-fourth/three-fourths leases most common for row crops, one-third/two-thirds leases for small grains and fifty/fifty leases for hay crops. In general, for a crop-share lease, the landowner paid a portion of the production expenses in addition to paying property taxes and insurance. For example, in a one-third/two-thirds lease, the landowner paid one-third of the fertilizer, herbicide, insecticide and fumigant costs; in a fifty/fifty lease, the owner contributed one-half of the seed, fertilizer, herbicide and harvesting costs.

According to survey respondents, ownership of rented land had not changed significantly, and the number of production inputs, the number of shared inputs and the division of crop shares had not changed in the past 5 years.

Cash-rent leases averaged $73 per acre and ranged from $51 to $100 per acre in 51- to 75-acre parcels. Wheat, barley and potatoes were the main crops in a cash-rent lease. Cash-rent was generally paid in two installments with a portion of the payment in April or May and the remainder in December.

Approximately 53 percent of the tenants in Bingham County participated in government programs. Programs affecting the negotiations of a lease were ASCS base acres on the rented land, associated diverted acres and deficiency payments. Six percent of the tenants in the sample did lose some rented land because of placement in the Conservation Reserve Program (CRP). Landowners usually shared government benefits in proportion to their crop-share leases. Landowners did not usually receive government benefits in their cash-rent lease.

Canyon County

The average tenant farm in Canyon County had 318 total acres, 273 cropland acres and total leases of 246 acres. Tenants had an average of 2 leases, with a range of 1 to 7 leases. Leases were evenly divided between crop-share and cash-rent.

Approximately 38 percent of the leases were written, and 14 percent had been reviewed or written by the tenant's attorney. About 51 percent of the leased land had been farmed for 6 years or more by the present tenant. The average lease agreement was for 4 years, and 53 percent of the leases were renewed automatically at the end of the lease period. Approximately 62 percent of the tenants preferred a 1-year lease that could be renewed automatically, even though many had other lease types. Another 13 percent preferred a 5-year lease and 10 percent preferred a 3-year lease.

Tenants said their crop-share or cash-rent payments were determined predominantly by common practice or traditional lease rates. Most were satisfied with lease terms: 47 percent viewed their current lease as good, 28 percent as excellent, 21 percent as fair, only 4 percent as poor.

Most irrigation in Canyon County is flood and furrow. Landowners generally owned the irrigation system and pumps while the tenants owned the siphon tubes and sprinkler pipes. On the leased cropland, 88 percent used surface water supplied by a canal company or irrigation district at an average cost of $21.25 per acre, excluding pumping costs. The other 12 percent used groundwater with an average lift of 119 feet. Landowners generally contributed 100 percent of the water assessment costs, maintaining drainage ditches and drainage tile.

Of the crop-share leases, 82 percent were fifty/fifty, 11 percent were one-fourth/three-fourths and 7 percent were one-third/two-thirds. The fifty/fifty leases were used for all types of crops. Some one-fourth/three-fourth leases were used for row crops and the one-third/two-thirds leases were for small grains and hay. In a crop-share lease, the landowner generally paid 100 percent of the real estate insurance, property taxes, building repair costs and some portion of the production expenses. In a fifty/fifty lease, for example, the landowner contributed 50 percent of the seed, fertilizer, fertilizer application and labor, herbicides, herbicide application and labor, insecticides, insecticide application and labor, fumigants and harvesting costs including labor.

Crop-share lease respondents reported no obvious changes in ownership of rented land, in number of production inputs, number of shared inputs and the division of crop shares over the past 5 years.

Cash-rent leases averaged $104 per acre. Most cash leases ranged from $51 to over $100 per acre in less than 25-acre parcels for small grains, hay and field corn. Rents on potatoes, sugarbeets, onions and alfalfa seed ranged from $100 to $175 per acre in less than 25-acre parcels. Cash-rent was generally paid in two installments, with a portion of the payment in April or May and the remainder in October, November or December.

Approximately 51 percent of the tenants in Canyon County participated in government programs. Lease terms were affected by ASCS base acres of the rented land, deficiency and diversion programs and the Payment-in-Kind program (PIK). None of the tenants in the sample lost any rented land to the CRP program. Landowners usually shared government benefits in proportion to their crop-share leases but did not usually receive government benefits in a cash-rent lease.

Cassia County

The average tenant farm in Cassia County had 442 total acres, 425 cropland acres and 312 acres under lease. Tenants had an average of 3 leases with a range of 1 to 9 leases per tenant. In this county, 57 percent of the leases were crop-share and 43 percent were cash-rent. Approximately 43 percent were written leases, and 14 percent had been reviewed or written by an attorney. Over half of the leased land had been farmed by the present tenant for 5 years or more. The average lease agreement was for 2 years, and most leases were renegotiated at the end of the lease period. Approximately 53 percent of the tenants preferred a 1-year lease that could be renewed automatically if neither party objected; 14 percent preferred 3-year leases, 10 percent preferred 2-year and 10 percent preferred 5-year.

Terms of most leases were based on common practice or traditional lease rates. Current leases were considered excellent by 62 percent of the tenants, good by 38 percent.

Irrigation in Cassia County is a mixture of flood, furrow, handlines, wheel line and center pivot systems. Landowners generally owned the irrigation distribution system and pumps while the tenants owned the siphon tubes. No standard ownership pattern could be determined for sprinkler systems. About 80 percent of the leased cropland used surface water supplied by a canal company or irrigation district at an average cost of $23.81 per acre, excluding pumping costs. The other 20 percent used groundwater with an average lift of 216 feet. Landowners generally contributed 100 percent of the district water assessment costs.

Thirty-eight percent of the crop-share leases were one-third/two-thirds, which were used primarily for small grains, peas and beans. Another 38 percent were one-fourth/three-fourths, used mainly for row crops, and 24 percent were fifty/fifty leases for hay crops. In general, for a crop-share lease, the landowner contributed 100 percent of the property taxes, insurance on real estate, building repairs and some of the production costs. The landowner contributed one-third of the fertilizer in a one-third/two-thirds lease and one-half of the fertilizer, herbicides and harvesting costs in a fifty/fifty lease.

The crop-share lease respondents reported no apparent changes in ownership of rented land and indicated the number of production inputs, the number of shared inputs and the division of crop shares had not changed in the past 5 years.

Cash-rent leases averaged $91 per acre, with most ranging from $25 to $100 per acre in 25- to 50-acre parcels. The lower rates were paid on dryland crops. Rent was much higher than $100 per acre if the landowner supplied water from a deep well. Wheat, barley, potatoes, sugarbeets, hay and dry edible beans were the main crops in a cash-rent lease. Cash-rent payments were generally made in April and October.

Approximately 48 percent of the tenants in Cassia County participated in government programs. Programs affecting the negotiations of a lease were ASCS base acres of the rented land, CCC loan rates, deficiency and diversion programs and the PIK program. None of the tenants in the sample lost any rented land to CRP. Landowners usually shared government benefits in proportion to their crop-share leases, and landowners usually did not receive government benefits in a cash-rent lease.

Latah County

The average tenant farm in Latah County had 1,305 total acres, 1,114 cropland acres and total leased acreage of 961 acres. Tenants held an average of 3 leases each, with a range of 1 to 11 leases. In this county, 85 percent of the leases were crop-share and 15 percent cash-rent. Approximately 64 percent of the leases were written, and 46 percent of these had been reviewed or written by an attorney. While the average lease agreement was for 4 years, 51 percent of the leased land had been farmed for 7 years or more by the present tenant. Approximately 52 percent of the leases were renewed automatically and 48 percent were renegotiated at the end of the lease period. About 40 percent of the tenants preferred a 5-year lease, 25 percent preferred a 10-year lease and 23 percent preferred a 1-year lease that could be renewed automatically.

Common practice or traditional lease rates predominantly determined crop-share or cash-rent terms. About 49 percent of the tenants viewed their current lease as excellent, 45 percent as good and 6 percent as fair.

Among crop-share leases, 62 percent were one-third/two-thirds leases, primarily for small grains; 32 percent were one-fourth/three-fourths leases, mainly for peas and lentils, 2 percent were two-fifths/three-fifths shares and 4 percent were fifty/fifty. In general for crop-share leases, the landowner contributed 100 percent of the real estate taxes, building maintenance and real estate insurance and a share of the operating costs.

Cash-rent leases averaged $42 per acre. Very few leases were for more than $50 per acre. Rent payments were generally made in one transaction in October.

Approximately 96 percent of the tenants in Latah County participated in government programs. None indicated that government programs affected the negotiations of a lease, but 19 percent reported they had lost rented land to CRP. Of this group, 38 percent were compensated for the loss by receiving a portion of the CRP payment for maintenance. Landowners usually shared other government benefits in proportion to their crop-share leases. They did not usually receive government benefits in a cash-rent lease.

Minidoka County

The average tenant farm in Minidoka County had 289 total acres, 257 cropland acres and total leases of 181 acres. Tenants held 3 leases each on average, with a range of 1 to 7 leases. Lease types were about equal: 52 percent crop-share and 48 percent cash-rent. Approximately 60 percent were written leases, and 23 percent of those had been reviewed or written by an attorney. Over half of the leased land had been farmed by the present tenant for 6 years or more. The average lease agreement was for 2 years, and most leases were renewed automatically at the end of the lease period. Approximately 58 percent of the tenants said they preferred a 1-year lease that could be renewed automatically, if neither party objected.

Common practice or traditional lease rates determined most crop-share or cash-rent terms in this area. Current leases were considered good by 60 percent of the tenants, excellent by 38 percent.

The majority of the irrigation in Minidoka County is flood, furrow and sprinkler systems. Landowners generally owned the irrigation system and pumps while the tenants owned the siphon tubes.

Tenants on 78 percent of the leased cropland used surface water supplied by a canal company or irrigation district at an average cost of $21.25 per acre, excluding pumping costs. Those leasing the other 22 percent used groundwater with an average lift of 228 feet. Landowners generally contributed 100 percent of the water assessment costs. Where water was pumped from wells, the landowner sometimes paid the pumping costs and the tenant paid for irrigation labor and basic maintenance and repairs toward the irrigation system. Rental rates tended to be higher if the landowner paid to pump water from a well.

Tenants reported that 39 percent of the crop-share leases were one-third/two-thirds, used primarily for small grains, peas and beans. Another 35 percent were one-fourth/three-fourths, most commonly used for row crops; 24 percent were fifty/fifty, for hay crops, and 2 percent were two-fifths/three-fifths. Generally in a crop-share lease, the landowner contributed 100 percent of the real estate insurance, property taxes and a share of the fertilizer and chemical costs in proportion to his/her share of the returns.

The crop-share lease respondents reported no obvious changes in ownership of rented land and no changes in number of production inputs, number of shared inputs and division of crop shares in the past 5 years.

Cash-rent leases averaged $96 per acre, with most in a range of $51 to $100 per acre in 75- to 150-acre parcels. Rent was generally paid in two installments with the first in March or April and the remainder in November or December.

During the past 5 years, cash-rent leased land had not changed ownership nor had there been a tendency to switch from a cash-rent to a crop-share lease. However, 32 percent of the cash lease payments had declined in response to reduced farm incomes.

Approximately 55 percent of the tenants in Minidoka County participated in government programs. Tenants indicated lease negotiations were affected by ASCS base acres of the rented land, deficiency and diversion programs and the PIK program. None of the tenants in the sample had lost rented land to CRP. Landowners usually shared government benefits in proportion to their crop-share leases, and they did not usually receive government benefits in a cash-rent lease.

Twin Falls County

The average tenant farm in Twin Falls County had 490 total acres, 444 cropland acres and total leases of 399 acres. Tenants held an average 3 leases each, with a range of 1 to 7 leases, and most (86 percent) of the leases were crop-share. Approximately 46 percent of all leases were written and 14 percent of those had been reviewed or written by an attorney. Present tenants had farmed 49 percent of the leased land for 5 years or more. The average lease agreement was for 2 years, and most were renewed automatically at the end of the lease period. Approximately 71 percent of the tenants said they preferred a 1-year lease that could be renewed automatically, if neither party objected. Another 12 percent preferred a 5-year lease, and 10 percent of the tenants preferred 3-year terms.

Crop-share and cash-rent terms were determined primarily by common practice or tradition. About 43 percent of the tenants viewed their current lease arrangement as excellent, 43 percent as good and 13 percent as fair.

The majority of the irrigation in Twin Falls County is flood or furrow. Landowners generally owned the irrigation system and pumps while the tenants owned the siphon tubes.

In this survey, 89 percent of the leased cropland was irrigated with surface water supplied by a canal company or irrigation district at an average cost of $12.35 per acre, excluding pumping costs. Another 8 percent of the leased land was irrigated with groundwater with an average lift of 185 feet. The lift was much higher and pumping more expensive in a limited area of the county. Landowners generally paid all of the water assessment costs, and 39 percent of the landowners contributed all of the maintenance costs of drainage tile and farm ponds. Where groundwater was used, the lease agreement determined whether the landowner or the tenant paid the pumping costs, basic maintenance and repairs of the irrigation system.

The Twin Falls tenants reported 88 percent of the crop-share leases were fifty/fifty. These leases were used for all types of crops. The remainder were divided equally among one-third/two-thirds leases, used for a few small grains; one-fourth/three-fourths leases, used for some row crops, and two-fifths/three-fifths leases, used for some peas and beans.

The landowner generally paid 100 percent of the property insurance, property taxes, building repairs and a portion of operating expenses in crop-share leases. In one-fourth/three-fourths and one-third/two-thirds leases, the landowner contributed fertilizer, herbicides and insecticides in proportion to his/her share of the returns. In two-fifths/three-fifths and fifty/fifty leases, the landowner shared those costs and also contributed to fertilizer, herbicide and insecticide application, fumigation and harvesting costs in proportion to his/her share of the returns.

The crop-share lease respondents reported no changes in ownership of rented land, number of production inputs, number of shared inputs and the division of crop shares in the lease in the past 5 years.

Cash-rent leases averaged $89 per acre, ranging from $51 to $100 per acre in less than 50-acre parcels. Rent was generally paid in two installments with one portion in April and the remainder in November.

During the past 5 years, cash-rent leased land had not changed ownership and the amount of cash-rent had not changed nor had there been a tendency to switch from a cash-rent to a crop-share lease.

Approximately 48 percent of the tenants in Twin Falls County participated in government programs. Programs affecting the negotiations of a lease were ASCS base acres of the rented land, deficiency payments and diversion of acres. Six percent of the tenants in the sample had lost rented land to CRP. All tenants that lost land to CRP were compensated in some way, though the tenants did not share information about the compensation arrangements. Landowners usually shared government benefits in proportion to their crop-share leases and usually did not receive government benefits in a cash-rent lease.

Washington County

The average tenant farm in Washington County had 410 total acres, 249 cropland acres and total leased acreage of 158 acres. Tenants held an average of 2 leases each, with a range of 1 to 5 leases. Most (53 percent) of the leases were crop-share; 47 percent were cash-rent. Approximately 55 percent of the leases were written, and 35 percent of those had been reviewed or written by an attorney. Approximately 55 percent of the leased land had been farmed for 4 years or more by the present tenant. The average lease agreement was for 2 years, and most were automatically renewable at the end of the lease period. Approximately 72 percent of the tenants preferred a 1-year lease that could be renewed automatically, if neither party objected, and 22 percent preferred a 5-year lease.

Common practice or traditional lease rates predominantly determined crop-share or cash-rent terms. All respondents indicated their lease terms were fair, with 55 percent viewing their current lease as excellent, 45 percent, good.

Most irrigation in Washington County is flood and furrow. Landowners generally owned the irrigation system and pumps while the tenants in this survey owned the siphon tubes. Tenants farming 94 percent of the leased cropland used surface water supplied by a canal company or irrigation district at an average cost of $10.57 per acre, excluding pumping costs. Those on the other 6 percent used groundwater for irrigation. Landowners generally paid 100 percent of the water assessment costs, and some paid the cost of pumping from a well.

In this county, 51 percent of the crop-share leases were fifty/fifty. These leases were used for small grain and hay crops. Another 26 percent were one-third/two-thirds, used for a combination of crops; 21 percent were one-fourth/three-fourths, used for row crops, peas and beans, and 2 percent were two-fifths/three-fifths. The landowner generally paid 100 percent of property taxes, building repairs and insurance on real estate, and contributed to fertilizer costs in proportion to his/her share of the returns. In a few onion leases, the landowner contributed one-fifth of the fertilizer and fumigation costs and received one-fifth of the onion crop.

The crop-share lease respondents reported no apparent changes in ownership of rented land, number of production inputs, number of shared inputs and the division of crop shares in the past 5 years.

Cash-rent leases averaged $64 per acre and ranged from $25 to $100 per acre in parcels less than 25 acres. Cash-rents were generally paid in two installments with one portion in March or April and the remainder in October.

During the past 5 years, cash-rent leased land had not changed ownership, the amount of cash-rent had not changed and no tendency to switch from cash-rent to a crop-share leases was reported, although 32 percent of the cash lease payments had declined in response to reduced farm incomes.

Approximately 53 percent of the tenants in Washington County participated in government programs. Programs affecting the negotiations of a lease were ASCS base acres of the rented land and deficiency payment programs. Ten percent of the tenants in the sample lost rented land to CRP. Landowners usually shared government benefits in proportion to their crop-share leases but usually did not receive government benefits in a cash-rent lease.

Equity in a Farm Lease

The most perplexing question in farm leasing is the fair and equitable amount of rent to charge. An equitable lease is one that compensates the tenant and the landowner in the same proportion as each contributes to the resources of the farming business. Lease terms are often strongly influenced by customary lease arrangements for the surrounding area. These provisions are slow to change and may not reflect current economic conditions [1]. Because farms vary greatly in productivity, a fair lease agreement is more likely to result from an honest evaluation of what each party contributes to the total farm business. Changes in production costs, machinery prices, land values and other conditions may disrupt lease equitability. One way of resolving this potential problem is for the tenant and landowner periodically to determine their respective contributions and adjust the lease agreement accordingly.

An enterprise budget is a helpful tool for determining lease equity. It includes all the costs and returns associated with producing one enterprise. For example, wheat is calculated on a per acre or per bushel basis, cattle and hogs on a per pound or per head basis and potatoes on a per acre, per cwt or per ton basis. Together a tenant and landowner should complete enterprise budgets to estimate costs and decide what each will contribute. An example modified enterprise budget and a complete analysis for a crop-share and cash-rent lease are shown in Tables 9 and 10, respectively.

Most inputs that make up an equitable lease are easy to calculate. They are paid by either party and are easily identified. Land, fixed costs on machinery, management and labor are more difficult to estimate. Land values fluctuate and machinery depreciates in value over a period of time. Management and labor vary by type and quality. The following sections suggest some methods for calculating land, machinery, management and labor.

Land Valuation

Each landowner has an individual conception of property value. This may include sentimental values rather than reflecting true market value. A tenant rents only the productive value of land and only this value should be used to estimate the land contribution of the owner. Increases in the value of land do not benefit tenants.

Table 9. An enterprise budget of a $100 per acre cash-rent alfalfa hay lease, southwestern Idaho, 1987.

Crop production budget (per acre)	Crop item	Quantity	Unit	Price	Amount	Tenant $ share	Landowner $ share
Returns	Alfalfa (4 cuttings)	5.00	ton	$ 60.00	$300.00	$300.00	$ 0.00
	Cash-rent payment	1	acre	100.00	100.00	0.00	100.00
Variable costs	Water assessment	1	acre	23.20	23.20	0.00	23.20
	Interest:						
	Operating	8	months	13.00%	2.77	0.00	2.77
	Custom work:						
	Stacking	100	bale	0.25	25.00	25.00	0.00
	Labor	11.01	hour	5.00	55.05	55.05	0.00
	Management	1	acre		31.00	21.00	10.00
	TOTAL VARIABLE COSTS				$137.02	$101.05	$ 35.97
Fixed costs	Machinery and equipment				$77.22	$ 77.22	$ 0.00
	Property taxes				8.76	0.00	8.76
	Land (productive value)		8.0%	$495.00	39.60	0.00	39.60
	Irrigation ditch maintenance	1	acre	4.50	4.50	0.00	4.50
	Rent payment	1	acre	100.00	100.00	100.00	0.00
	TOTAL FIXED COSTS				$230.08	$177.22	$ 52.86
	TOTAL COSTS				$367.10	$278.27	$ 88.83
	NET PROJECTED RETURNS				$ 32.90	$ 21.73	$ 11.17

Table 10. A lentil enterprise budget for a one-fourth/three fourths crop-share lease, northern Idaho, 1990.

	Unit	Price or cost/unit	Quantity per acre	Value per acre	Tenant share	Landlord share
Gross receipts						
Lentils	cwt.	$15.00	$14.00	$210.00	$157.50	$52.50
Variable costs						
Seed	cwt.	$20.00	$ 0.75	$ 15.00	$ 11.25	$ 3.75
Fargo	qt.	9.50	1.25	11.88	8.91	2.97
Machinery	acre	23.51	1.00	23.51	23.51	0.00
Tractors	acre	5.45	1.00	5.45	5.45	0.00
Labor (machine)	hour	5.75	2.03	11.67	11.67	0.00
Interest (op. cap.)	$	0.13	16.12	2.10	2.10	0.00
Total variable costs				$ 69.60	$ 62.89	$ 6.72
Fixed costs						
Machinery	acre	$40.79	$ 1.00	$ 40.79	$ 40.79	$ 0.00
Tractors	acre	27.07	1.00	27.07	27.07	0.00
Land (productive value)		0.08	400.00	32.00	0.00	32.00
Real estate tax		0.02	400.00	6.00	0.00	6.00
Total fixed costs				$105.86	$ 67.86	$38.00
Total cost				$175.46	$130.75	$44.72
Percent of cost contributed by each					0.75	0.25

Source: Smathers, Robert. 1990-91 Northern Idaho Crop Enterprise Budgets, District I, Lentils. Dept. of Ag Econ and Rural Sociology, University of Idaho, Moscow.

Productive value rather than market value is used by Idaho to evaluate farm land for tax purposes. This is the value of land based on its productivity in terms of net income capability. The productive value established by the tax assessor then is a good estimate of the landowner's contribution of land. This productive value, multiplied by the interest rate on saving certificates or a similar safe rate, could be used to estimate the landowner's annual land contribution. For example, land with a productive value of $1,000 would have a contributed value of $80 per year when the interest rate is 8 percent. In this case, the landowner contribution per year for land would be $80 an acre.

Machinery Valuation

Machinery is usually provided by the tenant. An estimated machinery and equipment value is needed to evaluate the contribution made by the provider. This is a problem similar to that of land contribution. A satisfactory value that can be agreed upon by both parties is needed. The current market value of each machine should be estimated. Then the machinery value is multiplied by the interest rate agreed upon.

Machinery market values may be decided by the landowner and tenant based on their experience and knowledge of local machinery sales, by using "as is" estimates of machinery dealers associations or the local county assessor, or by using estimates from the land-grant universities [8]. Custom rates minus labor and management values may also give an estimate of machinery value per year. Published custom rates can be obtained from local extension offices [10].

Management Valuation

Management can be valued as a percent of landowner gross income. Five percent of the landowner's gross rent is a standard figure used to estimate the management contribution. This can vary depending on circumstances and the landowner's participation in the business, however. The tenant's management can be estimated in the same manner.

Labor Valuation

Both parties should be compensated for their labor performed on the leased property. This labor is usually valued at the amount required to hire a qualified person in the local area. This value does not include a fee for management.

Equity in Fixed-Cash Rent Leases

As in any lease, equity is dividing the returns in the same proportions as contributions to production were made. Table 9 shows an equitable division for a cash-rent lease for alfalfa hay where the rent is $100 an acre.

Based on the gross returns less a share of both fixed and variable costs, the tenant has a net projected return of $21.73 per acre. This residual is a return to risk. Alternatively, the landowner receives $100 per acre for the cash-rent payment and has expenses and costs of $88.83, for a net projected return to risk of $11.17 per acre. These net projected returns are before income taxes. In cases where contributions are not in proportion to returns, tenants and landowners need to either adjust each party's contribution or change the rental rate.

Equity in Crop-Share Leases

Table 10 is an example of an equitable one-fourth/three-fourths crop-share lease for lentils. The

Table 11. Format for estimating landowner and tenant contribution for a cropland lease.

Item of cost	Whole farm	Tenant share	Landowner share
Variable costs			
Seed	________	________	________
Fertilizer	________	________	________
Chemicals	________	________	________
Fuel	________	________	________
Repairs	________	________	________
Labor	________	________	________
Water	________	________	________
Custom work	________	________	________
Interest	________	________	________
Other	________	________	________
Total variable costs	________	________	________
Fixed costs			
Depreciation	________	________	________
Taxes	________	________	________
Interest	________	________	________
Insurance	________	________	________
Land	________	________	________
Other	________	________	________
Total fixed costs	________	________	________
Management allocation	________	________	________
Total cost	________	________	________
Percent	100%	________ %	________ %

Returns from the property are shared in the same proportion as the costs.

tenant contributed $130.75 of the total $175.46 of cost, or 75 percent of the total, and the landowner contributed 25 percent. In this case, the costs and returns are about equal, but the landlord is earning a return on land investment and the tenant is being compensated for labor, machinery and a share of variable inputs. Net projected returns are before income taxes. In cases where contributions are not in proportion to shares received, tenants and landowners need to adjust the lease terms to establish equitability.

After all enterprises that will be included on the farm have been evaluated, a farm plan and rotation can be established. Rental rates can be established for each crop or for the entire farm. Rental rates for a crop can be established directly from the enterprise budget. If the rental rate for the whole farm is desired, a worksheet that includes all of the variable and fixed costs can be constructed. This would resemble a farm income statement with columns to include the contributions of each party as in Table 11. Gross income would then be divided in proportion to the contribution of each party.

Risk Associated with Lease Arrangements

Today's farmers face greater financial risks than in the past because of the increased size of their operations, greater use of purchased inputs, concerns about the environment, greater financial needs and increased dependence upon world markets. Therefore, in selecting rental arrangements, the amount of risk born by both the tenant and landowner must be recognized.

During periods of relatively stable yield, price and costs, tenants willing and able to assume greater risks will seek the greater profit potential of a cash-rent lease, and some landowners may consider custom farming. During years when commodity prices are high relative to production costs, many landowners prefer a crop-share lease. During periods of great variation in price, yield or costs, tenants may opt for a crop-share lease to reduce risk and improve chances of a stable income. The type of lease agreed upon will be determined by cost and return information available combined with the relative bargaining power of the landowner and the tenant.

In fixed-cash leases, tenants bear most of the risk of agricultural production much as they would if they owned the land themselves. Under a crop-share lease, however, landowners assume part of the risk. They are paid a share (or percentage) of the physical product and thus they are exposed to the same yield and price variation as tenants. Flexible cash-rent also shares the risk involved in producing a crop, but to a lesser degree than the crop-share lease. Management participation by landowners is minimal under a cash or flexible cash lease, but more involved under a crop-share lease where the landowner's return is influenced by the quality of management. Because of these differences in risk sharing and management participation, the landowner's income tends to be lower from a cash and flexible cash lease than it would be from a crop-share on a similar piece of property when yields and prices are normal or better. If yields or prices are below normal, the cash-rent lease rewards the landowner better than the tenant.

Legal Aspects of a Lease

Both tenant and landowner accept liabilities and obligations associated with a lease. Using good judgment and following a few basic guidelines can minimize the problems associated with leasing arrangements. A lease should be written and should spell out in detail the duties and obligations of all parties involved in the lease. Each party should have the lease reviewed by an attorney so that each is legally protected if problems develop. Because an attorney represents only one party, both the landlord and the tenant should have an attorney. The Idaho survey revealed that only 22 percent of the leases were reviewed or written by an attorney.

Legal information in this article is not specific to any situation and is presented only to make people in agriculture aware of legal consequences in agricultural leasing. Some guidelines are suggested for consideration before a farm lease is negotiated.

Written Leases

Whether a written lease is legally required depends on its nature, its duration and the laws of the state. Farm leases generally run either for a fixed term or from year to year. A lease for a fixed term of longer than one year must be written and signed by both parties to be legally valid. A lease for a fixed term of one year or less, to commence immediately, need not be in writing to be valid. Lease laws vary, however, so a safe practice would be to write out a lease regardless of the time covered or the date when it will commence [9]. Only 51 percent of the leases in the Idaho survey were in writing.

A tenancy from year to year has no set duration but continues unless the tenant or the landowner gives timely notice of termination. In some states, 6 months is required. This gives the tenant or the landowner ample notice to plan ahead. A lease for such a tenancy need not be written to be binding. However, a written lease gives the tenant assurance that, in case of the death of a landowner or sale of the property, the tenant has a contract to rent the land continuously until the termination date of the lease. A written lease is desirable for the following reasons:

1. Memory of either party about the terms of the lease is subject to lapse and distortion.
2. Honest differences about what was intended are less likely if the terms of the arrangement are written out.
3. Various legal complications not likely to be anticipated by the parties can arise if the lease is not written.
4. Written agreements encourage both parties to think through and understand details in the lease.
5. A well-written lease agreement identifies all the parties involved in the lease.
6. Settlements on the amount or share, details of how and when rent payments are to be made and where delivered and how shares are verified can be specified.
7. A well-written lease specifies what records need to be kept and how disagreements will be resolved.
8. A well-written lease specifies the conditions under which the lease may be terminated, and spells out details about the possibility and process of renewing or renegotiating the lease.

Whether renting to individuals, corporations or partnerships, each individual involved in the tenancy should sign the lease agreement. A lease on land owned as community property should be signed and acknowledged by both spouses. Proper signatures will ensure identity of the parties to the lease. A properly signed lease also provides a record for survivors in the event of the death of either the tenant or landowner.

Recording a Lease

A written lease may be recorded in the county recorder's office if the landowner's signature has been acknowledged before a notary public or another appropriate official. Having a lease recorded benefits the tenant and landowner in acknowledging that a lease exists and shows that a share of the crop or any production that the landowner has coming from a tenant will be recognized by the business community. The tenant and landowner may be concerned that once the lease is recorded, its terms are a matter of public record and open to inspection by anyone. A possible solution would be to record an affidavit that states that a lease has been executed by certain persons, describes the land subject to the lease and gives the duration of the lease but omits any sensitive information contained in the lease. This approach is likely to function about as well as recording the lease itself. In practice, very few leases are recorded [9].

Partnerships or Joint Ventures

Certain share arrangements may give the appearance of creating a partnership or joint venture relationship. The Uniform Partnership Act, adopted in 48 states, defines a partnership as "an association of two or more persons to carry on as co-owners of a business for profit." A joint venture, in contrast, has been defined as "an association of two or more persons to carry out a single business enterprise for profit, or a common understanding, under which two or more combine their property, money, effort, skill or knowledge"[2].

Legal problems can arise when the intent of the parties is not clearly expressed, because a court may interpret the relationship to be a partnership when the parties intended the relationship to be a tenant-landowner arrangement. The importance lies in the fact that when a partnership exists, all partners are individually liable for all debts and obligations of the partnership. Generally, a landowner does not wish to assume the obligations of the tenant that arise from operation of the farming business. Therefore, it is important that a tenant-landowner relationship not be considered a partnership [6].

Distinguishing a partnership from a tenant-landowner relationship is sometimes difficult, particularly if the business operation is a family enterprise. The strongest determining factors in distinguishing a tenant-landowner relationship from a partnership are the intent of the parties and the amount of control of the business that is involved. For this reason, clauses are normally included in a written lease excluding the possibility of a partnership. These are not entirely effective, but at least they serve as an expression of the intent of the parties [6].

Rights and Obligations Between Tenants and Landowners

In general, all rights and duties between tenant and landowner, not otherwise specified by statute or constitutional provision, should be defined by lease agreement. Sometimes, however, parties fail to specify clearly the exact nature of these rights and duties. In such cases, courts rely on rules of construction. Courts emphasize intent, evidenced by the instrument as a whole, in instances where ambiguity exists. In the absence of a clear statement of intent in a lease, state courts have relied on a variety of factors, including the ordinary interpretation of the ambiguous language, customary business practices and historical pattern of behavior between contracting parties. In most instances where these factors are inconclusive, an ambiguous lease is interpreted against the maker of the lease.

The essence of a lease is that the landowner transfers possession of the land to the tenant for a period of time in exchange for rent. Rent may be a cash payment or a share of the crop, or both. The tenant is entitled to exclusive use and possession of the real estate. The tenant may sue other parties, including the landowner, unless stated otherwise in the lease, for trespassing on the premises. The crops, until divided, belong to the tenant exclusively, even if the landowner is to receive a part of the crops as rent. As the operator of the real estate, the tenant is potentially liable in negligence cases for the injury of invitees or licensees who come onto the property if injuries result from the poor upkeep of the premises [6].

Much more could be written concerning the rights and obligations of tenants and landowners. However, the purpose of this publication is to cover only a few common problem areas. It is the job of an attorney to point out the details.

Guidelines for Preparing a Lease

The ability of a farm lease to satisfy the needs of both parties depends on the manner in which the lease type and lease terms are chosen. It also depends upon the ability of the property to produce a return over total costs that can be divided between the tenant and landowner.

The most appropriate lease type for any particular property will be determined by the experience, management skills, capital position, personal motivation and bargaining position of each party. When trying to determine what type of lease would best fit the property and the parties involved, both parties need to decide the degree to which they want to: (1) share in the income from the enterprises that make up the farm business; (2) provide improvements and non-real estate capital; (3) make decisions concerning the organization and operation of the farm business, and (4) participate in the risks and uncertainties associated with the year-to-year variations in yield and price [4].

The type of lease chosen may have important tax implications for the landowner. Under crop-share leases, the Social Security Administration generally assumes that the landowner "participates materially" in the management of the farm. Material participation means that the crop-share rent is regarded as earned income. As of 1989, if a retired landowner is under 65 years of age and receives more than $6,480 in earned income or over 65 with more than $8,880 in earned income, he or she is subject to excessive business income, according to the Social Security Administration. In both instances, the excessive income may jeopardize the landowner's Social Security benefits. In flexible-cash leases, jeopardizing Social Security benefits may depend on the amount of material participation of the landowner. Rental income from cash leasing is generally considered investment income, which does not influence Social Security benefits.

Standard lease forms may be available at stationery stores, farm financial institutions or the U.S. Department of Agriculture. Standard forms are helpful as guidelines but are likely to need modification for a specific situation. If the tenant and landowner decide to write their own document, the following checklist may be helpful. Written leases should include:

1. Name and address of the tenant and landowner.
2. Description of the real estate to be leased.
3. Dates the lease will begin and terminate.
4. Number of years the lease will be in effect.
5. Options to renew or provisions for automatic renewal of the lease unless notice is given to cancel it.
6. Lease cancellation procedures, including the advance notice required before the lease expires.
7. Lease rates, share and/or cash-rent.
8. When and where the cash-rent payment is to be paid or the landowner's share of production is to be delivered.
9. Expenses to be paid by each party.
10. Farming practices to be followed by the tenant.
11. Provisions for compensating the tenant for unused real estate improvements made by the tenant.
12. Landowner's lien, right of entry and liabilities [1].
13. Settlement in case of death.
14. Arbitration of disagreements.
15. Procedure for revising the agreement.

Consultation with an attorney is the best insurance against a poorly drawn lease which may later turn out to be ill-fitted or inadequate for the transaction. If a proposed form is not fully suited for the situation, an attorney can suggest appropriate changes or a substitute agreement [9].

Summary

Farmers face greater financial risks today because of the increased size of their operations, greater use of purchased inputs, associated financial needs, environmental concerns and increased dependence upon world markets. Rental arrangements are also affected by these factors relative to the amount of risk assumed by the tenant and landowner.

Cash-rent lease agreements allocate higher risks for tenants and generally result in lower incomes to the landowner. Tenants typically have more managerial freedom with cash leases. Landowners seeking management participation, or a chance of higher incomes when prices or yields increase, prefer a crop-share lease.

Lease equity is of great importance. Both parties often assume that reliance on customary leasing terms will result in an equitable lease. This may not be true as each farm is different and relative contributions by the tenant and the landowner may differ. Tenants and landowners must review their leases periodically to maintain the fairness of the lease where conditions change. A study of contributions of each party is the best guide for determining a fair and equitable lease. A few of the factors that could change the equity of a lease are commodity prices, input prices, yields, interest rates, land valuations, machine and equipment costs and taxes.

A lease should be in writing and should include enough details that both the landowner and the tenant or possible survivors will be able to determine the lease terms. Parties to a lease should also be aware of the legal ramifications of leasing. It is good practice for landowner and tenant each to have the lease reviewed by an attorney to make sure that his or her rights are covered if misunderstandings or unforeseen problems arise.

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