

Land Rental Considerations - Landlords and Tenants



If leasing is your best option financially, both landlords and tenants need to agree on the best approach in terms of economics and working relationships. Landlords and tenants also have to agree on a fair rental rate. Landlords are looking to maximize the return from the land, while tenants are looking to keep their costs low to maximize profits. Both need to have an open discussion and decide on the best plan, by answering some basic questions.

Landlords

- What is the rent amount I need?
- Should I be concerned about how the tenant will care for my land?
- How much are my property taxes on the land?
- Could I get a better return on the investment in my land with some other kind of investment?

Landlords should look at other non-monetary factors when choosing a tenant. Will it be more profitable to get a higher rental rate with a farmer who isn't a good land manager? The cost of cleaning up the land after renting could far exceed the rental income. It may be more profitable to rent to a good land manager at a lower rate.

Landlords also need to consider the tenant's intent with:

- tillage practices
- fertility practices
- stubble burning and incorporation into soil, or removal of straw
- weed control
- crop rotation

Tenants

- Is the land high yielding property?
- Is it close to other land I farm?
- How long is the rental agreement?
- Is there a right of first refusal?
- Is the rent affordable, based on my financial planning?
- Is there a more affordable option elsewhere, to rent or buy?

Knowing the farm's cost of production and what rent you can afford is key in making these types of management decisions.

Communication and agreements

A successful landlord-tenant relationship is based on open communication and mutual respect. Written contracts help keep your relationship healthy. Written contracts:

- provide clarity on rental rates
- provide clarity on terms and conditions of rent
- provide a useful business management tool for short and long-term plans
- protect landlords and tenants in case of conflicts

There are a variety of rental agreements you can sign, including:

- cash lease agreements – straight cash rent
- crop share agreements - income and expense sharing at predetermined shares
- flexible cash lease agreements – base rate for price and yield are set

With flexible cash lease agreements, the risk of changes in yields and markets is shared between landlord and tenant. Upper and lower price limits can be included in the formula to prevent rent from falling below a certain point.

It is important to look at rent from a long-term perspective. Clearly communicating and understanding each other's goals, values, expectations and circumstances will go a long way to making an agreement work for both parties.

Resources

- [Guide to Farmland Ownership](#) explains the factors you should consider when inheriting, buying, renting or leasing farmland.
- Sample [Contracts and Leases](#) provide a starting point for farmers as they develop agreements for use in their businesses.

Contact us!

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