Ag Land Leasing

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Ag Land Leasing Basics

Principles of a Good Crop Share Lease

Determining an equitable crop share lease for agricultural land is important for good business relations between landowners and producers. While both parties typically want a lease agreement that is equitable, negotiating one can be a daunting task. This is especially true when production practices or technologies change over time. Even the most stable leasing relationships may have trouble determining how to adjust their leases to fairly reflect new farming practices.

To arrive at an equitable lease, you must prepare a budget that accounts for the costs and value of assets contributed by both the landowner and the tenant.

The basic principles of a good agricultural land lease are:

1. Share the costs of yield-increasing inputs
2. Divide total returns in the same proportion as inputs contributed
3. Compensate the tenant for unused long-term inputs
4. Keep good landowner-tenant communication

The first principle provides the incentive for both parties to use inputs like fertilizer and chemicals efficiently and to maximize profits. If one party is responsible for all the fertilizer costs, but only gets a portion of the yield bump, then they will not apply it at a profit maximizing rate.

To arrive at an equitable crop share lease, the contributions of both parties needs to be accounted for. Doing so

Leasing Resources

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Many tools are available through K-State Research and Extension to assist you in preparing and negotiating a good lease. Here are a few examples:

- KSU-Lease.xls is a spreadsheet decision aid set up to assist you in creating a budget for your farm and arriving at an equitable leasing arrangement
- Leasing workshops for landowners and tenants. These full-day workshops cover the basics of leases and give participants hands-on experience with the KSU-Lease decision aid
- County-level estimates of cash lease rates for the upcoming year are published each winter for non-irrigated and irrigated cropland
- Extension bulletins on pasture leases, KS lease law, and farm building leases

requires taking the time to put all the costs of production into a budget framework and allocate the costs paid by each party. Importantly, tenants need to be compensated for labor and owned machinery, while landowners need to be compensated for the value of their land and other owned assets (e.g. center-pivot). Historically, the proportions have been regionally consistent with landowners in many parts of western and central Kansas receiving 1/3 of the harvest, while landowners in Northeast Kansas can receive as much as 50% of the harvest. The differences in returns to the landowners are reflecting the productive potential of land in different parts of the state, which is directly interpreted as the $/ac value.

The third and fourth principles apply as much to cash leases as crop share leases. The third principle is important to encourage the tenant to treat the land as if they own it themselves. This may mean making investments in the long-term health of the soil or making investments to reduce soil erosion. By guaranteeing that their return will be realized, either by getting to farm the land for the life of the investments or being compensated for residual value if they no longer farm that land, then the tenant will be willing to treat the land as if they have an ownership stake in it.

The fourth principle is the basis for all good leases: good communication between the landowner and the tenant. By keeping both parties informed of changes in market conditions, production practices, future plans (selling land, passing it to heirs), etc., the opportunity for conflict is greatly reduced. Leasing is a business relationship between two parties and if they are both satisfied with the outcome of the leasing arrangement, then there is stability. This stability is important to landowners wanting to manage their assets as well as tenants who want to make their production and financing decisions based on longer horizons.

Cover Crops

How do they impact lease terms?

Cover crops can be a confusing aspect of lease negotiations, especially if either the landowner or the tenant have little or no experience with them. As with any new technology, deciding how the lease should change will depend on the costs and benefits to both parties.

Are cover crops being planted because they have the potential to increase yields for crops planted in the following year? If so, then it may be appropriate to share the costs of the cover crop seed and planting (principle #1). This needs to be done in the same manner as all the shared inputs: in the same proportion as the harvest is shared (principle #2).

How long will it take to realize the benefits of soil building, and the subsequent yield improvements, from planting cover crops? If it is immediate, then the tenant and landowner both have an incentive to adopt this technology because it will be impactful in the first crop year. If this practice takes a couple of years to improve yields, then it may be that the landowner is the one who benefits in the long run (especially if they change tenants). Therefore, the landowner will need to consider the tenant's costs of adopting a long-term input if the lease is terminated early (principle #3). In either case, there will be benefits to both parties, so sharing the costs of this practices would be in line with the equitable leasing concept.

What if the tenant wants to graze the cover crop? This is an added value to the tenant (savings on winter feed costs), which suggests they would cover a larger proportion of the planting and seed costs for the cover crop. Be sure to account for any ways grazing might diminish the yield benefits (e.g. animals grazing in wet conditions and compacting the soil, less organic matter tilled back into the ground). If this happens, it further shifts the cost burden to the tenant.

It is difficult to gather information on exactly what people are paying or receiving for planting cover crops in Kansas. Publicly available information on lease rates does not differentiate these details. As such, it will come down to the tenant and landowner doing a good job of talking through how this practice may benefit both parties and allocating the costs accordingly (principle #4). As with most new technologies and production practices, the benefits and costs may not be known precisely before it has been tried for a couple of years. Being upfront about this uncertainty will keep both parties from having unrealistic expectations and remain in good standing as partners in their farming enterprise.

For more information on leasing agricultural land in Kansas, visit:
www.AgManager.info

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