



Land Leasing Basics & Communication

LaVell Winsor-Farm Analyst

Farmland Leasing in Kansas

Leasing is important in Kansas

- Approximately 55 percent of farmland in Kansas is rented (68% for Kansas Farm Management Association members)

	Landlords per Farm	Acres per Lease
West	2.6	218.9
Central	3.4	145.8
East	3.1	89.4
State	3.1	144.7

Source: Schlegel and Tsoodle-2010 KAS/KSU survey

Leasing Arrangements in Kansas

“Traditional”

- Fixed cash rent
- Crop share (share income and some expenses)

“New”

- Net share (share income but not expenses)
- Flex leases (flex on price, yield, or revenue)
- Fixed cash rent with bonus

Fixed Cash Leases

- Fixed cash payment to Landowner per year
 - Difficulty: How often do you negotiate?
- Farmer takes on majority of risk
 - Cash payments are made regardless of production, prices, or costs
 - Risk Premium-landowner should expect less rent in the long run (versus other arrangements where risk is shared)
- Government Payments go to the Tenant
- Management decisions
 - Do not typically involve the landowner
 - Communication levels are often lower

How often do you negotiate?

Table 2. Number of Years Without Rental Rate Changes

District	Number of Years									
	1	2	3	4	5	6	7&8	10	15	20 or More
Northwest-10	7.4%	0.0%	29.6%	7.4%	22.2%	3.7%	0.0%	11.1%	0.0%	18.5%
West Central-20	22.2%	0.0%	13.9%	5.6%	22.2%	0.0%	0.0%	5.6%	0.0%	30.6%
Southwest-30	17.6%	0.0%	17.6%	5.9%	17.6%	5.9%	0.0%	5.9%	0.0%	29.4%
North Central-40	16.7%	0.0%	22.2%	5.6%	16.7%	0.0%	0.0%	5.6%	0.0%	33.3%
Central-50	5.9%	0.0%	11.8%	2.9%	29.4%	0.0%	2.9%	5.9%	0.0%	41.2%
South Central-60	17.2%	0.0%	20.7%	3.4%	24.1%	0.0%	0.0%	3.4%	3.4%	27.6%
Northeast-70	27.8%	11.1%	11.1%	16.7%	22.2%	0.0%	0.0%	0.0%	0.0%	11.1%
East Central-80	13.0%	0.0%	13.0%	13.0%	30.4%	4.3%	4.3%	4.3%	0.0%	17.4%
Southeast-90	16.7%	0.0%	25.0%	8.3%	25.0%	0.0%	0.0%	16.7%	0.0%	8.3%
State	15.4%	0.9%	17.8%	7.0%	23.8%	1.4%	0.9%	6.1%	0.5%	26.2%

Source: Li and Tsodile-2020 LUSC survey

Fixed Cash Pros and Cons

Pros	Cons
<ul style="list-style-type: none"> Landowner knows <u>exactly</u> what their income will be each year and when it will be received No bills for crop inputs or other uncertain expenses 	<ul style="list-style-type: none"> Hard to re-negotiate a rental rate as commodity prices and input prices change <ul style="list-style-type: none"> Many landlords find this an awkward and difficult conversation



Crop Share Leases

- Landowner receives a percentage of the crop as payment and share in input costs
 - Makes their own marketing decisions their share of the crop
- Farmer and Landowner share risk
 - Production risk: disease, drought, pests
 - Commodity prices
 - Input prices
- Management decisions
 - Made jointly or with a lot of communication

Principles of Good Crop-Share Lease

- Yield Increasing Inputs Should be Shared
- Total Returns are Divided in the Same Proportions as Resources Contributed
- Share Arrangements Should be Adjusted as Technology Changes
- Good Landowner-Tenant Communication

LANDOWNER

- Land

TENANT

- Machinery
- Labor
- Seed?

SHARED

- Fertilizer
- Lime
- Herbicide?
- Insecticide
- Fungicide
- Sometimes a Portion of Seed Cost (Roundup Ready, etc.)

Individual arrangements will vary. Communication between the landlord and tenant is critical so an equitable arrangement can be determined based on crop costs.

Revenue Shared

- Crop Generally Shared in the Same Proportion as Inputs
 - Ex: 1/3 of crop goes to landowner and landowner pay 1/3 of shared expenses
- Government Payments Shared the Same as the Crop

Common Percent Shares

Table 9. Percent Share of the Crop the Landlord Received by CRD

District	Landlord Share (%)						
	20%	25%	33%	35%	40%	50%	70%
Northwest-10	5.7%	0.0%	94.3%	0.0%	0.0%	0.0%	0.0%
West Central-20	0.0%	0.0%	98.2%	1.8%	0.0%	0.0%	0.0%
Southwest-30	0.0%	2.9%	97.1%	0.0%	0.0%	0.0%	0.0%
North Central-40	0.0%	0.0%	58.3%	0.0%	41.7%	0.0%	0.0%
Central-50	0.0%	0.0%	72.0%	0.0%	24.0%	2.0%	2.0%
South Central-60	0.0%	0.0%	94.4%	1.9%	3.7%	0.0%	0.0%
Northeast-70	0.0%	0.0%	0.0%	0.0%	41.2%	58.8%	0.0%
East Central-80	0.0%	0.0%	18.8%	0.0%	50.0%	31.3%	0.0%
Southeast-90	0.0%	0.0%	92.0%	0.0%	4.0%	4.0%	0.0%
State	0.9%	0.3%	79.8%	0.6%	13.2%	5.0%	0.3%

Source: Li and Tsoodle-2020 LUSC survey

Crop-Share Pros and Cons

Pros

- Lease rate self-adjusts when commodity prices and input costs change
- Landowner is able to be more involved in farming
 - Markets their own grain

Cons

- Landowner will have production expenses to pay during the growing season
 - Need for operating loan?



Net Share Leases

- Landowner receives a percentage of the crop as payment but pays no production expenses
 - Landowner receives less of a percentage of the crop
 - Example: If a traditional share lease is 40% landlord, 60% tenant, a net share may be 25% landowner, 75% tenant
- Farmer pays all production expenses, which is risky in years like 2022 when input costs are very high
- Challenge is determining the appropriate amount to share with the landlord

Net-Share Pros and Cons

Pros	Cons
<ul style="list-style-type: none"> • Lease rate self-adjusts when commodity prices change • Landowner still markets their own percentage of the grain • Landowner does not have inputs to pay <ul style="list-style-type: none"> • Tenant does not have to keep track of inputs and billing landlord 	<ul style="list-style-type: none"> • Risky for the tenant if input costs are high relative to crop income • Landowner will not know what their income will be until harvest

Flex Leases

- Fixed cash component
 - Agreed to prior to production year
- Flexes on sources of risk to where rent can go up in a good year
 - Production levels
 - Market prices
 - Revenue
- Combines good features of other types of leases, but be cautious in setting one up to be fair to all parties involved

Flex Leases

- A Minimum (and possibly Maximum) Cash Rent is set
- Additional cash rent that varies based on economic conditions

Example:

Base amount: \$60/acre

Total costs: (\$60 + \$290) = \$350/acre

Gross revenue: (\$3.35/bu * 129 bu/ac) = \$432.15

Flex amount: (\$432.15 - \$350) * 40% = \$32.86

Total payment to landowner: \$60 + \$32.86 = \$92.86/ac

Flexible Cash Pros and Cons

Pros	Cons
<ul style="list-style-type: none"> • Landowner will know the minimum cash rent they will receive • Can share in extra profits of a good year • The lease is more self-adjusting 	<ul style="list-style-type: none"> • Hard to negotiate initially

Farmland Leasing in Kansas

Lease Type	Management	Risk to Landowner	Term Difficulty
Cash Lease	Low	Low	High
Crop Share	Med	Med to High	Low
Net Share	Low to Med	Med	Med
Flex-Lease	Low to Med	Med	Med

Farmland Leasing in Kansas

Table 1. Non-Irrigated Lease Types

District	Crop Share	Fixed Cash	Crop Share & Cash Rent	Flexible Cash	Net Share	Other Type
Northwest-10	50.0%	29.5%	2.3%	4.5%	11.4%	2.3%
West Central-20	49.2%	40.0%	1.5%	1.5%	6.2%	1.5%
Southwest-30	43.3%	40.0%	3.3%	6.7%	6.7%	0.0%
North Central-40	57.1%	38.1%	0.0%	4.8%	0.0%	0.0%
Central-50	49.1%	42.1%	1.8%	3.5%	3.5%	0.0%
South Central-60	44.8%	43.1%	3.4%	3.4%	5.2%	0.0%
Northeast-70	29.4%	50.0%	2.9%	5.9%	11.8%	0.0%
East Central-80	31.6%	47.4%	0.0%	7.9%	13.2%	0.0%
Southeast-90	42.9%	50.0%	0.0%	3.6%	3.6%	0.0%
State	44.5%	41.9%	1.9%	4.3%	6.9%	0.5%

Source: Li and Tsoodle-2020 LUSC survey

Choice of Lease Arrangement

- How much risk would the landlord want to take on?
 - Risk Premium: The more risk the landlord wants to share, the better the return should be in the long run, but more uncertainty in income on a year-to-year basis
- Difficulties:
 - Landowners becoming generationally and geographically removed from farming
 - Producer's management of multiple leases/landowners

Keys to a Successful Lease

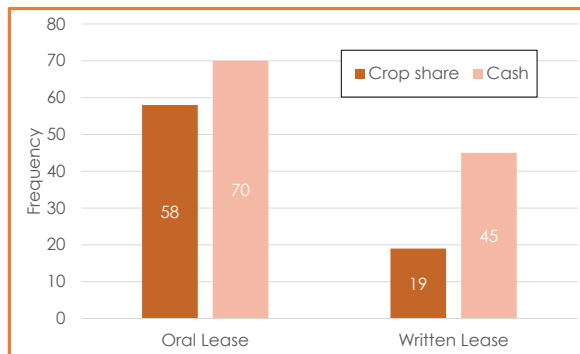
- Communication!
- Communication!
- Communication!

- And you should put it in writing.

Other Important Factors

- Communication is key to success
 - It is tempting to have very little communication using cash lease arrangements
- Talking during the good times will make talking during the bad times easier
 - Don't let the only conversations be the ones about lower the rent.

Leasing Landscape



Source: Taylor – 2014 KFMA survey

District	Written Lease
West	16.2%
Central	16.7%
East	8.4%
State	14.4%

Source: Schlegel and Tsoodle – 2010 KAS/KSU survey

Lease Contract Style

- Oral leases are common
 - Doesn't imply they are good or bad
- Kansas law covers oral leases
 - One year maximum length
 - Deadline for notice of termination: 30 days prior to March 1

Lease Contract Style

- Often the style of lease is inherited along with the land
 - Do men use the hand-shake approach more readily than women?
 - Inherited tenant: "Don't you trust me?"
- Any deviations from basic terms is going to require a written lease
 - Split date of payment ($\frac{1}{2}$ at planting, $\frac{1}{2}$ at harvest)
 - Retention of hunting rights by landowner

Landowner Type

- Is the leasing relationship affected by the type of landowner?
 - Yes, to a certain extent
- Experience with production agriculture
- Physical distance from the farm
- Number of parties involved (siblings)

How do you view the other person?

- My landlord...
 - Doesn't need to know the yields because they might raise the rent on me
 - Is wealthy and doesn't need more rent from me
 - Can take away the land anytime

How do you view the other person?

- My tenant...
 - Doesn't make a lot of money farming and has a family to support
 - Is the only person I know who would be willing to farm my land
 - Rented from my parents and I have an obligation to keep this lease 'in the family'
 - Doesn't have the time to explain farming to me

Business Partner

- Full information helps set an equitable rent
 - Sharing yields, production costs, market prices gives both parties a basis for negotiating rents
- Personal wealth is irrelevant
- Finding a new tenant
 - Search costs for the landowner keep them from switching often

Landowner Mistakes

- Failing to communicate with the tenant
- Affect usability of the land and don't compensate the tenant (e.g. oil & gas leases, utility poles, hunting)
- Expect certain production practices that may not be profit maximizing (e.g. no double cropping, under-grazing to preserve habitat)
- Expecting a high rate of return based on what they paid for the land, not the rental market

Tenant Mistakes

- Failing to communicate with landowner
- Using informal bonuses during good years
- Treating the current landowner as less than a full business partner
 - Next generation may not appreciate this

Negotiating Power

- Farmers tend to have better information
 - Rental rates (their other leases, coffee shop)
 - Market and production conditions
 - Technology
 - Government programs
- Landowners tend to have...the land