Farm and Field Rental Agreements
Michigan State University Cooperative Extension Service
F Folder Series
E.B. Hill, Agricultural Economics
Issued June 1955
9 pages

17.242

EXTENSION FOLDER F-156

FARM
and
FIELD
Rental Agreements

By

E. B. HILL

Agricultural Economics Department

MICHIGAN STATE UNIVERSITY

Of Agriculture and Applied Science

COOPERATIVE EXTENSION SERVICE

EAST LANSING

Cooperative extension work in agriculture and home economics. Michigan State University and the U.S. Department of Agriculture, cooperating. Paul A. Miller, Director, Cooperative Extension Service, Michigan State University, East Lansing. Printed and distributed under Acts of Congress, May 8 and June 30, 1914.

SUCCESS IN RENTING FARMS depends on having a satisfactory written lease agreement on a farm that is productive, and which has a business large enough for a satisfactory return for both parties. It is necessary for each of the parties to have some understanding and appreciation of the other party's problems and to have some tolerance in dealing with one another. Most difficulties are the result of the lack of understanding. This can be eliminated by regular settlements and visits at the farm to discuss the operations.

Farm and Field Rental Agreements

About one out of four acres of land in farms in Michigan is operated by non-owners; i.e., tenants and part-owners. Farm land is rented either by entire farms or by fields. Tenants usually rent entire farms, with about one acre out of six rented on this basis. About one acre out of every ten is rented on a field basis, mostly by part-owners.

RENTAL OF ENTIRE FARMS

The most common types of farm leases in Michigan are (1) Crop and Livestock Share; (2) Crop-Share Cash and (3) Cash. Copies of any of these lease forms—also father-son farm operating agreement forms—can be obtained from your County Extension Office, or from the Agricultural Economics Department at Michigan State.

In obtaining lease forms for actual use, two copies should be ordered; one for the landlord and one for the tenant.

THE FARM LEASE

A farm lease is a farm business agreement which provides for bringing two parties together on a mutually agreeable basis; namely, (1) the owner of a substantial amount of capital in land, buildings, fences, etc., and (2) a renter capable of providing labor, farm "know-how" and, usually, a smaller amount of capital. It should include the standard provisions of such legal agreements. It also should state any special understandings between landlord and tenant with reference to the operation of the farm.

The Requirements of a Legal Lease: The essentials of a written legal lease are: (1) the names of the landlord and the tenant; (2) a description of the farm or land that is to be leased; (3) the date and length of time for which the lease is to be effective; (4) the contributions and duties of each party; (5) how much and in what way the rent is to be paid; and (6) the signatures of both parties. In addition, landlords and tenants should include in the agreement provisions for handling as many of the problems which may arise during the rental period as can be anticipated.

Oral leases covering a period of one year or less are legal. The major difficulties of oral leases, however, are that of validation and, in case of a disagreement, determining which party is in the right.

The Usual Provisions of Farm Leases: In drawing up the farm lease, most landlords and tenants try to balance the contributions and expenses of each party with the customary division of income in order to make the lease agreement as fair as possible.

When the farm is a good one sought after by many tenants, the terms of the lease may be somewhat different than when the farm situation is such that tenants are not as anxious to rent. Likewise, if there is only one prospective tenant, the bargaining and the final lease may be different than when several tenants are anxious to rent the same farm.

Custom largely determines the usual provisions of a lease within a community. Not all lease agreements in a community, however, are identical—even though the type of lease may be similar.

Making Adjustments in the Lease: In general, if adjustments are needed in a lease, it is recommended they be made in the expenses and contributions, rather than in the division of the income. In preparing a 50-50 farm lease, retain the half-and-half distribution of the income. Make whatever adjustments are needed in the expenses and contribution sections to make the lease acceptable to both parties.

On farms where high labor-requiring enterprises, such as dairy and poultry, are carried on, it may be equitable for the landlord to contribute more than the usual 50 percent of some of the expenses. This can be done in crop expenses, such as for commercial fertilizer and seedings. Most landlords furnish all the lime.

Should the Lease Be in Writing? Yes, and it should also be signed by both parties. A written lease serves three good purposes: (1) It causes the landlord and the tenant to discuss and agree on the provisions of the farm lease before, rather than after, the farm is leased; (2) it provides a

clearer understanding between the parties and more security for each; and (3) as a result, the farm should be operated more efficiently and with greater profit to both parties.

SPECIAL CONSIDERATIONS

1. *Description of the Farm:* In making out the rental agreement, it is very important to properly describe the property to be rented. This description should include (a) the location and acreages of the land to be rented, and (b) any exceptions or reservations of land and buildings owned by the landlord which might be in any way considered part of the property being rented, but which are to be excluded from the lease contract.

It is also well to list under "Exceptions or reservations" any fields of growing grain crops, such as winter wheat or rye, which the previous tenant has the right to come back for and harvest.

2. *Term of the Lease:* Continuity of operation by the same tenant is highly desirable, particularly if the tenant is honest, reliable, and a good farmer. However, mutual agreement to a long term—for example, a 3-year or 5-year lease—does not insure satisfactory continuity. For most landlord-tenant situations, a one-year lease with an automatic renewal clause is recommended. The renewal clause should provide for the lease continuing from year-to-year, unless written notice to terminate is given by either party on or before an agreed date prior to the annual expiration date of the lease.

The termination date of a farm lease is as important as the starting date. When tenants change farms they are likely to do so about March 1. Thus, to get the time period started right during the first year of leasing, there are many advantages in having the lease terminate the last day of February, regardless of the date of starting.

3. *Renting Additional Land:* In some situations, the farm may be too small to attract or to be adequate for a good tenant. In such cases, it may be desirable or necessary to rent additional land. When the crop or crops raised on shares on the land rented are brought back to the farm, the land-

lord should pay for his share—for example, ½, ⅓ or ⅔—at the first monthly settlement date following delivery of the crop to the farm. If by chance the extra land was rented for cash, the landlord could pay the cash rent in lieu of buying a share of the crop brought back to the farm. The agreement with reference to this item should be included in the lease contract.

4. *Settlement at Beginning of the Lease:* As soon as the new tenant has moved all his farm personal property to the farm at the beginning of the lease, it is extremely important that a careful inventory be made of the amount and value of all farm personal property belonging to each party. This inventory should serve as a basis for adjusting the investments and contributions of both parties at the start of the rental period, in accordance with the provisions of the lease. Each party should sign the settlement agreed upon at that time.

5. *Growing Crops at Beginning and End of Lease:* The two methods usually used in handling a growing crop, such as wheat, at the beginning and end of the lease are: (a) the tenant buys a share of the growing crops at the beginning of the lease; at the termination of the lease, the tenant sells his share to the landlord; or (b) the tenant returns to the farm after the termination of the lease to harvest the crop in accordance with the provisions of the lease.

One advantage of Plan (a) is that the business dealings between the landlord and tenant terminate at the end of the lease, rather than holding over into the next harvest season.

6. *When Tenant Owns Special Machinery:* In many 50-50 crop and livestock share farm leases, the landlord and the tenant share in the cost of some of the special machine operations, such as combining, baling and silo filling. The question often arises on how to handle these expenses when the tenant owns the special machine. The farm is entitled to the tenant's labor without charge. Also, if the tenant and the landlord share in the gas and oil used in connection with such machines, those items should be taken into consideration in

reaching an agreement for compensating the tenant.

A common practice on many rented farms is for the tenant to charge one dollar-an-acre less for combining (and similar deductions for other machines) than would be paid a custom operator from off the farm. The landlord then pays the tenant one-half of the reduced rate.

7. *Monthly Settlements:* It is best to make monthly settlements on or near to a certain specified date. Settlements should be made regularly each month and kept up-to-date. This helps to avoid trouble and misunderstandings.

8. *Cooperation in Management:* In situations where the landlord is well-informed with respect to good farming and farm management, there should be cooperation in deciding on farm organization and operational items such as numbers and kinds of livestock, acres and kind of crops, crop rotations, kinds and amount of fertilizers, seeding, soil conservation practices, etc.

A mimeographed farm map showing the field arrangement and the acres in each field is very helpful in planning the crops and soil programs for the year. By the use of two maps and a sheet of carbon paper, the crop, fertilizer and seeding programs for the year could be worked out in January or February and indicated by fields. The tenant would retain one copy and the landlord the other. Both parties could also have a farm map showing the drainage system, and another map showing the date and the amounts of lime applications. The maps could also be used for such other purposes as either party may desire. A plentiful supply of these farm maps could well be kept on hand for current and future uses.

9. *Duties of Tenant:* In all types of farm leases, the tenant is expected: (a) to conduct the farming operations in an efficient and good husbandry-like manner; (b) to devote his full time to the efficient operation of the farm, unless otherwise agreed; (c) to provide labor for the minor repairs and upkeep of buildings, fences and drains; (d) to keep the premises neat and tidy; and, (e) to keep weeds under reasonable control, including mowing thistles in pastures.

TABLE 1—*The following table shows the usual provisions of the most common crop and livestock share farm leases.*

ITEMS	50-50 LEASE		LANDLORD'S ⅔		LANDLORD'S ⅓	
	Landlord	*Tenant*	*Landlord*	*Tenant*	*Landlord*	*Tenant*
Investments						
Farm	All	0	All	0	All	0
Machinery	0	All	All	0	0	All
Milk house equipment*	Usually all	Usually none	All	0	Bargain	Bargain
Cattle, hogs and sheep	½	½	All†	0†	0†	All†
Poultry	‡	‡	‡	‡	‡	‡
Feed	½	½	⅔	⅓	⅓	⅔
Expenses						
Labor	0	All	0	All	0	All
Tractor fuel and oil	Usually ½	Usually ½	All	0	0	All
Machinery expense and repairs	0	All	All	0	0	All
Milk house equipment*	Usually all	Usually none	All	0	Bargain	Bargain
Electricity, farm share	½	½	All	0	0	All
Combining, baling, silo filling	½	½	All	0	0	All
Corn picking	Varies	Varies	All	0	0	All
Crop expense: seed, fertilizer, etc.	½	½	⅔	⅓	⅓	⅔
Lime	All	0	All	0	All	0
Livestock expense	½	½	All	0§	0§	All
Feed, feed grinding, pasture rent	½	½	⅔	⅓	⅓	⅔
Buildings, fences, tile drains						
Minor repairs	Material	Labor	Material	Labor	Material	Labor
Major repairs	All	0	All	0	All	0
Income						
Crops:						
Usual field crops	½	½	⅔	⅓	⅓	⅔
Cattle:						
Increase	½	½	⅔	⅓	⅓	⅔
Products	½	½	⅔	⅓	⅓	⅔
Poultry:						
If owned in common	½	½	⅔	⅓	⅓	⅔
If owned by tenant	0	All	0	All	0	All
Hog increase	½	½	⅔	⅓	⅓	⅔
Sheep increase and wool	½	½	⅔	⅓	⅓	⅔

*Such as milk cooler, water heater, washing tanks and can rack.

†Brood sow ownership is often shared to make it easier to divide the income from hogs.

‡In some instances the tenant is permitted to keep a specified number of hens and receive all the income from them. In other cases, the poultry is handled the same as are the other livestock enterprises.

§Except that each party would pay for his share of breeding fees, and also for veterinary and medicine expense for young stock.

10. *Manure and Straw:* The lease contract should specify that the tenant agrees to haul and spread the manure produced on the farm. The lease contract could well specify the penalty, at so much per load, to be payable by the tenant to the landlord if, at the termination of the contract, he has not performed this function. Unless specifically agreed to the contrary, the tenant does not have the right to remove manure from the farm.

Most landlords object to the removal or sale of straw from the farm. In such instances, the problem may be solved by the tenant paying for his share—for example, ½, ⅓ or ⅔ of the baling charge for the baled straw on hand at the beginning of the lease period. When the tenant leaves, he is reimbursed for his share of the baling of the baled straw still on hand.

THE CROP-AND-LIVESTOCK LEASE

The Crop and Livestock Share Lease is the most widely-used type of lease in Michigan. There are many variations of this lease. The usual ones are as follows: (1) The 50-50 Share Lease; (2) The Landlord's ⅔ - Tenant's ⅓ Share Lease; and (3) The Landlord's ⅓ - Tenant's ⅔ Share Lease. All three types are compared in detail in Table 1.

The 50-50 Crop and Livestock Share Lease is the most widely used of all the crop and livestock share farm leases.

In the 50-50 type of lease, the landlord furnishes the farm and usually one-half of the livestock. The tenant usually provides one-half the livestock; the labor and machinery for operating the farm; and the machinery operating expense, except for gas and oil. Both parties should cooperate in management decisions. (See Table 1 for the other usual provisions of this type of lease.)

Since all situations with respect to the farm and its facilities and the tenant are not the same from farm-to-farm, certain items may be handled differently. Examples of such items are: (1) crop expenses, such as grass and legume seed, and commercial fertilizer; (2) corn-picking expense; and (3) the poultry income, which may be divided 50-50 or may all go to the tenant. In some instances, the tenant is allowed to keep a specified number of hens and get all the income from them. The tenant is to feed the hens from the undivided *home-grown* feed but to furnish the *purchased* feed.

The Landlord's ⅔ — Tenant's ⅓ Crop and Livestock Share Lease. In this type of lease, the landlord has a large investment in farm personal property which he places under the management of the tenant. The main advantage is that it can help a young man with limited capital get started in farming. It is also used in helping a relative, or in other special cases where the prospective operator does not have sufficient capital to operate on a 50-50 basis. This type of lease is often used as a temporary expedient to help a tenant get started toward a 50-50 basis.

In this lease, the landlord furnishes the farm, all the machinery, and all equipment and livestock. In some instances, brood sows are owned on a ⅔ - ⅓ basis to make it easier to divide the income from hogs. Poultry, however, may be handled as indicated in the 50-50 lease. The tenant usually furnishes all the labor. (See Table 1 for the other usual provisions of this type of lease.)

Farm income, including livestock increase, is divided ⅔ to the landlord and ⅓ to the tenant. The "increase" in livestock, particularly with cattle and sheep, is divided ⅔ - ⅓ at the time of sale; if retained in the breeding herd, the landlord buys the tenant's one-third interest at time of freshening or lambing.

The *Landlord's ⅓ — Tenant's ⅔ Crop and Livestock Share Lease* is frequently used in the following situations: (1) when the tenant is well financed with respect to machinery and livestock; (2) when the landlord has retired and contributes less capital, management and risk in the business; and (3) when the tenant is closely related to the landlord; for instance, a son or son-in-law.

In this lease, the landlord furnishes the farm and usually the special milkhouse equipment. The tenant usually furnishes all the machinery, equipment, livestock and labor. Brood sows may be owned on a ⅓ - ⅔ basis for the reasons given in the preceding section. Poultry may be handled on a ⅓ - ⅔ basis, or may all belong to the tenant as indicated in the discussion of the 50-50 lease.

Farm income, including livestock increase, is divided ⅔ to the tenant and ⅓ to the landlord. The "increase" in livestock, particularly for cattle and sheep, is divided at the time of sale; if retained in the breeding herd, the tenant buys the landlord's one-third interest at the time of freshening or lambing. (See Table 1 for the other usual provisions of this type of lease.)

THE CROP-SHARE CASH LEASE

The Crop Share Cash Farm Lease is, for the most part, found only in the lower two tiers of counties in Michigan—and more in the southwestern than in the southeastern part of the state. It is adapted to cases where the landlord is too short of capital to operate on a 50-50 basis—or where the landlord provides little or no management—and where there is a lack of suitable farm buildings.

In actual practice, this type of lease has not been very satisfactory either to the landlord or tenant. Landlords, having no share in the income from livestock, are often not interested in keeping up the fences, buildings and pastures needed for a good livestock program. Furthermore, income to the landlord tends to be low, and thus, he is unable to keep up the productivity of the land. Tenants, on their part, are often reluctant to pay the landlord cash for the use of buildings, pasture, etc. The farm becomes "run-down." The tenant moves. The cycle either starts over again with a new tenant, or the farm is sold. Or, as sometimes happens, it is temporarily abandoned.

The usual provisions of the Crop-Share Cash Farm Lease are that the tenant pay cash for the use of the buildings, and for the tillable and non-tillable pasture. The amount of cash to be paid for the use of the buildings would vary according to their condition and value. The amount might well, for example, approximate the annual depreciation, insurance and other maintenance costs of the buildings—plus a reasonable return for risk and for interest on the investment. The income from the crops is divided 50-50. The tenant provides all the machinery, equipment, and livestock —and receives all the income from livestock.

In many instances, the tenant and landlord share equally in the purchase of commercial fertilizer, and in grass and clover seeds. This is believed to be good practice for both parties. The tenant is expected to deliver the landlord's share of corn, grain and cash crops to a designated market. The tenant agrees to purchase the landlord's share of the hay and silage at harvest time.

THE CASH LEASE

About 30 percent of the tenants in Michigan rent their farms on a cash basis. In general, the proportion of tenants with cash rentals is highest in the northern part of the state. The lowest proportion of cash farm leases is in the southern counties, with 10 to 35 percent. Wayne, Macomb and Oakland counties, however, are exceptions and 60 to 80 percent of the tenants in these counties rent their farms on a cash basis.

The provisions of a Cash Farm Lease are fairly uniform. They relate mostly to the amount and method of paying the cash rental, the general crop rotation, the crop production practices, and the performing of certain other farming practices which will help maintain the productivity of the land.

The cash rental rate should be sufficient to pay (1) the usual farm maintenance expenses, depreciation, insurance and upkeep of the buildings; depreciation and upkeep of the fences, drains and water supply; liming materials; taxes, etc.; and (2) to provide a reasonable return for risk and interest on the investment.

FATHER-AND-SON AGREEMENTS

The Michigan Father-Son Farm Operating Agreement: This is a profit-sharing type of agreement. Copies of a Father-Son Farm Operating Agreement form and a bulletin on the subject may be obtained from your County Agricultural Office, or from the Agricultural Economics Department at Michigan State.

FIELD AND ORCHARD RENTALS

A written agreement is also desirable for field and orchard rentals. A pamphlet entitled "Field

Rentals" and a pamphlet entitled "Orchard and Vineyard Rentals" may be obtained from your County Agricultural Agent or from the Agricultural Economics Department, Michigan State University. These pamphlets present the usual arrangements as well as rental forms for renting fields and orchards.

ESSENTIALS FOR SUCCESSFUL FIELD RENTING

Tenants cannot afford to share-rent poor land on the usual share lease basis. Landlords should want to maintain or build up the fertility of their land. It is not necessary for a farm to become "run-down" just because it is field rented. Thus, it is desirable to rent fields on a basis that will maintain or improve soil productivity.

If the landowner wishes to maintain the productivity of the land which he rents out on a field basis, the following provisions in the lease agreement should help: The landowner to retain the privilege of specifying (1) the kind of crops to be grown on the field from year to year; (2) the kinds and times of seedings to be done by the renter; and (3) the plowing under of green manure crops for which he, the owner, furnishes the seed.

The kinds and amounts of fertilizers to be applied should be a joint decision and responsibility of the owner and the tenant. The applying of liming material where needed should be the responsibility of the landlord. And finally, if the renter has demonstrated his ability as a good farmer and is also a person of high integrity, the term of the lease could well be for more than one year.

Unusual Provisions for Field Renting: The provisions for leasing fields on a crop-share basis are so numerous they will not be listed here. They are listed in the pamphlets available for making out field and orchard leasing contracts, already named.

Renting fields for cash is usually not a good practice, particularly from the standpoint of the owner. Cash rentals usually return less income to the owner than does share rental. One of the problems with field cash rentals is to determine a fair cash rent. A basis for determining cash rents for land to be used for the usual field crops would be one-third of the expected crop, less the usual landlord's expense under such a plan, and also less a reasonable allowance for risk to the renter. That allowance compensates him for taking all the risk involved in producing the crop, and then perhaps having low yields or even crop failure because of poor weather conditions.

Essentials for Success

Some of the essentials for success on a rented farm are: (1) a good farm, (2) a good tenant, (3) a good landlord, (4) a good landlord-tenant relationship, (5) an adequate volume of business, and (6) a lease contract that is fair to both parties. The absence of even one of these essentials reduces the chance for success on the rented farm.

A good farm should provide comfortable and modern living conditions. It should be at least reasonably productive. It should be large enough to provide for an adequate volume of business. Buildings should be in good condition and of adequate size to store the crops and house the livestock. Water supply, fences and drains should also be in good condition. This is an ideal situation, but it should be the goal of a good landlord.

A good tenant should (1) be honest and dependable, (2) be a good farmer, (3) have good family interest and cooperation, (4) help maintain the farm land, buildings, fences and drains, (5) be reasonable in his requests of the landlord, (6) help keep the farm looking good, and (7) keep good farm account records.

A good landlord should (1) be honest and dependable, (2) respect the rights and integrity of the tenant and his family, (3) help maintain the farm land, buildings, fences and drains, (4) be reasonable in his requests of the tenant, and (5) not expect free food from the farm. Many good landlords may know little about present-day efficient farming—but they do know enough to employ a farm management service, or to pick a good tenant and then let him operate the farm in his own way.

An adequate volume of business is a "must" if the gross farm income is to be adequate to pay all operating expenses and provide a balance to be divided between the landlord and the tenant. It is more important to have a big melon to divide than it is to argue over the color of the seeds.

JUNE 1955—15M