

PART 3

Establishing a rental rate and agreement that work



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For THE NEWS

Renting land is an alternative to owning. Renting allows a farmer to increase the size of his or her operation without having to commit (or even have) the money needed to buy the land. For starting farmers, renting is a very good way to enjoy the benefits of a larger operation without taking on large amounts of debt.

Renting also provides a farmer with more flexibility to move his or her operation to geographical areas. For example, a young farmer could initially expand by renting land over a relatively

large area and then, as land becomes available closer to the home farm, stop renting land at the farthest points in favor of land closer.

Over half of the cropland in the United States is rented. The landowner may be the tenant's parents or siblings, retired farmers, surviving spouses or off-farm investors.

Mostly, landowners manage the rental arrangements themselves. It is important that a rental agreement be in writing and agreed upon by both landowner and operator.

Some of the advantages of a written agreement are:

1. It encourages a detailed discussion of the agreement that leads to a better understanding by both parties.

2. It serves as a reminder of the items originally agreed upon.

3. It provides a valuable guide for the heirs if either the operator or landowner dies. By statute of frauds, interest in real estate generally must be in writing.

The agreement should be carefully reviewed each year to ensure the terms of the agreement are still applicable and desirable.

These minimal provisions alone, however, do not meet all the requirements of a good lease. Additional provisions should provide guidance on how the land is to be used and outline possible problems areas and solutions.

A good lease should clearly identify the property being rented. If the landowner wishes to reserve the use of certain improvements (I.e. buildings) on the land, these should be clearly stated in the lease.

CASH FARM RENTAL AGREEMENT LEASE CHECKLIST

PARTIES TO LEASE AND DESCRIPTION

- Date the lease is entered into
- Names and addresses of landowner and operator
- Legal description of leased property
- Signatures of landowner and operator
- General terms
- Time period of lease, beginning and ending dates
- Rental amount for cash lease
- When and how rent paid, penalties for late payment
- Who's carrying insurance on property and crop
- Statement that landowner and operator don't intend to create a partnership by entering into agreement.
- Neither party will obligate the other for debts/liabilities or damages
- Conditions under which operator may or may not sub-lease the property

TERMINATION

- When and how lease may be terminated, requirements for notice of termination
- Acts of operator that constitute default of lease
- Operator's rights if property is transferred during lease period
- Operation and maintenance
- Desired or prohibited farming practices
- Process of measuring and maintaining soil fertility and pH levels
- Party responsible for controlling noxious weeds
- Party responsible for maintaining fences
- If operator has right to make improvements, compensation for improvements
- If operator has right to utilize improvements made by landowner
- Provisions for soil-conservation practices
- Use of other areas (ie, bins, trees, buildings)

LANDOWNER RIGHTS AND GOVERNMENT PAYMENTS

- Landowner's right to enter property
 - Landowner's right to interest in crops or other provisions for ensuring payment
 - Statement of which party will participate in federal farm programs
 - Nature of landowner participation in management
 - Arbitration of differences
 - Provision that any amendments must be in writing and signed by both parties
 - Procedure for resolving disputes, including WI state statutes
- Visit <http://dunn.uwex.edu/agriculture/farmmanagement/farm-lease-information/> for copies of written lease agreements.

— ADAPTED FROM "FIXED AND FLEXIBLE CASH RENTAL ARRANGEMENTS FOR YOUR FARM," NORTH CENTRAL FARM MANAGEMENT EXTENSION COMMITTEE