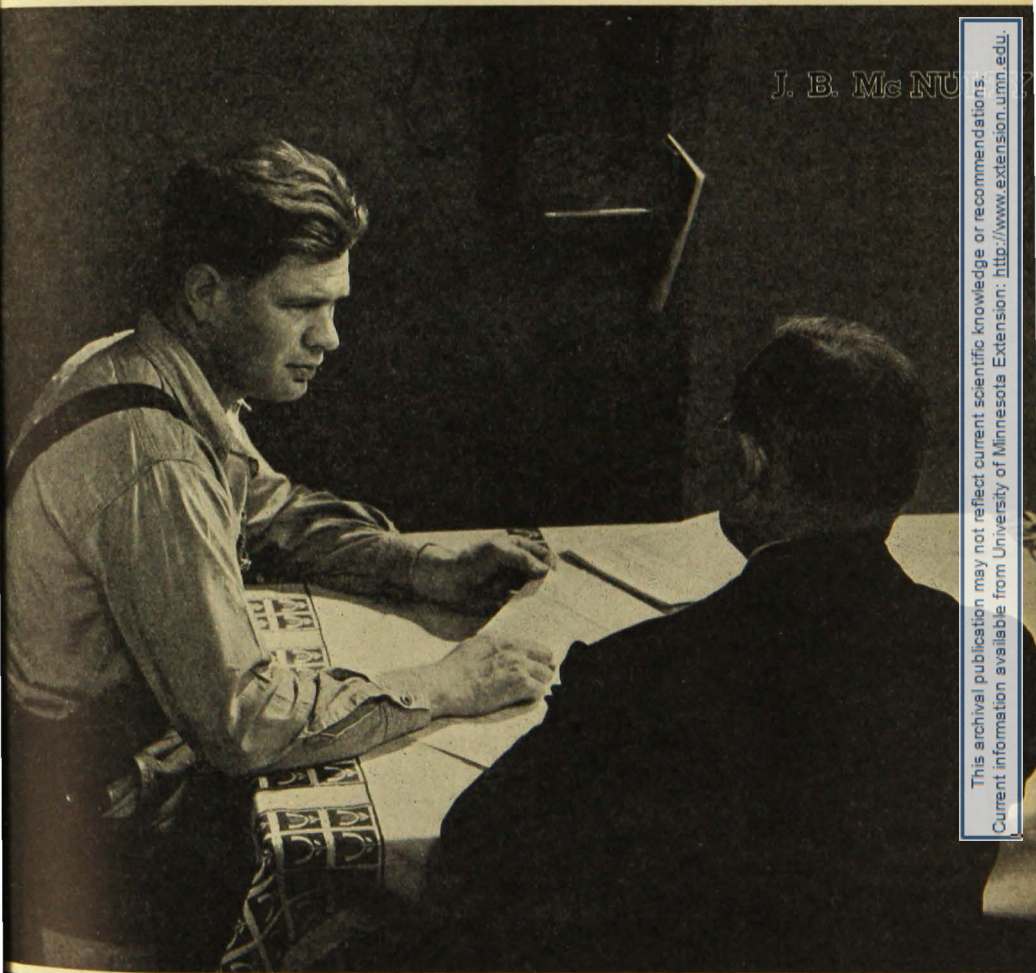


FARM TENANCY *and* LEASING ...

J. B. McNU



This archival publication may not reflect current scientific knowledge or recommendations.
Current information available from University of Minnesota Extension: <http://www.extension.umn.edu>

UNIVERSITY OF MINNESOTA
Agricultural Extension Service
U. S. DEPARTMENT OF AGRICULTURE

FORTY-SEVEN per cent of the farm land in Minnesota is operated by tenants. The biggest problem of the tenant is to get a good farm. Usually the poor farms rent relatively high compared to the good ones. Good buildings are desirable, but the income is determined largely by the quality of the soil. The biggest problem of the landlord is to get a tenant who is capable, honest, and industrious. To get a good tenant on a poor or weedy farm, it is usually necessary to make concessions.

Share leases tend to adjust themselves to a changing price level. Cash rent declines more slowly than the price of farm products in periods of declining prices, and in periods of rising prices it advances more slowly. Truck crops are not adapted to share leases because the labor expense is a much larger proportion of the total than with the usual field crops. Livestock leases are adapted to landlords who are farm-minded and who can give time to the supervision of their farms, and to tenants who would otherwise have difficulty in financing themselves.

Under year-to-year leases, or term leases with a sale clause, it is desirable to have arrangements in the contract that will encourage the tenant to farm with a long-time viewpoint. This may be done by inserting in the lease a provision that if the tenant makes certain improvements he will receive compensation for the unexhausted value of such improvements if he should leave before he has had a reasonable use of them. Among the items that may be handled in this way are alfalfa, hog and poultry fencing, finely ground limestone, phosphate fertilizer, and summer fallowing for weeds.

It is customary for the landlord to pay all the taxes. If the lease contains a provision that the tenant is to pay half of the taxes instead of a certain amount of rent, it will greatly stimulate his interest in school district, township, and county governmental activities.

Farm Tenancy and Leasing

J. B. McNULTY

This bulletin presents two kinds of information relating to farm tenancy and has been prepared in two parts for greater convenience to readers. Part I is a discussion of the present farm tenancy situation in Minnesota, presenting facts and figures of interest to a wide range of readers. Persons primarily interested in types of leases, their advantages and disadvantages for both tenants and landlords, and suggestions for planning and improving leases may turn immediately to Part II, beginning on page 7. This bulletin replaces Special Bulletin 153, "Suggestions on Farm Leases," by William L. Cavert, and reproduces some of the material found therein.

I. Present Tenancy Situation in Minnesota

According to the 1935 federal census, 33.6 per cent of Minnesota farms are operated by tenants and 16.8 per cent of the owners rent additional land. Including land rented by owners, 47.2 per cent of the farm land in Minnesota is operated under some system of rental.

The proportion of all land in Minnesota operated by tenants increased from approximately 25 per cent in 1920 to 47 per cent in 1935. This proportion varies widely among the different type-of-farming areas as shown in table 1.

The average number of acres per farm for the three tenure groups in 1935 is as follows: owner operators, 128; tenant operators, 180; part owners, 222 acres (124 owned and 98 acres rented). This difference in size of farms by tenure groups varies considerably between type-of-farming areas.

The percentage of all farms in Minnesota operated by tenants increased from 24.7 in 1920 to 33.6 in 1935. The

data in table 2 show that there is considerable variation in the percentage of farms operated by tenants between type-of-farming areas.

Table 1. Proportion of Farm Land in Minnesota Operated by Tenants by Type-of-farming Area

| Area | Per cent |
|------------------------------|----------|
| 1. Southeast | 45 |
| 2. South Central | 40 |
| 3. Southwest | 60 |
| 4. West Central | 57 |
| 5. East Central | 35 |
| 6. Northwest | 48 |
| 7. Red River Valley | 59 |
| 8. Northern (cut-over) | 28 |
| 9. Twin City Suburban | 36 |

According to a study made by the Division of Agricultural Economics of the University of Minnesota in 1936, approximately 79 per cent of the rented land is farmed by men who own none of the land included in their farming operations, while 21 per cent is farmed by men who rent land in addition to what they own.

Who Owns the Rented Land?

Information on the ownership of the rented land in Minnesota was obtained in a study made by the Division of Agricultural Economics¹ of the University of Minnesota in 1936 as follows.

INSTITUTIONAL LANDLORDS

| | Per cent |
|--|-------------|
| Insurance companies | 8.7 |
| Minnesota Department of Rural Credit.... | 4.8 |
| Mortgage Land and Investment Companies | 2.6 |
| Commercial and Savings Banks | 2.1 |
| Joint Stock Land Banks..... | 1.0 |
| Federal Land Bank..... | 0.8 |
| Churches, colleges, and miscellaneous..... | 1.7 |
| Total institutional | 21.7 |

FARMER LANDLORDS

| | Per cent |
|---------------------------------|-------------|
| Farmers | 27.8 |
| Widows of farmers..... | 10.0 |
| Estates | 9.5 |
| Total farmer-owned | 47.3 |

NON-FARMER PRIVATE LANDLORDS

| | Per cent |
|---|-------------|
| Non-farmers in county..... | 10.3 |
| Non-farmers out of county in state..... | 10.1 |
| Non-farmers out of state..... | 9.3 |
| Miscellaneous | 1.3 |
| Total owned by non-farmers..... | 31.0 |

The 22 per cent of all rented land owned by institutional landlords is for sale and may be expected to return to private owners as soon as buyers have acquired the savings needed for the down payment. This 22 per cent of the rented farms is therefore not a permanent tenancy problem but is the temporary result of overoptimism with resultant overlending and overborrowing in the period prior to 1930. The tenants on these farms, however, have a problem in that these farms are rented on a year-to-year basis so that they may be sold whenever the landlord has an opportunity. It may be

¹ Minnesota Farm Business Notes, Division of Agricultural Economics, University of Minnesota, June 20, 1937.

several years before this group of involuntary landholders will substantially reduce their holdings, because new requirements may equal or possibly ex-

Table 2. Percentage of All Farms in Minnesota Operated by Tenants, 1935*

| Area | Per cent |
|------------------------------|----------|
| 1. Southeast | 37 |
| 2. South Central | 31 |
| 3. Southwest | 51 |
| 4. West Central | 47 |
| 5. East Central | 24 |
| 6. Northwest | 33 |
| 7. Red River Valley | 43 |
| 8. Northern (cut-over) | 16 |
| 9. Twin City Suburban | 22 |

* Report of the committee on Land Tenures and Farm Debt Structure in Minnesota. Minnesota State Planning Board, March 1937, pp. 3 and 4.

ceed sales. In the meantime these farms are a problem to both the tenants and the investing institutions.

Most of the nine per cent of the rented farms in estates will be returned to private ownership through sales to one of the heirs or to other operating farmers and, therefore, does not constitute a permanent tenancy problem.

A TEMPORARY TENANCY PROBLEM IN MINNESOTA

| | percent of all rented farms |
|---|-----------------------------|
| Institutional landlords | 22 |
| Estates | 9 |
| Farms operated by relatives of owners (30% of the 69%, privately owned)..... | 21 |
| Total | 52 |

Approximately 30 per cent² of all the rented farms privately or individually owned are operated by relatives of the owners. Farms privately owned include the 38 per cent owned by farmers and farmers' widows and the 31 per cent owned by non-farmer private landlords, or 69 per cent, of all rented farms.

² *Ibid.*

in the whole United States to be sold to capable tenants at low interest rates on a long-time amortization basis.

Minnesota's share of the 1938 appropriation is expected to provide funds for the purchase of 20 to 25 farms in 1938. Assuming that the maximum appropriation is made annually, 1,200 to 1,300 tenants could be started out as owners during the next 10 years. This is slightly less than 2 per cent of the 68,412 tenants in Minnesota in 1935.

Lower Taxes on Homesteads of Owner-Operators

Preferential taxes on the homesteads of owner-operators in Minnesota are expected to be a factor in reducing the number of tenant-operated farms in Minnesota. Formerly owner- and tenant-operated farms were all assessed alike, for tax purposes, at $33\frac{1}{3}$ per cent of their assessed full and true value. Under the provisions of the

present law, owner-operators are assessed 20 per cent of the value of the homestead. If the full and true value of the farm, including the homestead, exceeds \$4,000, the assessment rate on the balance is $33\frac{1}{3}$ per cent of the true and full value. Owners of tenant-operated farms, however, are assessed $33\frac{1}{3}$ per cent of the true and full value of the whole farm. This tends to make it more profitable to own than to rent.

The reduction in taxes on a percentage basis is, however, greatest for farms with an assessed full and true value of \$4,000 or less. This is illustrated by a comparison of two owner-operated farms in the same school district in Washington County. The taxes on farm A with an assessed full and true value of \$3,630 were reduced from \$76.44 to \$44.00, or 42.5 per cent. On farm B with an assessed full and true value of \$12,120.00, the tax was reduced from \$255.33 to \$219.51, or 14 per cent.

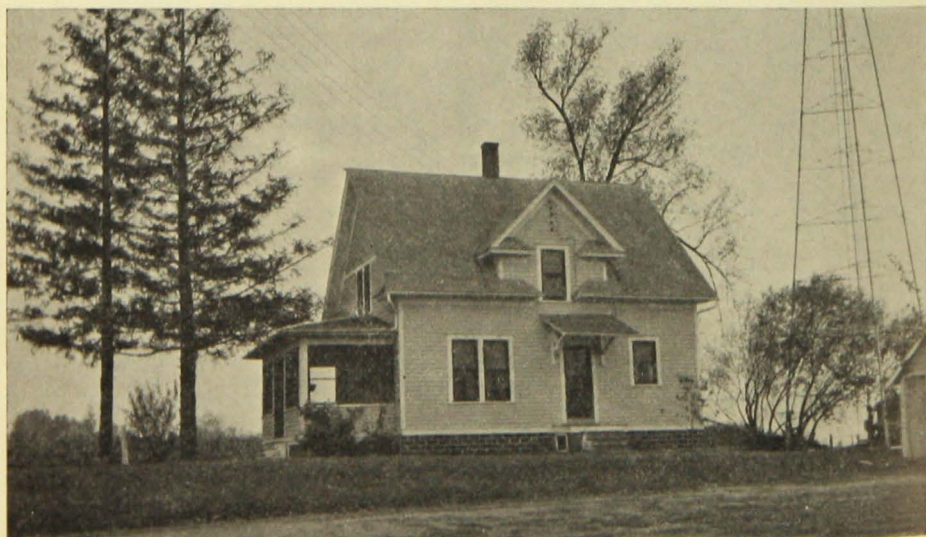


FIG. 2. THE FARM ON WHICH THIS HOUSE IS LOCATED HAS BEEN RENTED BY THE SAME TENANT FOR ELEVEN YEARS

II. Suggestions on Farm Leases

Arrangements between landlord and tenant that are fair to each and that give the tenant an incentive to do good farming are of vital interest to Minnesota agriculture.

The biggest problem of the tenant is to get a farm with naturally rich soil, a reasonably satisfactory dwelling, and in a community where he and his family will be happy in their church, school, and neighborhood relations. It is also important to have a landlord with a reputation for fair dealing with tenants.

Frequently a tenant does not at the beginning fully appreciate the importance of a highly productive soil. Many tenants have made the mistake of accepting a farm with poor soil because of attractive buildings, or because a silo, a hog house, or a chicken house was particularly desirable. A reasonably comfortable and adequate dwelling is highly important. Buildings in which

an ample supply of feed can be stored, livestock housed comfortably, and chores done conveniently are also desirable. If one can get them in addition to the good soil, so much the better, but one should keep in mind that income is produced chiefly by the soil.

The importance of good soil may be illustrated by a situation that recently came to our attention. In a section where there is a narrow strip of soil along a stream, underlaid with coarse gravel, a tenant on this poor soil was paying one third of the corn and the small grain as rent, while farmers on nearby farms on good soil were paying two fifths. The neighboring farms might be expected to average 30 to 45 bushels of corn or oats per acre, depending upon the amount of manure applied and the acreage kept in legumes. Inquiry among local farmers disclosed that the poor farm had never



FIG. 3. THOUGH GOOD SOIL SHOULD BE THE FIRST CONSIDERATION, THIS TYPE OF HOUSE IS NOT LIKELY TO ATTRACT A GOOD TENANT



FIG. 4. FOR THE HEALTH AND COMFORT OF LIVESTOCK AND FOR CONVENIENCE IN CHORING, A GOOD BARN IS IMPORTANT

raised a good crop of corn. In dry years the corn crop was a failure; in wet years one might hope for 20 to 25 bushels of corn and about 25 bushels of oats. Three fifths of the 40 bushels that might be expected on the good farm is 24 bushels. Thus the tenant's average share on the good farm is more than could be expected as a full crop in a favorable year on the poor farm. A tenant would have more crop for about the same amount of work by paying two fifths of the crop on the good soil rather than having the poor farm rent and tax free. This case may be extreme, but it emphasizes the fact that a tenant should first estimate carefully the number of bushels per acre he will receive for his share.

Sometimes a tenant can not get one of the better farms in a locality at first, but one of the rewards for good tenant farming is likely to be an opportunity to get a better farm.

Leasing Provides Opportunities for Young Men

Insofar as tenantry provides the opportunity for young men to acquire the experience needed for the successful operation of a farm, and at least a part of the capital needed to acquire land, it is a desirable part of the land-tenure system in Minnesota. Some modifications of leasing practice, however, may be desirable. These modifications are concerned chiefly with improving the equitability of leases and maintaining the productivity of the soil. In 1936, 82 per cent³ of Minnesota leases were for a period of one year. With one year as the prevailing base period, and with term leases containing a cancellation clause constituting most of the others, provisions for remunerating tenants for such unexhausted improvements as seeding alfalfa, spreading

³ *Op. cit.*

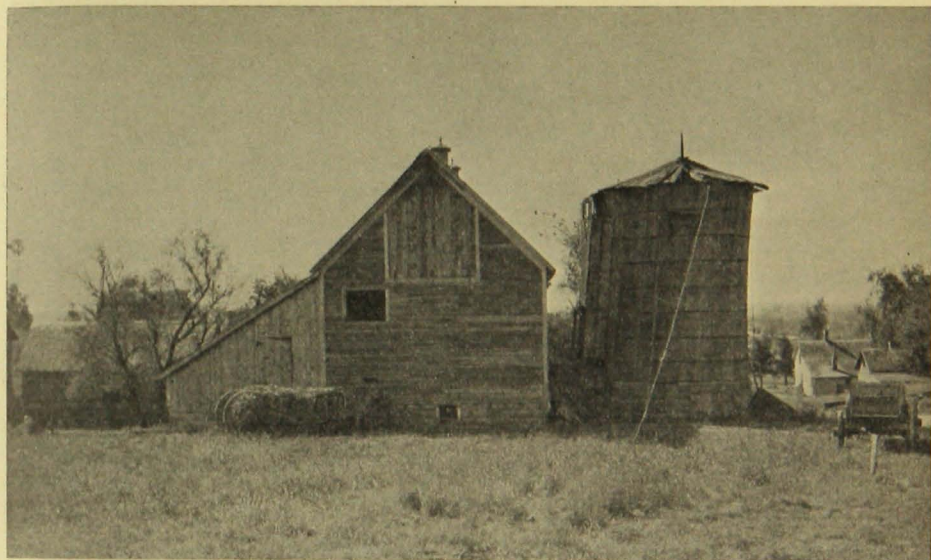


FIG. 5. A COLD, LEAKY, POORLY LIGHTED BARN MAY BE A COSTLY ITEM FOR BOTH TENANT AND LANDLORD

lime, weed eradication, and summer fallow are needed to encourage good farming practices and to maintain the productivity of the land.

GETTING A GOOD TENANT

The biggest problem of the landlord is to get a good tenant. If his farm is capable of producing 40 to 50 bushels of corn and oats in ordinary years, he will not get it unless he has a tenant who farms well. After he has secured the good tenant, he has the problem of arranging the lease in such a way that the tenant has a strong incentive to put forth his best efforts. There is no way to be certain of getting a good tenant. Ordinarily there is no great difficulty in getting a reasonably satisfactory tenant on a good farm, but if one is to get a tenant on a farm that has naturally poor soil or that is badly infested with weeds, it is usually neces-

sary to make concessions or to take a tenant who has not yet proved his worth. Under share leasing, the good crop raised by a capable tenant may net the landlord more bushels per acre than the smaller crop raised by a less desirable tenant even though the capable tenant gives a smaller share of the crop.

Some of the qualities in tenants that landlords usually consider highly important are the following: 1. Strict honesty. 2. Industry and ability to get work done on time. 3. A disposition to keep premises neat and a willingness to make minor repairs to buildings and fences promptly. 4. Ability to finance himself and to provide suitable equipment. 5. An active interest in preventing the spread of weeds and in preventing the introduction of new ones. 6. An ability to learn and apply new methods and practices as soon as their merit is established.

Usually the best way to secure a new

tenant is to cultivate the acquaintance of local tenants and young men who are likely to want to begin farming for themselves. A landlord who has several farms to rent usually receives numerous applications. Even though a tenant is not needed at the time, it is well worth while to keep under observation such applicants as seem to be good prospects.

Instances have come to our attention in which tenants with excellent recommendations were had from a distance. It later developed that these recommendations were given to help the tenant to leave a farm where he had not been a success.

Tenants from a distance usually need to learn about local problems of soil, crop varieties, markets, and climate.

When a good tenant has been obtained and has become well established on a farm, the landlord sometimes decides to raise the rent. As a result, the tenant's zeal in looking after the landlord's interests may be lessened. Sometimes it results in a change of tenants. Then the landlord may realize that the total rent is what counts and that an extra dollar or two per acre for the hay and pasture is of small importance compared to the advantage of having a capable tenant who is happy on the job.

KINDS OF LEASES

The data in Table 3 indicate that there is considerable variation in the proportion of rented land in the eight types of farming areas rented under the four important types of leases. However, approximately one half of the rented land is operated in the "cash and crop share" lease. Under this type of lease the landlord receives a share of the crop on a specified number of acres in certain crops, and cash for the bal-

ance of the farm. The cash rent usually applies to hay and pasture and to corn in areas where it is a minor crop. About one fifth of all the rented land

Table 3. Percentage Distribution of Rented Acreage According to Type of Lease*

| Type of lease | Type-of-farming areas | | | | | | | | |
|--------------------------------|-----------------------|----|----|----|----|----|----|---------|----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 State | |
| Cash and crop share | 36 | 39 | 69 | 75 | 36 | 35 | 55 | 24 | 52 |
| Cash | 26 | 37 | 18 | 7 | 42 | 24 | 13 | 53 | 21 |
| Crop and livestock share | 33 | 19 | 10 | 8 | 11 | 20 | 5 | 8 | 14 |
| Crop share | 5 | 5 | 3 | 10 | 11 | 21 | 27 | 15 | 13 |

* From Minnesota Farm Business Notes, Division of Agricultural Economics, University of Minnesota, June 20, 1937.

was operated on a straight cash lease basis. About equal proportions of the balance of the rented land were rented under "crop and livestock share" and straight "crop share" leases.

To a capable tenant, the cash lease has the great advantage that it gives him an opportunity to get for himself all the extra yield from good methods. If, as a result of superior industry or intelligence, he gets 10 bushels more of corn or small grain than the usual tenant, he gets all these 10 bushels for himself. However, during the early thirties, tenants found that in a period of declining prices, the prices of farm products decline much more rapidly than cash rents. This made it impossible for many tenants to meet their obligations. In periods of rising prices, rents advance less rapidly than the price of farm products. In general, a tenant should not rent for cash unless he has his equipment clear of debt and can pay the rent without serious inconvenience in an unfavorable year. A possible modification of the cash lease would be to require the tenant to deliver a specified number of bushels of

the grains that form the main crop of the farm.

For example, the two persons might agree that over a period of years a certain farm might be expected to produce, under average conditions, 2,400 bushels of corn and 2,400 bushels of oats. If the customary rent in that locality is one third of the crop, then the landlord

ber. The corn price might be based on the average in December and January.

Such a system would give the tenant an incentive to produce a maximum crop and he would have an obligation that he would more certainly be able to pay than one fixed in money. From the landlord's standpoint, it would eliminate all questions as to divisions of



FIG. 6. A GOOD PASTURE

Pastures vary widely in the amount of feed provided. Rent should be in proportion to amount of feed per acre.

would agree to accept 800 bushels each of corn and oats as his rent plus the usual cash rent for hay and pasture. If the tenant desires an arrangement whereby all the grain is to be kept on the place for feed, he may agree to pay the landlord a cash rent based on the price of grain at the usual time of sale. For example, the rent for oats, barley, and wheat might be based on the average daily price quoted at a specified local elevator in August and Septem-

ber. The corn price might be based on the average in December and January. Such a system would give the tenant an incentive to produce a maximum crop and he would have an obligation that he would more certainly be able to pay than one fixed in money. From the landlord's standpoint, it would eliminate all questions as to divisions of

the crop and would give him a more certain income than the ordinary crop share lease, as the tenant would take all the weather risks. A tenant renting a 120-acre farm in Winona County for a share of the corn and small grain plus cash for hay and pasture was unable to pay the rent in 1931. The landlord then agreed to accept 65 pounds of butterfat per month and 2,500 pounds of pork on April 1 and another 2,500 pounds on October

1. This lease has been continued up to the present. The cash value of the butterfat and hogs ranged from a low of \$2.90 per acre in 1932 to a high of \$6.10 in 1937, with an average of \$4.50 per acre for this six-year period. In December 1937, the tenant indicated that the rent was too high. The landlord then agreed to accept 4,000 pounds instead of 5,000 pounds of pork per year "until further notice." This tenant has been on this farm for 11 years. This suggests that the arrangement is proving satisfactory to both tenant and landlord. The house and barn on this farm are shown in figures 2 and 4.

Such an arrangement should be adopted only after study of the probable outcome based on past productivity.

SHARE OF CROP TAKEN AS RENT

The share of the crop taken by the landlord varies in different parts of the state. The most common shares are one fourth, one third, one half, and two fifths. Under the one-fourth, one-third, and two-fifths share leases the landlord usually contributes only the land. Under the one-half share lease in the southern part of the state he may furnish only the land, but in the northern part he pays all or part of the seed, twine, and threshing bill. This group also includes the fifty-fifty livestock share leases under which the landlord pays one half of the crop expense. Data for each type-of-farming area are shown in table 4.



FIG. 7. A GOOD CROP OF CORN

This crop and the one shown in Figure 8 were on neighboring fields, and the pictures were taken on the same day. Neither tenant nor landlord should overlook the importance of good soil.

Table 4. Percentage Distribution of Rented Acreage According to Share Taken by Landlord as Rent*

| Share taken by landlord | Type-of-farming areas | | | | | | | | State |
|----------------------------|-----------------------|------|------|------|------|------|------|------|-------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| One fourth | 0.6 | 0.3 | 0.1 | 2.4 | 0.1 | 12.3 | 23.1 | 0.0 | 6.6 |
| One third | 16.3 | 30.3 | 22.2 | 49.8 | 78.7 | 44.2 | 27.8 | 48.6 | 35.8 |
| Two fifths | 10.9 | 13.1 | 56.9 | 14.9 | 0.3 | 0.4 | 0.0 | 0.0 | 16.5 |
| One half | 72.2 | 56.3 | 20.8 | 32.9 | 20.9 | 43.1 | 49.1 | 51.4 | 41.1 |

* Minnesota Farm Business Notes, Division of Agricultural Economics, University of Minnesota, June 20, 1937.

Cash payments for hay and pasture are customary in addition to the specified share of the grain.

Corn is usually on a cash basis in sections where it is a minor crop.

In some small-grain sections a common method is for the landlord to furnish the seed and pay half the cash cost of threshing and twine. In these cases

the contract should specify whether the landlord is to pay a threshing rate based on an outfit with the operators of the engine and separator as the only help, or whether the owner of the machine furnishes additional help and charges a correspondingly higher rate.

From the tenant's standpoint, it is desirable to take a smaller share and



FIG. 8. A POOR CROP OF CORN

A tenant may have less if he gets three fourths of the crop on poor soil than if he gets one half of the crop on good soil. Yield per acre as well as the share of the crop should be considered in drawing up an equitable lease.

let the landlord contribute toward the expense of the crop, if, owing to weeds, sandy soil, or poor drainage the yield is likely to be low. If conditions are favorable for a good crop, the tenant is likely to gain by giving a smaller share and standing all the expense.

Table 5 shows the tenant's share above seed for each method with various yields when 1½ bushels of seed wheat is used per acre.

Table 5. Tenant's Comparative Return in Bushels Under the Half-, Third-, and Quarter-Share Lease

| Size of crop per acre | Half of the crop | Tenant's share | |
|-----------------------|------------------|--|---|
| | | Two thirds of crop less 1.5 bu. for seed | Three fourths of crop less 1.5 bu. for seed |
| bu. 6 | bu. 3.00 | bu. 2.50 | bu. 3.00 |
| 9 | 4.50 | 4.50 | 5.25 |
| 15 | 7.50 | 8.50 | 9.75 |
| 20 | 10.00 | 11.83 | 13.50 |

With a nine-bushel crop, with the one-half plan, the tenant gets 4.50 bushels and with the one-fourth plan he gets 5.25 bushels, or three-fourths bushel additional. If wheat is worth 80 cents, the extra three-fourths bushel would be worth 60 cents. This would not much more than offset half of the threshing and twine. As yields increase, there is a rapidly increasing margin for the tenant in favor of the one-fourth-share method.

AVOID SHARE LEASES ON INTENSIVE CROPS

In the case of crops that require a large amount of labor per acre, such as potatoes, sugar beets, and truck crops, the crop-share arrangement as ordinarily applied to corn and small grain is unfair to the tenant, as the labor comprises a much larger share of the

expense than with corn or small grain. For example, cost figures taken by the Division of Agricultural Economics from farms in the vicinity of Crookston for the years 1926 to 1928, inclusive, indicate that an acre of wheat required 7.5 hours of man labor; an acre of potatoes, about 40 hours. Potatoes require more than five times as much labor as wheat. In each case, the landlord's contribution of land would be the same. It is evident that a special arrangement is required when one of these crops with a high labor requirement is raised.

The simplest and one of the most satisfactory methods is to put these intensive crops on a cash-rental basis. If such crops are to be raised on a share basis, the landlord should either receive a much smaller share than in the case of the grain crop, or he should contribute to expense aside from land. In the case at Crookston, land used for potatoes was only 9 per cent of the cost as compared to 30 per cent for wheat. If one third is fair rent when the tenant furnishes everything, crop expenses other than land rent should be about double the cash rental value of the land.

LIVESTOCK LEASES

Livestock leases are most common in southeastern Minnesota, although some are found in all sections. The livestock lease provides a method whereby the tenant can get a farm with a suitable amount of livestock with a small investment of his own. It may make it possible for the tenant to operate a larger and better farm than would otherwise be feasible. From the landlord's standpoint, it requires more supervision. It is particularly adapted to such landlords as retired farmers, and farm-minded business and professional men who can devote some time

to looking after their properties. It is not adapted to most women, to landlords who live at a distance, or to financial institutions that are handling foreclosed land with a view to selling.

Until recent years it was difficult in most sections to obtain a man as a tenant under a 50-50 livestock lease who had already proved his worth. Those who had already established themselves as tenant farmers preferred a type of lease under which they would get all of the income from such livestock as they could handle rather than to keep a larger quantity on the 50-50 basis. In many cases, the tenants were wise in so doing.

With the livestock share lease the customary arrangement is for the cattle, hogs, and sheep to be owned jointly and to be fed out of undivided feed. The tenant furnishes all the labor, horses, and machinery. Purchased feed, purchased seed, purchased livestock, and veterinary services are divided equally.

In considering a livestock lease, one should keep in mind that the extent to which the products of the farm are fed to dairy cattle has a decided effect on the fairness of any particular arrangement. On farms where dairy cows contribute a large proportion of the total income, the landlord frequently furnishes all of the dairy cows. Some discussion of the effect of the proportion of livestock furnished by the landlord and tenant upon the equitability of the lease is given in the following paragraphs.

Size of herds, length of pasture season, the use of the mechanical milker, and other factors influence the number of hours of man labor required per cow between different areas and different farms in the same area. On a group

of 20 farms in Pine County,⁴ where the herds average 11 cows and where practically all the milking was done by hand, man labor averaged 205 hours per cow during the three-year period 1925-1927. But on a group of 25 farms in Winona County,⁵ where the herds average 20 cows and where two thirds of the herds were milked with a mechanical milker, man labor averaged 136 hours per cow for the three-year period 1935-1937.

In the following analysis of the contributions of the landlord and the tenant under a 50-50 livestock share lease it is assumed that the landlord furnished the cows.

Table 6 indicates that under a 50-50 livestock share lease with all cows furnished by the landlord and with the conditions which prevailed in Winona County, 1935-1937, the landlord would contribute 46 per cent and the tenant 54 per cent of the expense for a dairy cow. Cows averaged 207 pounds of butterfat a year.

On some farms, the land used for pasture as measured by annual rental rates of pasture land on rented farms would have a value of \$5 to \$6 per cow, and in such cases the contribution of the landlord would tend to be raised accordingly. The tenant usually gets all the milk and cream needed for family use from the undivided product. As the dairy product is divided 50-50, the landlord is contributing one half of the product used by the tenant's family. On the average, \$4.14 of production per cow was used by these 25 families. As half of this, if sold, would go to the landlord, the landlord is furnishing

⁴ Bulletin 295, Minn. Agri. Exp. Sta., "Planning Farm Organizations for the N. E. Cut-over Section of Minnesota," p. 51.

⁵ Mimeographed Report 99, Division of Agricultural Economics, Department of Agriculture, University of Minnesota. June 1938, pp. 4 and 5.

Table 6. Annual Cost of Keeping a Cow and Distribution of Expense Between Landlord and Tenant*

| | Landlord | Tenant |
|---|----------------|----------------|
| Feed, except pasture..... | \$17.82 | \$17.82 |
| Pasture, 149 days..... | 2.98 | |
| Depreciation and interest on the cow..... | 12.00 | |
| Barn, charge for depreciation, interest, repairs, and insurance..... | 7.41 | |
| Labor, 136 hours at 20 cents..... | | 27.20 |
| Equipment including cream separator, milking machine, etc..... | | 3.95 |
| Total | \$40.21 | \$48.97 |
| Less one half of dairy products to value of \$4.14 per cow used in tenant's family..... | | 2.07 |
| Net contribution of each | \$40.21 | \$46.90 |
| Percentage of total cost contributed by each | 46 | 54 |

* Data taken from Mimeographed Report 99, Division of Agricultural Economics, Department of Agriculture, University of Minnesota, June 1938, pp. 4 and 5, except "Depreciation and Interest," which was estimated.

\$2.07 of the production from each cow for the tenant's family. This item has therefore been deducted from the tenant's contribution. Obviously, the importance of this item per cow depends on the total consumption of dairy products by the family and total volume of dairy production. If the cows were owned on a 50-50 basis, the lease would be distinctly unfavorable to the tenant unless there were advantages that offset this item.

In many cases, in addition to furnishing the cows, the landlord could reasonably be expected to furnish a half interest in the cream separator and milking machine and pay half of the cream-hauling expense. Of course, the dairy enterprise can not be separated from the rest of the deal in determining the fairness of a lease. If the tenant is getting an unusually desirable house or an unusually productive farm, he can to some extent overlook some unfavorable item in the lease. In cases where a considerable proportion of the total farm income is derived from sources other than dairy cows, the equitability of the division of the income from dairy is less significant.

In the case of hogs owned jointly and fed out of undivided feed, the fol-

lowing was the cost under Winona County conditions 1935-1937.⁶

Apparently the cost of producing 100 pounds of pork was distributed approximately equally between landlord and tenant in Winona County. Since receipts are shared equally, the hog enterprise was on an equitable basis.

Table 7. Division of Hog Costs Per 100 Pounds* Between Landlord and Tenant

| | Landlord | Tenant |
|----------------------------------|---------------|---------------|
| Concentrates (mostly corn), | | |
| 400 pounds..... | \$2.34 | \$2.34 |
| Skimmilk equivalent..... | .60 | .60 |
| Pasture..... | .09 | |
| Equipment including shelter..... | .36 | |
| Interest on average value of | | |
| herd..... | .08 | .08 |
| Miscellaneous cash items..... | .03 | .03 |
| Man labor 3.2 hours..... | | .64 |
| Horse 0.3 hour..... | .01 | .02 |
| Total cost | \$3.51 | \$3.71 |

* Assumes permanent pasture with grass seed furnished by landlord.

Frequently a tenant enters upon a 50-50 dairy lease with considerable enthusiasm, but as time goes on, he begins to ask for concessions in the way of contributions to the labor expense

⁶ Mimeographed Report No. 99, "Livestock Costs and Returns, Winona County," Division of Agricultural Economics, University of Minnesota, pp. 12 and 13.

by the landlord or suggests a reduction in the number of cows. On the other hand, the landlord frequently does not understand why the tenant has more enthusiasm about hogs than about dairy cows.

The general plan of the 50-50 lease was formulated before the days of tractors, trucks, and automobiles. Then all the power was produced on the farm for both field work and road travel. Now horses have nearly disappeared from the road and on numerous farms much of the heavier field work is done with tractors. If oats, corn, and hay are replaced by gas and kerosene, the landlord should share the fuel bill.

Leases Usually for One Year

The following is the usual period of time covered by the lease contract:⁷

| Length in years | Percentage of total leases |
|-----------------|----------------------------|
| 1 | 82 |
| 2 | 4 |
| 3 | 9 |
| 4 | 1 |
| 5 | 4 |

Length of lease is distinctly different from length of occupancy discussed on page 18. Length of lease refers to the period of time covered by the lease contract, written or oral, while length of occupancy is the total years spent on the farm now occupied. For example, a tenant may have had an occupancy of ten years and ten separate lease contracts.

Frequently a landlord feels that a term lease is a one-sided contract, as the landlord is usually financially responsible and may be held strictly to his contract, while the tenant may have little financial responsibility. From 1930 to 1933 tenants who had term

leases on a cash basis found that a term lease has serious disadvantages during a period of falling prices.

When a term lease is drawn between persons who have not had previous business dealings with each other, it should provide that either may withdraw at the beginning of any contract year after the first year by giving notice before August 1 or September 1 as may be specified prior to date of moving and making a specified cash payment as compensation to the other party for loss and inconvenience caused by breaking the contract. Ordinarily this payment should be sufficiently large so that neither will make use of the clause except when there is a real advantage in so doing, but it should not be so large that it would prevent a landlord from making an advantageous sale or prevent the tenant from taking an opportunity to better himself. Ordinarily, a payment of from 50 cents to \$1.50 per acre for cancelling the contract, depending on the value per acre and the size of the farm, would meet these requirements. If either party wishes to have an opportunity to withdraw later than the date agreed upon this might be provided for by specifying a higher rate of compensation for notice given after the specified date.

Even a term lease does not fully meet the problem of giving the tenant the same incentive to good farming as does farm ownership. At the time a term lease is drawn the tenant may look forward to a longer period of occupancy than he could if he had a one-year lease. However, after the tenant has been on the farm for two years, a three-year-term lease becomes a one-year lease.

A big part of the tenancy problem will be solved when ways have been evolved that give the tenant the same

⁷ Unpublished data, Division of Agricultural Economics, University of Minnesota.

incentive to good farming as has the operator with a reasonably fixed tenure.

Under present conditions, with the large number of farms that are held for sale when any reasonable opportunity is presented, it is likely that one-year leasing will continue to be the rule. Many landlords and some tenants prefer one-year leases because adjustments, if needed, can be made annually. Under such a program, the big problem of the landlord is to keep the tenant interested in a good, long-time farming program that will control weeds and maintain the productivity of the soil.

LENGTH OF TENURE

The following data on occupancy for tenants in Minnesota are reported by the United States Census of Agriculture for 1935. The census was taken as of January 1 so that the farms reported as occupied less than one year at that time were those to which the tenant had moved the previous spring or fall. Likewise those who were reported as having been on the farm one year were in their second year on that farm. A similar statement would apply to those who have been on the same farm for longer periods.

| Years on farm now occupied | Percentage of all tenants |
|----------------------------|---------------------------|
| Less than 1 | 21 |
| 1 | 13 |
| 2 to 4 | 26 |
| 5 to 9 | 20 |
| 10 and over | 20 |

These data indicate that 21 per cent or about one out of five of the tenants moved every year. However, 20 per cent or one out of five had been on the same farm from five to nine years. Another 20 per cent had been on the same farm ten years or more. There-

fore, 40 per cent had been on the same farm for five years or more. It should be kept in mind that in each group the tenants were still on the farms. Thus, for example, those who had been on the same farm from two to four years were still there. Many of the group were likely to remain on the farms they occupied for several years more. This suggests that year-to-year leases in many cases result in a stay of 5 to 10 years on a given farm. But since a considerable proportion⁸ of all leases have a cancellation clause, tenants with long periods of occupancy cannot be said to have security of tenure. The leasing problem is primarily one of finding a way of giving the tenant operating under a one-year lease, or a term lease with a cancellation clause somewhat the same incentive for good farming as has the owner-operator.

LEASING FORMS

There is a tendency to use the printed forms blindly without adjusting them to the need of the particular farm.

Any of the common printed forms are reasonably satisfactory if liberal use is made of the blank lines and care is taken to cross out any printed provisions not suited to the particular deal.

If the blank lines are inadequate, additional provisions may be typed out and pasted as a flap on the regular form. Most people who draw leases should give much more consideration to a careful adapting of the terms to the particular farm.

The type of lease which gives best satisfaction on one particular farm may prove unsatisfactory on another farm,

⁸ Minnesota Farm Business Notes, Division of Agricultural Economics, University of Minnesota, June 20, 1937.

or on the same farm with a different tenant or landlord. In other words, there is no one best type of lease.

KEEPING UP PRODUCTIVITY OF THE SOIL

On high-lime soils sweet clover is a great help in controlling weeds and maintaining the productivity of the soil. In the Red River Valley a common method is to seed weedy land with sweet clover, then plow the field the following summer before the weed seeds have developed. The field is then kept fallow for the rest of the season. This method is effective in improving weedy and run-down land. There is no advantage in starting the summer fallow until the weeds have blossomed. If it does not delay plowing and is done before weed seeds are sufficiently mature to germinate, there is no objection to cutting a hay crop before plowing under the sweet clover. Some landlords are furnishing sweet clover seed freely and giving a three-year lease with provision that the summer fallow be done the first year. Usually these leases provide that the land may be sold after one crop has been harvested. The tenant may be encouraged to do a thorough job if the sale clause provides that he is to receive a small cash bonus in case he raises only one crop. Sometimes the landlord advances money for fuel and oil that is to be repaid from the tenant's share of the first crop.

The 1938 Agricultural Conservation Program provides for a reduction in the acreage of so-called "soil-depleting" crops and provides for payments for adoption of soil-building practices. Payments under the program are divided between landlord and tenant

either in proportion to the division of the crop under the lease or in proportion to the contribution of landlord and tenant to carrying out a particular practice. The program is expected to stimulate the growing of alfalfa and other legumes.

Occasionally landlords have a provision in the lease that the tenant is to submit samples of each lot of seed grain and corn to the landlord before a specified date, e.g. March 1 for grain and April 1 for corn. This gives the landlord an opportunity to inspect the seed and, if he desires, to have germination and purity tests made.

Extensive trials by the Division of Soils have shown that many of the black prairie soils give a marked response to phosphate fertilizers, especially on alfalfa, clover, corn, barley, and wheat. There is likely to be an increasing interest on the part of the more enterprising landlords in improving their yields through cooperation with the tenant in the application of fertilizer. If fertilizers are used under share leasing, the usual plan is to divide the cost of the fertilizer in the same proportion as the crop is shared. If phosphate fertilizer is broadcast, benefits may be expected over a period of three or more years, so that with a year-to-year lease there should be provision for some compensation to the tenant in case he does not get at least two crops after the phosphate is used. In the case of fertilizer used in the hill, no compensation for unexhausted benefits could be expected. In the event that the landlord does not care to share the expense of the fertilizer on the corn crop, the tenant and landlord may divide the field and the tenant may fertilize his share of the field.

GIVE INCENTIVES TO GOOD FARMING

The logical remedy for some of the uncertainties of our present leasing system seems to be compensation for unexhausted improvements. That is, give the tenant the right to make certain necessary improvements with the provision that at the termination of his lease he may collect from the landlord for the portion of the investment that has not been used. A few landlords have made arrangements with their tenants whereby the tenant is permitted to seed alfalfa at his own expense, with the provision that if he does not stay on the place for a specified length of time—say three years—he can collect pro rata for the cost of the seed. For example, if the tenant seeded alfalfa at a cost of \$3 per acre and moved at the end of the year, he is entitled to a refund of the full \$3. If he stays to harvest the crop for one year, he is entitled to a refund of \$2. If he harvests the crop for two years, he is entitled to a refund of \$1. After he has harvested the crop for three years he is entitled to no refund, even though there is still a good stand.

Contingent Liabilities

Financial institutions such as banks and insurance companies frequently object to payments of this kind as it is usually considered poor business practice to have any contingent liabilities. Contingent liabilities are sums that they may be required to pay under certain conditions. However, contingent liabilities of \$25 to \$400 in connection with a \$5,000 to \$20,000 investment should be a good bargain for the owner

if it encourages a worth-while tenant to go forward with a long-time program of soil improvement, weed control, and good livestock management. In most cases in which there is a change of tenants, the landlord could arrange for the new tenant to pay for the unexhausted value of alfalfa seed and fertilizer.

STIMULATING INTEREST IN LOCAL GOVERNMENT

The interest of tenants in local government could be greatly stimulated by a provision in the lease requiring the tenant to pay a part of the taxes instead of certain rents. It is customary for the landlord to pay all the real-estate taxes. In sections where the land is largely owned by non-residents, the result is to put the control of school district and township affairs in the hands of those who have comparatively little taxes to pay. Tenants are paying all the rent that the farming business will stand. Therefore it would be unfair for the tenant to pay a share of the taxes unless his tax payment replaced a specified amount of rent.

Sometimes when farms are rented for a share of the grain and corn, the cash rent for hay, pasture, and corn fodder is about the same as one half the real-estate tax. The lease might state that the tenant would be allowed a specified number of acres of land for pasture, hay, and fodder in consideration of payment of the last half of the tax levied in the previous year.

For example, the 1937 tax is payable in 1938, one half on or before May 31, and the other half on or before October 31. The cash rent is usually due in the fall, so the payment of the

last half of the tax for the preceding year would come at about the same time as the cash rent. If the whole farm is rented for cash or if the cash for hay and pasture is materially more than half of the taxes, one could reduce the cash rent by the usual amount of half of the taxes and then require the tenant to pay the last half of the taxes for the previous year. To avoid the possibility of a penalty for failure on the part of the tenant to pay the taxes by October 31, the lease might specify that the tenant was required to pay the taxes by October 1 or other specified date and to furnish a receipt promptly to the landlord. If the tenant does not pay, such an agreement would make it possible for the landlord to pay the tax without penalty and to proceed to collect from the tenant. Some non-resident landlords feel that there is a tendency for the assessment on property owned by non-residents to be higher than on property owned by local voters. The arrangement just described would give the tenant a strong incentive to watch the assessment to make certain that it was a fair one. If it were necessary to appeal to the township or county Board of Equalization, the landlord would have the active cooperation of the tenant.

MAKE ALL POINTS CLEAR

Sixty-three per cent of the leases in Minnesota in 1936 were written and 37 per cent were oral.⁹ Since the preparation of a written lease necessitates a discussion of the terms of the lease by both the landlord and the tenant, when it is used both are likely to have a clearer understanding of their rights

⁹ *Op. cit.*

and obligations than with an oral lease. A written lease also serves as a memorandum of understanding in case adjustments are needed or in case of the death of one of the contracting parties.

Neither tenant nor landlord should ever sign a lease until he has carefully read the whole form, including the fine print, and is satisfied that he understands the meaning of each sentence. In addition, he should carefully consider each paragraph to make sure that each point is absolutely definite and permits of only one interpretation. For example, livestock leases have come to the attention of the writer that provided the tenant was to leave as much livestock and feed on the place as were there when he came. However, the contract failed to specify the particular amount of livestock and feed on the place at the beginning of the contract.

Then there is the question as to what settlement is to be made in case a short crop should make it impossible to leave the same quantity. Or in case of a soft corn crop—is 1,000 bushels of soft corn to offset 1,000 bushels of good quality corn left on the place at the beginning? In the case of hogs, one should specify the weight of hogs on the place at the beginning and specify that a like weight and, as nearly as possible, the same number and quality is to be left as were on the place at the beginning. In general, it is desirable to avoid contracts calling for leaving the same quantities as were on the place at the beginning, as even with care there are likely to be difficulties in settlement.

Arbitration Clause

Disputes may arise even when all reasonable precautions are taken. Or-

dinarily these disputes can be readily adjusted if the landlord and tenant mutually consider what is fair under the circumstances. However, if agreement cannot be reached, the logical procedure is to provide for arbitration by three competent local people rather than to go to court. A suggested arbitration clause is therefore included in the appendix. If it is not specified in the lease that the arbitration clause is to be binding, it has no legal status. It seems desirable to specify that the arbitration clause is to be binding.

Plan Weed Control in Advance

If there are noxious weeds, the program that is to be followed should be agreed upon in advance and, after a decision is reached, a statement of the plan should be included in the contract. If there is a possibility that weeds might need to be mowed in order to comply with the state weed law, the contract should specify who is to stand the loss. In case of a cash contract, it seems fair that the tenant do the mowing, but that the landlord should lose the rent on such land. An equitable arrangement under a share lease contract would depend upon how badly the land was infested with weeds. A plan whereby the tenant kept the land in fallow until after corn planting and received all of a crop of fodder corn. Sudan grass, or buckwheat is reported as being used successfully by some landlords in west central Minnesota. If it is necessary to keep the land in black fallow a plan whereby the landlord furnishes the fuel and the tenant the tractor and labor has proved satisfactory in some cases. If this plan is used the lease should provide a definite compensation for the tenant should he not operate the farm the following year.

CLIMBING THE AGRICULTURAL LADDER

In the past, tenancy has been regarded as a stepping stone to ownership. Some young men started as hired men. Others were assisted by parents to start as tenants. By industry and frugality a hired man was able to accumulate sufficient capital to start as a tenant in a modest way. If success attended the venture, the livestock was gradually expanded, and, perhaps, the acreage under lease was increased. After good equipment had been secured and some cash accumulated, a farm was purchased under a contract or mortgage plan. Frequently some assistance was received in the way of a modest inheritance. Eventually, in many cases, the tenant became the owner of a good farm with little or no debt. However, under the declining price level that prevailed from 1929 to 1933, the owner of a mortgaged farm found that it required a fixed number of dollars to satisfy interest and principal payments, and it took an ever-increasing quantity of butterfat, hogs, cattle, potatoes, wheat, eggs, and other products to get the required dollars. In many cases, capable farmers lost out in the unequal contest. As a result, foreclosed farms are still offered in some sections at what appear to be bargain prices, and tenants are sometimes tempted to buy with small down payments. However, it seems wise not to take too many chances. If one can have equipment that is clear of debt, and make a down payment of 30 to 50 per cent on a farm, he should be able to meet his obligations, barring prolonged sickness or a series of unfavorable years.

A contract to make annual payments equal to the cash rent for a period of

20 years and to be given a title to the land at the end of this period was recently made by one Minnesota farmer. In this particular case the tenant purchaser who had been a tenant on this farm for several years had been successful in obtaining earnings high enough to cover the additional costs for taxes, insurance, and upkeep, and therefore believed that he could pay for the farm in 20 years. However, a tenant who, for example, is paying \$500 a year in cash rent or in its equivalent as a share of the crop may find that under a contract to purchase, he has assumed total obligations of \$750 including taxes, insurance, and upkeep of buildings. He should hesitate to make such a change unless his experience

has shown that he has been able to save something more than the extra \$250 per year in addition to maintaining equipment.

It is certain that the successful tenant or owner of the future will need to have, in addition to the industry and frugality of our forefathers, a much better education. This will not necessarily be acquired in school, but already there is some tendency on the part of landlords to discriminate against tenants who show little inclination to acquaint themselves with the newer knowledge of the control of plant and animal diseases and parasites, the feeding of livestock, and the business principles that underlie successful farm management.

SUGGESTED PROVISIONS REGARDING ALFALFA, CLOVER, AND WEEDS

The following clauses are provided with the thought that they may be used in line with suggestions contained in this bulletin as the basis for inserting special provisions in the blank spaces on the usual forms carried by lawyers, country banks, and real estate dealers.

ALFALFA

The first party (the tenant) may seed up to acres of hardy alfalfa at his own expense. In case the first party should not secure a lease for the following year, he shall be entitled to the following payments for good stands of alfalfa left on the place: for alfalfa fields that are coming one year old at the completion of the contract \$..... For alfalfa fields that are coming two years old \$..... For alfalfa fields that are coming three years old \$..... The first party shall not be entitled to payment for any stands of alfalfa under this clause if the fields are pastured or cut for hay after (insert date) of the previous year. Any payment under this clause to be due and payable (insert date).

RED, ALSIKE, OR SWEET CLOVER

If the landlord is not willing to furnish clover seed, the following clause is suggested: The first party (the tenant) may seed up to acres to clover at his own expense. The first party shall be entitled to payment for clover seeded during the last year of the lease at the rate of \$..... per acre, provided a reasonably good stand is left. Such payment, if any, to be due and payable on (insert date).

HOG AND POULTRY FENCES AND EQUIPMENT

The first party (the tenant) may seedacres for hog pasture and for corn to hog off at a cash rent of \$..... per acre. Party of the first part is to furnish his own fence, if any is used in addition to what is now on the place. Party of the first part may remove fencing and portable hog and poultry houses furnished by himself within 60 days after the expiration of this lease.

NOTE: The lease with the new tenant should contain a clause permitting the outgoing tenant to remove his hog and poultry fencing and equipment within 60 days following the termination of the lease, and should specify the amount of woven wire fence that was on the place at the start.

WEED CONTROL

The party of the first part (the tenant) agrees to keep a black summer fallow beginning before (insert date) and continuing until (insert date) on acres infested with (name leading weed, such as creeping Jennie, leafy spurge, quack grass, sow thistle, etc.). In case the party of the first part should not secure a lease for this farm for the year 19.... (insert year following the summer fallow), he is to receive a payment of \$..... Any payment under this clause to be due and payable on, 19.... (Payments should usually be due at the end of the lease year.) Party of the first part is to notify second party in writing by letter addressed to within two days after completing plowing and after each working with other tillage implements, specifying the date the operation was completed and the kind of implement used. If a black fallow is not kept through the season, the first party will forfeit all claim to compensation.

NOTE: The idea is that the tenant, in case he did not stay to harvest at least one crop following the summer fallow, would receive a sum that would pay him for his work. In case the tenant was obligated to plow back the farm, he would receive pay for the work except plowing.

The report after each operation gives the owner a record as to just how much work has been done. It also gives him an opportunity if he desires to check the quality of the work following each cultivation, and, if the work is not being satisfactorily done, to take the matter up with the tenant.

Arbitration Clause

It is mutually agreed that in case any disagreements as to payments due or performance of terms arise under this contract such disagreements are to be referred to a committee of three, each party having full opportunity to present his case to the committee. Each party to the contract will select one of these arbitrators and the two so chosen will select a third. Each party will pay the arbitrator selected by him. The third arbitrator shall be paid jointly but the total cost of his services shall not exceed \$..... The written findings of the arbitration committee shall be furnished to each party and be mutually binding.

UNIVERSITY FARM, ST. PAUL, MINNESOTA