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FARM LEASE CONTRACTS

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GETTING THE VIEW-POINT OF THE OTHER PARTY

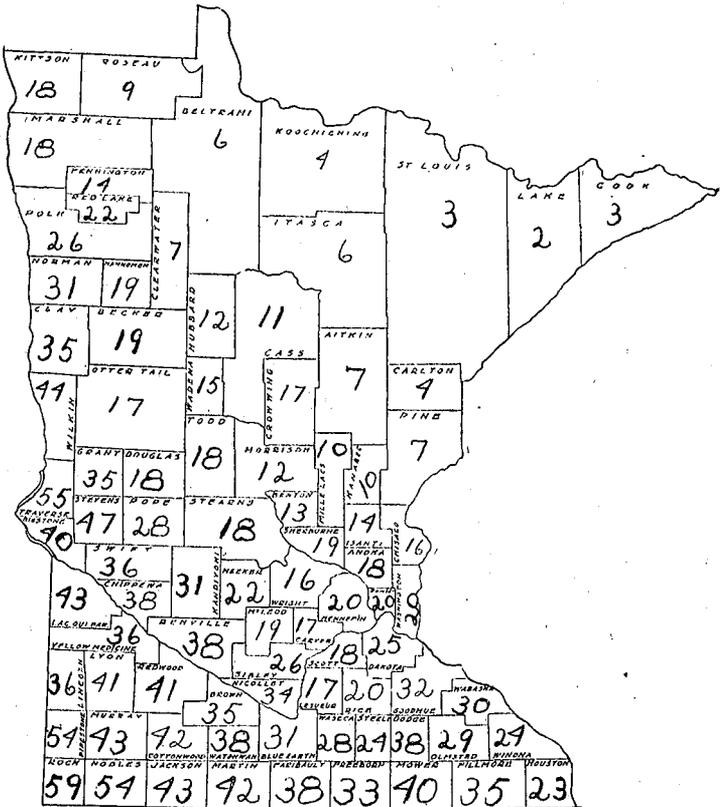
It is a great help in maintaining pleasant business relations between landlord and tenant if each is able to understand the problems of the other. Usually those who have had experience as both landlord and tenant are best able to appreciate the problems of each. One southern Minnesota landlord who started farming as a tenant, who later bought and paid for a good farm and then retired and rented it, expressed himself as follows: "When I started as a tenant, the only farm that I could get was badly infested with weeds and the buildings were in bad repair. I worked hard that first summer and secured a good crop for myself and the landlord. I then asked him to buy some shingles for the barn roof upon condition that I put them on. He told me, 'If you want any shingles, buy them yourself.' I then said, 'You can look for a new tenant and I will look for a new landlord.'" Continuing he said, "My next landlord was of an entirely different type. He and I were business partners. We planned all our business together and he was always ready to make any necessary improvements. Both of us made money. I stayed with this landlord ten years and learned much of what I know about farming from him. Upon leaving this latter landlord I bought a farm and farmed it myself for fifteen years. I then moved to town and rented my farm. The relations between my tenant and myself have been very satisfactory, as I have always remembered my experience with the two landlords and have tried to imitate the one with whom I had such pleasant and profitable relations."

Both landlords and tenants will do well to keep in mind this experience as a guide to fair dealing.

WHAT IS A FAIR LEASE?

A fair share lease is one in which each party contributes to the expenses in the same proportion that he shares in the proceeds. This rule may be applied to any particular farm by listing the items furnished by each party and setting down a cash estimate as to the value of each item. The following illustration for a half-and-half livestock lease shows estimates prepared by the owner of a farm in southwestern Minnesota as to the contribution of both landlord and tenant:

	Landlord	Tenant
Rental value of 276 acres at \$6.....	\$1656	
Grass seed for 40 acres.....	80	
Supervision of landlord.....	50	
Husking landlord's corn, 1400 bu. at 6 cents....	84	
Tenant's own time.....		\$ 720
Hired help, including board at cost.....		600
Depreciation and repairs on \$2,000 worth of machinery		300
Interest on \$3,200 invested in horses and machinery at 8 per cent.....		256
Personal property tax on horses and machinery..		30
Total	\$1870	\$1906



Per Cent of Minnesota Farms Operated by Tenants
 Based on 1920 United States Census
 Twenty-five per cent of Minnesota farms are operated by tenants

It may be assumed that in this case the lease is fair to both parties for all sales are divided equally and the business expenses are divided approximately half and half. The cattle and hogs are owned half and half. All livestock, including horses, is fed undivided feed. All expenses not listed, such as seed for small grain and corn, purchased feed, threshing, and twine, are divided half and half, hence these items are not included in comparing the contribution to expenses of landlord and tenant. The landlord pays for husking his share of the corn except what is hogged-off.

In studying these figures, most landlords will notice that certain expenses—taxes, insurance on buildings, and repairs to buildings, fences, and water system—have not been listed among the contributions of the landlord. The reason for omitting these is that the charge of \$6 per acre for the use of the farm for one year was based on the estimated sum that could be secured if the farm were rented for cash, and when a landlord rents for cash he usually expects to pay these items out of the cash rent received. Some landlords might think that a fairer method of estimating the charge for the use of the farm would be to charge interest on the price at which the farm could probably be sold and to add to this such items as taxes, insurance, and repairs. However, it would seem that the best test of the value of the use of a farm for a year is the figure at which the use of the farm can be sold for a year, or in other words, the cash rent figure. In the past, landlords have expected to get a part of their return from the gradual increase in value of their holdings. In this they were not disappointed up to the beginning of 1921. Since that time there has apparently been some decrease in the sale value of farm land, but the decline has been much less than current prices of farm products would warrant, as most land owners have confidence that with improved business conditions and with the gradual increase in population there will be a greater demand for farm products in the future than at present. In testing the fairness of a lease by the method outlined, one of the most difficult items to appraise is the value of the tenant's time. A general rule is that a tenant's time is worth what he can sell it for. Of course this will depend entirely on the ability of the tenant. Some tenants, if working for others, could not get a better job than that of a teamster or month laborer, while others could command a salary of \$2000 or more as farm managers. In the particular case cited the tenant has a house to live in, the privilege of keeping two cows on undivided feed for his own use, the privilege of keeping a flock of 100 chickens, and free ground for raising vegetables and potatoes for home use. It was estimated that this particular tenant could hire out for about \$60 per month when he secured these items in addition.

No charge was made for depreciation on the tenant's horses, as in this case he has the privilege of raising one colt a year and feeding it on undivided feed. The colts raised would be expected to maintain the farm horses without depreciation.

Any landlord or tenant may test the fairness of a particular lease by making estimates similar to the foregoing that will apply to his particular case. For example, in testing the fairness of a lease in which the landlord furnishes only the farm and receives one third of the crop, one would set against the rental value of the farm the total of the following items: The estimated value of the tenant's own time and other unpaid family labor at farm work; the cost of hired help, including board at cost; the value of the tenant's horse feed, cost of seed, threshing, twine, personal property taxes, in-

terest and depreciation on horses and equipment, and miscellaneous expenses that are properly chargeable to the crops rather than to the tenant's livestock or personal family expense. Ordinarily one may expect the leases customarily used in a locality to be approximately fair to both landlord and tenant, as they represent the combined judgment of many people, but they may be distinctly unfair when applied to a particular farm. For example, on a farm that is poorly drained or badly infested with weeds the tenant should receive a larger share of the crop than on one in a high state of productivity.

KIND OF LEASE IMPORTANT

There is no best lease. Tenants who are short on capital will do well to try to get a lease in which the landlord furnishes a part of the livestock and bears a part of the expenses.

The livestock lease previously described is rather typical of those where beef cattle and hogs are the leading kinds of livestock, altho most landlords would probably ask the tenant to pay for the landlord's feed and pasture used by the tenant's milk cows; and colts. This landlord does not care to have a share in the chickens, as they are a minor source of income and chickens on shares are frequently a source of bad feeling between tenant and landlord.

If dairy cattle are a leading source of income it is customary for the landlord to furnish the milk cows, as the tenant contributes much more labor than in the case of beef cattle. Under this arrangement, the calves of the landlord's cows become undivided property. The hogs are owned half and half. Horses are usually fed from undivided feed, but in some sections in southeastern Minnesota it is customary for the landlord to furnish all the seed and the tenant all the grain for horses.

In entering into a partnership with the landlord on dairy cattle, the tenant should pay particular attention to the productive ability of the cows furnished by the landlord. The labor required of the tenant is about the same for a cow that will produce 150 pounds of butterfat as for one that will produce 300 pounds. However, the difference in profit to the landlord will not be in proportion to the difference in productive ability, because the landlord stands all the extra depreciation and interest on the more productive cow. From a landlord's standpoint, a livestock share lease is satisfactory only when he can secure a tenant who is reasonably skillful in the feeding and management of livestock. On entering into a livestock lease, the tenant must expect the landlord to exercise some supervision, and it is very important to have a landlord with whom one may expect pleasant business relations. Tenants who are out of debt and have a good equipment will usually do best to adopt a lease in which they furnish all the equipment and pay all the expenses.

The customary proportion of the grain crop that the landlord receives when the tenant furnishes everything, varies from one fourth to two fifths according to the character of the land, the distance from market, and the value of the buildings. One-third to the landlord is quite common. The half-and-half grain share lease is quite common in small-grain regions. Under this lease the landlord furnishes the seed and pays the cash cost of threshing his share. The tenant pays all other expenses. Comparing the half-and-half-grain lease with the one-third system, it will be found that

with a large crop the one-third lease nets the tenant more grain above seed requirements, while with a poor crop, the half-share lease nets the tenant more grain.

The following table shows a comparison of the amount of grain the tenant will secure under each system with a 6-, 12-, and 18-bushel crop of wheat.

Size of crop	Tenant's share	
	One half of the crop	Two thirds of the crop less 1.5 bu for seed
Bu. 6	Bu. 3.0	Bu. 2.5
9	4.5	4.5
18	9.0	10.5

Assuming a seed requirement of 1.5 bushels, it will be seen that with a yield of less than 9 bushels, the tenant will get the most grain under the half-share system. With a yield above 9 bushels, the tenant will get more under the one-third share plan. With a crop of 18 bushels, the tenant will get 1.5 bushels extra per acre under the one-third share system, and with larger yields the one-third share system has a still greater advantage.

Tenants who are short of capital will do well to let the landlord furnish the seed and take the smaller share. It is particularly desirable for the tenant to have the landlord bear part of the expense on land that because of weed infestation, poor drainage, or lack of natural fertility, is likely to produce a poor crop.

LENGTH OF LEASE

Some have felt that long-term contracts would solve many of the problems connected with farm leases. However, tenants who rented land for cash for a period of years at a high rental just before the big decline in prices have discovered that a long term lease sometimes has serious disadvantages. Furthermore, landlords frequently feel that they are at a disadvantage in making a long term lease, as many tenants have but limited financial responsibility and therefore in periods of depression it is difficult to hold the tenant to the lease, while the owner of land has financial responsibility and may be held strictly to every detail of the contract. A plan that is followed by some landlords is to make a three- or five-year lease with the provision that either party may terminate the lease by giving written notice previous to a specified date, for example, August 1. It might be fair to fix a small penalty that either party would pay to the other if he terminated the contract before the end of the three- or five-year period. It is advantageous to both landlord and tenant to set the date early in order that the tenant may have definite arrangements in time to start plowing right after harvest.

MAKE ALL POINTS CLEAR

In drawing a contract, every effort should be made to see that all provisions are clear and definite. For example, contracts are occasionally seen in which, at the termination of the contract, the tenant was to leave as many brood sows and as many head of cattle on the place as were there when he came. Such a provision surely leaves room for much argument, as there is always the question as to whether the animals left by the tenant are of the same weight and quality as those furnished by the landlord. In all

cases where tenants are to leave on the farm the same amount of property they found there, it should be clearly stated whether they are to leave the same amount in numbers, pounds, or bushels, or whether it to be the same in money value. Rather than make a contract in which a certain quantity of feed and animals are to be left to replace those found there, it is usually more satisfactory to both parties for the tenant to buy a share of the feed and livestock and give his note for them, secured by chattel mortgage.

CONTRACT FORM

The ordinary printed legal forms are usually satisfactory provided one has a clear idea as to just what provisions he wishes to insert in the blank spaces. One should read them carefully, particularly the fine print, to make sure that the outline meets one's needs. Before signing a lease, if one does not feel sure that he thoroly understands the printed form, he should ask some competent disinterested party to read it aloud and to explain each paragraph. If a lease terminates in the spring, the landlord should be sure that it provides that the new tenant may enter the farm for plowing after the out-going tenant has harvested his crop.

SELECTING A FARM

The main consideraion of a tenant in seeking a farm should be to get one with the most productive soil rather than to get the cheapest rent. For example, on land that may be expected to produce a 40-bushel crop of corn, three-fifths of the crop would give the tenant 24 bushels, while on land that with the same amount of work would produce but 30 bushels, two thirds of the crop would give the tenant only 20 bushels, or he would get 4 bushels per acre more for his share to pay two-fifths rent for the better land. Next to getting the best possible land, an important consideration is getting a comfortable home for one's family. In addition to the comfortable house, most tenants prize buildings that provide suitable shelter for livestock, grain, hay, and machinery. However, one should not sacrifice very much in quality of soil for the sake of getting good barns, sheds, etc.

In selecting a farm, a tenant should remember that he is also selecting a landlord and should endeavor to find a good farm with fair buildings whose owner has a reputation for honest and generous dealing with his tenants.

SELECTING A TENANT

The big consideration with the landlord should be to get the best possible tenant rather than to get just the kind of a lease that he desires. Landlords would do well to remember that the crop depends largely on the tenant and that a third of the crop raised by a good farmer will enrich the landlord more than half the crop raised by a poor farmer. One of the personal qualities in a tenant that landlords particularly prize is strict honesty. It is a great satisfaction to a landlord to feel that he is sure to get his fair share of the crop without any particular watchfulness on his part, or to feel that he may store grain on the farm with confidence that none of it will find its way to the tenant's livestock.

KEEPING UP THE PRODUCTIVITY OF THE FARM

The primary consideration of the landlord should be to keep up the productivity of the farm, as, with any investment, keeping the principal intact is of more importance than the rate of return. In keeping up the productivity of the farm, the big consideration is to secure a tenant who has shown that he is a good farmer. A comfortable dwelling house and suitable buildings and fences for the tenant's livestock are of great value in attracting the right kind of tenant, even tho they do not yield a direct return to the landlord.

Two important factors in maintaining fertility are (1) keeping a reasonable amount of livestock, and (2) adopting a rotation that includes a fair proportion of a clover and grass mixture and a cultivated crop. If a landlord is not prepared to enter into a livestock partnership with his tenant, one of the best ways of inducing a tenant to keep livestock on his own account is to furnish a reasonable amount of hay and pasture at a somewhat lower cash rent than the land would be worth for corn or small grain.

Most tenants will be glad to adopt a rotation that includes tame grass if the landlord will furnish the necessary grass seed. Rotation experiments at University Farm as well as the experience of farmers indicate that a landlord who keeps at least a fourth of his farm in tame hay and pasture will receive as much corn and small grain for his share as he would if the farm were practically all in corn and small grains. Therefore any cash rental received for the hay and pasture above cost of grass seed will in the long run be clear gain, in addition to the better up-keep of the farm. It is very discouraging for a landlord to see his farm gradually becoming infested with such weeds as quack grass, perennial sow thistle, and Canada thistle; while there is little encouragement to a tenant to combat weeds that a previous tenant has allowed to infest the place, without the landlord standing a part of the expense. The adoption of a good rotation will aid materially in keeping weeds under control, particularly annual weeds like mustard and wild oats. Early fall plowing is also a big help in controlling annual weeds. In some cases it might be worth while to give a small bonus for early plowing. Another big help in controlling weeds, particularly quack grass, is tiling the low places. If a field has scattered patches of quack grass, it will almost always be found that they occupy the poorly drained parts, and without drainage little progress can be made in controlling it, as every rain prevents cultivation of the fields for so long a time that the quack grass has a good chance to re-establish itself. If a previous tenant has allowed a farm to become badly infested with quack grass or sow thistle, the landlord will usually find it advantageous to pay a part of the bill for hired help on condition that a certain amount of summer fallowing or other work be done toward controlling weeds. It is usually preferable to pay a part of the labor bill rather than to take a smaller share of the rent, as giving a lower share of the rent does not insure that any extra labor will be put on weed control. Some landlords prefer a lease in which they furnish the seed grain, as this gives them an opportunity to make certain that only clean seed will be used. However, the best protection against the spread of weeds is getting a tenant who is known to be a good farmer and giving him a sufficiently generous lease that he will want to stay on the farm until he is ready to buy one of his own.

COMPENSATION TO TENANTS FOR IMPROVEMENTS

Many landlords do not care to furnish grass seed and lay out money for hog fencing and other minor improvements. In such cases, the tenant would do well to secure a provision in the lease whereby he could seed a certain amount of grass seed and in the event that the lease was terminated and a good stand was secured, he would collect from the landlord for the cost of the grass seed plus a charge to cover the risk of not securing a stand. Of course, if no stand was secured, the tenant would stand the loss. Under such a plan, the landlord would ordinarily charge the new tenant with the amount paid the out-going tenant.

In the case of woven wire fence, the lease might provide that the tenant could take any fencing with him that he had installed, provided that at the termination of the lease, the landlord or incoming tenant did not care to buy it.

ASSISTANCE IN RENTAL PROBLEMS.

The various county agricultural agents and the Division of Agricultural Extension will be glad, as far as facilities will allow, to offer suggestions to tenants or landlords in solving rental problems. A good way to study these problems is to arrange a community meeting of all tenants and landlords who are interested in their rental problems. In sections where rented farms are numerous, one session of the township farm bureau unit or farmers' club might profitably be devoted to a discussion of such problems. At such a meeting, landlords or tenants who have been particularly successful may be asked to lead the discussion.