

MN 2000 EF 179 C2

Extension Folder 179

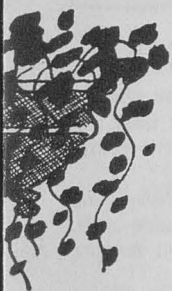
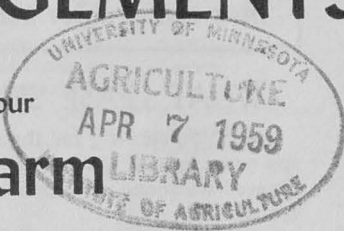
Reprinted March 1959

COPY 2

Rental ARRANGEMENTS

for your

Farm



Marvin Kottke
S. A. Engene



Are you selecting
a lease or changing one?
If so, this information
will help you.

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

The information for this folder was provided by about 1,000 Minnesota renters in 1952. These renters filled in and returned questionnaires telling about their rental agreements.

WHAT LEASE SHALL I CHOOSE?

Are you renting for the first time? Are you changing your lease? What type of lease will you use? By "lease" we mean any kind of rental agreement—written or oral.

Taken on this basis, most leases fall in these four types: (a) cash, (b) crop-share, (c) crop-share-cash, (d) livestock-share. Here are some important factors in selecting the type of lease for you.

1. **Location.** The most commonly used lease in your area is a good starting point for your selection (see table 1). Even neighboring farms may be different, however, and should have different kinds of leases.

2. **Type of farming.** If you raise mostly cash crops, a crop-share lease is suitable; cash crops can be divided easily. For example, many of the farms in

Table 1. Types of Leases Used in Various Areas of Minnesota—by Kind of Unit Rented

	Number reporting	Percent renting under			
		Cash	Crop-share	Crop-share-cash	Livestock-share
Northwest					
Entire farm	99	16	29	35	20
Separate tract	141	14	68	18	0
Northeast					
Entire farm	32	63	9	3	25
Separate tract	55	55	36	7	2
Southeast					
Entire farm	294	41	3	15	41
Separate tract	118	43	36	17	4
Southwest					
Entire farm	155	14	10	58	18
Separate tract	60	10	62	25	3

the northwest part of Minnesota and a large proportion of the separate tracts in all parts of the state are used for cash crops and are rented on a crop-share basis.

When some hay and pasture land is included with cash crops, a crop-share-cash lease is better. Since the landlord may not be able to use his share of hay and pasture, a cash rent is paid for that acreage.

For a livestock farm a cash or a livestock-share lease is good; both leases leave all of the crops on the farm. They are commonly used on the dairy farms of eastern Minnesota.

3. Uncertainty and risk. With a cash lease the renter carries most of the risk of year-to-year variations in yields and prices. With a crop-share or crop-share-cash lease the landlord shares the yield and price risks for crops. With the livestock-share lease he shares the risks not only for crops but also for livestock.

4. Capital needed. When a cash lease is used, the renter must provide all of the capital needed. With a crop-share or crop-share-cash lease the landlord generally pays part of the expenses; this reduces the amount of capital needed by the renter.

The landlord provides a substantial part of the capital with a livestock-share lease. This lease is well suited to livestock farming whenever the renter has limited capital and the landlord is able to supply a part.

5. Relationship of landlord. A father frequently helps a son to get started farming by renting to him under a livestock-share lease. The father supplies a large part of the capital and also carries a part of the risk and managerial responsibilities (see table 2).

On the other hand, mothers use other types of leases, especially the cash lease; with these leases they have fewer responsibilities and less risk. Cash, crop-share, or crop-share-cash leases are generally used when the landlord and renter are not related.

Table 2. Types of Leases Used by Related and Nonrelated Landlords

	Number reporting	Percent renting under			
		Cash	Crop-share	Crop-share-cash	Livestock-share
Father*	214	25	16	17	42
Mother†	81	37	20	19	24
Brother or sister	32	28	44	6	22
Other	64	27	30	28	15
Nonrelated	487	30	31	29	10

* Includes fathers-in-law.

† Includes mothers-in-law.

6. Freedom of action. The cash lease gives the renter the greatest freedom of action. With the crop-share or crop-share-cash lease the landlord usually helps make decisions about crops to be grown and cropping practices to be used.

With the livestock-share lease the landlord and renter must make many decisions together. They must be able to cooperate, and the renter must be willing to sacrifice some of his independence of action.

Once you have determined what type of rental agreement best fits your farm, you must decide on the details of the lease. You will find information to help you make these decisions in the next sections.

ARRANGING THE DETAILS OF THE LEASE

Length of lease. Most cash and crop-share leases run for one year (see table 3). Even though such leases generally are renewed, uncertainty of tenure prevents many farmers from making desirable long-term plans.

When the renter and landlord know each other well, the lease can be set for several years. If a one-year lease is desirable, you can improve it by specifying that it will be automatically renewed unless notice is given at least six months before the end of the year.

Livestock-share leases generally run for longer periods. This is important because of the long-time investments involved.

Table 3. Distribution of Leases According to Length of Agreement, Minnesota, 1951

	Years					Total
	1	2-3	4-5	More than 5	Indefi- nite	
				percent		
Cash	65	17	8	3	7	100
Crop-share	64	13	6	6	11	100
Crop-share-cash	60	13	10	8	9	100
Livestock-share	45	18	7	10	20	100
Total	60	15	8	6	11	100

Livestock-Share Lease

With this rental agreement the landlord owns the land and improvements and pays the costs of maintaining them. He and the renter own the livestock jointly and share the income from crops, livestock, and livestock products. In Minnesota the landlord and the renter generally share on a 50-50 basis.

With a 50-50 livestock-share lease 80 to 94 percent of the landlords own a half share in cattle and hogs (see table 4). Less than half own a share in the poultry.

The renter usually owns all the machinery, but in some cases the landlord may own the milk cooler, combine, milking machines, or weed sprayer. In a few cases the landlord owns a half share in these items or in other machinery.

Practically all of the operating expenses are shared 50-50 except machinery repair and hired labor, which usually are the renter's expense (see table 5). Tractor fuel and corn picking expense also are the renter's expense in about half of the cases. Sometimes the landlord pays for all of the weed spray material, while the renter does the work of applying it or pays the expense of having it done.

The landlord pays the costs of building and fence repair. In some cases he pays for the material while the renter provides the labor for making the repairs. Since soil maintenance is very important to the landlord, he frequently pays the full cost of grass and legume seed.

Table 4. Shares of Livestock, Machinery, and Equipment Owned by Landlord Under 50-50 Livestock Share Leases

	Number reporting	Percent of landlords owning*		
		None	½	All
Dairy cattle	135	5	80	10
Beef cattle	58	5	84	9
Hogs	145	3	94	3
Poultry	135	47	43	7
Tractor	97	66	23	9
Corn picker	59	61	20	17
Field chopper	32	63	19	12
Hay baler	24	67	12	21
Manure spreader	95	66	16	18
Weed sprayer	29	48	24	28
Milking machines	84	46	26	27
Combine	42	45	26	29
Milk cooler	44	7	20	73

* The total is less than 100 percent in some cases because some landlords owned a share not given in the table.

Table 5. Landlord's Share of Selected Expenses Under 50-50 Livestock Share Leases

	Number reporting	Percent of landlords owning*		
		None	½	All
Fertilizer	142	1	94	4
Grass seed	156	2	66	32
Legume seed	151	1	64	35
Weed spray material	113	3	71	26
Weed spraying	113	22	66	12
Building repair	152	2	7	91
Fence repair	154	7	15	78
Seed, small grain	156	2	84	14
Seed corn	157	4	82	14
Seed, soybean	78	3	85	12
Combining grain	133	20	79	1
Combining soybeans	81	22	78	0
Hail insurance	67	16	78	6
Tractor fuel	158	46	50	1
Hay baling	146	16	83	1
Corn picking	149	47	52	1
Machinery repair	157	77	22	1
Hired labor	156	86	14	0
Livestock feed	155	3	97	0
Breeding fees	126	8	90	2
Veterinary expense	157	4	95	1

* The total is less than 100 percent in some cases because some landlords paid a share not given in this table.

Crop-Share and Crop-Share-Cash Leases

With the crop-share lease the landlord usually pays some operating costs in addition to providing the land and improvements. He receives a share of the crop as rental payment. The crop-share-cash lease is similar except that the landlord receives a cash rent for some crops, usually hayland and pasture. He may also be paid for the use of buildings.

Table 6. Share of Crop Paid as Rent in the Various Areas of Minnesota, 1951

	Number reporting	Percent of renters paying crop shares of			
		1/4	1/3	2/5	1/2
Northwest	176	8	44	0	48
Northeast	25	4	80	0	16
Southeast	103	0	32	16	52
Southwest	152	0	7	69	24

In most parts of Minnesota the most common shares of crops going to the landlord are one-third and one-half (see table 6). In the southwestern counties and to some extent in the southeastern counties the two-fifths and one-half shares are used most frequently. The proportion of crops paid the landlord is usually higher in areas of high yields.

None of the leases is used exclusively in an area, however. One renter may be using a one-third share lease while his neighbor will have a one-half share

lease. The higher share of crops is usually paid if the landlord pays many of the operating costs.

The decision as to whether the landlord shall receive one-half of the crop or shall receive less depends to a large extent on the abilities of the renter and the landlord to finance the operating costs. If the renter has ample capital and the landlord wants to hold his investment low, the one-third or the two-fifths share will be most satisfactory. If the renter's capital is limited and the landlord is able to produce more, the one-half share may be preferable.

The arrangements for sharing expenses under a crop-share lease are the same as under a crop-share-cash lease when the share of crops paid as rent is the same for both. The data for the two types of leases, therefore, have been combined to form table 7. Also, with any particular case, such as the one-third share, the sharing of expenses is approximately the same in all parts of the state. Table 7 can then be applied to any section of the state.

When the one-third share lease is used the renter usually pays most of the operating costs. In some cases he also pays the cost of building and fence repair. Almost half of the landlords pay for the grass and legume seed, since this helps to protect the productivity of their land.

When the landlord receives one-half of the crop he generally pays a large share of the costs. Most landlords pay part or all of the fertilizer and seed costs. They also pay part of the harvesting costs.

Table 7. Landlord's Share of Selected Expenses Under the Crop-Share Lease and Crop-Share-Cash Lease

	One-third share lease				Two-fifths share lease				One-half share lease			
	Number reporting	Percent of landlords paying*			Number reporting	Percent of landlords paying*			Number reporting	Percent of landlords paying*		
		None	1/3	All		None	2/5	All		None	1/2	All
Fertilizer	69	41	42	7	89	17	60	8	125	11	65	22
Grass seed	67	54	6	36	87	31	23	37	126	12	27	61
Legume seed	73	48	7	41	86	26	30	35	123	13	28	59
Weed spray material	57	60	16	16	97	26	36	32	123	19	52	28
Weed spraying	56	66	18	9	90	76	11	10	118	57	34	9
Building repair	47	26	0	72	77	5	0	94	95	7	4	89
Fence repair	45	38	0	60	88	9	0	89	108	30	5	65
Seed, small grain	80	95	3	1	91	98	1	0	156	15	22	63
Seed corn	57	96	0	2	92	97	2	0	117	26	43	31
Seed, soybean	13	100	0	0	73	95	4	0	61	28	52	20
Combining grain	72	85	15	0	90	94	3	2	149	26	67	0
Combining soybeans	15	93	7	0	65	95	2	2	45	40	60	0
Hail insurance	13	54	31	8	69	55	26	0	35	43	40	9
Tractor fuel	78	100	0	0	92	99	0	1	156	95	3	1
Hay baling	22	64	4	0	73	95	1	1	55	75	24	1
Corn picking	26	88	4	0	90	99	1	0	80	61	38	1
Machinery repair	20	95	0	0	78	100	0	0	46	100	0	0

* The total is less than 100 percent in some cases because some landlords paid a share not given in the table.

The renter and landlord frequently divide the expenses when both derive a direct benefit from them. For example, fertilizers and hail insurance are frequently divided. When one of them receives most of the benefit, he pays most of the cost. Major building repairs protect the landlord's investment; he therefore pays most of the cost.

A general rule for dividing expenses is that the renter and the landlord should share expenses in the same proportion as they share income. This will encourage them to follow efficient practices. For example, if either the renter or the landlord must pay the full cost of fertilizer, he cannot afford to do so unless the increase in yield is sufficiently large that his share of the crop will cover the extra cost.

Each farm is different and each renter or landlord is different. The lease must therefore be adapted to the circumstance.

Cash Lease

As with other rental agreements, the landlord owns the land and permanent improvements. He pays for the repairs, insurance, taxes, and other maintenance costs. The renter pays a cash rental, pays all other costs of farm operation, and receives the income from all sales.

The amount of the rental varies according to the quality of the land, the location, and the level of prices. The amounts paid per acre in 1951 are shown in table 8.

As with the other leases the cash lease usually specifies that the renter shall operate the farm in a workmanlike manner, shall control the weeds, and shall not remove straw and manure without the owner's consent. In order to protect his investment the landlord may require the renter to keep a certain amount of the land in grasses and legumes; he frequently pays for the seed.

Table 8. Cash Rent Paid per Acre by Cash Lease Renters in Various Areas of Minnesota, 1951

	Number reporting	Percent of renters paying				Average per acre
		Under \$4	\$4 to \$8	\$8 to \$12	\$12 to \$16	
Northwest	30	74	23	3	0	\$2.79
Northeast	42	69	31	0	0	2.70
Southeast	159	15	55	24	6	6.82
Southwest	30	0	27	60	13	9.48

UNIVERSITY OF MINNESOTA, INSTITUTE OF
AGRICULTURE, ST. PAUL 1, MINNESOTA

Cooperative Extension Work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Service and United States Department of Agriculture Cooperative Extension Staff, St. Paul, Minnesota. Published in furtherance of the Cooperative Extension Act of May 6, 1914.

UNIVERSITY OF MINNESOTA

10M-1-59



3 1951 D04 088377 W