Farmland Leasing:
An Overview

University of Illinois
Farm Business Management Handbook

William R. Harryman
Extension Educator, Retired
Farm Business Management and Marketing

Two-thirds to three-fourths of central Illinois farmland is rented. In other parts of the state, about half of the farmland is rented. The rest is owner-operated. The trend towards leasing farmland versus buying is increasing. As a result, both farm owners and farm operators need to understand farm leasing.

Leasing farmland is the process of paying someone for the use of the land. For years, farmers have paid a share of the crop for the use of the farmland. This was done through the crop-share farm lease. Currently, an increasing percentage of farm operators are paying cash for the use of farmland in addition to leasing machinery or farm buildings.

Many modern farm businesses control millions of dollars in assets. (One thousand acres of $2,000 land equals two million dollars). These assets may be owned (the tractors), rented, or leased (the farm ground), borrowed (as in bank loan), or any mix of the three. Agriculture is a big business, with too much money involved to be left to the whim of a spoken word.

To further complicate the leasing issue, important items such as government farm programs, droughts, record yields, changes in Internal Revenue Service rules, a new emphasis on pollution, related litigation, and strict water quality rules have recently increased the need for lease negotiations. A written lease provides the chance to address these issues and provide the opportunity to make necessary adjustments.

As the landowner population ages, many owners want to “automate” as much of the farm decision making process as possible. But, they still want things done “their” way. A well constructed lease can accomplish this.

What is Rent?

Over time, experience has shown that rent is a residual figure. It represents the amount of money left over after variable expenses, fixed expenses, and an acceptable living for the farm operator are paid.

Fifty years of Farm Business Farm Management Association records show landowners net income in central Illinois is approximately 33 percent of gross farm income. In southern Illinois and on farms with less productive soils, this figure approaches 25 percent.

Efficiencies in farm production, coupled with increased demand for farmland are allowing these figures to change, migrating upwards. There is no published “correct” number describing rental terms. The current demand for, and the availability of farmland drive the rental market.

Economic theory typically suggests that both parties share variable input (cash) expenses in the same percentages as they share the crop proceeds. Translated, if one member receives 66% of the crop, that party should pay 66% of the variable expenses. This way both parties share the production and pricing risk. If there is a “fair” lease, it is one in which variable expenses, risk, and yields are shared in an equal fashion.

Written vs. Oral Leases

Would you trust someone else with $300,000 of your money to invest, use and pay you an unknown amount for the use of these dollars? Without a written farm lease, you are doing just exactly that.

Many farm leases are simple, oral agreements and most people with these leases feel secure with them. The details of management are either spelled out by the laws of Illinois, or are assumed to be “conventional practice.” Without some agreement, oral leases do not adapt well to changing technology.

Land Economics 1 - August, 1997
There are many complex issues and many special lease terms to fit your particular farm. Unless these special terms are spelled out in writing, they may not be defensible in court. The written lease protects both parties.

If courts of law cannot verify your leasing arrangement, then the ruling may change your lease terms to practices customary in the area. “Customary practices” may not include no-till, organic farming, conservation tillage, or other recently-adopted techniques. A written description of these practices - the written lease - provides proper verification.

**Trust/Communications**

The key to having a successful landowner-operator relationship is careful selection of the operator. Owner and operator need to be compatible, have similar goals, understand what each other wants and be tolerant of each other’s weaknesses. It’s not unlike taking a spouse. With the average farm tenure about 18 years, and with many operators farming the same farm for 30 or 40 years, many landowner-operator relationships last longer than some marriages.

One professional manager stated in a written article that he watches a farm operation for several years before even considering the person as a prospective operator. If the owner and operator cannot establish personal trust, no amount of written words can. A successful leasing arrangement begins when the owner and operator agree to work together. Regardless of the lease format selected, the key to success is trust.

A checklist developed by Ruth Hambleton, educator in farm business management and marketing can help in evaluating your leasing relationship. Most of the questions deal with operational communications between the two parties. If these questions can be answered affirmatively, it is a good sign that the owner/operator relationship is based on good trust and communication.

**Questions for Operators:**
1. Do you have a written lease with your landowner?
2. Do you and your landowner review your lease at least once a year?
3. Do you contact your landowner to see how “things” are going?
4. Does your landowner check fields with you?
5. Is your landowner related to you?
6. Does your landowner supply you with soil tests?
7. Does your landowner allow you to try new things?
8. Do you feel comfortable talking to your landowner?
9. Does your landowner let you decide which crops to plant?
10. Does your landowner know enough about the business end of farming?

**Questions for landowners:**
1. Do you have a written lease with your operator?
2. Do you and your operator review your lease at least once a year?
3. Do you contact your operator to see how “things” are going?
4. Does your operator contact you to offer you a tour of your fields?
5. Is your operator related to you?
6. Have you seen recent soil tests on your fields?
7. Does your operator clearly explain things to you when you ask questions?
8. Do you feel comfortable talking to your operator?
9. Does your operator report crops to the FSA for you?
10. Are you satisfied that your operator is farming as good as, or better, than what you would do?