UW Growing — Beginning Farmers & Ranchers

Getting Started in Ag:
Leasing Overview

Leasing is used extensively in today's production agriculture. If you are new or just starting out in production agriculture, your capital resources may be somewhat limited, especially when it comes to acquiring land, machinery and other capital equipment items.

Leasing or renting can increase your productive capacity without the purchase of additional land or assets. Leasing is most simply defined as when one or more parties agree to pay, in whatever form, one or more parties for the right to use property in an agreed upon manner. This may include leasing farmland for crops, pasture for cattle, or buildings and equipment.

TYPES OF AG LEASES

Numerous agricultural leasing options are available. In Wyoming, leases are often used for irrigated farmland, dryland farmland, and different types of livestock operations.

It is important to note that there is no one type of lease that works for everyone. When negotiating a lease, it is important to do your homework and identify an agreement that can benefit both parties.

Cash leases are agreements in which the lessee pays a set amount per acre for the use of the property. The lessee or tenant shoulders the bulk of the risk under this arrangement. For example, a lessee might pay $200 per acre to lease irrigated farmland. The lessor or landlord gets paid regardless of the lessee's crop production.

Many factors go into the formulation of the price of a cash lease, including but not limited to area market rates, return on investment for the landlord, productive capacity of the land, supply and demand of cropland in the area, cost of production, and the ability of potential tenants to pay. As a potential tenant, it is important to gather as much information about these factors as possible to make an informed leasing decision. The USDA Agricultural Marketing Service (AMS) publishes a survey of rental rates for most areas.

Share leases are leases where the landlord and tenant split the costs and revenue associated with production. In this way, the production risk is shared by both parties. Percentages are used to describe the level each party will pay or receive under the agreement. The percentages often vary by area and situation. Share leases are more common in hay operations, with the landlord receiving a percentage of the hay produced. It is important for both parties in these types of arrangements to consider managing their risk, possibly with crop insurance.

Flex or hybrid leases often include features of both share and cash leases. This type of arrangement typically involves setting a minimum cash price per acre, usually lower than a straight cash lease, as well as a sharing agreement when crop prices or revenue pass a certain threshold.

Livestock pasture leases are often stated as a charge on a per Animal Unit Month (AUM) basis, on a per head basis, or on a per acre basis. Much like cropland leases, the amount of risk shouldered by each party depends on the form of agreement settled on.

FOR MORE INFORMATION

Visit farmanswers.org and its online library for more information about the various kinds of leases and rental arrangements used in production agriculture across the country, including the University of Nebraska Center for Agricultural Profitability. The National Agricultural Law Center (nationalaglawcenter.org) is also an excellent resource for learning more about the legal aspects of leasing. Visit RightRisk.org for additional leasing information and tools, including the Forage Risk Analyzer (FRA).

raksyBH, stock.adobe.com

James Sedman is a consultant to the Department of Agricultural and Applied Economics in the University of Wyoming College of Agriculture, Life Sciences and Natural Resources, and **John Hewlett** is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu.

University of Wyoming Extension · USDA

Coming to an agreement. Photo courtesy: Howard Rosenberg, University of California Berkley, retired.

Leases that are per head, per month distribute at least some of the risk between parties, whereas in a per acre lease the livestock owner carries more risk.

Determining the rental rates in your area can be a challenge; utilizing as much market information from USDA and university extension sources can help you make a more informed decision.

IMPORTANT AGREEMENT PROVISIONS TO CONSIDER

First and foremost, it is extremely important to get your lease agreement in writing. A handshake deal is great where a long-established trust relationship exists but, especially for new producers, a written agreement is best for everyone involved. While some may consider this a lack of trust, it is the most honorable way to address all of the important provisions of the lease agreement for all parties involved.

A written agreement allows both parties to cover themselves should either one fail to uphold their end of the agreement, while avoiding selective recall of the agreed upon terms. A comprehensive agreement should include, but not be limited to, payment schedules and rates; stocking rates; crops allowed; percentages; division of expenses, including repairs; responsibility for utilities; as well as provisions for dispute resolution and termination.

Maintaining open lines of communication is key to a successful lease agreement. It is important that all parties recognize they are a team of sorts and can benefit each other through a solid lease agreement. Regular communication can address concerns or issues before they become problems on both sides.

Price is not the only factor to consider when entering a leasing arrangement. It may be just as important to build a solid working relationship, regardless of which side of the lease you are on.

A lease agreement based solely on the highest or lowest price often ends badly for everyone involved. A long-term approach often provides better security and benefits for all parties. Each side of the agreement brings certain resources and contributions; these may not be accurately accounted for by simply using the average price or the going rate for leases in the area.

FORAGE RISK ANALYZER (FRA) FROM RIGHTRISK.ORG

FRA is designed to help one or multiple parties (up to six) understand the value of everything involved in a potential lease and formulate a fair and equitable agreement.

The tool is divided into six resource categories, including land, livestock, housing, stored feed, labor and machinery. FRA contains appendices for nutrient requirements and feedstuff composition for beef cattle and AUM equivalents for various livestock types.

Visit RightRisk.org > Risk Management Tools to get started.