

RENTING OHIO FARMLAND

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FARM MANAGEMENT HANDBOOK

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The kinds of land rental arrangements used vary widely in each locality and from one farming area to another. What is desirable or fair for one farm, tenant or landowner, may not be acceptable for others. The purpose of this article is to help tenants and landowners make sound decisions and develop and maintain fair rental arrangements, whether fixed cash, flexible cash, or share.

The following topics will be discussed: trends in rentals in Ohio, pros and cons of leasing methods, and some economic principles involved. Procedures and methods to help evaluate the equity of a cash or share lease arrangement are suggested, as well as flexible cash rent alternatives and legal considerations in lease negotiations and renewal.

Trends in Rents and Land Values in Ohio

Ohio Crop Reporting Service surveys provide data on cash rent of farmland in Ohio, statewide and for each of the nine crop reporting districts. Cash rents are published for three categories: (1) rental of a whole farm; (2) rental of cropland only; and (3) rental of pastureland only. The range in rents reported underscores the extreme variability of the land rental market, even within Crop Reporting Districts, due to variation in productivity, competition for land, knowledge of the market and many other factors.

Cash rents and agricultural land values generally tend to move in the same direction. However, changes in cash rents often lag behind changes in land values.

Share rental arrangements in Ohio have not changed much over the years. They most commonly involve 50-50 sharing of seed, fertilizer, chemicals and the crop. In many cases the tenant

shares the cost of lime. Usually, the landowner pays the tenant a "conservative" custom charge for harvesting the landowner's share of the crop. Table 3 shows the typical division between landowner and tenant under leasing arrangements common in Ohio.

There are many variations from 50-50, however, ranging from the tenant paying all expenses and giving one-third of the crop to the landowner to where the landowner is contributing all but labor, and the tenant receives 30 percent of the crop.

There has been a subtle shift of contribution from tenant to land-owner over recent years. The use of custom application of chemicals and fertilizer has increased. The landowner, as he pays his share of the bill, is now paying for half of the application, which traditionally was part of the tenant's contribution.

COMPARING FIXED CASH, FLEXIBLE CASH AND SHARE RENTAL ARRANGEMENTS

Landowners and tenants can choose from several rental arrangement alternatives. They can rent on a fixed cash basis, or on a flexible cash basis; they can crop-share or livestock-share rent with the option of cash rent for certain items. The landowner has additional options. He can retain major control of operations by hiring field work done on a custom basis or by using a direct operation arrangement in which he supplies land, machinery and all other inputs except labor; in effect, hiring someone to do the farm work.

As A Landowner, Should You Cash Rent?

Comparing the degree of involvement of the landowner under each of the arrangements is one way to approach the decision of which arrangement

Table 1: Cash Rents by Type and District, Ohio, 1981^{1/}

Crop Reporting District	Whole Farms			Cropland Only			Pasture Only
	Avg.	Range	No. of Reports	Avg.	Range	No. of Reports	State Avg.
1 (northwest)	\$95	\$(50-150)	104	\$100	\$(25-200)	114	-
2 (north central)	80	(25-140)	74	80	(25-200)	83	-
3 (northeast)	35	(10- 80)	42	40	(15-100)	54	-
4 (west central)	110	(40-175)	83	115	(45-110)	99	-
5 (central)	85	(30-125)	85	95	(25-170)	107	-
6 (east central)	45	(15- 80)	14	55	(25-110)	15	-
7 (southwest)	80	(20-130)	33	85	(20-130)	46	-
8 (south central)	55	(25-120)	24	65	(15-125)	29	-
9 (southeast)	<u>35</u>	<u>(5-110)</u>	<u>16</u>	<u>45</u>	<u>(10- 95)</u>	<u>24</u>	-
OHIO	\$79	(5-175)	475	\$88	(10-200)	567	\$27

^{1/} Data are based on reports of farmers for farms in their locality as of March 1. Only the state average is reported for "Pasture Only" rent, due to fewer reports.

Table 2: Land Values, Cash Rents and Annual Changes, Ohio, 1975-81

Year	Land Value	Per Acre Cash Rent		Percent of Previous Year		
		Total Farm	Cropland Only	Land Value	Whole Farm Cash Rent	Cropland Only
1975	\$ 706	\$ 33	\$ 40	121	114	118
1976	856	46	51	130	139	128
1977	1110	53	60	113	115	118
1978	1243	60	68	112	113	113
1979	1484	69	77	119	115	113
1980	1676	72	82	113	104	106
1981	1727	79	88	103	110	107

to choose. Factors considered include: capital, management, risk and returns involved, the tenant's capabilities and financial responsibility, and many others. The number of x's shown in Table 4 reflects the landowner's involvement with each of several major factors for different arrangements. For example, considerably more management involvement is normally required when the land is crop-share rented than when cash rented. Even more is required if the farm is operated on a custom or direct operation basis.

Deciding which alternative to choose is not easy, as each has advantages and drawbacks. Here are some points to consider in deciding whether the fixed cash rental arrangement fits your situation.

Advantages for the Landlord in Cash Renting

1. It requires less managerial input than other leasing arrangements.
2. Reduced involvement in management reduces the possibility or likelihood of friction between the landowner and the tenant on management decisions.
3. It eliminates concern over accurate division of the crop(s) and expenses.
4. Landowners have no worry about marketing crops.
5. It lessens concern over variations in prices and yields. Price, cost and production risks are borne by the tenant. The main risk the landowner still may be assuming is ... can/will the tenant pay the rent in a bad year?
6. For older people interested in drawing Social Security payments, cash renting greatly reduces the likelihood that the landlord will be considered a participating landlord." You can most likely receive cash rent without affecting your Social Security payments. (This may become a disadvantage in estate planning, however.)

Disadvantages for the Landlord in Cash Renting

1. It may be difficult to agree on an acceptable cash rent.
2. Once a fixed cash rent is set, it may be difficult to negotiate needed changes in rent due to changes in prices and costs, without changing tenants.
3. In average or above-average years, the landlord may receive less income than if he had rented the farm on a share basis.
4. In years when commodity prices increase unexpectedly, the landowner who has rented his farm for a fixed amount of cash fails to share in the "windfall" profits from higher prices.
5. There is little opportunity for income tax management. Under a share arrangement and cash reporting of taxable income, the amount of taxable income can be manipulated some through timing of crop sales before or after the end of the year. Similarly, purchase of fertilizer and seed for the next growing season can be made in the closing months of any tax year to reduce taxable income.
6. There may be some danger that a tenant renting on a cash basis will tend to "mine" the land he is renting. Competition for land and appropriate requirements in the lease can minimize this problem, however.
7. There is little opportunity to build a base for social security payments, because of the difficulty in establishing acceptable evidence of material participation.
8. There may be little opportunity to fully utilize acquired experience and/or existing grain storage and livestock buildings.

As A Tenant, Should You Cash Rent?

Sometimes the characteristics of cash leasing that are desirable for the landowner are undesirable for a tenant. Here are some pros and cons of

TABLE 3

TYPICAL DIVISION BETWEEN LANDOWNER AND TENANT OF FACTORS OF PRODUCTION, EXPENSE ITEMS AND INCOME IN THE DIFFERENT METHODS OF RENTING IN OHIO 1/

Factors of Production and of Expense Items	Crop Share Only		Crop Share + Cash Rent for Pasture & bldgs.		50-50 Livestock Share		1/3 Share		Cash Rent Only	
	L.	T.	L.	T.	L.	T.	L.	T.	L.	T.
Real Estate	all		all		all		all		all	
Labor		all		all		all		all		all
Management of Operations	part	part	part	part	part	part	part	part		all
Machinery & Power - Crop		all		all		all		all		all
Machinery & Power - Livestock		all		all	part	part		all		all
Livestock				all	1/2	1/2		all		all
Cash for Operation	part	part	part	part	part	part		part	part	all
Purchased Feed		all		all	1/2	1/2		2/3	1/3	all
Home-grown Feed				all	1/2	1/2		2/3	1/3	all
Seed - corn & grain	1/2	1/2	1/2	1/2	1/2	1/2		2/3	1/3	all
Seed - hay & pasture	1/2	1/2	1/2	1/2	1/2	1/2		all		all
Fertilizer	1/2	1/2	1/2	1/2	1/2	1/2		2/3	1/3	all
Lime 2/	1/2	1/2	1/2	1/2	1/2	1/2		all		all
Chemicals	1/2	1/2	1/2	1/2	1/2	1/2		2/3	1/3	all
Harvesting	1/2	1/2	1/2	1/2	1/2	1/2		2/3	1/3	all
Drying, Hauling to Market	1/2	1/2	1/2	1/2	1/2	1/2		2/3	1/3	all
Fuel & Oil		all		all	1/2	1/2		2/3	1/3	all
Machinery Repair - Crop		all		all		all		2/3	1/3	all
Machinery Repair - Livestock		all		all	part	part		all		all
Feeder Livestock		all		all	1/2	1/2		2/3	1/3	all
Real Estate Repairs & Additions										
Labor for minor items		all		all		all		all		all
Labor for new or major items	all		all		all		all		all	
Materials for repairs	all		all		all		all		all	
Real Estate Tax & Insurance	all		all		all		all		all	
Insurance on Personal Property	part	part	part	part	part	part		2/3	1/3	all
Income Received	1/2	1/2	1/2	1/2	1/2	1/2	2/3	1/3	cash	all
	of	of	crop +	crop	crop	crop	crop	crop	rent	crop
	crop	crop	cash	& all	& ls.	& ls.	& ls.	& ls.	& ls.	& ls.

1/ Local conditions and specific farm lease may cause variations from this typical division.
2/ Maintenance application.

Table 4: Landowner Involvement Under Various Rental Arrangements

	Method of Operation						
	Cash Rent		Crop Share	Lvstk. Share	Custom Operated	Direct Operation	
	Fixed	Flexible				Crops Only	Lvstk. & Crops
Capital Required:							
Investment	x	x	xx	xxx	x	xxxx	xxxx
Operating	x	x	xx	xxxx	xxxx	xxx	xxxx
Mgt. Involvement	x	x	xxx	xxxx	xxxx	xxxx	xxxx
Mkt. Responsibility	x	x	xxx	xxxx	xxxx	xxxx	xxxx
Risk	x	xx	xxx	xxxx	xxxx	xxxx	xxxx
Financial Return	xx	xx	xxx	xxxx	xxxx	xxxx	xxxx
Variability in Ret.	x	xx	xxx	xxxx	xxx	xxx	xxxx
Material Participation ¹	not usually	not usually	very likely	very likely	yes	yes	yes

1. Under present social security and federal estate tax laws owners may find themselves in a paradoxical situation. In order to draw social security payments, material participation must be avoided; but if current use value is to be used for estate tax purposes, some material participation may be necessary.

cash leasing that a farm tenant should consider:

Advantages for the Tenant in Cash Renting

1. It allows the tenant a relatively free hand in making management decisions.
2. Friction between the tenant and the landowner is less likely because of his/her reduced participation in management.
3. Since the tenant gets all the crop, there is more incentive to strive for high yields.
4. When paying a fixed cash rent, the tenant benefits from any unexpected crop price increases or unusually high yields.
5. Cash renting eliminates the bother of having to divide crops or income from the sale of crops. It also removes the need for keeping track of crop expenses as required under a share rental arrangement.

Disadvantages for the Tenant in Cash Renting

1. The tenant's risk is higher. Cash rent becomes a fixed cash expense which may be very difficult to pay in a poor crop year or with abnormally low crop prices. Plus, the tenant stands all production costs.
2. To the extent the rent is paid early in the year, cash needs and interest costs are higher.
3. Cash rents tend to go up as crop yields increase, even though most of the increase may be due to the tenant's management skills.
4. There is no advantage to working with an experienced landlord.
5. It may be difficult to agree on an acceptable cash rent.

Pros and Cons of Flexible Cash Renting

A flexible cash rent arrangement for cropland offers certain advantages as well as disadvantages when compared to fixed cash rent.

BASIC LEASE PRINCIPLES

Farming is a business in which land, labor and capital are combined through the application of management. Where each of these factors is owned or contributed by different parties, the payment for each factor should be equal to its value as an input of production. This is the goal in developing an equitable and fair lease. A good lease, therefore, must be developed using some basic rules or principles:

1. Each party should share in total returns in the same proportion as they contribute resources.
2. Variable expenses which increase yields should be shared in the same percentage as the yield is shared.
3. As new technologies are adopted, and as basic price relationships change, lease arrangements need to be adjusted to reflect the impact upon costs and returns.
4. Tenants and/or landowners should be compensated at the termination of the lease for the unexhausted portion of longer term investments.
5. Communications must be maintained between landowner and tenant.

What's A Fair Rent? -- The Bargaining Process

You can use more than one approach to negotiate a final figure acceptable to both the tenant and the landowner. This is where "give" and "take" enter the bargaining process. The landowner and tenant should each put figures together independently, then discuss them to identify areas of agreement as well as difference. Tables 5-8 are suggested formats to help both parties organize their information. The bargaining process provides a means of arriving at a rent that is acceptable to both, and an opportunity for both parties to understand the other's point of

TABLE 5. Estimated Fixed Cash Rent a Tenant Could Afford to Pay

A. Gross Value of crops produced plus government payments earned:						Total Value (Total Prod. X Price or Acres X Gross/A)
Crop	Acres	Yield	Total Production	Price/Ton or Bu.	Gross Per Acre	
1.				\$	\$	\$
2.						
3.						
4.						
5.						
6. GROSS VALUE FROM CROPLAND						\$

B. Less Costs:

Variable Costs and Fixed Costs²

Crop	Acres	Variable Costs/ Acre	Total Variable Costs	Fixed Costs/ ² / Acre	Total Fixed Costs
1.		\$	\$	\$	\$
2.					
3.					
4.					
5.					
6. TOTAL VARIABLE COSTS, ALL CROPS			\$	XXXX	XXXX
7. TOTAL FIXED COSTS, ALL CROPS				XXXX	\$

C. Fixed Costs on Crop Machinery Involved (optional)²

1. Depreciation: $\frac{\text{replacement cost} - \text{salvage value}}{\text{expected years of use}}$ \$ _____
 2. Interest on average investment @ %..... _____
 3. Property taxes..... _____
 4. Insurance..... _____
 5. Total Fixed Machinery Costs..... _____
 6. Labor for crop production and farm maintenance (___ hrs. @ \$ ___/hr.) \$ _____
 7. Management allowance (___% of Gross Value or ___% of Capital)..... \$ _____
- D. Total Production Costs (B6 + B7) or (B6 + C5 + C6 +C7)..... \$ _____
- E. Amount which could be paid for rent of land (A6 - D)..... \$ _____
- F. Building and pasture rent _____ acres..... \$ _____
- G. Total amount tenant could reasonably pay for rent (E + F)..... \$ _____
- H. Rent per acre (G ÷ _____ acres rented)..... \$ _____

1. Variable costs, as used here, would include fuel, oil, repairs, seed, fertilizer, herbicide, insecticide, interest on operating money, custom work, etc.
2. Fixed costs may be estimated on a per acre basis (Section B) or for total acres (Section C, Lines 6 & 7).

TABLE 6: Landowner's Ownership Costs or Desired Return as a Basis for Fixed Cash Rent

Interest on Investment: Acres _____ x Per Acre Price \$ _____ =
 Value \$ _____ @ _____% = \$ _____

Repairs (average annual): \$ _____

Taxes: \$ _____

Insurance: \$ _____

Depreciation on Improvements

Buildings: Value \$ _____ ÷ estimated life _____ yrs. . . . \$ _____

Fences: Value \$ _____ ÷ estimated life _____ yrs. . . . \$ _____

Water System: Value \$ _____ ÷ estimated life _____ yrs . . \$ _____

_____ : Value \$ _____ ÷ estimated life _____ yrs . . \$ _____

Total Costs or Desired Return \$ _____

Per Acre (Total Cost \$ _____ ÷ Acres rented _____) \$ _____

TABLE 7. Worksheet for Testing Your Share Rental Arrangement
Individual Crop or Whole Farm

Crop(s) Grown _____		Year _____				
Item	Value		Charge	Annual Charge	Landowner	Tenant
1 Land	\$	X	%	\$	\$	\$
2 Real Est. Tax	XXXX		XXXX	\$	\$	\$
3 Land Maintenance	XXXX		XXXX	\$	\$	\$
4 Crop Machinery	\$		XXXX	XXXX	XXXX	XXXX
5 Depreciation	XXXX		yrs.	\$	\$	\$
6 Repairs	XXXX	X	%	\$	\$	\$
7 Insurance	XXXX	X	%	\$	\$	\$
8 Personal Taxes	XXXX	X	%	\$	\$	\$
9 Interest	XXXX	X	%	\$	\$	\$
10 Labor	hrs.	X	\$/hr	\$	\$	\$
11 Management	\$	X	%	\$	\$	\$
Sub Total A						
12 Fertilizer				\$	\$	\$
13 Seed				\$	\$	\$
14 Fuel				\$	\$	\$
15 Herbicides				\$	\$	\$
16 Insecticides				\$	\$	\$
17 Harvesting				\$	\$	\$
18 Drying				\$	\$	\$
19 Hauling				\$	\$	\$
20 Crop Insurance				\$	\$	\$
21 Other				\$	\$	\$
22	Sub Total B			\$	\$	\$
23 TOTALS (Line 1 thru Line 21) (Sub. Total. A+B)...				\$	\$	\$
24 Landowner % Share of Total.....				XXXX	%	XXXX
25 Tenant % Share of Total.....				XXXX	XXXX	%
Line 24 and 25 indicate how to share the crop and how to share the cost of shared inputs.						
Use lines 26-30 to adjust to a desired share.						
26	ADD ITEMS			\$	\$	\$
27	PREVIOUSLY SHARED			\$	\$	\$
28	OR CHANGE SHARES TO			\$	\$	\$
29	OBTAIN ADJUSTED TOTALS			\$	\$	\$
30				\$	\$	\$
31 Adjusted Total (Line 23 + 26 thru 30)				\$	\$	\$
32 Landowner % Share of Adjusted Total				XXXX	%	XXXX
33 Tenant % Share of Adjusted Total				XXXX	XXXX	%

TABLE 8: Developing or Testing Your Livestock Share Rental Arrangement

Item	CONTRIBUTION			EACH PARTY'S SHARE	
	Cost or Value	Rate	Value Annual Contrib.	Tenant	Landlord
LAND AND BUILDINGS					
1. Interest (3-6% of valuation)					
2. Real Estate Tax					
BUILDINGS, FENCES AND OTHER PERMANENT IMPROVEMENTS					
3. Depreciation (4-10% of replacement value)					
4. Repair (2-4% of replacement value)					
5. Insurance					
POWER AND MACHINERY					
6. Interest (current rate times average value)					
7. Depreciation (10-14% of new cost less salvage value or 16-25% average investment)					
8. Repair (3-4% of new cost or 4-8% of average value)					
9. Insurance 0.2 - 0.4% of average value					
LIVESTOCK					
10. Interest (current rate x current value)					
11. Depreciation, if any (breeding stock only)					
12. Insurance					
13. PERSONAL PROPERTY TAX					
LABOR AND MANAGEMENT					
14. Operator ____ months					
15. Family help ____ months					
16. Hired labor ____ hrs.					
17. Management (5% of gross)					
18. CASH RENT (paid to landowner by tenant)					
19. SUBTOTAL — major contributions (add Lines 1 through 18)					
20. Cash cost of boarding hired labor					
21. Purchased feed for productive livestock					
22. Other livestock expense					
23. Machine work hired					
24. Seed, plants					
25. Twine and baling wire					
26. Fertilizer and chemicals					
27. Tractor fuel					
28. Miscellaneous					
29. TOTAL EXPENSES (add Lines 19 through 28)					
30. PERCENT OF TOTAL CONTRIBUTION	XX	XY	100		

view. Intelligent bargaining can only occur if each party knows that his own contributions are worth, what the other party's contributions are worth, and what local leasing arrangements usually provide. This requires open communication and trust.

All parties also need to recognize that pressing an advantage too far results in an unfair leasing arrangement for one party or the other. A lease that is unfair to either party is not likely to last long. An unfair, lopsided arrangement tends to encourage dishonesty and poor cooperation from the injured party. Also, times do change and "the shoe may be on the other foot" next time.

If both parties are sincerely interested in the long-run profit of the total operation rather than concerned about short-term gain, a relationship can continue that's beneficial to all.

In general, a somewhat lower cash rent may be acceptable to the landowner than the average net rent he stands to gain from a share lease because he's taking less risk. Also, if a larger part of cash rent is required in advance, the total rent should be reduced. At 15 percent interest, \$50 cash rent on March 1 is equivalent to about \$55 to be received after fall harvest.

Valuing and Charging for Contributions When Evaluating a Lease

The following guidelines are intended to help as one uses Tables 5-8 for developing or testing cash or share lease arrangements.

Land: Land should be valued at the current fair market value for agricultural purposes. The influences of location near cities and other non-agricultural influences on value should be ignored. Interest on Land and Buildings: A practical "bargaining" rate of interest may approximate 3 to 5 percent on land because:

1. The present market value of the real estate is used rather than the purchase price. (In most cases, the present value will be higher.)
2. In the event the farm is sold, the net dollars available to invest at a higher rate of interest are less than the fair

market value because of income taxes, sale expenses, etc.

3. Ohio farmland values have climbed at annual rates of from 3 percent to 30 percent since 1975. They have increased an average of 16 percent per year in 1971-1981, and will probably continue to increase in the future. With the anticipated land appreciation added to a 3 to 5 percent rental return, the landowner receives a desirable return on his investment. If buildings are included, the return should range from 4 to 6 percent since they have not appreciated like land has.

Real Estate Taxes: The actual taxes due annually.

Land Maintenance: The average dollars spent annually for lime, conservation practices and other repairs to land improvements.

Buildings, Fences and Other

Permanent Improvements: Depreciation can be calculated on the basis of the estimated cost of replacing a structure or machinery with new improvements designed to do the same job, then depreciating that amount over 10 to 25 years. Or, if reasonable, actual depreciation of these investments can be transferred from the landowner's depreciation schedule. Possible obsolescence is also important when estimating depreciation.

For example, highly specialized buildings such as confinement hog facilities should be written off over a relatively short period of time because of anticipated obsolescence. Because of changing technologies, ten years or less may be the practical life period for specialized buildings.

Unused buildings, such as garages, ear corn storage, tenant houses or even modern production buildings may not have any practical use for the present operation. Depreciation for these unused buildings should not be considered as part of the landowner's contribution.

Repairs: The value entered for repairs should reflect an average cost over the lifetime of the improvement. Annual repair costs will amount to about 1 - 4 percent of new cost. If the landowner has several years of records available, an average of actual costs could be used with some adjustment for inflation. Credit is not given to either party if costs will be shared at the same rate as the other operating costs are shared.

Insurance: Charges should reflect the actual annual cost of insurance on usable permanent improvements, such as buildings.

Machinery: The value of machinery should be the average value of a good line of typical machinery necessary to farm in the area being considered. The value should not be the cost of a new line of machinery. Likewise, it should not be the actual cost to the tenant (like land cannot be the actual purchase cost to the landowner) because the tenant may have a very large investment of machinery spread over a few acres. Likewise, the tenant may have a line of old, serviceable machinery which he keeps using through his mechanical ability. Therefore, it seems more practical to use average machinery value. The Ohio Farm Business Analysis Crop Summary provides some figures which could be used. If a part of a farm is being evaluated, charge only a proportionate share of the total machinery complement.

Depreciation: Depreciation should be charged following the logic of the above machinery value discussion. Suggested depreciation rates are 16 - 25 percent of average value (or 10 - 14 percent of new cost less salvage).

Repairs: Farm records indicate repairs are 4 - 9 percent of average value or 3 - 4 percent of new cost.

Insurance: The charge should range from 0.2 to 0.4 percent of average value.

Interest: The current interest costs on the average machinery value should be

used because machinery depreciates rather than appreciates unlike real property.

Labor: Labor can be contributed solely by the operator, or by both the operator and landowner. Each individual is given due credit by placing a value on labor contributed to the business. On a particular parcel of land, charge the labor actually used, not that labor used on the whole farm. A guide for estimating the value of labor is the going wage rate paid to farm employees within the community. Most farm operators are certainly worth more than the value of an average employee because of their management contribution, but this is valued separately in the next section.

Management: Management is an important contribution to a successful leasing arrangement. The job of management may or may not be shared. Experienced landowners may make substantial contributions to the management of the farm business, but inexperienced or absentee landowners may contribute nothing to management. If landowners contribute to management, they should receive credit accordingly. If the operator bears all of the responsibility in the choice of crops, input methods and so forth, he should receive all of the credit for management. Two alternatives for valuing management are:

1. One-and-a-half percent to two-and-a-half percent on the average capital managed in the business. The average capital managed is derived by adding together the fair market value of the land and buildings and average value of the machinery.
2. Professional farm managers commonly charge 5 percent of gross receipts (production x price/unit). Using the 1-1/2 to 2-1/2 percent of average capital management is a more stable figure than a percent of gross receipts because prices and yields for commodities vary greatly from year to year.

Custom Operations: Harvesting, hauling, spreading fertilizer and other operations are often custom hired. These charges can be entered on the worksheet. Note: If much custom hiring is done, the average crop machinery investment should be reduced accordingly.

Crop Yields and Prices: Don't base cash rent on the highest yields and prices possible! Part of those are due to the tenant's production and marketing skills, and if this is all bid to the landowner, the tenant is working for nothing. In addition, the tenant is assuming all weather and price risk! Average price expected at harvest should fairly reflect the value of production.

Making Your Cash Rent Arrangement Flexible

Farm commodity prices and costs of operation are often very uncertain. That's why some tenants and landowners hesitate to commit themselves to a fixed cash rent, especially for more than one year. Tenants fear a fixed cash rent could pose a real hardship if prices drop or if poor growing conditions cut yields. Landowners may think it is unfair for the tenant to reap all the benefits of a sharp rise in crop prices. At the same time, neither party may wish to go (back) to a crop-share leasing arrangement. Instead, they may turn to the use of flexible cash rents of one kind or another.

The idea of flexing cash rent usually pertains only to the rent charged for cropland. Rents for buildings, for other farmstead facilities or for comparatively minor acreages of pasture, hay or woodland may be on a fixed basis even though the rent for cropland is flexed. Both parties need to agree on the amount of "non-flexible" rent at the beginning of the lease period.

Ways of Flexing Cash Rent

There are many ways of flexing cash rent. Most would adjust rent for price changes. In addition, some would flex rent for yield variations. Some incorporate a minimum base rent; an upper limit could also be included. Each party should have worked through to an acceptable base, or "target" cash rent which ought to be in mind as

the terms are negotiated, as well as average yields and prices expected. Some example methods are highlighted below.

1. Flexing for Price Only

Some of these methods require an agreement on how base price and current price are determined. Closing price at a local elevator for one or more days per week over a month or so around harvest would seem to be a good plan. The tenant assumes all yield risk.

- Fixed Amount of Crop: This is the simplest form. The landlord, instead of receiving a fixed dollar rent, receives at harvest a fixed amount of crop (bushels or tons). The amount is set in advance. Example: \$100 target rent ÷ expected (base) price of \$2.75/bu. corn = 36 bu. "rent." This he could take in kind, or the tenant could market it for him or buy it from him.

- Base Rent Multiplied by Ratio of Current Year's Price to Base Price:

Example:

$$\frac{\$100 \text{ base rent} \times \$3.00 \text{ current year's actual price}}{\$2.75 \text{ base price expected}}$$

= \$109 cash rent for current year.

- Base Rent with Stated Adjustments for Price Changes: This is similar to the preceding example, but a schedule is worked out. Example: At \$2.75 corn, cash rent is \$100. If price increases or decreases, rent will change. At \$2.76, rent = \$100.50; at \$2.74 = \$99.50, etc., "splitting" the price change. Or, ranges could be set. Example: With corn at \$2.70-\$2.80, rent = \$100. At \$2.80-\$2., rent = \$110. This could be further modified to only flex with price increases. In this case, base rent should be lower. Example: Base rent = \$80. For each \$.10 price increase, cash rent increases \$5.00.

2. Flexing for Price and Yield

- Fixed Share of Crop: This is similar to "fixed amount" above. The landlord receives a pre-negotiated share of the

crop, but stands none of the expense. His rent then depends on the yield and the price he can get.

- Base Tent Multiplied by Yield Ratio and Price Ratio:

Example:

$$\begin{aligned} & \$100 \text{ Base Tent} \times \frac{90 \text{ (current year's actual yield)}}{100 \text{ (base yield)}} \\ & \times \frac{\$2.80 \text{ (current year's actual price)}}{\$2.75 \text{ (base price)}} \end{aligned}$$

= \$91.64 cash rent for this year. Now, agreement must also be reached on what is "base" yield and "current year's" yield. County averages may not be appropriate for this farm, plus they aren't available until later. If the actual farm is used, details for measuring need to be spelled out in advance -- who, when, how? allowance for moisture? test weight?

- Stated Percentage of Current Year's Crop Value: Example: $110 \text{ (current year's yield)} \times \$2.80 \text{ (current year's price)} = \$308 \times 40\% \text{ (pre-determined percentage)} = \$123 \text{ cash rent. This would allow flexing up or down. } (90 \text{ bu.} \times \$2.70 = \$97.20).$
- Minimum Base Rent Plus Percentage of Increased Value: $\text{Base Rent} = \$80 + [(110 \times \$2.80 = \$308) \text{ (current year's yield and price)} - (100 \times \$2.75) = \$275 \text{ (base yield and price)}] \times 50\% \text{ (stated percentage)} = \$96.50 \text{ total rent. This would allow flexing up only. With 90 bushels at } \$2.70: 90 \times \$2.70 = \$243. \text{ This is less than base yield} \times \text{price so rent would be the base of } \$80.$

As you can see, percentages to be applied or dollar adjustments to be made must be calculated over some relevant range and evaluated critically for each type of adjustment strategy to see if they are reasonable to both parties. If some cash rent in advance is desired by the landowner, any of the above can be adjusted by reducing the target rent by that amount and then arriving at the appropriate dollar amount or share to make up the balance.

RENEWAL OF FARM LEASES

Forty-one percent of Ohio's farmland is rented in some form, almost 6 million out of 14 million acres. Most Ohio farm leases have a notice date of September 1 or October 1. Thus, considerable thought is given to the lease terms during the months of August and September.

There are some basic terms which should be considered in every farm rental agreement. Several details differ from lease to lease like: whether the rent is on a share, cash or variable cash basis; how will a carryover crop like wheat be handled; crop rotations, fertilization programs, etc. However, there are several essential clauses which are basically the same from lease to lease.

Term of the Agreement

Most farm rental agreements in Ohio are for one year with a typical clause stating that "this agreement is for January 1 through December 31, and will continue in effect from year to year thereafter unless written notice is received before (a specific date)." There are some longer-term agreements covering periods of 2, 3, 5 or 10 years, but these are the exception more than the rule.

The above clause sets forth a calendar year lease. Some rental periods differ from this January 1 turnover; for example, there are a few leases with a March 1 turnover date. Whatever the term, it is necessary to know the anniversary date of the lease.

Notice

A very vulnerable time for any lease is when one party unilaterally decides the agreement should come to an end. Reasons for terminating an agreement are innumerable: dissatisfaction with management practices, dissatisfaction with rental terms, sale of the farm, etc. However, it can be said that at some date, every farm lease will come to an end.

Termination provisions need to be a part of every farm lease. The normal clause for giving notice of termination requires written notice of termination by a specified time. If neither party receives notice by the date set forth, then it can

be expected that the agreement is to continue in effect for the next year.

Probably more litigation takes place over this issue of notice than any other. Types of questions are: In the case of sale of a farm in late November, does the new owner have the right to farm the land in place of the old tenant? Better yet, take a sale of the farm in February, does the new landowner have a right to rent to a new tenant after the old tenant fall plowed? Or, can an offer of increased rent late in the year from another farmer be taken advantage of by notifying the old tenant of termination?

The law has not been consistently applied in the above examples. Old common law would seem to give an answer that six months' notice is required in case of an oral agreement or a written agreement that is silent as to notice. Another line of thinking has been that if fall work has been started for the next year's production, the past tenant would have the farm. Yet a third line of reasoning looks to the customary time of giving notice in the community, letting this be the guide. None of these lines of thinking can be stated with certainty as a rule to be followed every time. Therefore, by far the best practice is to determine the date and procedure for giving notice when negotiating the lease!

Right of Entry

The right of entry clause in any lease is to protect an interest of the property owner. Without this clause, the owner really does not have the right to enter the property. It is sad to see relationships deteriorate to the point that a tenant denies the owner a right of entry, but it happens. A right of entry clause should permit the owner to come onto the property for making repairs, inspection and performing other necessary management activities.

Right to Sub-Lease

Ohio law favors full use of property and therefore favors the right of a tenant to sub-lease. As a result, if no statement is made in an agreement restricting sub-letting of property, then the tenant has the right to sublease the farm or portions of it to someone else. If an owner wishes to prevent sub-leasing or at least sub-

leasing without his approval, then the agreement needs to state such restrictions.

Necessity of a Written Agreement

There are many other points which a farm lease needs to address. Some of these include: rotations to be followed, annual settlement procedures, fertilization practices, carryover crop provisions, responsibilities for repairs and maintenance, and provisions for capital improvements. If adequate consideration is to be given to all the above points, then certainly the recommendation is for rental agreements to be in writing. There are some very successful oral rental arrangements which have continued for years. There have also been some very bitter situations, worried parties, unfair terms and costly court procedures develop as a result of no formalized written rental agreement. Putting the agreement in writing causes everyone involved to think through the terms more thoroughly, anticipating those problem areas in more depth than when operating under an oral agreement. Later, it serves as a verifiable reminder of the terms originally agreed upon. It also can be a valuable guide for the heirs if either the landowner or tenant dies.

Ohio law at times requires real estate leases to be in writing. If the term of a lease is for more than one year, it must be in writing to be enforceable by anyone. This means that if you enter into a lease in October 1982 that runs through December 1983, you have a lease that is for "more than one year" and it must be in writing to be enforceable! If the lease is for more than two years, it must be recorded in order to be enforceable against anyone other than the original parties.

For example, if a farm were sold while under a three-year unrecorded lease and the new owner was never notified of the existing lease, he could not be held to that lease. In addition to the above requirements, if a lease for more than three years is to be considered, then it must be formalized just like a transfer of real property to be enforceable by anyone. This means that the lease needs to be signed and acknowledged and the signatures witnessed by two parties. Whenever considering real estate leases with an original term of more than one year, be aware of the requirements for written leases.

SUMMARY

There's a wide variation in rental arrangements and rents paid across Ohio. The basis for a continuing satisfactory arrangement between landowner and tenant is a lease that is economically fair to both parties over the long run. A fixed cash, flexible cash or share lease can do that job if all parties to the lease will work together in developing it, honoring it and keeping it current.

Valuing contributions of each party and making an annual charge for them may not be an easy job. There are likely several uncertain items that require some give and take. The process, however, should cause each party to better understand the other's position and lead to a longer-term satisfactory farm lease.

Regardless of length of term, it is highly desirable to put your rental agreement in writing. Sample lease agreement forms are listed below. Whether the agreement is placed in writing or not,

it should be carefully reviewed each year to be sure the terms of the agreement are still applicable and desirable.

FURTHER INFORMATION ON LEASING FARMLAND:

Fixed and Flexible Cash Rental Arrangements for Your Farm, Philip A. Henderson, NCR Extension Publication 75; and Cash Farm Lease, NCR Publication 76.

Crop Share or Crop Share-Cash Rental Arrangements for Your Farm, Don D. Pretzer, NCR Extension Publication 105, and Crop Share or Crop Share-Cash Farm Lease, NCR Publication 77.

Livestock-Share Rental Arrangements for Your Farm, Myron Bennett, NCR Extension Publication 107; and Livestock Share Farm Lease, NCR Publication 108.

Pasture Rental Arrangements for Your Farm, Don D. Pretzer, NCR Extension Publication 149; and Pasture Lease, NCR Publication 109.