

South Dakota State University  
**Open PRAIRIE: Open Public Research Access Institutional  
Repository and Information Exchange**

---

Extension Circulars

SDSU Extension

---

6-1939

## Leasing and Leases in South Dakota

H. P. Hanson

Max Myers

Follow this and additional works at: [http://openprairie.sdstate.edu/extension\\_circ](http://openprairie.sdstate.edu/extension_circ)

---

### Recommended Citation

Hanson, H. P. and Myers, Max, "Leasing and Leases in South Dakota" (1939). *Extension Circulars*. Paper 381.  
[http://openprairie.sdstate.edu/extension\\_circ/381](http://openprairie.sdstate.edu/extension_circ/381)

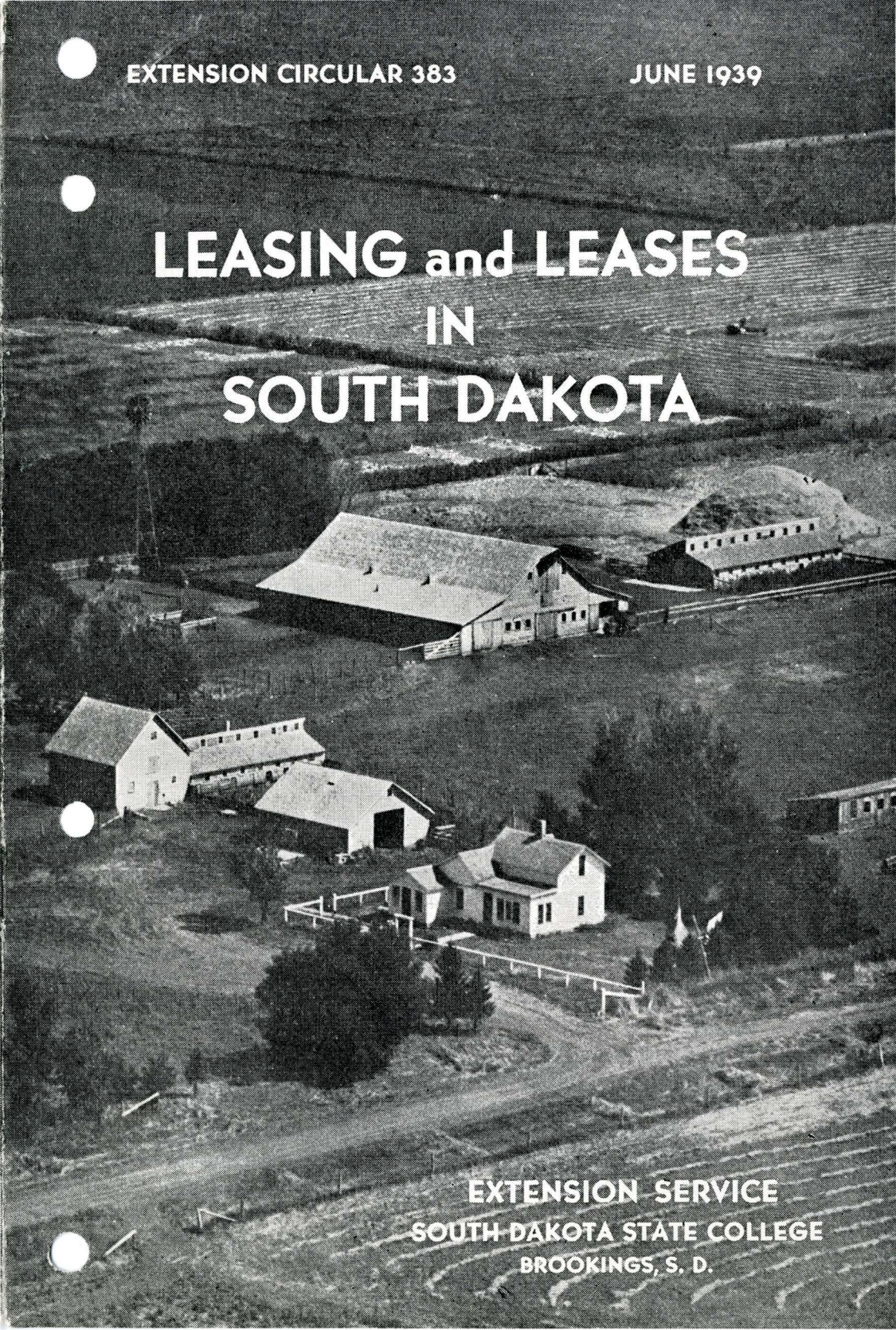
This Circular is brought to you for free and open access by the SDSU Extension at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Extension Circulars by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact [michael.biondo@sdstate.edu](mailto:michael.biondo@sdstate.edu).



EXTENSION CIRCULAR 383

JUNE 1939

# LEASING and LEASES IN SOUTH DAKOTA



EXTENSION SERVICE  
SOUTH DAKOTA STATE COLLEGE  
BROOKINGS, S. D.



## *Summary*

With 75 percent of South Dakota farmers leasing all or a part of their operating unit, leasing and lease arrangements consequently concern a large portion of the population. The report by the President's Farm Tenancy Committee has pointed out a number of short comings in present tenant-landlord relationship, and county agricultural policy committees have also pointed out the importance of adequate leases and lease arrangements. Anybody, be he a farm operator, land owner, or a land agent, is directly concerned and could assist materially in improving this phase of agriculture.

Too often the present leasing arrangements are oral and for one year at a time; the agreements between landlord and tenant quite often are contrary to the best use of land, are lacking provisions for unused improvements, are lacking in definite terms, and are written in a difficult and unfamiliar language.

In order to improve leasing arrangements, emphasis should be put on:

1. Choosing proper type of lease for particular farms.
2. Using written leases more extensively.
3. Using unbiased, complete, simply-worded lease forms.
4. Developing more permanent leasing arrangements.
5. Permitting tenants to improve farms and receive reimbursement for unused improvements.
6. Planning for positive soil conservation practices.

**Cash Leases** are most advantageous to the capable, well equipped tenant and the owner desiring a minimum of risk and expense, but such arrangements are likely to be exploitive of farm resources.

**Crop Share And Crop Share-Cash Leases** offer tenants more assistance and somewhat less risk while usually furnish the owner greater income in return for money and supervision expended.

**Livestock Share Leases** offer the tenant, lacking sufficient capital, and the owner, willing to invest both capital and supervision, an opportunity to work together for mutual profit.

Whatever type of leasing agreement is used it is of vital importance that the lease be adjusted to the particular farm business and thoroughly understood by both tenant and owner.

## TABLE OF CONTENTS

Summary -----	2
Table of Contents -----	3
Status of Tenancy in South Dakota -----	5
Percentage Farmers, Ranchers Leasing Part or All Their Land -----	6
Types of Leases and Where Found -----	7
Weaknesses Common to Present Leases and Leasing Arrangements -----	9
Suggested Changes -----	10
Choice of Proper Type of Leases	
More General Use of Written Leases	
Use of Unbiased, Complete Leases Worded in Easily Understandable Language	
More Permanency to Leasing Agreements	
Provisions for Making Improvements	
Provisions for Soil Conservation Practices	
Cash Leases -----	12
Advantages	
Disadvantages	
Basis for Making Equitable Cash Leases	
Crop Share and Crop Share-Cash Leases -----	14
Advantages	
Disadvantages	
Basis for Making Equitable Crop Share and Crop Share-Cash Leases	
Livestock Share Leases -----	17
Contributions by Tenant; by Land Owner; Jointly	
Advantages	
Disadvantages	
Termination Problems	
General Considerations -----	21
Publications Dealing with Lease Problems -----	22

## **ACKNOWLEDGEMENT**

The manuscript for this publication has been prepared by H. P. Hanson and Max Myers of the Agricultural Economics department, South Dakota State College, at the request of the South Dakota Agricultural Extension Service, for the purpose of pointing out existing leasing problems, and suggesting improvements in lease arrangements. The authors wish to acknowledge the assistance given by the Extension Service, and to thank all those who have offered suggestions and comments and aided in the preparation of this publication.

# Leasing and Leases in South Dakota

By H. P. Hanson, Associate Agricultural Economist and  
Max Myers, Research Assistant in Farm Management

**Almost three-fourths of the 83,000 Farm Operators in South Dakota Lease All or a Part of Their Land.** These tenant operators, the owners of that land and agents who handle it constitute a high proportion of the people of the state. With a large and ever increasing amount of land in county, state, and federal ownership every citizen within the state is more or less affected by the manner in which the land is handled. As a consequence, leases and the leasing systems employed have some bearing on the economic and social welfare of practically every individual in the state.

Equitable leases, that consider not only the best interests of landlords and tenants but that also provide for the proper use of the land, may beneficially affect the well-being of a high percentage of the people of South Dakota.

Such leases are founded on a knowledge of state and local conditions as well as the basis upon which leases are made. They are generally the result of a thorough discussion between landlord and tenant and a complete understanding on the part of both as to the contents **before the lease is signed** rather than after difficulties arise.

This circular will briefly describe the present status of tenancy in South Dakota, the most common types of leasing in the state, weaknesses in present leases and suggest the bases for leases that are equitable to both landlord and tenant, and that further provide for better handling of land and its improvements.

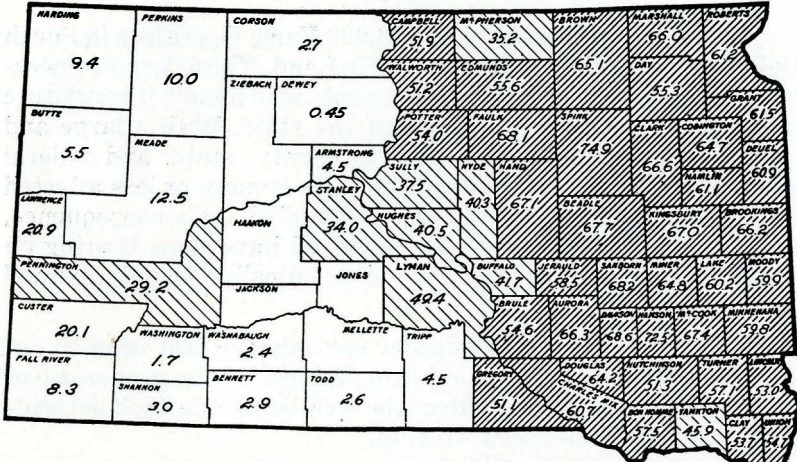
## STATUS OF TENANCY IN SOUTH DAKOTA

That tenancy has been increasing steadily in South Dakota since territorial days is common knowledge. According to the United States Census report for 1880, Dakota Territory had 17,435 farms, of which 96.11 percent were operated by owners, and less than 4 percent by non-owners. By the year 1910, full tenants and part owners constituted 47.4 percent of all operators in South Dakota. In 1934, according to the census report, 73.8 per-

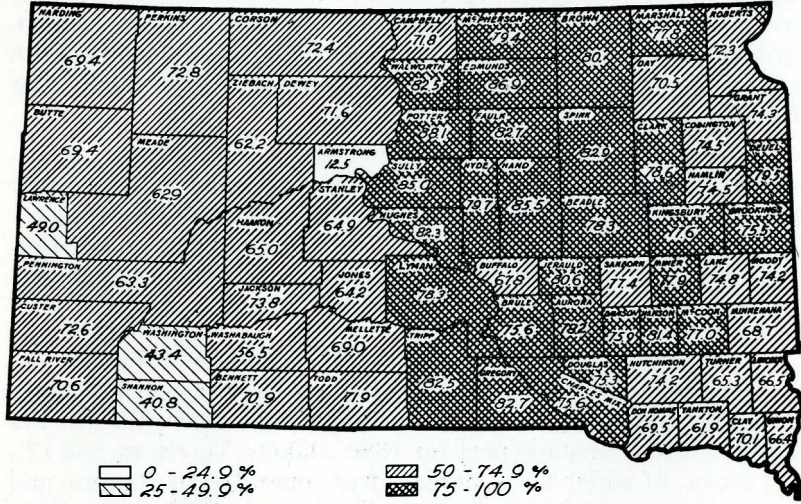


### Percentage of Farm and Ranch Operators Leasing all or Part of Their Land

IN 1910 THE SITUATION WAS:



BUT BY 1935 IT HAD CHANGED TO:



0 - 24.9 %  
 25 - 49.9 %  
 50 - 74.9 %  
 75 - 100 %

Source: U. S. Census.

cent of the farmers in the state rented all or a part of their land. Of this group 48.6 percent were full tenants while 25.2 percent owned part of their land and leased the balance.

The following table shows the percentage of operators in South Dakota who are classed as part owners, those classed as full tenants and the total percentage of operators who lease a portion or all of their land. The figures are for selected years from 1910 to 1935, inclusive.

Year	1910	1920	1925	1930	1935
Part owners	22.6	27.6	26.9	27.9	25.2
Tenants	24.8	34.9	41.5	44.6	48.6
Percentage of all operators leasing all or part of their land	47.4	62.5	68.4	72.5	73.8

The maps on page 6 emphasize in graphic form the high proportion of operators now leasing land, the statewide scope of the condition and the striking increase in leasing from 1910 to 1935. At the present time approximately three-fourths of South Dakota farmers lease three-fifths of the farm acreage in the state, and the end does not yet appear to be in sight. With each increase in the percentage of tenant operation comes also an increase in the need for equitable leases.

### TYPES OF LEASES AND WHERE FOUND

Crop share and crop share-cash leases are the most common types used in South Dakota. They are found in all sections of the state, though the respective shares to landlord and tenant vary considerably in the different areas. In the southeastern section of the state comprising a total of six or seven counties, the landlord's share is generally two-fifths of the crop raised. In this area, cash is commonly paid for hay and pasture land. Lying to the west and north is an area in which the usual division is one-third share to the landlord and two-thirds to the tenant. On the poorer lands in this area the landlord's share is commonly one-fourth of the crop. The area in which a one-third share to the landlord is the prevailing type of crop share lease includes almost all of the East River section of the state except the southeast six or seven counties and an area in the Northwest portion lying just east of the Missouri river and south of North Dakota and comprising somewhat more than Campbell, McPherson, Walworth and Edmunds counties. In the latter area the prevail-



ing type of lease provides for a one-fourth share to the landlord. West of the Missouri river, crop share leases are common in the farming sections and the usual share to the landlord is one-fourth of the crop, though in some instances it is as little as one-fifth, while in the more productive sections it may be one-third. The previously indicated shares are not exclusive in the areas mentioned. They represent the prevailing types and the common share of the returns to the landlord but there are many variations from them.

In the case of the crop share leases, the landlord usually furnishes only the land improvements and provides for their maintenance. Another type of crop share lease is quite common in some parts of the East-River section, especially in the spring wheat area. With this type of lease the landlord furnishes, in addition to the land improvements, the seed and pays one-half of the twine and threshing bill and receives a one-half share of the crop.

Cash leases are used to a limited degree in the eastern one half of the state, and are the prevailing type of lease in the grazing area lying west of the Missouri river. The numbers of cash leases in the farming areas vary considerably with conditions, increasing during prosperous periods and decreasing with the occurrence of low incomes. Cash rental rates vary greatly in South Dakota from area to area. In recent years they have ranged from five or six cents per acre of grassland in some of the grazing districts to as high as five dollars per acre or possibly more in the intensive farming sections of the state. Cash rates within any particular area also fluctuate noticeably as between profitable and unprofitable periods.

Livestock-share leasing is not common in any area but is found in limited numbers on widely scattered farms throughout the state. The basic features of this lease is the sharing of the investment in productive livestock and operating expenses, except labor and power, by landlord and tenant. Usually the landlord and tenant share equally in the investment in productive livestock and in operating expenses and share equally in the returns from the sale of all farm products. However, other divisions are sometimes made, depending upon the financial status of both parties to the agreement and their respective contributions to the enterprise.

## WEAKNESSES COMMON TO PRESENT LEASES AND LEASING ARRANGEMENTS

No attempt will be made in this circular to discuss the underlying reasons for tenancy and the desirability or undesirability of tenancy as an institution. It will simply recognize the extent of tenant operations and will try to point out some of the weaknesses in the present systems of leasing, suggest equitable bases for lease arrangements and specific guides in drawing up new agreements.

Some of the more common weaknesses in present leasing arrangements are:

1. A high percentage of leases are unwritten, often resulting in an imperfect understanding between landlord and tenant. Memories are notoriously unstable and often the two parties to an oral agreement have different recollections as to the exact details of an agreement, with consequent misunderstandings and disagreements.
2. Many leases are for only one year and contain no provisions for renewal. It results in a frequent shifting of tenants with consequent loss to both landlord and tenant.
3. Many leases are exploitive of land resources, to the long term detriment of landlord, tenant and land. Some leases provide for the cropping of every possible acre and few of them make any provisions for the handling of land to prevent soil erosion or depletion.
4. Customary local usage often governs lease arrangements, regardless of its adaptability to a particular farm. Quite often the returns are not in the same proportion as the contributions and are unfair to one of the two parties involved.
5. Leases are often written in such unfamiliar terms that they are not understood by either landlord or tenant.
6. Some South Dakota leases in fairly common use were designed for a particular purpose and are poorly adapted to general use.
7. Many leases have no provisions for reimbursement to tenants for unused improvements made by them, nor proper protection to the landlord for misuse of either land or improvements by tenants.
8. No provision other than court action is made for the settlement of disputes in many lease, if they cannot be settled satisfactorily by owner and tenant.

## SUGGESTED CHANGES IN LEASE FORMS

In view of the above mentioned weaknesses of many present day leases certain changes suggest themselves to remedy these defects.

**1. Choice of Proper Type of Lease.** It has already been suggested that several different types of leases are found in South Dakota, and that local custom often determines the type of lease used. A careful reconsideration of the type of lease now employed by an individual, whether landlord or tenant, might reveal that he could profitably change to another method of leasing, or modify the lease now used to meet current needs.

**2. More General Use of Written Leases.** There is no data available showing the exact numbers of written and unwritten leases in South Dakota, but studies conducted by the Experiment Station and federal agencies in 1936 and 1938 indicates that unwritten leases may constitute more than one-third of all leases in the state. When written leases are drawn to fit particular conditions and are fully understood by both parties before signing, they serve not only as a complete record of the agreement, but also provide in advance for the settlement of many misunderstandings and disputes that more commonly occur when only memories are relied upon.

**3. Use an Unbiased, Complete Leases Worded in Easy Understandable Language.** A general complaint of both individual landowners and tenants is that they do not understand what leases mean, due to the difficult legal language in which many of them are written. More simply worded leases would be welcomed.

**4. More Permanency in Leasing Agreements.** It is quite generally agreed that a longer period of tenure on the part of tenants would be an improvement from the short terms provided by most present leases. In a survey conducted in South Dakota in 1936, more than 80 percent of the leases studied were for one year and nearly all of them were without any provisions for renewal. Tenants on the farms represented by these leases had remained an average of eight years, but they had no assurance that they could remain more than a year. A high percentage of rented farms in South Dakota are leased subject to sale, but even those that are held as investments are quite generally rented for a



single year at a time. The tenant is at a disadvantage under such short term rentals and is unable to plan properly his farm operations, many of which require several years to mature. In the long run the landlord also suffers the loss that follows exploitive farming. The temptation has been to crop the land as intensively as possible with annual crops, and with only a limited amount of grass or legumes seeded. Only in that way was the tenant assured that he would receive the benefits of seed and labor expended before the term of his lease was completed.

Longer term leases are one answer to this problem, lengthening them from one year to two, three or more years, thereby giving the tenant an opportunity to plan for longer time farm operations and getting away from the present dependence upon annual cash crops.

Another method of attaining similar results would be to make the original lease for one year but to provide for automatic renewal of the lease from year to year, provided that the arrangement was mutually satisfactory to landlord and tenant. In case either party to the agreement wanted to terminate the lease he would be required to notify the other party in writing an agreed time in advance of the time for renewal that he wished to terminate the lease at the end of that lease period. Such notice could well be given from 3 to 6 months prior to the end of the lease period.

A further provision that might make for a greater feeling of stability on the part of the tenant would be a clause giving him the first chance to purchase the farm in case the owner had an opportunity to sell.

**5. Provisions for Making Improvements.** Provisions permitting tenants to make needed improvements with the owner's understanding and consent in advance, and providing for reimbursement of unused improvements upon termination of the lease, is another suggested reform. The limits of such improvements could well be written into the lease.

While such provisions might not be used very generally they would make it possible for a tenant to make certain improvements that might contribute to his income. He could, for example, invest in fertilizers, spend money for legume seed, erect necessary structures with the owner's consent, all with the assurance that he would be reimbursed for the unused balance at the end of his lease period.

**6. Provisions for Positive Soil Conservation Practices.** On many farms in the state a program of positive soil conservation practices is necessary to maintain production at the present level and to prevent soil wastage. In the past such measures which were specified were mainly of a preventive character, including such items as: Not to cut trees without the consent of the landlord, not to burn any straw, and other restrictions of a similar nature. On farms where erosion is a problem or where there is a well directed attempt to maintain soil fertility a more positive form of provisions in the lease may be necessary. Such provisions might, for example, take the form of agreements to establish and maintain a grass cover on certain parts of the farm, as a measure to control either wind or water erosion; to establish and maintain as closely as possible a definite cropping system with a leguminous crop as an essential toward the maintenance of the nitrogen and humus content of the soil. These provisions would have to be considered very carefully so that they would fit specifically the needs of the farm under consideration.

### CASH LEASES

Under a cash leasing system an entire farm or tract of land is rented for a stipulated amount of cash. In some cases this is a lump sum that covers the entire acreage while in other cases it may be expressed as a certain sum per acre, per 40 acres, per section or other unit. Occasionally the payment is made in advance of the use of the land. This is particularly true of grassland owned by governmental units. In the case of land used for farming the payments are usually made when the crops have been threshed. Quite often the lease specifies that the payment shall be made in two installments at convenient dates, while less common are quartely or monthly payments.

Under this system the landlord furnishes the real estate specified in the lease and bears all expenses connected with it, including taxes, insurance on buildings, and repair and upkeep of fences and buildings. The tenant furnishes everything else that is necessary for the type of operation that he is following.

#### **Advantages of the Cash Leasing System :**

1. To the tenant
  - a. Freedom of operation. Usually he has quite a free hand as to the cropping system and the disposal of crops.

- b. There is little chance for misunderstanding as to the terms of the lease.
  - c. Usually the lowest cost type of lease.
2. To the landlord.
    - a. The landowner takes the least risk possible with this type of lease, in the sense that his return does not vary with the weather, insect pest, plant diseases or other similar factors. (Assuming that the tenant is able to pay.)
    - b. As a general practice very little supervision on the part of the landlord is expected or given.
    - c. There is comparatively small chance for misunderstanding or disagreement between landlord and tenant due to the simplicity of the agreement.

#### **Disadvantages of Cash Leases :**

1. To the tenant.
  - a. He assumes all the risks of farming, including variations in both production and price.
  - b. He usually receives little help from the owner in connection with management problems.
  - c. Cash leases are generally short term leases, giving little opportunity for anything but grain farming.
2. To the landlord.
  - a. As a general rule, cash rent represents the lowest returns to the landlord of any type of lease used.
  - b. He reserves very little control over the cropping system.
  - c. Cash leases are generally accompanied by the sale of a large part of the crop and the return of little manure or crop residue to the land. It usually results in an exploitive type of farming.

#### **Basis for Making Equitable Cash Leases.**

It is quite clear that the immediate interests of landlord and tenant are at the opposite extremes in the matter of cash rent. The landowner wants the highest returns possible from his investment while the tenant is interested in a low rental rate so that he may maintain a high standard of living and make the most profit possible. Compromises are generally necessary on the part of both. Cash leases often follow custom and usually are rather slowly adjusted to prevailing conditions. With rising



prices, for instance, cash rentals tend to lag behind the uptrend in price levels. With falling price levels cash rentals tend to remain high for a relatively long time and to reflect changing conditions rather slowly.

Though it may be difficult to work out a cash lease that will prove fair to both parties under all conditions yet the bases for such leases are fairly simple. By estimating the relative contributions of landlord and tenant to the farming business, then estimating the probable returns under average operations, a fair cash rental may be determined. To illustrate; if it is estimated that a landlord contributes \$500 in taxes, insurance, upkeep and interest in connection with the operation of a 160-acre farm, while the tenant puts in the equivalent of \$2,000 worth of labor, operating expenses, depreciation, and interest on his working capital the contributions of both tenant and landlord would total \$2,500 annually. The landowner in this instance, furnishes one-fifth of the total contributions to the business, and the tenant four-fifths. The returns suggested to each party are in the same ratio. Assuming that there is a gross return of \$3,000 the landlord would be entitled to one-fifth of the total or \$600, while the tenant would receive four fifths, or \$2,400 for his share. A fair return to the landlord in this case would be approximately \$3.75 per acre. However, to remain fair, this figure should be adjusted upward in good years, and downward in poor years, a practice that is very difficult. The landlord's estimate of his investment in the farm should be based on current values, rather than inflated or deflated values that may have prevailed when the land was purchased.

A fair cash lease must take into consideration all three parties to a lease, owner, tenant and the farm, and should attempt to adjust the rent in relationship to the contributions of the first two, without causing undue exploitation of the third.

### **CROP SHARE AND CROP SHARE-CASH LEASES**

Crop share and crop share-cash leasing arrangements are by far the most common in the strictly farming sections of South Dakota, where in some counties more than 85 percent of farm land is operated under lease agreements. The universal use of this type of lease in the state indicates that it is better adapted to conditions in South Dakota than other types of leases.

It is generally understood, when any portion of the crop, but no cash, or share of the livestock is paid to the landlord as a rental, the system is referred to as crop share leasing.

If, in addition to a share of the crop the owner also receives cash rent for pasture, hayland, buildings or other parts of the farm the system is considered the crop share-cash type of leasing.

The landlord under both of these systems furnishes the land and building and bears the same expenses connected with the real estate as under the cash lease. Often under this type of lease the landlord also supplies grass and legume seed for crops that have a life of more than one crop year. The tenant furnishes everything needed for his operations that is not supplied by the landlord.

### **Advantages of the Crop Share Lease.**

1. To the tenant
  - a. Less risk than with cash rentals, as the owner shares the risk connected with both production and prices.
  - b. May benefit from owner's experience and advice to a greater extent than is true in the case of cash rent.
2. To the landlord
  - a. The return is usually greater than in the case of cash rent.
  - b. Greater certainty that he will receive his rent due to his claim upon the crop.
  - c. Has more control over the use of the land than is usual in the case of cash rent.
  - d. Shares in any gains that may occur due to superior management or skill on the part of the tenant.

### **Disadvantages of Crop Share Leasing.**

1. To the tenant
  - a. Shares any gain that accrues from good management, with the landlord.
  - b. Has the bother and expense of dividing the crop.
  - c. Cropping system insisted upon by owner may not fit tenant's needs.
  - d. Usually short time lease, giving small opportunity for

long term plans, particularly those connected with livestock.

- e. Difficulty of getting legume or grass seed for hay and pasture seedings.
2. To the landlord
    - a. More risk and bother than with cash rent.
    - b. A large proportion of the crop is removed from the farm with comparatively small return of manure or crop residue, making it difficult to maintain fertility or control erosion.
    - c. No definite amount of annual return from owner's investment in the farm.

When the tenant possesses sufficient working capital to operate a farm without help from the owner, and when the owner is able and willing to share some of the risks of farming, crop share leasing is quite satisfactory. It seems to be common in most farming areas, especially where there are easily divided crops, and not too diverse a selection of crops. It is poorly adapted to grazing or pasture land.

There are a number of provisions not commonly included in either cash or crop-share leases that would improve them, one of which is the automatic renewal of leases from year to year unless written notice is given by either party to the contrary. A second provision would be to permit the tenant to make certain needed improvements and to allow him the value of the unused balance at the termination of his lease period. This would include minor building improvements, addition to fertilizers and like items. A third would be to provide for positive conservation practices, such as those previously mentioned. Other provisions not usually found in crop share or crop share-cash leases might be added but the addition of the above mentioned three would do much to correct the ills that often are associated with this type of lease.

### **Basis for Making Equitable Crop-Share Leases**

The basis for equitable crop share and crop share-cash leases is the same as that indicated for cash leases. The main difference is in the percentage of contributions by owner and tenant. They are generally somewhat greater for the landlord in the case of crop share and crop share-cash leases than is true of cash leases for the reasons previously discussed.



The same farm used to illustrate an equitable charge in the case of cash rent may again be used to show the distribution that should occur in the case of crop share or crop share-cash leases. The illustration conceived a farm of 160 acres with gross expenses of \$2,500 and gross annual returns of \$3,000. Under the crop share lease it may be assumed that the owner's expenses in connection with the farm have increased to \$625 or one-fourth of the total estimated expenses, and that the tenant's expenses have been reduced to \$1,875 or three-fourths of the total. An equitable distribution of the gross returns would be in the same proportion as the value of the contributions or a share of one fourth, or \$750, to the owner and three-fourths, or \$2,250, to the tenant.

The tenant's contributions would include the value of his own labor and hired labor, a reasonable interest and depreciation on his capital investment and all of the necessary operating expenses connected with the farm. The owner's contribution would usually include in addition to the land and buildings and their upkeep, grass and legume seed for crops that have a life of more than one crop year.

### LIVESTOCK SHARE LEASE

Generally speaking a livestock share leasing system is any leasing arrangement whereby the landowner owns an interest in and receives a portion of the returns from the livestock or livestock products sold. Such leases are of minor importance in South Dakota from the standpoint of numbers of farms involved. However, there appears to be a growing interest in this type of lease on the part of financially-able owners who are desirous of getting the highest returns possible and also maintaining or even improving the fertility and physical condition of their farms. There are many variations of the livestock share lease but the most common is the so-called 50-50 livestock lease, under which the owner and tenant contribute equally towards the expenses of operations and share equally in the returns. Under this system the following are the usual contributions:

1. Tenant:
  - a. All machinery and horses,
  - b. one half of the cattle, sheep and hogs,
  - c. all of the chickens, with the number usually limited to 100 or less,

- d. all labor for farm operations, including his own and any hired labor necessary for farm operations, and
  - e. taxes and fire insurance on machinery.
2. Landlord:
- a. Real estate including all land and improvements, materials for repairs on buildings and fences and whatever skilled labor is necessary for repair jobs and new improvements, taxes on real estate, fire insurance on buildings,
  - b. one half of the cattle, sheep and hogs,
  - c. grass seed for crops having a life of more than one year, and
  - d. supervision.
3. Joint contributions shared equally by tenant and landlord:
- a. Purchased feeder cattle, hogs and sheep,
  - b. feed, seed (other than grass seed), commercial fertilizer, spray materials, cash costs for livestock,
  - c. taxes and insurance on jointly owned livestock,
  - d. hail insurance on crops,
  - e. fire insurance on feed, grain, hay, etc., and
  - f. tractor fuel.

Livestock share leases appear to be most successful with less intensive types of livestock production, hence should be well adapted to South Dakota conditions. Where the amount of labor involved constitutes a high percentage of the total costs the contributions become unequal and the tenant is reluctant to embark upon the enterprise. That is one of the reasons why poultry usually is not included in the 50-50 agreement.

With the 50-50 livestock share lease the returns from the sales of any products are divided equally between the landlord and tenant, except that the tenant is generally allowed to keep a limited number of hens for his own use, commonly not more than 100. Usually he is allowed to keep a vegetable garden, and to use any dead or down timber for fuel as well as cobs produced on the farm. Sometimes on beef-cattle farms the tenant is allowed to keep a dairy cow or two for milk for his own use. An allowance of meat or meat animals for the tenant's use is often specified in the lease.

The numbers of horses that may be fed from undivided feed is usually stipulated, as well as the number of colts that may be raised. Colt numbers are generally kept to the numbers for replacement for power.

Leases of this type should make it plain that the arrangement is in nowise a partnership and that no joint obligations may be entered into by either party without the written consent of both parties. In some instances separate banking accounts are opened at the same bank by landlord and tenant and all deposits from the sale of jointly owned products credited in equal amounts to the two accounts by the bank and duplicate deposit slips provided to show the source of the returns.

The tenant is usually required to keep an accurate account of receipts and expenditures and to permit the landlord to inspect the books at his pleasure.

To determine whether or not the lease is reasonably fair the value of the contributions by landlord and tenant can be calculated and compared to the division of the returns. They should be in the same proportion. In case the value of the tenant's and landlord's contributions are equal, or nearly so, then the division should be made on a 50-50 basis, one-half going to each party. To illustrate the point the following example may be used:

	Owner's Contribution	Tenant's Contribution
Land and buildings	450	---
Land taxes and upkeep	240	---
Interest on power and machinery	---	100
Taxes and depreciation on power and machinery	---	200
Labor	---	400
Joint operating expense	315	315
	<hr/>	<hr/>
Totals	1005	1015

In accordance with the reasoning previously suggested, a 50-50 division of the returns would be quite fair to both parties in this instance.

Under certain conditions the proportions furnished by the land owner and tenant might be quite different from the preceding illustration. The owner might furnish all of the property and the tenant put in only his labor and one third of the operating expense in which case the following would illustrate the contributions and suggests the division that might follow:



	Owner's Contribution	Tenant's Contribution
Land and buildings	450	---
Land taxes and upkeep	240	---
Interest on power and machinery	100	---
Taxes and depreciation on power and machinery	200	---
Labor	---	400
Joint operating expense	420	210
	<hr/>	<hr/>
Totals	1410	610

In this case the tenant would contribute 30 percent of the total expenses and the owner 70 percent. If however the tenant was a capable operator the owner would probably agree to a division of one-third to the tenant and two-thirds to himself.

The above illustration indicates the extreme to which this type of lease might apply. If the tenant furnished anything less he probably would be hired for an annual or monthly wage to operate the farm under the owner's supervision.

### **Advantages of the Livestock Share Lease**

1. To the tenant
  - a. Makes possible a larger business due to the fact that landlord furnishes one-half of productive livestock.
  - b. Tends to secure the tenant a longer stay on the same farm.
  - c. Makes probable better kept and more improvements due to landlord's interest in the business.
  - d. Secures the benefits of the landlord's experience.
2. To the landlord
  - a. Aids in the maintenance of soil fertility through the emphasis on livestock production.
  - b. Increases the returns from the farm, especially if the tenant is a good livestock man.
  - c. Gives a voice in the management of the farm.
  - d. Makes probable the collection of some rent even during years of poor crops or low prices.
  - e. Gives greater opportunity for a positive program of soil erosion control, through greater acreages in grass and hay.

**Disadvantages of the Livestock Share Lease.**

1. To the tenant
  - a. Is compelled to share with the landlord any gains that arise through good management.
  - b. Less freedom to completely follow own ideas.
  - c. Unless landlord is experienced farmer may suffer from his lack of experience.
2. To the landlord
  - a. May require too much time if engaged in other business or living far from farm.
  - b. Requires a comparatively large investment.
  - c. Increases risk carried by landlord.
  - d. Fails to provide a definite annual income from farm.

**Termination Problems**

Upon termination of the lease under a livestock-share plan some method of dividing jointly owned property such as livestock and feed, satisfactory to both parties must be employed and the method to be employed should be specified in the lease. The following methods have been used successfully.

1. The tenant shall set a value on all joint property, for which price he will either sell his share or buy the landowner's share, at the landowner's option.
2. The tenant shall divide all stock and supplies into shares and the landowner shall choose his portion thereof.

**GENERAL CONSIDERATIONS**

Each farming unit offers differences that must be considered in the leasing arrangements; no general outline can cover all leasing arrangements, nor can any standard lease forms fix all conditions. The material contained in this circular should be considered in the light of the reader's own leasing problems, and the lease form to be used can and should be amended or deleted to suit the requirements in each instance. However, any change in a lease form should be given careful consideration as the form has been prepared to emphasize an equitable landlord-tenant relationship.

### Publications Dealing with Lease Problems

- U. S. D. A.:** The Farm Lease Contract (Farmers Bul. 1164, revised 1936)  
L. C. Gray & H. A. Turner  
(Superintendent of Documents, Washington, D. C. Price 5 cents)  
The Flexible Farm Lease,  
Farm Security Administration, Washington, D. C.
- North Dakota:** Farm Tenancy and Rental Contracts, (Bul. 289, 1937)  
Cap. E. Miller & W. O. Brown,  
North Dakota Agricultural College, Fargo. N. D.
- Minnesota:** Suggestions on Farm Leases, (Sp. Bul. 153, 1932)  
Wm. L. Cavert,  
University of Minnesota, St. Paul, Minn.  
Farm Tenancy and Leasing, (Ext. Bul. 188, 1938)  
I. B. McNulty  
University of Minnesota, St. Paul, Minn.
- Iowa:** Farm Tenure in Iowa, Some Legal Aspects of Landlord-Tenant  
Relationship, (Bul. 371, 1938)  
Harris, Cotton, Schickel  
Iowa State College, Ames, Iowa.
- Illinois:** Farm Leases for Illinois, (Cir. 474, 1937)  
H. C. M. Case & J. Ackerman  
University of Illinois, Urbana, Ill.

### South Dakota Lease Forms Available

Printed forms for **CASH, CROP-SHARE, and LIVESTOCK-SHARE** leases, are now available at printing cost from your county extension agent. These lease forms embody the suggestions included in this publication and are designed to be equitable to the operator, the owner, and the farm. The cost for one original and one copy is three cents.



EXTENSION SERVICE  
SOUTH DAKOTA STATE COLLEGE  
of Agriculture and Mechanic Arts  
Brookings, South Dakota

Published and distributed under Acts of  
Congress, May 8 and June 30, 1914, by the  
Agricultural Extension Service of the South  
Dakota State College of Agriculture and  
Mechanic Arts, Brookings, A. M. EBERLE,  
*Director*, U. S. Department of  
Agriculture cooperating.



