

## ECONOMICS

# Agricultural lease education benefits owner, tenant

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**Leases are** a common practice in agriculture. In its most basic form, a written lease is a unique document that defines the owner (lessor), tenant (lessee)

and property; describes each party's privileges/responsibilities; and details mutually agreed upon terms. Still, many individuals perceive leases as complicated and approach the topic with hesitation. However, education allows one to become more comfortable with the lease process and more confident in knowing what one wants to occur under an individual lease.

Leasing can be advantageous, depending on one's operational goals, resources and negotiating ability. Benefits to an owner include property care and income without owner participation. Tenant benefits include an opportunity for expansion or management on a trial basis without capital investment. Owners must overcome the fear of losing control, and tenants should evaluate the risk of leases not being renewed.

When leasing, everything is negotiable, and a lease can be as simple or as complicated as you want to make it. Leases are often written from the owner perspective, but tenants should

also be knowledgeable about leasing practices. Traditionally, the tenant pays operating expenses (e.g., fence repairs), while capital improvement expenditures (e.g., new fence construction) are incurred by the owner. Remember, however, that everything is negotiable – the key is to negotiate in a fair and equitable manner.

There are multiple types of leases. Two types commonly used in the Southern Great Plains are cash and crop share leases. Cash leases are usually the most straightforward of all lease agreements; property is rented for a cash value (e.g., tenant pays owner \$20 per acre for pasture rent). A crop share lease occurs where property is rented and a percentage of the crop harvested is received as payment. The percent received as payment depends on the percent each party contributes to the production process (e.g., owner provides 40 percent of all operating expenses, including an assumed land rental value, and receives 40 percent of the crop as payment). Hay and pecans are two activities commonly managed using crop share leases. Be advised, lease type can affect your material participation status and ability to qualify for government aid programs.

Ag Lease 101 ([www.aglease101.org](http://www.aglease101.org)) is an excellent resource for in-

formation about what to include in a lease. The document library contains educational publications and lease templates, while the FAQ section contains short videos. Here, Oklahoma State University Assistant Professor Shannon Ferrell, J.D., discusses *Five Reasons Why You Should Have a Written Lease* and *Five Things Every Lease Should Include*. At minimum, each lease should be written and include the name of each party, description of the property rented, beginning and ending lease dates, rental rate agreed upon and payment method, and signature of all parties.

Additional clauses may be included, allowing the owner an opportunity to protect property by restricting the actions of potential tenants (e.g., no haying). Likewise, additional clauses can be included that protect the interests of the tenant (e.g., 90-day written notification of lease termination). It is best to review a variety of lease publications to identify clauses not previously considered. Please review local land grant university lease publications since they may reference specific cultural practices and/or state laws relative to your region.

Oklahoma State University provides recent rental prices paid for cropland and pasture<sup>1,2</sup>. This is great information to use when pricing a ►

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lease, but keep in mind that the recent droughts and high crop prices have increased the value of forage and crops. If unable to negotiate for the price desired, consider in-kind payments (i.e., trade labor or services in lieu of payment). In-kind payments may be especially favorable for individuals who find themselves short on equipment, knowledge or capital.

The information presented here is for educational purposes only and is not to be misconstrued as legal advice. Knowledge is beneficial during the lease process; however, you should contact an attorney competent in agricultural leases prior to signing any lease agreement. Also contact a tax advisor before entering any lease agreement since doing so may result

in unexpected tax consequences. Prepare yourself with self-education and professional assistance prior to entering agricultural lease agreements. ■

Oklahoma Cropland Rental Rates: 2010-2011, Oklahoma State University, CR-230.  
Oklahoma Pasture Rental Rates: 2010-2011, Oklahoma State University, CR-216.