

Equitable Lease Arrangements



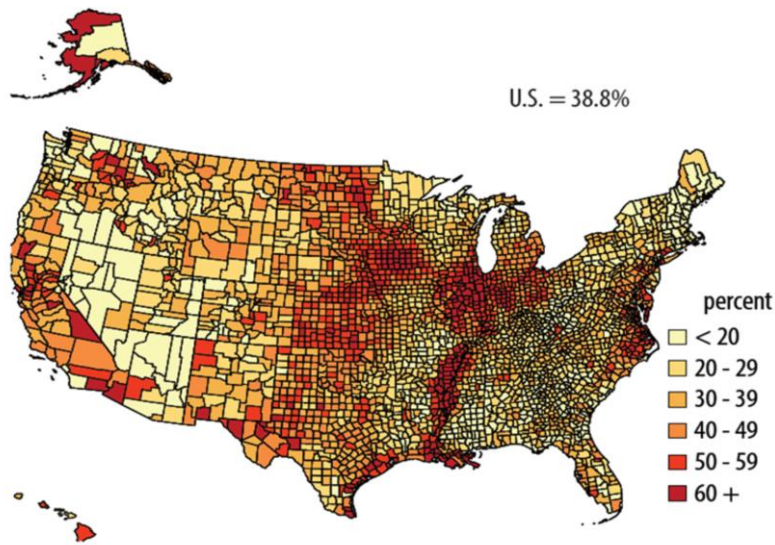
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Hi, I'm Damona Doye

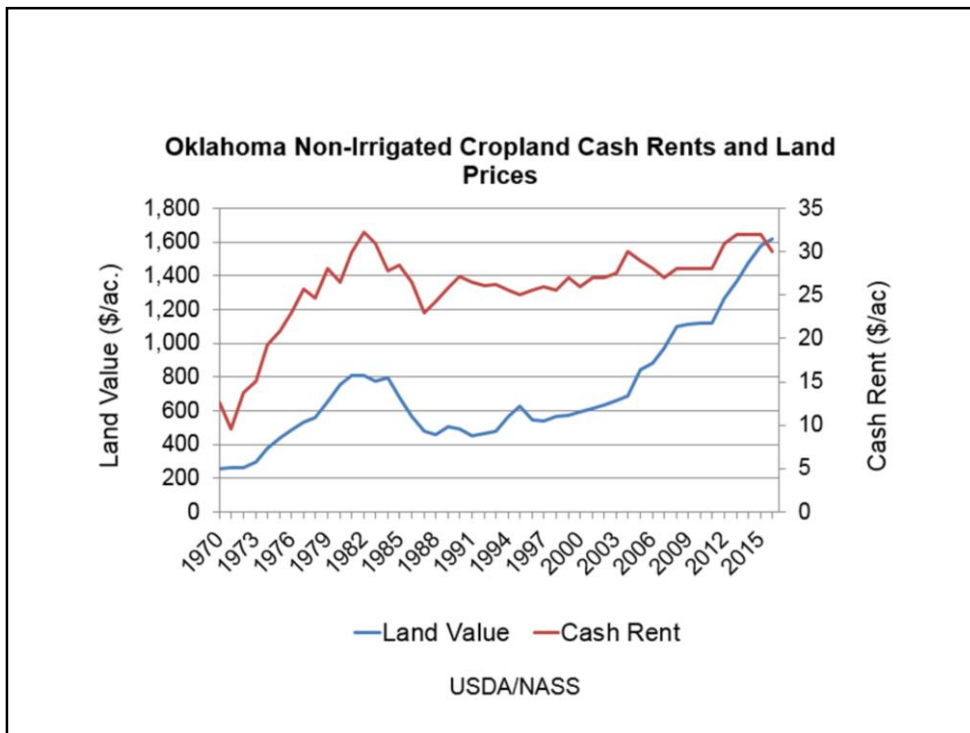
In this segment, I want to discuss development of equitable lease agreements. I want to begin by emphasizing that when people call or email wanting to know what is the “right” rental rate for a piece of property, I stress that there is no one size fits all. Every property has different attributes: soil types, slopes, fencing, water and so on. The good news is that in our biennial lease surveys, more than ½ of survey respondents classify agreements as good or excellent. Still there may be room for improvement. If you are new to agriculture, understanding best practices provides a good foundation for negotiations. I'll also provide some data on average rental rates and traditions for share rental agreements in Oklahoma. I'll focus mostly on pasture and crops but the principles are the same for livestock.

Percent of U.S. Farmland Rented or Leased, by County, 2012

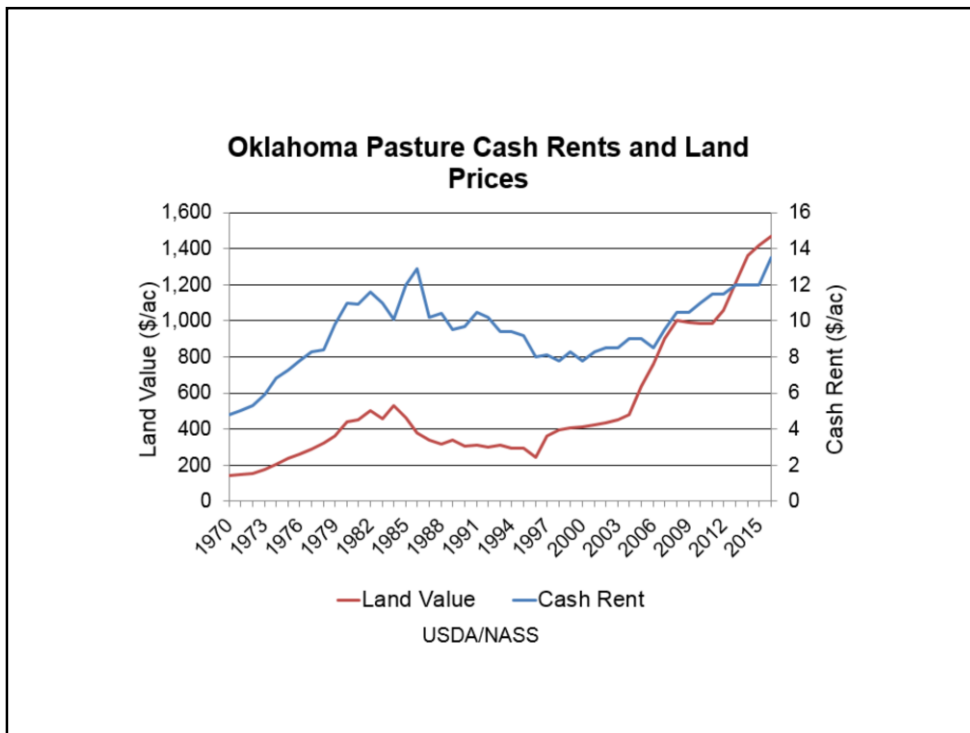


Source: USDA NASS, 2012 Census of Agriculture.

Leasing is an important means of controlling the land asset for farming and ranching nationally. This is especially true for beginning operators as rental payments are significantly lower than principal and interest payments on a land note. On average almost 40% of farmland is rented. The darker shading in this graph shows counties where 50 percent or more of the land is rented. In Oklahoma, the highest percentages are in north central Oklahoma in the most productive wheat areas.



This chart shows historical rental rates and land values. Land values are shown with the blue line with the scale at left. Average cropland values have increased from \$200 per acre in 1970 to more than \$1,600 in 2016. Values rose quickly in the 1970s before declining significantly during what is referred to as the “farm crisis”. Cash rents shown with the red line also increased dramatically in the 1970s but have trended up only modestly since the mid-1990s in Oklahoma. Average cropland cash rents dipped back down to \$30 per acre in 2016 based on USDA/NASS survey data.



This chart for pasture cash rents and land prices has a pattern like that of cropland. Pasture land values shown by the red line didn't increase as dramatically in the 1970s but have increased significantly since 2006, now averaging almost \$1,400 per acre. Average pasture land values have increased from less than \$200 per acre in 1970 to more than \$1,400 in 2016. Cash rents shown with the blue line increased dramatically in the 1970s, then declined and have trended up since the mid-1990s in Oklahoma. The rate of increase in rents has been slower than the rate of increase in land prices. Unlike cropland cash rents, however, pasture rents have continued to increase.

Cash and share lease agreements

- What portion of the **income** do I receive?
- What portion of the **costs** do I contribute?
- What portion of the **risk** do I bear?
- What crop and land **management practices** will be followed?
- What will be the **condition of the land and improvements at the end** of the lease?
- Single or multiple years?



In thinking about terms for a rental agreement, these 5 questions need to be asked and answered.

Often a Primary Focus
 What portion of the **income** do I receive? For example, if it's land that includes wheat, are you sharing the grain crop, grazing income, baled straw, hunting income?
 • **Income:** Grain, cash, share of livestock, crop insurance proceeds, disaster payments, hay, straw

Next, what portion of the **costs** will I pay? With a cash lease, it may be none, but if it's a share lease, will we share seed, fertilizer, fencing, harvest costs? In what amounts? It may differ **Good year, bad year, price, yield,**
 • **Costs:** Fertilizer, pesticides, lime
 • **Risks:** Good year, bad year, price, yield, environmental, legal

What portion of the **risk** do I bear? Risks may be production, market, financial, legal or human in nature.

What crop and land management practices will be followed? No-till or conventional tillage? Cover crop or no cover crop?
 • **Practices:** Conservation, fert. Liming
 • **Tillage:** Who's crop gets planted first, harvested first. Rotation, grading, stocking rate.

What will be the condition of the land and improvements at the end of the lease? Will soil tests be required? Do we have to agree that fencing has been maintained?
 • **Condition:** Soil test, bechmark, fences, pasture

Either cash or share lease agreements may be single or multiple years. In OK, most leases are annual but have been in place decades. Multi-year leases provide some security for tenants in that they can plan to make investments with more confidence.
 • **Agreements provide legal basis to protect rights, plan compensation. Comprehensive agreement ensures that both parties have thought about all 'significant' issues and are in agreement about them.**

To reiterate, income, costs, risks, management practices and condition of the assets are all items to be weighed.

Cash lease agreements

- Tenant pays landlord a fixed amount per acre per year.
- Government payments go to tenant.
- Can add flexible component.
 - Distributes more of risk
 - Price risk adjustment: Multiply base rate by actual price/estimated price
 - Yield risk adjustment: Multiply base rate by actual yield/estimated yield



With a cash lease, the tenant is leasing the land and crop base. The tenant bears all price and production risk and reaps benefits of managerial expertise and risk-taking. Because of that, all government payments go to the tenant.

To build in some risk-sharing, a flexible component can be added to the cash lease, either through price or yield adjustments. An example of flexible component would be to multiply base rent by ratio of current year's actual harvest price to an established base price, which could be a futures price at a specified time or the state average price reported by USDA. You can also index yield. In this case, you might specify a base rate that is equal to a multi-year historical average based on records, with an adjustment for the actual yield. If the yield is below average because of drought, for instance, the rental rate might be adjusted down with the landlord receiving less. It is important to determine in advance the information sources to be used, for example, OK Ag Statistics (lag of a year) or local posted prices. Price or yield risk adjustments provide a way to share risk without creating a record-keeping burden or requiring the landlord to come up with cash for inputs.

Cash lease advantages



Landlord

- More stable income
- Eliminates or greatly reduces cash expenditures
- Reduced management responsibility
- Fewer potential conflicts about sharing and marketing crops
- Shifts risk
- Payment can be scheduled for any time of year

Tenant

- Total managerial freedom
- Fewer chances of conflict over decisions
- Receive all benefits of a “good year” and superior management
- Eliminates time and effort associated with dividing crops and input purchases as well as the related record keeping



Cash leases may be a low stress option for landlord as they provide the land and step away from management and decision-making entirely. They don't have to come up with cash for fertilizer or provide labor. They don't have to negotiate about when and where to sell crops. Landlords can have confidence in both amount and timing of rental payments. Payments can be scheduled to coincide with harvest, be split with some or all of the payment up front or any number of other combinations. Tenants typically appreciate having part of lease payment scheduled for harvest.

With a cash lease, the tenant has the maximum in personal incentives to get things done in a timely fashion and see that crop succeeds as they are bearing all the risks. They make decisions and receive the benefits or bear the costs of their choices. And there are fewer communication and recordkeeping tasks for them in cash as compared to share leases.

Share lease agreements

- Landlord and tenant share proportionally in costs and risks of production, then share benefits accordingly
- Government payments shared in same proportion as crop



Share lease agreements are ones in which the parties share proportionally in costs, risks and income. Because of risk-sharing, government payments are also shared. The challenge in developing equitable share lease agreements is in valuing the different contributions and ensuring that the incentives are aligned to maximize returns to all parties while also protecting the short and long term interests of the parties, for instance, in maintaining conservation practices.

Share lease advantages

Landlord

- Receives some benefits of good price and/or yield years
- Land and improvements are more likely to be maintained
- Relieved of some operational decisions
- Easier to establish “material participation”

Tenant

- Less capital may be required
- Less experienced tenants can benefit from the landowner’s managerial input
- Share price and yield risk with landowner



The advantages of share leases are mirror images of cash leases. Here the landlord also reaps some of the benefits of better than average years. If wheat goes to \$6, when it was budgeted at \$3.50, the share lease means they also share in the windfall. Because they are still involved in management and decision-making, land and improvements may be more likely to be maintained. But, they don’t have to do everything... From the landlord’s perspective, doing less than if you are farming yourself can be good or bad thing. The right tenant helps make it a good thing. For tax purposes, it is possible to establish that the landlord has materially participated when it’s a share lease.

From the tenant’s perspective, they don’t have to come up with as much cash for farm expenses as the landlord is also contributing. For beginning farmers, having an experienced landlord involved can provide beneficial learning opportunities. The tenant doesn’t bear all the price and yield risk so may be less vulnerable to failure and better positioned to build equity over time, even if slowly.

Each of the advantages noted here is linked to a disadvantage as well. For instance, sharing in decision-making requires more communication and means more opportunities for disagreement. The tradeoffs in cash versus share lease need to be carefully weighed and reevaluated periodically as circumstances change.

What is fair? Not fair?

Fair does not equal legal.

Legal does not equal fair.

Everything is negotiable up front.

Legal is what you agreed to or if not addressed, what the law substitutes.



Often, I am asked about the fairness of a rental rate or a provision in a lease agreement. Fairness, like beauty, is often in the eye of the beholder.

But clearly, not fair would include:

- Not compensating tenant for improvements that will stay with the land when a lease is terminated: lime, fence, buildings.
- Mining the soil as a tenant
- Raising rent because a new tenant is doing a better job of managing and has higher yields.

That said, let's be clear: Fair does not equal legal. Legal does not equal fair. And, everything is negotiable up front. Legal is what you agreed to or if it wasn't discussed in the agreement, it will be what the law substitutes. So, think about as many different angles and potential problems as possible in formulating your agreement.

Of course, the golden rule may be helpful as well in resolving disagreements, "Do unto others..."

Finally, economists would argue that the approach should be to come up with a plan that is equitable, which puts the emphasis on properly valuing the different contributions.

Determining an equitable cash rent

- Landlord's ownership costs plus return to equity
- Residual income method
- Market approach



•Let's start with identifying an equitable cash rent. Three approaches are recommended. They may yield different values but that's the point. We want all parties to make an informed decision. The first approach provides insights into what the landlord might want based on a return to equity and cash costs. The second approach is similar to that for land appraisal in using budgeting to look at potential returns and ability to pay. The third is focused on market evidence of what might be labelled the "going" rate in an area. What is comparable land renting for? All of these different approaches yield what can be argued are reasonable values. The challenge is to then negotiate a final rate. There is no "one size fits all".

Determining an equitable rent

- Landlord's ownership costs plus return to equity
 - Property taxes on land: \$2
 - Improvements
 - Repairs and maintenance
 - Property taxes
 - Insurance
 - Depreciation
 - Desired return on equity: $\$1,600 @ 3\% = \48



In the approach focused on the landlord's ownership costs plus return to equity, we estimate property taxes and any other ownership costs such as maintenance of improvements, insurance and depreciation. We add to that an estimate of the desired return on the investment. What's the right rate to use? Probably something less than the stock market but perhaps more than a CD. It is generally unrealistic to expect a 9% return on agricultural land in Oklahoma. In this case, we've used 3% and the average value for cropland of \$1,600, which yields a \$48 return on equity. Adding a couple of dollars for property taxes would suggest a \$50 per acre rent. Note we used ag valuation for the land, not its potential for development or other uses.

Determining an equitable rent

- Residual income method
 - Returns
 - Grain, government payments, other
 - Variable costs
 - Seed, fertilizer, chemicals, fuel, harvest costs, labor, etc.
 - Fixed costs
 - Insurance
 - Taxes
 - Depreciation
 - Interest on investment



The residual income process essentially requires developing a budget that itemizes the expected returns and the costs contributed by the two parties. The variable costs are those that change with the level of production while fixed costs will be incurred whether or not production is started or bears fruit. Variable costs include inputs such as seed, fertilizer, and chemicals. Examples of fixed costs include insurance and taxes plus ownership costs such as depreciation on machinery and equipment and the opportunity cost on money tied up in assets such as land. Variable costs are typically transparent though a value may need to be placed on operator labor that is contributed.

Valuing fixed contributions

- Machinery and equipment
 - Custom rates
- Management
 - Percent of average capital invested
 - Percent of gross farm receipts
- Land
 - “Safe” rate
 - Divide annual cash rent by per acre land value

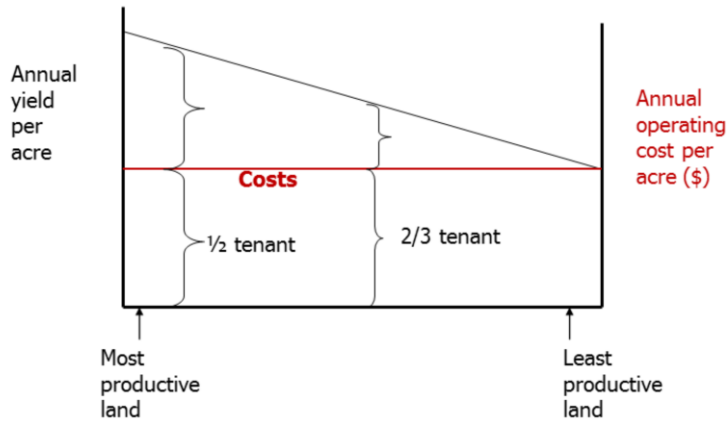


The contributions of land, machinery and equipment, labor and management may be more challenging to value but certainly must be recognized. One option for valuing machinery and equipment contributions is to have the owner prorate annual costs to the lease based on the portion of the total acres operated. For instance, if total machinery depreciation, insurance, taxes and interest on the average investment is \$50,000 for an operator and the lease represents 10% of the acres farmed, \$5,000 would be included as the operator's value for machinery and equipment. But, if it is difficult to calculate the fixed costs of machinery and equipment, you could use the custom rate for the field operations, spraying and so on as a proxy. The management fee may be a fixed amount or it may be specified as a percent of average capital invested or gross receipts. A common range for a management fee based on gross farm receipts is 5-8 percent.

When estimating the opportunity cost on the funds invested in agricultural assets, consider what those funds could earn in a similarly risky investment. One option is to use the interest rate on Certificates of Deposit, add a risk premium appropriate for the agricultural enterprise and subtract the expected appreciation in land value. So if CD rates are 1/2%, the risk premium is 3% and land is expected to appreciate 2%, the opportunity cost interest rate would be 1.5%. Another alternative is to use what is labelled the capitalization rate,

which is calculated by dividing the annual cash rent by the per acre land value. If cash rents for comparable land are \$30 per acre and the land is valued at \$1,500 per acre, the capitalization rate is 2%.

Effect of land quality and farm cost on crop-share rental arrangements



When valuing the contribution of land, differences in quality of land must be factored in. Good rich loam soil that doesn't flood contributes much more to potential profits than sandy soil that blows. The graph illustrates this point. Costs of putting in a crop are essentially the same regardless of the quality of land; hence, the flat red line. Better soils in higher rainfall areas have much greater yield potential so much higher possible gross revenues. So landowners with high quality land may reasonable expect a greater percentage of the crop or may want to contribute less to variable costs.

Dryland Wheat Enterprise Budget - Grain and Graze
 1000 acres farmed, 160 acres for this budget



2017 harvest price projection
 Pasture valued at \$.40/lb gain

Low Tillage

	Units	Price	Quantity	Total \$/Acre
PRODUCTION				
Wheat	Bu.	\$ 3.50	35.00	\$ 122.50
Small Grain Pasture	Acre	\$ 44.00	1	\$ 44.00
Other Income	Acre	\$ -	0	\$ -
Total Receipts				\$ 166.50

	Units	Price	Quantity	\$/Acre
OPERATING INPUTS				
Wheat Seed	Bu./acre	\$ 10.00	1.50	\$ 15.00
Fertilizer	Acre	\$ 45.42	1	\$ 45.42
Custom Harvest	Acre	\$ 34.86	1	\$ 34.86
Pesticide	Acre	\$ 18.64	1	\$ 18.64
Crop Insurance	Acre	\$ 7.50	1	\$ 7.50
Annual Operating Capital	Dollars	6.25%	88.91	\$ 5.56
Machinery Labor	Hrs.	\$ 15.00	0.00	\$ -
Custom Hire	Acre	\$ 73.65	1	\$ 73.65
Machinery Fuel, Lube, Repairs	Acre	\$ -	0	\$ -
Other Expense	Acre	\$ -	0	\$ -
Total Operating Costs				\$ 200.63
Returns Above Total Operating Costs				\$ (34.13)

agecon.okstate.edu/budgets

The OSU agricultural budget website has a variety of templates for major commodities that may be useful to you in this process. The numbers can be customized to match your farm situation. If your records show higher average yields or you were able to rent out pasture for more, make the necessary adjustments. In this example, you can see that the returns above variable costs are projected to be negative without a charge for land due to very low anticipated market prices and no adjustment down in inputs and costs. This would suggest that no payment could be made to the landlord which isn't realistic.

FIXED COSTS	Units	Rate	S/Acre
Machinery/Irrigation	\$/value		
Interest at	Dollars	6.00%	\$ -
Taxes at	Dollars	1.00%	\$ -
Insurance	Dollars	0.85%	\$ -
Depreciation	Dollars		\$ -
Land	\$/acre	\$ -	
Interest at	Dollars	0.00%	\$ -
Taxes at	Dollars	0.00%	\$ -
Total Fixed Costs			\$ -
Total Costs (Operating + Fixed)			\$ 200.63
Returns Above All Specified Costs			\$ (34.13)

Garfield County - North-Central OK Owner-Operator
Custom field work

Grain Break-Even (B-E) Analysis			
B-E Yield at \$/bu.	3.50	B-E Price at bu./acre	35.00
Above Operating Costs (Bu.)	45	Above Operating Costs	\$ 4.48
Above Total Costs (Bu.)	45	Above Total Costs	\$ 4.48

Break-even yield is the yield needed to cover costs given the expected price, pasture income, and other income such as government payments. Break-even price is the price needed to cover costs given the expected yield, pasture income, and other income.

If this were irrigated cropland, it would be important to also value the contributions of irrigation equipment. The OSU budget tools highlight breakeven prices and yields which can be helpful in managing as well.



United States Department of Agriculture
National Agricultural Statistics Service
**Oklahoma Bi-Annual
Cash Rents County Estimates**



Southern Plains Regional Field Office · Post Office Box 70, Austin, Texas 78767 · 800-626-3142 · www.nass.usda.gov
Cooperating with the Oklahoma Department of Agriculture, Food and Forestry and Texas Department of Agriculture

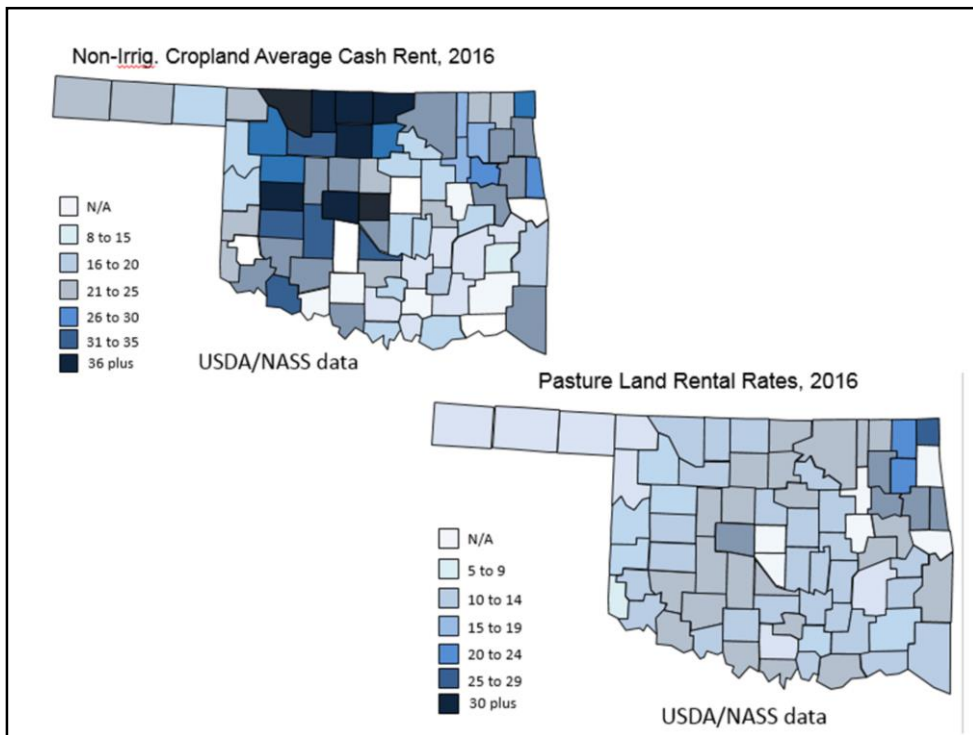
September 12, 2016

Contact: [Kim DaPra](#) or [Jason Hardegre](#)

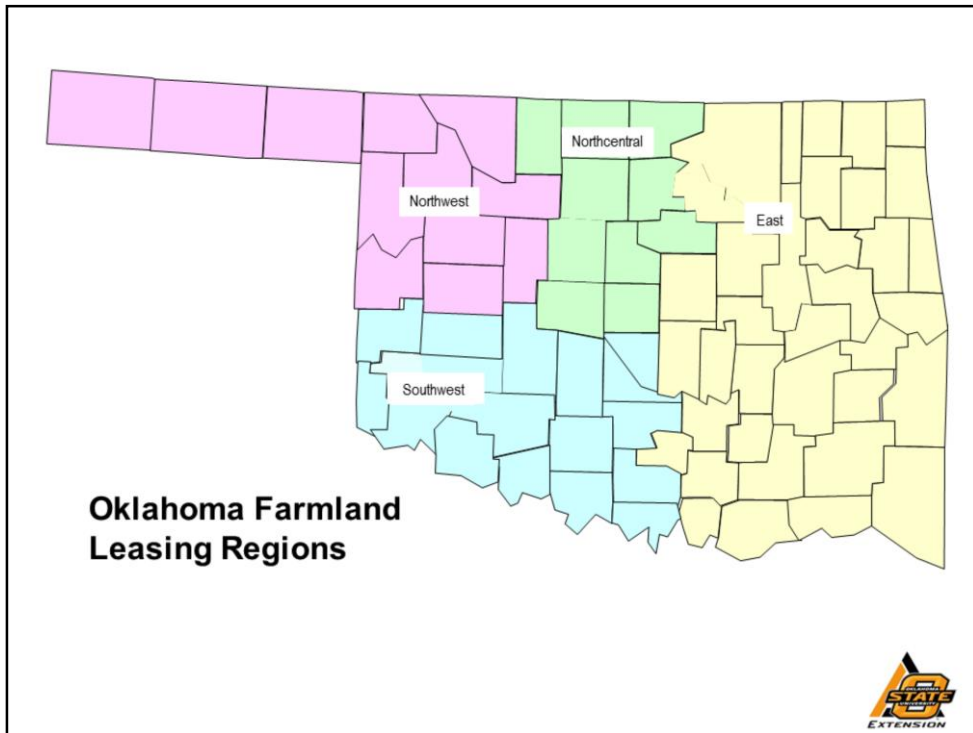
Pasture and Cropland: Cash Rents, Dollars per Acre, by County, Oklahoma, 2016

District and County	Pasture	Cropland ¹		District and County	Pasture	Cropland ¹	
		Irrigated	Non-Irrigated			Irrigated	Non-Irrigated
<i>Dollars per Acre</i>				<i>Dollars per Acre</i>			
Beaver	7.60	47.00	17.50	Atoka	11.50	(D)	11.50
Cimarron	7.30	93.50	21.50	Bryan	15.00	(D)	18.50
Ellis	7.40	(D)	16.00	Cartier	9.50	(D)	13.50
Harper	9.70	(D)	21.00	Coal	12.00	(D)	17.50
Texas	8.80	47.00	23.50	Garvin	12.00	(D)	22.00
Other counties	(X)	64.50	(X)	Jefferson	16.00	(D)	29.50
Panhandle	8.00	53.00	20.00	Johnston	11.50	(D)	(D)
				Love	16.00	(D)	18.50
Beckham	13.00	(D)	22.00	Marshall	12.00	(D)	15.50
Blaine	15.50	(D)	30.50	Murray	15.00	(D)	17.50
Custer	12.00	(D)	40.00	Pontotoc	11.50	(D)	14.50
Dewey	11.00	(D)	32.00	Stephens	13.50	(D)	(D)
Roger Mills	11.00	(D)	20.50	Other counties	(X)	44.50	17.00
Washita	13.50	67.50	33.50	South Central	13.50	44.50	19.50
Other counties	(X)	87.50	(X)				
West Central	12.50	78.00	32.00	Craig	24.00	(D)	23.50
				Delaware	(D)	(D)	28.50
Caddo	17.00	74.00	34.50	Mayes	21.00	(D)	26.50
Comanche	18.50	(D)	30.50	Nowata	17.50	(D)	24.00
Cotton	13.50	(D)	(D)	Osage	17.50	(D)	28.50
Greer	13.00	(D)	(D)	Ottawa	25.00	(D)	32.00
Harmon	9.50	88.50	24.50	Pawnee	12.50	(D)	18.50
Jackson	13.50	103.00	28.50	Rogers	22.00	(D)	24.00
Kiowa	16.00	(D)	30.50	Tulsa	(D)	(D)	24.50
Tillman	15.00	84.00	35.50	Wagoner	22.50	(D)	28.00

Market value data may be available anecdotally locally. But you'll want to consider public sources as well. The School Land Commission's annual auctions are one source. USDA's NASS conducts a biennial survey on cash rents that yields a county level value for pasture and cropland. Note that the value for pasture doesn't distinguish between introduced or native pasture.



These charts highlight the variability in cash rental rates across the state as reported by NASS. In the chart at top left for non-irrigated cash rents you can see that the highest rents for cropland are in the most productive cropland in north central Oklahoma plus more urban areas along I-40. In contrast, the chart at bottom right shows pasture rents are highest in northeastern Oklahoma.



OSU collaborates with NASS in alternate years on a rental rate survey to provide some different insights. However because the number of survey responses is much fewer, only regional differences can be reported. Results for four regions will be highlighted: Eastern OK, which is basically east of I-35, north central and northwest and southwest.

Average Annual Dryland Cash Rental Rates (\$/acre)

	NW	SW	NC	E	State
Wheat	31.87 15-60	34.46 16-55	40.24 18-60	38.12 20-70	35.54 15-70
Alfalfa					54.85 30-88
Grain Sorghum					38.12 23-55
Native Pasture	9.86 5-30	13.63 5-40	15.29 4-35	14.16 4-40	13.39 4-40
Bermuda		19.10 8-45	20.91 9-40	21.33 8-81	21.05 8-81
Other Pasture	15.23 8-25	15.31 10-20		25.86 10-84	20.89 8-84

Source: OSU CR-230 and CR-216, 2015

Here are the results from the current publication, OSU CR-230. The numbers on the top line in each row show the average. The state average for cropland in wheat was \$35.54 per acre and for alfalfa was \$54.85, a bit more of a spread than usual. The rental rate for cropland in grain sorghum is typically similar to that of wheat pasture. The average is typically highest in north central Oklahoma. The numbers below the average show the range of responses. For example, while the average cropland rental rate for north central Oklahoma is \$40 per acre, the survey responses ranged from \$18-60. This emphasized that the average provides a piece of information, but it may not necessarily be the right rate for your land as is evidenced by the many other different responses.

CR-216 reports pasture rates. The state average for native pasture was \$13.39 per acre with the highest rates again in NC OK and lowest in Northwest OK where lower rainfall limits stocking rates. Bermuda pasture rental rates averaged \$21 per acre but with a range of reported values from \$8 to \$81 per acre. Other pasture is primarily Old World Bluestem in western Oklahoma and Fescue in Eastern Oklahoma and commands higher rents than native pasture.

I would note that though rental rates have historically been slow to change, we'll be updating this publication in spring 2017 so you'll want to check back for updated numbers.

Determining an equitable cash rent

- Landlord's ownership costs plus return to equity = \$50
- Residual income method = None
- Market approach = \$36



In this example, our application of three different methods for deriving an equitable cash rent have yielded a wide range of values, from zero to \$50. These numbers provide the basis for negotiation. The challenge again is to identify the characteristics of this parcel and what if any makes it different from other comparable land.

Determining an equitable share rent

- Share total returns in the same proportion as total expenses are contributed
 - Variable expenses
 - to incentivize output-enhancing inputs, share variable expenses in the same percentage as crop is shared
 - Fixed expenses
 - determine the percent contribution of total value of fixed items contributed by each party (tenant = machinery and equipment, labor, management; landlord = land)
- Adjust share arrangements to reflect the impact of new technologies, improvements, land quality
- Compensate tenant at the end of the lease for the unused portion of investments



Let's shift now to a discussing the process for developing an equitable share rent agreement. The bottom line of course is that the share of the returns should match the share of total variable and fixed expenses, where variable costs are things such as seed, fertilizer and fuel and fixed costs are insurance, taxes and depreciation on machinery and equipment and more. Labor and management must also be valued. A key point with variable expenses is that you want to have incentives aligned with profitability. It's a good idea to share fertilizer expenses for instance as fertilizer is yield enhancing. You don't want high fertilizer prices to result in skimping on needed plant nutrients as that might limit yield, resulting in revenue losses that exceed the cost saving by skimping on fertilizer.

Typically the tenant is providing the machinery and equipment, labor and management. While I briefly described approaches to valuing these contributions earlier, you'll find more detail in reference publications associated with this segment.

Another important point is that as technology changes, lease parameters may need to be adjusted. For instance, a shift to no-till may increase variable costs such as chemicals and application costs and reduce the labor required. The resulting tradeoffs may mean share percentages need to be adjusted.

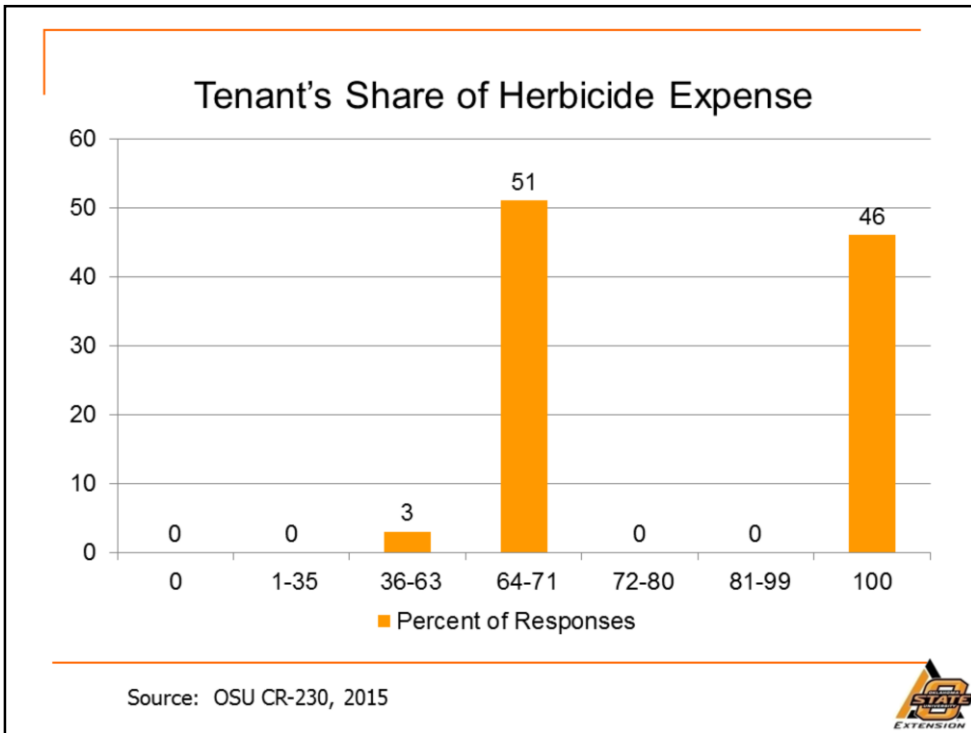
Finally, it is important to have provisions in the lease that would compensate the tenant for any improvement that would remain with the land when the lease ends or is terminated. For instance, if a tenant puts down lime that is expected to yield crop benefits for 5 years and the landlord opts to not renew the lease at the end of 3 years, the tenant should be compensated. At a minimum, the tenant would be repaid 40% of the costs of the lime application but could argue for a bit more since the yield might have been higher for the landlord during the preceding 3 years as well.

Typical Oklahoma Cropland Share Lease Agreement

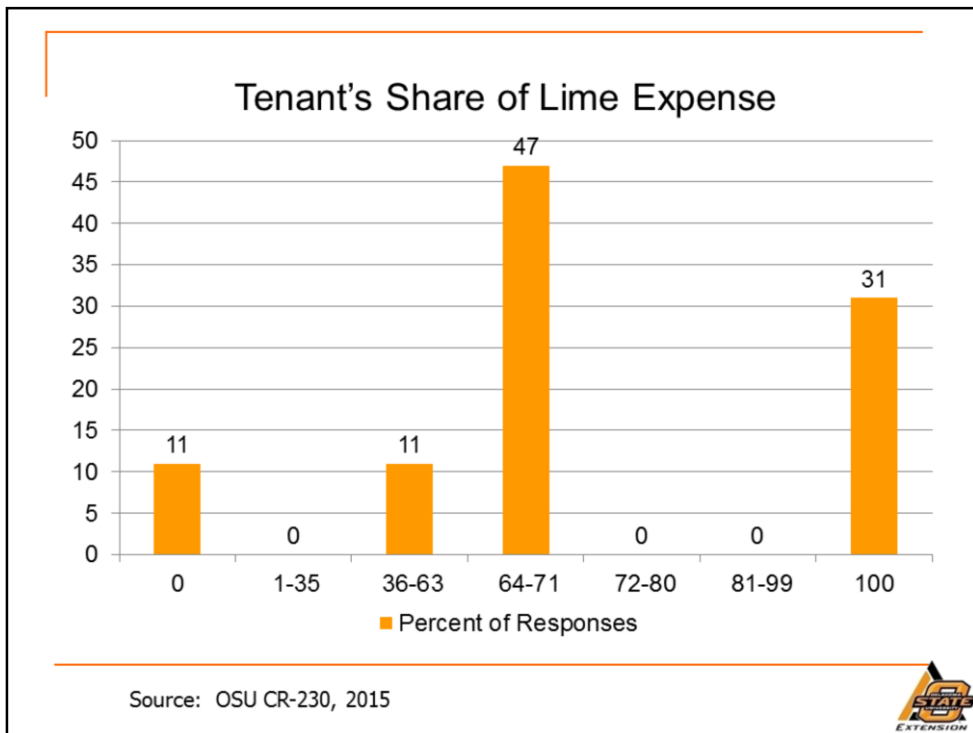
Income items shared	Landlord's share
Crop	1/3
Gov't. payments, other income	1/3
Expense items shared	
Seed	None
Fertilizer	1/3
Pesticide	1/3 (or none)
Chemical applications	1/3 (or none)
Harvesting	None
Lime application	1/3 (or all or none)
Irrigation	None (or 1/3)

Source: OSU CR-230, 2015

•The typical cropland share lease agreement is different than those in the Corn Belt. The results shown here are from our biennial rental rate survey. The landlord typically gets 1/3 of the crop, government payments and other income and shares in 1/3 of some of the variable expenses. The tenant pays seed and harvesting expenses. While the majority of respondents noted that the landlord paid 1/3 of pesticides, chemical applications and lime applications, a significant number noted that tenants paid 100% of these expenses.



For example, 51% said the tenant paid 2/3 of the herbicide expenses, while 46% said the tenant paid the full amount.



For lime, the results were even more mixed, with 47 percent saying the tenant paid 2/3, 31 percent saying that the tenant paid all but more than 10 percent each saying the tenant paid no lime or 1/3 of the lime expenses. The important thing from an equity perspective is that in the final count, contributions in total align with the share of the output.

Coming to agreement....



- Both tenants and landlords should estimate their contributions to production
- Use of area standards or traditions may not be in the best interest of either party
- Worksheets and spreadsheets are available to summarize contributions and analyze alternatives
- Equitable agreements are negotiated



- Both parties can benefit from estimating their contributions. This will serve as a tool for communication and a platform for negotiation.
- No one size fits all!
- Fair \neq legal; legal isn't necessarily fair or equitable; it just is. So weighing carefully what you want in an agreement and negotiations are important.

Put the agreement in writing!

- Encourages understanding by both parties
- Serves as a reminder of terms agreed upon
- Legal resource and guide for heirs
- Review agreements annually in advance of the renewal date
- Update, modify agreements when the operating environment changes significantly

Consult with a lawyer.



There are a plethora of reasons to put the lease agreement in writing. It serves as a memorandum of understanding. It forces you to think through terms and agree on what makes sense. It provides legal protection in the event of death or disability or some other unexpected event. If you anticipate needing or wanting a change in the lease, start discussions early. No one likes last minute surprises when it comes to business deals. Be sure to update the agreements periodically as circumstances or the economic environment changes. When making decisions with legal repercussions, it's always a good idea to consult with a lawyer, even if it costs money. Just give a lot of thought to it before you make an appointment so that you minimize the billable hours.

Leasing resources

- www.aglease101.org, publications, forms, worksheets
- www.aglease.info, OSU production and management info
- www.agecon.okstate.edu/budgets
- www.osufacts.okstate.edu
 - CR-216, OK Pasture Rental Rates
 - CR-230, OK Cropland Rental Rates
 - AGECE-940 Tax Aspects of Leasing
 - AGECE-198, Negotiation Strategies
- http://www.nass.usda.gov/Statistics_by_State/Oklahoma/Publications/County_Estimates/index.php
 - Cash rents



Because of the frequency of lease-related questions, Extension specialists have collaborated in developing publications focused on developing lease agreements for cropland, pasture, livestock, building, machinery and equipment on the Aglease101 website. On that same site, you'll find sample lease agreements with downloadable, fillable forms so that you truly have no excuse to not put your agreement in writing. Reviewing it will remind you of parameters you should consider even if the other party insists on an oral agreement in the end. Economists and production specialists at OSU have collaborated in creating the [aglease.info](http://www.aglease.info) website which includes both production and farm management information. The budgets website has free, downloadable templates to assist you in analyzing potential returns and studying "what ifs". Publications in the [osufacts](http://www.osufacts.okstate.edu) website provide rental rate survey results, highlight tax aspects of leasing and provide tips on negotiating. The NASS website has information on county-level rates from their biennial survey. Of course, if you'd like more information or a program on this topic in your area, please contact your local Extension Educator.