Take the Gamble Out of Farm Leases

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Reduce the gamble element in lease contracts requiring cash payments by:
1. Share leases, especially stock-share or "land-labor" leases.
2. Standing rent contracts.

Landlord-tenant conferences for the discussion of lease revision are especially needed this year.

Prices and costs are so uncertain that many farms leases, particularly those requiring the payment of cash, should be revised before March first, according to specialists in land economics of the United States Department of Agriculture. In a review of the situation by the Office of Farm Management and Farm Economics it is pointed out that we may not have seen the last of radical price changes, such as lead to unexpected losses or gains to landlord, tenant, or both when bound by inflexible cash features in their lease contract. The more widespread instances in which the lease is inflexible are found where the rent is a fixed number of dollars an acre.

Prices may be doubled or cut in two by next fall. With each party guessing what prices will be and figuring what he thinks proper for him to give as tenant or receive as landlord, there is too little chance that both parties will be satisfied with the outcome of their bargaining now or their settlement at the end of the season. This is almost certain to be the case unless an agreement with enough "preparedness" for price changes is made in advance of that most significant time, the day of settlement.

Several devices for increasing the probability of fair
and satisfactory relations throughout the year are being employed. The more generally practical of these follow:

1. Share rent basis
2. Standing rent basis
3. Sliding-scale amendment.

The share rent basis is the most widely used in cases where landlords assume the responsibility of marketing their share of the products. Standing rent, now found mostly in the cotton belt and expressed as so many pounds of lint cotton per acre, may well be applied to land in corn, wheat and other crops. The sliding-scale amendment, properly adjusted, is recommended for those who wish to retain the advantages of cash leasing but who take into account the fact that prices may be much lower or much higher after harvest.

To provide for automatic raising or lowering of the cash rent to accord with a marked rise or fall of prices the scale may be either coarse or fine. A sort of three-gear system would set a rent of, say, $9.00 an acre which would be rebated to $7.00 an acre, if the price of the main crop is 20 cents off after harvest, or be raised to $11.00 by a bonus if the price is 20 cents up. Such a rebate and bonus plan might be worked out to vary rents with every dime or nickel difference at which the price of the major crop stands above or below the chosen basic price. If very fine graduation is sought, however, a percentage system may be used. This plan provides that the rent is to be changed by as many per cent as the price of the basic crop has risen or fallen between the date of the contract and the date of settlement.

Neither fine nor coarse scaling should be undertaken unless five things are clearly understood: (1) the exact acreage governed by the sliding scale, (2) the product or products whose change of price will be used, (3) the exact grade and quality, (4) the market or even the particular buyer whose quoted price will be used, and (5) the calendar day or period after harvest whose average price or the average of whose high and low prices are authoritative.

Share renting Advised Where Possible.

The increase of share renting in the last forty years is evidence that the average landlord and tenant are sharing more generally all along the line of yields, costs and prices. The stock-share lease, in which the basis of division both of expenses (other than land and labor) and of receipts is fifty-fifty, is gaining ground. The percentages should be perhaps as far apart as thirty-seventy in some cases where the values of labor and of land are not evenly balanced. Such "land-labor" lease contracts, while representing the most systematic of all lease arrangements for mutualizing risks of yields, costs and prices, go farther in this respect than the present emergency makes necessary.
Standing Rents Gaining Favor.

In "standing" rents the tenant pays the landlord a specified amount of produce for each acre rented, planted, or harvested. Where "standing" rent takes the place of a fixed cash payment per acre or per bushel, the effect is the same as if the landlord were to take cash rental paid him and immediately buy back a certain number of pounds or bushels of produce at a guaranteed price. If, for example, a cash rental of fifteen dollars an acre is being modified, the new basis may center on 60 pounds of lint cotton (both parties chancing it at 25 cents a pound) or 20 bushels of corn (chancing it at 75 cents a bushel). By making special arrangements with a local elevator or other buying agency a landlord may be able to receive his rent as produce even when it is more or less perishable and even though he lacks storage facilities on his place. In some cases the landlords agree to accept produce of average quality raised by the tenant on the particular farm. In other cases, however, they may specify a better grade but agree to receive produce of other grades in substitution so long as they reach a value equivalent to that of the specified amount of the produce of contract grade. Where convenient for the landlord to become the owner of produce for even a short time before selling it, a resort to standing rent may be desirable this year.

Sliding-Scale Amendments.

In cases where the landlord cannot undertake to be the owner of the produce, however, he may share the price-risk by means of a sliding-scale arrangement.

Two methods of scaling rents to changed price conditions are:

1. The percentage scale
2. The rebate-plus plan

The percentage scale may be expressed in either of two ways. The cash rent of $8.00 an acre may be understood to apply only if the price of the major crop is, say, 90 cents a bushel at settlement time. If the price is $1.30 or 60 cents -- that is, 33-1/3 per cent up or down, the rent is reduced or increased by one-third so as to become $10.67 or $5.33. A simpler way to attain the same result is to agree that the rent will be the market price of so many pounds or bushels of product per acre. Though resembling standing rent in that a fixed number of bushels or pounds is the basis of the tenant's payment, the payment he actually makes is their cash equivalent. Under both plans even the slightest change in price as prevailing on settlement day leads to a proportional change in the cash rent without the landlord having to take possession of any of the produce.
If only a radical change in price would justify the modification of the cash rental in a particular case, a simple method can provide for an automatic rebate or bonus. A rebate may be better than remitting rent to a tenant made penniless by low prices, and the bonus has an equally good justification. Provision may be made for one rebate point and one bonus point, or for as many more of each variety as desired. If prices are off 10 cents from the 25 cents considered normal, a rebate of 75 cents an acre may be allowed the tenants from the normal rent of $6.50 an acre. Likewise if prices are up 10 cents a bonus of the same amount may be due the landlord at settlement time. These figures are merely illustrative, but they serve to show that rebate and bonus features can be put into leases so as to prevent serious disadvantage to either party if radical price changes take place.

The number of notches or gears in the rebate and bonus scale may be many or few. The same difference may bring on the bonus as brings on the rebate, or, for example 15 cents may be used in the one case and 10 or 20 cents in the other. The bonus may be in dollars or halves and the rebates in 75-cent units. As a rule however, one should favor the simpler plan of rebating or bonusing for a drop or advance of, say, a third or half from the present price of the major crop.

In any sliding scale amendment there should be specific understanding on five points. These are:

(1) The areas whose rents may be varied by the scale. Areas not in crops and areas in soil-improvement crops, such as clover, may be kept on a non-scale basis. However, where cash rents have been written up on such lands during high prices, the scale may be made to cover them as well.

(2) The products whose price changes are considered. A single important crop is better than the average of two or more crops.

(3) The grade and quality according to which the change of price is to be determined. Otherwise disputes are likely to come up.

(4) The market is usually the local shipping point. Sometimes it is advisable to name the elevator whose quoted price is preferred.

(5) The day or the period whose price counts in the agreement will ordinarily be well into the crop-moving season. Sometimes an average, such as the average of the high and low December price, is used.

Properly handled, the sliding scale can be kept simple and will apportion the risk of price lunge in a manner less disruptive of business relations of landlords, tenants and those with whom they deal.
Lease Revision Must Be Made a Mutual Advantage.

If one party asks the other to assume a larger share of risk than customary this year in that community, it is necessary, of course, that proper concessions be made. These concessions may take whatever form and figure will suit the circumstances. The modification of the rental figure may often be merely one feature of a lease revision affecting any number of other contract items, such as improvements, credits, "furnish", crop rotation, privileges, and the like.

Bulletins showing the experience of farmers with various kinds of leases are available at the colleges of agriculture in several states. "The Farm Lease Contract", Farmers' Bulletin 1164, which has recently been published by the United States Department of Agriculture, is helping to meet the widespread demand in this field.

In revising the lease contract it is sometimes useful to invite some third person to steer the discussion back to constructive lines whenever it gets to running afield.

The next few weeks are especially appropriate for the assembling of community conferences in which both landlords and tenants take part. Such conferences can bring out facts as to local conditions for which flexibility should be provided in lease contracts. The drafting of flexibility clauses can sometimes be handled best in such conferences.

Even after flexibility is increased in our leases there will still be need however, for the unwritten law of liberality in landlord-tenant relations. In the reduction of costs, the opportune marketing of crops, and the adaptation of equipment and methods to new production demands, there is need for generous cooperation. The good-will we establish as personal and community assets will outlive any period of depression.