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Improved Farm Rental Method for South Dakota

R. L. Berry

South Dakota State University

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Improved Farm Rental Method
For South Dakota

Prepared by the
Economics Department
SOUTH DAKOTA STATE COLLEGE
AGRICULTURAL EXPERIMENT STATION
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ECONOMICS DEPARTMENT
AGRICULTURAL EXPERIMENT STATION
SOUTH DAKOTA STATE COLLEGE, BROOKINGS
Contents

Conditions Necessary for Tenant Efficiency ........................................... 5
   Freedom and Security Needed ......................................................... 5
   Tenants Want More Security of Possession ..................................... 5
   History Supports Importance of Conditions .................................... 6
   Share Rents Are Cause of Insecure Tenure ...................................... 6
   Summary of Conditions ................................................................. 9

Increasing the Landlord's Security of Rent ............................................ 10
   Kinds of Rental Arrangements ....................................................... 10
   Fixed Cash Rent Leases ................................................................. 11
   Standing Rent Leases ................................................................. 14
   Present Use of Standing Rent Leases ............................................. 14
      Iowa Flexible Cash Lease .......................................................... 15
      Varying Rents with Single Crop ................................................. 16
   Cash Rents Which Vary with Yields ............................................. 17

How to Use Improved Rental Method ................................................ 20
   Should Rents Vary with Yields of Several Crops? .......................... 26

Increasing the Landlord's Security of Property .................................... 28

How Long Should the Lease Term Be? ............................................... 29
   Tenant Has More Freedom and Security ....................................... 29
   Security of Property ................................................................. 29
   Characteristics of Landlords Affect Security .................................. 30

Summary ............................................................................................ 33
Improved Farm Rental Method
for South Dakota

By Russell L. Berry

Should farmers and ranchers who rent or lease their land have the freedom to operate as efficiently as those who own their land? Many people agree that they should. Those who do not are saying that lease conditions may be imposed which interfere with the efficiency of two-thirds of the farmers and ranchers in the state who were leasing all or part of the land which they operated in 1954.

Better leases, it may be argued, will remove the incentive of tenants to become owners. While this may be partially true, it appears that a high degree of ownership of farms and ranches by those who operate them is not likely to be achieved.

The percentage of farm tenancy increased steadily from 1880 to 1940. Since 1940, tenancy has decreased largely as a result of the high incomes during World War II and the Korean conflict. This can be seen in table 1. Part owners—operators who own part of their land and lease part—are the fastest growing tenure group. Full owners have increased more slowly. The drop in incomes since 1954 may again be increasing tenants at the expense of full owners.

This trend in farm tenancy was an important reason for the establishment of the Federal land bank system in 1916 and the ill-fated South Dakota Rural Credit Department which started lending operations in 1917 and closed in 1925. In 1933 the national Emergency Farm Credit Act was passed which made possible the Land Bank Commissioner loans. Later the Federal land banks were authorized to make loans up to 65% of the normal agricultural value of the farm and its improvements. The Bankhead-Jones Farm Tenant Act was passed in 1937 to permit tenants to buy farms.

Despite these efforts only 32% of the farmers and ranchers were full owners in 1954. Another 29% were full tenants and 39% were part owners and part tenants. Only 17% of the agricultural land in the state was operated by full owners, 18% by full tenants, and 63% by part owners.

There is a popular idea that an oral agreement to pay rent for land does not create a lease. This is an error. Every agreement to pay rent, whether written or not, involves a lease.
owners-part tenants. These figures can be seen in the last line of table 2. For the entire state, 46% of the agricultural land was leased in 1954. In some counties the figure was considerably higher. For instance, in Moody County 59% of the farm land was leased in the same year.

In view of the importance of farm tenancy it seems that some effort should be made to eliminate from leases the most important causes of inefficient farming and ranching.

Table 2. Owners, Part-Owners, and Tenants and the Land They Farm by Economic Areas, South Dakota, 1954*

<table>
<thead>
<tr>
<th>Areas</th>
<th>Farmers by Tenure†</th>
<th>Land by Tenure†</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owners %</td>
<td>Owners %</td>
</tr>
<tr>
<td></td>
<td>Part Owners %</td>
<td>Tenants %</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West River (1)</td>
<td>27</td>
<td>58</td>
</tr>
<tr>
<td>North Central (2a)</td>
<td>21</td>
<td>56</td>
</tr>
<tr>
<td>North James (2b)</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td>South Central (3a)</td>
<td>28</td>
<td>44</td>
</tr>
<tr>
<td>South James (3b)</td>
<td>30</td>
<td>36</td>
</tr>
<tr>
<td>Northeast (4a)</td>
<td>35</td>
<td>33</td>
</tr>
<tr>
<td>Southeast (4b)</td>
<td>34</td>
<td>25</td>
</tr>
<tr>
<td>State</td>
<td>32</td>
<td>39</td>
</tr>
</tbody>
</table>

†Part-time, residential, and abnormal farms omitted.

The number of farms with managers was 1% of the total number for the West River Area and this has been included with the full tenants. In the other areas, the number of managers was less than one-half of 1% of the totals.

These areas are those used by the U. S. Census of Agriculture, page 305.
§Less than one-half of 1%.
1. What are the most important causes of inefficiency on leased land?
2. How can these causes of inefficiency be removed?

The purpose of this circular is to answer these questions. Logical analysis will be the main tool used in this study. However, information from other studies will be used whenever possible. Included will be information from three unpublished studies made in South Dakota.

Conditions Necessary for Tenant Efficiency

If tenancy is to be as efficient as ownership, then the lease must meet the conditions which allow tenants to adjust the business to changes in prices, costs, and production conditions as freely as owner-operators. This is true because economic efficiency is measured in profits.

Freedom and Security Needed

Freedom of operation and improvement, then, is a necessary condition for most efficient or profitable operation of leased land. But freedom of operation has little meaning when the exercise of freedom causes the lease to be cancelled at the end of the lease year because the landlord has other ideas as to what is "a good job of farming." Hence security of tenure or possession is also necessary for efficient operation. Unless the tenant has security of possession, neither he nor the landlord can afford to make improvements which will be profitable only to this tenant. The next tenant may not need or want these improvements. Even the making of improvements by the tenant when not working with crops or livestock becomes questionable when tenure is insecure.

Compensating the tenant for unexhausted improvements is sometimes considered a substitute for security of tenure. However, in practice, tenants are reluctant to make improvements even though they will be compensated if they are uncertain as to how long they will be able to enjoy the fruit of their labor. While compensation provisions are desirable they are not a complete substitute for security of tenure.

Tenants Want More Security of Possession

It is sometimes argued that tenants are not interested in greater security of tenure. While this may be true of some tenants, there is considerable evidence that most tenants desire greater security of tenure.

In 1950 a sample of farmers in central South Dakota were asked: "What is the length of your present lease?" Ninety-five percent replied that their present lease was for 1 year or was a year-to-year lease. They were then asked: "What
length of lease do you prefer?" Two-thirds of these tenants indicated that they preferred a lease of 3 years or longer. Only one-third of the tenants said that they preferred the 1-year lease. These figures are shown in table 3.

In 1955 a similar set of questions was asked of a random sample of tenants in Moody County in eastern South Dakota. Eighty-seven percent of these tenants had a 1-year or year-to-year lease but 80% preferred longer term leases. Over 50% said that they preferred 5-year leases or longer. These figures are also shown in table 3.

In general, landlords appear to be aware that tenants prefer longer term leases. Forty-six percent of the landlords replying to a questionnaire mailed to 1,200 randomly selected landlords in 1952 indicated that their tenants preferred a lease longer than 1 year. Yet 78% of these landlords said that they preferred a 1-year lease (see table 3). Furthermore, 90% of these landlords were using share rent leases, 83% were using 1-year leases, and 86% were satisfied with their present lease term.3

Why do tenants desire longer term leases? No doubt they are interested in greater security of possession and it seems fairly safe to assume that they would like greater freedom of operation and freedom of improvement.

**History Supports Importance of Conditions**

The efforts of English tenants to acquire greater freedom of operation, greater security of tenure, and compensation for improvements are additional evidence that these conditions are important to farmers. These conditions are important because they affect profits and efficiency. Also, they affect in a very important way the social well-being of farm and ranch families. Insecure tenants are less likely to take an interest in local church, school, and community affairs than secure tenants or owners.

It is a common error to suppose that the English tenant secured the passage of laws which give him great security of possession, freedom of operation, and compensation for improvements over the combined opposition of the English landlords. Actually, the laws merely made uniform the practices which most of the landlords were already using. In other words, the English tenant had long enjoyed a high degree of security of tenure and, hence, freedom of operation and improvement. The compensation of tenants for the unexhausted value of their improvements was common practice before it was written into the law.

**Share Rents Are Cause of Insecure Tenure**

Why was it possible for the English landlords to give their tenants more security of possession and freedom of operation than American farm landlords give their tenants?

### Table 3. Preference of Tenants and Landlords for Long-Term Leases, South Dakota

<table>
<thead>
<tr>
<th>Length of Term</th>
<th>Tenant's Preference in South Dakota*</th>
<th>Tenant's Preference in Moody County, S. D.†</th>
<th>Landlord's Preference in South Dakota‡</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
<td>Number</td>
</tr>
<tr>
<td>One year</td>
<td>30</td>
<td>33</td>
<td>11</td>
</tr>
<tr>
<td>Two years</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Three years</td>
<td>21</td>
<td>24</td>
<td>11</td>
</tr>
<tr>
<td>Four years</td>
<td>6</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Five years</td>
<td>26</td>
<td>28</td>
<td>25</td>
</tr>
<tr>
<td>Six or more</td>
<td>6</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>90</td>
<td>100</td>
<td>54</td>
</tr>
</tbody>
</table>

*Unpublished Oahe Survey data, Economics Dept., South Dakota Agricultural Experiment Station.
‡R. L. Berry, Share Rents and Short-Term Farm Leases, South Dakota Agricultural Experiment Station Circular 117, 1955, Table 3.

The answer seems to be that the English landlord has used a cash rent lease for several centuries. He regards himself as a land manager rather than a farm manager. In contrast, the American farm landlord uses a crop share, crop share-cash, or livestock share lease. In South Dakota, the North Central States, and the United States, at least 80% of the leases are for a share of the produce.4

Because the amount of the landlord's share depends to an important degree upon managerial decisions, the American landlord usually participates in the management of the farm or ranch. Evidence of this participation is found in lease agreements in which the tenant is:

(1) “to cultivate in a good, careful and workmanlike manner and at proper times, all the tillable land on said premises to the satisfaction of the party of the first part (the landlord)”

(2) “to sow and plant said land in such crops as the lessor (landlord) shall direct.”

(3) “subject to the approval of the lessor (landlord), devise and carry into effect a comprehensive farm program . . . and in the event the lessor or its agents shall notify the lessee (tenant) the number of acres it desires planted to each crop, the kind of crop and the location of each crop on the leased premises, the lessee hereby agrees to so plant said crop . . . to farm said premises in a good and husbandlike manner, to properly care for all crops, to plant, cultivate and harvest same in proper season, to place all of said leased premises in crop . . . to rotate crops . . . all to the complete satisfaction and under the direction and subject to the approval of the lessor or its agents.”

It should not be inferred from these three instances that all share

---

rent leases contain provisions of this kind. Many do not. Also, two-thirds of all leases are oral or un-written in South Dakota, so their contents are not known.

There is reason to believe that the supervision given by most landlords is not as detailed as these provisions suggest. Many landlords appear to allow the tenant considerable freedom of operation during the crop year. They merely tell the tenant that he can have the farm as long as he does a good job of farming and pays the rent. If the farming and care of the property is not to their satisfaction they can refuse to renew a 1-year lease or give notice that the year-to-year lease is being cancelled.

When South Dakota landlords were asked which of three reasons they thought was the most important reason why 1-year leases are customarily used, 65% checked, "Because the short-term lease keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job.” This answer can be compared with the other answers in table 4.

Some advice to landlords from the book, Managing the Tenant-Operated Farm follows:

“While the tenant may press for an unqualified three or five year lease, such an agreement is seldom to the advantage of the landowner. Committing himself to a lease of this length deprives the owner of the only recourse he has in the event the tenant operator is not performing satisfactorily—a change of tenants. In some cases, an unqualified long-term lease also dulls the incentive for the tenant to do his best work by giving him a false sense of security. However, the tenant should be convinced of your intentions to continue the lease as long as he performs satisfactorily.”

This statement and the title of this book suggests that the landlord

Table 4. Reasons Why Landlords Prefer Short-Term Leases, South Dakota, 1952*

<table>
<thead>
<tr>
<th>Reason</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Because long-term leases are not as binding on tenants as they are on landlords</td>
<td>234</td>
<td>134</td>
<td>113</td>
<td>27</td>
</tr>
<tr>
<td>B. Because the one-year lease gives the landlord a chance to increase the rent as his expenses rise</td>
<td>21</td>
<td>28</td>
<td>40</td>
<td>22</td>
</tr>
<tr>
<td>C. Because the short-term lease keeps the tenant on his toes since he knows that you can get another tenant if he does a poor job</td>
<td>65</td>
<td>29</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>D. Other</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: R. L. Berry, Share Rents and Short-Term Farm Leases, South Dakota Agricultural Experiment Station, Circular 117, 1955, Table 7.
should play an important role in the management of the farm. As long as share rents are used, this is the landlord's best guarantee of reasonable security as to the amount of rent. A long-term lease destroys the landlord's security of rent while increasing the tenant's security of tenure and freedom of operation and improvement.

From this, it follows that the most important condition for efficiently operated tenant farms is greater security of the amount of rent for the landlord. This security of the amount of rent must be provided in some other way than by reducing the tenant to the status of a share-cropper or an employee whose continued employment depends upon his doing a good job of farming in the eyes of the landlord.

In addition to security as to the amount of rent, the landlord must have security as to the payment of the rent. Fortunately, the landlord can achieve a high degree of security of payment by reserving title to the crops until the rent is paid. If preferred a chattel mortgage on crops, livestock, and other property of the tenant can also be used to insure payment of the rent. A reservation of title to the most important crop is incorporated in the lease form inserted in this circular.

If the landlord is to give the tenant security of tenure and freedom of operation he must also have considerable security of property. The lease form inserted in this circular contains provisions to protect the landlord's property. Since these provisions are not new they are not discussed in this circular. However, special emphasis was given to the problem of repairs and improvements. It is believed that the use of the rental methods to be described will increase the tenant's security of tenure which in turn will create a desire to improve the farm. If this is true, plans for compensating the tenant for his improvements will be needed.

There are, of course, many other things which affect landlord-tenant relations. Space does not permit these things to be discussed here.

**Summary of Conditions**

If the tenant is to have the freedom to farm as efficiently as an owner-operator what conditions must be met?

1. The tenant must have the same freedom of operation and improvement as the owner-operator.
2. The tenant must have security of tenure comparable to owner-operators.

Unfortunately these conditions cannot be met as long as rent is paid as a share of crops and livestock. The landlord’s rent is too insecure. Until the landlord has:

1. Greater security of rent
2. Greater security of property

he cannot afford to give the tenant greater security of tenure, freedom of operation and improvement. A study of landlord-tenant laws suggests that the landlord's security of property is much greater than his security of rent under share-rent leasing. Hence, this study is limited
largely to the possibilities of increasing the landlord’s security of rent so that he may then increase the tenant’s freedom of operation and improvement and security of tenure or possession.

Increasing the Landlord’s Security of Rent

How can the landlord’s security of rent be increased? One way would be to eliminate any control which the tenant has over the rent to be paid in any lease year such as he has under the crop-share or livestock-share rents. When the amount of rent is no longer under the control of the tenant, the landlord will have much less reason to want to control the tenant’s farming operations or to terminate the lease because of the way that the tenant farms.

Thus to the extent that the landlord’s security of rent is increased, it should make it possible for him to give the tenant more freedom of operation. Because there would be less friction the tenant’s security of tenure could also be expected of increase. Such security should increase the tenant’s interest in improvements and the landlord’s willingness to compensate the tenant at the end of the lease term. For these reasons it seems desirable to consider the effect of various rental methods on the landlord’s security of rent.

Kinds of Rental Arrangements

Rents may be paid in cash or produce. A cash rent may be a fixed amount as in the fixed cash rent or it may vary with prices and yields as in the flexible cash rents. A produce rent may also be a fixed amount as in the standing rent or it may be variable as in the share rent.

Rents may be called objective rents when neither the landlord nor the tenant can affect them after they are once agreed upon. Fixed cash rent is an example of an objective rent. Or they may be called subjective rents when both the landlord and the tenant can affect the rent to be paid. Share rent is an example of a subjective rent. While the shares, ½, ⅔, ⅔, etc., are definite enough, the total production and amount of rent to be paid in any given year can be affected by the tenant and, to a lesser extent, by the landlord during the term of the lease.

Because the share tenant can affect the rent by his farming practices the landlord is reluctant to give him the freedom of operation enjoyed by owner-operators. To protect himself, the landlord often participates in the farm management decisions. The relationship tends to be that of employer-employee or partners rather than landlord and tenant.

When the landlord does not participate in the managerial decisions, he usually tells the tenant that he can keep the farm as long as he does a good job of farming and pays his rent. Since the decision as
to whether the tenant is doing a good job of farming is made by the landlord, the tenant may feel quite insecure. Because of these characteristics of the share rental arrangement, other rental methods will be reviewed to determine whether or not their use will give the landlord greater security of rent so that he in turn may give the tenant greater freedom of operation and security of tenure.

**Fixed Cash Rent Leases**

When a tenant agrees to pay and a landlord agrees to accept a fixed cash rent for the property being conveyed to the tenant the rent is highly objective. When the amount of the rent is specified in a written lease there can be no question about the amount which the landlord is to receive for the use of the land. If this rent is satisfactory to the landlord and the lease contains provisions to protect the landlord's property, why would he wish to interfere with the tenant's farming or terminate the lease? The whole arrangement is definite, certain, or objective. The landlord is less likely to be tempted to act as either an employer or a partner.

In South Dakota, a recent study reveals that over 47% of the cash rent leases were made for 2 years or longer. This is a higher percentage of leases of 2 years or longer than for any other kind of leasing. This is shown in table 5. No doubt the landlord's greater security of rent makes this possible. However, the age and the ability of the tenants and their financial responsibility may be important factors. This is possible since the number of cash tenants is quite small.

Cash tenants also enjoy longer tenure on the same farm. In South Dakota 40% of the cash tenants had been on the same farm 10 years or longer (see table 6). Only 23% of the crop share tenants and 10% of the livestock share tenants had been on the same farm for as long a period. In South Dakota the number of cash tenants is quite small and the tenants are older. However, similar

<table>
<thead>
<tr>
<th>Table 5. Length of Lease Term Compared with Kind of Rent Paid, South Dakota, 1952*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number reporting</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Crop Share</td>
</tr>
<tr>
<td>Crop share cash</td>
</tr>
<tr>
<td>Livestock share</td>
</tr>
<tr>
<td>Special and others</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

*Source: Farm Rental Practices Survey, unpublished data, A-8, South Dakota Agricultural Experiment Station.*
Table 6. Kind of Rent Paid Compared with Years Tenant Has Been on This Farm, South Dakota, 1952*

<table>
<thead>
<tr>
<th>Kind of Rent</th>
<th>Number</th>
<th>1-year or less</th>
<th>2-4 years</th>
<th>5-9 years</th>
<th>10 years or over</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>74</td>
<td>11</td>
<td>19</td>
<td>30</td>
<td>40</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Crop share</td>
<td>453</td>
<td>8</td>
<td>41</td>
<td>28</td>
<td>23</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Crop share cash</td>
<td>792</td>
<td>10</td>
<td>35</td>
<td>34</td>
<td>21</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Livestock share</td>
<td>104</td>
<td>11</td>
<td>43</td>
<td>36</td>
<td>10</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>All other</td>
<td>51</td>
<td>12</td>
<td>45</td>
<td>29</td>
<td>14</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Farm Rental Practices Survey, published data, South Dakota Agricultural Experiment Station.

results are found in Iowa and Minnesota where cash tenants are more numerous.6

It would be an error to assume that length of tenure is the same as security of tenure. Farmers may be insecure even when they continue to lease the same farm year after year. However, it seems likely that the cash tenants as a group are more secure and this security is reflected in the length of tenure.

It is sometimes argued that a fixed cash rent encourages the tenant to exhaust the land by heavy cropping. The Scully Estate which has been leasing for cash in Illinois, Nebraska, and Kansas for 80 to 100 years has had no difficulty of this kind. In Marion County Kansas, the Scully tenants choice of crops was not significantly different from that of tenants of other landlords except that significantly more sweet clover was grown, pastured, or harvested for hay or seed. The growing of the sweet clover on one eighth of the land is required. Rent is remitted on the acres grown and a penalty of 5 dollars per acre is assessed on the acres not grown. Since no significant differences were found in the amount of corn and wheat grown, the use of fertilizer, and the amount of livestock kept by Scully tenants, share tenants, and owner operators, it seems questionable whether cash tenants exhaust the land more than share tenants. However, this comparison may be affected by the fact that most of the Scully tenants own the house, barn, and other improvements located on the Scully land. They also say that they have more security and freedom than share renters in the same community.7

It is often said that tenants cannot pay fixed cash rents where crops are poor or fail. While this is sometimes true it is also true that the landlord gets little rent when crops fail under any other kind of rental arrangement. Share rents do have the advantage that ordinarily no arrears in rent arise to plague the

7Unpublished data, Economics Dept. South Dakota Agricultural Experiment Station.
landlord-tenant relationship. However, the increase in rent under shares in years of good crop yields appears to offset most of this advantage to the tenant. The difference in cash and share rent in periods of rising prices can be seen in Table 7. Even with considerable upward adjustment in the cash rents it appears that the difference might still be great enough to permit the tenant to pay interest on arrears in rent during poor crop years. This cash rent plus interest might still be less than the rent paid under share arrangements.

In criticizing fixed cash rents it is often forgotten that many farmers are willing, even anxious to assume fixed mortgage interest and principal payments on a farm even when their equity is quite small. The difficulties of paying the same amount in cash rent should be no greater.

There are a number of ways in which the certainty of payment of cash rent can be assured. Partial or full payment at the beginning of the lease year, when the principal crop is harvested, or when livestock or livestock products are sold may help. Crop insurance may also be used.

One idea is that the landlord should set the rent high enough to make it possible for him to reduce or cancel the rent in years when the tenant cannot meet the payment through no fault of his own. Unfortunately, this idea reduces the landlord's security of rent. It also makes the decision as to whether the rent should be reduced or cancelled in any given year a highly subjective one over which considerable friction might arise. Of course, this sub-

<table>
<thead>
<tr>
<th>State</th>
<th>Date</th>
<th>Cash</th>
<th>Crop Share</th>
<th>Crop Share Cash</th>
<th>Livestock Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois*</td>
<td>1947</td>
<td>3.8</td>
<td>16.5-17</td>
<td></td>
<td>18.20</td>
</tr>
<tr>
<td>Illinois†</td>
<td>1943-45</td>
<td>3.8</td>
<td>9.9</td>
<td>10.1</td>
<td></td>
</tr>
<tr>
<td>Missouri‡</td>
<td>1939</td>
<td>4.2</td>
<td>8.1</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>New York§</td>
<td>1938</td>
<td>3.7</td>
<td>5.4</td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>1913</td>
<td>5.5</td>
<td>8.3</td>
<td>8.2</td>
<td></td>
</tr>
<tr>
<td>Kansas#</td>
<td>1914</td>
<td>2.5</td>
<td>5.2</td>
<td>5.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Kansas#</td>
<td>1915</td>
<td>2.3</td>
<td>3.1</td>
<td>3.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Kansas#</td>
<td>1916</td>
<td>1.8</td>
<td>3.3</td>
<td>2.7</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Twenty-third annual report of the Farm Bureau Farm Management Service, 1947, Illinois Agricultural Experiment Station A. E. 2544, June 1948.
‡John F. Timmons, Landlord-Tenant Relationships in Renting Missouri Farms, Missouri Agricultural Experiment Station Bulletin 409, 1939, p. 17.
#W. E. Grimes, Farm in Kansas, Kansas Agricultural Experiment Station Bulletin 221, 1919.
ective element could be eliminated by the use of a cash rent which varies with prices of one or more crops and the county average yields.

It is true that fixed cash rents do not automatically increase the rent when prices and yields increase, and decrease rents as prices and yields fall. However, cash rents can be adjusted to changing conditions even though the change is not automatic and can be made only slowly. Those landlords and tenants who prefer an automatic adjustment need to consider carefully the standing rents and the various kinds of flexible cash leases which will now be discussed.

**Standing Rent Leases**

The standing rent lease calls for the payment of a fixed quantity of produce as rent. If the quality of the product to be delivered can be specified, then the rent is as fixed and definite as the cash rent just discussed. Its special merit is that the cash value of the rent varies with the market price of the fixed amount of produce specified as rent. Therefore, the landlord shares price risks with the tenant. Because of this greater risk the rent should be somewhat higher than fixed cash rent.

Because the amount of produce to be delivered is fixed and cannot be affected by actions of either the landlord or the tenant during the term of the lease, it is an objective rental which largely avoids any confusion of the landlord-tenant relation with that of employer-employee or partners. In other words, the landlord has a high degree of security of rent and will have little reason to limit the tenant’s freedom of operation or his security of tenure.

Often the standing rent lease specifies that the cash market value of the produce of a certain kind and quality is to be paid as rent. This eliminates the actual delivery of produce to the landlord. Several kinds of crop and livestock produce may be specified. When the manner in which the market value is to be determined is carefully specified, this kind of lease is as objective as a fixed cash rent, since neither the landlord nor the tenant can affect the rent during the term of the lease.

The Improved Farm Lease form inserted in this circular can be used as a standing rent lease. How this can be done is explained on page 23 of this circular. Sections 6A and 6B of this lease form can be inserted in any lease form to create a cash version of the standing rent.

**Present Use of Standing Rent Leases**

Any cash rent can be made to vary with the price of one or more farm or ranch products. Suppose $2,400 is determined to be a fair cash rent for a farm or ranch. This amount can be used as a normal or base rent. Then the rent due in any one year can be made to fluctuate with the price of a principal crop or livestock product.

Such a lease is being used in leasing Indian lands on the Pine Ridge
and Rosebud Reservations. These grazing lands are being let for 5-year terms for a base cash rent. However, the rent paid in any lease year varies with the price of beef.

A similar rental plan is being used in leasing public grazing lands in Alberta, Canada. There, one-tenth of the current market price of 250 pounds of beef is paid for each cow grazed. Most of these grazing leases are made for a term of 20 years. The plan has been in operation since 1945.

Iowa Flexible Cash Lease

A flexible cash lease form has been distributed to Iowa landlords and tenants since 1932. In this form the rent to be paid in any given year varies with an index of several farm prices. The lease form and the annual index is distributed by the Agricultural Extension Service at Ames. Because the rent to be paid varies with the price of several crop and livestock products, the rent paid tends to be more stable than it is when it is based upon only a principal crop. It may measure more accurately the farmer’s ability to pay rent when several kinds of crops and livestock are produced.

When such an index of prices is used the variations in rent from year to year would be smaller than under a share rent. However the amount of rent paid over a period of years would tend to be the normal rent. This emphasizes once again the importance of care in setting the normal or base rent.

After the Iowa flexible cash lease was used for several years, it was concluded that when corn yields fell to 75% or less of a normal yield agreed upon, the rent to be paid in that year should be reduced in direct proportion. The following example taken from the lease form makes clear how this would work:

“Suppose it is mutually agreed that the average corn yield on this farm is 60 bushels per acre. The average yield on this farm this year, however, is 40 bushels or 67 percent of a normal yield. If the cash rent, as computed by the flexible cash method turns out to be $9 per acre, then the rent actually due will be 67 percent of $9 or $6 per acre in this year of partial crop failure.”

Unfortunately, this clause introduces a subjective element into the lease. Since the corn yield reported for any given year may be affected by the managerial ability and the honesty of the tenant, the amount of landlord’s rent is at the mercy of the tenant.

Thus, the problem of the share rent is introduced whenever crop yields fall near or below 75% of the normal yield. The question arises as to what extent the low yield may be due to poor management or possibly dishonesty on the part of the tenant. However, this difficulty can be avoided by maintaining a higher proportion of the payment as fixed rent. The problem of the share rent is then introduced only when some one-fourth of the rent is based upon the yield of corn. The above example can then be extended to include estimates of the probable yield of other crops and livestock products. The Iowa flexible cash lease can then be modified to suit specific conditions and needs.


2. The original lease was presented by Millard Peck, A Plan for Adjusting Cash Rent to the Changes in the Prices of Farm Products, Iowa Agricultural Experiment Station Bulletin, 295, October 1932.
be corrected by striking out the clause which requires rent to vary with the yield of corn on the farm being leased. When this is done, an objective rental arrangement remains in which the rent varies with the index of prices received. It is objective since neither the landlord nor the tenant can affect the index of prices received.

Since prices received by farmers in the United States are not materially affected by state boundary lines, the prices in South Dakota and Iowa fluctuate together. This can be seen in table 8 where the effect of using different indexes on $1,000 of rent is shown. The difference between the Iowa and South Dakota rents is quite small.

Varying Rents with Single Crop

What is the advantage of using an index of prices rather than a single crop like corn or wheat? The use of the index gives a more stable rent since all the major products farmers sell are included. That is, a sharp drop in grain prices tends to be softened by livestock prices which move more slowly. This can be seen in figure 1. Note that the crop index falls faster and further than either the livestock prices or the prices of all commodities. In general, the fluctuations of crop prices are greater than those of livestock prices.

If corn had been plotted separately on this chart, its fluctuations would be greater than those of all

Figure 1. Prices Received by South Dakota Farmers by Groups of Commodities, 1910-57
### Table 8. Effect on Use of Different Index Numbers on the Variation of $1000 Base Rent

<table>
<thead>
<tr>
<th>Year</th>
<th>South Dakota</th>
<th>Iowa</th>
<th>U. S.</th>
<th>South Dakota</th>
<th>Iowa</th>
<th>U. S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>240</td>
<td>234</td>
<td>236</td>
<td>$1,200</td>
<td>$1,170</td>
<td>$1,180</td>
</tr>
<tr>
<td>1947</td>
<td>311</td>
<td>308</td>
<td>276</td>
<td>1,555</td>
<td>1,540</td>
<td>1,380</td>
</tr>
<tr>
<td>1948</td>
<td>321</td>
<td>322</td>
<td>287</td>
<td>1,605</td>
<td>1,610</td>
<td>1,435</td>
</tr>
<tr>
<td>1948</td>
<td>268</td>
<td>255</td>
<td>250</td>
<td>1,340</td>
<td>1,275</td>
<td>1,250</td>
</tr>
<tr>
<td>1950</td>
<td>285</td>
<td>270</td>
<td>258</td>
<td>1,425</td>
<td>1,350</td>
<td>1,290</td>
</tr>
<tr>
<td>1951</td>
<td>339</td>
<td>317</td>
<td>302</td>
<td>1,695</td>
<td>1,585</td>
<td>1,510</td>
</tr>
<tr>
<td>1952</td>
<td>301</td>
<td>290</td>
<td>288</td>
<td>1,505</td>
<td>1,450</td>
<td>1,440</td>
</tr>
<tr>
<td>1953</td>
<td>269</td>
<td>273</td>
<td>258</td>
<td>1,345</td>
<td>1,365</td>
<td>1,290</td>
</tr>
<tr>
<td>1954</td>
<td>260</td>
<td>267</td>
<td>249</td>
<td>1,300</td>
<td>1,335</td>
<td>1,245</td>
</tr>
<tr>
<td>1955</td>
<td>234</td>
<td>230</td>
<td>237</td>
<td>1,170</td>
<td>1,150</td>
<td>1,185</td>
</tr>
<tr>
<td>Total 10 years variable rent</td>
<td>14,140</td>
<td>13,830</td>
<td>13,205</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 10 years fixed rent</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This can be seen in figure 2. However, the difference in price variations of oats, and wheat is rather small.

On a highly diversified livestock farm the use of the index of all prices is probably desirable in that it may be a better indication of the farmer’s ability to pay rent and gives the landlord greater stability of rent or income. However, on farms where corn or wheat is the major enterprise a standing rent in these crops may be more satisfactory for the tenant. It approaches more closely the crop share rent in which the value of the landlord’s share varies with the crops rather than livestock. Thus, standing rent on the cropland and a fixed cash rent for pasture and buildings may be a more satisfactory method of rent determination than the use of a general index of prices.

On ranches where cattle and sheep are the main enterprises a standing rent in livestock products or a cash rent which varies with the price of calves or lambs would be more desirable than a rent which varied with an index of all prices or with the price of crops. A rental arrangement in which the rent varies with cattle prices used in leasing Indian grazing lands on the Pine Ridge and Rosebud Reservations has already been described.

**Cash Rents Which Vary with Yields**

The popularity of share rents suggests that many landlords and tenants prefer a rent which varies automatically with both prices and yields. Yet, objective straight cash or standing produce rents can also be made to vary with crop yields. However, when the cash or
standing rent is made to vary with the yields on the farm being rented as in the Iowa Flexible Cash Lease form discussed above a subjective rent results. It is subjective because the tenant, and to some extent the landlord, can affect the amount of the rent to be paid in any lease year. Hence, such a lease is only somewhat better than a share rent lease.

A rent can be made to vary with both prices and yields in a way that cannot be affected by either the landlord or the tenant. Such a rent is a great improvement over the share rent. It keeps the flexibility of the share rent and maintains the objectivity of the fixed cash or standing produce rent. To create such an improved or objective rental arrangement the cash value of the standing rent must be made to fluctuate with the average annual county yields rather than the yields on the farm being leased. Because neither the landlord nor the tenant can affect the county yields to any appreciable extent the rent is objective, definite, or certain.

The Improved Farm Lease form inserted in this circular provides the agreements necessary to make the cash value of a standing rent vary with the county average yields. Section 6 of this lease form is reproduced here to show how this can be done.
Section 6. Providing Security of Rent

A. Calculation of Cash Value of Standing Rent:

1. Kind of Standing Rent: The standing rent shall be [kind of corn or wheat] of grade number [two] having a minimum test weight of [pounds per bushel] and a maximum protein content of [per cent].

2. Amount of Standing Rent: The total amount of the standing rent shall be [twenty-two hundred (2,200)] bushels of said kind and quality of grain.

Of this standing rent:
- 200 bushels are for [10] acres with improvements.
- 1,250 bushels are for [50] acres of permanent pasture.
- 1,875 bushels are for [260] acres of cropland.
- [blank] bushels are for [blank] acres of [blank].

3. Cash Value of Standing Rent: The cash value of the standing rent shall be determined each year by multiplying it by the simple average of the daily cash market price per bushel of said kind and quality of grain beginning with the [fifteenth] day of [October] and ending with the [fifteenth] day of [December] of each year inclusive as paid at Brookings, South Dakota, reported by Wayside Elevator Co. at [blank].

B. Payment of Cash Value of Standing Rent:

(Note: if it is desired that the rent vary only with prices complete Part B and strike out parts C and D below. If it is desired that the rent vary with county average annual yields strike out Part B and complete parts C and D below.)

C. Adjusting Cash Standing Rent to County Yields:

The total cash standing rent shall be adjusted in direct proportion to the average annual harvested yield for the lease year of said grain in [blank] County, South Dakota. The amount of adjustment shall be determined by dividing the average annual county harvested yield as reported by the South Dakota Crop and Livestock Reporting Service, 219 West Eighth Street, Sioux Falls, South Dakota by the base yield of [blank] bushels per acre, which is the simple average of the annual county yields from 1936 to 1955 inclusive. The results of this division shall be multiplied by the standing rent as calculated above to determine the adjusted standing rent.

D. Payment of Rent:

The Tenant agrees that the cash value of the adjusted standing rent shall be the annual rent and that he shall pay it as follows:

1. Payment of Estimated Annual Rent: Because the average annual harvested yields by counties are not available as a rule until March 15 of the next year a temporary settlement shall be made as follows: Each year the Landlord shall estimate the average annual harvested yield of said grain in said county, using whatever counsel he desires, and using this estimated yield, he shall calculate an estimated annual rent using the methods described in Section 6A above. The Landlord shall then notify the Tenant as to the estimated annual rent on or before the [blank] day of [December] of each year and the Tenant shall pay the estimated annual rent on or before the [blank] day of [December] of each year.

2. Payment of Final Rent: When the average annual county yields are published by the South Dakota Crop and Livestock Reporting Service, the Landlord shall use said yields to calculate the final annual rent using the method described in Section 6A above. The Landlord shall notify the Tenant of any rent due, and such rent shall be payable within two weeks of the date that the notice is given. If the estimated annual rent paid is more than the final annual rent then the Landlord shall pay the Tenant the difference at 6 percent per annum from the time of payment of the estimated rent until paid. If the estimated annual rent is less than the final annual rent the Tenant shall pay the difference to the Landlord, without interest. However, on any additional rent due and not paid at the time of final settlement the Tenant shall pay interest at 6 percent per annum from the time of final settlement until paid.

E. Title Reserved for Security of Payment:

The Tenant agrees that the title of the crop used in calculating the above rent shall remain in the Landlord until the estimated annual rent specified in Section 6A above, all arrears of rent, and all other indebtedness to the Landlord is paid, and until such payment the title of said crop shall remain in the Landlord.
How to Use Improved Rental Method

In order for Section 6 of the Improved Farm Lease to be satisfactory, care must be used in completing the form. The following suggestions are labeled the same as the parts of Section 6 of the lease as on page 19.

A1. Choosing the Kind of Standing Rent. When corn is used to determine the rent under this lease, No. 2 grade probably should be specified even though the grain produced on the farm may be No. 3 or poorer when harvested because of the moisture and other factors. The reason for recommending No. 2 corn is that prices for this grain are the most readily available. The minimum test weight per bushel of the different grades of corn is given in Table 9. These should be carefully studied. The availability of prices at the local market for grades No. 3-5 should be determined if they are to be used.

When wheat is used to determine the rent, care must be used to identify the wheat being used. Prices are usually available for the Hard Red Spring Wheat in South Dakota. Winter wheat and durum wheat prices may not be readily obtained in some areas. The minimum test weight per bushel for the different grades of spring and winter wheats are also presented in Table 9. Note that the test weights of spring and winter wheats differ. Because of this, the minimum test weight as well as the grade number should be given to help avoid errors.

Since a premium is usually paid for high protein wheat the protein content must also be indicated to determine the price of wheat. The protein content normally varies from 10 to 17% or more. The premium is often one cent for each additional 1% of protein but varies with market conditions and class of wheat.

A2. Amount of Standing Rent. The total amount of the standing rent can be set by dividing the landlord's expected average gross rent by the expected average value of the grain being used as a stand-

| Table 9. Minimum Test Weight of Corn and Wheat by Official U. S. Grades* |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Grade Number | Minimum test weight per bushel |
|               | Corn, Yellow, White, and Mixed | Hard Red Spring Wheat† | All Other Classes of Wheat‡ |
| 1 heavy        | 60                            | 58                | 60               |
| 1              | 54                            | 53                | 58               |
| 2              | 51                            | 55                | 56               |
| 4              | 48                            | 53                | 54               |
| 5              | 44                            | 50                | 51               |
| Sample         | §                             | ||                | ¶               |

†This class includes the subclasses Dark Northern Spring Wheat, Northern Spring Wheat, and Red Spring Wheat.
‡Including Hard Red Winter Wheat, Durum Wheat, Red Durum Wheat, Soft Red Winter Wheat, and White Wheat with their several subclasses excluding those mentioned in footnote †.
§Contains stones or cinders or is musty, sour, heating or hot or has foreign odors.
¶More than 16% moisture, containing stones or is musty, sour heating, smutty, etc.
¶¶More than 15.5% moisture (except Durum which requires more than 16.0%) containing stones or is musty, sour heating, smutty, etc.
ing rent. For example, if the landlord can normally expect that his long time average share or cash rent will be $2,400 per year and corn is expected to average about $1.20 per bushel then $2,400 ÷ 1.20 = 2,000. Thus the standing rent in corn should be 2,000 bushels.

If wheat is to be used as standing rent and is expected to be worth $2.00 per bushel then $2,400 ÷ 2.00 = 1,200. The result is the standing rent in bushels of wheat.

How can the landlord's normal or expected gross rent be determined? One way is to calculate the value of the landlord's share of the usual crops at average or usual yields and prices as shown in table 10. The crops, acres, and yields should be the long run average for the farm or the community. The crops are not necessarily what the present tenant will grow. They should be the crops ordinarily grown in the community. Statistics on crops compiled by the Crop and Livestock Reporting Service are of great help in choosing the usual crops and the acres of each.

The yields used in this example are close to the average yields in Brookings County for the 20 years 1936-55. If the farm is better than the average, higher yields should be used. If poorer than average, then lower yields should be used.

The prices should be those expected in the future, not those of the past. The landlord is assumed to get one-third share of the crops. The value of the landlord's share is obtained simply by multiplying the usual share by the expected price.

The standing rent in corn, when corn is expected to average $1.20 per bushel, is $2,400 ÷ 1.20 = 2,200. Thus, the standing rent is 2,200 bushels of corn.

Since the landlord does not bear as much of the risk of local hail, wind, flood, or fire damage, some downward adjustment in the rent should be made. One possibility is to reduce the rent by the landlord's share of the hail, wind, flood, or fire insurance if these are needed.

For help on such prices see: Prices and Costs for Use in Farm and Home Planning, S. D. Agricultural Experiment Station, Agr. Econ. Pamphlet 92, 1957.

<p>| Table 10. How to Calculate the Usual Cash Value of the Landlord's Usual Share Rent |
|-------------------------------|------------------|------------------|------------------|</p>
<table>
<thead>
<tr>
<th>Usual Crops</th>
<th>Usual Acres</th>
<th>Average Yields per acre</th>
<th>Expected Price per unit</th>
<th>Landlord's ⅓ Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>bu. per acre</td>
</tr>
<tr>
<td>Corn</td>
<td>100</td>
<td>30</td>
<td>$1.20</td>
<td>10</td>
</tr>
<tr>
<td>Oats</td>
<td>100</td>
<td>30</td>
<td>$1.00</td>
<td>10</td>
</tr>
<tr>
<td>Wheat</td>
<td>30</td>
<td>15</td>
<td>$1.80</td>
<td>5</td>
</tr>
<tr>
<td>Alfalfa</td>
<td>30</td>
<td>15T</td>
<td>$12.00</td>
<td>.5</td>
</tr>
<tr>
<td>Pasture</td>
<td>50</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Impr.</td>
<td>10</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Totals</td>
<td>320</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The standing rent can also be calculated from a cash rent. The method is the same as that described above. The cash rent is divided by the price of the crop that is to be used as a standing rent. For example, if the landlord is satisfied with a gross return of 8% on a $30,000 investment in a farm, then his cash rent should be $2,400. This fixed cash rent can be converted into a standing rent in corn, when corn is expected to average $1.20 per bushel as follows: $2,400 ÷ $1.20 = 2,000 or 2,000 bushels of corn as standing rent. In using this method the value of the farm is very important. It should be the long term expected value rather than the current price or what was paid for it some years ago.

If the landlord is to provide house, barns, wells, fences, and other improvements, he must have some rent to cover taxes, insurance, interest on investment, depreciation, and repairs. Unless he receives such a rent, he is fully justified in allowing the buildings to fall down or in selling them to others. Hence, the amount of the total standing rent for improvements needs to be clearly separated from pasture rent and cropland rent.

If the landlord normally receives $240 for the improvements, the bushels of grain can be secured by dividing this amount by the price of the grain being used as standing rent. For corn worth $1.20 per bushel this would be 200 bushels. A standing rent for pasture can be set in the same way. All cropland should account for the rest of the standing rent unless irrigated land or other especially improved land is involved.

A3. Calculating the Cash Value of the Standing Rent. It is recommended that the price of grain be the simple average of the daily prices paid at a local elevator during the harvesting season. This is the time at which the landlord normally receives a share rent. Because of the heavy marketings, prices are normally at their lowest at that time. The fluctuations in prices of these grains have not been very great in recent years due to the various governmental storage and marketing operations. This can be seen in Table 11. Normally the rise in price is only enough to offset the cost of storage and losses due to

<table>
<thead>
<tr>
<th>Month</th>
<th>Average price per bushel of Corn</th>
<th>Oats</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$1.24</td>
<td>$.75</td>
<td>$2.02</td>
</tr>
<tr>
<td>February</td>
<td>1.17</td>
<td>.71</td>
<td>1.98</td>
</tr>
<tr>
<td>March</td>
<td>1.22</td>
<td>.74</td>
<td>2.04</td>
</tr>
<tr>
<td>April</td>
<td>1.28</td>
<td>.74</td>
<td>2.02</td>
</tr>
<tr>
<td>May</td>
<td>1.32</td>
<td>.71</td>
<td>2.04</td>
</tr>
<tr>
<td>June</td>
<td>1.37</td>
<td>.70</td>
<td>2.00</td>
</tr>
<tr>
<td>July</td>
<td>1.43</td>
<td>.66</td>
<td>2.02</td>
</tr>
<tr>
<td>August</td>
<td>1.42</td>
<td>.62</td>
<td>1.93</td>
</tr>
<tr>
<td>September</td>
<td>1.44</td>
<td>.64</td>
<td>1.98</td>
</tr>
<tr>
<td>October</td>
<td>1.32</td>
<td>.67</td>
<td>2.03</td>
</tr>
<tr>
<td>November</td>
<td>1.22</td>
<td>.71</td>
<td>2.07</td>
</tr>
<tr>
<td>December</td>
<td>1.27</td>
<td>.73</td>
<td>2.08</td>
</tr>
<tr>
<td>Average</td>
<td>1.31</td>
<td>.70</td>
<td>2.02</td>
</tr>
<tr>
<td>Range</td>
<td>1.17–1.44</td>
<td>.62–.75</td>
<td>1.93–2.08</td>
</tr>
</tbody>
</table>

*Source: Local Price Movements in South Dakota, S. D. Crop and Livestock Reporting Service.
storage. If the landlord wishes to use his rent money to buy and store grain for higher prices, this can be done.

The price of grain at Minneapolis, Omaha, Kansas City, or Chicago as quoted in certain reports or newspapers could also be used. However, these prices will often be higher than those for South Dakota. If they are used, the amount of grain used in calculating the rent should be somewhat less than when a local elevator price is used.

Many elevators in South Dakota receive the Grain Bulletin which gives the local price which the elevator could have paid if they had sold the grain on the Minneapolis Grain Exchange. In other words, the freight and marketing charges from the local elevator to Minneapolis are deducted from the price which existed on the Exchange Monday through Friday of each week when the Exchange is open for business. The net price is then put on postal cards and mailed to subscribers. Landlords and tenants can subscribe to this service by writing to the Grain Bulletin, 1014 Grain Exchange, Minneapolis.

In some areas of South Dakota, corn prices may be higher than the Minneapolis price as quoted by the Grain Bulletin because of local demand or because of higher prices paid by truckers moving grain to southern markets. When this is true the actual prices paid in the local market should be used.

If the average price for several months is used then the amount of grain used to determine the rent should be reduced accordingly. Such an adjustment is difficult to make and the prices more difficult to obtain and compute. Because of these factors it is recommended that the prices be the simple average of not more than 30 days during the harvest season.

B. Payment of Cash Value of Standing Rent. Tenants who are financially able to stand weather risks like owner-operators may prefer to pay the cash value of the standing rent rather than adjust the rent to county yields. If this is desired Part B should be completed and Parts C and D struck out. If the rent is to vary with crop yields, Part B should be struck out and Parts C and D completed as is done in the example.

Parts A and B permit the rent to vary with prices but not with yields. It is simple. The rent is easily calculated and can be paid in full shortly after the principal crop is harvested. There is some danger that yields may fall when prices are rising. This would increase the annual rent in a year when production is low. However, during both World War I and II prices and yields were both generally good. During the 1930's both prices and yields were low. Of course, this does not guarantee that the reverse cannot happen. All factors considered it is probably less risky than fixed interest. Tenants who are well established and who are considering buying land with fixed interest and principal payments on a mortgage should give this alternative careful consideration.
C. Adjusting the Standing Rent to County Yields. This is the heart of this rental method.

The merit of this provision is that it causes the annual rent to vary with the county average annual harvested yield of the crop being used as a standing rent. Thus, when this provision is used, the annual rent varies not only with the price but the yield of the principal crop grown on the farm. This gives it much of the flexibility of a share rent. But because neither the landlord nor the tenant can appreciably affect the prices paid nor the county yields, it has the objectivity of a fixed cash or standing rent. As a result, the landlord will have greater security of rent which should make possible greater freedom of operation and security of tenure for the tenant.

How does it work? Suppose that the cash value of the 2,200 bushels of standing rent was $1.00 per bushel or a total of $2,200 in a given year. This amount is to vary with the average annual harvested corn yield in the county. To determine the variation in yield a base yield must be set. This base yield should be the long time average yield since that is probably the best estimate of what yields may be in the future. In this example the base yield has been set at 30 bushels. This is slightly above the 20 year average for Brookings County (see table 12).

If the annual county yield per harvested acre is 30 bushels, then

\[
30 \div 30 = 1.00 \text{ or } 100\%
\]

\[
$2,200 \times 1.00 = $2,200 \text{ annual rent.}
\]

If the annual county yield per harvested acre is 45 bushels, then

\[
45 \div 30 = 1.50 \text{ or } 150\%
\]

\[
$2,200 \times 1.50 = $3,300 \text{ annual rent.}
\]

If the annual county yield per harvested acre is 15 bushels, then

\[
15 \div 30 = .50 \text{ or } 50\%
\]

\[
$2,200 \times .50 = $1,100 \text{ annual rent.}
\]

Similar calculations can be made for any other cash value of the standing rent and any other crop or yields. The base yield should be the long-term average for the county in which the farm is located. Twenty-year average yields for corn and “all wheat” are presented in table 12. Average yields for other years are available in the South Dakota Agriculture 1954 as prepared by the Crop and Livestock Reporting Service.

D. Calculation of Estimated Annual Rent. In making the estimate of yields the landlord should study carefully the average annual county yields for previous years as reported in South Dakota Agriculture by the South Dakota Crop and Livestock Reporting Service. Then by comparing county conditions with the previous years a fairly good estimate can be made. This estimate is left entirely to the landlord to prevent a failure to agree upon an estimated yield. If the landlord overestimates the rent, he has to make repayment with interest. This possibility should insure a conservative estimate. When wheat is used, an August date should be set for the payment of the estimated annual
## Table 12. Base Corn and “All Wheat” Yields by Counties 1936—1955

<table>
<thead>
<tr>
<th>Economic Area and County</th>
<th>Area 1, West River</th>
<th>Area 2a, North Central</th>
<th>Area 3a, North James</th>
<th>Area 3b, South James</th>
<th>Area 4a, Northeast</th>
<th>Area 4b, Southeast</th>
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<tr>
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<td>Economic Area and County</td>
<td>Yields Per Harvested Acre</td>
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</table>
rent. The date of payment should be set as close to the probable date of harvest of the principal crop as possible.

D2. Calculation and Payment of Final Rent. The annual report of county yields has been published in *South Dakota Agriculture* on or before March 15 for the past several years. Hence, the final settlement will ordinarily take place on or before April 1. But because the date at which the publication appears cannot be guaranteed, no definite date for the final settlement can be made. If the estimated yields are carefully calculated this should not be a serious problem.

The calculation of the rent and notification of the adjustment necessary are made the responsibility of the landlord. This is to avoid the confusion which might result if both were to calculate the rent. The tenant should be given some time to check the figures and make any necessary arrangements. Ten days are suggested in the base form but this can be changed if desired. If the estimated annual rent was more than the final annual rent the landlord should make the adjustment with interest not later than one or two weeks after the county yields are published.

E. Title Reserved for Security of Payment. The main objective of this lease is to give the landlord greater security of rent and property. This, it is believed, will result in greater freedom of operation and security of tenure for the tenant. The provisions for an objective rental discussed above provide security as to the amount due but do not provide security of payment. The reservation of title of the principal crop being used as standing rent eliminates the possibility that creditors of the tenant may make it impossible for him to pay the landlord his rent.

To avoid seriously interfering with the tenant's farming operations the acres mentioned in the lease of the principal crop to be produced should be not less than the minimum necessary to cover the rent during a normal year and any arrears of rent which the tenant may owe to the landlord.

This reservation protects only the estimated rent as calculated under Section 6D1. However, the "Payment of Final Rent" Section 6D2 is also covered since any arrears of rent from previous periods must also be paid. In the example, as soon as the corn is harvested the estimated rent can be calculated and paid along with any arrears from the final settlement of the previous year. When this is done, the tenant receives full title to the grain and may feed or sell it as he wishes. This provision will cause little or no difficulty for the honest tenant and may greatly increase his security of tenure and freedom of operation.

**Should Rents Vary with Yields of Several Crops?**

When a farmer leases land for a fixed cash or fixed produce rent, the rent does not vary with crop production at all. Likewise, when a farmer buys a farm, the interest and
principal charges rarely vary with crop yields. But when the farmer share rents, the rent varies with the yields of most if not all of the crops which he produces. The fact that the tenant, and to a lesser extent the landlord, can affect the yields makes the share rental system highly subjective. The subjective rent affects the landlord's security of rent and the tenant's freedom of operation and security of tenure.

In contrast the fixed cash and fixed produce rents cannot be affected by the management of the tenant and the landlord. Such a rent is objective, certain, and definite. Because the amount of the rent cannot be affected by the tenant after the lease is signed, the landlord has greater security as to the amount of the rent. Because of this security of rent, the tenant usually obtains greater freedom of operation and security of tenure even though the lease may continue to be made for only one year or year to year.

Section 6 of the Improved Farm Lease form attempts to incorporate the objectivity of the fixed rents and the variability of the share rents. It allows the rent to vary with the price and yield of the principal crop grown in the community where the farm is located. Since farm grain prices tend to move together, there seems to be ample justification for using only the price of the principal crop as a variable. This has been discussed above. Not discussed, however, was the merit of varying the rent with the yield of only the principal crop. This will now be briefly discussed.

While it is possible to have the rent vary with two or more of the crops which are produced in the county this makes the calculation of the rent much more difficult. It also assumes that tenants are of two kinds: those who can buy a farm and pay fixed interest and principal charges or lease land for fixed rents and those who cannot. The variation of the rent with only the principal crop suggests that there are many tenants who can bear a part of the production risks even though they cannot bear all of them. The general availability of insurance for hail, wind, fire, and flood lends support to this idea. Furthermore, there are reasons to believe many tenants will be willing to pay a rent which varies with the yield of only the principal crop in the community rather than several crops if this will give them greater freedom of operation, greater security of possession, and greater freedom to improve. Some of the reasons for believing that this will happen were discussed at the beginning of this circular and will not be repeated here.
Increasing the Landlord’s Security of Property

The second reason why tenants often lack security of tenure and freedom of operation is that the landlord has little security of property. The Improved Farm Lease inserted in this circular contains important sections designed to increase the landlord’s security of property. Space does not permit discussion here. However, some of the more important provisions will be briefly mentioned.

This lease form requires that the tenant make all minor repairs. The need for many of these repairs arises out of the normal operation of the farm. Others may arise because of carelessness of the tenant or his family. In either case these minor repairs must be made out of the farm income. Thus the tenant can pay the landlord extra rent to make these repairs or he can make them himself. The latter course has several advantages. The tenant can do much of the work during off-season periods, thus reducing the cost. The landlord will not be wondering if these repairs are due to a careless tenant. Thus, rent for such repairs does not need to be calculated and paid. The landlord will have a better idea as to what his net income will be. Because of the reduced friction over these details, the tenant’s security of tenure may increase.

Major repairs should normally be made by the landlord. However, the tenant can often make such major repairs during slack seasons, thus reducing the costs. The tenant should, of course, be paid for the labor contributed to such improvements.

Often tenants are willing to make improvements at their own expense if provisions are made to compensate them for the unexhausted value of these improvements. The Improved Farm Lease includes provisions of this kind. Also included is a provision which would permit the tenant to make certain specific improvements at his own cost and give him full authority to remove them at any time. Usually the improvements are sold to the new tenant. Some tenants in Lyons County Iowa (across the line from Sioux Falls) have made improvements in this manner. Other tenants who own part or all of their improvements are found in Cedar and Knox Counties, Nebraska (across the Missouri River from Vermillion and Yankton). The practice has had some use in other parts of Nebraska, Kansas, and Illinois.
How Long Should the Lease Term Be?

Does the use of the Improved Farm Lease give the tenant all of the security of tenure that he needs for efficient operation even though a one year or a year-to-year term is used?

**Tenant Has More Freedom and Security**

Because neither the tenant nor the landlord can affect the amount of the rent after the lease is signed, the landlord will be much less concerned about the tenant’s farming plans and operations than he would be under a share rent lease. For example, a manager of a Kansas estate consisting of several farms took exception to the arguments for objective rentals. Upon learning that the estate was using both straight cash and share rents, he was asked how much supervision he gave the cash tenants. He admitted it was much less. He visited the cash rent farms only one or two times per year for the purpose of collecting the rent and checking on the upkeep of the land and improvements. The cash tenants were free to grow whatever crops they pleased.

This is not new; it is well known that the tenant generally has much greater freedom of operation under cash leases than under share rent leases. Since the rent to be paid under the Improved Farm Lease is as objectively determined as a cash rent there can be little doubt that the tenant’s freedom of operation would be greater under this rental plan than under share rent leases.

Because the rent is not affected by the tenant’s farming, the landlord would be less likely to refuse to renew a one year lease. He would be less likely to give notice that the lease is being terminated under a year-to-year lease. Hence, it can be concluded that because of the landlord’s greater security of rent under objective rentals the tenant will tend to have greater freedom of operation and also greater security of tenure even though a one year lease term is used.

**Security of Property**

The objective rental arrangements of the Improved Farm Lease give the landlord greater security of rent than does share rent leasing. Because of this greater security of rent he is less likely to find fault with the tenant’s farming or the rent paid. Hence the landlord-tenant relationship is more likely to be continued. As a result the tenant’s chances of keeping his leasehold estate are increased. This increased security usually increases the tenant’s interest in maintaining and even improving the property.

Under subjective share rent leases the one year or year-to-year lease helped to keep the tenant on his toes and insure full payment of the rent.

Under oral share rent the landlord often says to the tenant, “Now don’t worry about the term of this lease. If you do a good job of farming, pay the rent and keep up the improvements you can have this farm as long as you want it.” Such
a statement makes good sense. If the tenant meets these require-
ments the landlord has nothing to
gain by changing tenants.

Under the Improved Farm Lease
it is much easier for the tenant to
keep the landlord satisfied with his
farming operations because the
quality of farming does not affect
the landlord’s rent. The landlord
has no reason to object if the tenant
wished to grow barley and flax in-
stead of oats and corn. The tenant
needs only to pay the rent and
maintain the value of the property
to achieve reasonable security of
tenure—at least as long as the land-
lord is renting the farm. Because the
short term lease is not needed to
insure rent payment and because
increased security may cause the
tenant to take more interest in the
upkeep of the property, should not
leases be made for 3, 5, 7, or 10
years? There seems to be consider-
able merit to this idea. However,
each case must be considered sepa-
ately.

In some cases a long term lease
may not be helpful. This may be
true when the farm is too small or
the rent too high to provide a good
living for the tenant after the rent
and other costs are paid. A tenant
on such a farm may not be inter-
ested in keeping the farm. Hence
he will not be interested in main-
taining it. Some tenants may be so
interested in short run profits or so
determined to achieve ownership
that they may be unwilling to main-
tain the property no matter how
secure they may feel. Then, there
are other tenants who seem to
have little understanding of how to
maintain the property and may not
be particularly interested in learn-
ing even if they had a long term
lease.

The decision as to what length of
lease term to use needs to be based
on more than the upkeep of the
property. Landlords have an obli-
gation to lease land under condi-
tions which will not only conserve
the land but also the people upon it.
Unfortunately, the landlord himself
may be a cause of insecurity of ten-
ure under a short term lease. An
examination of the characteristics
of landlords will help to make this
clear.

**Characteristics of Landlords
Affect Security**

In South Dakota 80% of the land-
lords own only one farm, 13% own
two, 5% own three or four, and only
2% own five or more farms.11 Of
these landlords, 57% are either active
farmers, retired farmers, or are
widows of farmers. Another 35% are
business or professional men or
their widows and 10% are “others.”12
As might be expected 74% of the
landlords are over 55; 50% are over
65; and 21% are over 75 years of age
in the North Central States.13

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11 *Farm Ownership in the Midwest,* North
Central Publication 13, Iowa Agricultural
Experiment Station Bulletin 361, 1949, Table 7. Non-operating landlords
only.
12 R. L. Berry, *Share Rents and Short Term
Leases,* South Dakota Agricultural Ex-
periment Station Circular 117, 1955, Ta-
ble 18.
13 B. T. Inman and W. H. Fippin, *Farm
Land Ownership in the United States,*
USDA Misc. Pub. 699, 1949, Table 44.
These figures indicate that there are few full-time professional landlords. For most, the role of landlord is a by-product of some other business, or is inherited. Thus the role is incidental if not accidental. Farmers must retire and when they do they frequently rent out their land. Business and professional men with a rural background often invest surplus earnings in farm property. When these men die their widows or other heirs may continue to lease the land for a number of years. Eventually most of these farms are put up for sale. Very few indeed are people who have made a career of leasing farms. The professional landlord is almost wholly absent.

This situation causes considerable insecurity for the tenant who is leasing on a one year or year-to-year lease. The landlord is often an experienced farmer or business man who has much to learn about the art of handling tenants. Often the tenant is relatively quite young. He is often inexperienced both as a farmer and as a tenant. Landlords who have had experience with many tenants may be able to resolve the problems that arise without terminating the lease while the beginner may fail. Again, the age of the landlord raises doubts in the mind of the tenant as to how long he will be able to keep the farm even when the landlord-tenant relationship is highly satisfactory. The landlord or his widow or heirs may feel that the farm must be sold vacant or unoccupied to secure the best price and to settle the estate.

There are three possible solutions to this problem. The first solution is to make a long term lease for 3, 5, 7, or 10 years. State law prohibits leases longer than 10 years in length. While a long term lease would make such a vacant sale impossible before the end of the term, the landlord should remember that an insecure tenant is not apt to be as interested in maintaining and improving the property as a secure tenant. The upkeep of the farm may be more valuable than the right to sell it vacant at the end of any lease year.

Also, when the Improved Farm Lease is made for a long term it can still be cancelled at any time the rent is not paid as specified or when repairs which the tenant has agreed to make have not been made within a reasonable time after the landlord has given notice that they should be made (see Section 6 B 1).

The second solution is to compensate the tenant when he is given notice to vacate in order that the farm may be sold.

The termination of the lease for the purpose of selling the land unoccupied is sometimes highly desirable. When this is the case, the landlord could write in under Section 8, "Additional Agreements" the following words: "The Landlord reserves the right to cancel the lease at the end of any lease year for the purpose of selling the land vacant or unoccupied, provided that notice

\footnote{Agricultural leases made for periods longer than 10 years are not valid in South Dakota (S. D. Code, 1939, Sect. 38.0403)}
be given on or before the ______________
_____________ day ______________
of any lease year and
that the tenant be paid______________
_____________ ______ dollars for un-
justified disturbance." The amount
of compensation might be the cash
value of the standing rent for the
most recent lease year. Such a pro-
vision might also be made to cover
notice to vacate for any reason when
the tenant has not been at fault. In
England laws have been adopted
which make such payment compul-
sory.

The third solution is more funda-
mental. This involves the encour-
agement of professional landlords
who make a full-time business of
leasing land to tenants. Even when
a one year lease is used, such profes-
sional landlords or their agents are
much less likely to cause insecurity
of tenure due to health and old age.
This is especially true when the
land is held as a large estate or trust
by banks, colleges, churches, or var-
ious governmental agencies. The
landlord usually develops reason-
able standards for the operation
and maintenance of the farms. T h e s e
standards become well
known to the prospective tenants.
Because of their permanent nature
such landlords rarely give notice of
lease termination because of finan-
cial difficulties, sickness, or old age.

Such institutional landlords are
sometimes feared because of their
size. Such fears are not well found-
ed. In a democracy, the larger the
institution the more conspicuous
are its actions and the smaller its po-
litical influence. The tenants of such
an institution have many more votes
than the landlord. It must stand the
scrutiny of the public as well as a
large number of tenants. The rents
must be k e p t reasonable and
changed carefully only when con-
ditions warrant.

For example, after World War II,
individual landlords had been in-
creasing the amount of their share
rents in southwestern Minnesota
with little or no difficulty. Then a
Chicago institution leasing 17
farms in this area notified their ten-
ants rents would be increased.
Their tenants refused to sign the
leases for the next year. As a result
there was much criticism of the in-
titution and the increase in rent
was finally compromised.

At the present time two-thirds of
the farmers in South Dakota are
leasing part or all of the land which
they operate (see table 1). Almost
half of the farmland in the state is
being leased by farmers. The de-
velopment of more institutional
landlords would seem desirable be-
cause of the greater security of ten-
ure and freedom of operation which
they could provide. Unless loans for
90% or more of the sale value of land
are to be made available to farmers,
more attention should be given to
the encouragement of professional
and institutional landlords.
Summary

Two-thirds of the farmers and ranchers in South Dakota rent all or part of the land they operate. Should they be able to operate as efficiently as owner-operators? If they should, then they need greater freedom of operation, security of tenure and freedom of improvement. But tenants are not likely to achieve these conditions for efficiency unless the landlord is given greater security of rent and security of property.

The purpose of this circular is to explain how the landlord can achieve the security of rent and property that will make it possible for the landlord to give the tenant greater freedom of operation and security of tenure.

Share rents which can be affected by the tenant’s farming decisions appear to be the principal cause of the landlord’s insecurity of rent. Objective rentals are those which cannot be affected by the tenant’s farming ability or his honesty in dividing the crops. Such rentals relieve the landlord of the necessity of supervising the tenant’s farming operations and leave no question as to the amount of rent to be paid.

The fixed cash rent is the most familiar example of such an objective rent. However, many landlords prefer a rent which adjusts more easily to changes in prices and crop yields. Also, some tenants are not prepared to stand the risks involved in fixed cash rental payments.

When the rent to be paid is specified as a fixed amount of produce of a certain grade or quality rather than a share, the amount to be paid is certain and definite. The cash value of the produce varies with market prices. Hence, it has one of the important characteristics of the share rent but it cannot be affected by the tenant. As a result the landlord’s security of rent is considerably greater than under the share rent leases. Such rents are known as standing rents because the amount to be delivered is fixed and does not vary as do share rents. The payment of the standing rent can be made more simple by specifying that the cash value of a certain number of bushels of grain of a certain grade shall be paid as a cash rent. The period and source of prices to determine the cash value of the produce must be specified when this is done.

The cash value of the standing rent can be made to vary with the average county yield of the most important crop in the area. When this is done, the rent fluctuates not only with prices but also with yields in the county. Hence it has much of the advantages of crop share rents. Because the tenant cannot affect appreciably the county average yields nor the prices, the amount of rent to be paid is certain and definite. Hence the landlord’s security of rent is greater than under the share rent lease. An improved farm lease form which incorporates this method of rental payment is inserted in this circular.

This lease form provides the framework in which the recom
Recommendaitions presented in this circular can be worked out. Properly completed, it should give the landlord adequate security of rent and security of property. This should make it possible for the landlord to give the tenant the greater freedom of operation and security of tenure necessary for the tenant to operate as efficiently as an owner-operator.
SOME SUGGESTIONS TO HELP YOU

- Make two identical copies of your lease—one for the landlord and one for the tenant. Extra copies can be secured from your County Extension Agent, free of charge.

- Study carefully the examples given in this circular. If you need help in determining the rent, etc., see your County Extension Agent.

- A lease is like a personal check or a deed for land—be careful. Use ink or typewriter.

- This lease has been prepared with legal assistance, to protect both the landlord and tenant. Be cautious about making changes in it. Consult your lawyer if in doubt. If words are to be omitted, draw or type a line through them.

OTHER PUBLICATIONS TO HELP YOU

Because of the many requests from landlords and tenants, the Economics Department is working to solve some important problems of ownership and tenancy. Some recent publications available from your County Extension Agent are:

Farm tenants report on shares used in different areas of South Dakota.

Equitable Leasing, by J. Robinson, Extension Circular (to be published later this year).
Discusses equitable shares of income and costs under share leases.

Planning a Father-Son Farm Partnership, by C. Benrud, Circular 142 (1958).
Presents case for a true farm partnership. Tells how to set it up.

Keeping Your Farm in the Family, by Max Myers, Bulletin 389 (1950).
Discusses various methods of transferring farms from father to son or other relatives.

Share Rents and Short Term Farm Leases, by R. L. Berry, Circular 117 (1955).
Landlords say that short-term lease is used to give them security of rent under share leases.

Additional materials on farm leasing are being prepared by both State and Federal agencies and will be available through your County Extension Office.
Activities of Your Economics Department

The aim of the Economics Department is to help both farm and city people to achieve higher levels of living. To this end, it has three main areas of effort—instruction, research and extension education.

The department teaches both general (business) and agricultural economics. All students on the campus take a course in economics, designed to make them better citizens. A large proportion are taught the principles of business law, accounting, and business and farm management. Each year an increasing number of students major in economics.

Most of the teachers also do some research. Much of this research is done in the agricultural field. However, some, such as taxation and marketing, affects both farm and city people. Reports are published as bulletins, circulars, or mimeographed pamphlets. This circular on leasing problems is an example. The research work makes possible continued improvement in courses and supervised research for graduate students. This provides excellent professional training.

The Extension Economists work closely with the research staff of the department. This makes it easier for them to extend the teachings of the department and to carry to the people the latest developments of research.
South Dakota Improved Farm Lease

between

--------------------------------------------- Landlord
--------------------------------------------- Address
--------------------------------------------- Tenant
--------------------------------------------- Address

Prepared by the Economics Department

SOUTH DAKOTA STATE COLLEGE
AGRICULTURAL EXPERIMENT STATION

15M—5-58—5586
South Dakota Improved Farm Lease
Containing Main Features of Both Cash and Share-Rent Leases

Section 1. Purpose, Parties, and Date
This lease is designed to give the Landlord greater security of rent and greater security of property in exchange for greater freedom of operation and security for the Tenant than is possible under most share-rent leases. To achieve this purpose this lease is entered into by:

__________________________________________ Landlord and __________________________________________________________ Tenant

on the __________ day of __________, 19__________, and shall be binding upon the heirs, executors, administrators and assigns of both the Landlord and Tenant as upon the original parties.

Section 2. Tenant's Freedom of Operation
A. The Property Being Leased: The Landlord, in consideration for the rent and provisions for security of rent and security of property specified below, rents and leases to the Tenant with the freedom of operation necessary for efficient production, satisfactory rural living and quiet enjoyment for agricultural purposes only the following real estate located in the county of ___________________________ and the state of ___________________________, described as ___________________________, and consisting of approximately _________ acres, including the improvements on it belonging to the landlord except ____________________________, and except all minerals of whatever kind which may lie under this land.

B. Right of Entry Reserved: The Landlord reserves the right of entry for himself, his agents, his employees or assigns at any reasonable time (1) for the purpose of viewing the premises or making repairs or improvements, (2) for collecting rent after it is due; (3) after notice of termination has been given and after crops have been harvested, for preparing land and seeding crops as may be deemed necessary by the succeeding operator, and (4) to search for and to develop mineral resources provided that such search and development does not interfere with the farming of the Tenant.
Section 3. Landlord's Security of Land

The Landlord agrees to lease this property only with the understanding that the Tenant will maintain the productivity of the land in as good a condition as it was at the beginning of this lease, except for unavoidable erosion and normal depletion, and that improvements will be protected against loss or waste. Without this security of property the landlord cannot give the Tenant the security of possession and freedom of operation necessary for efficient production and satisfactory rural living. Hence the Tenant specifically agrees:

1. To maintain established watercourses, grass waterways, contour lines, terraces, dams, and other soil or water structures which may be on the land.

2. To plow no permanent pasture land without the written consent of the Landlord.

3. To prevent the trampling of fields by stock and rooting of hogs when injury to the land or pasture would result.

4. To limit stock on permanent pasture to not more than one animal unit to acres of permanent pasture (one animal unit equals one mature cow; two calves; five sheep; one mature horse, or two colts).

5. To properly care for windbreaks by protecting them from livestock and

6. To protect trees and shrubs and to cut no live trees without the written consent of the Landlord.

7. To spread all manure upon the land and to burn no cornstalks, straw or other crop residues without permission of the Landlord.

8. To prevent noxious weeds from going to seed and to mow weeds in fence rows and on roadsides which may spread to fields.

9. To comply with government programs as follows: 

Suggestions for using and completing this lease form can be found in “An Improved Farm Rental Method for South Dakota,” South Dakota Agricultural Experiment Station Circular 141, which is available at your County Agent’s office.

Section 4. Landlord's Security of Improvements

A. Tenant's Minor Repairs: Like all farm costs the minor repairs must be paid out of farm income. If the landlord makes the minor repairs the rent must be sufficient to cover this cost. If the tenant makes these repairs the rent should be lower. Also the tenant’s costs should be lower since he can make the repairs during slack seasons.

Therefore the Tenant Agrees:

1. To make at his own expense all minor repairs necessary to keep the premises in as good a condition as they were at the beginning of the lease or were put by the Landlord during the lease except for normal wear and tear and except for damage compensated for by the Landlord’s insurance policy. Some examples of minor repairs are: replacement of broken windows, minor repair of doors, screens, storm sash, leaking roofs, flashing, gutters and downspouts, minor repair of siding, foundations, chimneys, heating and plumbing equipment, windmills, pumps, stanchions, stalls, gates and fences.

2. To see that all electrical, heating and plumbing repairs and additions meet the requirements of power companies and fire insurance contracts.

3. To avoid all fire hazards, such as the storage of fuel, automobiles, motor trucks, and tractors in barns.

4. To keep the farmstead neat and orderly.

5. Not to erect nor permit to be erected any commercial advertising signs on the property.

6. Not to assign this lease or sublet any part of this property without the written consent of the Landlord.

B. Landlord's Minor Repairs: The Landlord agrees that the following minor repairs needed at the beginning of this lease shall be made at his expense:
Section 5. Tenant’s Freedom to Improve

A. Landlord Improvements: Because major repairs usually last for many years, they should be paid for by the Landlord. Therefore, the Landlord agrees:

1. That he will make at his own expense the following major repairs or improvements by the date indicated immediately after them ________________________________

2. That he will compensate the Tenant for any labor which he may expend upon these improvements.

B. Tenant Compensations: The Landlord agrees:

1. That the Tenant may make at his own cost the following improvements:

   to be located ____________________________________________
   costing not more than ________________________________
   to be fully depreciated in ________________________ years time
   beginning with ________________________________ 19

2. That he will compensate the Tenant for the undepreciated costs of the improvements when the lease is terminated (Example: if an improvement costing $1,000 was to be depreciated in ten years time and the lease was cancelled after five years the Landlord would owe the Tenant $500.)

C. Tenant Removal: The Landlord agrees that the Tenant may make at his own cost the following improvement(s) ________________________________

   and has full permission to remove them or to sell them to the succeeding operator, provided that the Tenant has first paid the rent and kept his other obligations under this lease.

D. Compensation for Field Work: The Landlord and Tenant agree:

1. At the beginning of this lease the following acreages were prepared or seeded as shown:

   Acres
   ________________________________ plowed land
   ________________________________ legume hay
   ________________________________ winter wheat

   Adjustment Rate
   ________________________________

2. That at the termination of this lease the rent due or paid shall be adjusted at the rates shown in direct proportion to the changes in acreage.

E. Arbitration of Differences: The Landlord and Tenant agree that if differences should arise between them, they may elect to arbitrate a settlement by the following procedure. Within 10 days after electing to arbitrate, the parties shall choose an arbitrator, or if one person cannot be found that is acceptable to both parties, then each party shall choose an arbitrator and the two so chosen shall select a third. Within a reasonable time the arbitrator(s) shall make whatever inspection and inquiry is necessary and report findings in writing to both parties. The arbitrator(s) shall have power to make an award or determination on any issue which arises out of this lease and it shall be binding on both parties. The expense of arbitration shall be divided equally between the parties.
Section 6. Providing Security of Rent

A. Calculation of Cash Value of Standing Rent:

The tenant agrees to pay an annual rent which shall be the cash value of a standing rent calculated as follows:

1. Kind of Standing Rent: The standing rent shall be _______________________________ (kind of corn or wheat) of grade number _______________ having a minimum test weight of ___________________________ pounds per bushel and a maximum protein content of ___________________________ per cent.

2. Amount of Standing Rent: The total amount of the standing rent shall be ___________________________ bushels of said kind and quality of grain.

Of this standing rent:

____________________ bushels are for ____________ acres with improvements.
____________________ bushels are for ____________ acres of permanent pasture.
____________________ bushels are for ____________ acres of cropland.
____________________ bushels are for ____________ acres of _______________________

3. Cash Value of Standing Rent: The cash value of the standing rent shall be determined each year by multiplying it by the simple average of the daily cash market price per bushel of said kind and quality of grain beginning with the _________________ day of ____________ (month) and ending with the _________________ day of ____________ (month) of each year inclusive as paid at ______________________________ as reported by ________________________________

B. Payment of Cash Value of Standing Rent:

(Note: if it is desired that the rent vary only with prices complete Part B and strike out parts C and D below. If it desired that the rent vary with county average annual yields strike out Part B and complete parts C and D below.) The Tenant agrees to pay in full an annual rent as calculated in Section 6A above on or before the _________________ day of ____________ (month) of each year and any rent not paid upon that date shall bear interest at six percent per annum until paid.

C. Adjusting Cash Standing Rent to County Yields:

The total cash standing rent shall be adjusted in direct proportion to the average annual harvested yield for the lease year of said grain in ________________ county, South Dakota. The amount of adjustment shall be determined by dividing the average annual county harvested yield as reported by the South Dakota Crop and Livestock Reporting Service, 219 West Eighth Street, Sioux Falls, South Dakota, by the base yield of ___________________________ bushels per acre, which is the simple average of the annual county yields from 19__________ to 19__________ inclusive. The results of this division shall be multiplied by the standing rent as calculated above to determine the adjusted standing rent.

D. Payment of Rent:

The Tenant agrees that the cash value of the adjusted standing rent shall be the annual rent and that he shall pay it as follows:

1. Payment of Estimated Annual Rent: Because the average annual harvested yields by counties are not available as a rule until March 15 of the next year a temporary settlement shall be made as follows: Each year the Landlord shall estimate the average annual harvested yield of said grain in said county, using whatever counsel he desires, and using this estimated yield, he shall calculate an estimated annual rent using the methods described in Section 6A and Section 6C above. The Landlord shall then notify the Tenant as to the estimated annual rent on or before the _________________ day of ____________ (month) of each year and the Tenant shall pay the estimated annual rent on or before the _________________ day of ____________ (month) of each year.

2. Payment of Final Rent: When the average annual county yields are published by the South Dakota Crop and Livestock Reporting Service, the Landlord shall use said yields to calculate the final annual rent using the method described in Section 6A above. The Landlord shall notify the Tenant of any rent due, and such rent shall be payable within two weeks of the date that the notice is given. If the estimated annual rent paid is more than the final annual rent then the Landlord shall pay the Tenant the difference with interest at 6 percent per annum from the time of payment of the estimated rent until paid. If the estimated annual rent is less than the final annual rent the Tenant shall pay the difference to the Landlord, without interest. However, on any additional rent due and not paid at the time of final settlement the Tenant shall pay interest at 6 percent per annum from the time of final settlement until paid.

E. Title Reserved for Security of Payment:

The Tenant agrees to plant, cultivate, and harvest not less than ___________________________ acres of the crop used in calculating the above rent on this leased land each crop year. The Tenant also agrees not to sell, remove or permit to be removed any of said crop produced on this land, except with the prior consent of the Landlord until the estimated annual rent specified in Section 6D above, all arrears of rent, and all other indebtedness to the Landlord is paid, and until such payment the title of said crop shall remain in the Landlord.
Section 7. Tenant’s Security of Possession

A. Lease Term: The Tenant has agreed to provide the Landlord with security of land, improvements, and rent in the sections above. In exchange for these promises the Landlord agrees that the term of this lease shall be for ---------------------------- year(s) beginning with the -------------------------------------------------- --------- day of -------------------------------, 19 ____________ and ending with the day of --------------------------------------------------, 19______ (not to exceed 10 years).

B. Lease Termination: This lease may be terminated before the end of the agreed term:

(1) By the Landlord when the Tenant has failed to pay the agreed rent, has used the premises for purposes other than agricultural production, has not within a reasonable time after request made the repairs which he has agreed to make, or has violated any other provisions of this lease.

(2) By the Tenant when the Landlord has failed to provide the Tenant with possession, use, and quiet enjoyment of the premises or has failed to make major repairs and improvements which he has agreed to make.

(3) By mutual agreement of the two parties.

Section 8. Additional Agreements

The tenant hereby acknowledges that the Landlord at the time of making this lease agreement has delivered and he has received a true, perfect and complete copy of their lease agreement.

Witnesses: Signed --------------------------, 19 ____________

__________________________ ____________________________
Landlord

__________________________ ____________________________
Agent

__________________________ ____________________________
Tenant

State of ..........................................................

County of ..........................................................

On this the ------------------------- day of -------------------, 19 ____________, before me _____________________________ the undersigned officer, personally appeared --------------------------, known to me or satisfactorily proven to be the persons whose names are subscribed to the written instrument and acknowledged that they executed the same for the purposes therein contained. In Witness thereof I hereby set my hand and official seal.

__________________________ ____________________________
Notary Public

County

My commission expires _____________________________

Amendments to the Lease

During the term of this lease the Landlord and Tenant may wish to make some additional agreements regarding the land and improvements being leased. These agreements may be written in below. Each additional agreement requires the signature of the Landlord and the Tenant and the date of the signature.