

# Good Communication Is Key To A Successful Farm Lease

**ROBERT BELLM**

**EDWARDSVILLE, ILL.**



**T**he October 31 deadline for notification to change or terminate an oral farmland lease in Illinois is now behind us. It has been an interesting year, to say the least. I have received numerous calls from landowners with cash leases wanting to discuss their particular rental situation. Much of this interest has been fueled by the high commodity prices of the last couple of years, and the desire on the part of the landowner to get a piece of the action. While I am neither an economist nor a psychologist, there are several things I have observed over the course of these many conversations. One of the most important things I have noticed is that landowners and tenants do not do a good job of communicating with each other.

When a landowner calls, the first question is usually "What is today's average cash rent in my area?" Often, the landowner wants that information down to the specific township-range-section level. To tell the truth, no one knows that answer and even if they did, the "average" wouldn't mean much. The range in rental amounts can vary by hundreds of dollars per acre, even within a small area. This range is due to land productivity, accessibility, parcel size, long-term rental agreements, local competition, family relationships and many other factors.

The real question should be "How do I work with my tenant to calculate a fair return on my investment in farmland, and their return on investment in equipment, seed, labor, management, etc?" The most equitable method of calculating rent would obviously be some sort of crop-sharing arrangement. Under these sorts of leases, both input expenses and crop yield are shared by the landowner and tenant in an agreed upon proportion. Both the risk of low yields and/or low prices, and the reward for high yields and/or high prices are shared by both parties involved.

Although they are more equitable, crop-share

leases are being replaced by cash leases for a number of reasons. In some cases, older landowners living on fixed incomes want a guaranteed income stream they can depend upon for daily living expenses. In other cases, farmland has passed through an estate to multiple beneficiaries, or beneficiaries who have no background in farming and do not want to be actively involved. In some cases, tenants may rent from multiple landowners, and it is easier for them to operate under cash lease arrangements rather than trying to keep the books on multiple crop-share leases.

It is the shift toward cash leases where communication seems to be breaking down. In order to calculate an equitable cash lease, both tenant and landowner need to know the yield potential of the land, the cost of all inputs needed to produce the crop, and an estimation of what grain prices will be. Often, landowners have no idea what their land is yielding because they don't ask, or because the tenants don't or won't tell them. Frequently, landowners hear that crop prices have increased dramatically, but they probably don't pay attention to the fact that those prices may have also gone back down. For the most part, landowners have no idea what current input prices are, or the fact that the inputs have increased in lock-step with grain prices.

When communication is lacking, then lack of trust, deserved or not, seems to quickly follow. Keeping the lines of landowner-tenant communication open throughout the year would solve most misunderstandings. A tenant-provided written report indicating the crop planted, final yield, fertilizer and other chemicals applied keeps the landowner informed. This information, when combined with variable cash leases, can be used to share risks and rewards to the potential benefit of both parties. The use of a written lease form that clearly spells out the expectations of the landowner and the responsibilities of the tenant is critical, and it will help prevent misunderstanding. Δ

*Robert Bellm is University of Illinois Extension Educator, Crop Systems at the Edwardsville Extension Center.*