

# LANDOWNER AND TENANT RELATIONSHIPS

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## LEASING ARRANGEMENTS

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## LEASING ARRANGEMENTS

### “Traditional”

- Crop share (share income and some expenses)
- Net share (share income but not expenses)
- Fixed cash rent

### “Hybrid”

- Flex leases (flex on price, yield, or revenue)
- Fixed cash rent with bonus

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## CROP SHARE LEASES

- Farmer and landowner share risk
  - Production risk: disease, drought, pests
  - Commodity prices
  - Input prices
- Management decisions
  - Made jointly or with a lot of communication
  - Technology adoption may change arrangement

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## FIXED CASH LEASES

- Farmer takes on majority of risk
  - Payments are made regardless of production, prices, or costs
- Management decisions
  - Do not typically involve the landowner
  - Communication levels are often lower

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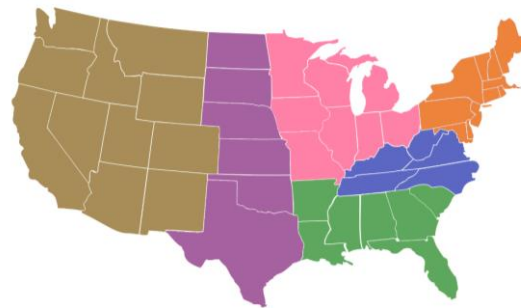
## FLEX LEASES

- Fixed cash component
  - Agreed to prior to production year
- Flexes on sources of risk
  - Production levels
  - Market prices
  - Revenue
- Combines good features of other types of leases

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## TYPES OF LEASES

Region	Cash	Share	Flex
Great Plains	64.9%	25.4%	5.9%
Midwest	74.0%	14.8%	6.6%

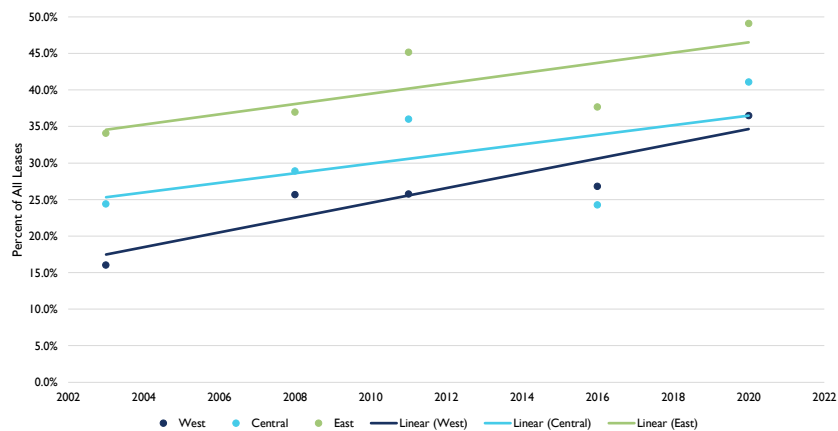


Source: USDA-NASS TOTAL Survey 2014

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## TRENDS IN LEASING ARRANGEMENTS

Trends in Use of Cash Leases



Source: Schlegel and Tsoodle – 2002, 2008, 2011, 2016, 2020 KAS/KSU surveys

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## CHOICE OF LEASE ARRANGEMENT

- Risk aversion by parties involved
  - Crop insurance reduces producer risk
  - Landowners want a guaranteed income
- Transaction costs
  - Landowners becoming generationally and geographically removed from farming
  - Producers management multiple leases/landowners

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## LEASING RELATIONSHIPS

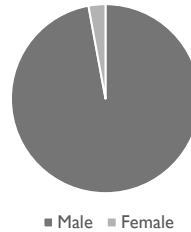
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## DEMOGRAPHIC INFORMATION

- Not surprising that men are the dominant gender of the producer group

D7.What is your gender? (P)



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## DEMOGRAPHIC INFORMATION

- Women make up a much larger percentage of the landowner group
- Does this matter for relationships?
  - Conversations with their husband

B9b.What is your landlord's gender?



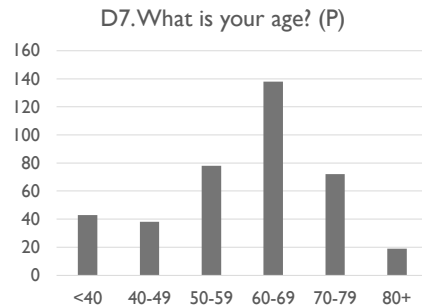
Female Landowner	
Great Plains	Midwest
43.7%	35.2%

Source: USDA-NASS TOTAL Survey 2014

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## DEMOGRAPHIC INFORMATION

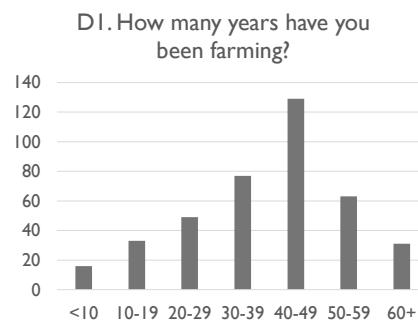
- Average age of producer: 59.6



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## DEMOGRAPHIC INFORMATION

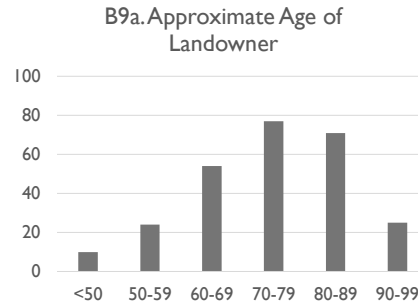
- Aging farmer population
  - Technology is allowing farmers to keep working longer
  - Succession plans may have been delayed with economic downturn in previous years



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## DEMOGRAPHIC INFORMATION

- Average age of landowner: 72.9
- Landowners
  - Don't typically have the capital to invest in farmland until later in life or...
  - Inherit from parents
- Implications of their age
  - Communications may have to be adjusted (texting, letters, etc.)
  - Fixed income – may want fixed cash lease

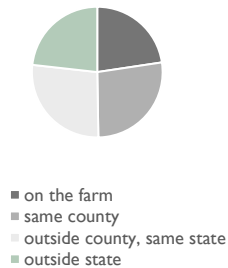


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## DEMOGRAPHIC INFORMATION

- Proximity of landowner affects
  - Communication (in-person or distance)
  - Ability to monitor tenant activities
- Often tied to generational distance from the farm
- Perceptions of commercial agriculture
- Understanding of farm practices, farm policy, commodity markets

B4. Where do the LL's live?



Landowner Lives in Same County	
Great Plains	Midwest
42.0%	65.5%

Source: USDA-NASS TOTAL Survey 2014

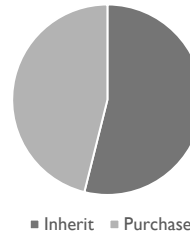
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## DEMOGRAPHIC INFORMATION

- Number of years in landowner/tenant relationship
- Attitudes toward return on investment
- Loyalty to existing leasing arrangement
  - Style of lease
  - Lease amount

B12. How did this landowner obtain the land?



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## LEASE INFORMATION

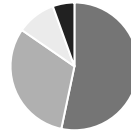
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## LEASE INFORMATION

- Communication is key to relationships
  - Keep them updated on farming practices, market conditions
  - Helps with the tough talks on renegotiating

B14. How often do you meet or interact with the landowner?



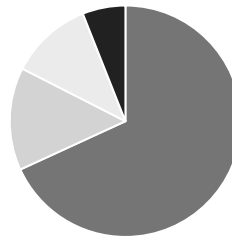
- 5+ times per year
- 2-4 times per year
- Once per year
- Less than once per year

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## LEASE INFORMATION

- Communication is key to relationships
  - Different conversation with an individual (neighbor) versus a banker/lawyer
- Group dynamics versus individual
  - Siblings with different ideas about how to manage the farm

B8. Who do you lease from?



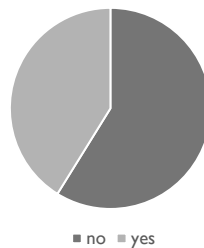
- Individual
- Group
- Trust
- Other

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## LEASE INFORMATION

- Perceptions of commercial farming
  - Understanding of farm programs, farming practices, markets
  - Likelihood of cash rent versus crop share

B10. Is this landowner a retired farmer/rancher?

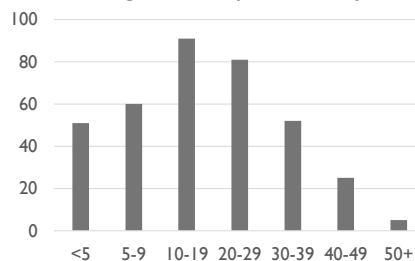


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## LEASE INFORMATION

- Average leasing relationship: 17.7 years

B13. How long have you been renting from this person/entity?

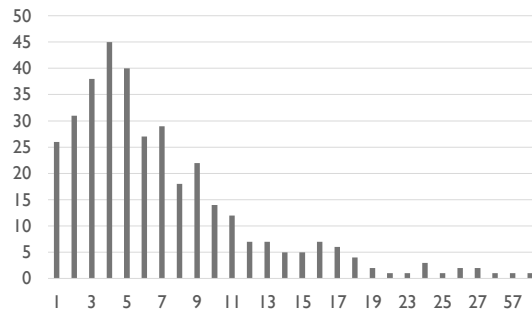


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## LEASE INFORMATION

- Communication issues
  - Gets harder to talk to more people
  - Use a newsletter or similar communication for group
- Implications for lease type
  - More likely to select a fixed cash lease to reduce paperwork burden

B3. How many landlords do you have?



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## LEASING IN PRACTICE

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## IMPLICATIONS

- Communication by tenant
  - Current market and production conditions, new technologies adopted, farm policy, conservation practices
- Preference for fixed cash leases by landowner
  - Reduces information burden
- Transition plans by aging landowners and tenants
  - Do you know the next generation?

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## HOW DO YOU VIEW THE OTHER PERSON?

- My landlord...
  - Doesn't need to know the yields because they might raise the rent on me
  - Is wealthy and doesn't need more rent from me
  - Can take away the land anytime

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## HOW DO YOU VIEW THE OTHER PERSON?

- My tenant...
  - Doesn't make a lot of money farming and has a family to support
  - Is the only person I know who would be willing to farm my land
  - Rented from my parents and I have an obligation to keep this lease 'in the family'
  - Doesn't have the time to explain farming to me

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## BUSINESS PARTNER

- Full information helps set an equitable rent
  - Sharing yields, production costs, market prices gives both parties a basis for negotiating rents
- Personal wealth is irrelevant
- Finding a new tenant
  - Search costs for the landowner keep them from switching often

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## LANDOWNER MISTAKES

- Failing to communicate with the tenant
- Affect usability of the land and don't compensate the tenant (e.g. oil & gas leases, utility poles, hunting)
- Expect certain production practices that may not be profit maximizing (e.g. no double cropping, under-grazing to preserve habitat)
- Expecting a high rate of return based on what they paid for the land, not the rental market
- Expecting the current tenant to make up for the mistakes of past tenants

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## TENANT MISTAKES

- Failing to communicate with landowner
- Using informal bonuses during good years
- Treating the current landowner as less than a full business partner
  - Next generation may not appreciate this
- Using foot in the door payments and finding they aren't profitable
  - Rationalizes stagnant rents

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## RENTING TO YOUNG AND BEGINNING FARMERS

- You currently get \$100/acre for your land. A 30-year old farmer offers you \$100/acre and a 60-year old farmer offers you \$110. Who do you rent to and why?
- Experience versus transparency
- Potential for building trust (social capital)

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## WHO HAS MORE POWER IN NEGOTIATING LEASE TERMS?

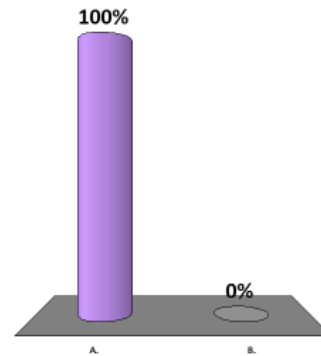
- A. Landowner
- B. Tenant

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## WHO HAS MORE POWER IN NEGOTIATING LEASE TERMS?

- A. Landowner
- B. Tenant



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## NEGOTIATING POWER

- Farmers tend to have better information
  - Rental rates (their other leases, coffee shop)
  - Market and production conditions
  - Technology
  - Government programs
- Landowners tend to have...the land

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## LEASING RESEARCH

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## LEASING RESEARCH

- Does the leasing relationship affect rental rates?
  - Length of relationship
  - Geographic proximity of landowner
  - Demographics of landowners
- Economic implications of trust (social capital)

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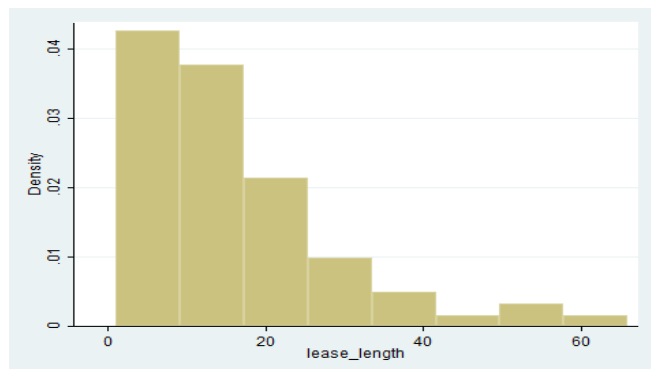
## LANDOWNER'S PROBLEM

- Each year landowner observes behavior of Tenant A and their confidence that Tenant A is a good steward increases
  - Call this social capital and assume that as social capital increases over time, monitoring costs decline
- If Tenant A does a bad job or the landowner does not trust them, they can select another farmer (Tenant B)
  - Effort is required to find a potential tenant (search costs)
  - Tenant B has zero social capital, but monitoring cost is very low due to extensive search process

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## IMPLICATIONS OF SOCIAL CAPITAL

- Length of leasing relationship
  - Move from 11 to 22 year length (100% increase)



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## IMPLICATIONS OF SOCIAL CAPITAL

- Length of leasing relationship
  - Move from 11 to 22 year length (100% increase)
  - 13.9% decrease in rent
  - At sample average (\$64/ac), results in a \$9/ac decrease

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## IMPLICATIONS OF SOCIAL CAPITAL

- Landowner lives in same county
  - 15% decrease in rental rate
  - At sample average, results in a \$10/acre decrease
  - Approximately 52% of landowners reside in the same county
- Trends in landownership are moving away from local residents
  - Intergenerational transfers and declining rural populations

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## IMPLICATIONS OF SOCIAL CAPITAL

- Farmland transitions
  - Heirs to farmland who have never lived on the farm and do not have a relationship with existing tenant
  - Producers can benefit financially from increasing communication and maintaining close relationships
- Beginning farmers
  - Can pay more rent or invest in social capital with potential or existing landowners

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WHERE TO  
FROM HERE?

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## WHAT AFFECTS YOUR LANDS' VALUE?

- How can it can be used?
  - Crop rotation, grazing plan
- What factors affect its value?
  - Tillage practices, weed control
- Who are your potential renters?
  - Location is important
  - Willingness to search for new ones

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## WHAT IS GOING ON IN THE MARKET?

- Keep up with basics of the agricultural markets
  - Local extension, industry publications
  - AgManager.info website from K-State Dept. of Ag Econ
- Find educational information sources University Extension Services (county, state)
  - Workshops, meetings, webinars
  - Spreadsheets and publications
- Consider a professional farm manager if keeping up the information and working with the farmer is not your cup of tea

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## LEASING RELATIONSHIPS

- Invest your time to improve the leasing relationship
- When you find the tenant/landlord who works well with you...
- Bake them cookies!

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