Landowner and Tenant Relationships

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Leasing Arrangements
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

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
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

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
### Types of Leases

<table>
<thead>
<tr>
<th>Region</th>
<th>Cash</th>
<th>Share</th>
<th>Flex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Plains</td>
<td>64.9%</td>
<td>25.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Midwest</td>
<td>74.0%</td>
<td>14.8%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: USDA-NASS TOTAL Survey 2014

### Trends in Leasing Arrangements

**Trends in Use of Cash Leases**

- West
- Central
- East

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

Leasing Relationships
Demographic Information

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

D7. What is your gender? (P)

- Male
- Female

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?

Male
Female

<table>
<thead>
<tr>
<th></th>
<th>Female Landowner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Plains</td>
<td>43.7%</td>
</tr>
<tr>
<td>Midwest</td>
<td>35.2%</td>
</tr>
</tbody>
</table>

Source: USDA-NASS TOTAL Survey 2014
Demographic Information

Average age: 59.6

Aging farmer population
- Technology is allowing farmers to keep working longer
- Succession plans may have been delayed with recent economic downturn
Demographic Information

Average age: 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

### B9a. Approximate Age of Landowner

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50</td>
<td>10</td>
</tr>
<tr>
<td>50-59</td>
<td>20</td>
</tr>
<tr>
<td>60-69</td>
<td>40</td>
</tr>
<tr>
<td>70-79</td>
<td>80</td>
</tr>
<tr>
<td>80-89</td>
<td>10</td>
</tr>
<tr>
<td>90-99</td>
<td>5</td>
</tr>
</tbody>
</table>

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?

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>on the farm</td>
<td>42.0%</td>
</tr>
<tr>
<td>same county</td>
<td>65.5%</td>
</tr>
<tr>
<td>outside county, same state</td>
<td></td>
</tr>
<tr>
<td>outside state</td>
<td></td>
</tr>
</tbody>
</table>

Source: USDA-NASS TOTAL Survey 2014
Demographic Information

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

Lease Information

B12. How did this landowner obtain the land?

- Inherit
- Purchase
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

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
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?

Lease Information

Average: 17.7 years

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

Leasing in Practice
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?

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
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

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
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

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
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 social capital

Who has more power in negotiating lease terms?

A. Landowner
B. Tenant
Who has more power in negotiating lease terms?

A. Landowner
B. Tenant

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
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)
Landowner’s Problem

Each year landowner observes behavior of Tenant A and their confidence that Tenant A is a good steward increases
- Call this $s$ (social capital) and assume that as $s$ 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

Implications of Social Capital

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

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
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

Where to from here?
What Affects Your Lands’ Value?

How can it be used?
- Crop rotation, grazing plan

What factors affect it’s value?
- Tillage practices, weed control

Who are your potential renters?
- Location is important
- Willingness to search for new ones

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
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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