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EC69-814 Is Your Lease Fair?

Philip Henderson

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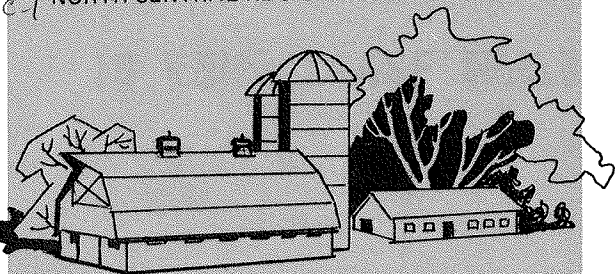
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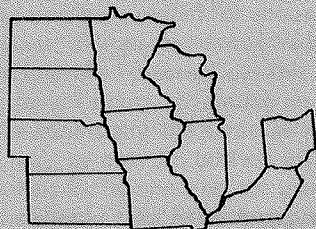
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IS YOUR LEASE FAIR ?



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IS YOUR LEASE FAIR?

by
Philip A. Henderson ^{1/}

Change!

Both landowners and tenants have felt its effect in farming during the last 15 to 20 years. Tenants have increased substantially their investments in machinery and equipment. Landowners have modified grain storage facilities, put down irrigation wells, and modernized tenant houses. Both have increased cash expenditures for fertilizer, insecticides, herbicides, and grain drying.

Understandably, questions have arisen concerning the effect of these and other changes on leasing arrangements. Are the traditional rental arrangements still applicable? If not, how can they or should they be changed?

In the past, leasing arrangements have been influenced strongly by customary arrangements within a community. Good farms have rented for about the same share of crops as poor ones; unimproved farms frequently command the same rent as improved places. Does this make sense?

A tenant's cost of farming an acre of corn on poor land may be essentially the same as it is on good land. But the yield may be only 75 bushels instead of 100. If he can get 50 bushels for his share on the good land, is there any reason why he should take fewer bushels for his share on the poor land? Probably not unless competition for land forces him to take less.

More capable tenants try to rent the best land they can and landlords naturally want the best tenants obtainable. Consequently, there is a strong tendency for good tenants to locate on good farms. Tenants with fewer resources and less managerial ability also try to get the best land they can but competition may force them to take the poorer, less productive farms. This is at least a partial explanation of why poor farms tend to rent for the same share of the crops as do good farms.

Despite this tendency, however, there is reason to believe that customary rental practices fail to recognize fully the differences in the productivity of farms and in the contributions which landlords and tenants make. This is particularly true now that new technologies have been adopted by both landlords and tenants. Consequently, many leases need to be examined from the standpoint of whether or not the contributions of the two parties are about in line with the division of income.

It is the purpose of this bulletin to show how this may be done.

But first, there's another reason why a tenant, at least, should know the value of his contributions. How would his income compare with costs? Would the return to his labor, management, and equity be enough to provide a suitable level of living and at the same time allow for business expansion? If not, what are the possibilities of renting more land to supplement this income? Will the owner of this land permit it? What are the possibilities of renting another farm that is large enough?

A lease, no matter how equitable it may be, can not make up for the lack of income potential.

What is "Fair?"

In developing a lease, most landlords and tenants want an arrangement that is "fair" to both parties. As a rule, rental arrangements on whole farms or single enterprises are considered "fair" if the shares received by the parties involved are approximately in proportion to their respective contributions. But bargaining may have an important influence on the values placed on contributions.

For example, strong competition for land may cause tenants to bid up the rent paid for farms. This simply means they agree to give the landlord more for his contributions or to take less for their own labor and management contribution. There's nothing wrong with this provided they are aware of what their capital, labor, and management could earn elsewhere. In fact, unless they are, they aren't in a position to bargain intelligently on lease terms.

Forms which can be used for comparing the basic contributions of both tenant and landlord are shown in Tables 1 and 2. These are especially adapted to situations where a father and son or landlord and tenant are working out a leasing arrangement for the first time. In such cases there may be no past record of what each has spent for production items such as seed, feed, gas, and fertilizer. A comparison of the contributions shown in Tables 1 and 2 establishes a basis for dividing the income from the farm without the use of cash operating expense records.

It is desirable for the landlord and tenant to work together in evaluating these respective contributions. However, they may want to work independently at first. Then, after each has completed the form according to his own thinking, both are better prepared to discuss any differences in their evaluation of the contributions to be made by each.

In some cases, it might be well to have some other individual whose judgment is valued sit in on the discussion of contributions, or at least have him look over the terms of the lease before it is actually drawn up. This will serve as a check against any tendency toward a marked bias in one direction or the other as a result of a dominating personality.

Contributions of Tenant, Landlord as a Basis of Rental Terms

To the extent that contributions are used as a guide, income should be shared by the tenant and landlord in about the same proportion as each contributes to the business. Contributions consist of interest and taxes on real estate; depreciation, repairs, and insurance on buildings; interest, depreciation, repairs, and insurance on machinery

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and equipment; interest, depreciation, taxes, and insurance on livestock; labor, management, and variable costs of production.

In Tables 1 and 2, only fixed contributions are considered. These might be considered the basic contributions. The values assigned to these various items represent judgments of the parties involved. They are subject to manipulation. If these figures are to be used as a guide for dividing other expenses as well as income, an honest effort must be made to arrive at accurate, realistic values.

The use of only the basic or fixed contributions (as in Tables 1 and 2) has certain advantages compared to the method discussed on page 8 and illustrated in Table 3. It is shorter and it requires no estimates or prior knowledge of other cash costs. All other cash costs would be shared in the same proportion as the basic contributions.

But a uniform division of expenses may not be entirely satisfactory to both landlord and tenant. For example, many landlords prefer to have the tenant pay all of the expense for fuel and oil used for field operations.

If the proportion of cash operating expenses (lines 19 through 27, Table 3) borne by the two parties is to be varied, the method illustrated in Table 3 would be more appropriate and should be used.

In any case, the values of contributions should be mutually agreed on. The figures in Tables 1, 2, and 3 are only illustrative and the rates shown for depreciation, interest, repairs, and other costs in Tables 1, 2, and 3 should be used only as a guide. They should be adjusted to fit each particular situation.

If a tenant rents land from more than one landlord, he will need to divide up his contributions. For example, let's assume he farms 80 acres owned by one man, 240 acres owned by a second, and 160 acres owned by a third.

In evaluating his contributions to the production on any one farm, he would include only that portion of his time and machine usage devoted to that particular farm. This might not be in proportion to the acreages rented, depending on the crops produced and the labor and machine use required.

After these basic contributions of both landlord and tenant have been carefully estimated, the proportion which each party contributes can then be calculated. This is done by dividing the total value of fixed contributions which each one makes by the *sum* of the fixed contributions made by both parties. Variable cash operating expenses as well as income can then be shared in the same proportion.

Estimating Values of Contributions

Values of fixed contributions are difficult to estimate. Nevertheless, estimates should be made as carefully and accurately as possible.

Interest and Taxes on Land and Improvements

The value placed on land and improvements should be the current market value (based on agricultural uses) as nearly as it can be estimated. This can be based on sales of similar farms (from standpoint of productivity and size) in the area. Unusually high values, because of industrial or residential uses or potential uses, should be avoided. Opinions of other farmers or of reliable real estate dealers may be helpful.

Interest should be figured and credited to the landlord regardless of whether the farm is owned free of debt. The money represented by the value placed on the farm has potential earning power in other uses. Therefore, the amount which this money could earn if used elsewhere represents an opportunity cost to the farm business being considered. The rate of interest charged should be in line with interest rates on other equally safe investments which have a similar appreciation potential.

Taxes. The figure used for taxes should be the amount currently being paid for taxes.

Cost of Maintaining Improvements

Depreciation on permanent improvements should be calculated on the basis of estimated cost of replacing the buildings, wells, fences, and other improvements with new improvements designed to do the same job.

For example, in the case of a horse barn which is being used only for hay and grain storage, the cost used as a basis for depreciation would *not* be the actual cost of the existing barn as used for income tax purposes. Neither would it be the cost of replacing the horse barn as such. Instead, the cost used should be that of erecting a building capable of storing equally well a similar amount of hay and grain.

The rate of depreciation should reflect probable obsolescence as well as the length of time the building may last. Highly specialized buildings such as confined hog buildings should be written off over a comparatively short period of time because of possible obsolescence. Ten years of service may be all that can be expected of buildings like this because of changing technologies.

A cob house or wash house no longer may have any practical use. Costs of maintaining such buildings should not be considered as part of the landlord's contribution.

Repairs. The figure used for repairs should reflect an average cost of repairs over the lifetime of the improvements. Cost studies indicate that each year this might amount to about 1-2% of the new cost. If several years of records are available, the average amount of such costs can be used.

Insurance charges used should reflect the actual annual cost of insurance on insurable permanent improvements such as buildings.

No interest is charged on the buildings as such, since interest was charged on the total value of all land and permanent improvements.

The cost of maintaining buildings not used in the farm business (including those reserved by the landlord for personal use such as storage space for a boat, a summer home, etc.,) should be omitted.

Costs of maintaining buildings erected or used solely for the purpose of resealing the landlord's share of grain under CCC loans should not be included as part of the landlord's contributions. However, when storage is provided and used for resealing both the tenant's and landlord's grain under CCC loans, the costs should be counted if the income from storage is divided.

Maintenance Costs of Machinery and Equipment

Costs of supplying machinery and equipment for a farm operation include the "dirty" five, i.e., d-depreciation, i-interest, r-repairs, t-taxes, and i-insurance.

Table 1. Example of how fixed contributions of tenant and landlord can be calculated and used as a basis for dividing income on a crop-share rented farm.

Contribution	Tenant			Landlord		
	Value	Rate	Value of Annual Contrib.	Value	Rate	Value of Annual Contrib.
LAND AND BUILDINGS						
1. Interest (4-6% of valuation)				\$128,000	5%	\$6,400
2. Real Estate Tax						1,280
BUILDINGS, WATER SYSTEMS, FENCES, AND OTHER PERMANENT IMPROVEMENTS						
3. Depreciation (2-4% of replacement value) <u>/a</u>				\$ 30,000	3%	\$ 900
4. Repair (1-2% of replacement value)					1½%	450
5. Insurance						225
POWER AND MACHINERY <u>/c</u>						
6. Interest (6-8% of new cost plus salvage value ÷ 2) $\frac{30,000 + 3,000}{2}$		7½%	\$1,238			
7. Depreciation (10-14% of replacement cost less salvage value)		12½%	3,375			
8. Repair (3% of new cost)		3%	900			
9. Insurance			120			
LIVESTOCK <u>/b</u>						
10. Interest (6-8% of current value)						
11. Depreciation, if any (breeding stock only)						
12. Insurance						
PERSONAL PROPERTY TAX, <u>/c</u>						
			\$ 185			
LABOR, AND MANAGEMENT <u>/c</u>						
13. Operator 8 mo. 500/mo.			4,000			
14. Family help 1 mo. 300/mo.			300			
15. Hired labor			600			
16. Management (10% of expected gross) <u>/d</u>			2,512			\$ 838
17. CASH RENT (Paid to landlord by tenant)		Add + 400			Subtract	- 400
18. TOTAL			\$13,630			\$9,693
19. PERCENT OF CONTRIBUTIONS BY EACH		58%			42%	

/a See discussion on page 4.

/b Not to be considered in case of crop-share-cash lease.

/c Only that portion which can be attributed to crop production on this farm in case of crop-share-cash leases.

/d Assuming the tenant supplies more than 50% (75% used here) of management. This division will vary from one situation to another.

Cost information based on actual experience on this farm will not be available when a landlord and tenant are contemplating working together for the first time. Therefore, estimates will have to be used when the lease is first developed. Adjustments may need to be made after a year or so of experience.

The *value* used as a basis for estimating these costs should be the estimated new cost of a line of machinery needed to do the required work economically and satisfactorily.

The farming operations may call for a machine not now owned but which would be added if the lease is completed. If so, the cost of this machine should be taken into account. On the other hand, if some items of machinery or equipment are owned which will not be used in the farm business, costs of maintaining these items should be omitted.

Under crop-share or crop-share-cash lease arrangements, the livestock programs carried on belong to the tenant and he receives all the livestock income. Therefore, costs of owning equipment such as feed bunks, hog waterers, and other livestock equipment owned by the tenant and used exclusively for his livestock operations should not be included as contributions. Similarly, if part of the tractor use is for the tenant's livestock, then only the crop portion of the tractor costs should be included as a contribution.

Interest should be calculated at somewhere near the rate charged on chattel loans. The estimated replacement cost plus salvage value divided by two, or the average value of machinery, can be used as a basis for estimating the interest on machinery.

Depreciation for these purposes should be based on the estimated replacement cost. The rate of depreciation used will vary, depending on the nature of the machinery and the use made of it. Somewhere between 10 and 14 percent would appear to be reasonable.

Repairs should be based on the same estimated new cost. Studies have indicated that repairs will average about 3 percent of new costs.

Insurance costs, if any, should be figured on the basis of going rates and average investments (estimated new cost plus salvage value \div 2).

Livestock (applies only in case of livestock-share leases, Table 2)

Costs associated with livestock should enter into the calculation of contributions only when the income from livestock and livestock products is to be divided between tenant and landlord.

Interest should be calculated on the basis of the estimated market value at the beginning of the leasing period or the actual cost when purchased during the year and the going rate of interest on chattel loans.

Depreciation would enter in only where dairy or breeding stock is involved and where the cost or value at the beginning of the leasing period exceeds the expected selling price. For example, a bull purchased for \$1,000 probably will not bring more than \$250 as a meat animal when his usefulness as a breeding animal has expired. Assuming that he might be used for four years, the annual depreciation would be $(\$1,000 - \$250) \div 4$ or \$187.50 a year.

Insurance if any, would be figured at actual cost.

Personal Property Tax

Personal property taxes can be estimated either on the basis of experience or on the basis of tax assessment schedules and the mill levy in force. In the case of crop-share or crop-share-cash leases, only those taxes assessed against crop machinery, crop equipment, crop production supplies, and the crops themselves should be included (Table 1). Taxes on livestock and livestock equipment should be omitted except where income from the livestock is to be divided (Table 2).

Labor

A value should be placed on the operator's labor. Going wage rates can be used as a basis. If non-farm wages are used, some adjustments may be necessary. The non-farm worker does not have a house furnished him as most tenants have. In addition, some allowance would need to be made for the cost of getting to and from the job.

If farm wages (house furnished) are used, consideration should be given to the probability that most tenants would be better than average hired men. A value based on farm wage rates would not include an allowance for the operator's contribution in the form of management. (See discussion of management.)

If the operator spends part of his time off the farm at other work, or on enterprises not involved in the leasing arrangement (such as livestock enterprises on crop-share rented farms), this portion of his time should not be considered as a contribution toward the farm business. In other words, only that portion of his time which is devoted to the shared enterprises on this farm should be considered as a contribution.

Family Help

Work done by the operator's family on farm enterprises, the income from which is to be divided, should be valued on the basis of what it would cost to hire the work done.

Hired Labor

The amount spent for labor employed to do work on enterprises, the income from which is shared by both the landlord and tenant, should be included as a contribution.

Management

Although management is very important, it is hard to evaluate. The job of management may or may not be shared. Experienced landlords may make substantial contributions to the management of a farm business while inexperienced and absentee landlords may contribute little or nothing toward management.

Professional managers commonly charge 7-10 percent of the landlord's adjusted gross income (less cost of purchased feeder animals and cost of purchased feed) as a fee for management. This could be used as a guide in putting a value on management. Thus, if the landlord takes an active part in management, a contribution should be credited to him on the basis of some percentage of the estimated gross value of shared crops, (or crops and livestock less the cost of purchased feed and feeder stock in the case of livestock share leases).

If the landlord is responsible for most of the management decisions, perhaps 7 or 8 percent of the farm's

Table 2. Example of how fixed contributions of tenant and landlord can be calculated and used for dividing income on a livestock-share rented farm.

Contribution	Tenant			Landlord		
	Value	Rate	Value of Annual Contrib.	Value	Rate	Value of Annual Contrib.
LAND AND BUILDINGS						
1. Interest (4-6% of valuation)				\$250,000	5%	\$12,500
2. Real Estate Tax						2,400
BUILDINGS, WATER SYSTEMS, FENCES, AND OTHER PERMANENT IMPROVEMENTS						
3. Depreciation (2-4% of replacement value) <u>/a</u>				40,000	3%	1,200
4. Repair (1-2% of replacement value)					1½%	600
5. Insurance						250
POWER AND MACHINERY <u>/b</u>						
6. Interest (6-8% of new cost plus salvage value ÷ 2) $\frac{38,000 + 3,800}{2}$		7½%	\$ 1,567	$\frac{2,000 + 200}{2}$	7½%	\$ 82
7. Depreciation (10-14% of replacement cost less salvage value)		12½%	4,275		12½%	225
8. Repair (3% of new cost)		3%	1,140		3%	60
9. Insurance			175			10
LIVESTOCK						
10. Interest (6-8% of current value)	\$7,600	7½%	\$ 570	7,600	7½%	\$ 570
11. Depreciation, if any (breeding stock only)			468			468
12. Insurance			30			30
PERSONAL PROPERTY TAX, <u>/b</u> LABOR, AND MANAGEMENT <u>/b</u>						
13. Operator 12 mo. 500/mo.			6,000			
14. Family help 2 mo. 300/mo.			600			
15. Hired labor 12 mo.			3,600			
16. Management			3,500			3,500
17. CASH RENT (Paid to landlord by tenant)						
18. TOTAL			\$22,343			\$22,003
19. PERCENT OF CONTRIBUTIONS BY EACH			50			50

/a See discussion on page 4.

/b Only that portion used for production on this farm.

adjusted gross income should be credited to him and a smaller amount to the tenant.

In many cases, however, tenants bear most of the responsibility for management and the landlord contributes very little. The better the tenant, the more he has to offer from a management standpoint. He should be given credit accordingly.

The management contribution credited to each party will be largely a bargaining proposition. There is no precise way to value it.

In the example shown in Table 1, it was assumed that the landlord contributed about one fourth of the total management. In some instances the relative contribution to management would be reversed, particularly on newly established father-son operations.

In Table 2, the landlord was assumed to be contributing half the management.

Cash Rent

If the tenant pays the landlord cash rent for the use of buildings or pasture, this amount should be entered in the tenant's column as a contribution. It should be deducted from the landlord's column. In effect, any cash rent paid by the tenant adds to his contribution and reduces the costs borne by the landlord.

Total Contributions

The sum of the contributions listed in the tenant's column represents his total contribution. The sum of the contributions listed in the landlord's column, less any cash rent received from the tenant, represents the landlord's total contribution.

Percent of Contributions Made by Each

The total fixed contribution of the tenant (line 18, Tables 1 and 2) divided by the combined totals of his contributions and those of the landlord gives the percentage which the tenant has contributed. When this percentage is subtracted from 100 the remainder is the percentage contribution made by the landlord.

It is probable that the percentage contributions may turn out to be something other than the more or less standard divisions of 3/5-2/5, 2/3-1/3, or 1/2-1/2. There is nothing wrong with this development, however, as long as other operating expenses and income or production is shared in the same proportions.

Relative contributions can be adjusted through cash rent. For example, in a situation such as that illustrated in Table 1, the tenant might pay another \$364 in cash rent. This would make his share of the total contributions 60 percent, leaving a net contribution of 40 percent for the landlord.

Such an exact adjustment probably assumes more accuracy in the other figures, however, than actually exists. A 58-42 division of estimated contribution values should probably be considered a 60-40 split from a practical standpoint.

If either party is dissatisfied with the indicated division, the first move should involve a reexamination of the figures used to arrive at the relative contributions. If reconsideration indicates that some of the figures in the

original estimates are unrealistic, such figures should be adjusted. If the adjusted division of contributions is still unsatisfactory, the amount of the cash rent could then be adjusted.

In those instances where a son (or other young man) is growing into a business, the relative contributions of tenant and landlord should be refigured frequently, depending on how rapidly the son increases his contribution in relation to that of his father. In most instances, it should be refigured at least every 2 or 3 years.

Division of Other Cash Costs and Income

The percentages obtained and shown on line 19, Tables 1 and 2, are the basis for dividing other cash costs such as seed, fertilizer, fuel, and other costs, as well as income. In other words, if the tenant's total contributions amount to 58 percent of the combined contributions shown in Table 1, he should pay for 58 percent of the other cash costs involved if he expects to receive 58 percent of the income.

In some instances, one or both parties may prefer to share cash operating costs in some manner other than that indicated by the percentages shown on line 19, Table 1. If so, the method shown in Table 3 can be used in place of those shown in Tables 1 and 2. The amounts for expenditures indicated on lines 19 through 27 (Table 3) should be estimated and added to line 18 for both the landlord and tenant. The totals can then be entered on line 28 in the respective columns.

The estimates in lines 19 through 27 should be reexamined after a year or two of actual experience. This will either substantiate the estimates used or indicate how the contributions should be adjusted.

The method illustrated in Table 3 is also preferable if the parties involved wish to divide the income on some specific basis such as 3/5-2/5. Contributions can be brought into line by shifting all or part of some cash expenses from one party to the other. Care must be exercised, however, to be sure that such shifts do not lead to divided interests and thence to dissatisfaction on the part of one party or other.

The tenant's portion of the total farm contributions (line 29) can be calculated by dividing line 28 in the tenant's column by the combined totals on line 28 (both the tenant's and landlord's columns). The landlord's portion is the difference between 100 and the percentage contributed by the tenant. These percentages can then be used as a basis for dividing income in place of those shown on line 19 in Tables 1 and 2.

Where a father-son arrangement is being contemplated, the cash costs may be pretty well known from the father's experience. Here again, the method shown in Table 3 can be used.

How to Test Your Present Lease

To determine whether your present lease is in line with the relative contributions, contributions should be evaluated and added up as shown in Table 3. Fixed contributions are figured in the same way as indicated for Tables 1 and 2. Other cash costs should be listed on lines 19 through 27 as they have actually occurred. Use an average of more than one year, if several years' records are available.

The tenant's total contribution to the farm business (line 28) will be the sum of lines 1 through 17 and 19 through 27

Table 3. Example of how both fixed and other costs can be used in developing or testing
a lease.

Contribution	Tenant			Landlord		
	Value	Rate	Value of Annual Contrib.	Value	Rate	Value of Annual Contrib.
LAND AND BUILDINGS						
1. Interest (4-6% of valuation)				\$128,000	5%	\$6,400
2. Real Estate Tax						1,280
BUILDINGS, WATER SYSTEMS, FENCES, AND OTHER PERMANENT IMPROVEMENTS						
3. Depreciation (2-4% of replacement value) <u>/a</u>				\$ 30,000	3%	\$ 900
4. Repair (1-2% of replacement value)					1½%	450
5. Insurance						225
POWER AND MACHINERY <u>/b</u>						
6. Interest (6-8% of new cost plus salvage value $\div 2$ $\frac{30,000 + 3,000}{2}$)		7½%	\$1,238			
7. Depreciation (10-14% of new cost less salvage value)		12½%	3,375			
8. Repair (3% of new cost)		3%	900			
9. Insurance			120			
LIVESTOCK <u>/c</u>						
10. Interest (6-8% of current value)						
11. Depreciation, if any (breeding stock only)						
12. Insurance						
PERSONAL PROPERTY TAX, <u>/b</u> ~						
			\$ 185			
LABOR, AND MANAGEMENT <u>/b</u>						
13. Operator 8 mo. 500/mo.			4,000			
14. Family help 1 mo. 300/mo.			300			
15. Hired Labor			600			
16. Management (10% of expected gross)			2,512			\$ 838
17. CASH RENT (paid to landlord by tenant)						
	Add	+	400		Subtract -	400
18. TOTAL			\$13,630			\$10,493
19. CASH COST OF BOARD FOR HIRED LABOR						
20. PURCHASED FEED FOR PRODUCTIVE LIVESTOCK <u>/c</u>						
21. MACHINE WORK HIRED <u>/b</u>			\$ 750			
22. LIVESTOCK EXPENSE <u>/c</u>						
23. SEEDS, PLANTS			428			
24. TWINE AND BALING WIRE						
25. FERTILIZER, AND CHEMICALS			1,163			775
26. TRACTOR FUEL <u>/b</u>			700			
27. MISCELLANEOUS <u>/b</u>			300			140
28. TOTAL EXPENSES			\$16,971			\$11,408
29. PERCENT OF TOTAL CONTRIB.	60%			40%		

/a See discussion, page 4.

/b Only that portion used for crop production on crop-share leases.

/c Not to be considered in case of crop-share or crop-share-cash leases.

in his column. The landlord's total contribution is calculated in the same way. The two added together represent the total contribution for the farm. The proportions which the landlord and tenant contributed can be calculated by dividing the total contribution made by each one by the sum of the totals in the landlord's and tenant's columns.

If the contributions toward the farm business are agreeable to both parties and are shared in about the same way in which the income is shared, the lease can be considered "fair" from a contributions point of view. Although it is not always feasible to have the landlord and tenant share in all cash operating expenses, it is desirable to have both the tenant and landlord share as many of the cash costs as possible so that each has a stake in the outcome from such expenditures.

Bargaining

Once the proposed or existing lease has been tested in the manner just described, the landlord and tenant should have a better idea of what each one has to offer in "trade." Assuming that they have also acquainted themselves with customary rental terms in the neighborhood, the availability of farms and the availability of tenants, they should be fairly well prepared to start "dickering" or "bargaining."

There are many ways to drive a bargain.

A lease that is unfair to the tenant encourages dishonesty. It is a poor bargain that invites its own destruction.

A large number of tenants in relation to the number of farms available may put landlords in a strong bargaining position. On the other hand, if the number of *good* tenants is small; they may find their bargaining position also is strong.

Landlords should bear in mind that they may be better off to rent to a *good* tenant for 1/3 or 2/5 than a *poor* tenant for 1/2. Similarly, tenants should remember that they may better afford to pay 1/2 share of crops for a *good* farm (and the privilege of working with a *good* landlord) than to rent a *poor* farm for a 2/5 or 1/3 share.

Make your lease fair; make it good; make it written. Lease forms may be obtained through your county Extension agent or by writing to the agricultural economics department at your own state university.

Such leases make for better understanding, better working relationships, and better farming.

Remember, too, that no lease, regardless of how "fair" it may be, can take the place of sound organization and management. The successful tenant-operated farm must have sufficient volume of business to provide a reasonable and acceptable level of income to the tenant in addition to providing a reasonable return on the landlord's investment.