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Farm Lease Termination

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CORNHUSKER ECONOMICS

February 27, 2008

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://www.agecon.unl.edu/Cornhuskereconomics.html>

Farm Lease Termination

Market Report	Yr Ago	4 Wks Ago	2/22/08
<u>Livestock and Products.</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$89.75	\$89.20	\$90.26
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	116.54	118.30	128.47
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	96.96	97.75	*
Choice Boxed Beef, 600-750 lb. Carcass.....	152.24	144.00	149.39
Western Corn Belt Base Hog Price Carcass, Negotiated.....	62.97	52.95	58.01
Feeder Pigs, National Direct 50 lbs, FOB.....	70.96	56.46	50.79
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	70.46	55.80	61.49
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	86.38	84.63	94.50
National Carcass Lamb Cutout, FOB.....	245.11	259.27	256.45
<u>Crops.</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	4.57	9.00	10.37
Corn, No. 2, Yellow Omaha, bu.....	4.11	4.71	5.03
Soybeans, No. 1, Yellow Omaha, bu.....	7.32	11.34	13.28
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	6.66	8.41	8.87
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.78	3.22	3.83
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	*	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	*	85.00	85.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton.....	*	*	*
* No market.			

Author's Note: *The Need for Personal Legal Advice.* Farm leases require a consideration of law and facts unique to each case. The information provided in this newsletter is for educational purposes: It is **not** a substitute for competent legal advice.

Rising crop prices have led many landlords to seek renegotiation of lease terms, particularly cash rents. Most Nebraska leases are unwritten, which means that notice of termination must be given six months in advance, usually by August 31. If the landlord cannot terminate the lease, the landlord cannot require the tenant to renegotiate the lease in order to avoid lease termination. However, smart tenants would renegotiate the lease with the landlord in order to keep the lease longer. If a tenant refuses to renegotiate, the tenant could lose the lease after the current crop year.

Many farm leases, especially those between family members, are not written but are verbal "handshake" agreements. Because nothing is in writing, the parties may have different recollections of their agreement, making lease disputes more difficult to resolve. The most common legal issue associated with verbal farm leases is how a lease may legally be terminated. For unwritten leases, six months advance notice must be given to legally terminate the lease. In contrast, the termination of a written lease is determined by the terms of the written lease. If nothing is specified, a written lease terminates automatically on the last day of the lease with no automatic renewal.

Oral (unwritten) year-to-year leases. Oral (i.e. unwritten) leases are legally presumed to be year-to-year leases. A year-to-year lease has no fixed time period and is automatically renewed for another

year until proper notice has been given to the tenant by the landowner (or vice versa) that the lease is terminated. Most farm leases in Nebraska are unwritten year-to-year leases.

Oral year-to-year lease termination. For year-to-year leases, the Nebraska Supreme Court has ruled that the lease year begins on March 1. *Moudry v. Parkos*, 217 Neb. 521 (1984). Notice to a tenant to vacate under an oral year-to-year lease (legally referred to as a “notice to quit”) must be given *six months in advance* of the end of the lease, or no later than the preceding August 31. For example, for the lease year beginning March 1, 2008 and ending February 28, 2009, notice from the landlord that the lease will be terminated would have to be given to (and received by) the tenant no later than August 31, 2008. The lease would then expire February 28, 2009 with the new tenant (or new buyer) able to take over the lease March 1, 2009. If, however, the notice to quit was given (or received) after August 31, 2008, the existing tenant would have the lease until February 28, 2010.

Written leases. Written leases are in effect only for the period specified in the lease itself, which could be one year, five years, etc. For written leases, no notice is required from the landlord to the tenant that the lease will not be renewed unless the lease specifically states that notice of termination is required. Unless it contains a renewal clause, the lease automatically terminates at the end of the lease period. The tenant generally has no right to have a written lease renewed unless the lease contains a renewal clause. For example, if a written lease stated nothing at all regarding renewal, the lease would automatically terminate at the end of the lease period and would not be renewed. A written lease could, however, state that the lease was automatically renewed unless either party notified the other (usually by a certain date) that the lease would not be renewed.

Notice to quit. The notice to a tenant (or landlord) that a lease is terminated should be written and possibly sent registered mail (consult your attorney). A copy of the written notice should also be kept. A verbal notice to quit might be adequate, but could be difficult to prove in court if litigation were necessary to enforce the lease termination. The six month prior notice deadline for oral leases applies to the date the notice is received by the tenant, not the date the notice is sent by the landlord.

Voluntary modification of legal rules. All the legal rules about lease termination discussed above may be changed through negotiation and voluntary agreement of the parties. For example, a landlord would like to renegotiate the lease based on higher crop prices. Even though August 31 is past, the savvy tenant would negotiate with the landlord in order to keep the lease over the long-term. If the tenant relies on a short-term legal advantage (the six month termination notice requirement) to keep the current lease the same as the previous year, the tenant could end up losing the lease after the next crop year ended.

Conclusion. A written lease generally is preferable to a verbal lease, because it provides a written record of the lease provisions. However, written leases for farmland under Nebraska law are not required to contain advance notice of termination, as is required in Iowa. Because a verbal lease does require six months advance notice of lease termination, it may provide more legal protection for the tenant than a written lease, at least for one additional crop year.

If you have legal questions regarding a farm lease, contact an attorney.

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