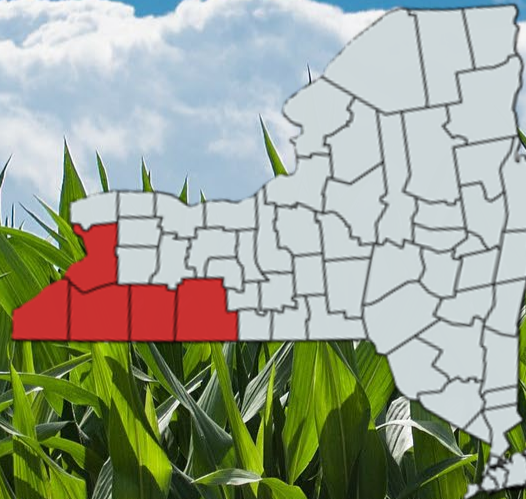


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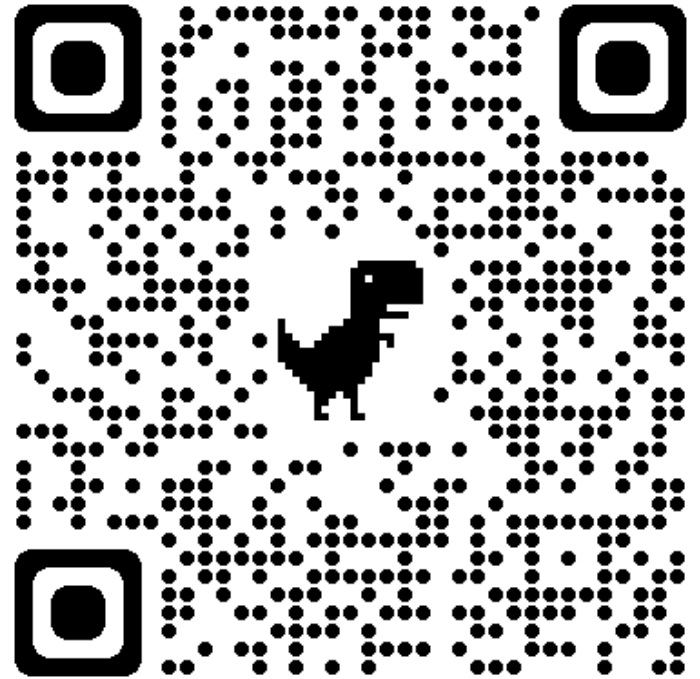


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nyfamlandfinder.org

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Have our feedback survey handy by opening it now – use it to sign up for our newsletter, leave your ideas for future programs, or offer ways we can improve this presentation.



Navigating, Valuing, and Negotiating Land Leases

A FREE WEBINAR FOR FARMERS AND LANDOWNERS

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Disclaimer

This information is for educational and reference purposes only and is not a substitute for sound legal counsel. Please always read and follow pesticide labels and application instructions. Cornell Cooperative Extension is dedicated to providing research-based information to our agricultural producers. Every effort has been made to provide correct, complete, and up-to-date recommendations. Changes occur constantly and human errors are possible.

Today's Learning Objectives

- Considerations of Land Leases
- Basic Requirements of a Written Lease
- Resources for Developing leases
- Determining a Fair Lease Price
- Negotiating and Preserving Communication
- Focusing on Land Leases, but same principles apply

LEASE = RENT
for the
purposes of
this discussion

Typically rents are short term (month to month) and leases are longer term (over a year)

Why Bother?

- Profitability margins are tightening
- Land prices continue to rise
- Handshake deals are even more risky
- Land is the most valuable item on a balance sheet
- Not having enough land limits your profitability and distribution of fixed assets
- Leasing land can be an affordable way to start a farm



Owning Vs. Leasing

Owning Advantages

- Eliminates uncertainty and risk of losing a lease
- Accumulates equity and provides future collateral
- Sole decision making
- Hedges against inflation
- Immediate and long-term benefit of labor/investments

Owning Drawbacks

- Cost! Principle and interest payments and creation of cash flow problems
- Restriction of working capital
- Lower rates of return on other assets
- Decreases efficiency in some cases

Owning Vs. Leasing

Leasing Advantages

- Capital that's not tied up in purchases can be used in other assets
- Mentorship for new farmers
- Easy to change business direction with short-term leases
- Flexible financial obligation that can be renegotiated

Leasing Drawbacks

- Uncertainty about future land losses and its effect on the farm business
- Hesitancy to make long-term improvements on both sides
- Equity can only be accumulated by shorter term, variable assets which can limit borrowing capacity

Written Lease Agreements

- Why you should always back up a handshake with a written document
- Key considerations to include in an agreement
- Resources for developing an agreement



Maine Farm Lease Agreement

This **Farm Lease Agreement** (hereinafter referred to as the "Agreement" or "Lease") is entered into as of _____, by and between _____, with a mailing address of _____ (hereinafter referred to as the "Landlord") and _____, with a mailing address of _____ (hereinafter referred to as the "Tenant"), collectively referred to as the "Parties," both of whom agree to be bound by this Agreement.

1. The Property. The Landlord hereby leases to the Tenant, to use for agricultural purposes, property, located in _____ consisting of _____ acres, and further described as follows:

The property is hereinafter referred to as the "Property." The Landlord reserves the right to use the following land and buildings on the Property:

The Landlord warrants that they have the right to lease the land and buildings, and will defend the Tenant's possession against any and all persons whomsoever.

2. Right of Entry. The Landlord reserves the right of themselves, their agents, their employees, or their assigns to enter the Property at any reasonable time for the following

_____, and inspections;

© TENNESEE AGRICULTURE

Why you need a written agreement!

- Most lease/rental agreements are hand shakes
- NO ONE is protected in this arrangement
- If the worst should happen, there are negative financial implications
- You can still put in a written lease if you're currently working with a handshake – better late than never 😊



Still not convinced?

- I was renting land and they rented it to someone else the following season without letting me know. I had already reseeded it back to grass.
- The farmer I was renting to tilled the land to plant corn and I thought it was going to stay as pasture.
- A flood took out all of the fencing I installed – who pays for it?
- My (landowner) home insurance policy increased because of the added farm use – I need to see what else I can do but don't have any written records.
- I thought that I would be able to make my rent payment after harvest, but now the landowner wants it at the beginning of the year.

What to Include and Considerations

Basic Information

- Landowner and Renter Names, Business Names, Contact Information to include physical and mailing addresses
 - Personal or business capacity?
- Signatures of Landowner and Operator
- Type of Agreement (Cash Rent vs. Crop Share)
- Description of the property, the location/tax parcel, and boundaries/off-limit areas of the leased land
- Accurate assessment of the conditions at the time of rental, including photos

What to Include and Considerations

Party Rights

- Landowner access and management decision making power – decisions that need to include the landowner (tilling, infrastructure improvements, etc.)
- Physical property access – landowner inspections vs. recreational use, Right-of-ways and access points for the farmer, days of prohibited work (holidays, weddings, religious days of worship)
- Zoning and agricultural district designation, any other locality restrictions
- Schedules of Use (hunting season vs. crop season vs. snowmobile season)

What to Include and Considerations Improvements

- Types of planned, and unplanned, improvements and who would be financially responsible.
- Soil improvements – liming, fertilizing, incorporating organic matter
- Land improvements – draining, ditching, reseeding
- Maintenance or improvement of access structures (driveways, ditches, bridges, etc)

What to Include and Considerations Agricultural Practices

- Any or limited commercial uses?
- Agriculture vs. Agritourism vs. Processing?
- Outline of expected agricultural practices (cover crops, organic, no-till)
- Prohibited practices (certain chemical uses, manure applications at certain times in the season)
- Specific standards of weed or disease control



What to Include and Considerations Condition of the Land at the End of the Lease

- Common practice is for land to be left at its original condition
- If the goal is to improve the land, how will things be compensated?
- If the land is left in worse condition, how will you handle this?



What to Include and Considerations Payment Terms

- Normal growing conditions vs. crop failure
- Expected payment date
- Type of payment
- Any bartered services
- Reimbursements for improvements
- Any late payment fees



What to Include and Considerations Bringing Land Back Into Production

- If the land has been idle for an extended period of time, it will be a large upfront cost to bring it into quality production
- Who will pay for these costs?
- What's the length of the lease?



What to Include and Considerations

Length of the agreement & Renewal

- One Year renewable
- Three to five year renewable
- Is this automatic or are there specific steps to take?
- Notice of non-renewal process
- Transfer of Lease – in the case of death (farmer or landowner) will the lease be transferred?
- Right of first refusal?



What to Include and Considerations Early Termination

- Owner and operator actions that would trigger an early termination
- Operator's rights if the property is transferred, foreclosed, or condemned during the lease period, growing season, etc.



What to Include and Considerations Insurance

- Owner paid (land, buildings)
- Tenant (crops, livestock)
- Liability – list on each others?



What to Include and Considerations Taxes

- Who is responsible for paying property taxes on the property?
- Owner responsibility
- Ag Value Assessment implications later on!



What to Include and Considerations Arbitration for Disagreements

- [New York State Agricultural Mediation Program](#)
- Separate Residential and Commercial Leases
- Who is compensated for losses – damage to property, lost revenue



Sample Lease Agreements

- [Ag Lease 101](#)
- [Cornell Small Farms Sample Lease](#)
- [Land for Good Build-A-Lease Tool](#)
- Due diligence – have leases reviewed by legal counsel

Valuing Agreements

- Determining Cash Rent – Why it isn't simple
- Fair for both the landlord and the renter
- Market price vs. breakeven analysis
- Special Considerations

Factors affecting land values

- Soil type and quality including fertility, pH, organic matter
- Field conditions including weeds, pests, erosion, and drainage
- Field shape, size, and slope
- Length of the growing season
- Hours of normal sunlight
- Location to farmsteads, markets, resources, infrastructure
- Organic or other certifications
- Infrastructure including barns, irrigation/wells, fencing
- Surroundings including roads, residential areas

Factors affecting land values

- Supply and Demand of the industry
- Past use of the land/structures vs. Intended use
- Dependability and Loyalty of involved parties

Breakeven Analysis

- Best estimates of per-acre expenses and returns
- Total returns minus total expenses = total profit
- Returns calculated by estimated yield x estimated product price
- Expenses calculated by adding variable and fixed expenses

Landowner's Breakeven Analysis

- Objective is to have a return on land investment
- Return could be improvement of property, cash, or reduced expenses
- To estimate cash-rent requirements for a landowner, consider:
 - Annual Fixed Expenses (Depreciation, Property Taxes, Insurance, Maintenance)
 - Income Required for "Profit" (Dollar investment OR market value of the leased real estate multiplied by the desired rate of return)

Landowner's Breakeven Analysis

$$\frac{\text{Annual Fixed Expenses} + \text{Income Required for Profit}}{\text{Number of Crop Acres}} = \text{Estimated Cash Rent per Acre}$$

Landowner's Breakeven Analysis

$$\frac{\text{Annual Fixed Expenses} + \text{Income Required for Profit}}{\text{Number of Crop Acres}} = \text{Estimated Cash Rent per Acre}$$

Interest Expense, Property Taxes, Insurance,
Maintenance, Other

Landowner's Breakeven Analysis

$$\frac{\text{Annual Fixed Expenses} + \text{Income Required for Profit}}{\text{Number of Crop Acres}} = \text{Estimated Cash Rent per Acre}$$

Dollar investment or market value of the leased real estate times desired rate of return

Landowner's Breakeven Analysis

$$\frac{\text{Annual Fixed Expenses} + \text{Income Required for Profit}}{\text{Number of Crop Acres}} = \text{Estimated Cash Rent per Acre}$$

Annual Fixed Expenses: Interest (\$300), Property Taxes (\$700), Insurance (\$200), Maintenance (\$0), Other (\$0) = \$1,200

Income Required for a Profit: Dollar investment (\$48,000) x 3% (Cost of Living) = \$1,440

Profit + Estimated Expenses = \$2,640 / Number of Crop Acres (120) = \$22/acre

Landowner's Breakeven Analysis

- Are there reduced expenses associated with renting this land?
 - Property taxes reduced by the Ag Value Assessment (next slide)
 - Real estate maintenance reduced by the farmer
 - Value of appreciation – will the land value INCREASE due to its use
- What are your “profit” requirements?
 - Personal satisfaction of the land being used (0%)
 - Cost of living accounts for inflation and rising costs (3%)
 - Value of your investment if those dollars were put elsewhere (8%)
- Separate residential interest/taxes/insurance from the tillable land

Renter's Breakeven Analysis

- Objective is to have a return on labor investment
- Selling a cash crop vs. using for livestock feed
- Best estimate for per-acre expenses and per-acre returns

Renter's Breakeven Analysis

Expected Returns

- Variable Expenses per acre

- Portion of Fixed Expenses

= Total Returns minus Expenses

x Total acres/acre

= Total available for Cash Rent

- "profit" (value of labor/management or your paycheck)

= Maximum cash rent / total acres

=cash rent/acre

Renter's Breakeven Analysis

Expected Returns

- Variable Expenses per acre
 - Portion of Fixed Expenses
- = Total Returns minus Expenses

x Total acres/acre

= Total available for Cash Rent

- "profit" (value of labor/management or your paycheck)

= Maximum cash rent / total acres

=cash rent/acre

Average Yield by Unit x Price Received (or value as livestock feed) by unit = total returns per acre

Renter's Breakeven Analysis

Expected Returns

- **Variable Expenses per acre**

- Portion of Fixed Expenses

= Total Returns minus Expenses

x Total acres/acre

= Total available for Cash Rent

- "profit" (value of labor/management or your paycheck)

= Maximum cash rent / total acres

=cash rent/acre

Per acre expenses for:

- Growing (seed, fertilizer, herbicides, fuel, etc)

- Harvesting (fuel/oil/grease, supplies)

- Marketing (shipping/transportation, drying)

- Hired Labor

- Interest on Operating Capital

Renter's Breakeven Analysis

Expected Returns

- Variable Expenses per acre

- **Portion of Fixed Expenses**

= Total Returns minus Expenses

x Total acres/acre

= Total available for Cash Rent

- "profit" (value of labor/management – your paycheck)

= Maximum cash rent / total acres

=cash rent/acre

Estimated expenses by portion of use

- Machinery depreciation

- Equipment maintenance and repairs

- Interest on investment

Renter's Breakeven Analysis

Expected Returns

- Variable Expenses per acre

- Portion of Fixed Expenses

= Total Returns minus Expenses

x Total acres/acre

= Total available for Cash Rent

- **“profit” (value of labor/management or your paycheck)**

= Maximum cash rent / total acres

=cash rent/acre

As farmer, you're not giving yourself a paycheck
– BUT – you could be doing something else with
your time! This “pays” you.

Renter's Breakeven Analysis

- Expected Returns (15T/acre Corn Silage x \$30/T = \$450/acre)
- Variable Expenses per acre (Seeds \$50, Fertilizer \$100, Herbicides \$80, Fuel \$12, Lime \$30, No Marketing, No Labor = \$272/acre)
- Portion of Fixed Expenses (Machinery repairs \$20, Interest on Investment \$22 = \$42)
- = Total Returns minus Expenses (\$94)
- x Total acres/acre (\$94 x 40)
- = Total available for Cash Rent (\$3,760)
- **“profit” (value of labor/management or your paycheck) (\$2,000)**
- = Maximum cash rent / total acres (\$1,760)
- = cash rent/acre (\$44)

Renter's Breakeven Analysis Considerations

- Proximity to other property
- First year time investment
- Investment of long-term infrastructure (fencing, well pump, ditching, drain tile)
- Sensitivity Analysis – What if higher input prices? Lower yields?
- Insurance coverage – landowner's, renter's

Resources for Breakeven Analysis

- Enterprise Budgets
 - [Penn State Extension](#)
 - [Washington State University](#)
 - [Colorado State](#)
- University of Minnesota
 - [Landowner's Cash Rent Worksheet](#)
 - [Operator's Cash Rent Worksheet](#)
- FairRent App

Market Value Based Pricing

- Compare to similar nearby fields and their rental prices
- Look at recently sold/purchased farmland
- Market pressure (bidding wars vs. no nearby farms)
- Rule of Thumb – 2-3% of the land's value each year.
 - Use an appraisal from your original purchase or an independent one
- USDA National Agricultural Statistics Service (NASS)
 - County-level statistics for per-acre cash rental rates
 - Use NASS Quick Stats tool

Market Based Value Pricing

- Coming Soon!!
- Surveying NY Farm Cash Rental Rates and Custom Service Fees to Improve Bargaining
- Research Grant from New York Farm Viability
- CCE Specialists programming team

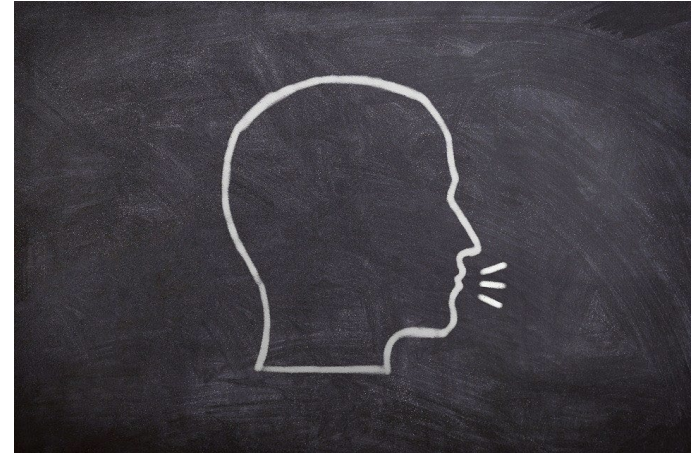
Market Value vs. Breakeven

- What do you do when all of the values don't match?
- Pick a happy middle that all parties can agree to



Negotiating Agreements

- Rural communities, small towns, lots of talk!
- A “disagreement” or early termination is bad business for everyone
- “Fair” agreements are difficult to come to, in some cases
- Having an agreeable lease in place at the beginning makes it easier to renew later on for a long term relationship



Negotiating Agreements - Before

- Communication is Key!
- Take the time to “educate” – share your farming practices and your landowner requirements
- Cookies go a long way
- Know your break-even price and comparable rental rates nearby
- When “cold-calling”, use tax parcel information, neighbors, traditional advertising publications and options, town/county office of real property

Negotiating Agreements - During

- Communication is Key!
- Realistic rental rates vs. flea market interactions
- Barter Services to help reduce costs, or add incentives, if needed (snow plowing, ½ cow, infrastructure improvements, etc)
- Share your budgets – be up front about anticipated expenses
- Bring in legal counsel as needed

Negotiating Agreements - After

- Communication is Key!
- Set up times to check in as needed, usually before the season and when renewal time comes around
- Give fair warning as needed
 - Farmer – spraying pesticides, late planting or harvesting, spreading manure
 - Landowner – special events, recreational activities
- Be a good neighbor – it's always easier to handle potential disagreements out of mediation/arbitration

Ag Value Assessment

- This is an important negotiation tool that can potentially reduce the property taxes a land owner pays
- LandOWNERS must file Form RP-305
- Land must stay in ag for 5-8 years, depending on Ag District, or pay a penalty
- In General – 7+ acres with total OPERATION sales of \$10,000+
- Rented land is eligible with a written lease agreement of five years
- https://www.tax.ny.gov/research/property/assess/valuation/ag_overview.htm

Conclusion

- Developing a Lease Agreement
 - Written is key!
 - Consider all of the things
- Determining a Fair Rental Rate
 - Break Even Analysis
 - Market Rate
- Negotiating Tools
 - Communication is Key



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