Determining Rental Rates on Leased Farmland

FACT SHEET

USDA NRCS photo

What is rent? Rent—also known as the "consideration"—is a periodic payment to the owner of property in exchange for its use. In the case of farmland it would be a payment to the landowner in exchange for the right to farm on the land. The payment is typically money, or has a value expressed in dollars, but can also be services (hours of labor provided to the landowner) or goods (farm products).

A rental agreement, or lease, is the legal document that details the responsibilities of each party and the time period that the agreement is in place. It also defines the process for the lease's renewal or early termination, as well as when rental payments are due and in what form.

It is important to be clear about what is included in exchange for the rental payment. Does it include the whole farm—access roads, utilities, all buildings, equipment? Does it include other fees? Are there expectations in the lease for services to be provided by the owner? Are there restrictions as to the use of the land? If housing is involved, sometimes it is wise to separate the rental agreement on a residence from the agreement for farm fields.

Types of lease payments. Lease fees (rent) can be paid in several ways:

a. **Cash rent.** The simplest form of payment. An agreed upon amount is due to the landlord, regardless of circumstances.

b. **Share lease.** In a crop or livestock share agreement, the tenant pays rent according to a pre-determined share of the value of the farm's production that year. In this scenario, the landlord takes on some of the risk of the farm operation.

c. **Flexible cash rent.** This hybrid formula specifies a lower-than-market cash "base" rent, plus the landlord receives a share of the gross revenue. In a good year, both parties benefit.

Approaches to calculating rent. There is no one quick-and-easy way to determine the rent. Factors that are considered include: soil type (composition, quality, wetness, stoniness and slope), capability class, available water and utilities, location and access, prior uses, field size, infrastructure and how suitable the property is for what the farmer wants to do. Market demand can influence the rental price as well. If more people want to farm a property, it is likely to have a higher rental

(more ⟶)

Resources

Land for Good (http://landforgood.org)
- *A Landowner's Guide to Leasing Land for Farming*

New England Small Farm Institute (www.smallfarm.org)
- *Holding Ground: A Guide to Northeast Farmland Tenure and Stewardship*

United States Department of Agriculture, Cooperative Extension (http://nifa.usda.gov/partners-and-extension-map)
- *Directory of Extension offices*

University of Vermont (www.uvm.edu/newfarmer)
- *How to Determine the Right Farm Rental Rates*

This fact sheet was developed as part of the **Farmland Advisors** project with support from the Northeast Sustainable Agriculture Research and Education (SARE) program and the Farm Credit AgEnhancement Program.

American Farmland Trust
SAVING THE LAND THAT SUSTAINS US

Farm Credit
Northeast AgEnhancement

Land For Good
www.landforgood.org

NORTHEAST SARE
Sustainable Agriculture Research & Education

(continued)

price attached to it than a property that is in less demand. The terms of the lease—its duration, what is included, any restrictions to the use of the land or requirements to provide services—will also have an impact on the rental price. An appropriate "fair" rental rate is really one that works for both the landowner and the tenant.

Here are some of the more common factors used to determine rental rates for farmland:

a. **Market rate** for comparable land. Ask neighbors, local farmers, Extension agents. "Comparable" can be tricky due to many factors (above) that go into the calculation.

b. **USDA County Average.** For some counties, USDA provides averages for different categories of land.

c. **Landowner costs.** These typically include depreciation, insurance, repairs, taxes and interest. Note that landowner costs may be higher than the going rate or what a farmer could afford.

d. **Resource capacity.** Calculated as a function of the soil type and other natural factors. For example, a prime agricultural soil would demand a relatively high rent, regardless of what is being produced on it.

e. **Cost of production.** What the farmer could actually afford based on projected costs and returns from the specific operation on leased land. The maximum rent should be less than the anticipated return from sales minus costs. Any amount greater than this will make the farm operation and rent agreement unsustainable. This should be a part of the discussion between tenant and landlord in determining the rental rate.

f. **Social goals.** Landlord's goals might include supporting a beginning farmer or furthering an organization's mission as landowner. Accounting and tax considerations (such as rent as taxable income) are important.

g. **State current use property tax valuation programs** may impact rental rates. These programs permit taxation of agricultural land based on the actual, ongoing use of the land rather than its full market value. Landlords may reduce rental rates if the lease allows them to enroll or maintain the status of their property in these programs, which keep their property taxes low and their land open, productive and inherently more valuable than land left unmaintained.

Alternative approaches.

a. **Non-cash payments.** If the rent is in a form other than cash, this must be clearly specified, along with the value ascribed to it. For example, the tenant might provide services such as structural projects, clearing trails, or supplying cordwood, vegetables or a side of beef to the landlord. In some cases, the tenant might provide educational programming, site tours or mentoring.

b. **Rewarding stewardship.** Some landlords discount the rent in exchange for the farmer performing certain management practices or improvements such as soil building or habitat improvement.

c. **Landlord investments.** Some landlords cover some up-front investment related to the tenant farmer's operation, recouping that investment over time through a portion of the lease payments. Tax advice should be sought when considering such an investment, as lease fees set much higher than market rates can be interpreted in different ways by the IRS.