



Topic II. Lease terms (What's in a lease?)

Learning objectives

1. A broader understanding of terms and provisions most common in different types of leases.
2. A broader understanding of different factors that influence leasing terms.
3. Determine economic and legal considerations of lease terms.

Learning outcomes

1. An understanding of the common terms and important components of a lease agreement.
2. An understanding of factors that influence the terms of a lease agreement.

Key points of information

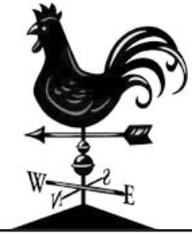
- A written lease between the farmer/tenant and landowner can be as short as one page or as long as fifty or more pages.
- At minimum, there are several basic provisions that define the lease. And while oral leases are still quite common, many states now require leases of land to be in writing and signed by both parties.

What's in a lease? At minimum, the following key provisions must be included for the lease to be a legal document:

1. Description of the property
2. Rental rate (and means for adjusting)
3. Term of the lease (start and end dates) and any option for renewal
4. Identification of farmer(s)/tenant and landowner(s)/landlord involved in the lease agreement
5. Signatures of all those involvement in the lease agreement

More complicated leases may include sections on the following:

1. Conditions of access to leasehold
2. Repairs and maintenance
3. Means for establishing and modifying rental rates
4. Payment requirements and schedule
5. Permitted and prohibited uses of the property any land use restrictions
6. Capital improvements to facilities and/or the land (i.e., what is permitted, procedure for approval, who owns them)
7. Termination



8. Subleasing and assigns
9. Insurance and liability issues
10. State and Federal lease law considerations
11. Default and eviction
12. Reference to easements and/or other liens on the property
13. Landlord's right to enter
14. Procedures to resolve disputes

See the [Short-Term Lease Checklist](#) to review issues related to terms of the lease.

Calculating the rental rate. Many factors influence the rental rate. Basic cash rents can be established based on the local market, the landowners costs or costs of production. Flexible cash and share leases offer more complex formulas for calculating the rent. Some factors that are typically considered include:

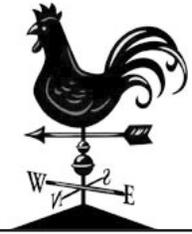
- Productivity of the land
- Value of the contributions made by landlord and tenant
- Bargaining position and ability of each party
- Competition for rented land in the immediate area
- Past lease agreements in the area
- Owner's carrying costs of the land (depreciation, insurance, repairs, taxes and interest—the "DIRTI Five")
- Family considerations
- Facilities and land improvements
- USDA farm programs and eligibility
- Contracts
- Costs of production
- Financing improvements

For more considerations when setting a cash lease:

<http://www.agecon.purdue.edu/extension/pubs/LeasePointsConsider.pdf>

Some questions to address when developing a lease. The answers to these questions depend in part on the tenant's personal and business goals.

1. What portion of income do I receive?
2. What portion of costs do I contribute?
3. What portion of the risk do I bear?
4. What crop and land management practices will be followed?



5. What will be the condition of the land after the term of the lease?
6. Do the lease terms meet my goals for farming this land?
7. Can I afford to rent this land?
8. Is the term long enough to meet my objectives?
9. Is there a satisfactory exit provision (in case things don't work out)?
10. Are there any other lease agreements in place that could impact my operation?

Discussion questions

1. What are the key components of a lease agreement?
2. What are some common concerns/issues that may arise related to lease terms for both the landlord and tenant?
3. What are some factors that may influence the terms of a lease agreement?

Activities

1. [Leasing and Land Ownership Activity](http://www.extension.iastate.edu/agdm/wholefarm/html/c2-05.html) Instructor information:
<http://www.extension.iastate.edu/agdm/wholefarm/html/c2-05.html>
2. Have individuals or small groups develop a list of questions and information they feel would be necessary to include in the terms of a lease agreement.
3. Individual or group project where students develop a lease agreement using terms based on both the landlord and tenants specific interests.
4. Using the following examples, determine the important components of lease agreements. If students' farm lease situations are available, review and discuss them.

Farm lease agreement examples:

[Iowa Farm Lease](#)

[Louisiana Farm Lease](#)

[Midwest Plan Service Cash Farm Lease](#)

[University of Wisconsin Extension Cash Farm Lease](#)

[Indiana Cash Farm Lease](#)

Guest speaker ideas

1. Local University and/or Extension office regarding leasing information in your area.
2. A farm landlord to share information and experiences about leases and leasing.
3. A farming tenant to share his or her experiences about leasing a farm or farmland.