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What to Consider When Renting Out Your Farm

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According to 2022 KFBM data, only 27% of land farmed by Kentucky farmers is owned by the farmer. The remaining 73% is typically comprised of landowners that may or may not have a background in farming. In some cases, the landowner inherited the farm and may not even live in the same state as the farmland. There are several factors the landowners need to be aware of and consider when renting their farm.

One decision that needs to be made is what type of rent the landowner plans to receive. There are three main types of rent that were discussed in recent article "**Land Rental Agreements**." Below, you'll find a few highlights of each type of rental agreement. The first thing the landowner needs to consider is how much risk they are willing to take. If the landowner doesn't want any risk, they should choose a cash rental agreement. This will allow them to receive a steady income each year that will not be affected by the crop yield. This will solely be based on a rental price per acre, which can vary by location, ground quality, grain prices, and the local market.

There are many factors that go into determining the cash rental price. Location and ground quality are one of these major factors. What soil types are located on the farm? Is the farm prone to flooding? Is there field drainage tile on the farm? Are there any other possible causes for low productivity that might need to be addressed?

Grain prices are also another factor that play a big role in determining the cash rental price, but just looking at the grain prices does not tell the whole story. Typically, when grain prices increase, so do crop input prices and this increase will sometimes hurt the farmer's profitability more than the increase in the grain prices improves it. Because there is so much variability in grain prices, farmers will lock in prices to protect their profitability from a large price drop, so they are very rarely able to completely capitalize on any major price increases. Once a farmer agrees to increase the amount of the cash rent payment, it is hard to ever convince the landowner to lower the payment back down when there is a market downturn.

Some landowners are willing to take on risk with the potential of a higher return. These landowners should choose a share crop leasing agreement. This will allow the landowner to receive a higher payment in good crop years, but they are also accepting the risk of a lower payment in low yielding years. The landowner may choose to purchase crop insurance on their share to hedge against the risk of lower crop yields. They may also choose to sign up for government payments through the local Farm Service Agency office. Depending on the percentage of the share agreement, the landowner might also have to share in some of the crop expenses that they would not have to share in with a cash rental agreement.

Once the type of leasing agreement is decided, there are other issues to take into consideration. One issue that may come up is the possibility that some of the land is unsuitable for row crop farming and the renting farmer may not be willing to rent that portion of the land. In that case, the landowner may want to speak to the local FSA and NRCS offices to see if there are any programs available for this portion of the land, such as the

Conservation Reserve Program (CRP). If so, this may allow the landowner to generate some income off that portion of land they would otherwise not generate.

One factor that may be often overlooked by a landowner is providing access to the land for the farmer. In many instances a farm may be landlocked, so some type of access needs to be provided to the farmer. Also, many farms may have fences on the farm that either need to be maintained or need to be removed. In both cases, an agreement needs to be made on who will be responsible for maintaining the roads and either maintaining or removing any fences.

Field Drainage tile has been installed on many farms to assist in the regulation of excessive water on a farm at any given time. In many instances, this field drainage tile will help increase the productivity of the farm. Field drainage tile is considered a capital expense with a 15-year recovery period. This can quickly become an expensive, but valuable investment for both parties. In many cases the landowner and the farmer may share in this cost, but there are other cases where the farmer agrees to cover all the cost of the field drainage tile installation. In either case, the farmer may request a longer-term leasing agreement because of this 15-year investment. They may also request a pro-rated payment to cover some of the cost of the field tile if the rental agreement does not extend past a certain number of years.

Before the final rental agreement is made, the landowner has other factors to consider. What happens if the landowner decides to sell the farm or passes away? The lease agreement terms, as well as an exit strategy for both parties are also necessary.

These are only a few of the decisions that need to be made before a leasing agreement is made between landowner and tenant. Many land leasing agreements are made verbally and with a handshake, but for the protection of both parties there should be a written and signed agreement with all the specific details of the agreement listed. This will allow both parties to have something in writing in case any issues ever arise. This will also provide a written basis to go back to when/if any future agreements are made between the parties.

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