

Land Ownership and Leasing

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Purpose of module

- Develop an understanding of the underlying economic principles and management aspects of land ownership and leasing
- Trying to reduce decisions to numbers
- Two decision tools:
 - *KSU-Landbuy.xls*
 - *KSU-Lease.xls*

Related papers are found at
www.agmanager.info

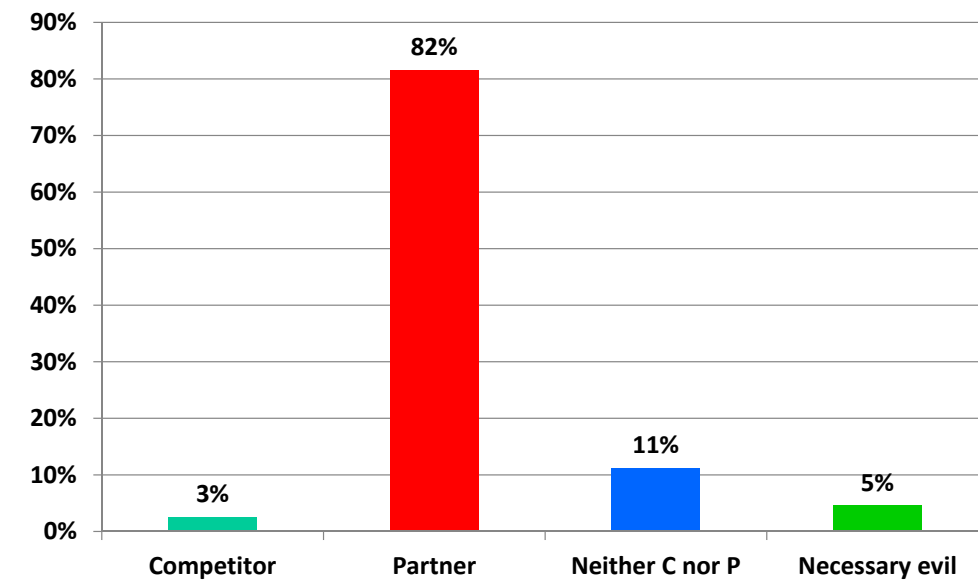
Module: Land Ownership and Leasing

Session: Rental ethics

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“Clicker question” from 2010/11 Winter Lease Meetings...

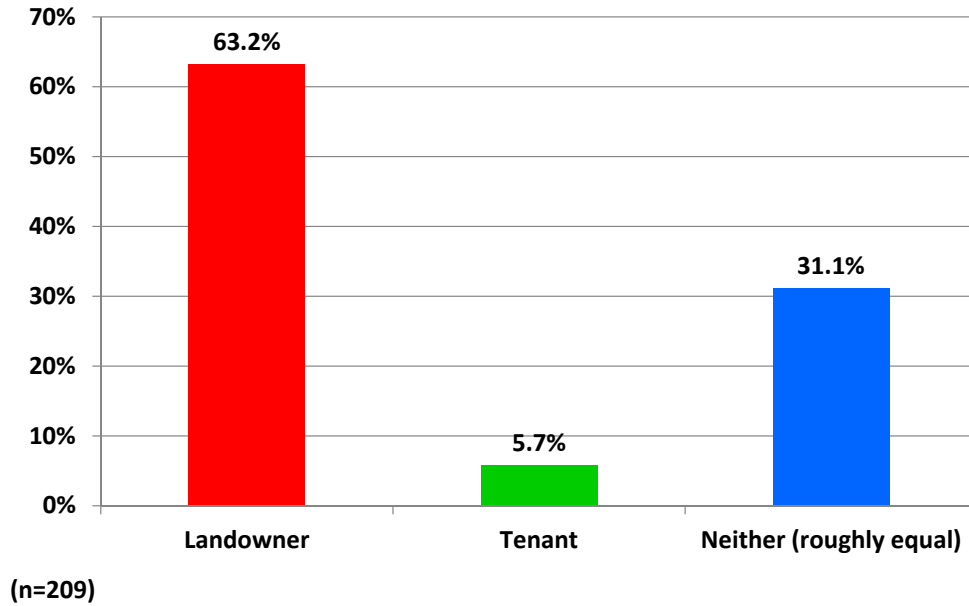
How do you view the other party in a lease?



(n=200)

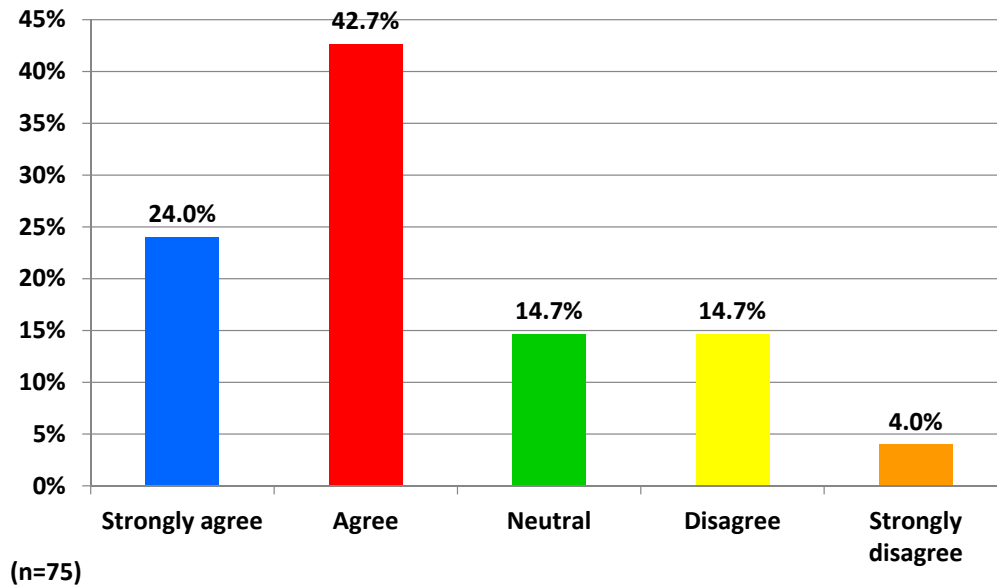
“Clicker question” from 2010/11 Winter Lease Meetings...

Who has more “power” in negotiating the terms of a lease?



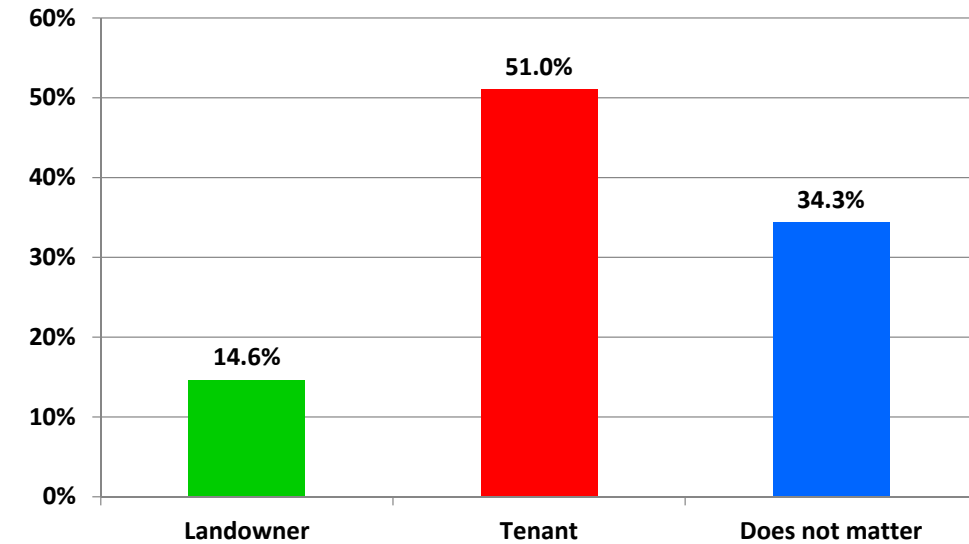
“Clicker question” from 2010/11 Winter Lease Meetings...

Producers should receive 100% of payments from programs such as CSP that are due to their management.



“Clicker question” from 2010/11 Winter Lease Meetings...

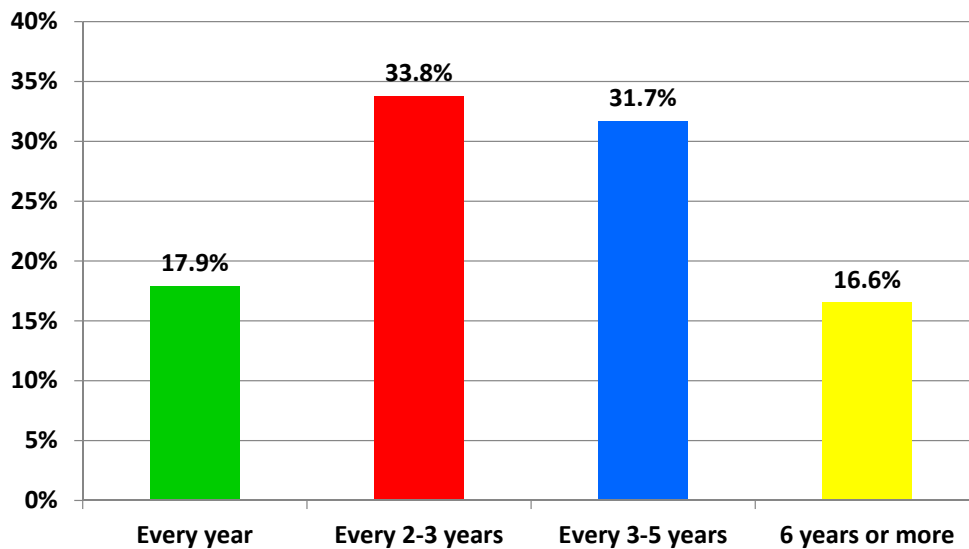
Who “typically” needs the income from the land the most?



(n=198)

“Clicker question” from 2010/11 Winter Lease Meetings...

Of land that I rent (manage) on a fixed cash rent, on average, the rental rate is renegotiated...



(n=187)

Rental Ethics . . . Our Perceptions

- Tenants have the information (power)
- Cash rents tend to rise over time
- Manna-from-heaven payments often should be shared
- Foot-in-door high rents often inappropriate
- Landowners need money just like tenants
- Landowners are sometimes unethical too
- Family situations often are the worst
- Ethical behavior more profitable in long run

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Tenants have the power!

- Landowners often:
 - Are generations and geographically removed
 - Are technologically removed
 - Are old and easily taken advantage of
 - View the arrangement with a tenant as a long-term commitment handed down from their parents
 - Think that farming is a low-income business and so want to “do their part” in aiding it
 - Believe there are few potential tenants and so are beholden to the existing tenant
- Tenants take advantage of the situation
 - Unintentionally (may be poor managers)
 - Intentionally (“she never asked me to raise rent”)
- Only occasionally do we see a landowner shafting a tenant

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Tenants have the power!

- Landowners often:
 - Are generations and geographically removed
 - Are technologically removed
 - Are not actively involved in the business
 - View land as an investment
 - This leads to a focus on long-term returns
 - Belief that land value will increase over time
- Tenant behavior:
 - Unintentionally (“she never asked me to raise rent”)
 - Intentionally (“she never asked me to raise rent”)
- Only occasionally do we see a landowner shafting a tenant

Many of these points are the result of the fact that a number of landowners are landowners “by inheritance” as opposed to investing in land intentionally. Thus, returns are often viewed as “money I never had before” as opposed to “what I expect from my investment.”

Cash rents rise over time

- Although cash rents do fall about 30% of the years, on average they rise 2-3% annually
 - Unusual to see a 3-year contract rate that shouldn't be higher than the previous contract
- Landowners & tenants who see stable crop-share terms for years think that translates to stable cash rent
 - We see cash rental rates that haven't changed for years and decades
 - Landlord: “We didn't know.”
 - Tenant: “She never asked for a higher rent.”

Manna-from-heaven payments

- **Unexpected payments, typically from the government, should be shared according to parties' costs**
 - Examples: CRP, CSP, EQIP
- **If tenant does nothing to earn payment it should go to the land, i.e., the landowner**
- **Such payments should be discussed between landowner & tenant (especially the relative associated costs)**

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Foot-in-door high rental payments

- **High rent payments on new contracts often are followed by stagnant rates for many years, which could be:**
 - **A) Tenant overbids to get land, then realizes he's not profitable so rationalizes stagnant rents**
 - **B) Tenant uses this as a strategy to acquire land and pay lower-than-market rents over time**
 - **This is the least ethical outcome of the two**
- **Some tenants who do this actually beg for lower rents in near future, realizing that landlords are reluctant to change tenants**
 - **This is really unethical!**

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Landowners need money too

- **Tenants often make the argument that “she doesn’t need the money”**
 - This is completely irrelevant!
- **Admittedly, landowners sometimes foster this perception**
 - ... which tends to change when investment-minded heirs acquire land being rented

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Landowner ethics

- **Landowners may use their land for non-ag purposes and yet expect the same rent**
 - Utility poles, oil leases
 - Lease hunting
- **Landowners think if they paid too much for land it should bring a higher rent**
 - This is completely irrelevant!
- **Landowners might demand certain farming practices yet expect market rent**
 - e.g., no fertilizer; conventional tillage
- **Landowners make demands on current tenants to “fix” problems of past tenants**

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Family situations often are the worst

- **“Sweat-equity” parent-child relationships lead to unrealistic expectations across generations**
- **Family members have trouble believing their own parents, children, or siblings would cheat them**
 - Backlash then goes overboard
- **Family members often are “always around” and so the pain always resurfaces**
 - Hard to “forget and move on”

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Ethics is good long run economics

- **Poor ethics results in high tenant turnover:**
 - Increases cost of relationship establishment and monitoring
 - Reduces profit to the land (tenant makes short run decisions)
- **Bad business leads to unethical behavior**
 - Poor management causes “I deserve more”
 - Bad behavior is rationalized
- **Good ethics should emerge because it is the “right thing to do,” not for the purpose of long-run profit-maximization**

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Miscellaneous

- **Landowners rarely will evict tenants!**
 - Often will sell land rather than evict tenants
 - Will put up with atrocious behavior of tenants (especially relatives)
- **Attorneys / educators have some blame**
 - Promote perceptions of “poor returns to farming,” “sweat equity,” etc.
 - Believe, like many, that farming is “special”
- **Attorneys / educators should**
 - Tell landowners it’s okay to evict tenants
 - Help clients understand that **FARMING IS A BUSINESS!**

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End of Session:

Rental ethics

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