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AGRICULTURAL EXTENSION DIVISION
UNIVERSITY OF MINNESOTA

F. W. Peck, Director

MINNESOTA FARM BUSINESS NOTES

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Prepared by the Division of Farm Management, and Agricultural Economics
University Farm, St. Paul, Minnesota

FARM LEASES IN MINNESOTA

Prepared by W. L. Cavert

According to the 1925 census, 27 per cent of the Minnesota farms were operated by tenants. In addition, 17 per cent of the owners rented additional land. Of the crop land harvested in 1924, 36 per cent was operated by tenants, not taking into account rented land operated by owners in addition to their home farms. There is considerable variation in the amount of tenancy among counties, even in the southern part of the state. Le Sueur County had only about 20 per cent rented farms; Rock County had 58 per cent.

Length of Leases

The following table shows the length of leases in various sections of the state as reported by the landlords on 545 farms.

	<u>Number of Farms</u>		
	Southwest	Northwest	Southeast
One year	224	89	24
Two, three or four years	78	24	28
Five years	36	23	29
Total	338	136	71

Among those reporting, about two-thirds of the farms in Southwest and Northwest and one-third of those in Southeast Minnesota were rented under a one-year lease. It is probably true that a number of those rented for more than one year had a clause providing for termination of the lease in the event of sale.

The fact that the lease is only for one year does not mean that the tenant may not stay on the same place for an indefinite length of time. Among 125 tenants in Southwest Minnesota largely operating under one-year leases, the average length of time on the present farm was over six years. As these tenants are still on these farms, the average length of stay on one farm will be materially in excess of six years. Seventy-six or 61 per cent had been on the same place over six years and 23 or 18 per cent over 10 years, and one had been on the same place 29 years. It is likely that the tenants reporting these data have stayed on one farm considerably longer than the average.

Term Leases

Frequently a landlord feels that a term lease is a one-sided contract as the landlord is usually financially responsible and may be held strictly to his contract while the tenant may have but little financial responsibility.

Where a term lease is drawn between parties that have not had previous business dealings together, it should provide that either party may withdraw from the contract at the end of the first year by giving notice before a certain date such as August 1. It should also provide that either party may withdraw in any following year by giving notice before August 1 and making a specified cash payment as compensation to the other party for loss and inconvenience caused by breaking the contract. Ordinarily this payment should be sufficiently large so that neither party will take advantage of the clause except there is a real advantage in so doing, but it should not be so large that it would prevent a landlord from making an advantageous sale or prevent a tenant from taking advantage of an opportunity to better himself. Ordinarily a payment of one to two dollars per acre for cancelling the contract, depending on the value per acre and the size of the farm, would meet these requirements.

A term lease does not fully meet the problem of giving the tenant the same incentive to good farming as has the owner due to the fact that, for example, a five-year lease after one has been on the farm for three years becomes a two-year lease, and after one has been on it for four years it is only a one-year lease.

Compensation for Unexhausted Improvements

One method of giving a tenant some of the same incentive for farming with the long-time viewpoint as goes with ownership is to provide that the tenant is to receive compensation for outlays that give benefits for a longer period than the life of the lease. Compensation for unexhausted improvements has been the general practice in England for many years, but as yet, has been little used in the United States. Such items as the seeding of alfalfa and clover, the use of lime and phosphate fertilizers, the erection of fences and summer fallowing for weed control may be handled on this basis in such a way that a tenant may go forward with the long-time viewpoint with the assurance that he will be recompensed for any improvements for which he does not stay sufficiently long to derive a reasonable benefit.

For example, if the landlord is unwilling to furnish alfalfa seed, the tenant might propose that he furnish the seed and that the landlord would compensate him in case he should leave a good stand of alfalfa on the farm. Thus, they might agree that the seed would ordinarily cost \$5 per acre including an allowance for an occasional failure to secure a stand. They might further agree that a reasonable life for a stand of alfalfa is four years. This would be \$1.25 per year. If the tenant left at the end of the first year, he would be entitled to the full five dollars, if he left a reasonably good stand. If he harvested the crop for two years, he would be entitled to one-half of \$5 or \$2.50 per acre.

A mimeographed circular entitled "Suggestions on Farm Leases" that may be had from the Extension Division, University Farm, St. Paul, discusses compensation for unexhausted improvements.

Kind of Lease

The common type of lease in most sections in the western half of Minnesota is some type of the crop share lease with cash rent for hay and pasture. However, in some sections in southwestern Minnesota an important fraction of the farms are rented for cash.

The following table shows the share rental terms on 164 southwestern Minnesota farms where the tenant furnishes everything except the farm:

Share to landlord	No. tenants
One-half	23
Two-fifths.	92
One-third	48

On practically all of these farms, hay and pasture are rented for cash, usually for \$3 to \$6 per acre. The farms that report renting for one-half are nearly all located in Rock, Martin and Faribault counties.

It is interesting to note that in most counties all the farms rent at nearly the same figure. In most of the southwestern counties south of the Minnesota River, the usual rent is two-fifths of the crop. In such counties as Redwood, Lyon and Cottonwood, the best farms usually rent for two-fifths while some of the less desirable rent for one-third. The difference between two-fifths and a third is one-fifteenth of the crop. It is self-evident that the difference should be much greater than this, as in almost every locality one will find rented farms that will average 40 bushels of corn or oats over a 10-year period as readily as other farms will average 25 bushels. The poor yields on the 25-bushel land may be due to lack of natural fertility, long continued cropping without attention to upkeep of fertility, weed infestation or poor drainage. If the difference is due to weeds or inadequate drainage, it is likely to be the case that the 40-bushel land can be handled with less work than the 25-bushel land.

Three-fifths of 40 bushels is 24 bushels, while two-thirds of 25 bushels is $16\frac{2}{3}$ bushels, hence the tenant would actually get $7\frac{1}{3}$ bushels more for his share by paying more rent on the better farm.

Landlords frequently complain of the inability of their farms to show satisfactory returns. Reports from 113 landlords in southwestern Minnesota mention the following problems:

Inability to get reasonable returns	28
High interest and high taxes	27
Keeping fences and buildings in repair	20
Getting good tenants	22
Weed control	14
Uncertain prices	2

Most of the difficulties in the foregoing list, would be either solved or greatly helped by getting better tenants. The only way to get and keep the best tenants on the less desirable farms is to make concessions so that the tenant will feel that the poorer farm is worth while. Most landlords with the less desirable farms, apparently, prefer to get the customary share and take the poorer tenants. The lowest rental that has been reported anywhere in the state is one-fourth of the crop. Apparently the general practice is to let land lie idle, if a tenant cannot be secured at approximately the customary rental. One of the most needed improvements in rental practice is a closer adjustment of the rent to the productive ability of the soil.

Cash rent: Cash rent is the most satisfactory type of lease for the capable farmer who is financially able to take all the risk of the farm business. It enables the good farmer to take for himself all the extra income due to his good farming. It is also most satisfactory to the landlord who is not able to give the farm close attention.

Livestock basis: Livestock leases have at various times been urged as the most desirable type of lease for both tenant and landlord. They are a desirable type of lease for the retired farmer or other landlord who is able and

willing to devote considerable time to looking after his land. They are also a desirable type of lease for the young farmer who lacks sufficient capital to equip a farm without assistance from the landlord.

MINNESOTA FARM PRICES FOR JULY 1930

Prepared by D. D. Kittredge

The index number of Minnesota farm prices for the month of July 1930 was 82.5. When the average of farm prices of the three Julys of 1924-25-26 is represented by 100, the indexes for July of each year from 1924 to date are as follows:

July 1924 -	84.8	
" 1925 -	107.3	
" 1926 -	107.4	
" 1927 -	97.8	
" 1928 -	110.3	
" 1929 -	109.5*	
" 1930 -	82.5*	*Preliminary

The price index of 82.5 for the past month is the net result of increases and decreases in the prices of farm products in July 1930 over the average of July 1924-25-26 weighted according to their relative importance. These increases ranged from approximately 29 per cent to 12, and the decreases from 49 per cent to 3. The products ranked according to the size of their percentage increases or decreases in this comparison are shown in the following list:

Principal Farm Products which Showed Price Increases and Decreases in July 1930 when Compared with Average Prices in July 1924-25-26 (arranged in descending order of percentage change)

<u>Increases</u>	<u>Decreases</u>	<u>No Change</u>
Potatoes	Rye	Corn
Cattle	Wheat	Butterfat
	Barley	Hogs
	Oats	Hay
	Lambs-Sheep	Flax
	Eggs	Milk
	Chickens	

Although the Minnesota index for July 1930, does not measure price changes from June 1930, a comparison of month to month changes in price has been made. The increases range from 5 per cent to 4, and the decreases from 23 per cent to 2. The products ranked according to the size of their percentage increase or decrease in July 1930 over June 1930, are shown in the following list:

Principal Farm Products which Showed Price Increases and Decreases in July 1930 when Compared with June 1930 (arranged in descending order of percentage change)

<u>Increases</u>	<u>Decreases</u>	<u>No Change</u>
Milk	Rye	Chickens
Potatoes	Flax	Oats
	Cattle	Hogs
	Barley	Hay
	Wheat	Calves
	Lambs-Sheep	Corn
		Butterfat
		Eggs