



Farmland Rental Negotiations Factsheet

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Land is arguably your farm's most vital asset. Whether you raise crops or livestock, all production activities can be traced back to a need for land. This need makes securing access to farmland a critical part of managing your business.

Negotiating to rent farmland can be challenging and overwhelming. Other farms may be competing for the same property, and landowners may not fully understand production activities or how they impact land values. You may feel uneasy about sharing details of your farm business, and market trends might create pressure to offer high rent payments. This publication will review how to approach rent negotiation with potential and existing landowners, from first-time meetings to setting the stage for easier rental renewal conversations.



Negotiating to rent farmland can be challenging.

Negotiations are Business Meetings

Negotiations for farmland rental should be treated like any business meeting for your farm. Successful business meetings involve discussing how to achieve goals and working through any challenges that may arise. To ensure a successful meeting, preparation ahead of time is essential.

Confirm property meets your farm's intended production needs

Not all property is created equally. Yield potential is determined by soil type and health. Ensure intended crops are suitable to available ground and soil conditions. Requesting a soil test can provide up-to-date information and reduce costs associated with fertilizer management. Just because property is available doesn't mean it's right for your farm business.

Prepare to talk about challenges and risks to your farm operation

Many factors outside of your control can impact your farm, such as market conditions and unexpected weather. It is important to be able to articulate how these risks affect your business without appearing to complain. Complaints about challenges create a negative impression of how you view and manage risk. Landowners need to understand that production and profits are not guaranteed, so it is important to share your plans for managing risk. This information can help establish why rent payments need to remain reasonable given your operation's circumstances. By outlining how you will meet a landowner's needs when challenges occur, you can establish your value as a tenant.

Know your cost of production and break-even points

Negotiating a rental agreement requires an understanding of your farm's potential profits. Knowing your production costs can tell you if a proposed rent is more than you can afford. More importantly, you can effectively convey to a landowner why that rent is too much for your operation, especially if you combine expected costs with potential risks. This information allows you to offer a reasonable counter proposal and a maximum rental value as you finalize negotiations on price.

Identifying if a rental agreement is reasonable also includes any additional costs that may arise. For example, landowners may have specific requirements to rent their property. These may include tree trimming on field edges, soil health maintenance, and more. You should understand any costs and time involved to meet requirements, especially if they affect farm activities. Those costs should be discussed in the negotiation process. Before agreeing to any additions, be certain they are achievable, and that renting property is still affordable to your operation.

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Rehearse with someone how you will respond to pushback

Remember that landowners are looking for rent income to cover their own costs. They also have expectations for how their property is to be maintained. Because of these reasons, you may encounter challenges to your production activities in addition to costs or risk assessments. Practicing how to respond to these discussions before a negotiation can ensure that you respond respectfully and productively. It can even be helpful to prepare short responses to show your empathy for their situation, too. Demonstrating your understanding of how declining revenues impacts a landowner is important, especially if you expect them to understand how similar situations impact your farm.

Don't be afraid to share details but avoid oversharing

There is often a concern that sharing any details opens your farm to scrutiny. From how you spend money to even making day-to-day business decisions. Scrutinizing your management decisions can negatively impact negotiations. For these reasons, be cautious and avoid oversharing details that can detract from reaching an agreement. For example, you should avoid discussing labor or farm debt in any great detail. How you manage your workforce or finance your farm is not necessary information a landowner needs to know. While important to cost of production, too much attention on costs creates doubt about you as a potential renter.

Focus instead on details that help to build confidence that you are a trustworthy tenant of their property. Provide information on reaching production goals, market strategies, or uses of insurance programs. These details describe your profit generating efforts and management of risks. Be sure to include any government farm programs that you participate in, especially if your participation would include a landowner's property. Many farm programs are designed to operate similarly to insurance policies and can further demonstrate your efforts to retain profits.

Review factors that influence property value, especially if they limit productivity

There are a number of factors that affect a land's value for farming purposes. These factors include production capacity, accessibility, and local competition for land. Productivity potential of a property is important for both you and a landowner. You need to evaluate what is a reasonable value for you to offer when renting. Landowners need to understand if their asking price matches their farm's production potential, especially if they are seeking an increase in rent income. To learn more about factors that affect a rental value, review MSU's factsheet on Farmland Rent Considerations (www.canr.msu.edu/resources/farmland-rent-considerations).

Be flexible and consider alternative leasing options

The most common type of rental agreement is a cash lease. A landowner is paid a set amount each year regardless of your farm's production or profit achievements. However, different types of rental agreements should be considered during negotiations, especially if an alternative type of agreement offers a better means of each party reaching their desired rental goals. When preparing to discuss alternative lease agreements, be sure to understand risks, rewards, advantages, and disadvantages of each option.

For example, a flexible cash lease agreement still retains a set amount of cash rent, but also provides a bonus payment at harvest. A bonus is paid only if certain achievements are reached, such as production and prices equal an established gross revenue. If achievements are not met, only the cash rent value is paid. A flexible cash lease allows property owners to share in risks and rewards of production activities, while taking their comfort level of risk into consideration.

Initial Meetings and First Impressions

The key to negotiations starting out positively is to make a good first impression. Begin by establishing a good rapport. Offer your appreciation for having an opportunity to farm their property. Even a simple "thank you" demonstrates respect for not only an owner's property, but for their time. A successful and sustainable relationship can be built around this "good neighbor" mentality of friendliness and appreciation.

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Reputations precede any farm rental discussion

Your reputation as a farm manager is another important aspect of establishing a good first impression. How you and your farm are viewed by other businesses and your community can affect whether you secure an agreement. Are you well respected? A well-respected farm is defined as one that is trustworthy, honest, dependable, and effectively communicates in its business relations. If that definition describes your farm, it implies a good relationship between tenant and landowner should be expected. If that definition does not describe your farm, chances are a landowner will have concerns about entering into an agreement.



Landowners need confidence you will care for their property.

Emphasize how renting benefits your farm's goals

After providing background, shift to talking about their property directly. Outline your crop plan and what will be grown. Describe tillage practices, seed to be planted, pesticide uses, and how crops will be harvested. If any work is custom hired, share details on who you hire for those tasks and why.

Invite landowners to ask questions about your plan and any concerns they might have. They have a right to know who will be on their property and what will be happening on it. They may have concerns or requests about production activities that need to be discussed. Discussing your crop plan provides an opportunity to showcase how you'll manage rented property. By inviting questions, you also demonstrate your willingness to communicate and share information with them.

Communication can make or break a lease agreement

Establishing trust is essential to maintaining a successful lease agreement between a tenant and a landowner. Building trust begins with effective and honest communication about expectations. Landowners want to know what to expect if you are farming their property, so provide background about your farm business and its goals. This can include production, financial, or business achievements you've set for your farm. If you've rented other land, share how you've managed those properties. Describe how additional farmland will help you advance those goals. This shows how you will value and take care of the property. Landowners need to feel confident that their property will be well-treated.

In addition to discussing your crop plan, it's important to outline your expectations for managing their farm property. Share what that management looks like to you. For example, do you need to leave equipment on the property, access gates or roadways, or limit access at certain times? Encourage landowners to ask questions and share their expectations, too. They may not understand farming and may have concerns about something you describe. By encouraging discussion, you can work through potential disagreements and establish open communication for a successful leasing relationship.

Take notes and review all important line items discussed

Negotiations can involve discussions across many topics. Each topic may include several details or requests from either you or a landowner. Taking notes throughout your meeting can help to ensure all important items have been discussed. Notes also help to provide a summary of details needed for any pending written agreement.

An agreement to rent may not happen in your first meeting

It's okay if you need to table discussion and resume negotiations later. An honest, healthy discussion of needs and expectations between you and a landowner can reveal a lot of information for either party to consider. You may need to reassess what is being asked to maintain a property and not just a rent price being proposed. A landowner may need to consider any counter proposals you've made and how it impacts their own goals.

If discussion is going to be tabled, establish a tentative date and time for a follow-up meeting. You want to demonstrate your continued interest in pursuing negotiations, while each party considers what has already been discussed before continuing forward. It also allows you to consider whether both parties are suited to a rental relationship.

Determine if you and property owner are compatible

Shared values, goals, and expectations on property management are crucial to a long-term leasing relationship. Avoid entering into an agreement with someone that you don't feel is compatible with your values. If strong disagreements exist and are not resolved during an initial negotiation, it is likely they will persist. That persistence may cause problems during a lease agreement or future renewals more difficult to achieve.

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Once Negotiations End and an Agreement is Reached

Successfully concluding negotiations means you've come to an agreement. A rental value or method of establishing it have been outlined. Property maintenance has been defined. Most importantly, both parties understand what is expected to fulfill their portion of this new rental relationship. Now you need to solidify this relationship and ensure it has an opportunity to last.

Ask for a written lease

A written lease provides both parties with protection and a reference for each other's responsibilities. This reference should be more than just rent values or methods of establishing them. Written agreements should contain all negotiated points that have been agreed upon and who is responsible to carry them out. Agreements can also include guidance on how to resolve any disputes that arise. If recorded at your county's Register of Deeds, written leases can even protect your rights if landownership changes (to heirs or purchasers).

Alternatively, an oral lease offers little protection and provides more opportunities for disagreement. For your farm, protection is limited to harvesting any planted crops. Multi-year investments, such as lime or fertilizer, are not protected and would be lost dollars to your operation.

Written agreements also provide good rapport toward rent renewal

With each party carrying out their respective duties, everyone benefits from an existing arrangement. At renewal time, you can discuss having fulfilled everything outlined in an agreement. You can also highlight how that provided positive experiences for both parties and has established a good rental relationship.

This helps when discussions around changing rent values arise and you need to demonstrate your value as a tenant, especially if a proposed rent value is too much for you to afford and needs to be reduced. Demonstrating that value is also useful when landowners are approached by other farms about renting their property. They can review a written agreement with you and know what to expect by keeping you as their tenant.

Negotiating Renewal Starts When Initial Agreement Begins

Demonstrating your value as a returning tenant starts when your first agreement begins. You need to establish a positive relationship with your landowner and maintain it throughout a leasing period, regardless of whether a lease period is one year or multiple years. Your relationship with a landowner is crucial to maintaining their acres as part of your operation.

Keep communication open

Just like during negotiations, questions from a landowner should be encouraged during a leasing period. Remember, property owners may not understand a lot about farming or activities they'll see on their land. Encouraging questions helps to build education on practices or significant changes that may be seen, especially if practices are different than what was discussed during negotiations.

Providing landowners with a production update

Updating the landowner on farm activities at various points of a growing season helps to build a good rapport. Production updates should include information on crop conditions, market activities, or any activities you have planned such as planting, spraying, or harvest. Landowners often like to stop by when they see activity on their property. They may also visit when you are not there. Keeping them informed helps them to understand what they are seeing or what to expect when they visit. Be sure to always inform a landowner if a problem occurs or an activity limits access to their property, such as re-entry intervals from chemical spraying.

Providing production updates is a good way to educate landowners on farming practices and significant changes. Changes in cropping plans or market conditions are important for landowners to know about, especially if they affect profitability. This is a good opportunity to explain any circumstances that may impact rent payments, now or in the future. Avoid complaining about negative situations and focus on discussing facts and numbers to illustrate the current farming

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environment and how you are adapting your plans to work through it. This will help build trust and establish a successful leasing relationship.

Schedule annual meetings

It's a good idea to schedule annual meetings with your landowner. These meetings can be formal with established dates or informal where they are held during a certain time frame each year. For example, you may have a meeting sometime in December or January and contact your landlord in that time period to schedule a date and time.

Recognize all owners whenever possible

Building a good rapport and strong rental relationship should include recognizing a landowner and their family. Recognition can start with simple things, like acknowledging important life events, such as a 50th wedding anniversary or child's college graduation. You can also recognize a landowner by inviting them to events where your farm may be receiving an award. Especially if their farm contributed towards an award's nomination and reception.

When appropriate, begin including future generations in any passive communications or production updates whenever possible. However, be sensitive to established lines of communication within a family. A rental agreement is often between your farm and a single individual. Any communication or involvement of family members should be discussed with your landowner before moving forward.

Rental Agreements Should Be Thorough But Also Flexible

Rental agreements are a contract. Contracts need to be built on openness and trust. These agreements also need to thoroughly address any major concerns that exist for both parties. However, it is impossible to prepare for every situation that might happen on a farm property. Flexibility can be constructed into any agreement by establishing an open process of how to help work through unexpected occurrences.

An open process is a method to encourage respectful and productive communication. It also establishes that all information about a circumstance be provided to both parties. Sharing of information allows everyone to understand what is going on and how to develop a workable solution forward. Disagreements are also less likely to occur or will be short-lived as you move forward. Most importantly, an open process empowers both landowner and farmer to continue benefitting from their rental relationship.

Resources

Additional resources that contributed to the creation of this factsheet include:

- [Lease Considerations for Landowners and Farmers](https://content.ces.ncsu.edu/keeping-farmland-in-farming) – North Carolina State Extension (https://content.ces.ncsu.edu/keeping-farmland-in-farming)
- [Ag Decision Maker Leasing Website](https://www.extension.iastate.edu/agdm/wdleasing.html) – Iowa State University Extension and Outreach (https://www.extension.iastate.edu/agdm/wdleasing.html)
- [Farmland Assessment Checklist](https://extension.psu.edu/farmland-assessment-checklist) – Penn State Extension (https://extension.psu.edu/farmland-assessment-checklist)



Production updates help educate landowners on farming methods.

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