



How Much Should You Charge for Renting Farmland?

By Jim Ochterski, Senior Extension Educator

Across the United States, millions of acres of farmland is owned by one party and rented to a farmer. Here in New York State, about half the land used for farming is rented. As land changes hands, new owners often wonder if they are getting a fair rental rate and farmers wonder if they are being charged too much.

In general, the farmland rental rate will depend on the quality of the soil, the value of the crop, the size of the parcel, the demand for farmland, and how long the land has been farmed. Farmland rental rates are variable (from free to more than \$100/ac.), and before setting a firm price, landowners should first consider the benefits of renting land to farm operators.

In New York State, landowners who rent their land to farms may be eligible for a property tax reduction, if the renting farm is eligible for and applies to receive the agriculture assessment each year. Work on farmland can be beneficial to future plans for landowners. For example, a maintained hay field may become a future Christmas tree plantation or habitat for wildlife.

Rather than cash, landowners can exchange farmland use for services the farm operator may be able to provide, like plowing, mowing, or snow removal. Farm products, like vegetables or fleece, form a reasonable currency for rental. Consider how your relationship with a farmer can be enhanced without cash exchanges while the farm operator uses your land.

The key to farmland rental is fairness. A landowner usually comes up with one figure and the farmer a different figure. This is normal. At that point, both parties should negotiate to get a lasting agreement in writing.

One of the more equitable ways to determine cash rental rate is to determine the tax rate, and the cost of repairs to culverts, fences, or other land improvements. These expenses can be recovered by renting the land for the same percentage of agriculture value. For example, if the land is worth \$1200 per acre for farmland, the expenses may total only \$48 – 60 per acre per year (4 –5 percent). You should not charge a farm a percentage of the highest possible value of the property – only its value as existing agriculture land and only for the portions that will actually be farmed. If you choose, you may include a return on your investment in the land that might represent an additional 2 – 5 percent. If the farmer makes improvements and repairs to the land, then the landowner's expenses would be lower, and the rental rate would drop accordingly.

Another method for determining a fair rental rate is to cover your costs of annual ownership, which includes insurance costs on the farmed portion of the land and property taxes (hopefully with the agriculture assessment rate in effect). Add up your

annual property taxes and insurance, proportioned to the farmed acreage (not the residence if there is one). The farmer would have the same costs if they owned the land, thus it represents a generally fair price.

The "going rate" for farmland is different in every county and even from location to location in a single county. Generally, productive soils and high-value crops command higher rentals. Equally productive soils with field crops are rented for standard payments (\$10 - 45 / acre per year). Farm advisors, area farmers, and Cooperative Extension agents can indicate what rates are generally in effect for the soils and farmland demand in your area.

Although some farmers and landowners settle up on nothing more than a handshake, it is better to have the information written down. Cornell Cooperative Extension recommends that every rental situation be accompanied by a written lease that has been reviewed for legal integrity. A written lease makes the terms of the lease clear and defensible in the event of a land transfer or farm sale. The NYS Office of Real Property Services requires a written lease to be in effect for rented land to qualify for an agriculture assessment.

A written the lease will be helpful in the event of a liability situation or property insurance claim. Check with your insurance agent to find out how your insurance policy can be adjusted to include the farm lease and whether the lease document will be acceptable within the terms of your policy. You may need an endorsement on your property insurance policy that covers the added exposure. You should also request to be added to the farmer's insurance policy as "additional insured." This will help cover you if a third party is involved in damage or liability. This is a common process and your insurance agent should be able to handle the paperwork easily.

November 2007, updated July 2014

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