



WHAT LANDOWNERS SHOULD KNOW WHEN RENTING OUT FARMLAND

Corbett Kull, CEO | May 6, 2019



This article first appeared in Successful Farming.

If you own and rent out farmland, you're probably aware that it's a great investment. If you own land you currently work but are thinking of retiring soon, you may not be familiar with the best strategies for renting out your land. In fact, we estimate that landowners are losing out on about \$8 billion in rental fees every year by renting below market rates.

Why? Plenty of reasons. For one, a lot of farmland is rented by handshake agreement – an arrangement that will likely appeal to you if you know exactly who you want to replace you in the fields.

But ensuring that you're collecting fair rent on your land could make a significant difference to your finances, particularly as you head into retirement. Here, I'll lay out seven things all landowners should do to ensure they're getting a fair price for their land.

1. Know How Farmland Value Is Calculated

Obviously, one of the biggest determinants of your land's value is how much it produces: Grow more corn, earn more cash. Of course, the market price of whatever you're growing also has an impact (and if everyone grows more corn, the price might go down, so you might not make as much as you expected).

As you determine a fair rental price for your land, remember that its yield will have a major impact on what's fair.

2. Know The Condition Of Your Land

When you sell a car, you know that make, model, and condition have a huge impact on the price you can get. The same is true for land: You want to know the condition of your soil, the effect of its general shape, and its flood risk – things you may have accepted over the years without considering their impact on value.

As far as calculating exact price, there aren't a lot of great tools out there today, which is why we built Tillable. For example, you can look at the Soil Survey Geographic Database (SSURGO), which has taken samples of all farmland in the U.S. and offers some insight.

The USDA also publishes average value of farmland by county, which is a good starting point, but won't offer information specific to your land.

3. Know How To Take Care Of Your Land

Healthy soil produces more than depleted soil, so it's important to track your soil's condition and, ultimately, take steps to maintain its fertility. If you don't, yield will decrease over time, resulting in less crop and less income from the land.

As a non-farming landowner, you have to think about fertility differently than you did as an active farmer:

Your renter should be the one following a soil management plan to replenish the nutrients crops leech from the soil. Your job is to verify that this is being done.

Fertilizer is a farmer's second biggest expense after seed. If money is tight, your farmer may be tempted to skip or skimp on fertilizer to save money. Be aware of this.

You can't evaluate the health of your soil just by looking. If a farmer isn't fertilizing properly, you won't be able to tell at first, and when you're not out there every day, you won't know the difference right away. But over time, the effects could be devastating.

Given the importance of maintaining soil fertility, it's crucial to know how to make sure your renter is taking care of the land.

One tool I like is the AgPhD app, which lets you input your crop and yield to determine the exact amount of each nutrient that was removed with last year's harvest. You can then email this information to yourself or send it to your renter. It's also important to perform soil tests.

The key here is to remember that the only way to maintain your land for the long term is to make sure it's fertilized properly. Now that you won't be the one in charge of day-to-day operations, you have to find ways to check your renter's work.

4. Do Your Homework When Choosing A Farmer

As a landlord, you should be able to trust that the farmer working your land is taking care of it. As you seek a tenant, it's best to:

- Interview multiple farmers. You wouldn't send your kids to the first daycare provider you found, and you shouldn't entrust your land to the first farmer you talk to. Talk to multiple people to get an idea of who you're comfortable with and to make sure you trust the person you ultimately choose.
- Check references. Remember, this person's actions will determine the long-term value of your land, which is an investment asset. Make sure their past landlords have had positive experiences.
- Don't equate high price with good value. One reason it's important to know your land's value is that the highest rent offer may not be your best deal. One way a farmer can pay you more is by skimping on expenses like fertilizer. While that may earn you more in the short term, it can decimate your long-term earning power, which can be devastating in retirement. On the other hand, farmers running large-scale operations can offer better prices because of economies of scale. The point is, you have to know what you're offering and who you're offering it to.

5. Use A Formal Lease

Even in 2019, most farmland is rented without formal paperwork. That's not great for the same reasons it's not great to enter into any legal relationship without a contract defining its terms.

Many major agricultural universities publish sample farmland leases, but keep in mind that those should only be a starting point. Getting input from an attorney is ideal.

6. Get General Liability Insurance

If you're making money from land rental, you're technically a business owner, and as such, you have certain liability exposures that could end up costing you. General liability insurance is an easy and important way to safeguard yourself, and your investment in farmland, against these risks. It is the first layer of protection for catastrophic expenses that may occur due to injury or wrongful death and covers legal and medical costs associated with these events.

Obviously, lack of insurance coverage does not relieve you of financial responsibility for accidents that happen on your land. Without insurance, you would be forced to fund these significant costs through personal means. General liability insurance is usually inexpensive, and it's worth every penny.

7. Keep A Long-Term Perspective

Farmland is an incredibly valuable asset. Unlike a company's stock, you know that farmland will have intrinsic value for as long as people are on this planet eating food. As you think about renting your land, keep this long view in mind.

A long view means not only renting to a farmer who will replenish nutrients, as I mentioned above, but also one who will maintain filter strips between your land and waterways and one whose techniques prevent erosion.

As a landowner, you're also a steward of one of the most important resources for maintaining life on earth.

It's A Good Time To Own Farmland

Today, about 40% of U.S. farmland is rented out, and retired farmers account for about 38% of landlords. Technology improvements mean that yields steadily increase, so if you're lucky enough to own farmland, following these seven steps can help ensure that you get the best possible return on that investment – even when you're no longer the one actually working the soil.

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