Determining The Rent
Leasing Fact Sheet

This fact sheet does not address all legal concerns and is not a substitute for legal advice.

Introduction

What rent should I charge? What rent is reasonable to pay? These are among the most common questions from farm landowners and prospective farmer-tenants. Several considerations go into determining the rent for a farm property. Often, and unfortunately, there's no simple answer.

Location, soil quality, infrastructure, supply and demand, and the personal goals of the landowner can influence the rental price for farmland. For many leases, the rental rate is determined on a per-acre per-year schedule. So, up front it's agreed that the farmer will pay a certain amount for the year for a specific number of acres. The crop that's being grown often affects the rental rate – high value crops like vegetables typically have a higher rental rate than pasture or hay land. The rental rate is an opportunity for creativity – bartering with in-kind goods or services is a viable option. Be mindful of tax implications, and consult with a tax accountant. See In-Kind (No Cash) Farm Rent Fact Sheet, No Such Thing as "Free Rent" Fact Sheet, and Tax Aspects of Leasing Farmland Fact Sheet.

This fact sheet summarizes the more common methods to determine the rent in farm lease agreements. For an excellent, in-depth discussion of farm rent, see How to Determine the Right Farm Rental Rate published by the University of Vermont.

Methods to Determine Rent

The Market Rental Rate: The local market rate can be estimated by talking with area farmers, farm landlords, Extension agents and other farm support personnel. This will give a ballpark figure, but because there are multiple factors that go into the rent, be cautious about "comparables."

USDA County Rental Rate: The National Agricultural Statistical Service (NASS) provides data on average cash rents in many US counties, but not many in New England.

Landowner Fixed or Carrying Costs: One objective of some landowners is to meet (or contribute to) the costs of owning the property. These costs include: depreciation, insurance, repairs, taxes, and interest, know as the "DIRTI 5." By enrolling land in a state's current use tax program, a landowner can reduce yearly tax expenses, thereby reducing his or her carrying costs and increasing the likelihood of charging a rental rate that covers carrying costs each year and is more affordable to the tenant.

Other costs may be absorbed by the landlord, passed on to the tenant in the rental fee, or passed to the tenant directly. These include utilities, water charges, phone, Internet, trash and snow removal, for example.

Resource Capacity: The rental rate can be determined as a function of soil type and condition, size of the parcel, and other varying factors. NRCS soil maps are a

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great resource to help determine soil properties and capabilities. Barns and infrastructure often use carrying capacity to determine the rental rate. For example, the number of a head of cattle a barn can house or the number of stalls in the barn is the resource capacity. Finally, square footage, condition of the barn, and type of use can all determine the rental rate.

Costs of Production: A copy of the farmers' business plan can show actual costs of production and projected costs, as well. If the lease includes stewardship provisions that increase the farmers overall costs, then this should be considered in the rental rate.

Social Goals: Some landlords have social motives such as supporting local farming or providing beginning farmers with affordable access to land. They charge less than market rate for rent. These factors may be difficult to measure, so landlords and tenants need to maintain appropriate accounting practices for tax purposes.

Renting farm buildings, equipment, or a residence

Farmers can also rent buildings and equipment. There are no simple formulas for determining the rent on these assets. Most typically, the owner will assess his or her ownership costs through one of several methods. The most common is the "DIRTI-5". This stands for depreciation, insurance, repairs, taxes and interest. Then the owner and the renter can agree on which costs will be covered by which party. For a detailed approach to calculating rent on buildings and equipment, see How to Determine the Right Farm Rental Rate (referenced above) published by The University of Vermont.

Renting a farmer residence can be handled in a couple of ways. Keep in mind that a farm lease is a commercial lease, not a residential lease. Sometimes it makes sense to include the residence in a "whole farm" lease. If included in one "master" lease, the lease should include elements of a conventional residential lease—adhering to state laws and regulations. Farm tenants are due the same rights to safety and habitability as any other tenant. In some cases it makes more sense to write a separate lease for the residence. Most states have websites that detail its requirements. One drawback to the multiple lease approach is having more leases to manage.

Land For Good ensures the future of farming in New England by putting more farmers more securely on more land. We educate, consult, innovate and advocate with and for farm seekers, established farmers, farmland owners, and communities to navigate the complex challenges of land access, tenure and transfer.
For more resources and information, visit our toolbox at landforgood.org/toolbox. For help with leasing farmland, contact us at landforgood.org/contact.

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