Addressing Capital Improvements in Farm Land Leases -2024

Renting farmland can seem like a pretty straightforward process. Still, like machinery, land will also need some maintenance, repair, or capital improvements over time, which can create unique challenges on rented farmland.

How can capital improvements such as field drainage, driveway upgrade, addition of organic soil amendments and multi-year fertilizers be addressed in a lease? How do we accommodate the tenant investing capital in pasture development, livestock fencing, the installation of maple syrup lines or transition to Organic production in a land lease?

There are several methods:

• Cost-share between landlord and tenant, with a prorated schedule. The lease structure on the farm may help determine the best cost-share agreement between the landowner and tenant. For example, a 50-50 crop-share farm looking to add drainage tile will benefit both parties equally with increased production; therefore, a 50-50 cost-share may be considered. Since the field tile will be an asset to the landowner alone, consider putting the tenant's portion of the cost on a prorated schedule if the tenant is no longer on the farm. The time frame of the schedule should be based on the estimated time needed for the improvement project to repay itself. If you feel the added tile will pay for itself in 10 years that should be the schedule used. If the tenant is no longer farming the farm after the fifth year, the landowner will need to pay back 25% to the tenant for the prorated share of their investment. The same principle could apply to any capital investment that benefits both parties, like an erosion control structure or grassed waterway.

Another method is Cost-sharing with a long-term lease. This approach offers a sense of security and stability, as it allows both the tenant and the landowner to commit to working with each other for an extended period of time. If the tenant invests in a project expected to pay for itself in five years, consider signing a five-year lease that allows the tenant to recoup their investment. This could be used in both crop-share and cash-rent situations. The tenant provides labour and machinery, while the landowner pays for the materials. I have seen farming operations that own equipment offer this to landowners. Again, this can be accompanied by a prorated schedule or a long-term lease. If the tenant is willing and able, farms can be improved while minimizing cash needed from the landowner.

Another method is to use supplemental rent or increased rent. This approach ensures that the tenant's contributions are valued and fairly compensated. On crop-share farms, the tenant could pay supplemental rent to help pay for capital improvements. For example, a 50-50 crop share lease may include a $25-per-acre supplemental rent that can be allocated toward improvements that the landlord would pay for. On cash-rent leases, the tenant may be willing to pay a higher rent in exchange for improvements to the farm, considering the landowner pays for them.