



Extension FactSheet

Agr., Env., & Devel. Economics, 2120 Fyffe Road, Columbus, OH 43210-1061

Managing Landlord-Tenant Relationships: A Strategic Perspective

LeeAnn E. Moss, Assistant Professor
Bernie Erven, Professor

Many farmers depend on leased farmland to have a business of adequate size and income. This makes long-term, positive relationships with landlords one of the keys to their success. Good production management and marketing do not overcome insensitivity to their landlords' values, objectives, and frustrations. On the other hand, many landlords depend on their lease income for financial security. They also seek stable and hassle free relations with their tenants. Landlords often have emotional ties to the land they are leasing. They likely assume that others, especially tenants, will be sensitive to the history, the sense of accomplishment, the sacrifice, and the pride embodied in the land. Just as certain principles and practices guide borrower-lender, employer-employee, husband-wife, and parent-offspring relations, some important principles can guide landlord-tenant relations.

The Landlord-Tenant Relationship

While the percentage of leased farmland has remained relatively constant in the U.S. over the past century, the characteristics of lessees, lessors, and the nature of the contractual arrangements between them have changed. About 65 percent of landlords are more than 60 years of age. Most are not actively engaged in farming. Over half live within 25 miles of the rented acreage. Women are a significant factor; while 31 percent of landlords are men, 40 percent are women, and another 29 percent are joint male and female (Rogers). Moreover, the significance of female landlords is expected to increase as the overall farm population ages.

The proportion of rented land is generally higher in states, Ohio for example, where land is more highly valued. In fact, in 1997 approximately 47 percent of land in farms in Ohio was leased (1997 Census). Though share leasing has historically dominated in the Midwest, results from the most recent Ohio Farmland Lease and Precision Agriculture Survey indicate that over 75 percent of leased land is now cash leased, and that crop-share terms vary significantly. Additionally, a 1998 survey of professional farm managers in Illinois reported that 93.2 percent had experienced a modest to significant increase in the level of cash leasing in their market area (Barry, Sotomayor, and Moss).

A recent study indicated that lease preferences are influenced less by risk aversion than by the characteristics of the leasing relationship — namely the threat of opportunism from the landlord and the potential returns to the producer's management ability (Moss). Moreover, Bierlen and Parsch found that social capital is important in determining the terms of trade between lessee and lessor. For example, a tenant is less likely to pay higher cash rents when the landlord is a relative. In other words, the nature and extent of the relationship between landlord and tenant can have a significant influence on lease type and terms, which in turn can impact the profitability and competitiveness of Ohio farmers.

Guidelines for Tenants

Following some straightforward guidelines can help tenants ensure that their farm businesses remain profitable. The guidelines can also reduce the costs of day-to-day relationship problems. Dunaway and Dunteman remind us that the old adage of "keeping the landlord happy" is no different from an effective public-relations strategy in any business. For example, they reduce a strategy for farmers, with the end goal of retaining control over rented land or other real estate, to six key points: (i) communicating with landlords, (ii) educating lessors about agriculture, (iii) explaining farm costs and their changes over time, (iv) providing regular crop reports during the growing season, (v) maintaining the appearance of the property, and (vi) treating landlords like family.

A successful strategy for managing relationships with your landlord should include the following:

- **Have a written lease:** Lease agreements for farmland or other real property assets should be in writing. Many landlord-tenant relationships in Ohio have traditionally been governed by oral leases. However, keep in mind that oral, informal, and incomplete arrangements can foster misunderstanding and provide little guidance or protection to parties when disagreements occur. (Please refer to the *Legal and Management Aspects of Ohio Farmland Leases* fact sheet in this series.)

- **Provide a résumé:** Provide landlords with a detailed “résumé” of your farming operation. Include specifics regarding business objectives and philosophies, history of your business, education, tillage practices, equipment, land tenure, financial strength, and family.
- **Provide information about objectives:** Inform your landlords of the objectives for your farming operation. Remain responsive to changing landlord needs and communicate this responsiveness. Particularly when goals change, dialogue among the parties may foster a continued relationship, though the lease type or terms may evolve. Anecdotal evidence suggests that poor communication in this regard is a common reason for tenant termination. For example, a crop-share landlord may no longer wish to share in production and price risk. If she and her tenant have not communicated over time, assumptions may be made that result in the lease being awarded to another farmer.
- **Agree on a cropping plan:** Agree upon a cropping plan early in each crop year. Include specifics regarding input use and field operations.
- **Provide regular updates:** Regularly update landlords regarding crop conditions and commodity markets during the growing season. Include photographs where possible. Anticipate the landlord’s interest in how the weather is influencing crops, when planting or harvesting will begin, and reasons for any delays in planting or harvesting.
- **Inform and educate:** Particularly for absentee or non-farm landlords, you should provide information regarding agriculture and farming. Regular mailings of print media articles, newsletters, etc. both serve to educate landlords and demonstrate attentiveness. Consider developing a web site for informing not only absentee landlords, but their heirs who may inherit the property. Over informing may be the best strategy, particularly early in a new landlord-tenant relationship.
- **Provide cost information:** Landlords should be regularly updated regarding the costs of farming. Alerting the landlord to anticipated changes in costs can prevent irritation when the bill arrives.
- **Alert the lessor to problems:** Immediately alert your lessor when on-farm problems occur. If urgent, a phone call may be the most appropriate channel of communication.
- **Document in writing:** If decisions are made regarding items outside the scope of those provided for in your lease, be sure to document them in writing, e.g., a letter summarizing the agreed-upon action.
- **Improve appearance:** Producers should strive to improve the appearance of fields, driveways, roadways, and accompanying buildings. Landlords and neighbors who are potential landlords often correlate the appearance of the farm with farmers’ abilities as tenants.
- **Acknowledge life events:** Acknowledging major events in the lives of your landlords can be effective. Holiday, birthday, and sympathy cards, for example, can assist in building relationships. Lease terms are influenced by kinship, or by relationships that approach kinship.

- **Encourage “face” time:** Encourage landlords to visit their farms at least once during each growing season.
- **Pay explicit attention to the next generation of owners:** Attentiveness to your current landlords is critical, but may not ensure your continued tenure when their heirs inherit the farm. Where possible, strive to inform, educate, and visit with the next generation as well.

Guidelines for Landlords

Landlords can help accomplish the objectives for the farm and build positive relationships with their tenants. A successful strategy should include the following:

- **Have a written lease:** This is even more important for the landlord than for the tenants. The nature and terms of your tenant’s leasehold interest can influence the value of your property. As such, it is important that these terms be specified precisely in writing, and it is in your best interest to have legal counsel involved.
- **Ask questions:** Strive to fully understand your tenant’s activities, production practices, and decisions relating to your farm.
- **Provide information about objectives:** Landlords should keep tenants informed regarding their investment (or other) goals for the farm.
- **Stay informed:** Staying informed about the economics of farming, land values, and rental markets is important. In particular, this will prepare you to respond to situations when your tenant may seek lower rents. Network with other landlords in your state or region. Finally, spend time studying each report prepared by your tenant during the growing season.
- **Schedule yearly meetings:** Schedule annual sit-down meetings with each of your farm tenants to discuss the property and leasing relationship, and provide each tenant with a written summary of any important points of discussion.
- **Be rational:** Be wary of farmers who promise what seem to be unbelievable, too good to be true improvements over your current tenant. Moreover, avoid reaching critical judgements about your current tenant until you have collected the facts and provided him an opportunity to present his side.

A Landlord-Tenant Relationship Checklist

The type of information communicated between landlord and tenant can be as important as the amount of communication. Existing relationships may be strengthened, or new ones solidified, if the leasing parties ask appropriate questions. The following checklist of questions can guide communication. Landlords and tenants can use the same checklist.

- **Goals:** What are your investment (for landlords) or business (for farmers) objectives?
- **Risk:** How would you describe your level of risk aversion? What is your perspective on sharing risk? How much production and price risk do you wish to incur?

- **Lease preferences:** Do you have any pre-existing preferences for or objections toward certain lease types? Determine the foundation of any objections or biases. Biases can either be overcome or will dictate the lease type through which the relationship is governed.
- **Communication preferences:** Ask the other party about their expectations regarding the type and extent of communication that they desire over time, and be prepared to adapt accordingly.
- **Attitude toward change:** Are the parties to the lease willing to consider new options as opportunities or challenges present themselves?
- **Constraints:** Does either party have any taxation, business, financial, or other constraints that may influence the nature of the lease or the relationship?
- **Win/win:** Are both the landlord and tenant willing to seek win/win solutions to problems?

These guidelines may have three potential applications. They can be used to guide communication during: (i) the first in-depth landlord-tenant discussion prior to leasing the acreage, (ii) annual meetings between the parties to the lease, and (iii) the first in-depth discussion following a life-changing event (e.g., death of the landlord's spouse, death of a landlord followed by assumption of lessor responsibilities by an heir).

Communication—A Critical Skill

A successful relationship strategy depends on effective communication. Removing barriers is an effective way of improving communication, and requires an understanding of the communication model. The model consists of sender, message, receiver, channels, feedback, and effect. The sender sends a message through appropriate channels, either verbal or nonverbal, to a receiver. A response is provided to the sender of the message via feedback from the receiver. Feedback need not be sent through the same channel as the message (e.g., it may be a nonverbal cue such as body language). Through interpretation of this feedback, the sender can determine if the original message was received in its intended form. Effect on the receiver completes the communication process.

Problems in any one of the components of the communication model can result in barriers to communication, such as:

- **Unclear messages:** The receiver remains unclear about the intent of the sender. The sender can interpret feedback to determine if the message is clear or unclear.
- **Stereotyping:** Stereotyping involves either the sender or receiver developing a subjective impression that the other conforms to a certain mental model. This can be a barrier to communication when it substitutes for analysis of and responsiveness.
- **Incorrect channels:** Use of the correct channel assists the receiver to understand the nature and importance of the message. Choice of channel is dictated by the urgency, complexity, and formality of the message, as well as the knowledge, skills, and abilities of the receiver. Tenants should keep in mind that landlords sometimes want more than a written report.

- **Language:** The sender's words combine with the receiver's perceptions of them. The relationship between perception and reality can be determined through interpreting feedback. Progressive, younger tenants should be cognizant of using appropriate language. Technical or complex terminology may leave certain landlords confused and suspicious.
- **Lack of feedback:** Feedback mirrors the sender's original message, and may indicate a perception problem. It may occur in the form of questions, or nonverbal cues such as a frown or puzzled appearance. Prompt feedback, in which both parties play active roles, should be encouraged. Asking the receiver to repeat the message in his own words is often effective.
- **Poor listening skills:** Poor listening skills are pervasive. Good listening skills are fostered by: (i) being prepared to listen, (ii) avoiding interrupting the speaker, and (iii) being an active listener, which includes providing feedback. Listening is a particular challenge for tenants, who may have less time for "friendly chatter" than landlords. However, this type of interaction may provide important hints of landlord concerns that don't emerge in more formal discussions. Busy farmers should remember that lonely landlords will appreciate both time and lease payments from their tenants.
- **Interruptions and physical distractions:** Communicate in an atmosphere that is comfortable, private, and non-distracting for both parties. Find the right time to meet with landlords.

Relationships between tenants and landlords can be enhanced if the parties improve their communication skills, make communication goal oriented, approach communication with a positive and creative attitude, and work to reduce barriers.

Summary

Relationships are an important and often under appreciated source of risk for Ohio farmers and their landlords. For the landowner, an effective relationship management strategy helps ensure that her investment (or other) goals for the farmland are reached. For the producer, it is fundamentally important to his security of tenure. For both parties, it prevents or mitigates the "costs" of conflict and disagreement. Finally, in an environment characterized by strong competition for leased acreage, superior relationships provide farmers with a potential source of sustainable competitive advantage.

References

- Barry, P.J., N.L. Sotomayor, and L.E. Moss. "Professional Farm Managers' Views on Leasing Contracts and Land Control: An Illinois Perspective." *Journal of the ASFMRA* 62 (1998-99): 15-19.
- Bierlen, R. and L.D. Parsch. "Tenant Satisfaction with Land Leases." *Review of Agricultural Economics*. 18 (1996): 505-513.
- Dunaway, R.M. and D.L. Dunteman. *Farm and Ranch Lease Guide*. Bushnell, IL: Ag Executive, Inc., 1995.
- Moss, L.E. "A Transaction Cost Economics and Property Rights Theory Approach to Farmland Lease Preferences." Ph.D. thesis, University of Illinois at Urbana-Champaign, 2000.
- Rogers, D. *Leasing Farmland in the US*. Resources and Technology Division, ERS, USDA AGES-9159, 1995.
- USDA. 1997 Census of Agriculture, Vol. 1 Part 13. Geographic Area Series, Ohio.

This series of fact sheets is produced under the Acker Professional Improvement Program, Department of Agricultural, Environmental, and Development Economics, The Ohio State University. Peer reviewed by Robert D. Fleming and Donald Breece of the Department of Agricultural, Environmental, and Development Economics, The Ohio State University.

Visit Ohio State University Extension's WWW site "Ohioline" at: <http://ohioline.osu.edu>

All educational programs conducted by Ohio State University Extension are available to clientele on a nondiscriminatory basis without regard to race, color, creed, religion, sexual orientation, national origin, gender, age, disability or Vietnam-era veteran status.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Keith L. Smith, Director, Ohio State University Extension.

TDD # 1 (800) 589-8292 (Ohio only) or (614) 292-1868

4/01—jah