Leased Agricultural Land Brings Challenges and Opportunities

by Amy Hays, adult education manager  |  aehays@noble.org
Caitlin Hebbert, livestock consultant  |  cshebbert@noble.org

The 2017 Census of Agriculture showed a significant rise in the number of leased grazing land acres. Approximately 30% of land used for ranching is leased. Of the rented acreage, most is owned by non-operator landowners. This is in contrast to the past, when the land available for rent was often held by active operator landowners who were not using the land in their operations at the time.

This shift has brought opportunities and challenges. As land prices have skyrocketed during the last 25 years, the cost of acquiring land has been a barrier to new and beginning farmers as well as a significant problem for tenured operators who want to expand their grazing lands. As the amount of rental land has increased, it is important to look ahead and begin to understand how rental lands play a role in production agriculture at a rate previously not seen, particularly for new and beginning operators who may have to rely mostly on rental lands until they have enough capital to afford the high cost of land ownership.

This article will concentrate on some of the human dimension factors that are in play with leased lands.

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CHALLENGES FOR NEW AND BEGINNING RANCHERS

The United States is facing a significant challenge in recruiting and retaining replacement farmers and ranchers. The number of new farmers and ranchers and the generational transfer of land to younger family owners is not keeping up with the number of operators who are retiring from farming and ranching. For more information about this trend, see the article “Generational Flow: Replacing Farmers and Ranchers in the Family Farm” at www.noble.org/replacing-farmers.

According to the U.S. Department of Agriculture, the number of replacement farmers has been shrinking since 1985 for various reasons, including loss of returning rural generations, lack of new beginning farmers and ranchers, and early financial failure of new operations. More information is available at bit.ly/beginning-ranchers.

BUILDING STRONG LESSOR-LESSEE RELATIONSHIPS

Rental lands are appealing for starting or expanding operations, but there are challenges that go along with building lessor-lessee relationships. One prominent challenge that may arise is the presence of conflicting goals. If you want to lease land, and continue to do so for years to come, you’ll have to learn to be flexible and to adapt. Be willing to shape your operation on that property to first and foremost meet the goals of the landowner then prioritize.

FACTORS THAT COULD HINDER SUCCESS

An increasing number of rental acres has potential to help support those trying to enter into farming and ranching. The lower capital cost of rentals makes new operations possible but does not necessarily set them up for success because of several underlying factors:

SUPPORT FROM LENDING INSTITUTIONS
The uncertainty of tenure of leases creates a new risk factor for agricultural lending institutions because many rentals are only done yearly.

SHORT-LEASE TENURE
Many non-operating landowners do not want to lease multiple years. Some of the hesitation comes from uncertainty in their continued ownership of the land and if there is a desire to lease it multiple years.

FEAR OF CONFLICT
Both the lessors and lessees do not have much guidance or structure around conflict resolution.

STEWARDSHIP PRINCIPLES
The lessor and lessee may not share the same stewardship goals.

Leased lands might be one of the only alternatives for new and beginning ranchers or those who wish to grow their operations. As the number of non-operator landowners grows, the number of potential acres available for lease may grow. However, it is important to note that there is no certainty that those lands will become available for lease. This may pose another problem with fallow and idle lands not being available or used for agriculture production.

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some of your goals. Producers who lease land can often get this backwards. Putting yourself in the shoes of the landowner will go a long ways toward meeting both for both of you. This doesn’t mean sacrificing your goals entirely but rather considering the landowner’s goals first and being willing to shape your operation to benefit the lessee-lessee relationship in both the present and long term.

We have seen some cases where rental costs were lowered as a result of the lessee helping the lessor to meet management goals. For example, a lessee who has a planter handy could set food plots for a lessor with wildlife goals. This would offset what it would have cost for the lessor to hire someone, so they could lower rental costs. It’s also well-known that it’s hard to find a good lessee. If you make yourself a good lessee, it can incentivize lower lease prices just to keep you around.

**LEASING LAND TO TRY NEW IDEAS**

Despite the difficulties, leased lands may provide a solution for a critical need in the very near future of affordable production lands that can be used to build new enterprises. Leased lands may be used as a bridge to reduce the financial risks of starting enterprises or to fill in gaps for enterprises that need to rely on them during times of drought or enterprise growth.

Leased lands can also provide some freedom to build operations with new mindsets or values that some operators feel are not available to them on lands that are currently owned or passed down. It is not uncommon for there to be a difference in views on family operations in pathways to land stewardship. For some operators, leased lands may be a way to test and try different management principles. Although it feels like an uncomfortable situation to be in, sometimes there is difference in “old ideas” and “new ideas” that make lease lands attractive to producers. It’s usually not a situation of right or wrong, but rather support or risk aversion between family operators. Sometimes both parties would like to test ideas off of the family lands.

**DEALING WITH DIFFERENT PERSPECTIVES**

Different generations often have a different look at many things, including their views on stewardship, the definition of “sustainable” owned or passed down. It is not uncommon for there to be a difference in views on family operations in pathways to land stewardship. For some operators, leased lands may be a way to test and try different management principles. Although it feels like an uncomfortable situation to be in, sometimes there is difference in “old ideas” and “new ideas” that make lease lands attractive to producers. It’s usually not a situation of right or wrong, but rather support or risk aversion between family operators. Sometimes both parties would like to test ideas off of the family lands.

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**ADDITIONAL RESOURCES**

- Agricultural Lease Options to Consider (www.noble.org/agricultural-lease-options)
- Carrying Capacity Influences Leased Land Value (www.noble.org/carrying-capacity)
- Overcoming Barriers to Entry for the Next Generation of Ranchers (www.noble.org/overcoming-barriers-to-entry)

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and their philosophies about ecological principles. We refer to some of those differences as their “agro-environmental ethos,” meaning that they have come to the table with different feelings about their place in agriculture and the environment. Different generations may feel very differently about their obligations as land stewards, such as the ways they want to use the lands, the ways they want to implement management and their views on food. Thoughts may not be the same between parents and children or parents and grandchildren. This can also be the same with different generations in leased land relationships. The same human conflict issues can present themselves on leased lands as well as family lands. It’s important for everyone involved to understand that even on leased lands, these conversations still need to happen so that everyone understands each other’s views. A really good way to get all of that out on the table is to have management plans so that you can talk about why you want to stock the numbers or why you want to use prescribed fire. Having a plan tells the story about why you want to make the decisions. Both lessees and lessors should have management plans. Those plans help guide the stewardship principles you want to adhere to. Many conflicts are because nobody has a plan that can be explained to the other party; instead “plans” are all stored away in minds and translated as feelings instead of strategy.

**OPPORTUNITIES FOR STEWARDSHIP ON LEASED LANDS**

One of the misconceptions about leased lands is that non-owner operators do not care about the land they lease and that non-operator landowners are only interested in getting paid and not in the management and long-term care of the property. American Farmland Trust recently released a report on a survey “Understanding and Activating Non-Operator Landowners: Non-Operator Landowner Survey Multi-State Report” (farmlandinfo.org/publications/understanding-and-activating-non-operator-landowners/) that helped put some of those misconceptions aside. The main outcome of the report was that both parties can and do have stewardship values that guide their rental and leasing of lands. The following takeaways from the report can provide insight to both lessors and lessees who are interested in maintaining stewardship principles as a goal.

**LESSORS:** Actively seek lessees who share the same principles. Put stewardship principles and expectations into the contract as well as ways to monitor and create accountability for lessees to maintain long-term sustainability for rented lands. Stewardship and conservation tools as well as financial and technical support are still available on rented lands.

**LESSEES:** Ask for multiple-year leases to build sustainability in practices and economics. Develop forage, grazing and livestock management plans even on rented lands.

**BOTH:** Establish clear communication options and plans, especially for conflict management. Make clear who covers what expenses and costs.

**THE FUTURE OF LEASED LANDS**

The upward trend in leased lands was seen in both the 2012 Census of Agriculture and the 2017 Census of Agriculture. If there is no significant change in trends in the buying of agriculture lands, we anticipate that the 2022 Census of Agriculture will see a continued upward number of lands owned by non-operating landlords as well as an increasing percentage of production lands that are leased for use.

In the future, we anticipate that more resources will be found within the industry to help solve these new challenges. Potential solutions could include information on managing and leasing contracts, how to find available leased lands, ways to advertise for like-minded lessees, and managing risk for leased lands. In any case, both lessors and lessees will have roles to play in defining the sustainability of those landscapes in the near future.