FARM LEASES FOR ILLINOIS

By F. J. Reiss
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FARM LEASES FOR ILLINOIS
The Key to Better Tenant Farming

By F. J. Reiss, Professor of Agricultural Economics

A farm lease fully adapted to a given farm makes for efficient and profitable operation of the farm and for good relationships between the landlord and tenant. Largely the outgrowth of customs in the community, farm leases frequently require adjustment to meet changing farm practices and economic conditions. Many farm leases now in use are not adequate.

Future improvements in Illinois agriculture depend in a large part upon good farm leasing arrangements. Nearly 60 percent of all farmers rented part or all of the land they farmed in 1964. Over 60 percent of all farmland was tenant operated. Farm tenants, like owner-operators, want adequate income to reward them for their efforts and provide a good level of living for their families, security in the operation of their farms so that they may be effective citizens in their own community, protection from the hazards of changing locations, and the opportunity to develop the farm and their own abilities. Farm landlords desire a satisfactory return from their investments of capital and management, and assurance that the value of their property will be preserved. Good farm leases can help accomplish these objectives.

FARM LEASING

What Is a Farm Lease?

A farm lease is an agreement transferring certain rights in land from the owner to a tenant, and a record showing how the contributions to and the returns from the farm business are to be shared by the two parties.

The legal minimum

The only requirements of a legal, written farm lease are: (1) an accurate description of the property leased; (2) a definite and agreed term over which the lease extends; (3) a definite and agreed price of rental together with designation of the time and place at which pay-
ment is to be made; (4) the names of a specific lessor (landlord) and lessee (tenant); and (5) the signatures of the contracting parties.

While a document containing only the above five points is considered a legal lease, it is not an adequate lease to insure good farm operation.

A farm lease should anticipate as many important details as possible on which the tenant and landlord should reach agreement. A complete record of all items of agreement should be included in the lease and kept available for future reference.

Objectives of an adequate farm lease

In drawing up an adequate farm lease, three major objectives need to be considered in addition to the legal requirements. The lease should: (1) arrange for a fair division of the income and expense between the landlord and tenant; (2) make possible a profitable system of farming; (3) give as much assurance as possible to a good tenant that his lease will be continued through a period of years; and (4) give assurance to the landlord that the value of his property will be preserved.

A fair sharing of expenses and income will give an incentive and opportunity to make the farm business profitable and satisfying to both tenant and landlord. Good business arrangements, including stated time and procedure for financial settlements, should be recorded in an adequate farm lease.

In addition to financial arrangements, the lease should provide for a system of farming that will be profitable, maintain a high level of productivity, provide a satisfactory basis of living for the tenant, and reward the landlord for his investment. Management provisions should contain assurances of continued cooperative planning and means for handling new problems as they arise.

A tenant should have some degree of security of tenure so that he will develop the farm to the best of his ability and become an effective citizen in the community. The lease should protect him from the hazards of changing locations unnecessarily.

Why put it in writing?

A farm lease is a legal document which transfers certain rights in farmland from the owner to the man who is to operate the land. It should be regarded as a record of the understanding between a landowner and his tenant for the operation of a farm or tract, and not as
an instrument of economic power to be exercised by one party against
the other. Putting agreements in writing should be considered as
sound business practice and not as a lack of trust or confidence by
either party.

While many farms are rented by oral agreement, there are definite
advantages in having a carefully prepared, written lease. Some of the
advantages of a written lease are:

(1) It protects not only the original parties, but their heirs and
assigns in case either party should die.

(2) It serves as a memorandum to which either landlord or tenant
may refer in case of doubt as to the terms of their agreement, and
therefore helps prevent disputes.

(3) A written lease can provide for the more important farm
practices and business procedures and will thus, in case of dispute,
prevent common law, custom, or court decisions from determining the
application of practices or procedures unadapted to the farm.

(4) It affords a basis for changing minor provisions when condi­
tions arise that make adjustments desirable.

(5) It helps give assurance that both parties will consider all
phases of the lease before the contract is signed.

(6) When details of farm operation are specified in the lease, the
document serves as a partial history of the operation of the farm.

(7) It makes the term of rental definite and can provide a basis
for continuing the term of the lease beyond one year.

(8) It offers an opportunity to provide for a reasonable period of
notice to terminate the lease.

In spite of the obvious advantages of a written lease listed above,
many farms or pieces of land are rented orally with no written record
of the terms of agreement.

Unless it can be proven otherwise under Illinois law, an oral agree­
ment is valid only if it can be completed in one year. An Illinois law,
however, recognizes that when a farm is rented without a written lease,
the lease agreement shall continue from year to year unless proper
notice to end it is given by either party.

Where the lease is not in writing, the landlord or his agent can re­
quire a tenant to leave a farm by giving written notice of termination at
least 4 months prior to the end of the lease year. For example, when
the normal term ends March 1, notice to end the agreement must be
given on or before October 31.

A good written lease will provide for its continuation. The sample
lease forms in the back of this circular state that unless notice is given
in writing within certain dates the lease will be continued for another
time. If no such statement is included, the lease needs to be renewed
in writing before the end of the year. Otherwise the tenant becomes
a year-to-year tenant with no more security of tenure than a tenant
operating under an oral agreement. An innovation in our lease forms
is a clause which provides constructive notice of intent to terminate a
lease if it is not extended or renewed by a stated time before the end
of the lease year (see page 48).

The Farm, the Landlord, the Tenant, and the Lease

The four major factors in farm leasing are, of course, the farm, the
landlord, the tenant, and the lease. In order to arrive at the most satis-
factory leasing arrangement, the potentials and the shortcomings of
these four must be considered.

Characteristics of the farm

To a large extent the characteristics of the farm and of the landlord
may be considered as given, or fixed, for any tract of land available for
rent. This is not entirely true. The landowner can employ a profes­
sional farm manager, or agent, to represent him. The farm may be
enlarged through buying additional land, or capital investments, such
as buildings, drainage, fertility, etc., may be added. In most instances,
however, the characteristics of both will remain very much as they
were before the rental arrangement was made. The choices open to a
prospective tenant may, therefore, be restricted to a matter of renting
the tract or not, and under what type of lease and what lease provisions.

Some farms present peculiar situations such as a large proportion
of untillable land which would necessitate keeping a large amount of
livestock; unusual soil and topography which might cause, for example,
frequent flooding in periods of heavy rainfall; and expensive improve­
ments for particular types of farming such as an expensive dairy barn
in communities having little dairying.

Leases on farms with special hazards or conditions requiring un­
usual expenditures of labor or money or of management should specify
the contributions expected from each party, and should provide appro­
priate incentive conditions such as reimbursement guarantees for capital
improvements made by the tenant. It may be difficult to get either
landlord or tenant to agree to the expenditure necessary to meet some
unusual situation, especially when there are risks involved in getting
good returns for the additional expenditure. In general, farms subject
Farm Leases for Illinois

to unusual deterioration from erosion, depletion, or neglect are better placed in the hands of an owner-operator than in those of a tenant.

Profitable farming and better rural living depend in large measure on an adequate total income. The more productive the farm, the larger will be the income. Some farms may be too small to be profitable under the usual system of farming. But by increasing yields, by adding good livestock or high-income crops (intensifying the business), and by increasing efficiency, a small farm may give a tenant a good income and also reward the landlord for his contribution. Owners of farm units that are too small to utilize farm machinery and labor effectively should permit tenants to rent additional land or secure additional income from work away from the farm.

Characteristics of the landlord

From the tenant's standpoint, it is essential that the landlord possess certain qualifications that will allow dealings with him to be satisfactory.

A good landlord will have the following qualities: (1) honesty; (2) a willingness to cooperate; (3) an understanding of farm problems; (4) sufficient capital or credit to provide the improvements needed for a good system of farming; (5) good judgment respecting the relative need for and profitableness of investments in various farm improvements; (6) open-mindedness regarding the acceptance of new practices; (7) pride in good farming; (8) pride in a good community; (9) respect for the tenant's right to privacy and freedom of action within the agreed-upon plan for operating the farm; and (10) cooperation when quick decisions must be made for the best operation of the farm.

Since many rented farms are managed by agents or professional farm managers, it is appropriate for tenants to look also for these qualifications in the owners' representatives. Many landowners are women who inherited the farm property. They may be ill-prepared to cope with the management problems, or they may be uninformed or uninterested in the requirements of modern farming. Cash leases or professional farm managers can be helpful to such owners.

Choosing a tenant

Some well-informed people consider that three-fourths of a landlord's problems are solved simply by renting to a suitable tenant who fits the farm. There is no exact formula to enable one to select a good tenant. Experience indicates, however, that good tenants are likely to possess the following traits: (1) honesty; (2) a thorough knowledge
of the proper care of all crop and livestock enterprises to be included in the farm business; (3) the ability and energy to do good work in proper season; (4) sufficient equipment and financial backing to operate the farm effectively; (5) a favorable attitude toward the adoption of new methods and practices as rapidly as their merit is established; (6) interest in preventing the spread of weeds and the introduction of new weeds; (7) pride and interest in farm and community life; (8) willingness to make minor repairs to buildings and farm; and (9) willingness to enter into cooperative planning and respect for the specific desires of the landlord.

In addition to having these desirable traits in himself, it is essential that the tenant's wife be interested in farm life.

Choosing a lease

The major types of farm leases in use in Illinois are described in greater detail below and are reproduced in the last 24 pages of this publication. The principal differences among the lease types are in the degree to which each party is involved in (1) providing improvements and non-real estate capital, (2) making decisions concerning the organization and operation of the farm business, and (3) carrying the consequences arising from the risks and uncertainties associated with variations from year to year in physical production and in the prices of products produced. The characteristics of the farm and the experience, knowledge, capital position, and personal motivation of each party will have a bearing on which will be the most appropriate lease type for any given rental property.

The Four Types of Farm Leases in Use in Illinois

Different types of farm leases have been developed to meet the conditions found in the various farming-type areas in Illinois and on individual farms within those areas. The leases most commonly used are: (1) the cash lease; (2) the crop-share cash lease; (3) the livestock-share lease; and (4) the labor-share lease. The crop-share lease might be regarded as an additional type of lease, but it is similar to the crop-share cash lease except that no cash rent is paid. A crop-share lease is most common where single fields or unimproved tillable land is rented.

While no one arrangement is used exclusively in an area, certain factors will result in one type of lease being used more generally than others in certain areas of the state. The type of farming and hence
the most common type of lease found in an area will be affected by the type of soil, proportion of tillable land, topography, markets, size of farms, and other important factors. These area preferences for certain lease types are shown in Figure 1.

Cash leases occur especially in the truck and dairy farming areas adjacent to Chicago. Share rents are not adapted to fruit and truck farms. On dairy farms in this area, however, there has been a trend away from the cash lease to livestock-share and crop-share cash leases.

Crop-share cash leasing is well adapted to the heavy grain-producing sections in east-central Illinois. This is due largely to the fertility of the soil, the high proportion of tillable land, the large size of the farms, and the large investment per farm which gives rise to a high proportion of tenant farming.

Cash leases are coming into greater use throughout the state as improved farm technology makes yields more certain and as tenants need greater freedom of land use in order to integrate different ownership tracts into a single operation.

The straight crop-share lease is used more generally in the southern third of the state, where a tenant rents only certain fields which are used in growing crops and where the large proportion of untillable land in the area is low in productivity and commands little rent.

The livestock-share lease, while found to some extent throughout the state, is most common west and north of the Illinois River. Here, because of soil conditions, topography, and other factors, large amounts of livestock are produced.

The labor-share or father-son type of agreement is found throughout the state. It is a type of lease useful for young men who are starting farming and who are short of capital and may also be lacking in experience.

DEVELOPING A FARM LEASE

Choosing the Type of Lease

The first step in putting a farm under lease is to choose the type of lease best suited to that farm business.

Many considerations should enter into the final selection of a lease type. The condition of the farm and its improvements are of major importance. Both parties must determine what contributions in time, skill, and capital they are willing and able to make. They must also decide what risks in the farm business each party is to carry. A careful analysis of these three elements—the farm and its improvements,
Percent of all tenant-operated farms rented under each type of lease by economic areas in Illinois. Data are from the 1959 Census of Agriculture.
the contributions of the parties, and the assumption of risk — will aid
in the selection of the lease type most likely to be satisfactory to both
parties.

Conditions on the farm that will influence the choice are the size
of the farm, the percentage of tillable land, the topography of the
farm, its soil conditions, and the improvements available.

Unimproved land and small farms present special problems. Unim­
proved tracts of tillable land are in demand in most communities. They
enable farm operators to enlarge their operations and make better use
of their labor and equipment. These tracts are customarily rented for
cash or under a straight crop-share lease.

The small farm frequently does not provide a large enough business
to fully utilize the tenant’s labor and equipment. To overcome the dis­
advantage of its small size, the owner of a small farm may equip it
for livestock or some other intensive farming operation, or he may
permit the tenant to rent additional land or gain income from working
away from the farm. If the owner does invest in livestock facilities,
a livestock-share lease may be required to provide a return for his
investment. An alternative is a cash rent that reflects the added
improvements.

The crop-share cash lease is most commonly found in areas having
a high percentage of tillable land. Here livestock is not required to use
forage produced on untillable land. Unless livestock is well handled,

grain farming is as profitable under these conditions. Hence, many
landlords, rather than risk that a tenant may be a poor manager of
livestock, prefer to rent their land under a crop-share cash lease.

Where a large proportion of the land is untillable or must be kept
in sod crops to prevent erosion, it may be necessary to keep consider­
able livestock to use the land efficiently. Since he must provide build­
ings and fences to handle the livestock, the landlord may wish to make
an added investment in the livestock and share in the total farm income
under a livestock-share lease. Since this situation occurs most fre­
quently in areas having considerable livestock, a landlord is less likely
to have difficulty in finding an experienced livestock farmer for a tenant.

Since farming is a business where many problems must receive
prompt, skilled attention, the landlord must consider his own knowl­
edge of farming and the time he has available to manage his farm.
The landlord may be unable to contribute much to the management
of the farm because of inexperience, heavy demands on his time, or a
location at some distance from the farm. Some landlords may prefer
to employ a farm manager who will perform all or part of the services
a landlord is called upon to do and who will be at the scene to attend to problems as they arise. In some situations, the landlord may rent under a cash lease because this lease form requires a minimum of supervision by the landlord.

A landlord's choice of lease type may be strongly influenced by his Social Security status. If he is retired and under 72 years of age, he may want to avoid receiving rent that would be classed as earned income. In general, the rental income of a landlord actively participating in either livestock-share or crop-share lease is treated as earned income, while rent received under a cash lease, or share-rent from farms under hired management, is treated as retirement income.

A third consideration in choosing the type of farm lease to be used is the amount of risk and responsibility each party is willing and able to carry. The portion of risk each assumes varies with the different lease types and determines in part how the income from the farm will be divided.

Under the cash lease a fixed cash rent is stated. This lease relieves the landlord of a large share of the risk since his rent is due regardless of poor seasons and market changes. He feels little responsibility for the operation of the farm except to know that the tenant is safeguarding his property. The tenant bears all of the production and price risks and has the responsibility for the day-to-day operation of the farm. In return he receives a larger share of the earnings from the farm than he would under other types of leases.

More of the risks and responsibilities are shared between the parties under the crop-share cash lease than under the cash lease. The landlord accepts a share of the grain crops in addition to a fixed rent for hay, pasture, and farmstead land as his rental for the farm. By accepting a share of the crops, he assumes some of the risks of seasonal and market fluctuations. He may also give more managerial assistance. As a result of accepting this added risk and responsibility, the landlord normally receives a larger rental income than he does under a cash lease.

The interests of both parties are most nearly mutual under a livestock-share lease. With this type of lease, tenant and landlord commonly share equally the risks and cost of producing both crops and livestock except that the landlord furnishes the farm and fixed improvements while the tenant furnishes the labor and most of the farm machinery. This arrangement affords an opportunity for developing a satisfactory volume of business without adding more land. Both parties have a mutual interest in controlling expenses and in increasing the
Farm Leases for Illinois

farm income. The livestock-share lease is adapted to use over much of the state although it is most commonly found in areas best adapted to livestock production.

The labor-share lease, while not strictly a lease form, is a method of sharing the responsibility of the farm operation between an owner of a fully equipped farm and a manager-operator. It is best adapted to an owner-operator who wishes to allow his son or some other promising young man who lacks capital a chance to become established in farming and to gradually take over the operation of the farm as the landowner retires from active farming.

The cash lease

A reprint of the Illinois Cash Lease form appears on pages 42 through 47.

Under the cash lease the tenant pays an agreed cash rent for the use of the farm and improvements. The tenant receives all of the income and usually pays all expenses except taxes, insurance, and major building repairs. The landlord is freed of most management responsibility and is assured of a stable income. This lease can be ideal for women or absentee landowners. In the past it was feared that tenants under cash leases would mine the soil and exploit the property. Now the cash tenant finds that his greatest profit comes from use of optimum amounts of fertilizer. By inserting into the lease a reimbursement guarantee on unused fertilizer applied in the last year, the tenant will have full motivation to keep up a high fertility program right to the end of his lease.

Advantages of the cash lease
To the landlord:
(1) He will receive a definite, steady income.
(2) His close supervision is not required on the farm.
(3) Since the lease is simple, there is less chance for controversy.
To the tenant:
(1) He is allowed more independence in the operation of the farm.
(2) He receives the full benefit of his own superior management if he is successful.
(3) He receives a larger percentage of the profits from the farm.

Disadvantages of the cash lease
To the landlord:
(1) Tenants may tend to exploit the farm when they are given no assurance of more than a short period of occupancy.
(2) While his income is guaranteed, the landlord will receive a smaller percentage of the profits since he has not assumed as much of the risk as he would have under the other lease forms.

To the tenant:

(1) It may be difficult to get the landlord to provide all of the improvements needed to make the farm profitable and attractive to the farm family.

(2) Rentals do not automatically adjust to changes in prices and production unless some provision is made in the lease. (Note: The Illinois Cash Lease form provides for adjusting the cash rent to changing market prices in Method 2 under the section on cash rent on page 43. A "disaster" clause, also on page 43, may be used to adjust the rent in years of exceptionally low or high production.)

(3) A tenant with limited capital or credit bears a heavy risk in years of poor crops or low prices because he has guaranteed to pay a fixed rental.

The crop-share cash lease

A reprint of the Illinois Crop-Share Cash Lease form appears on pages 48 through 54.

The crop-share or crop-share cash lease is the workhorse among farm leases in Illinois. It can be adapted to many conditions from small open tracts to large farms with costly buildings. The landlord's participation is usually limited to making decisions about land, seed, and fertilizer use, and to sharing in fertilizer costs, crop expense, and care and maintenance of improvements. The rent is usually a share of the grain produced (ranging from one-third to one-half, depending on the inherent productivity of the soil), plus, in some cases, a supplementary cash rent for land in hay and pasture or farmstead use.

Cash rent for buildings may be appropriate under a crop-share lease where: (1) the owner provides buildings for a tenant who farms considerable additional land; or (2) the owner provides an unusual investment in buildings and equipment for livestock enterprises in which he does not share.

Changing agricultural technology influences the total farm production and the amount of certain costs per unit of production. Customary ways of sharing inputs and returns are thus subject to question unless the sharing of all inputs is always proportional to returns. How to judge the fairness of a lease is discussed in Circular 918, "What Is a Fair Crop-Share Lease for Your Farm."
Advantages of the crop-share cash lease

To the landlord:

(1) He receives a larger share of the farm profits than under a cash lease because he shares in more of the production and price risks. Records from a large number of farms indicate that landlords receive better returns from farms rented for a share of the crops than for farms rented for cash.

(2) He has more opportunity to supervise the operation of the farm.

(3) If certain management and financial contributions are part of the lease, he may be eligible for Social Security coverage.

(4) The crop-share cash lease requires less of his personal supervision than does the livestock-share lease. It also involves less risk than the livestock-share lease, especially if the tenant is not experienced in livestock production.

To the tenant:

(1) His risk is less than when renting for cash, especially when low crop yields or low prices are likely to occur.

(2) The amount of capital and cash reserve required by him is less than in the cash lease.

(3) If the landlord will provide the necessary improvements, many tenants prefer a crop-share cash lease to a livestock-share lease so that they can get all of the profit from livestock operations and enjoy greater freedom of management.

Disadvantages of the crop-share cash lease

To the landlord:

(1) Both tenant and landlord will find that they must jointly decide upon more adjustments than they would have with a cash lease. Need for adjustments in the lease will arise as new practices are introduced and prices change.

(2) It is difficult to develop arrangements under this lease to give the landlord an appropriate return for his investments in improvements. Customary arrangements may not be reliable or satisfactory because of wide variations from farm to farm in the quality and amount of improvements and the size of farm on which they occur.

To the tenant:

(1) He may find it difficult to get the landlord to furnish improvements needed for livestock production and machinery storage.

(2) He may wish to rent additional land and expand operations while the landlord may prefer that he farm less extensively and try to obtain a larger income per acre.
The livestock-share lease


The livestock-share lease resembles a partnership between tenant and landlord. Under a typical livestock-share lease, the landlord owns half of the livestock and feed inventories and special livestock equipment and receives half of the livestock income. He pays half of all livestock expenses and feed purchases and shares in harvesting costs. He is involved in many decisions and financial transactions throughout the year. His net income is usually higher than that of other landlords (but not in relation to his inputs), but it also tends to vary from year to year. This type of lease is questionable for landowners who cannot adequately supervise their property, who have not kept up to date on farming, who do not have adequate capital, or who want a certain and stable income.

Advantages of the livestock-share lease

To the landlord:

1. Livestock farms successfully operated under this lease have, over a period of years, been more profitable to the landlord than grain farms.

2. The investment by the landlord under the livestock-share lease enables him to obtain the services of a desirable tenant who alone might not have the necessary capital to operate the farm profitably.

3. The landlord has greater investment opportunities by providing extra buildings and fences and sharing in the ownership of livestock.

To the tenant:

1. His risk is less because he does not have to finance and manage all of the livestock needed to efficiently use his available labor and machinery services. On farms of the same size and with the same kinds and amounts of livestock, the amount of tenant capital required is less.

2. The landlord is more directly interested in all parts of the farm business and may be more willing to make permanent improvements.

3. The tenant may be able to gain experience in livestock farming under the guidance of a successful owner.

Disadvantages of the livestock-share lease

To both the landlord and the tenant:

1. As costs of farm operation change, there is need of frequently checking costs of all inputs including the managerial help given by the landlord.
(2) Such a lease requires a closer personal working relationship between the two parties. Their ability to work together is of great importance in this lease and adds to the problem of selecting a tenant or a landlord.

(3) Financial settlements are more complicated when the lease is terminated.

To the landlord:

(1) Most landlords on a livestock-share lease may be classified as self-employed and receiving earned income. To achieve a retired income status under Social Security, the landlord may have to give up most of his managerial participation.

To the tenant:

(1) Unless the landlord makes offsetting contributions, a tenant who is highly successful in the management of livestock may feel that he is making a large contribution to the landlord's income.

(2) Customary sharing agreements may not be fair to the tenant when livestock volume is greatly expanded unless the landlord makes enough capital investments in facilities to handle such items as feed, water, and manure to offset the tenant's added inputs of labor, power, and machinery.

The labor-share lease

The Illinois Labor-Share Lease (Farm Profit-Sharing Agreement) is reprinted on pages 63 through 65.

While not usually considered as a farm lease, the labor-share type of agreement is an important means for farm owners to transfer much of the responsibility for operating a farm to a second person, and as such we shall designate it as a lease.

In labor-share leases the owner furnishes a fully equipped farm to a man who will act as the manager-operator of the farm or as a joint-operator. This manager-operator has little or no capital investment in the farm business. A labor-share lease is especially suited to the farmer who wants to transfer the responsibility of the farm business to his son or to some other qualified young man who does not have capital to operate the farm efficiently as a tenant.

The essence of a labor-share lease is implied by its name; each party shares in the returns in proportion to his contributions. The contribution of a young operator may be his labor and management only; hence the name, labor-share.

Contributions and returns may be figured on a gross or a net basis. On the gross basis the owner lists all of his capital, including land, as
an interest charge, and the total of all operating expenses, including
depreciation on capital items. Adding the young operator’s labor gives
a total of all inputs. All gross income can then be divided as received
in the same ratio as each contributed to the total inputs. Inventory
changes may be considered annually or at the end of the agreement.

The net return basis is similar except that a farm record or a farm
bank account is set up. All operating expenses, including depreciation,
can then be paid out of this account, and only the net return divided
between the two parties. The net return would be the income above all
operating costs and it would be what remains as a return to labor,
capital, and management. These are the so-called unpaid contributions
or inputs, and they are intended to get their pay as a share of the net
returns. These shares are much easier to figure because only an interest
charge on the total capital and an estimate of labor and management
are needed.

The share of either gross or net returns to the operator will vary
greatly from farm to farm depending upon value of land, type of farm,
size of farm, etc., but typical net shares are about 25 to 35 percent and
gross shares about 12 to 20 percent.

Good records are essential to successful labor-share leases, particu­
larly where the division of returns is on a net basis as calculated from
the farm record. This is doubly true where the operator is building up
a capital contribution in the form of a claim against the operating
capital rather than receiving all of his share of the earnings as a cash
payment. In such cases, the share of returns must be recalculated
each year to reflect the operator’s increasing capital inputs.

Surety provided by the manager-operator. Since he has no capital
investment in the farm business, the manager-operator carries a mini­
num risk. It may be good practice, therefore, for the owner to require
that the operator give some surety that he will comply with the pro­
visions of the agreement. This surety may be in the form of a prom­
issory note of nominal amount provided for in the labor-share lease.
The farm owner holds such a note as bond in case the manager­
operator defaults by leaving the farm before the end of the agreement.
It should be returned to the operator after he has completed his part of
the agreement at the close of the year or at the end of the agreement.

Advantages of the labor-share lease

To the landowner:

(1) When he wishes to retire from full-time, active farming, it
provides for the continued operation of the farm with the equipment
and stock built up by the owner. On livestock farms it avoids breaking
up well-established herds.
(2) He has an opportunity to maintain close supervision of the farm.

(3) The labor-share lease is a convenient means of passing the farm on to his son.

To the manager-operator:

(1) The labor-share lease requires a minimum amount of risk and initial capital for the manager-operator.

(2) He has an opportunity to develop managerial ability while under the supervision of a successful owner.

(3) He has an opportunity to profit from his own skill as a manager.

(4) A good agreement, rewritten annually, will provide opportunities for the manager-operator to accumulate capital in the business and eventually to grow into a full tenant status.

Disadvantages of the labor-share lease

To the landowner:

(1) Most men lacking capital to start farming are likely to have had little management experience, which means that the landowner must assume major management responsibility until the operator has proven his ability.

To the manager-operator:

(1) As a manager-operator improves as a manager, he may not be receiving full pay for his management unless his share of the income is increased or he is allowed to become a full tenant.

Father-son agreements

One of the greatest needs of Illinois agriculture is the development of good father-son business relationships that will encourage capable young men to stay on the farm. The continuation of a family on the same farm from generation to generation can contribute to the maintenance of a permanent agriculture and a stable, wholesome community. Means must be found, therefore, for establishing young men on farms at the time when they are ready to start out for themselves.

Because of the large investment required to begin farming and the difficulty of obtaining farms to rent, farmers need to develop plans for their sons to make their start on the home farm. Such plans must allow for the fact that fathers often expect to continue operating a farm for several years after their sons reach maturity.

1 Circular 587, which dealt with father-son agreements, is being revised and will be published late in 1967 with a new number. When it is completed, copies will be available from county extension offices or from the Publications Office, College of Agriculture, at Urbana.
In general, when father and son wish to enter into a farming agreement other than that in which the son is merely a hired man, they will work out a plan along the lines of the labor-share lease. Such an agreement should be prepared as a written contract to avoid later misunderstandings.

**Writing an Equitable Farm Lease**

It is difficult to develop in advance a farm lease that meets the needs of changing price and cost relationships. In agriculture new production methods are continually being adopted and new problems arising. A well-developed farm lease will meet many of these conditions as they arise. Even though the lease was originally well developed, however, it should be rewritten at least every five years so that interests of the landlord, the tenant, and the farm can be examined and needed changes be included in the lease.

A good farm lease should include these characteristics:

1. Plans for a profitable system of farming.
2. Provision for the adoption of new and improved techniques of production.
3. Means for developing a volume of business large enough to give the operator a good income and, except for some seasonal variations, to fully employ his labor and other resources.
4. Arrangements for dividing expenses and other contributions so that in total they are shared in the same proportion as the income.

One of the factors to consider in the development of a farm lease is the customary practices of the community. For instance, farm rental rates, whether for cash or share agreements, are largely the outgrowth of custom. Custom in turn has been influenced by the original productivity of the land and the tenant's normal cost of operating a farm in that community.

This is indicated by the differences in the customary share of produce or amount of rent paid in various parts of Illinois and other midwestern states. The landlord's customary share of the crop varies from one-third in some sections to one-half in others.

Even though the productivity of the soil in a community may have been uniform when the land was developed for farm use, farms within the same community may now differ widely in income-producing capacity. Such differences are the result of the degree of care given over the years to the land and improvements on the farm.

Farms differ widely in soil conditions and the response of the soil to good treatment. (Some soils may be brought into a high level of
productivity more quickly than others.) With the present knowledge of soils and their care, however, larger yields may be obtained through the best soil treatment and improved production techniques than were gotten from the soil when it was first brought under cultivation.

It may, therefore, cost a tenant as much to operate a farm that will not produce more than half as large yields as another farm in the same community. Such differences in the productive value of farms in the same community become more marked as an agricultural region becomes older.

Under such conditions it is not safe to unquestioningly accept customary leasing arrangements. The following rule of thumb is useful as a guide, however:

*When the landlord asks the rental customary for land in the community, he has a moral responsibility to bring the productivity of the land and improvements up to the average of the community.*

**Applying basic principles**

The different rent shares prevailing from one area to another are the product of a basic principle in share renting: that the farm returns should be shared in the same proportion as each party contributes to the fixed costs and associated operating expenses in the farm business. In other words, each party should get a return equal to the income earned by his contributions to the farm business, including the contribution of management and risk-taking. The landowner contributes the use of his land and improvements (measured annually as an interest charge on the value, plus depreciation through use and obsolescence) and the property taxes, repairs, insurance, and other associated expenses. The tenant contributes the machinery and equipment (measured likewise as annual interest and depreciation charges) and the associated repairs, fuel, supplies, etc., plus the value of his labor (including any unpaid family labor) and management. The proportion which each party contributes to these fixed and associated expenses then becomes not only the proportion in which returns are shared, but also the proportion in which variable operating expenses such as fertilizer should be shared.

Contributions of management and risk-bearing by each party will vary according to the type of lease and the personal characteristics of the parties involved. These contributions are difficult to evaluate but extremely important to the business. Superior contributions will earn their own reward, but the lease determines the allocation of the rewards. Cash leases permit the tenant to keep any returns his manage-
ment will earn. Landlords who make significant management contributions should use share leases to get the returns from their management.

Within this general framework many adjustments may be made to fit the lease to the individual farm. Although custom is a guide to developing the farm lease, it represents the broad picture in the community and not necessarily the particular situation on a given farm. In order to assure that both expenses and income from a certain farm business are shared equitably, the contributions of the two parties need to be appraised.

In such an appraisal, items contributed by each party are listed and a fair annual value is placed on them. Adjustments may then be made by one of two methods.

The first method fixes the share of income to each party (such as 50-50) and then shifts expenses or capital contributions from one party to the other until each contributes approximately his proportionate share of the total cost.

The second method accepts any proportion in which total costs are contributed and divides the income in the same proportion.

Either approach to the problem assumes that the landlord and the tenant should share the income from the farm in the same proportion that they contribute to the expense of its operation.

In both cases an estimate must be made of the total contributions which both the landlord and the tenant expect to make to the farm business. If farm records are available from the farm for several years, estimates may be made with considerable accuracy. If such records are not available for a given farm, data from records of similar farms may serve as a basis for estimating the contributions of the two parties.

The estimating must be done with caution so that valuations are made on a comparable basis for various items. For example, if conservative valuations are used for labor, equally conservative valuations should be placed on land and other capital items.

**Contributions under livestock-share leases**

A sample of the evaluation of contributions of the landlord and the tenant under terms of a typical livestock-share lease on a given farm is illustrated in Table 1.

Most of the values that enter into Table 1 can be taken from past records of expenses and inventories, but some of the major items present problems worthy of special comment. Some of the most difficult to value fairly are the land and buildings and the rates of interest to be applied to these values. Perhaps the safest rule is to use the
market value of the farm, divide this between land and improvements, and apply interest rates that represent current rates of return (as opposed to first-mortgage rates) at market values.

The landlord's charge for management adds another complication. If the market rate of return includes a return to management, then including a management charge as a landlord contribution would be double counting. We have chosen to use a low rate of return to land, 4 percent (first-mortgage interest rates are 6 percent), and include a landlord's management charge of $950. This plus $200 for one-half month of the landlord's labor constitutes the landlord's unpaid labor and management charge of $1,150 in Table 1.

We have itemized the farm residence to show the landlord's annual charges associated with it — a total of $760 or $63 per month ($320 for interest, $240 for depreciation, and $200 for repairs) in our example — and to point out that the annual value of an exceptionally good residence, relative to the size of the farm, may be a basis for a separate cash rent assessment. The farm residence can be viewed as a consumption item by the tenant and as an unproductive item by the landlord. Traditionally, however, it has been assumed that a superior residence will help attract a superior manager as a tenant.

Investment values for farm buildings, fences, machinery, and equipment may be taken as remaining cost figures from farm record depreciation schedules. However, a word of caution is in order because such values may be too low or too high in some cases. They may be too low if the items have been subjected to accelerated depreciation charges in excess of the actual obsolescence. They may be too high if there is an excess investment relative to the volume of business. Note the column heading in Table 1 that calls for values in "amounts needed to operate as planned." Thus if the landlord wants a show place, or the tenant is knowingly overequipped, these excess values can be left out of this calculation.

Values placed on the tenant's labor and management should be comparable to the valuation of the landlord's real estate. Labor may be valued at prevailing hired man's wages, and an estimate of management added to it. Another way is to approximate the labor and management returns currently being earned by other tenants. The latter may be preferable because it tends to reflect the market situation as do the land values and rates earned by the landlord. We have used $400 a month as sort of a minimum standard below which many tenants would not continue to farm indefinitely.

1 Most tenant residences in Illinois will not be as valuable as the one in our example and will not give rise to the level of costs we have used.
Table 1. — Illustration of Contributions by Tenant and Landlord Under a Livestock-Share Lease on a Moderately Productive (soil rating = 68) 260-Acre Farm With 225 Acres Tillable
(Values for 1964 from the Illinois Farm Bureau Farm Management Service)

<table>
<thead>
<tr>
<th>Contribution items</th>
<th>Amounts needed to operate as planned</th>
<th>Interest, depreciation, and cost rates</th>
<th>Annual values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tenant's contribution</td>
</tr>
<tr>
<td>Investment items</td>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Land — 260 acres @ $450</td>
<td>$17,000</td>
<td></td>
<td>$4,680</td>
</tr>
<tr>
<td>per acre</td>
<td></td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Tenant residence</td>
<td>8,000</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Farm buildings, fences, etc.</td>
<td>14,000</td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>8,800</td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td>Breeding and feeder stock</td>
<td>18,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feed, fuel, seeds, and supplies</td>
<td>8,000</td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td>Operating cash</td>
<td>500</td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td>Depreciation charges</td>
<td>8,000</td>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td>Tenant residence</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm buildings, fences, etc.</td>
<td>14,000</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>8,800</td>
<td></td>
<td>20.0</td>
</tr>
<tr>
<td>Breeding stock</td>
<td>5,000</td>
<td></td>
<td>10.0</td>
</tr>
<tr>
<td>Associated operating expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>1,675</td>
<td></td>
<td>225</td>
</tr>
<tr>
<td>Property and liability insurance</td>
<td>195</td>
<td></td>
<td>45</td>
</tr>
<tr>
<td>Hired labor</td>
<td>720</td>
<td></td>
<td>360 per mo.</td>
</tr>
<tr>
<td>Repairs and maintenance on:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenant residence</td>
<td>250</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Farm buildings, fences, etc.</td>
<td>420</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>1,340</td>
<td></td>
<td>1,120</td>
</tr>
<tr>
<td>Fuel, oil, grease, and auto expenses</td>
<td>1,415</td>
<td></td>
<td>915</td>
</tr>
<tr>
<td>Unpaid labor and management</td>
<td>6,470</td>
<td></td>
<td>5,320</td>
</tr>
<tr>
<td>Subtotals</td>
<td>$28,399</td>
<td></td>
<td>$11,586</td>
</tr>
<tr>
<td>Unpaid labor and management</td>
<td>$400 per mo.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.8 mos.</td>
<td>$23,999</td>
<td></td>
<td>$11,586</td>
</tr>
<tr>
<td>Variable operating expenses</td>
<td>$28,311</td>
<td></td>
<td>$14,104</td>
</tr>
<tr>
<td>Limestone and rock phosphate</td>
<td>190</td>
<td></td>
<td>95</td>
</tr>
<tr>
<td>Annual fertilizers</td>
<td>1,960</td>
<td></td>
<td>980</td>
</tr>
<tr>
<td>Machine work hired (combining, etc.)</td>
<td>540</td>
<td></td>
<td>275</td>
</tr>
<tr>
<td>Electricity and telephone</td>
<td>335</td>
<td></td>
<td>185</td>
</tr>
<tr>
<td>Seed and crop expense</td>
<td>1,064</td>
<td></td>
<td>550</td>
</tr>
<tr>
<td>Livestock expense</td>
<td>823</td>
<td></td>
<td>433</td>
</tr>
<tr>
<td>Total contributions^a</td>
<td>$28,311</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent contributed by each party</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of farm production, 1964^c</td>
<td>26,292</td>
<td></td>
<td>13,271</td>
</tr>
</tbody>
</table>

* Includes 13.3 months for tenant and .5 month for landlord.
* Landlord's management approximates 7 percent of landlord's adjusted gross income.
* Purchased feed and purchased livestock are shared 50-50 but are not included either as an input or in total farm production.
It is recognized that, in addition to the wages estimated for the operator and members of his family, the family receives use of the house and certain produce which is contributed by the farm to their living. The question might be raised as to whether the value of such produce and house rent should be estimated and added to the farm income. If this were done, the value of the labor of the operator and members of the family would presumably be increased by a similar amount. It makes little difference which of the two methods is followed.

Livestock investments, fertilizer costs, etc., should be derived from the basic plan of operation mutually determined by the tenant and landlord.

A subtotal of investment items, depreciation charges, associated operating expenses, and unpaid labor and management in Table 1 shows an almost 50-50 division of the fixed costs and associated expenses. Therefore the variable operating expenses should also be shared 50-50 in order to carry out and preserve this ratio of sharing.

Now let us say that the farm used in the illustration is less desirable from the standpoint of soil productivity. We shall assume that this lowers the land value by $100 per acre and the landlord's contribution by $1,040 in terms of interest on the valuation of the land.

In that case the total fixed and associated contributions would be $11,586 by the tenant and $10,773 by the landowner, or approximately 52 percent and 48 percent. This suggests that the landlord should increase his annual contributions by about $400 (half of the difference between the two parties) by furnishing some of the items, such as livestock equipment, now being furnished by the tenant.

This method of adjusting contributions or of changing the sharing of income to make them balance is, of course, really no better than the judgment of the people who do the evaluating. It is, however, an excellent means of testing a lease to see whether the division of expenses and income between the two parties is approximately equitable. In addition, through the attempt to evaluate the contributions of both landlord and tenant, each party gains a better appreciation of the contributions the other makes to the farm business.

The principle of sharing income in proportion to sharing expenses (including the value of all contributions) between the two parties is basic to a fair lease. It is easy to understand, but hard to apply because many farms lack the long-time records useful in evaluating contributions, and comparable values are difficult to estimate without them.
Applying contribution estimates to crop-share leases

Up to this point our discussion of contribution estimates has assumed a livestock-share lease which has the important characteristic that all income, or all but perquisite income from minor enterprises, is shared in the same proportion. This is not true under a crop-share or crop-share cash lease. Here we face the problem of a tenant dividing the use of his labor and capital between crop enterprises, in which the landlord shares, and livestock enterprises, in which the landlord does not share. The problem is further complicated in that many fixed contributions by the landlord, such as livestock shelter, feed storage, fences, and pasture land, are used by enterprises from which the landlord does not get a direct return.

Because of these difficulties, a special publication, Circular 918, "What Is a Fair Crop-Share Lease," has been devoted to this problem.

How much rent under an all-cash lease?

A big problem for those who would like to use a cash lease is how much rent to charge. In the Chicago area, where about a third of all rented farms are on cash leases, it is not too difficult to find out what rents are being paid locally. But what about the rest of the state where there are very few cash leases and many of these are between related parties with rental rates favorable to the tenant?

The six general ways of arriving at cash rents for farm land are discussed below.

(1) Local inquiry. Ask tenants, landowners, farmers, real estate brokers, lenders, appraisers, etc.

(2) Farm record data on cash-rented farms. The all-cash leases among our record-keeping farmers come primarily from the Chicago area. Below are shown the average gross cash rents for two soil productivity levels on these cash-rental farms. Remember that these

<table>
<thead>
<tr>
<th>Soil productivity ratings</th>
<th>100-76</th>
<th>75-56</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cash rents per</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total acre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tillable acre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total acre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tillable acre</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Total acre</th>
<th>Tillable acre</th>
<th>Total acre</th>
<th>Tillable acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>$22.16</td>
<td>$23.75</td>
<td>$21.99</td>
<td>$24.69</td>
</tr>
<tr>
<td>1964</td>
<td>$23.33</td>
<td>$25.22</td>
<td>$20.52</td>
<td>$23.28</td>
</tr>
<tr>
<td>1962</td>
<td>$19.41</td>
<td>$20.88</td>
<td>$16.75</td>
<td>$19.74</td>
</tr>
<tr>
<td>1961</td>
<td>$19.69</td>
<td>$21.91</td>
<td>$17.52</td>
<td>$20.54</td>
</tr>
<tr>
<td>1960</td>
<td>$19.96</td>
<td>$22.34</td>
<td>$16.41</td>
<td>$20.25</td>
</tr>
</tbody>
</table>
Farm Leases for Illinois

averages tend to be low because a high proportion of them occur where there is some kinship between tenant and landlord.

(3) USDA ratios of gross cash rents to market value of farms. Since these figures are for state averages, we will quote only the ratios of gross cash rent to the value of farm land and buildings for Illinois and two adjoining states. If we assume a farm worth $650 an acre, then the gross cash rent in Illinois in 1966 would have averaged $37.70 ($650 × 0.058).

<table>
<thead>
<tr>
<th>Year</th>
<th>Illinois</th>
<th>Indiana</th>
<th>Iowa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>5.8</td>
<td>6.8</td>
<td>6.7</td>
</tr>
<tr>
<td>1965</td>
<td>5.5</td>
<td>7.0</td>
<td>6.6</td>
</tr>
<tr>
<td>1964</td>
<td>5.8</td>
<td>6.9</td>
<td>6.7</td>
</tr>
<tr>
<td>1963</td>
<td>5.7</td>
<td>7.2</td>
<td>6.7</td>
</tr>
<tr>
<td>1962</td>
<td>5.6</td>
<td>7.4</td>
<td>6.5</td>
</tr>
<tr>
<td>1961</td>
<td>5.7</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>1960</td>
<td>5.4</td>
<td>6.7</td>
<td>6.2</td>
</tr>
</tbody>
</table>

(4) Building up to a gross cash rent from a desired or acceptable net rent (return to capital and management). In this method, we start with an interest return on a safe investment, such as government bonds, savings accounts, etc. If this return is 4 percent, then a comparable net cash rent on a $650-per-acre farm would be $26 per acre ($650 × 0.04). To get gross rent, we must add taxes, insurance, depreciation, and repairs paid in a typical year by a cash-rent landlord. If these items total $9 per acre, the gross rent would be $35 an acre ($26 + $9).

Another application of this method is to start with the current rate of return being realized on the market value of the farm. For example, if the farm is in the urban fringe and is priced at $2,000 an acre, it may be earning only 1 to 1.5 percent on this value from its use as farm land. The net rent would then be $20 to $30 per acre. Building up to a gross rent would then be the same as above.

(5) Adjusting a crop-share net rent. In this method, we start with a net rent under crop-share leases. For land valued at $650 this figure was about $28 an acre in 1964-65. This amount must be adjusted for the difference in risk to the landlord under a crop-share lease as compared with a cash lease. That is, the cash-rent landlord gets his rent each year regardless of variations in value of gross product due to weather or prices. The crop-share landlord shares in risks from weather, insects, diseases, prices, etc. A reasonable risk discount might be a 10- to 15-percent reduction from the net rent received by crop-share landlords. After this reduction, the procedure is the same as in the fourth method described above.
(6) Figuring the maximum a tenant can afford to pay. This method can most easily be applied by using forms in Circular 918, but assuming cost-sharing and income-sharing arrangements appropriate to a cash lease. The cash-rent tenant would claim all of the farm income in Form 3 in Circular 918 and he would estimate all farm expenses in Form 4 except those which the cash-rent landlord would be expected to pay for. The difference between the tenant's estimated total farm income and his total costs (including a charge for his labor and management) is an approximation of the maximum he could afford to pay as cash rent.

Remember that this residual approach results in a maximum rent that could be paid. The appropriateness of this rental figure depends in a large measure upon the value placed upon the operator's labor and management input.

A variant of this approach is being used by those who develop budgets for custom farming operations. Instead of estimating tenants' inputs of machinery, fuel, repairs, labor, and management, a contract sum to be paid to a custom operator is substituted for these inputs. The answer will always tend to exaggerate the cash rent that can be paid unless appropriate costs are added to cover tasks formerly done by the tenant which must now be done by hired help. They include a manager's fee, costs of mowing weeds, making repairs, hauling supplies, etc.

All of the methods described above will yield only approximate answers, but they may serve as a basis for bargaining toward a final figure.

**Special Farm Leasing Problems**

Many farm leasing problems are solved over time as satisfactory experiences of landlord and tenant become accepted over wide areas in fairly uniform lease practices. However, in a period of rapidly changing farm technology these customary arrangements do not develop fast enough to serve as reliable guides.

With each change in farming arises an opportunity for doubt and misunderstanding between a landlord and tenant. Since these changes cannot be avoided in progressive agriculture, it is important to review and rewrite farm leases periodically to make prompt adjustments in lease arrangements.

Special attention should be given to the points listed below. There
is evidence that both understanding and adequate practices have been lacking concerning them in Illinois farm leases.

(1) The time of making the lease.
(2) The term of the lease.
(3) Division of expenses, especially as farm practices change and new improvements are made.
(4) Adjusting the cash rent to keep step with changes in price levels.
(5) Provision for arbitration in disputes.
(6) Tenant participation in improvement costs.
(7) Renting from more than one owner.
(8) Records and reports.

The time of making the lease

Farms are customarily rented in August or early fall for possession the following March. Landlords should consider the advantages of renewing their tenant’s lease a full year before it expires (or, in automatically renewable leases, write a one-year termination-notice period). The tenant could then plan his operations for at least two years ahead. This would encourage him to acquire livestock, make farm improvements, and make and protect legume seedings. He would be assured some opportunity of benefiting from practices requiring expenditures of his labor and money.

Some landlords and tenants are running the lease year from January 1 to December 31, especially where large amounts of feed do not have to be moved. In southern Illinois in particular this gives the tenant an opportunity to do spring work in good season.

Rental dates are a particular problem on farms that are for sale. Owners of such farms do not usually give leases for more than one year. They also often withhold rental as late as November 1 in hope that a buyer will be found before the property is rented for another year.

A good tenant faced with uncertainty due to late leasing will attempt to rent another farm while good farms are available and thus may multiply the number of tenant moves resulting from such uncertainty.

Owners of farms for sale can avoid losses due to such interruptions in a sound operating program by renting their farms no later than September 1 (the same as other farms). Later sales should be made subject to the lease.
The term of the lease

The heavy investment in farm equipment required by modern corn-belt farming and the competition for good farms to rent have made it necessary for tenants to be protected from loss of tenure due to a landlord’s sudden whim.

Attempts made in some states and in Europe to solve the tenure problem through legislation have proved disappointing. Better understanding and adequate leasing provisions benefit community relations far more than a legislative approach.

Tenant, landlord, farm, and community benefit when good tenants stay on the same farm over a long period of years. Unless relations between the parties are unusually satisfactory, however, most crop-share tenants and landlords agree that a lease of several years is not desirable. The lease should be written to give the tenant reasonable assurance of continuation as long as conditions are satisfactory but to provide a means of terminating the leasing relationship any year if it ceases to be satisfactory.

The following simple statement is highly recommended as a workable way to handle the tenure problem. It is included in all Illinois share lease forms.

**Length of tenure:** The term of this lease shall be from the (first) day of (March), 19(67) to the (first) day of (March), 19(68), and from year to year thereafter unless written notice to terminate is given by either party to the other at least (six) months prior to the beginning of the next lease year.

Such a lease can be rewritten any year. A general overhauling of the lease is recommended at least every five years to bring the document up to date with changing farming practices.

An alternative to the above automatic renewal clause is the option to extend the term of the lease as follows: “This lease may be extended beyond the initial term by so indicating in writing in the Extension section of the lease. Failure to execute an extension under this option at least (six) months before the expiration date shall be constructive notice of the intent to allow the lease to expire.”

Requiring at least a six-month notice period for terminating the lease gives the landlord time to find a new tenant and the tenant time to find another farm to rent. Where the investment in livestock is large, the lease may provide that notice of termination be given a year or longer before the termination is to be effective. Livestock-share and cash leases may be written for a term of more than one year with advantages to both parties.
Division of expenses, especially as changes in farm practices occur and new improvements are made

The point has been made throughout this circular that expenses should be divided so that the share of contributions of landlord and tenant equal the share of the farm income each receives. This is basic to a fair lease.

As changes occur in farm practices and improvements are adopted, new problems arise in dividing expenses. Since customs have not yet developed out of the new situations, owners and tenants should have a knowledge of principles that may be applied in working out solutions.

Some of the major problems of dividing expenses, therefore, are discussed in some detail below.

Fertilizer costs. Fertilizer is one of the best examples of a variable expense which, according to our principle, should be shared in the same way as the crop is shared. Only when this is done will each party have the same incentive and reason to use fertilizer in amounts optimum for the farm as a whole. However, certain problems and questions do come up about sharing fertilizer costs. These are discussed below.

a) The productivity of the farm. When a farm is below the level of productivity in the area, but is renting for the division of crops and costs customary in that area, the landlord has a moral responsibility to pay for fertilizers necessary to bring productivity of the farm up to the average level of the community.

When the tenant benefits from an application of limestone or rock phosphate in an amount according to soil tests, then he may well share the cost of subsequent applications which maintain the farm at a high level of fertility. If he does so, the lease should contain provisions for reimbursing the tenant for the unexhausted portions of his share.

b) The division of government payments. Practice payments for the use of fertilizer materials should be divided between the parties in the same way that the expenses are divided. The landlord may prefer to pay the total cost and receive all of the practice payments for application of limestone and rock phosphate. In that case, any offsetting contributions by the tenant would need to cover only the landlord's cost in excess of the government payments.

Government payments for taking land out of production raise a special problem of sharing between tenant and landlord. No overall answer can be given. Short-term land retirement leaves the tenant as well as the landlord with many fixed inputs. With such programs it is generally most equitable to share the payment for such land retirement in the same way as the crop normally grown would have been shared.
This applies particularly if the tenant pays all program costs such as legume and grass seeds, clipping weeds, and making seedings on the retired acreage. Under long-term programs, the payment may go largely to the landlord, particularly if the lease allows the tenant to farm additional land. The tenant, however, should be compensated for any costs he incurs in controlling weeds or making seedings on diverted or retired acreage.

c) Delivery and spreading. In some communities limestone is trucked directly from the quarry to farm and spread, so that the entire cost appears in one bill. In others, the limestone is shipped in by rail and the trucking and spreading are distinct operations. The tenant may have trucking and spreading facilities on the farm and assume that share of the cost.

Perhaps a more difficult problem concerns the cost of applying annual fertilizers. Should the landlord make some payment to the tenant for his labor and special equipment costs in using fertilizers? On the one hand, it seems only fair that the principle of sharing variable costs should be extended to the associated labor and equipment. To do so would partly remove tenants' tendency to prefer custom applied bulk, liquid, or gaseous materials because landlords are apparently willing to share in the application cost of these fertilizers. On the other hand, use of fertilizers is now so universal that one may logically take the position that applying fertilizer is no different from any other machine and labor operation in the crop-production process, and that, short of partnerships between owner and operator, the tenant should furnish the necessary labor and machinery to operate the farm according to current practice. The answer must remain with personal agreement between individual tenants and landlords. Surveys of actual lease agreements indicate that very few landlords share in application costs except when it is done by custom operators.

Tractor fuel and electricity costs. The landlord may share in these costs under the livestock-share lease. To avoid getting involved in keeping accurate accounts of fuel costs, some landlords make a flat per-acre payment to the tenant as a contribution toward fuel costs. (For example, $1.00 to $1.50 per crop-acre, based on the net cost of about 10 gallons of tractor fuel an acre under Illinois conditions.) Other landlords are making larger contributions to include part of the cost of truck fuel and the farm share of electricity. The amount of the contribution should naturally depend somewhat upon the size and productivity of the farm, kinds and numbers of livestock, the extent of mechanization of the farm, and other factors. On a heavy livestock-producing farm where livestock is jointly owned and power
is used for grinding feed, pumping water, and other purposes, there may be a justification for the landlord to pay a larger amount toward the cost of electricity and fuel. Or he may make concessions in other expenses to offset part of the tenant's power costs.

Adjustments for large labor requirements. Where he needs to balance a large labor input by the tenant, the landlord may provide appropriate labor-saving equipment such as pipe-line milkers, a bulk milk tank, barn cleaners, silo unloaders, water pressure systems, or feed handling equipment. To help share the tenant's heavy labor cost of caring for a large dairy herd, the landlord may pay him a modest payment (such as $1.50 per month) for each cow in milk. This arrangement is better than trying to share the total labor bill since no question need arise concerning the efficient use of labor or the management ability of the tenant.

Salvaging low-grade crops. Unfavorable weather conditions frequently result in low-grade crops that may be difficult to harvest and command a low price on the market. On cash-rented farms this is the tenant's problem. Under livestock-share leases the tenant and landlord are likely to reach an agreement on disposal of such crops quite easily, especially when damaged grain or hay crops can be used by livestock. The problem may be more difficult on crop-share or crop-share cash leases where the landowner has no interest in the livestock.

Normally two or three bushels of ear corn may be left to the acre after picking, but unusual conditions may raise this to five to ten bushels or more to the acre. In wet years this corn will be of low quality but may have considerable feed value. If the tenant can harvest it with livestock, the landlord and tenant may estimate the amount by counting ears on sample areas and agree on the price the tenant is willing to pay for the landlord's share of the corn without picking it up by hand.

Many years a heavy loss of shelled corn may well be considered, especially when it can be recovered by livestock and the landlord meets heavy expense in maintaining buildings and fences for livestock production.

In some instances fences are not kept in condition to harvest with livestock. In this case the tenant may give the landlord one-fourth or one-third of the amount of corn left in the field in sound corn that can be put in the landlord's crib; the landlord may get one-third of the gleaned corn; or the tenant may pick up all of the corn in a given area for the landlord but let his livestock salvage the other down corn. If the corn is gleaned by hand, the tenant may well be allowed one-
third to one-half for his labor in picking it up, and the remaining one-half to two-thirds can then be divided equally between owner and tenant.

This problem should be anticipated when the lease is drawn up in order to avoid any misunderstanding when the problem does arise.

*Weed spraying.* Control of weeds is traditionally the tenant’s responsibility. However, introduction of chemical herbicides raises questions of sharing costs. In general, where chemical control is merely substituted for mechanical control at the tenant’s option, there is no basis for the landlord’s participation in the cost. Not all uses of herbicides fall into this category. Pre-emergence sprays on corn and soybeans may have a yield-increasing effect as well as a cost-substitution effect where grasses are a significant problem. Therefore, since the landlord shares in the yield increase, he should also share in the cost. Practice ranges widely from a landlord’s share of nothing to one-half of the chemical (not the application) cost.

Other uses of herbicides to eradicate infestations of noxious weeds, to salvage row crops where cultivation is impossible, or to control brush in fence rows and ditches present special problems. The best solution is one that shares costs and benefits proportionately. In some cases the owner pays one-half of the chemical cost, in others he may pay all.

*New practices.* New practices always raise questions about how to share the costs associated with them. The basic principles discussed on pages 19 and 20 should be applied in finding answers to such questions. It is important, however, not to confuse the lease question with the economic question. The latter asks if the new practice will be profitable for the farm business as a whole; the former asks how the costs of adopting the new practice are to be shared. Unless the practice is likely to be profitable for the farm as a whole, it should not be adopted and the lease question would never be raised.

The tenant and the landlord are affected differently by the costs and benefits of different practices. Some new costs will substitute for old ones; some will be added costs; and some will affect inputs traditionally furnished by only one of the parties. Minimum tillage practices may primarily affect tenant costs by reducing them. Intensifying the cropping or livestock systems may have the greatest effect on tenant costs by increasing them. Retooling for narrow-row corn and soybeans will increase tenant’s costs unless adjustments are made in other parts of the lease.

The rapidity with which new practices are coming into use makes it impossible to look to custom and tradition for answers to the sharing
problems. There is, in the final analysis, no substitute for the process of (a) planning the best program for the farm as a whole, and then (b) making a contributions analysis and subsequent adjustments as illustrated in Circular 918.

Combining costs. The prevailing practice of sharing combining cost is an outgrowth of sharing threshing cost. One should recognize, however, that the two methods of harvesting are not strictly comparable. The combine replaces much man labor formerly contributed by the tenant. On the other hand, it distributes the straw evenly in the field for fertility maintenance. It may involve, however, an additional expense to the landlord for gathering the straw for bedding if a livestock-share lease is used.

The most common practice in the northern two-thirds of the state is for the livestock-share landlord and the tenant to share in the combining cost the same as they share the harvested crops. Combining is a bargaining item on most crop-share leases. Variations follow:

a) The landlord pays the tenant $2.00 to $2.75 for each acre combined. This practice is common on farms where the tenant owns the combine. In this way the landlord is not paying the tenant a profit due to high custom rates. This method is prevalent in east-central Illinois.

b) The landlord pays none of the combining costs and takes a smaller share of the crop than normal. For example, at the south edge of the cash-grain area the landlord commonly furnishes none of the seed oats, pays none of the combining costs, and receives two-fifths rather than one-half of the oat crop harvested. The same practice is also used with wheat and soybeans on individual farms in various areas of the state. In southern Illinois, where the landlord gets only one-third of the crop, he pays nothing on combining.

c) The landlord may pay none of the combining costs but make other concessions such as charging little or no cash rent for a stated amount of hay and pasture land or providing a superior residence for the tenant's family. In northwestern Illinois some landlords furnish the combine and the tenant keeps it in repair.

Corn harvesting and drying costs. The change from harvesting and storing ear corn to harvesting, drying, and storing shelled corn creates a lease problem because both tenant and landlord are affected, but in different ways, by the changes in the costs and benefits from this practice.

1 Specific practices in sharing combining and other costs are published in farm lease practices reports for each of the major lease-type areas in Illinois. These reports may be obtained from the Department of Agricultural Economics, University of Illinois. When requesting copies, be sure to indicate the county in which your farm is located.
There are two general ways in which to approach this problem. One is to deal only with the specific costs and benefits involved, and to find an equitable way of sharing them. The other is to look at the entire lease and to fit the new costs and benefits into the most desirable overall pattern.

In practice, most tenants and landlords look to the first method to find an answer. They have been satisfied with their past arrangement and they don't want to disturb it any more than necessary, so they try to find an acceptable sharing arrangement involving the new practice only. This limits the number of possible solutions and increases the complexity of farm leases as patches are built on patches. In the corn harvesting case, the desire to limit the adjustments to the specific items affected has resulted in cash payments by the landlord to the tenant to cover the shelling cost which the landlord escaped by the change in harvesting methods. On many of these farms the tenant pays some cash rent to the landlord. Surely a solution is possible that will minimize the number of transactions between tenant and landlord and thus reduce the opportunities for misunderstandings and error. This approach requires a review of the entire lease as illustrated in Circular 918.

The approach of sharing the new costs also requires a knowledge of how the old costs were shared. Since only the harvesting and storing of the corn are involved, it cannot be assumed that these costs were shared the same way as the crop is shared. A review of detailed cost records on corn production suggests that the ear-corn harvesting and storing costs under one-half share leases have been shared 45 percent by the landlord and 55 percent by the tenant. On one-third share leases, the ratio of these costs has been about 40 percent by the landlord and 60 percent by the tenant.

Regardless of the rent share, the following cost-sharing arrangements appear to fit the cost-sharing ratios and constitute a workable agreement for crop-share leases.

1. The tenant furnishes all harvesting, hauling, and handling equipment, pays for all fuel for harvesting and hauling, and does the work involved.

2. The landlord furnishes shelled corn storage, drying equipment, wiring, fans, etc., and a moisture tester. The tenant operates the dryer.

3. Fuel and electricity used in drying are shared as the crop is shared.

4. The landlord makes a supplementary payment to the tenant in the amount of about 3 cents a bushel on his share of the corn. This payment is about equal to his former shelling cost.
The above solution seems appropriate where the landlord has been and will continue to furnish corn storage. Where he has not furnished storage, as is true for many small tracts without buildings, the supplementary payment for shelling may be the only change required. If the landlord had been furnishing storage but now chooses not to do so, then it may be appropriate for the landlord to share in the corn combining cost in the same way landlords have shared in the cost of combining soybeans and small grain. Landlord contributions to corn combining costs may also help a tenant to offset some of the higher machinery cost in shifting to narrow-row equipment.

**Adjusting the cash rental**

If a lease is to remain fair to both landlord and tenant through a period of changing price levels, the cash rent must be adjusted to meet those changes. By inspecting a financial record of the year's business, both parties will better appreciate when adjustments need to be made.

If a tenant has reasonably normal yields, we may assume that his cash rent in any year should be the current value of the same amount of produce required to pay the cash rent in the year the lease was made.

A method of tying cash rent to current price levels is offered in *Method 2 of the Cash Rent section in the Illinois Cash Farm Lease* (page 43), and space for cash rent adjustments is provided in the *Illinois Crop-Share Cash Farm Lease* (page 50). The annual cash rent is the value of a fixed amount of one or more of the farm commodities (milk, grain, live hogs, etc.) at the market price for a specified time and place. This is sometimes called a standing rent because the rent is always a fixed amount of product.

The landlord and tenant using this method must agree on (1) the products upon which they will base the rent; (2) the amount of each product; and (3) the pricing formula used to determine its current value.

The products should be the principal ones sold from the farm. The amount of the product may then be determined by settling what both parties consider a reasonable rent per acre at current prices and determining how much of the product, sold at current prices, would make up that rent. If they agree, for example, upon $27.00 per acre as a reasonable rent, and No. 3 corn (the agreed-upon product) was valued at harvest time at $1.00 per bushel, the quantity to use would be 27 bushels of No. 3 corn.
The price may be determined by whichever of a number of formulas is agreeable to both landlord and tenant. Samples of such pricing formulas are: a blend price for milk in the Chicago market for a given month; the average closing price on the Chicago Board of Trade for cash grain of the given grade on an agreed-upon date; the highest price or the average price paid at the local elevator in the first two to ten months of the year, etc. The price should be easily obtainable by either party and should reflect in a general way the changes in earning power of the farm due to changes in price levels.

A recommended refinement on cash-grain farms is to adjust the standing rent annually according to changes in county average yields. For example, the standing rent per acre of cropland may be set at 37 percent of the county average corn yield. Or it might be set at 22 percent of the county average corn yield plus 15 percent of the county average soybean yield. Current prices would be applied to the resulting quantities as described above.

Cash rent adjustments may also be tied to published index numbers such as prices received by farmers, index of land values, etc.

What rent share to the landlord?

We have noted that the share of crops given as rent varies from one-third to one-half in Illinois. Since about 1960 there has been growing concern with what is an appropriate rent-share. This question is most frequently raised in parts of southern Illinois where crop yields and land-use intensity have increased substantially. These increases have been large enough so that a two-thirds share to the tenant may do more than cover the tenant’s costs, including a fair return to his labor and management. Some tenants competing for additional land have therefore been willing to offer a two-fifths rent share in place of one-third, or one-half in place of two-fifths. This competition for land thus has the effect of transferring some of the increased returns to the landowner.

Given the above situation, what rent-share should the landlord get? The answer depends on the gross output capability of the land in question. Suppose we imagine three farms in three different parts of Illinois, each operated with typical managerial efficiency for the area in which it is located. Farm A has a land-use and yield history that results in an average value of $96 gross crop production per acre. Farm B produces $80 crop value per acre, and Farm C $72 per acre. If $48 an acre is needed to cover the tenant’s costs, including his labor and management, then a rent-share of one-half could be paid on Farm
A, two-fifths on Farm B, and one-third on Farm C. Adjustments between and in excess of these rent-shares can be made by changing the way given costs are shared. For example, landlords on a one-third share in southern Illinois will pay one-third of the fertilizer costs, but nothing on seed or combining costs. Where the rent-share is increased to two-fifths, the landlord not only increases his share of fertilizer costs to two-fifths, but he may also furnish two-fifths of all crop seeds.

Similar shifts in cost shares can accompany shifts from two-fifths to one-half rent-shares. A problem does occur where returns might justify higher rents where one-half rent-shares have been customary. We take the position that it is not advisable to increase rent-shares beyond one-half because of the possible shift in managerial control if the landlord's share of inputs were to exceed one-half. A workable substitute might be a cash lease or a supplementary cash rent rather than increasing the rent-share above 50 percent of the crop. We take the further position that tenants should carefully budget their costs under given lease arrangements before engaging in blind competition for land. Both farm labor and machinery costs are rising. It may well be that too much attention has been focussed on expectations of rising yields and gross returns without taking a careful look at what may be happening on the cost side.

Custom contracts

One expression of a competitive bidding for land is an arrangement which would substitute a custom operator for the tenant. The custom operator would perform the services of seedbed preparation, planting, cultivating, and harvesting for a specified payment under a contract. The contractor might be the landowner, or a third party who would rent the land from the owner — usually under a cash lease — and contract with a custom operator to have the farm operations done. In the latter case both the landowner and the custom operator would receive fixed returns while the contractor would become the risk-taker and residual income claimant.

The contractor, as a third party, may bid attractive rents as a means of getting more land. Increased technological certainty with respect to probable and minimal output expected makes it possible for him to function on a relatively small return per unit of production or per acre of land. He seeks to make a satisfactory aggregate return by increasing the acreage of land he controls. The limit to such acreage is primarily a risk factor since he furnishes no machinery and equipment and is not restricted to land or tracts in close proximity.
What, then, keeps this type of operation from spreading across the agricultural economy? There are a number of reasons why it may not. Some of them are:

(1) Timing of field operations is critical. A custom operator obviously cannot plant all of the acreage he would like to contract for on the same day or even in the same week. Neither can a resident tenant, but he may come closer because his reward is greater.

(2) Custom operating rates may rise as the demand rises. Current rates often represent marginal costs on the part of operators who take on custom jobs to supplement a small acreage which they may own or rent.

(3) Tenants perform many functions that custom operators normally do not do. Among these are mowing weeds, making repairs, deciding on and obtaining seeds, chemicals, repair materials, etc.

(4) If the landowner is the contractor, then he will be receiving earned income rather than rental income. This may not be what he wants for Social Security and income tax purposes.

(5) Custom contract operations work with field crops, particularly grain crops; they do not apply to livestock enterprises. Many Illinois farms have significant acreages of hay and pasture land that can best be utilized by livestock under the care of a resident tenant.

**Tenant participation in improvement costs**

Farm improvements may represent major capital investments. A tenant may want improvements that the landlord feels he cannot afford or which promise him little direct return — for example, improvements for a large poultry-raising operation or a completely modern kitchen for the farmhouse. An owner-operator or a livestock-share landlord might easily justify improvements desired. A cash rent landlord could simply increase the cash rent to justify the investment, but crop-share landlords face a real problem.

If he feels that the tenant is desirable, will stay for a time, and can make the improvement meet adequate standards of quality and safety, the owner may allow the tenant to make the improvement at his own expense. Provision for removal or settlement based on the value remaining in an improvement upon the departure of the tenant should be agreed upon, however, before work on the improvement is begun.

One method of settlement is for the tenant to take the improvement with him when he goes. This plan has two shortcomings.

a) Some improvements simply are not removable — for example, applied fertilizers, drain tiling, or terracing.
b) Illinois law requires that the improvement must be removed without injury to the landlord's property. It may be impractical or impossible to return the property to its former condition after removal of an improvement — for example, a modern plumbing system in the farmhouse or buildings with permanent foundations.

If the improvement is made with the right of removal, this right should be affirmed in writing and there should be a reasonable time limit set in advance for the tenant to remove the improvement from the farm. A properly written removal permit can make it possible for the improvement to be acceptable as tenant collateral and make it eligible for credit financing.¹

A second method is for the tenant and landlord to agree on some equitable form of reimbursement to the tenant for the labor and materials he has invested in the improvement. Upon completion of such a reimbursement agreement, the improvement becomes the landlord's property. The landlord then assumes the responsibility for taxes, insurance, and risk of loss on it. (See Amendments sections of the sample lease forms, pages 47, 54, and 62.)

The amount of reimbursement may be calculated in one of two ways. The landlord may agree that the improvement is one which the average tenant will want to have on the farm and will be willing to pay an increased rent to cover interest and depreciation on it. In this case the owner will agree to pay the outgoing tenant the full price of the improvement less a fair allowance for depreciation and less any government payment the tenant has received for the improvement. The incoming tenant may prefer to buy the outgoing tenant's interest in the improvement instead of paying the higher rent. If the landlord feels that the improvement will not be desirable enough either to make the average incoming tenant want to pay for it in increased rent or to attract a superior tenant, then the reimbursement for the improvement may be based on an agreed-upon “use” value to the farm less depreciation rather than total cost less depreciation.

A third solution is to adopt a practice that is very common in England, namely to compensate the tenant at the end of the lease for the appraised value of any improvements made by him at his own expense. This arrangement is usually concluded by having the incoming tenant buy out the outgoing tenant's interest in the property.

A fourth way for the tenant to participate in improvements is for the landlord and tenant to plan for offsetting contributions that will

¹ A form suitable for this purpose is available from the Department of Agricultural Economics, University of Illinois.
eliminate cash reimbursements when the lease is terminated. For example, the tenant may be willing, in slack labor periods, to clear two or three acres for cultivation or to build some terraces if the landlord will pay for some improvement that will benefit the tenant in particular, such as putting in a water system or adding a bathroom in the farmhouse.

Questions on building and maintaining fences merit special discussion. This applies primarily to crop-share leases.

When a new tenant comes on a farm where fences are in bad condition, the landlord may be willing to pay him to improve the fencing. Some will pay the tenant for building new line fences but expect the tenant to build and maintain inside fences.

Some landlords and tenants, taking a long-range view, have agreed that the tenant shall maintain the fences if the landlord furnishes the material, especially when the landlord is reasonably liberal in providing adequate fencing.

The tenant raising considerable livestock may well assume a good share of the responsibility for rebuilding fences as well as for repairing buildings. If he does not, the landlord may be justified in asking additional cash rent sufficient to cover some of the cost of maintaining these improvements.

Since fences are capital items like any other farm improvements, they should be furnished by the owner. However, if the tenant contributes labor or materials for new fences and is not compensated otherwise, he should be protected by a reimbursement guarantee.

Renting from more than one owner

Modern power machinery has encouraged farm operating units larger than the ownership tracts which are usually rented to tenant operators. Consequently to get as much land as he may need or would like to farm, a tenant will frequently rent land from more than one owner. The tracts thus brought together under one operation will differ from each other in a number of respects. Usually the greatest difference will be that one tract has the farm residence and other improvements on it while additional tracts may have no improvements. The question then occurs as to any obligation the latter owners might have to the former for providing a residence, machinery shelter, etc. for their tenant. The answer is that there is no contractual or implied obligation between the owners; that is, each lease should be drawn to compensate the owner in question for the contributions he makes. This means that the leases will be different and that customary arrangements
may not be a satisfactory guide. A special cash rent on the residence and other improvements may be particularly appropriate if improvements for a large total operation are provided by the owner of a relatively small acreage.

**Records, reports, and settlement procedures**

Many leases specify business procedures for making periodic and annual settlements between tenant and landlord. Some require the tenant to keep specified records for use in settlements and in planning future operations. Commercial or cooperative record-keeping project fees are usually shared by landlord and tenant.

Regular reports from tenant to landlord are recommended as a good practice for maintaining communication and good relations between the two parties. Forms for monthly reports under livestock-share leases and quarterly reports under crop-share leases have been prepared by the Department of Agricultural Economics, University of Illinois.

Separate billing by supplier firms for the landlord's share of feed, seed, fertilizer, and chemical purchases is highly recommended. This not only establishes the landlord's active interest in the farm, but also avoids the implication of a partnership and its associated liabilities. This may be particularly important under a livestock-share lease.

Any lease agreement should anticipate its eventual termination. Have adequate provisions been made for that eventuality? A good lease will contain answers to questions that may be raised when that time comes. How are jointly owned livestock herds to be divided? What about other jointly owned property? How much hay and straw may the tenant take with him? What about fall plowing and growing crops? The answers to these questions can be whatever the parties want them to be, but they should agree on them in advance and make them a part of the lease.

Written leases reviewed and revised every three to five years plus regular reports, good records, and prompt financial settlements will go a long way toward insuring good relations between landlord and tenant.
RECOMMENDED LEASE FORMS

The problem of getting a good written lease can be greatly simplified by using a good printed lease form. Forms for each of the four major lease types used in Illinois have been prepared in the Department of Agricultural Economics, University of Illinois. Samples of each type of lease form are reproduced on the following pages.

You may get these lease forms without charge from the University or at any county extension office. We recommend them because: (1) they are adapted to Illinois conditions; (2) they contain standardized provisions for the protection of both tenant and landlord; and (3) they offer a complete coverage of items discussed in this circular, either as standard provisions or as blank items requiring the consideration and decision of tenant and landlord. A suggestion leaflet enclosed with each lease form explains special items which are new or need particular attention.

In preparing the actual farm lease, we suggest that three identical forms be used—one to serve initially as a work copy and later as a current reference copy, and two (one for each party) to be prepared for signature and filing.

ILLINOIS CASH FARM LEASE

To use this lease form. Complete two identical copies—one for the Landlord, one for the Tenant. Cross out any provisions which are not to become a part of the contract. Write in any additional provisions that are desired. Use ink or typewriter.

Date and names of parties

This lease is entered into the ........................................ day of ..................... , 19... , between ........................................................, Landlord, and .......................... , Tenant.

Description of land

The Landlord rents and leases to the Tenant, to occupy and to use for agricultural purposes, the following real estate located in the County of .......................................................... and State of .............................................................. described as follows: ........................................................................................................

commonly known as the ...................................... farm and consisting of approximately .......................................................... acres, together with buildings and improvements on the property.

Length of tenure

The term of this lease shall be from .......................................................... , 19.... , to .......................................................... , 19.... , and the tenant shall surrender possession at the end of this term or at the end of any extension thereof. Extensions must be placed in writing on this lease, and both parties agree that failure to execute an extension at least ................................ months before the end of the current term shall be constructive notice of intent to allow the lease to expire.
Amendments and alterations

Amendments and alterations to this lease may be made in writing in the space provided on the back of this form at any time by mutual agreement. In the event of failure to agree on proposed alterations, the existing provisions of the lease shall control operations.

SECTION 1. AMOUNT OF RENT AND TIME OF PAYMENT

A. The Tenant agrees to pay the Landlord an annual cash rent for the above-described farm in the amount determined as follows: (Complete the desired method for determining the cash rent. Strike out the parts and other method not desired.)

Method 1. The annual cash rent shall be the sum of $............... This represents ........... acres of cropland at $............... per acre, plus ............... acres of ...................... at $............... per acre, plus ....................... acres of ..............

Method 2. The annual cash rent shall be the total value of the following commodities calculated annually from the amounts and pricing methods given below, plus the cash sum of $..............

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Amount</th>
<th>Method of determining the price to be used each year</th>
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</thead>
<tbody>
<tr>
<td>Corn</td>
<td>......bu.</td>
<td>.......................................................</td>
</tr>
<tr>
<td>Soybeans</td>
<td>......bu.</td>
<td>.......................................................</td>
</tr>
<tr>
<td>Wheat</td>
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<td>.......................................................</td>
</tr>
<tr>
<td>Milk</td>
<td>......lb.</td>
<td>.......................................................</td>
</tr>
<tr>
<td>Hogs</td>
<td>......lb.</td>
<td>.......................................................</td>
</tr>
</tbody>
</table>

B. Annual adjustments in cash rent shall be made as follows: ...........................................................

C. The annual cash rent shall be paid as follows:

<table>
<thead>
<tr>
<th>Dollars or percent of rent due</th>
<th>Date due</th>
<th>Dollars or percent of rent due</th>
<th>Date due</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION 2. LANDLORD'S INVESTMENT AND EXPENSES

The Landlord agrees to furnish the property and to pay the items of expense listed below:

A. The above-described farm, including fixed improvements.
B. Materials for necessary repairs and improvements to buildings and permanent fences except as agreed to in Sections 3D and amendments to this lease.
C. Skilled labor employed in making permanent improvements and repairs on improvements, and all labor for painting buildings.
D. Taxes on land, improvements, and personal property owned by the Landlord.
E. Fire and wind insurance, at a fair replacement value, on residence and all buildings owned by him and used by the Tenant in storing or housing grain, feed, livestock, and equipment.
F. Ground limestone and rock phosphate (state percentage or share furnished by Landlord):

<table>
<thead>
<tr>
<th>Ground limestone</th>
<th>Rock phosphate</th>
</tr>
</thead>
</table>
If the Tenant shares in the cost of limestone and rock phosphate, the Landlord agrees to reimburse the Tenant at the termination of the lease for his remaining cost, less government payments received by the Tenant. Depreciation is charged at annual rates as follows: limestone ........................ percent; rock phosphate ........................ percent.

G. Seeds (state percent or share furnished by Landlord): alfalfa, .............................................; red clover, .............................................; sweet clover, .............................................; grass, .............................................

SECTION 3. TENANT’S INVESTMENT AND EXPENSES

The Tenant agrees to furnish the property and to pay the items of expense listed below:

A. All the machinery, equipment, labor, fuel, and power necessary to farm the premises properly.

B. The hauling to the farm, except when otherwise agreed, of all material which the Landlord furnishes for making repairs and minor improvements, and the performing of labor, except skilled, required for such repairing and improving.

C. All seed, inoculation, disease-treatment materials, and fertilizers, except that which the Landlord agrees to furnish in Section 2 above.

D. The following described items and all other items of expense not furnished by the Landlord as provided in Section 2:

SECTION 4. TENANT’S DUTIES IN OPERATING FARM

The Tenant further agrees that he will perform and carry out the stipulations below. (Strike out any not desired.)

A. Activities required:

1. To cultivate the farm faithfully and in a timely, thorough, and business-like manner.

2. To inoculate all alfalfa and soybean seed sown on land not known to be thoroughly inoculated for the crop planted.

3. To prevent trampling of fields by stock and rooting by hogs when injury will be done.

4. To prevent noxious weeds from going to seed on said premises and to destroy the same and keep the weeds and grass cut.

5. To haul out and spread all manure as soon as practicable on appropriate fields.

6. To keep open ditches, tile drains, tile outlets, grass waterways, and terraces in good repair.

7. To preserve established watercourses or ditches, and to refrain from any operation that will injure them.

8. To keep the buildings, fences (including hedges), and other improvements on said premises in as good repair and condition as they are when he takes possession, or in as good repair and condition as they may be put by the Landlord during the term of the lease—ordinary wear, loss by fire, or unavoidable destruction excepted.

9. To take proper care of all trees, vines, and shrubs, and to prevent injury to the same.

10. To keep the farmstead neat and orderly.

11. To prevent all unnecessary waste, or loss, or damage to the property of the Landlord.
B. Activities restricted:
1. The Tenant further agrees, unless he shall first have obtained the **written** consent of the Landlord:
   a. Not to assign this lease to any person or persons or sublet any part of the premises.
   b. Not to farm more than __________ acres of additional land and not to enter into any other business, occupation, or sideline.
   c. Not to house automobiles, motor trucks, or tractors in barns, or otherwise violate restrictions in the Landlord's insurance contract.
   d. Not to erect or permit to be erected any structure or building or to incur any expense to the Landlord for such purposes.
   e. Not to add electrical wiring, plumbing, or heating to any buildings and, if consent is given, to make such additions meet standards and requirements of power and insurance companies.
2. The Tenant further agrees, unless he shall first have obtained the **oral** consent of the Landlord:
   a. Not to plow permanent pasture or meadowland.
   b. Not to cut live trees for sale purposes or personal uses.
   c. Not to permit the erection of any commercial advertising signs on the farm.

C. Additional agreements:

SECTION 5. MANAGEMENT AND BUSINESS PROCEDURES

The Landlord and Tenant agree that they will observe the following provisions. (Strike out any items not desired.)

A. Except when mutually decided otherwise, the land use and cropping system shall be approximately as follows:

____________ acres to be used for rotated crops
____________ acres to remain in permanent pasture
____________ acres in nongrazed woodland
____________ acres in buildings and lots
____________ acres of tillable land planted to biennial or perennial legumes each year
____________ acres of tillable land to be left in biennial or perennial legumes each year.

B. The Landlord agrees to reimburse the Tenant for the Tenant's cost of legume and grass seed in seedings made in the last year of this lease above ______________ acres. (Insert the acres in such seedings on the farm at the beginning of this lease.)

C. The landlord agrees to reimburse the Tenant, at the end of this lease, for the Tenant's cost of readily soluble phosphate (P₂O₅) and potash (K₂O) applied as annual fertilizers on crops harvested for grain in the last year of this lease over and above the amount of these plant-food elements contained in such crops.

D. Other agreements:

SECTION 6. DEFAULT, YIELDING POSSESSION, RIGHT OF ENTRY

A. Termination upon default. If either party fails to carry out substantially the terms of this lease in due and proper time, the lease may be terminated by the other party by serving a written notice citing the instance(s) of default and specifying a termination date of ______________ days from the date of such notice. Settlement shall then be made in accordance with the provisions of Clause C of this section, the reimbursement agreements of Sections 2 and 5, and amendments.
B. Yielding possession. The Tenant agrees that at the expiration or termination of this lease he will yield possession of the premises to the Landlord without further demand or notice. If the Tenant fails to yield possession, he shall pay to the Landlord a penalty of $........................ per day, or if a penalty is not specified, the statutory double rent shall apply, for each day he remains in possession thereafter, in addition to any actual damages caused by the Tenant to the Landlord's land or improvements, and said payments shall not entitle said Tenant to any interest of any kind or character in or on the premises.

C. Landlord's lien for rent and performance. The Landlord's lien provided by law on crops grown or growing shall be the security for the rent herein specified and for the faithful performance of the terms of the lease. If the Tenant shall fail to pay the rent due or shall fail to keep any of the agreements of this lease, all costs and attorney fees of the Landlord in enforcing collection or performance shall be added to and become a part of the obligations payable by the Tenant hereunder.

D. Landlord's right of entry during term of lease. The Landlord reserves the right of himself, his agents, employees, or assigns to enter upon said premises at any reasonable time for the purpose of viewing the same, of working or making repairs or improvements thereon, of developing mineral resources as provided in Clause E below, or, after constructive notice has been given that the lease may not be extended, of plowing after severance of crops, of seeding, or of applying fertilizers and doing other field work.

E. Mineral rights. Nothing in this lease shall confer upon the Tenant any right to minerals underlying said land, but the same are hereby reserved by the Landlord together with the full right to enter upon the premises and to bore, search, and excavate for same, to work and remove same, and to deposit excavated rubbish, and with full liberty to pass over said premises with vehicles and lay down and work any railroad track or tracks, tanks, pipelines, powerlines, and structures as may be necessary or convenient for the above purpose. The Landlord agrees to reimburse the Tenant for any actual damage he may suffer for crops destroyed by these activities and to release the Tenant from obligation to continue farming this property when development of mineral resources interferes materially with the Tenant's farming operations.

F. Extent of agreement. The terms of this lease shall be binding on the heirs, executors, administrators, and assigns of both Landlord and Tenant in like manner as upon the original parties.

SECTION 7. ADDITIONAL AGREEMENTS

Signed ........................................, 19.....

Landlord

By ....................................................

Agent

Tenant
AMENDMENTS TO THE LEASE

A. Improvements made by the Tenant at his expense:

When the Landlord and Tenant agree that the Tenant may make all or part of an improvement (such as buildings, additions to buildings, major repairs, fences, bathrooms, water systems, etc.) to the farm at his own expense and that the Tenant is to be reimbursed for his remaining cost at the end of the lease (less any government payment received by the Tenant for the improvement), the necessary information shall be recorded in one of the following blanks, and after being duly signed by both parties, it shall become a part of the lease above and obligate the Landlord and his heirs and assigns to make such reimbursement. Such improvements become the Landlord's property upon completion of the form below. The Landlord thereby assumes the responsibility for insurance coverage and risk of loss.

<table>
<thead>
<tr>
<th>Description and location of the improvement</th>
<th>Tenant's cost on completion</th>
<th>Annual rate of depreciation (percent)</th>
<th>Date depreciation begins</th>
<th>Date of signatures</th>
<th>Signatures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. __________________________________________________________________________________</td>
<td>__________________________</td>
<td>__________________________</td>
<td>_________________</td>
<td>__________________</td>
<td>__________</td>
</tr>
<tr>
<td>2. __________________________________________________________________________________</td>
<td>__________________________</td>
<td>__________________________</td>
<td>_________________</td>
<td>__________________</td>
<td>__________</td>
</tr>
<tr>
<td>3. __________________________________________________________________________________</td>
<td>__________________________</td>
<td>__________________________</td>
<td>_________________</td>
<td>__________________</td>
<td>__________</td>
</tr>
<tr>
<td>4. __________________________________________________________________________________</td>
<td>__________________________</td>
<td>__________________________</td>
<td>_________________</td>
<td>__________________</td>
<td>__________</td>
</tr>
</tbody>
</table>

B. Landlord's written consent to Tenant's participation in items in Section 4, Clause B, Part 1.

1. Item: ____________________________________________________________________________  Description and restrictions: ____________________________________________________________________________________________

   Date: _______________  Landlord's signature: ____________________________________________________________________________________________

2. Item: ____________________________________________________________________________  Description and restrictions: ____________________________________________________________________________________________

   Date: _______________  Landlord's signature: ____________________________________________________________________________________________

C. Other amendments:

________________________________________________________________________________________
________________________________________________________________________________________
________________________________________________________________________________________
________________________________________________________________________________________

EXTENSION

This lease shall be extended from ____________________________________________________________________________ to ____________________________________________________________________________ Date: _______________.

Lld. signature ____________________________________________________________________________________________
Ten. signature ____________________________________________________________________________________________

EXTENSION

This lease shall be extended from ____________________________________________________________________________ to ____________________________________________________________________________ Date: _______________.

Lld. signature ____________________________________________________________________________________________
Ten. signature ____________________________________________________________________________________________
ILLINOIS CROP-SHARE CASH FARM LEASE

Complete two copies—one for the Landlord, one for the Tenant. Use ink or type. Strike out any items or parts of items not desired.

Date and names of parties
This lease is entered into ____________________________, 19__, between ____________________________________, Landlord, and _________________________________________, Tenant.

Description of land
The Landlord rents and leases to the Tenant, to occupy and to use for agricultural purposes, the following real estate located in the County of _______________ and State of _______________, described as follows: ________________________________, commonly known as the __________ farm and consisting of approximately __________ acres, together with all buildings and improvements thereon belonging to the Landlord.

Length of tenure
The term of this lease shall be from ____________________________, 19__, to ____________________________, 19__.

Extensions (cross out the option not desired):
Option 1. This lease shall continue from year to year after the initial term unless written notice to terminate is given by either party to the other at least __________ months before the beginning of the next lease year.
Option 2. This lease may be extended beyond the initial term by so indicating in writing in the Extension section of the lease. Failure to execute an extension under this option at least __________ months before the expiration date shall be constructive notice of intent to allow the lease to expire.

SECTION 1. LANDLORD'S INVESTMENT AND EXPENSES

The Landlord agrees to furnish the land and improvements thereon and to furnish or pay for items of equipment, and expenses in the amounts or shares described below. (Strike out any items not desired.)

A. All materials necessary for repairs and improvements to buildings, permanent fences, and other permanent structures on the above-described farm.
B. All skilled labor employed in making permanent improvements and repairs on improvements, including labor for painting buildings.
C. All taxes and insurance on property owned by him.
D. Seeds, chemicals, fertilizers:

<table>
<thead>
<tr>
<th>Items</th>
<th>Landlord's share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed:</td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td></td>
</tr>
<tr>
<td>Oats</td>
<td></td>
</tr>
<tr>
<td>Alfalfa</td>
<td></td>
</tr>
<tr>
<td>clover</td>
<td></td>
</tr>
<tr>
<td>Seed inoculation</td>
<td></td>
</tr>
</tbody>
</table>
Farm Leases for Illinois

Chemicals for:
- Seed treatment
- Insects in undivided stored grain
- Field crop insects
- Pre-emergence weed control
- Other weed control
- Brush control
- Wood preservatives

Fertilizer materials:
- Limestone
- Rock phosphate
- Nitrogen
- Mixed fertilizers
- Trace elements

E. Machine work and harvesting costs:

<table>
<thead>
<tr>
<th>Operation</th>
<th>Landlord’s share of machinery hire (%)</th>
<th>Landlord’s payment to Tenant per acre, bushel, bale, or hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilizer application:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom spreading (bulk, liquid, anhydrous, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limestone and rock phosphate hauling and spreading</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combining:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oats</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clover seed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baling:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Straw</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corn Shelling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trucking Landlord’s grain to market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weed spraying</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crop spraying</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F. Equipment and supplies:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spray equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grain drying:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel or power</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bale ties or twine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anhydrous ammonia applicator</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other fertilizer equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G. Other items to be furnished by the Landlord:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION 2. TENANT'S INVESTMENT AND EXPENSES

The Tenant agrees to furnish the property and to pay the items of expense described below. (Strike out any items not desired.)

A. All machinery, equipment, fuel, power, and labor necessary to operate the farm properly except as otherwise provided in this lease.

B. The hauling to the farm, except when otherwise agreed, of all material which the Landlord furnishes for making repairs and minor improvements and the performing of all labor, except skilled labor, required for such repairs.

C. The taxes and insurance on property owned by him.

D. All operating expenses or share of expenses not furnished or paid by the Landlord as provided in this lease.

E. The following described items for the residence:

F. Additional items:

SECTION 3. DIVISION OF CROPS, CASH RENT, AND OTHER RENT STIPULATIONS

A. Share rent: The Tenant agrees to pay to the Landlord or his agent as rent for the above-described farm the following shares of crops grown:

<table>
<thead>
<tr>
<th>Crop</th>
<th>Landlord's share of crop</th>
<th>Crop</th>
<th>Landlord's share of crop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td></td>
<td>Alfalfa hay</td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oats</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td></td>
<td>Clover and grass seed</td>
<td></td>
</tr>
</tbody>
</table>

B. Cash rent: The Tenant agrees to pay to the Landlord, in addition to the shares of crops in Clause A, cash rent for each year of this lease in the amount determined by the following:

<table>
<thead>
<tr>
<th>Cash rent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rotation hay and pasture</td>
<td>xxxxxxxxxx</td>
</tr>
<tr>
<td>Permanent pasture</td>
<td>xxxxxxxxxx</td>
</tr>
<tr>
<td>Farmstead</td>
<td>xxxxxxxxxx</td>
</tr>
<tr>
<td>Buildings</td>
<td>xxxxxxxxxx</td>
</tr>
</tbody>
</table>

C. Annual adjustments in cash rent shall be made as follows:

D. The Tenant agrees to pay any cash rent in installments as follows:

E. The Tenant agrees to store, at the Landlord's request, as much of the Landlord's share of the crops as possible, using not more than percent of the total space provided by the Landlord in cribs, granaries, or barns on the farm.
SECTION 4. TENANT DUTIES IN OPERATING FARM

The Tenant further agrees that he will perform and carry out the stipulations below. (Strike out any not desired.)

A. Activities required:

1. To cultivate the farm faithfully and in a timely, thorough, and business-like manner.

2. To inoculate all clover, alfalfa, and soybean seed sown on land not known to be thoroughly inoculated for the crop planted.

3. To prevent trampling of fields by stock and rooting of hogs when injury will be done.

4. To prevent noxious weeds from going to seed on said premises but to destroy the same and to keep the weeds and grass cut on the farmstead, roadsides, and fence rows.

5. To haul out and spread all manure as soon as practicable on appropriate fields.

6. To preserve established watercourses, tile drains, tile outlets, grass waterways, and terraces, and to refrain from any operation that will injure them.

7. To keep the buildings, fences (including hedges), and other improvements in as good repair and condition as they are when he takes possession, or in as good repair and condition as they may be put by the Landlord during the term of the lease—ordinary wear, loss by fire, or unavoidable destruction excepted.

8. To take proper care of all trees, vines, and shrubs, and to prevent injury to the same.

9. To keep the farmstead neat and orderly.

10. To prevent all unnecessary waste, or loss, or damage to the property of the Landlord.

B. Activities restricted:

1. The Tenant further agrees, unless he shall first have obtained the written consent of the Landlord:
   a. Not to assign this lease to any person or persons or sublet any part of the premises herein leased.
   b. Not to farm more than __________________________ acres of additional land and not to enter into any other business, occupation, or sideline except
   c. Not to house automobiles, motor trucks, or tractors in barns, or otherwise violate restrictions in the Landlord’s insurance contract.
   d. Not to erect or permit to be erected any structure or building or to incur any expense to the Landlord for such purposes.
   e. Not to add electrical wiring, plumbing, or heating to any buildings. (If consent is given, such additions must meet standards and requirements of power and insurance companies.)

2. The Tenant further agrees, unless he shall first have obtained the oral consent of the Landlord:
   a. Not to plow permanent pasture or meadowland.
   b. Not to allow stock other than his own on stalkfields or stubblefields.
   c. Not to burn or remove cornstalks, straw, or other crop residues grown upon the farm.
   d. Not to pasture new seedings of legumes or grasses in the year they are seeded.
   e. Not to cut live trees for sale purposes or personal uses.
   f. Not to erect or permit to be erected any commercial advertising signs on the farm.

C. Additional agreements:_________________________________________________________
SECTION 5. MANAGEMENT AND BUSINESS PROCEDURES

The Landlord and Tenant agree that they will observe the following provisions. (Strike out any items not desired. Note that Clause C gives the Landlord an opportunity for material participation in management decisions. If such participation is not desired, strike out all or parts of this clause not to be used.)

A. Except when mutually decided otherwise (for example, modifications brought about by participation in government programs), the land use and cropping system shall be approximately as follows:

- _acres to be used for rotated crops
- _acres to remain in permanent pasture
- _acres in ungrazed woodland
- _acres in buildings and lots
- _acres of tillable land planted to biennial or perennial legumes each year
- _acres of tillable land to be left in biennial or perennial legumes each year

B. In the first year of this lease the following shall be the crops and varieties planted, and the fertility applied:

<table>
<thead>
<tr>
<th>Crop</th>
<th>Variety</th>
<th>Acres</th>
<th>Kind and amount of fertilizers to be applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-year corn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second-year corn</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C. For each succeeding year that this lease remains in effect, the two parties shall review Section 5, A and B, before the lease year begins, to decide upon (1) any changes in the cropping system, (2) varieties and acreages of each crop to be planted, and (3) kinds and amounts of fertilizer to be applied. The Landlord shall counsel with the Tenant at appropriate intervals on the best time for planting, working, and harvesting crops.

D. When clover or fall-seeded crops fail to live through the winter, or when summer crops fail, the Tenant shall consult the Landlord on crops to be substituted.

E. The Landlord and Tenant shall decide each year whether to enter into governmental programs designed to aid agriculture and how payments for doing so and the costs involved shall be shared between them.

F. The Landlord agrees to reimburse the Tenant for the Tenant's cost of legume and grass seed in seedings made in the last year of this lease above _acres. (Insert the acres in such seedings on the farm at the beginning of this lease.)

G. The Landlord agrees to reimburse the Tenant, at the end of this lease, for the Tenant's cost of soluble phosphate (P₂O₅) and potash (K₂O) fertilizers applied on crops harvested for grain in the last year of this lease minus the amount of these plant food elements, valued at the same rates, contained in the Tenant's share of these crops.

H. If the Tenant shares in the cost of limestone and rock phosphate, the Landlord agrees to reimburse the Tenant at the termination of this lease for his remaining cost, less government payments received by the Tenant. Depreciation shall be charged at annual rates as follows: Limestone .......... percent; rock phosphate .......... percent.

I. If, after notice to terminate this lease has been given, the parties to this lease fail to agree on questions of land use, cropping system, fertility applications, or any deviations from the lease provisions, then the specific agreements in this lease shall prevail or, in the absence of agreements in the lease, the Landlord shall decide and the Tenant agrees to abide by his
decisions, the same not to contradict any provisions in this lease or to violate good farming procedures.

J. The Tenant agrees to keep financial and production records of the farm business and to furnish an annual report to the Landlord, on such forms as he may provide, on or before the following date: ..............................................

K. Other agreements: (grazing control, last cutting of hay, gleaning down-corn, etc.)

SECTION 6. DEFAULT, POSSESSION, LANDLORD'S LIEN, RIGHT OF ENTRY, MINERAL RIGHTS, EXTENT OF AGREEMENT

A. Termination upon default. If either party fails to carry out substantially the terms of this lease in due and proper time, the lease may be terminated by the other party by serving a written notice citing the instance(s) of default and specifying a termination date of ................. days from the date of such notice. Settlement shall then be made in accordance with the provisions of Clause C of this section and reimbursement agreements of Section 5 and of any amendments to this lease.

B. Yielding possession. The Tenant agrees that at the expiration or termination of this lease he will yield possession of the premises to the Landlord without further demand or notice. If the Tenant fails to yield possession, he shall pay to the Landlord a penalty of $........................ per day or the statutory double rent, whichever is less, for each day he remains in possession thereafter, in addition to any damages caused by the Tenant to the Landlord's land or improvements, and said payments shall not entitle said Tenant to any interest of any kind or character in or on the premises.

C. Landlord's lien for rent and performance. The Landlord's lien provided by law on crops grown or growing shall be the security for the rent herein specified and for the faithful performance of the terms of the lease. If the Tenant fails to pay the rent due or fails to keep any of the agreements of this lease, all costs and attorney fees of the Landlord in enforcing collection or performance shall be added to and become a part of the obligations payable by the Tenant hereunder.

D. Landlord's right of entry during term of lease. The Landlord reserves the right of himself, his agents, employees, or assigns to enter upon said premises at any reasonable time for purpose of viewing the same, of working or making repairs or improvements thereon, of caring for and disposing of the Landlord's share of the crops, of developing mineral resources as provided in Clause E below, or, after notice of termination has been given and following severance of crops, of plowing, preparing a seedbed, making seedings, gleaning corn, applying fertilizers, and any other operation necessary to good farming by the succeeding operator, the same not to interfere with the Tenant in carrying out the regular farming operations.

E. Mineral rights. Nothing in this lease shall confer upon the Tenant any right to minerals underlying said land, but same are hereby reserved by the Landlord together with the full right to enter upon the premises and to bore, search, and excavate for same, to work and remove same, and to deposit excavated rubbish, and with full liberty to pass over said premises with vehicles and lay down and work any railroad track or tracks, tanks, pipelines, power lines, and structures as may be necessary or convenient for the above purpose. The Landlord agrees to reimburse the Tenant for any actual damage he may suffer for crops destroyed by these activities and to release the Tenant from obligation to continue farming this property when development of mineral resources interferes materially with the Tenant's opportunity to make a satisfactory return.

F. Extent of agreement. The terms of this lease shall be binding on the heirs, executors, administrators, and assigns of both Landlord and Tenant in like manner as upon the original parties.
SECTION 7. ADDITIONAL AGREEMENTS

Signed ___________________________________, 19... Landlord
By__________________________________________ Agent

Tenant

AMENDMENTS TO THE LEASE

A. Improvements made by the Tenant at his expense. When the Landlord and Tenant agree that the Tenant may make all or part of an improvement (such as buildings, additions to buildings, major repairs, fences, bathrooms, water systems, etc.) to the farm at his own expense and that the Tenant is to be reimbursed for his remaining cost at the end of the lease (less any government payment received by the Tenant for the improvement), the necessary information shall be recorded in one of the following blanks and, after being duly signed by both parties, it shall become a part of the lease above and obligate the Landlord and his heirs and assigns to make such reimbursement. Such improvements become the Landlord’s property upon completion of the form below. The Landlord thereby assumes the responsibility for insurance coverage and risk of loss.

<table>
<thead>
<tr>
<th>Description and location of the improvement</th>
<th>Tenant’s cost on completion</th>
<th>Annual rate of depreciation (percent)</th>
<th>Date depreciation begins</th>
<th>Date of signatures</th>
<th>Signatures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lld.</td>
</tr>
<tr>
<td>2...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ten.</td>
</tr>
</tbody>
</table>

B. Landlord’s written consent to Tenant’s participation in items in Section 4, Clause B, Part 1.

1. Item:... Description and restrictions:... Date:... Landlord’s signature...
2. Item:... Description and restrictions:... Date:... Landlord’s signature...

EXTENSION

This lease shall be extended from _________________________, 19..., to _________________________, 19... Date:...
Lld. signature ____________________________________________________________________________
Ten. signature ____________________________________________________________________________

EXTENSION

This lease shall be extended from _________________________, 19..., to _________________________, 19... Date:...
Lld. signature ____________________________________________________________________________
Ten. signature ____________________________________________________________________________
ILLINOIS LIVESTOCK-SHARE FARM LEASE

The parties to this lease agree to the following provisions.

Date and names of parties. This lease is entered into this day of ____________________________ , 19____ , between ____________________________, Landlord, and ____________________________, Tenant.

Description of land. The Landlord rents and leases to the Tenant, to occupy and to use for agricultural purposes, the following real estate located in the County of ____________________________ and State of ____________________________, described as follows:

Description of land. The Landlord rents and leases to the Tenant, to occupy and to use for agricultural purposes, the following real estate located in the County of ____________________________ and State of ____________________________, described as follows:

commonly known as the ____________________________ farm and consisting of approximately ____________________________ acres, together with all buildings and improvements thereon belonging to the Landlord.

Length of tenure. The term of this lease shall be from the ____________________________ day of ____________________________ , 19____ , to the ____________________________ day of ____________________________ , 19____ , and from year to year thereafter unless written notice to terminate is given by either party to the other at least ____________________________ months prior to the beginning of the next lease year.

Amendments and alterations to this lease may be made in writing in the space provided on the back of this form at any time by mutual agreement. If the parties fail to agree on proposed alterations, the existing provisions of this lease shall control operations.

Nature of the agreement. This lease shall not be construed as giving rise to a partnership or joint venture, and neither party shall be liable for debts or obligations incurred by the other, without written consent except as permitted in this lease.

SECTION 1. INVESTMENTS

<table>
<thead>
<tr>
<th>Landlord's share</th>
<th>Tenant's share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and fixed improvements (%)</td>
<td>Landlord's share (%)</td>
</tr>
<tr>
<td>All land and fixed improvements at beginning of this lease</td>
<td>100</td>
</tr>
<tr>
<td>except</td>
<td></td>
</tr>
<tr>
<td>Fixed improvements constructed during period of this lease: Materials and skilled labor</td>
<td></td>
</tr>
<tr>
<td>Hauling materials to the farm</td>
<td></td>
</tr>
<tr>
<td>Farm labor:</td>
<td></td>
</tr>
<tr>
<td>Jointly owned livestock: Dairy cattle</td>
<td></td>
</tr>
<tr>
<td>Beef cattle</td>
<td></td>
</tr>
<tr>
<td>Hogs</td>
<td></td>
</tr>
<tr>
<td>Portable farm buildings</td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment: All machinery and equipment necessary to operate the farm properly</td>
<td>0</td>
</tr>
<tr>
<td>except</td>
<td></td>
</tr>
</tbody>
</table>
Soil fertility (materials and application)

Build-up:
- Ground limestone
- Raw rock phosphate
- Muriate of potash

Repeat application:
- Ground limestone
- Raw rock phosphate

The tenant agrees to pay his share:
- at time material is applied
- in annual installments over .......... years.

SECTION 2. EXPENSES

Soluble fertilizers

<table>
<thead>
<tr>
<th>Material</th>
<th>Landlord's share (%)</th>
<th>Tenant's share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All soluble fertilizer materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>except</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Application of soluble fertilizer materials:
- Hired custom spreading
- The landlord agrees to pay the tenant for spreading done by the tenant at the rate of $........ per acre on the landlord's share.

Crops

Seed, inoculation, and seed treatment:
- Corn and soybeans

Agricultural chemicals for:
- Insect and disease control
- Pre-emergence weed, grass control
- Other weed and grass control
- Brush and tree control

Application of agricultural chemicals:
- Hired custom application for:
  - Insect and disease control
  - Pre-emergence weed, grass control
  - Other weed and grass control

The landlord agrees to pay the tenant for application by the tenant of chemicals at the following rates:
- Insect, disease control $........ per acre
- Pre-emergence weed, grass control $........ per acre
- Other weed and grass control $........ per acre
- Brush, tree control $........ per hour

Harvesting and marketing

Hired custom harvesting (list crops)

The landlord agrees to pay the tenant for harvesting by the tenant of the landlord's share of crops at the following rates:
- Soybeans $........ per acre
- Hay $........ per bale
- Trucking landlord's grain to market $........
Taxes and insurance
On all property owned by the tenant: 0 100
On all property owned by the landlord: 100 0
Employer's comprehensive personal liability insurance
Other:

Power for operation of farm
Gasoline, fuel, oil, grease for tractors and farm truck
or
Instead of sharing direct costs, the landlord agrees to compensate the tenant with an annual payment of
Farm share of electricity
or
Instead of sharing direct costs, the landlord agrees to compensate the tenant with an annual payment of
Fuel for grain and hay driers
Other fuel used in farm business
Repairs and maintenance of fixed improvements
Materials and skilled labor
Hauling materials to the farm
Farm labor:

Jointly owned livestock
Purchased feed
Trucking livestock
Veterinary expense, medicine, breeding fees, insect control, and other direct expenses

Labor
All labor required to operate the farm in a satisfactory manner: 0 100
except

Farm residence

SECTION 3. RETURNS FROM FARM BUSINESS AS INCOME TO TENANT AND RENT TO LANDLORD

<table>
<thead>
<tr>
<th>Landlord’s rent share (%)</th>
<th>Tenant’s income share (%)</th>
</tr>
</thead>
</table>

All returns from the following shall be divided as designated:
Sale of jointly owned livestock
Sale of jointly owned livestock products
Sale of crops

Monies and checks to be handled as follows:
Ownership of livestock increase
The tenant may have for family use and to furnish to the tenant's hired labor in lieu of wages:
Not more than ................. acres of land for garden and such fruit as farm affords.
Not more than ................. pounds of milk and ................. dozen eggs from jointly owned stock.
Pork, beef, mutton, poultry from jointly owned stock up to the following amounts:
Pork: ................. pounds live weight, or ................. animals
................. pounds live weight, or ................. animals
................. pounds live weight, or ................. animals

The tenant may use from undivided home-grown feed, for livestock owned solely by himself, his family, or hired man, not more than:
................. bushels of corn ................. tons of hay
................. bushels of ................. tons of .................

SECTION 4. TENANT'S DUTIES IN OPERATING FARM

Activities required
The tenant shall:
1. Faithfully cultivate the farm in a timely, thorough, and businesslike manner and perform to the best of his ability sound husbandry practices in the care of jointly owned livestock.
2. Inoculate all clover, alfalfa, and soybean seed sown on land not known to be thoroughly inoculated for the crop planted.
3. Prevent tramping of fields by stock and rooting by hogs when injury will be done.
4. Prevent noxious weeds from going to seed on the premises and control all weeds and brush in fence rows and along roadsides bordering premises.
5. Clip small-grain stubble, except sweet clover seedings, between (date) .................................................. and (date) ................................................., unless agreed otherwise.
6. Haul and spread all manure and corn cobs as soon as practicable on appropriate fields.
7. Inspect tile lines and furnish labor for repair of broken tile; keep open drainage ditches and tile outlets; preserve, keep in good repair, and refrain from practices that may cause damage to established waterways, terraces, or ditches.
8. Keep farmstead neat and orderly; keep buildings, fences, trees, shrubs, vines, and other improvements in as good condition and repair as when he takes possession, or as they may be put by the landlord during the term of this lease, ordinary wear, loss by fire, or unavoidable destruction excepted; trim hedge fences at least every two years; prevent unnecessary waste, loss, or damage to the landlord's property.

Activities restricted
A. Unless he has the written consent of the landlord, the tenant shall not:
1. Assign this lease to any person or persons or sublet any part of the premises herein leased.
2. Farm more than ................. acres of additional land nor enter into any other business, occupation, or sideline except ......................................................
3. Keep more than the following head of livestock solely for his own or his hired man's use:
................. cattle ................. sheep
................. hogs ................. poultry
4. House automobiles, motor trucks, or tractors in barns, or otherwise violate restrictions in the landlord's insurance contract.
Farm Leases for Illinois

5. Erect or permit to be erected any structure or building nor incur any expense to the landlord for such purposes.
6. Add electrical wiring, plumbing, or heating to any buildings. (If consent is given, such additions must meet standards and requirements of power and insurance companies.)

B. Unless he has the oral consent of the landlord, the tenant shall not:
1. Plow permanent pasture or meadowland.
2. Allow stock other than his own or jointly owned stock on stalkfields or stubblefields.
3. Burn or remove cornstalks, corn cobs, straw, or other crop residues grown on the farm.
4. Pasture new seedings of legumes or grasses in the year they are seeded.
5. Cut live trees for sale purposes or personal uses.
6. Erect or permit the erection of any commercial advertising signs on the farm.

Additional agreements

SECTION 5. MANAGEMENT AND BUSINESS PROCEDURES

The provisions for joint decision making in this section shall in no way be construed as destroying the independent and separate business interests of the landlord and the tenant. The laws and rules of the landlord-tenant relationship shall apply.

A. Except when mutually decided otherwise, the annual land use and cropping system shall be approximately as follows:

<table>
<thead>
<tr>
<th>Crop Variety</th>
<th>Acres for Rotated Crops</th>
<th>Acres in Permanent Pasture</th>
<th>Acres in Nongrazed Woodland</th>
<th>Acres in Buildings and Lots</th>
<th>Acres of Tillable Land Seeded to Legumes</th>
<th>Acres of Tillable Land to Be Left as Stand-Over Legumes</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-year corn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second-year corn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. In the first year of this lease the following shall be the crops and varieties planted, and the fertilizer applied:

<table>
<thead>
<tr>
<th>Crop Variety</th>
<th>Acres</th>
<th>Kind and Amount of Fertilizers to be Applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-year corn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second-year corn</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For each succeeding year that this lease remains in effect, the two parties agree to review the cropping system, varieties and acreages of each crop to be planted, and kinds and amounts of fertilizer to be applied. Any amendments shall be attached to this lease.

C. When clover or fall-seeded crops fail to live through the winter, or when summer crops fail, the tenant shall consult the landlord on crops to be substituted.

D. Except when mutually decided otherwise, the kinds and approximate numbers of jointly owned livestock to be kept shall be as follows:

<table>
<thead>
<tr>
<th>Livestock Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy cows</td>
<td></td>
</tr>
<tr>
<td>Sows and gilts to farrow approximately</td>
<td></td>
</tr>
<tr>
<td>Beef cows</td>
<td></td>
</tr>
<tr>
<td>Litters each year</td>
<td></td>
</tr>
<tr>
<td>Purchased feeder cattle</td>
<td></td>
</tr>
<tr>
<td>Purchased feeder pigs</td>
<td></td>
</tr>
<tr>
<td>Purchased feeder pigs</td>
<td></td>
</tr>
</tbody>
</table>
E. The landlord and tenant shall jointly decide upon purchases and sales as follows:

1. Kind of livestock to be purchased; time of purchase.
2. Time when livestock shall be sold; sales agency to be used.
3. Kind of feed to be purchased; time and place of purchase.
4. Buying and selling of jointly owned crops, other farm produce, materials, and supplies in amounts more than $.................; such sales and purchases below this amount shall be left with the tenant.
5. ............................................ _....................................................................._......................._

F. Complete financial and production records of the farm business shall be kept by the tenant. He shall furnish to the landlord such reports on or before the following dates:.................................................

G. At the end of this lease, the landlord agrees to reimburse the tenant:

1. For the tenant's remaining cost in limestone and rock phosphate, if the tenant paid his share at the time they were applied. The tenant's remaining cost shall be calculated by first subtracting, from the tenant's original cost, government payments received by him and then depreciating the tenant's net cost at the rate of ................ _ percent annually.
2. For the tenant's cost of legume and grass seed in seedings made on more than ................. acres in the last year of this lease.
3. ............................................ _....................................................................._......................._

H. If, after notice to terminate this lease has been given, the parties to this lease fail to agree on questions of land use, cropping system, fertilizer applications, or any deviations from the lease provisions, then the specific agreements in this lease shall prevail or, in the absence of agreements in this lease, the landlord shall decide and the tenant agrees to abide by his decision. The landlord's decisions shall not contradict any provisions in this lease nor violate good farming procedures.

I. Other management agreements:..................................................................._..........._

SECTION 6. ARBITRATION, DEFAULT, RIGHT OF POSSESSION AND ENTRY, MINERAL RIGHTS, LANDLORD'S LIEN, AND LEASE TERMINATION

A. Arbitration of differences. If differences should arise between the parties to this lease, they may elect to arbitrate a settlement. If they elect to arbitrate, they agree to use the following procedure: Within ten days after electing to arbitrate, the parties shall choose an arbitrator. If one person cannot be found who is acceptable to both parties, then each party shall choose an arbitrator and the two so chosen shall select a third. Within a reasonable time the arbitrator(s) shall make whatever inspection and inquiry are necessary and report findings in writing to both parties. The arbitrator(s) shall have power to make an award or determination on any issue which arises out of this lease, and it shall be binding upon both parties. The expenses of arbitration shall be divided equally between the parties.

B. Termination upon default. If either party clearly fails to carry out substantially the terms of this lease in due and proper time, the lease may be terminated by the other party by serving a written notice citing the instance(s) of default and specifying a termination date of not less than .................. days from the date of such notice. Settlement shall then be made in accordance with the reimbursement agreements of Section 5, Clause G, the provisions of Clauses G, H, and I below, and of any amendments to this lease.

C. Landlord's right to take possession. If the tenant shall, for any cause, fail to exercise good husbandry in carrying out the terms of this lease or fail to exercise due and proper care in the feeding and handling of
jointly owned livestock, the landlord may, after giving three days' notice of intention to do so, take active possession of the premises and buildings, which the tenant agrees to surrender. The landlord may then employ other persons to tend the crop and livestock and perform all the agreements of the tenant as herein contained. After deducting all monies advanced, monies or grain due for rent, and the expense of attending the aforesaid crop and livestock, the landlord will pay the residue, if any, to the tenant.

D. Landlord's right of entry. The landlord reserves the right of himself, his agents, employees, or assigns to enter upon the premises at any reasonable time to view them, of working or making repairs or improvements thereon, of caring for and disposing of his share of crops, and, after notice of termination has been given and following severance of crops, of plowing and preparing a seedbed, making seedings, gleaning corn, applying fertilizers, and any other operation necessary to good farming by the succeeding operator, these operations not to interfere with the tenant in carrying out the regular farming operations.

E. Mineral rights. Nothing in this lease shall confer upon the tenant any right to minerals underlying the land. Such mineral rights are hereby reserved by the landlord, together with the full right to enter upon the premises to bore, search, excavate, work, and remove the minerals, to deposit excavated rubbish, to pass over the premises with vehicles, and to lay down and work any railroad track or tracks, tanks, pipelines, power lines, and structures as may be necessary or convenient for the above purpose. The landlord agrees to reimburse the tenant for any actual damage he may suffer for crops destroyed by these activities and to release the tenant from obligation to continue farming this property when development of mineral resources interferes materially with the tenant's opportunity to make a satisfactory return.

F. Landlord's lien. The landlord's lien, as provided by law, shall be the security for the rent herein specified. If the tenant fails to account for the rent or fails to keep any of the agreements of this lease, all costs and attorneys' fees of the landlord in enforcing collection or performance shall be added to and become a part of the rental payable by the tenant.

G. Yielding possession. The tenant agrees that at the end of this lease, he will yield possession of the premises to the landlord without further demand or notice, in as good order and condition as when they were entered upon by the tenant, loss by fire, flood, or tornado, and ordinary wear excepted. If the tenant shall not surrender the premises on the date of termination, he shall pay to the landlord the sum of $................. for each day he remains in possession thereafter, in addition to any damages the landlord may suffer by reason of the tenant's retaining such possession. These payments shall not entitle the tenant to any interest in any crops of any kind on the premises subsequent to the expiration date of this lease.

H. Method of settlement at end of lease. At the end of this lease, an accounting shall be had between the parties, and the produce, stock, and other property belonging jointly to the landlord and tenant shall be divided according to their respective interests. The tenant shall divide each kind of livestock into equal lots as nearly as possible, and the landlord shall have his choice of lots of each kind of livestock. This division shall be final and binding upon both parties.

I. Compensation for damage to farm. At the end of this lease, the tenant shall pay to the landlord a reasonable compensation for any damage to the property for which the tenant is responsible, after due allowance is made for damage resulting from ordinary wear and depreciation or from causes beyond the tenant's control.

J. Extent of agreement. The terms of this lease shall be binding on the heirs, executors, administrators, and assigns of both landlord and tenant in like manner as upon the original parties.
AMENDMENTS AND REIMBURSEMENT AGREEMENTS

The following amendments to this lease being duly signed by both parties become a part of the above lease and obligate the landlord, tenant, their heirs, executors, administrators, and assigns:

A. Landlord’s written consent to tenant’s participation in items in Section 4.
   1. Item: ................................ Description and restrictions: ..........................................................
      Date: ................................ Landlord’s signature ...........................................................
   2. Item: ................................ Description and restrictions: ..........................................................
      Date: ................................ Landlord’s signature ...........................................................

B. If the tenant makes improvements to the farm at his own expense, the landlord agrees to reimburse the tenant at the end of this lease for the tenant’s remaining cost, based on the following information. These improvements then become the landlord’s property and he assumes responsibility for insurance, taxes, and risk of loss.

<table>
<thead>
<tr>
<th>Description and location of improvement made by tenant</th>
<th>Tenant’s depreciation cost</th>
<th>Date depreciation begins (percent)</th>
<th>Date</th>
<th>Signatures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C. Other amendments:
   1. .................................................................
      LId. .................................................................. Ten.
   2. .................................................................
      LId. .................................................................. Ten.
LABOR-SHARE LEASE (FARM PROFIT-SHARING AGREEMENT)

(Provides for sharing returns to capital, unpaid labor, and management)

To use this agreement form. Complete two copies—one for the owner and one for the operator or joint operator. Cross out in ink identically on both copies any provisions which are not to become a part of the contract. Write in, in ink, any additional provisions that are desired.

Date and names of parties

This agreement is entered into the _______________ day of ____________, 19________, between ________________________________________________________________________________________________________________, the owner, and __________________________________________________________________________________________________________, the operator or joint operator, hereinafter known as the operator.

Description of land

This agreement is entered into for the purpose of operating a farm business on the following described real estate: ______________________________________________________________

situated in the County of _______________, in the State of ________________, containing _______________ acres more or less.

Length of tenure

The term of this agreement shall be from the _______________ day of ____________, 19________, to the _______________ day of ____________, 19________, and from year to year thereafter unless written notice to terminate is given by either party to the other at least _______________ months before the end of the agreement year.

Extent of agreement

The terms of this agreement shall be binding on the heirs, executors, administrators, and assigns of both parties in like manner as upon the original parties, except as shall be provided by mutual agreement otherwise.

No partnership created

This agreement shall not be construed as giving rise to a partnership; and neither party shall be liable for debts or obligations incurred by the other without written consent.

SECTION 1. DIVISION OF INCOME AND RELATED STIPULATIONS

A. Division of net farm returns

The net farm returns at the end of the contract year shall be divided on the basis of _______________% to the owner and _______________% to the operator.

B. Calculating net farm returns

In calculating net farm returns, the records of the farm business kept in the _______________ book shall be used.

If the Illinois Farm Business Record (1963 edition) is used, the net farm returns shall be the sum of net cash income and inventory and capital change, page 5 of the summarized book except as hereinafter provided. If the Illinois Farm Record Book (1964 edition) is used, the net farm returns shall be the sum of cash balance, inventory change, and capital change on line 213, page 42 of the summarized book except as hereinafter provided. (List any items to be excluded such as gains and losses of capital items—for example: sales of machinery for more than their value in the depreciation schedule (gain) or for less than their value (loss); or insurance collected on destroyed buildings for more or less than the value in the depreciation schedule. List also any limitations to be placed on depreciation):
C. Accounting methods and procedures

Recordings in the farm account book shall be made by ______________; but both parties shall cooperate in setting up inventories and depreciation tables and in the summarizing and in interpreting the records. The farm account book shall be open for inspection by either party at any time.

Depreciation. The initial beginning-of-year values of capital items (machinery, buildings, soil improvements, and farm share of auto) shall be based on the cost of such items and their value to the farm business less a reasonable depreciation for the years they have been used. The end-of-year values of capital items shall be the beginning-of-year values, or the prices paid for new capital items during the year, less a reasonable charge (depreciation) for their loss in value due to their use and obsolescence during the year. Accelerated depreciation for income tax calculations shall be handled through separate accounts or through cash adjustment payments to the operator.

Inventory values. Feed, grain, seeds, and supplies, and market livestock (including all hogs and poultry) shall be valued at market price at the farm. Breeding, dairy, and work stock shall be listed at conservative values (considering cost for animals purchased) and at a fair price from year to year for animals of similar quality, condition, and age.

D. Wage guarantee

The operator is guaranteed by the owner a cash income of $____________ per month, the income for each month being due on or before the ______________ day of the following month. Such compensation shall be considered advance payment against the operator's share of the net farm returns at the end of the year. If the operator's share of the net farm returns is not equal to the total amount paid above, he shall nevertheless be entitled to retain the above amount, and shall not be required to make any refund. The amount advanced to the operator shall not be considered a part of the cost of hired labor when determining farm expenses.

SECTION 2. OTHER FARM BUSINESS CONSIDERATIONS

A. Receipts and disbursements

Since the owner owns all of the operating capital, he shall accept all income and pay all expenses except small expenses not exceeding $____________ each, which may be paid by the operator. For such expenses the owner shall reimburse the operator at the end of each month upon presentation of receipted statements.

All farm purchases and sales amounting to more than $____________ shall be made only with the knowledge and consent of both parties.

B. Management

General operating plans shall be discussed and agreed upon by both parties. Investments in new capital items as replacements for old items or as capital additions shall be made by and at the discretion of the owner. However, the bookkeeping value of and depreciation charges on such new capital items shall be mutually decided.

C. Living arrangements

Living arrangements shall be provided for both parties as follows:

If either party boards the other, the party receiving board shall pay the party providing the board $____________ a month for his laundry and his share of the cash cost of food and fuel.

D. Ownership

Inasmuch as the first party furnishes the investment in the farm business, ownership of farm property shall remain with him at the termination of this agreement, except as stipulated below: ____________________________
E. Additional agreements

SECTION 3. ARBITRATION

The parties to this agreement agree that if a proper settlement cannot be reached between them at the close of the period of agreement, they will submit all matters of disagreement to an arbitration committee and will abide by the decision of that committee. Each party shall select one arbitrator; the two arbitrators so selected shall jointly select a third and the three shall determine the bases of settlement which to them seem equitable.

Signed............................................................................., 19......

(Owner)

(Operator)

HOW TO FIGURE THE DIVISION OF NET FARM RETURNS

The general principle upon which a labor-share lease or profit-sharing agreement is based is that each party is to share in the net farm returns in proportion to the value of his contributions.1

Before the agreement is written. The two parties should place present-day values on the farm (if owned), operating capital, interest, and labor. If since other items are charged against the farm account, they may be disregarded in the computation. Rented land does not enter into the calculations, but cash rent must be treated as a farm expense.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Rate</th>
<th>Owner</th>
<th>Operator</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and improvements</td>
<td>$.......</td>
<td>%</td>
<td>$.......</td>
<td>$.......</td>
<td>$.......</td>
</tr>
<tr>
<td>Operating capital</td>
<td>$.......</td>
<td>%</td>
<td>$.......</td>
<td>$.......</td>
<td>$.......</td>
</tr>
<tr>
<td>Labor and management</td>
<td>$.......</td>
<td>%</td>
<td>$.......</td>
<td>$.......</td>
<td>$.......</td>
</tr>
<tr>
<td>Total value of contributions</td>
<td>$.......</td>
<td>%</td>
<td>$.......</td>
<td>$.......</td>
<td>$.......</td>
</tr>
</tbody>
</table>

Percent contributed by each: % % 100%

At the end of the year. After the farm account book has been summarized and the net farm income for the year has been determined, the following form may be used in figuring the cash settlement to the second party:

Total net farm returns from farm account: $...........
Multiply by percent contributed by operator: %
Operator's share: $...........
Subtract total advance payments to operator: $...........
Balance due operator at end of the year: $...........

1 The agreement can be put on a basis of sharing gross returns and expenses by adding depreciation as a contribution item to the table below, and changing Section 1 to provide for sharing all income (adjusted for inventory changes) and all operating expenses in the same proportion as the contributions below.
2 Since labor and management are closely associated, the word labor is used to describe either or both. In some instances, there may be a wide variation in the value of management as well as labor furnished by the two parties. If the owner has a reputation as a producer of seed, purebred livestock, or some other product, that fact may need to be considered as another item when figuring his contribution.
3 First-mortgage interest rates may be used to calculate the annual contributions of land and improvements, but only if normal returns are that high. A better figure may be the rate at which land and improvements are yielding returns when valued at current prices.
Urbana, Illinois
February, 1967

Acts approved by Congress May 8 and June 30, 1914.

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