



LEASING



Understanding Lease Payment Structures

This resource is designed as an informational reference to convey a basic understanding of lease payment structures and options. For more information about lease agreement structures see our publication, [“Growing on Solid Ground: A Farmer’s Guide to Land Tenure”](#). The evaluation considerations outlined in Evaluating and Preparing Property for Leasing to an Agricultural Tenant can assist you in determining how to price a property lease.

It is important to understand appropriate options and ranges but ultimately the product(s) of the farmer or rancher will influence the outcome, so be prepared to work with a prospective tenant to determine an appropriate rate. Therefore, you may need to find a tenant prior to being able to determine the rate accurately. Also remember that a responsible, dependable tenant may be worth incentivising.

You can often find a range for conventional lease rates for your county in the annual publication from the California Chapter of the American Society of Farm Managers and Rural Appraisers, [“Trends in Agricultural Land and Lease Values”](#) or through the [National Agricultural Statistics Service](#). Keep in mind, these rates will also depend greatly on the type of agricultural production implemented on the leased land and size of the parcel. California FarmLink is happy to help assist you in thinking through the process of determining your lease rate and structure, and we can sometimes provide a range of market rate lease rates, but ultimately there is no “right” amount you should charge, that will be up to you and the tenant to agree upon.

California FarmLink is a nonprofit organization whose mission is to invest in the prosperity of farmers and ranchers through lending, education and access to land. California FarmLink does not provide legal advice, tax advice or financial planning services. It makes this document available for educational purposes. For more information about California FarmLink, see: cafarmlink.org

Understanding Lease Payment Structures



CASH RATE

Cash leases are calculated at a per-acre, per-year basis. Payments can be made monthly, quarterly, semi-annually or annually. This structure is the most straightforward and offers autonomy and consistency for the landholder and tenant.



PROGRESSIVE RATE

Progressive cash lease rates incorporate a schedule for defined rent increases over time. This can afford a new operation the opportunity to ease into larger payments as they grow their business.



CROP SHARE

A crop-share lease structure is most commonly used with permanent, perennial or commodity crops. Share rents are calculated as a percentage of the net or gross proceeds from sale of crops or products grown/produced on the property. Share rents can also include a minimum or additional cash rate, increases based on market or sale prices, or any

combination of options. Payments can be made monthly, quarterly, annually or after every sale. A crop-share lease often includes an auditing of records allowable up to and for a period after a lease terminates. The tenant must be willing to keep open books with their landlord. Crop share leases must be built on trust and excellent record keeping. There is a history of racism and exploitation associated with crop-share lease structures that should be acknowledged and respected during negotiations. Modern share lease agreements can be fair and beneficial to both parties if proceed percentages are within current market standards.



GROUND LEASE

Ground leases are used most commonly with commercial real estate. They are used in agriculture when the tenant constructs and/or owns significant permanent infrastructure and/or buildings on the property, and can be structured as a cash or crop-share arrangement. Most permanent lease models often incorporate a pathway to ownership such as right of refusal or option to purchase.

Understanding Lease Payment Structures



ANIMAL UNIT MONTH (AUM)

This is a standard measure for defining the cost of grazing land. "One AUM" is typically in reference to a steer or cow/calf pair on pasture for one month. Different animals (bulls, sheep, horses) may also be billed in reference to an AUM, for example a bull may be billed as 1.4 AUM, and a llama at 0.2 AUM. AUM can be used to define minimum and maximum stocking rates. Payments can be made weekly, monthly, quarterly, semi-annually or annually. For more information on AUM rates and other grazing specific fee structures, [please refer to the grazing handbook \(pg 33\) from the Sotoyome Resource Conservation District.](#)



BUILDINGS (GREENHOUSES, HOUSING, BARN, ETC.)

Residences can be incorporated into agricultural leases or addressed in a separate agreement. It is not recommended to include residences in an agricultural lease if the term length and payment schedule are significantly different. A landholder must take into account [state renters and landlord regulations](#) and expectations prior to entering into a residential lease. Prices for residential

leases are significantly higher than agricultural leases and a landholder should research comparables prior to setting a price. Greenhouses and barns are usually calculated at a per-square-foot per month rate, but can be paid along with the determined cash payment for the acreage. The price will depend on the available amenities and condition of the infrastructure.



EQUIPMENT

Equipment can be incorporated into an agricultural lease or negotiated separately. Equipment can be provided as part of an agricultural lease, or charged for use hourly, monthly or yearly. It is important to specify maintenance and replacement responsibilities.



RENT REDUCTIONS AND INCENTIVES

Rent credits, reductions or incentives can be built into any lease structure.

Rent Reduction or Credit for Product or Work Exchange

If offering a reduction in rent in exchange for work, maintenance projects completed or goods, one

Understanding Lease Payment Structures

must first establish a lease rate and cost for hourly labor and/or product(s). The language of the lease will then provide the opportunity to pay down the lease rate with product and/or labor up to a maximum. It is essential to define acceptable work exchange activities and products for exchange. Be careful to outline that the maximum rent reduction shall not exceed the lease rate so that the agreement does not inadvertently become a labor contract subject to other laws and considerations. For significant and/or skilled labor activities, it is advised to hire the tenant or another skilled professional as an independent contractor outside of a lease agreement.

Conservation Incentives

Common incentives or credits can be issued for ecosystem services, regenerative goals or practices achieved and/or implemented, organic or environmental certifications, infrastructure investments, and/or irrigation systems that conserve water. Rent incentives should identify metrics for calculating credits, maximum caps on reductions, and establish a process for determining baselines, monitoring, adherence and verification.