

**EXTENSION****AGEC-268**

Screening potential tenants for agricultural land

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Introduction

Finding the right tenant is an important step in managing your land and keeping life's stressors under control. Leasing to the wrong person may lead to degradation of natural resource attributes or pasture or crop production potential. Caution is needed in identifying the party to whom you are giving control of a valuable asset for a year or more. This fact sheet describes a process to help in screening potential tenants. It starts with thinking about what you hope to achieve with your land, followed by what kind of skills and attributes you want the person managing the property to have. You will be ready to screen prospective tenants when using the ideas described here to find the right person. Following a systematic tenant selection process will reduce the chances of getting into a problematic relationship.

Understanding the land's potential and constraints

To learn more about agriculture in the county in which the land is located, look at county-level data from the USDA's National Agricultural Statistics Service. Estimated production for major commodities in a state are summarized so you get a sense of the relative importance of different crops and livestock in the area. By looking at multiple years of data, you also gain insights on the variability of yields through time; for instance, variability due to drought. Note, the averages reported will be based on a wide range of individual responses, so expect more variability on a specific piece of property than what would be observed in a county average. In Oklahoma, crop reports are available for wheat, sorghum, soybeans, peanuts, cotton and corn (not all counties have all commodities). In addition, hay harvested, yield and production for alfalfa and other hay are reported. Numbers for cattle and calves, beef cows, milk cows, poultry (layers and pullets), sheep and hogs and pigs are also available.

If you are interested in the value of land in a specific county, the Oklahoma State University Department of Agricultural Economics maintains an agricultural land value database based on data contributed by the Farm Credit Associations of Oklahoma: <https://extension.okstate.edu/programs/farm-management-and-finance/oklahoma-land-values/>. You can view graphs showing changes in crop and pasture land values through time. Differences in value based on the size of tract also can also be viewed. How well do you know your land? An AgSite assessment tool at <https://agsite.missouri.edu/> produces a report detailing the physical, environmental and cultural characteristics of a specified plot of land. Users provide location data, such as city or zip code, and the tool displays a map allowing users to select a plot of land for assessment. AgSite then generates a report for the selected plot with data supplied by United States governmental agencies on soils, streams, wetlands and ponds, watersheds, floodplains, Karst Geology, nearby communities, legal descriptions, threatened and endangered species and aerial photography for the selected plot. Reports may be printed or saved as a PDF and may be shared with business partners, including landlords, lenders and crop advisors.

What do you hope to achieve with your land?

Perhaps you think of your land parcel as a component of your investment portfolio, which will generate income for current needs or retirement, or you could think of it as a legacy to leave to children or grandchildren, other family members or someone unrelated who shares your interests. It might be something you hope will contribute to a preservation of "green space" in the region or a working farm/ranch heritage. Your vision for this long-term asset might be some combination of all of these.

Think about the various goals for your land and create a description of how you hope the land will be used while leased.

- Do you expect to maintain or improve the forage base or crop production potential? This can be an important factor, particularly in areas prone to drought where pastures can be easily overgrazed during low rainfall periods and crop production potential can be compromised.
- Do you want to maintain or improve wildlife habitat?
- Do you want to maximize the cash income generated from production?
- Do you want to have brush removed or invasive species (such as Eastern redcedar) controlled? In addition, think about your goals for the lease.
- Do you want to be sure to get the highest possible lease rate?
- Do you want cash payment or are you interested in sharing the risks as well as revenue and costs through a share rental agreement?
- Do you want to provide an opportunity for a beginning farmer or rancher?
- Do you want an annual lease that is renegotiated each year or perhaps a multi-year lease with only certain attributes, such as the rental rate being re-negotiated periodically?

Are there any non-negotiable items?

- For instance, do you want to retain certain rights, such as hunting, fishing or pecan gathering, for family members? If so, ingress/egress rights will need to be discussed and addressed specifically in the lease.
- Are you working towards organic certification and will not allow usage of chemicals?
- Do you want to allow subletting of any rights, for instance, pasture grazing or wildlife leasing? If the tenant wants to use goats for weed control and is willing to provide temporary fencing, is that okay?
- Are you agreeable to having a co-signature on the lease to improve the financial security of the lease?

What are expectations of tenants with regards to production and lease practices?

- Do you want complete weed elimination?
- Do you want to ensure that soil nutrients are maintained at a certain level?
- Are you concerned about fences being maintained?
- Do you want to hear from or personally see the tenant more frequently than only at lease renewal time?

Having a clear view of your hopes, expectations and requirements for the land provides the foundation for the decision about the right tenant.

What qualifications and attributes are valued in a tenant?

Now that you are clear on your vision for the land, create a brief list or description of what experience, communication skills, financial attributes, accessibility and other characteristics you seek in a potential tenant. This provides the framework for interaction with prospective tenants so important things are foremost in your mind. If you have farm/ranch experience, you might be willing to work with a beginning operator and share the benefit of your experience with them to help them get started. If you don't have a farm/ranch background, you might prefer an experienced operator. Are verbal or written communication skills important to you? Do you want a periodic email, other electronic updates or access to pictures of the property and activities on it? Presumably, some indication of financial stability is required, but how much risk are you willing to take? Beginning operators are often more highly leveraged than established producers because they have had less time to accumulate equity and must borrow to finance business growth. On the other hand, they might be more highly motivated to do a good job as they want to develop a good reputation. How much contact do you want to have with your tenant and how soon do you expect them to respond? Decide the minimum requirements for a tenant, if any. Do they need to live in the area? This could be important in a pasture lease, for instance, if the cattle get out and need to be rounded up.

Tenant screening

The screening process begins by ensuring that all advertisements clearly state the minimum qualifications, including lease rates, to deter unqualified applicants. If the price is negotiable, you may want to note that or exclude the rate from the ad. You may want to put an ad in local newspapers or on websites, such as Craigslist, commonground.io and landsearch.com. More people are using social media like Facebook Marketplace to advertise items, so why not use it to advertise farmland? Consider asking other local business operators, such as agricultural lenders, realtors or cooperative managers, and other local landowners or farm operators for suggestions. They might know of good candidates and even provide a first reference for prospective tenants.

Look for legal issues

First verify their identification if the applicant is previously unknown to you personally. Check for legal issues that might hint at future trouble. A first cut is to look at the state's online court records, for instance, in Oklahoma: <https://odcr.com/> or <http://www.oscn.net>. This search might suggest the need for more extensive investigation.

Request a farm resume

Most farmers, particularly older, established operators may not have one. But it is worth asking about because it may indicate their level of professionalism. Regardless, you'll want to collect the kind of information found on a typical resume, including education, work experience and names and contact information for references. Ask for permission to contact other landlords with whom they have done business. If you are physically located near your land, consider driving by places they currently manage (note that information from a drive-by does not give you full information as it might be a new lease that has been previously mismanaged, the landlord may have constrained what they can do as tenant, etc.). Interview potential candidates. You don't have to call the meeting an interview, but treat it as one. You are essentially "hiring" someone to take care of your land for the next year or more. Schedule a meeting and/or showing of the land to gain insight and evaluate potential tenants. Have a list of questions ready, and if meeting with several potential candidates, take notes. If meeting in person isn't possible, have a conference call or videoconference via Microsoft Teams, Zoom or similar technology.

The potential tenant should be able to discuss:

- Their background and involvement in farming, management objectives and practices, years of experience, acres farmed and farming goals.
- How the property fits with their operation, their ideas for use of the land and their motivation for seeking the lease. Does it allow them to better use machinery and equipment, increase herd size or grow the size of the operation to accommodate another generation?
- Production practices and environmental philosophy: How do they operate to protect water, plants and soils? How will they control erosion? Protect wildlife? What kinds of conservation plans and practices do they have in place on farms and how do they keep abreast of conservation regulations? How informed are they about Natural Resource Conservation Service programs and to what extent are they using them?
- Special expertise or equipment: What sets them apart from other potential tenants? Are there major or special pieces of equipment or technology that help improve efficiency or protect the environment that they bring to the lease? Are they using site-specific technology that would provide new maps, giving you insights into productivity differences within the parcel? Do they have advanced training or licenses, such as certified crop advisor or pesticide applicator?
- Risk management and marketing skills: What kinds of programs and strategies do they use to manage risks? What kinds of general farm and property insurance do they have? What is their marketing strategy? Do they use crop or forage insurance, forward pricing, futures markets? Use of risk management tools to put a floor on prices and stabilize cash flow may help increase their financial stability and likelihood of timely lease payments. How informed are they about USDA Farm Service Agency and Risk Management Agency programs and to what extent are they using them?
- Length of time they would like to lease land.
- Kind of communication that will take place between tenant and landlord.

Once you have met with the potential tenant(s) and assessed their qualifications relative to goals for your land, you must weigh the “fit” of the candidate. Ultimately, you are answering the question, “With whom do I want to do business?”

- Does an applicant have desired qualifications?
- Are they dependable? Have they responded in a timely manner with calls or emails? Were they on time to the meeting?
- Are they financially stable? Do they have sufficient farm income or a plan to earn it that will make the lease payments? Do they have a history of successful farming or ranching? What is their long-term financial outlook? Do they seem willing to pay on time?
- How easy will it be to establish and maintain a working relationship? Was it easy to coordinate a meeting with them? What is their attitude? What is their seeming flexibility and/or stress quotient? Will they be high maintenance or demanding of your time?
- Are they able to communicate their interests and concerns clearly, both in written form and conversationally?
- What are their people skills? Will they be able to cooperate with neighbors/ be a good neighbor?
- Is there a written management plan?
- Where is their base of operations? Are they in an adjacent section or the next county? If they are based far away, it could present a problem in responding in a timely manner in case of an emergency. What kinds of questions did they ask about the property?
- The questions a potential tenant asks can give insight into what they are looking for and what kind of tenant they may be.
- If a co-signer is allowed, screen them like a tenant as well.

Follow up with references

If possible, include other landlords, bankers, co-op managers and others with whom they do business. If they are unwilling to provide the name of a former employer or business reference, it may be a red flag. Ask questions that go beyond if payments were made:

- Did the tenant/customer pay on time?
- Are there any unpaid rent/bills?
- Have there been legal or tax problems? Did the landlord/business owner serve legal notice?
- Did you have trouble or damage?
- Were there any major issues?
- How was communication with the tenant/customer?
- How long was the lease/business relationship in place?
- Would you rent to/do business with this person again?
- Is there anything else I should know about this person?

If your research raises any concerns, consider paying for services like credit checks or background checks. Criminal and public records will show up. If an applicant is disqualified, document the reasons.

Summary

Having a good tenant is beneficial both financially and personally. Finding the right party can be enhanced by following a deliberate screening process. Think about what you hope to achieve with your land and through the associated lease. Having a clear vision for how you want the land to be managed and the attributes the tenant should possess will help find the best match. Have a clear idea of land use expectations, constraints and your ideal tenant before beginning to screen prospective tenants. Take steps to learn about them as people and business partners by meeting with them, talking to references and looking for past legal problems. Once you have identified the right person, the next step is to develop a written lease agreement to ensure there is a clear mutual understanding of expectations as well as a legally binding document that spells them out. Sample lease forms can be found on aglease101.org along with publications describing ways of developing equitable leases.

References

<https://aglease101.org>

Designing a farm resume, <https://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-13.pdf>

Designing a farm resume, <https://extension.missouri.edu/publications/g420>

Designing a farm newsletter for landlords, <https://www.extension.iastate.edu/agdm/wholefarm/html/c2-14.html>

Absentee rural land ownership, <https://extension.okstate.edu/fact-sheets/absentee-rural-land-ownership.html>

AgSite assessment tool, <https://agsite.missouri.edu>



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