A guide for solving farm rental problems in Iowa

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1-1-1956

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Arthur: A guide for solving farm rental problems in Iowa

A Guide for Solving Farm Rental Problems in Iowa

January, 1956  Bulletin P119

IOWA STATE COLLEGE - AMES, IOWA

AGRICULTURAL EXPERIMENT STATION—AGRICULTURAL EXTENSION SERVICE,
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A Guide for Solving Farm Rental Problems in Iowa

By I. W. Arthur

This bulletin provides suggestions for use by Iowa farm tenants and landlords when working out solutions to their farm rental problems.

Some of these problems are: finding the right tenant and the right farm; choosing the most appropriate type of lease; sharing farm income and expense; selecting the most useful lease provisions; determining what the rent shall be; getting needed improvements; and drawing the lease so that it will accommodate new farming practices and so that it will comply with Iowa law.

There are four main types of farm leases used in Iowa. They are (1) cash, (2) crop-share, (3) livestock-share and (4) labor-share. All four lease types are used in every county in the state. However, some areas show a strong preference for one type of lease over the others.

This area preference is illustrated in table 1 below.

There are good reasons for these variations. Different farming situations call for different types of farm lease arrangements.

### Table 1. Percentage of Each Type of Farm Lease Used in Different Counties in Iowa.

<table>
<thead>
<tr>
<th>County</th>
<th>Cash leases</th>
<th>Crop-share leases</th>
<th>Livestock-share leases</th>
<th>Labor-share leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scott</td>
<td>56</td>
<td>29</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Calhoun</td>
<td>3</td>
<td>82</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Clayton</td>
<td>16</td>
<td>12</td>
<td>65</td>
<td>7</td>
</tr>
<tr>
<td>Lucas</td>
<td>16</td>
<td>51</td>
<td>21</td>
<td>18</td>
</tr>
</tbody>
</table>

*Source: 1955 Census.

### Problems Common to All Farm Rental Arrangements

#### Combining Resources and Dividing Income on a Rented Farm

The economic jobs of a farm lease are: (1) to provide the basis for combining the landlord’s and the tenant’s resources of land, labor, capital and management for production on their farm and (2) to distribute farm income between the owners of the resources used.

The arrangements for sharing farm income and farm expenses are the most important part of a farm lease.

Each different type of lease provides: (1) a different proportion of the contributions of the capital, labor and management to be furnished by the landlord and by the tenant and (2) a different distribution of farm income between landlord and tenant.

Table 2 gives some idea of the changes in income-sharing by landlords and tenants from 1933 to 1953. The use of cash leases has been declining in Iowa while the use of share rental agreements has been increasing.

Table 3 shows the different contributions of land, labor, capital and management made by certain Iowa landlords and tenants under different types of farm leases.

The costs of these various contributions change in their relationship to each other from time to time. Also, new methods bring changes in costs. For these reasons, a given sharing of contributions which was equitable at one time may not be satisfactory at another time. Therefore the rental terms may need to be revised periodically to keep them up to date.

A lease contract must be viewed as a whole to determine whether or not it is fair and equitable. It is impossible to take up one single item or provision by itself and say exactly how it should be handled in a given lease contract. For example, on a livestock-share lease where the land or improvements are poor or the farm is small, the owner may furnish half of the machinery and tenant the other half.

#### Table 2. Sharing Net Farm Income Between Iowa Landlords and Tenants in 1933 and 1953.

<table>
<thead>
<tr>
<th>Type of lease</th>
<th>Landlord’s share in 1933 (percent)</th>
<th>Landlord’s share in 1953 (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td>Crop-share</td>
<td>30</td>
<td>49</td>
</tr>
<tr>
<td>Stock-share</td>
<td>43</td>
<td>52</td>
</tr>
</tbody>
</table>

*Source: “Adjusting farm rents to changes in prices, costs and production” by Walter E. Chryst and John F. Timmons. Iowa Agricultural Experiment Station, Special Report No. 9, April, 1955.

This bulletin incorporates and summarizes the results of research previously published in research bulletins of the Iowa Agricultural Experiment Station and in Iowa Farm Science.
Table 3. Sharing Contributions on Certain Rented Farms in Iowa.*

<table>
<thead>
<tr>
<th>Factors of production</th>
<th>Cash lease</th>
<th>Crop-share lease</th>
<th>Stock-share lease</th>
<th>Labor-share lease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>L</td>
<td>T</td>
<td>L</td>
<td>T</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>all</td>
<td>all</td>
<td>all</td>
<td>all</td>
</tr>
<tr>
<td>Labor</td>
<td>all</td>
<td>all</td>
<td>sometimes</td>
<td>most</td>
</tr>
<tr>
<td>Equipment</td>
<td>all</td>
<td>all</td>
<td>part</td>
<td>most</td>
</tr>
<tr>
<td>Livestock</td>
<td>all</td>
<td>all</td>
<td>part</td>
<td>most</td>
</tr>
<tr>
<td>Operating capital</td>
<td>all</td>
<td>part</td>
<td>part</td>
<td>part</td>
</tr>
<tr>
<td>Management decisions</td>
<td>10</td>
<td>90</td>
<td>20</td>
<td>80</td>
</tr>
</tbody>
</table>

*L = Landlord. T = Tenant. Source: Data are illustrative.

and equipment. On a quarter-section where there is a heavy labor load because of a large poultry, hog and dairy business, the landlord might furnish part of the equipment or pay for part of the hired labor. On a productive, level, well-improved 240-acre farm producing beef cattle and hogs, an Iowa landlord might not contribute anything toward labor or equipment, and the tenant could be expected to furnish these items. These points are discussed more completely in the section titled “What Rent for Your Farm?”

What Are the Tests of a Good Farm Lease?

Here are some questions to ask when trying to judge the fairness of a farm lease.

Does this lease encourage the most profitable long-time operation of this farm? Does it encourage use of the “best” amounts of capital of different kinds by both parties? Does the lease prevent or discourage a tenant from operating the farm in the same way a well-financed owner-operator would run it?

Are returns to landlord and tenant shared in the same proportion as the contributions each makes to the business?

Are the best available farming methods used? Are soil productivity and useful improvements maintained? Is there a plan available to obtain new and needed improvements?

Is the lease in writing? Does it outline its farming plan? Does it clearly state the sharing of income and all expenses? Does it give adequate legal protection to both parties?

We can boil most of these questions down to four economic tests. A lease is defective in its economic aspects if it discourages:

1. Production of the best combination of products.
2. The most efficient combination of land, labor, capital and other resources.
3. A volume of production such as a competent owner-operator would want to achieve.
4. An equitable division of the returns between landlord and tenant.

Let’s stop and briefly illustrate the application of these four economic tests of a farm rental arrangement.

Economic Test No. 1. Is the best combination of products produced? Let’s apply this test to the crop rotation used on a fairly level Iowa farm, using representative yields for 1900 to 1950 for the type of rotation employed.

Note in table 4 that, on this farm, when a cropping system with too much acreage in grain was used, less grain, less hay and less total feed were produced than when legumes were introduced into the cropping system. The table shows that, up to a certain point, more legume acreage results in more grain in addition to the hay produced. However, if the acreage of hay is expanded too far, the total production of grain declines and the most valuable combination of products is not produced.

Table 4. Finding the Best Combination of Crops to Include in the Crop Rotation.*

<table>
<thead>
<tr>
<th>Crop Rotation</th>
<th>Acres in each crop per 100 acres of cropland</th>
<th>Yields per acre</th>
<th>Total yield from 100 acres</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corn</td>
<td>Oats</td>
<td>Hay</td>
</tr>
<tr>
<td>Continuous corn</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Corn and oats</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Corn and oats with sweetclover plowed under</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Corn-oats-clover</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Corn-corn-oats-clover</td>
<td>50</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Corn-corn-oats-alfalfa-alfalfa</td>
<td>40</td>
<td>20</td>
<td>40</td>
</tr>
</tbody>
</table>

*The yields used in this table assume the use of lime, where needed, but very little use of fertilizer. Data are illustrative only but in general in keeping with research results on Webster-Clarion soils.
**Economic Test No. 2.** Is the most efficient combination of the factors of production used? Let's apply this test to use of grain and roughage in producing 8,500 pounds of 4-percent standard milk.

Table 5 shows that it is possible to produce milk with much roughage and little grain or vice versa. The relative costs of these items determine which combination should be used to produce 8,500 pounds of milk at least cost and greatest efficiency in use of these two feeds, providing other costs are constant. At 1 cent per pound for roughage and 2 cents for concentrates a farm operator might make 70 percent of his dairy feed roughage and 30 percent concentrates. When concentrates increase in price to 3 cents per pound he might use a ration of 80 percent roughage and 20 percent concentrates.

The same principles apply as he decides on the combinations of land, labor and capital to use in operating his farm. If the price of milk should rise sharply, with no change in costs, he may try to feed concentrates more heavily to get more than 8,500 pounds of milk from this cow. If the price of milk should drop sharply he may feed concentrates less heavily and produce less milk from his cow. Or, he may even quit milking if he thinks he has a better alternative opportunity.

**Economic Test No. 3.** Is there an adequate volume of production on this farm such as an owner-operator would have as a goal? It isn't enough to choose the best combination of products and to produce them at lowest possible cost. The farmer must also have sufficient volume of business to make a decent living.

**Economic Test No. 4.** Are returns shared between landlord and tenant in the same proportion as each contributes to the joint farming enterprise?

(a) During the short run (one season)
(b) Intermediate time (1 or 2 years)
(c) Long run (several years)

For example let's apply Economic Test No. 4 to the short-run decision as to who will pay for the fertilizer used on corn in a crop-share lease.

Table 6 shows a hypothetical example in which the acre of land involved might produce 50 bushels of corn without fertilizer and 80 bushels with 400 pounds of fertilizer per acre. With equal sharing of fertilizer and equal sharing of the corn, it would be profitable to both tenant and landlord to use 300 pounds of fertilizer per acre and produce 76 bushels of corn per acre.

But if one party is required to pay for all of the fertilizer and get only half the corn, then it would be profitable for him to use only 100 pounds of fertilizer and to produce 62 bushels of corn per acre. In actual practice the party placed in this unsatisfactory position by his lease is likely to use no fertilizer at all and to produce only 50 bushels of corn per acre. Table 6 shows that returns should be shared in the same proportion as costs are shared. (The data used here are illustrative and not based on specific research. They are not to be used as a recommendation for the amounts of fertilizer to be used on any particular farm. Such information should come from soil tests, production records and recommendations from your county extension director.)

Table 6 also shows that if costs and returns are not

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**Table 5. Possible Combinations and Costs of Roughage and Concentrated Feeds to Produce 8,500 lbs. of 4-Percent Milk From One Cow in 1 Year.***

<table>
<thead>
<tr>
<th>Pounds of roughage</th>
<th>Pounds of concentrates</th>
<th>Percent of total ration which is roughage</th>
<th>Cost of producing 8,500 lbs. of milk with roughage 1¢ per lb., concentrates 2¢ per lb.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,000</td>
<td>6,154</td>
<td>45</td>
<td>$173.08</td>
</tr>
<tr>
<td>6,000</td>
<td>4,892</td>
<td>55</td>
<td>157.87</td>
</tr>
<tr>
<td>7,000</td>
<td>4,029</td>
<td>63</td>
<td>150.58</td>
</tr>
<tr>
<td>8,000</td>
<td>3,406</td>
<td>70</td>
<td>148.12</td>
</tr>
<tr>
<td>9,000</td>
<td>2,937</td>
<td>75</td>
<td>148.74</td>
</tr>
<tr>
<td>10,000</td>
<td>2,572</td>
<td>80</td>
<td>151.44</td>
</tr>
<tr>
<td>11,000</td>
<td>2,281</td>
<td>83</td>
<td>153.62</td>
</tr>
</tbody>
</table>


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**Table 6. Example of Sharing Fertilizer Costs and Returns on Corn on a Rented Farm.**

<table>
<thead>
<tr>
<th>Fertilizer per acre, cwt.</th>
<th>Expected corn yield, bu.</th>
<th>Extra corn for extra fertilizer, bu.</th>
<th>Extra cost of additional fertilizer</th>
<th>Extra income with corn at $1 per bu.</th>
<th>With equal sharing of costs and of corn return</th>
<th>If one party pays for fertilizer, and each gets half the corn cost and return</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>50</td>
<td>12</td>
<td>$5.00</td>
<td>$12.00</td>
<td>$2.50  $6.00</td>
<td>$5.00  $6.00</td>
</tr>
<tr>
<td>1</td>
<td>62</td>
<td>12</td>
<td>$5.00</td>
<td>$12.00</td>
<td>$2.50  $6.00</td>
<td>$5.00  $6.00</td>
</tr>
<tr>
<td>2</td>
<td>70</td>
<td>8</td>
<td>5.00</td>
<td>8.00</td>
<td>2.50  4.00</td>
<td>5.00  4.00</td>
</tr>
<tr>
<td>3</td>
<td>76</td>
<td>6</td>
<td>5.00</td>
<td>6.00</td>
<td>2.50  3.00</td>
<td>5.00  3.00</td>
</tr>
<tr>
<td>4</td>
<td>80</td>
<td>4</td>
<td>5.00</td>
<td>4.00</td>
<td>2.50  2.00</td>
<td>5.00  2.00</td>
</tr>
</tbody>
</table>

---
shared in the same proportion on a rented farm either one of the two following results may be expected: (1) Production on that farm might decline or (2) There would be an inequitable transfer of income from one party to the other, unless it is made up by some other lease provision.

Finding the Right Farm or Tenant

The success of the rental arrangement depends, at least in part, on those tenants and landlords getting together who complement each other in their resources and needs—and on tenants finding farms best adapted to their interests, abilities and resources of labor, equipment and money. The tenant’s search for a desirable farm is often costly, lengthy and discouraging. The landlord’s search for a desirable tenant also may be time consuming and unsatisfactory. The haphazard information channels of the farm rental market are clearly shown by our research.

What Each Looks For

It is important to know what landlords and tenants look for in each other and what tenants look for in a farm.

According to our studies, almost a third of the tenants rank productivity of the farm at the top of the list. Buildings rank second; the home third. However, once tenants and their wives become accustomed to a modern home, it ranks high in desired characteristics of a farm. Seldom will a tenant move from a modern home to a house without electricity, running water or bathroom.

We asked both landlords and tenants how each valued characteristics of the other in renting farms. All of them listed three characteristics: (1) ability to cooperate, (2) honesty and (3) farm experience.

However, the order of ranking these characteristics varied between landlords and tenants. Over three-fourths of the tenants ranked “ability to cooperate and get along with” as the most important point they sought in a landlord. Two-fifths of the landlords ranked “farm experience” as the most important characteristic they sought in finding a tenant for their farm. Landlords also want a tenant with enough labor, livestock and equipment to properly handle their farms.

A thorough canvas of farms for rent and available tenants can pay off over the years. It could bring together those tenants, landlords and farms which complement each other in terms of what each has to offer—in labor, capital, management and land. Both tenants and landlords will profit from a thorough study of their alternatives before they rent a farm. A tenant’s best procedure to get on a better farm is by doing an outstanding job in his present location.

Getting Along Together on Any Rented Farm

After a tenant and landlord have decided to farm together, the next objective is to get along together in a pleasant and profitable business enterprise. Where a landlord and tenant do get along well on a rented farm, certain attitudes are usually present:

- Each believes in the other man’s integrity.
- Each party tries to provide or achieve the things which the other party holds to be important—unless it is unprofitable to do so.
- Both have the determination to find fair, workable, peaceful and prompt solutions to farm rental problems as they arise.

In drawing a farm lease, fully as much time should be given to laying out a plan of farm operation which will increase output and profits as to determining what part of the products each party shall receive. This can be simply shown by the following diagram:

Imagine that circle “X”, which resembles a pie, represents the net income from a rented farm. Owner and prospective tenant may bargain and struggle over how pie “X” should be divided between them. It may be more profitable for them to spend more of their time working together to increase the size of the farm output to Pie “A” so there will be more for them to divide.

Is Your Farm Lease Legal?

The law is the legal framework for all rental arrangements. A general knowledge of this framework is essential to making a good rental arrangement.

Usually the law is the working rule for all situations not specifically covered in the lease. In some instances, rental provisions must comply with the law as stated in the Iowa Constitution, Iowa Statutes and as interpreted by the Iowa Supreme Court. Generally speaking, Iowa landlord-tenant law reflects the customs and traditions of rural areas.

Is the Lease in Writing?

In Iowa, farm leases beyond 1 year in length must be in writing to stand up in court. But it’s also desirable for leases of 1 year or less to be in writing to help prevent misunderstandings that may arise under oral agreements. Written leases furnish a checklist of important leasing provisions which might not be considered in an oral agreement.
Lease Requirements

Written leases should meet at least these four minimum lease requirements:

1. They should be signed properly by both parties—designated as lessor (the land owner) and lessee (the tenant).
2. They should specify a definite period for which the lease is to run.
3. They should contain an accurate description of the property.
4. They should state the kind and amount of rent and time and place of payments.

While these bare essentials are sufficient, many more features are required for a good lease.

Limited to 20 Years

The Iowa Constitution limits farm leases in these words: “No lease or grant of agricultural lands, reserving any rent, or service of any kind, shall be valid for a longer period than 20 years.” Although the length-of-lease problem generally it “too short” rather than “too long,” it’s well to know of this difference between farm and urban leases. This provision reflects the strong dislike of Iowa’s founders for any kind of landed feudalism. By limiting the term of agricultural leases, they tried to make sure that feudal land practices would never come to Iowa.

Automatic Renewal

According to Iowa legislation enacted in 1939, farm tenancies continue for the following crop year. If the parties agree in writing by Nov. 1, the lease will continue for another year. The law is quite clear in stating that unless either party notifies the other party in writing by Nov. 1, the lease will continue for another year beyond the next March 1.

Exceptions of Renewal Law

Three classes of leases are exempt from application of the lease termination law: (1) sharecropper arrangements, (2) field-renting agreements and (3) all other tenancies involving less than 40 acres.

Iowa has a relatively small number of sharecroppers and their inclusion might have increased considerably the difficulties of enforcement. The 40-acre exemption was adopted to exclude part-time, retirement and residential situations where farming is only incidental or where the farm occupation and investment factors are relatively small.

Cropping and field renting arrangements expire when the crop is harvested—or, if the crop is corn, not later than December 1—unless the parties agree otherwise. Where a tenant occupies and cultivates less than 40 acres, either party can terminate the arrangement as of March 1, by giving 30 days notice to the other providing no other termination date has been set by agreement.

Landlord’s Lien Provisions

If the tenant doesn’t pay his rent, the landlord has a claim on property of the tenant. This claim includes all crops grown on the farm, the increase in livestock born on the farm and other personal property of the tenant (including other livestock) used by the tenant or brought on the farm during the term of the lease. The landlord’s lien is given to the landlord by statute even though there’s no provision in the lease.

An additional lien may be arranged by agreement in the lease contract. Landlord and tenant can modify the terms of the lease as long as they are reasonable and in writing.

If the tenant default on rent, the landlord can take possession of the farm and other personal property of the tenant. This claim includes crops grown on the farm and livestock born on the farm and other personal property of the tenant. The landlord retains this lien for six months. After that time, the landlord can file a lawsuit to recover the lien or collect damages from the purchaser.

Removal of Improvements

The Iowa Legislature hasn’t taken specific action regarding the removal of improvements supplied by the tenant on a rented farm. But the courts have held that the intent of both parties at the time the improvement was made shall determine if such improvement can be legally removed. The kind of improvement, the way it’s
attached to the land, its type of use and the method of construction all help to determine the intent of the parties.

The courts generally have held that tenant's improvements may be removed by the tenant before the lease expires or before he gives up possession if removal doesn't damage the landlord's premises.

If the lease ends and the tenant surrenders possession without removing the improvements, it may be assumed the tenant has abandoned the improvements. Then they become part of the landlord's property. Where the tenancy is suddenly ended, the tenant has a reasonable time to remove the improvement.

Since it may be difficult to determine in advance whether an improvement will be removable, some tenants hesitate to invest in permanent farm improvements. However, proper provisions in the lease can avoid many of these problems.

**Not Assured Compensation**

Iowa law doesn't provide that the tenant receive compensation from either the landlord or succeeding tenant for unused benefits of improvements. The only way the tenant can get full benefit from improvements he puts on the farm is to: (1) remain on the farm long enough to get them, (2) to remove the improvements or (3) to have as specific agreement with the landlord for compensation.

However, it's impossible to remove many kinds of soil improvements such as lime, terraces and improved soil fertility. And, it's unlawful to remove improvements which would result in damages to the premises. So provisions must be incorporated into leases if tenants expect to realize benefits from unused portions of "fixed" improvements when and if they leave the farm.

**Liability for Waste**

Under the Iowa law of waste and trespass, if a tenant of a farm commits waste thereon he's liable to pay three times the damage resulting from such waste. Waste of farmland resources may be committed by "any person whose duty it is to prevent waste . . . and who fails to use reasonable and ordinary care to avert it."

Two general types of waste are recognized:

- **Permissive** waste occurs when the tenant permits the farm resources to deteriorate, soil to erode, ditches to form and fences and buildings to become ineffective because of the lack of ordinary care and maintenance.

- **Voluntary** waste occurs when the tenant actually commits an act which is malicious—such as knowingly letting water systems freeze, breaking doors, windows, etc., and, tilling land which the lease forbids farming.

Under the Iowa statutes, when either of these types of waste is committed, a landlord is entitled to collect triple damage. If the amount of the damage is more than two-thirds of the value of the tenant's interest, he may be evicted. In some cases, the landlord may get an injunction to prevent waste.

**Provisions for Arbitration**

Many unforeseen eventualities and misunderstandings may lead to disagreements between landlords and tenants. Although disagreements may have small beginnings, they may multiply and become serious—if steps aren't taken to settle them. Iowa law provides for arbitration of disagreements between landlords and tenants if both parties agree to such means of settlement: "All controversies which might be the subject of civil action may be submitted to the decision of one or more arbitrators."

In submitting a disagreement to arbitration the parties themselves or their legal representatives must sign and acknowledge a written agreement, specifying particularly what demands are to be submitted, the names of the arbitrators and court by which the judgement on their award is to be rendered.

After demands have once been submitted "neither party shall have the power to revoke the submission without the consent of the other." Even though one of the parties neglects or fails to appear, the arbitrators will go ahead with the hearing and judge the controversy on the basis of what evidence is presented.

The extent to which Iowa law favors arbitration may be seen in the provision that, even though the arbitrators haven't been selected according to the statutory provisions, their awards shall be valid and binding upon the parties as other contracts and may be impeached only for fraud or mistake.

**Consult a Lawyer**

The foregoing discussion has outlined important features of Iowa law which help form the working rules of landlord-tenant relationships. A knowledge of these general rules should aid better understanding of rental arrangements by landlords and tenants. However, there is no substitute for good legal advice. For more complete information and for interpretation of these points consult a lawyer.

**What Rent for Your Farm?**

How to share income and expenses on a rented farm is the most important feature of the farm lease. It's also the problem which troubles landlords and tenants most. Of all landlords and tenants requesting rental information from Iowa State College, more ask about the sharing of income and expenses than any other single feature of farm leases.

The success of the rental arrangement often hinges on the ability of the landlord and tenant to solve this problem satisfactorily. If the rent is too high, the tenant may have trouble living up to the agreement. He then may be forced to take one of two alternatives—either exploit the soil or leave the farm in search of a better opportunity. If the rent is too low, the landlord may be forced to neglect the improvements or terminate the agreement. Either alternative is costly and unsatisfactory.
What Is "Fair" Rent?

Only a few of the landlords and tenants interviewed in a recent survey had definite and clear ideas as to just what constitutes a "fair" rent. This reflects to some extent the difficulties in determining a fair rent.

"What's customary" was the most frequent response to the question, "What is a fair rent?" The next largest group answering the question, however, was those having no definite opinion. One out of ten believed that costs and expenses should be shared equally. Many of the owners and tenants believed that production should be divided in the ratio of the contributions made by each party. These contributions are hard to appraise—particularly in times of changing costs, prices and production and with the introduction of new methods. Slightly more than one in ten said that a "fair" rent is the one the "parties agree on."

Factors to Consider

Seven factors are mentioned by landlords and tenants as highly important in working out satisfactory rents. These are (1) "what is customary," (2) other alternatives open to each party, (3) what is satisfactory to both, (4) the bargaining ability of both landlord and tenant, (5) value of contributions made by each party, (6) productivity of contributions of each party and (7) improvements, location, roads, markets, schools, churches and other amenities.

What Is Customary?

Local custom appears to be an important influence on the terms of most farm rental contracts. The influence of custom can be seen in the stability of the "customary" shares in dividing farm grains. Custom also seems to contribute to the lag in cash rents per acre as compared to the returns from share rents. Both cash and share rents seem to be influenced more by local custom than by changes in farm prices, costs and production. While custom may offer a starting point, we need to consider other factors if rent is to reflect the changes taking place in agriculture today.

Custom tends to keep rent behind the times and results in inefficient use of agricultural resources. Also, customary rental rates may not fit the individual farm or tenant. For those adopting new farming practices custom is of little help—arrangements for carrying out new practices may not have had time to become part of the customs of the community.

Custom, then, seems to be as much an obstacle as an aid in keeping rents fair. The formation of custom is a slow process while the other factors affecting rent change rapidly. Therefore, too much reliance can be placed on "what is customary."

Alternative Opportunity

The opportunity of landlords or tenants to use their labor, capital and land resources in some other opportunity has an effect on the level of rents. Rent is the result of a supply and demand situation—the supply of land and the demand for land. The demand for land is directly related to the number of tenants. The number of tenants, in turn, may be governed by the attractiveness of nonagricultural employment and by demands of the armed services.

A prospective tenant will be reluctant to rent a farm if the expected return from the farm is less than he can earn in other employment. If nonfarm alternatives are relatively better, the number of tenants will tend to be reduced, and rents may decline. On the other hand, if the tenant's rewards from farming are attractive relative to alternative opportunities, competition among tenants will tend to increase rents.

What Is Satisfactory?

If rents get too far out of line either way, serious dissatisfaction may develop. The test of "reasonableness"—that is, what appears satisfactory to both landlord and tenant—is important. Satisfaction with the agreement by tenant and landlord is important to the continued success of the arrangement.

Bargaining Ability

The rent of an individual farm is affected by the bargaining abilities of the landlord and tenant. If the landlord is a skillful bargainer, the young or inexperienced tenant may pay a high rent. Again, if the landlord lived at a distant point, or is elderly or inexperienced in the farming business, the tenant may drive the better bargain. The landlord can engage a management service to do his bargaining, but most tenants, at this time, lack similar counsel.

This doesn't mean that rents should be uniform. The tenant with superior ability or equipment should be able to bargain for a more favorable contract than the average tenant. Likewise, the landlord offering a more productive or desirable farm should receive more than the average rent in that locality. If both parties are aware of their alternative opportunities, they will be in their best position to bargain.

Value of Contributions

Many attempts have been made to arrive at a fair division of farm returns between landlord and tenant by sharing the net returns in the same proportion as the value of the contributions made by each party to the lease. According to this idea, if the annual value of the contributions of one party makes up 50 percent of the total annual contributions, then that party would receive 50 percent of the net returns for the year.

Here's a simple example of the application of this principle to a livestock-share lease situation in which the contributions are made as shown on the next page.

Total value of annual contributions is $5,000—of which each party contributes 50 percent. They agree they'll each contribute equally to management and won't charge depreciation. Therefore, net returns will be divided equally in this case.
Sales of farmland are so infrequent that it's sometimes difficult to arrive at a valuation of the farm. In that case an annual rental value of the farm could be used.

For example, suppose a landlord and tenant aren't able to agree on a sale valuation of $57,500 for the farm, which at 4 percent gives an annual contribution value of approximately $2,300. However, they may agree that land like this has been returning the owner about $12.50 per acre—which for 185 acres would still make an annual return to land of about $2,300. Sales of livestock and equipment are made often enough so that going prices usually aren't difficult to figure on these items.

In some cases the sale value of a factor of production used in farming may not be in proportion to its productivity for farming purposes. For example, farmland near a city may have a prospective sale value for urban purposes out of proportion to its productivity as farmland. In that case the estimate of its going annual value or rental for farmland purposes could be used instead of sale value.

**Productivity**

The same amount of capital and labor may yield different amounts of returns in different alternative uses. For example, a certain amount of capital invested in breeding stock may yield more returns than a similar amount invested in livestock housing.

Likewise, a certain amount of capital and labor invested in corn borer control or fertilizer or weed spray may yield higher returns than the same amount invested in an extra cultivation of corn.

Thus the division of net returns on the basis of the annual value of contributions may not agree with the annual productivity of these same contributions. Some reasons for this difference in net returns from alternative kinds of uses to which land, labor and capital may be put include: (1) sales values based in part on past-earnings which may lag behind current earning power of productive factors; (2) failure of customary shares to reflect current earning power of productive factors; (3) sales value of land based on nonfarm uses; and (4) lack of knowledge of just what additional capital and labor may return in various uses—such as more livestock, more improvements, fertilizer, insect and weed control, etc.

So, it's well to keep an eye on expected productivity as well as on the sale value of contributions. The test of the best use of limited capital, land and labor resources is the net returns these resources will yield in various uses. This problem of determining the best way to use available labor and capital may become very important as shortages develop in farm labor, fertilizer and other items.

**Other Factors**

Improvements, location, roads, schools, churches and other amenities may or may not affect the amount of rent to be paid. For example, in some localities unimproved land will rent for the same share of the crop as an improved farm. Location of a dairy farm in a restricted city fluid milk shed may mean more rent to the owner. But location of a wheat or livestock farm adjacent to a terminal market seldom is reflected in rental rates.

**Up-To-Date Rentals**

After the landlord and tenant have once decided that their rental contract is satisfactory, they can't relax and forget it. A rent that's considered fair one year, may not, by the same standards, be a fair rent the next year. Changes in prices, costs and production practices can alter the division of net returns. When the price level changes, specific groups of prices usually change in the following order: (1) commodity prices, (2) operating costs and (3) costs associated with land.

The landlord's net income under a stock-share lease increased relative to the tenant's net income during the 1940's. The landlord has benefited along with the tenant in the matter of higher prices while his costs have lagged somewhat behind the tenant's costs. If prices were to turn downward, however, the landlord's costs would decline more slowly than the tenant's costs, and the landlord's net return would decrease relative to the tenant's net return.

With the cash lease the situation is different. The level of cash rent responds slowly to changes in the general price level. The cash tenant is benefited more by rising prices than the landlord, and while operating costs advance, the increase isn't as great as the increase in farm prices.

So in a period of rising prices, the net income of the cash tenant increases relative to the net income of the landlord. In a period of falling prices, however, cash rents tend to remain up while the tenant's income declines more than operating costs decline, and the landlord's net receipts fall off more than those of the landlord.
lord’s net return increases in comparison to the tenant’s net return.

It’s important, therefore, that the rental agreement be examined often so that corrections necessitated by price, cost and production changes can be incorporated in the lease.

Keeping rentals up to date requires constant vigilance on the part of landlord and tenant alike and a willingness to face up to changes as they come.

Keep Leases Up With New Farming Methods

Farming methods are changing rapidly. Farm leases based largely on “what’s customary” change slowly. Customary rental practices for some of the new farming methods haven’t been worked out yet.

As a result both tenants and landlords may be slow to adopt new farming methods. Often they must work out their own arrangements without the benefit of custom as a guide. So there are many variations in rental provisions to meet new farming methods.

Although there are few set patterns for carrying out many of the newer farm practices, our survey of tenants and owners shows what some of the landlords and tenants are doing to get these practices adopted on their farms. Others may find these ideas helpful in adjusting their rental arrangements to meet farming methods.

Weed Control Costs

With the coming of 2,4-D and other chemicals, the question arises as to who pays for the extra labor, chemicals and equipment used to kill weeds. Many means are being used for sharing these costs. If considerable amounts of noxious weeds are present when the tenant moves on the farm, the landlord may pay for the chemicals and custom work (if spray equipment is hired) the first year to bring the weeds under control.

Thereafter, the landlord may furnish the chemicals and the tenant the labor. If weed control is done by custom work, the landlord and tenant often share the cost equally. Sometimes, on a stock-share lease, spray equipment and materials are furnished jointly with the tenant furnishing the labor for spraying.

Insect Control

Spraying to control corn borers and other insects is a practice becoming more widely adopted. It involves additional costs for which most leases haven’t provided.

One way landlords and tenants are sharing this cost is to split the entire cost of spraying equally when custom work is hired. If the tenant does the work, the landlord may furnish all or half of the spray materials on a share-rented farm.

What if one of the parties doesn’t pay his half of the cost? Five tenants in our survey said this was the case with their landlords who were not willing to pay half the cost of spraying for corn borers. In such instances, there may be little that can be done if the time for spraying has arrived. However, if spraying is necessary, this practice should be discussed when the farm is rented or when the lease is renewed.

Commercial Fertilizers

The use of commercial fertilizers has increased sharply in Iowa during the past decade. Many Iowa farm leases don’t contain provisions for this practice or state how costs are to be shared. Under share leases, fertilizer costs for corn are often shared the same way the crop is shared. In some cases the landlord pays for a little more than half of the fertilizer used on corn—allowing the tenant something for hauling and spreading the fertilizer.

Where commercial fertilizers were applied to small grains with legume seedings, we found all kinds of arrangements for sharing the fertilizer costs. With stock-share leases, fertilizer costs usually are shared 50-50. The same holds true for most crop-share leases. In some of the cash leases the landlord paid for half of the phosphate on oats and seeding to protect his investment in legume seed. Occasionally the landlord furnished all the fertilizer and the tenant the labor for spreading. This arrangement was used where the tenant might not be on the farm long enough to get full benefit from furnishing the materials.

In most cases the landlord bought the limestone and received the PMA or ASC payment for spreading it. But in an increasing number of cases the renters with secure tenure are paying for part of the limestone. In such cases the tenant may ask for a guarantee of compensation for unused value in case he has to move before he has full use of the lime.

Only a few of the rented farms included in our study had terraces. In these cases the landlords had built the terraces, and the tenants had agreed to maintain them. There are, of course, other ways in which this can be done.

Contouring

Where contouring was practiced, the landlord usually arranged for laying out the contours. If fences had to be moved, the landlord paid for all materials, and the tenant furnished the labor. It’s likely, however, that tenants would expect compensation for this labor in case they move within a year or so. In some communities tenants expect pay for constructing road fences or line fences.

Where grass waterways were used, the landlord generally furnished the seed, fertilizer, lime and any major grading work. The tenant furnished his labor, minor grading and agreed to maintain the waterways with good tillage practices.

Combining

If a landlord received half the oats or beans, he usually paid for half the combining and half the seed oats. However, if the landlord received two-fifths or some other share less than half the crop, the tenant usually
paid all harvesting and seed costs. In a few cases the landlord paid a harvesting cost equivalent to the share of the twine and threshing costs which was the custom when crops were harvested with binders and threshers. However, since oat yields have gone up, some landlords have been asking for and getting improved arrangements.

Grain Storage

Under the government crop-loan programs, acceptable storage facilities may determine whether or not benefits from these programs can be obtained.

Where there's satisfactory storage room on the farm for only 2,000 bushels of corn or beans, for example, and each party has that much grain eligible for storage, who gets the use of the storage space? Several tenants and landlords were concerned with this problem. All agreed that arrangements should be worked out at the beginning of the lease or during its renewal to meet such problems before harvest arrives.

One arrangement is to share available storage facilities the same way the crop is shared. Or, if more storage space is anticipated, it may be constructed jointly with arrangements that the tenant be compensated for the unused value of his share of the investment in case he moves. Also, tenants may buy movable cribs which they can take with them when leaving the farm.

Down-Corn Problems

A combination of factors, including corn borers, use of corn pickers, dry falls and high winds, sometimes result in considerable corn on the ground at harvesting time. Though this problem isn't so serious under stock-share and cash rents, it may lead to trouble under crop-share leases.

At times this problem has been so serious that some landlords and tenants are beginning to put provisions into their leases for settling it. One method which several landlords and tenants are using is a lease provision with considerable success is as follows:

- Agree upon a "normal amount" of corn which is usually left in the field—for example, 2 to 3 bushels per acre, or some other amount both can agree on.
- If the corn is shared 50-50, the tenant agrees to pay the landlord in corn or cash something less than half the estimated amount beyond the agreed-upon normal leavage. (Something "less than half" is used as a basis for settlement since the corn on the ground is frequently poorer in quality than standing corn.)
- In case the tenant can harvest the down-corn with livestock and doesn't want to pick it up, the amount left on the ground can be estimated by picking up or counting sample areas of corn on the ground.

Some tenants and landlords estimate this amount by counting the ears left in every tenth and eleventh row and multiplying this amount by ten. Others take blocks of so many hills square as samples for estimating the amount of corn on the ground.

The important point is to find a workable procedure for settling the problem before a difference arises and to include the procedure in the lease.

Other Adjustments

In case these methods don't seem suited to a particular situation, it might be desirable to "ask around" and find landlords and tenants in the community who have developed satisfactory arrangements. But be sure to find out if the arrangement is tied up with or conditioned by other parts of the lease. Obtain a complete account of the arrangements. Usually it is not possible to take individual items in two leases and compare them directly. Often their handling is tied to some other agreement in the lease.

For example, the tenant may furnish all the fertilizer and grass seed for a given year in return for the landlord fixing up the house or some other compensating feature not directly related to the practice. Thus, all of the features of a particular arrangement should be looked into.

As a general rule, it's best to anticipate new practices and methods and provide for them in the lease. Then if the practice is adopted each party knows what his responsibilities will be.

Getting Improvements on a Rented Farm

How to make improvements on rented farms is another difficult problem facing landlords and tenants. Some are working out their own solutions. But most of them are still looking for satisfactory ways and means for making improvements. About a third of the requests to the college for rental information concern this problem.

Our interviews with both landlords and tenants furnish a number of basic reasons why improvements aren't made on tenant farms. An understanding of these reasons can help us find ways and means to work out arrangements for making improvements.

From the tenant's viewpoint, there are three major reasons why he doesn't make improvements he believes are needed:

- He may be uncertain that he will remain on the farm long enough to get full benefit from the improvements.
- There are no arrangements to compensate him for his unused value of the improvement if he moves from the farm.
- Since improvements make the landlord's property more valuable and attractive to others, a sale of the farm or an increase in rent may come about eventually because of improvements the tenant has helped to make.

Probably the main reason why landlords may be reluctant to make improvements is that they won't share directly in the benefits. Under crop-share leases, for example, landlords don't share directly from livestock housing, fencing, feeding floors and water supplies—even though indirect benefits may come from keeping or attracting better tenants. The landlord may feel his
income will be decreased because of higher taxes, repairs and upkeep resulting from improvements.

Additional reasons shared by landlords and tenants help account for not making improvements on tenant farms. First, either the landlord or tenant may not feel a particular improvement is necessary—even though both would share from its benefits. Second, they may not be financially able to go ahead with the improvement although they appreciate its desirability.

Some landlords and tenants are working out means of overcoming obstacles to making improvements on rented farms. Their experiences may prove helpful to others who are still looking for ideas in making improvements in their own situations. From discussions with farm owners and tenants, 10 general alternative ways may be used for making improvements on rented farms. These alternatives vary with individual situations and need.

Landlord and Tenant Share Costs and Benefits

One method of making improvements on rented land is for the landlord and tenant to share the costs of an improvement according to benefits they receive. If landlord and tenant share a crop such as corn or oats equally, then the fertilizer might be shared equally. However, if fertilizer benefits extend over several years and beyond the period the tenant is sure of remaining on the farm, the landlord might assume the costs in proportion to benefits which remain after the tenant leaves. Where all benefits from the improvement occur while the tenant is on the farm, the costs may be shared according to the benefits each receives. This arrangement should apply to many of the shorter-term improvements.

Landlord Furnishes Materials and Tenant Furnishes Labor

Another fairly common arrangement is for the landlord to furnish materials and the tenant to furnish labor. This method fits in well with minor improvements such as fencing—particularly if the tenant can put in the fence during slack periods of the year. If considerable work is involved, the tenant may want to be sure of getting full benefit from his labor through a long-term lease or through arrangements to obtain compensation for any unused value of his contribution if he moves after the improvement is made.

Swapping Improvement Efforts

Still another way of making improvements is for one party to make part or all of an improvement providing a similar improvement effort is made by the other party to the lease. For example, the tenant may fill a gully in return for the landlord making an improvement on the house. Likewise, cash rent for pasture and meadow land may be reduced if the tenant furnishes half of the grass and legume seed.

Tenant Makes Improvement Under Long-Term Lease

When the tenant is assured of remaining on the farm long enough to get full benefits from an improvement such as a yard fence or feeding floor, he may pay for the improvement himself. This is particularly applicable to improvements from which the landlord receives no direct benefits through current income. Also, long-term leases may permit landlord and tenant to share costs in the manner benefits are received over the period of the lease. For example, if effects from applying limestone last 10 years and both parties share equally in the crops produced, it would appear that the two parties could share the costs of the limestone equally—providing the lease ran the full 10 years.

Tenant Makes Improvement Under Compensation Provision

In cases where the tenant may not expect full benefits from an improvement because of his uncertainty of remaining on the farm, he may still make the improvement providing the landlord agrees to compensate him for any unused benefits when and if the tenant leaves the farm. This may apply to fertilizers, liming, terracing, feeding floors, water systems, corncribs and a number of similar improvements. A “lease supplement” for carrying out such an arrangement (which may be used as a part of the current lease) is presented in the Appendix of this bulletin. Copies are also available from your county extension director.

Landlord Makes Improvement and Receives Improvement Rent

Sometimes the landlord would rather make the improvement himself and charge an “improvement rent” paid annually by the tenant. For example, the landlord may put a bathroom in the farm house including running water and sewage disposal. Since the landlord receives no direct benefit from this improvement—which benefits the tenant almost exclusively—the tenant may be willing and glad to pay the landlord an extra $50 or $75 a year “improvement rent” until the cost is paid or until the tenant moves.

In this manner, the tenant enjoys better living conditions for his family, and the landlord is reimbursed for his investment. Or, the landlord may not expect to receive the full cost through “improvement rent” since the value of his farm is increased and he may be able to hold or attract a better tenant than would otherwise be the case. Sometimes tenants on regular crop-share leases pay a use rent, in addition to a share of the crops, for a good set of buildings or on a specific improvement such as a silo.

Sharing Benefits and Costs Through Stock-Share Lease

Under the stock-share lease, both landlord and tenant share in benefits from a wider range of improvements than with crop-share and cash rental arrangements. For example, benefits from an investment for a feeding floor are shared by both parties since they also share in the livestock. The same may be true of fencing, stock water supplies, dairy equipment, poultry houses and a wide range of like improvements.
However, in sharing investments for these kinds of improvements, the tenant may want assurance that he'll remain on the farm long enough to get full benefit from his share of the investment or otherwise be compensated.

**Tenant Makes Improvements Which Can Be Removed**

If the landlord isn't willing or interested in sharing in investments from which he receives no direct benefits, the tenant may invest in movable improvements—which he can take with him if and when he moves. Tenants should make sure such improvements aren't made in a manner to be considered fixtures under the law. And the improvements must be removed in the manner and within the period of time after leaving the farm as specified by the law.

**Joint Credit for Financing Improvement**

Sometimes neither tenant nor landlord has funds available for making an improvement such as a corncrib for sealing corn although both may be convinced of value of an improvement. In such cases, they may wish to obtain credit from public or private sources and be jointly responsible for interest and repayment of the debt to the extent that both share the benefits.

**Related Tenants Who Expect To Inherit Farms**

Tenants renting farms from their parents may go ahead and make improvements with the idea that they'll eventually own the farm. But caution often is needed in such cases.

Suppose a related tenant pays for several improvements on the home farm without first securing a written understanding that he'll be reimbursed for them. If the estate is later settled according to the laws of descent and there are other heirs, the tenant will find the improvements he made are owned by all of the heirs. If he tries to buy out the others, he'll have to pay a higher price because of the improvements he's made and paid for.

**Returns From Improved and Unimproved Crop-Share Farms**

Unimproved farms in Iowa netted their owners almost $4 per acre more in 1950 than did similar farms with a set of improvements. These facts were shown by a recent study made by the Iowa Agricultural Experiment Station in cooperation with the Iowa Real Estate Association. Questionnaires were sent to 162 farm managers handling farms both with and without buildings throughout the state.

This study showed that gross rents for improved and unimproved farms were about the same. But, for the state as a whole, improved farms returned nearly $4 per acre less to the landlord than did unimproved farms.

Gross rent is the landlord's share of crops plus any cash rent for hay, pasture or buildings. Net rent is the gross rent less landowner costs of taxes, repairs, improvements, other production costs and a management fee of 10 percent of the owner's gross income.

The 162 farm managers receiving the questionnaires had complete information on the incomes and expenses for 1950 on the sample of farms. From this information, both gross and net rents were calculated on a per-acre basis for each of the farms where a crop-share lease was used. About three-fifths of all rented farms in Iowa are leased on this basis.

Gross and net rents on land with and without buildings are shown in the map for each of the major type-of-farming areas in the state. The average value of the unimproved farms in the sample was $200 per acre; the average value of the improved farms was $211 per acre.

Since the return to land (net rent) usually is reflected in land value, we'd expect net rents to be about equal where the values differ so little. But while the map shows the gross rents for improved and unimproved to be about the same, the differences in net rents per acre show higher figures for unimproved farms than for improved farms.

This advantage for the unimproved land holds true in every area except the eastern livestock area. This exception might be partially explained by the buildings in this area having relatively more value than in other areas because of the intensive livestock farming in this area. Another important factor in this instance is that the value of the improved land—actual sales value as estimated by the farm managers—in this area was twice as high as the value of the unimproved land on the farms for which we had information. Thus, though the net rent figures are almost identical for improved and unimproved farms, the landowners renting out unimproved farms received almost twice as much on their investment as did the owners of land with buildings.
As already mentioned, rental information was calculated only for crop-share farms. General information was obtained on livestock-share farms, but because the landowner receives returns from livestock and machinery as well as land, it was impossible to separate the return to land.

Net returns on landowner investment, however, were calculated for both crop-share and livestock-share farms. The owners of land rented on a stock-share lease received a return on their investment just slightly higher than the return to owners of unimproved land who rented their farms under crop-share leases. The return on investment was, in all areas, least for owners of improved farms renting their farms under crop-share arrangements.

**Reasons for Differences . . .**

What might account for this difference in net rent in favor of unimproved land? Several factors may be involved; some of them are shown in table 7.

**Building repairs, taxes and insurance:** Improved land must bear costs of the improvements, building repairs, taxes on the buildings and building insurance. Unimproved land doesn't have these costs.

The average cost per acre for building repairs and insurance on improved farms was $2.24 in 1950. This factor alone accounts for half the difference in net rent between improved and unimproved farms. And the tax load is heavier on improved land, too. The average property tax per acre of the improved farms was $1.86 for improved farms in 1950; the same figure for unimproved farms was $1.61—a difference of 25 cents per acre.

**Less cropland:** Farms with no buildings have more acres available for cropland than do improved farms. A farmstead may remove 2 to 10 acres from cultivation. Since the landowner usually receives only a share of the crops and possibly some cash rent for pasture under the customary crop-share arrangement, the land devoted to the farmstead produces no direct income for the owner.

This is changing in some areas. The practice of charging a cash rent for buildings on crop-share farms is increasing. Sometimes the building rent is charged at the same rate per acre as hay land. Where a building rent of this type is charged, the landowner does receive a direct return for the acreage in farmstead—but the amount is less than the landlord's share of crops per acre. Also, such a rent doesn't compensate the owner for the additional costs of buildings. Whether or not such additional costs are justified depends upon the productivity resulting from the improvements.

**Increasing farm size:** Renting unimproved land is one means a farmer can use to increase his acreage, his farm efficiency and his profits. The fixed costs of machinery are much the same for a farm of 120 acres as for one of 160 to 200 acres, and family labor may not be fully utilized on the smaller farms. The average size of unimproved tracts in the sample was 125 acres compared with a 189-acre average for the farms with buildings. It's easier to combine 40, 80 or 120 acres with an existing farm than to add 200 acres.

These smaller units of land are in demand for renting as well as for purchasing. Many farm operators—both owners and tenants—are unable to obtain enough capital to buy additional land to create a more efficient-sized farm.

The high rent received by owners of unimproved land is an indication of its income-producing ability for a tenant when he uses it to increase the size of his farm unit. Even though he may have enough capital available to buy an additional 40 or 80 acres, a farm operator may prefer to rent and pay a relatively high rental rate rather than to assume additional risk by investing his capital in buying a tract.

This development seems to be in line with farm size and tenure changes reported in the 1950 Census. Average Iowa farm size has consistently increased since 1880—from 133.5 acres then to 168.7 acres in 1950. This size increase is due largely to advances in the use of farm machinery which have made it easier and more profitable to farm greater acreages of land. Owner-operated farms have become larger. But some of the size increase also is due to an increase in the number of farmers who are renting land in addition to that which they own. Reflecting this trend, the number of part-owner farm operators in Iowa has increased from 22,410 in 1940 to 30,229 in 1950.

In this process of increasing farm size through combination of tracts, some buildings may be allowed to deteriorate. This is a symptom of the trend toward larger farm size.

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<td>Net rent</td>
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†Consists of a 10-percent of gross rent management fee, seed costs, fertilizer costs and other production costs paid by the landowner.
Advantages and Disadvantages of Each Type of Lease

Cash Leases

The percentage of rented farms in Iowa using a cash lease varied in 1950 from 61.3 percent in Scott County to 4.2 percent in Calhoun and Montgomery counties. The use of cash farm leases in Iowa has declined sharply since 1930. Violent changes in the general price level and level of farm prices make it difficult to keep cash rents in step with other price changes. The flexible cash lease was developed to help overcome this difficulty. So there are two types of cash leases—straight cash and flexible cash.

Straight Cash Lease:
- Common terms for a straight cash lease are: a given amount of cash rent per acre per year or lump sum per year for use of the farm.
- Problems and disadvantages of a straight cash lease are:
  - How much should the cash rental be?
  - Too low in a time of rising prices.
  - Too high in a time of falling prices.
  - Security often required by the landlord.
  - Interests of landlord and tenant vary at many points.
  - Is farm productivity maintained?
- Advantages of a straight cash lease are:
  - Simple.
  - Few misunderstandings.
  - Owner relieved of making operating decisions.
  - Tenant free to run his own livestock program.

Flexible Cash Lease:
- Common terms in a flexible cash lease are: The cash rental per acre goes up and down with the price of farm products.
- Problems and disadvantages of a flexible cash lease are:
  - Flexible cash rent based on the price of one farm product (such as corn or hogs) is usually unsatisfactory in Iowa.
  - If an index of Iowa farm products prices is chosen then what base period should be chosen? Costs may not change the same as prices, and it’s necessary to get the index figures from the state college or the state statistician.
- Few landlords and tenants are acquainted with this plan.
- A provision for crop failure is needed.
- Advantages of a flexible cash lease are:
  - Rents go up and down with farm prices.
  - If set up right, the need for future bargaining over rental rate is sharply reduced.

Crop-Share Leases

There are two common types of crop-share leases:

(1) crop-share-cash which was used on 46 percent of Iowa’s rented farms in 1950 and (2) straight crop-share and field renting which was used on 8 percent of the rented farms in this state in 1950.

Crop-Share-Cash Lease:
- Common terms in a crop-share-cash lease are: On a crop-share-cash lease the owner furnishes land and buildings. The tenant furnishes labor and equipment.
- The owner gets a share of the crops and usually receives a cash payment for land in pasture, hay, lots, buildings and roads. Sometimes there is a separate “use” rent for a good set of buildings.
- Problems and disadvantages of a crop-share-cash lease are:
  - How much cash rent for pasture and hay?
  - What share of the crops goes to each party?
  - Are grain and hay sold off the farm?
  - How are the following expenses shared: grass seed, seed corn, seed oats and beans, commercial fertilizer, limestone, spraying weeds and insects, custom work hired for combining?
  - Who has final say on rotation of crops to be followed?
  - Interests of owner and tenant are often divergent.
  - How is farm storage space to be shared?
  - How to get needed improvements?
  - What if the picker leaves too much corn in the field?
  - Who pays for shelling and delivery of the landlord’s share of the corn?
  - Will there be use rent paid for buildings?
- Advantages of a crop-share-cash lease are:
  - Plan is well understood and widely used.
  - Crop risks are shared equally.
  - Tenant is free to run his own livestock program.
  - Owner is relieved of making most farm operating decisions.

Straight Crop-Share Lease and Field Renting:
- Common terms in a crop-share lease are: Under a crop-share lease, only the crops are shared. There is no cash for hay land. Often there is no hay grown. If there is hay, the landlord takes part of the hay for his rent.
- Problems and disadvantages of a crop-share lease and field renting are:
  - How to keep up the productivity of the land?
  - Short tenure.
  - Most of the problems of the crop-share-cash lease.
- Advantages of a crop-share lease and field renting are:
  - It’s simple.
  - Crop-yield uncertainty and price risks are shared. For example, in the high risk overflow areas of the Missouri River bottoms in western Iowa, many farms are without improvements and are field rented.
Stock-Share Leases

- Common terms in a stock-share lease are: The owner furnishes land and buildings. Tenant usually furnishes labor and most of the equipment. Livestock is owned jointly. Operating expenses and returns often are shared equally. However, sometimes minor enterprises, such as a small poultry flock on an Iowa livestock farm, may belong to the tenant alone. In case one party furnishes most of the operating capital or if there is a heavy labor load furnished by one party, the proceeds may not be divided equally.

- Problems and disadvantages of a stock-share lease are:
  - How are poultry income and expenses shared?
  - How is produce such as meat, milk, fruit, eggs and garden truck shared?
  - Who has final say in planning the crop rotation, in purchasing farm supplies, farm feed and farm animals?
  - Who decides on the time and place to sell?
  - Who receives the proceeds from sales? Who keeps the farm records?
  - There are many decisions to make.
  - How often are reports and settlements made?
  - Will there be a joint bank account?
  - Is a partnership created?
  - Is a method of dissolution provided for?

- Advantages of a stock-share lease are:
  - Easier to get improvements.
  - Uncertainty and risk are shared equally.
  - Provides for a good livestock program.
  - Provides more capital for a young tenant.
  - Settlements are more frequent.
  - Interests of landlords and tenants coincide better than with other lease types used in Iowa.

Labor-Share Leases

- Terms in a labor-share lease vary. There are so many alternative arrangements in this category that they can’t be easily stated. The central situation is this: A young man, who is well qualified for farming, can’t get started because he lacks land and capital. An older man who has land, capital and experience is badly in need of help. They may be father and son or they may not be related at all.

- Problems and disadvantages of a labor-share lease are:
  - Is the business big enough to support two families? Size usually means acres. But it can mean a large business on an average-size farm.
  - Are separate living quarters available?
  - An adequate system of farm accounts is necessary.
  - Do they have reasonable ability to get along together?
  - Do both have the conviction that this joint farming enterprise is mutually beneficial?

Do they have the ability to outline and apply a good farm management program?
Do the younger people really want to farm?
Do the two families share in earnings in the same proportion as they contribute to the joint farming enterprise?
Is the lease changed as soon as the younger man acquires more capital?

- Advantages of a labor-share lease are: It permits the young man without capital to get started farming. He can also profit by the older man’s experience. The older couple can use this plan to ease up on the work. A father may use this method to interest and start his sons in farming.

How To Share Income and Expenses on Labor-Share Leases

There are many young men qualified for farming except that they lack the capital either to buy a farm or to start out on a standard farm lease. One solution for such a young man is to team up with the owner of a fully equipped and stocked farm using one of the plans offered below. When they start farming by use of one of these plans, there soon must be a decision as to what will be a fair division of farm income and farm expenses.

The general rule in this connection may be stated as follows: Each will share in returns in the same proportion as he contributes to the joint farming enterprise. This assumes that all of the available resources are used to best advantage. For example:

<table>
<thead>
<tr>
<th>Father’s contributions</th>
<th></th>
<th></th>
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<tr>
<td>Land and Buildings</td>
<td>$60,000.00 at 4 percent</td>
<td>$2,400.00</td>
</tr>
<tr>
<td>Livestock</td>
<td>$10,000.00 at 5 percent</td>
<td>$500.00</td>
</tr>
<tr>
<td>Equipment</td>
<td>$10,000.00 at 10 percent</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Father’s labor and management at $200.00/month</td>
<td>$2,400.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,300.00</strong></td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Son’s contributions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Son’s labor and management at $225.00/month</td>
<td>$2,700.00</td>
</tr>
<tr>
<td><strong>Total annual contributios</strong></td>
<td>$9,000.00</td>
</tr>
</tbody>
</table>

Percent of total contributed by each:

- Father: $6,300.00 / $9,000.00 = 70 percent
- Son: $2,700.00 / $9,000.00 = 30 percent

Thus any net income, in this case, would be divided 70 percent to the father and 30 percent to the son.

If this were a smaller farm or if the father did not work, then the percent going to each party would be substantially changed.

The solution to the problem of division of income and expense will be different in the following two situations: (A) ownership of the opening inventory of personal property such as equipment, feed and breeding stock are to remain with the farm owner; and (B) the younger man gradually gains title to part or all of the opening inventory of personal property.
Under situation (A) or under a standard farm lease, the share of the returns going to each party may be constant over a period of years because there is no change in the percentage of the contributions coming from each party. In situation (B), the shares and percentage returns must be revised every few years because the proportionate contributions are changing.

**SITUATION A. TITLE TO THE OPERATING CAPITAL TO BE RETAINED BY THE FARM OWNER.**

**Plan No. 1:** The younger man may work for wages and have in addition an incentive plan whereby he may receive a small percent of the income from the proceeds of certain livestock products sold.

**Plan No. 2:** The operator does not gain title to the inventory of personal property. Upon termination of the lease, the tenant simply replaces the opening inventory in bushels of grain, tons of feed and head of livestock, etc. An opening inventory is made. Changes in inventory must be taken into account only upon termination of the lease.

The tenant furnishes labor and receives a percentage of the returns from everything produced and sold while he is there. This percentage might vary from 20 to 50 percent depending on contributions made by each party. All farm income and expenses are handled through a farm account set up and run by the owner. Under this plan the operator or tenant does not assume any responsibility for a drop in the value of the inventory.

**Plan No. 3:** This plan is similar to the livestock-share lease except that the owner retains title to a herd of high producing milk cows or other breeding stock. The owner pays the operator half the value of a heifer entering the herd and in that way keeps title to the herd. When cows are sold out of the herd, the total return goes to the farm owner. However, when other products are sold, the proceeds will be divided one-fourth to three-fourths or one-third to two-thirds or 50-50 as may have been previously agreed.

**Plan No. 4:** A fully stocked and well-equipped half section is owned by a wealthy family. At 1945 prices, this layout represented an investment of around $100,000. All income and operating expenses go through a farm bank account which is run by the operator. Additional farm labor is paid out of the farm account, and there is another house on the farm in which a married hired man lives and where additional help may be board ed. After all expenses of farm operation are paid, 4 percent on the investment ($4,000) goes to the owner; the operator gets $1,800 a year plus house and farm produce for his family. All other net returns are divided 50-50. The operator does not run a risk of a drop in inventory values, but simply must maintain the inventory which was there when he came.

**Plan No. 5:** The young man works for modest wages and in addition has the right to use the operator's machinery to farm a piece of land in the neighborhood.

**SITUATION B. YOUNGER MAN ACQUIRES INTEREST IN OPERATING CAPITAL.**

**Plan No. 1:** Stock-share lease. The young operator gives his promissory note in livestock and equipment. This promissory note may preferably be held by a bank or some other lending agency. This was probably the most common way for a young man to get started in earlier years. At a time of high costs of livestock, feed and equipment, it represents a hazard which many young men do not want to risk.

**Plan No. 2:** There are a number of plans under which the owner of a fully equipped and stocked farm teams up with a younger man, who, in return for his labor, gets a share of the proceeds, including a share in the breeding livestock. These plans may start out on a one-third, two-thirds or a 75-25 percent basis. If the younger man gets title to an increasing part of the breeding stock and possibly buys a tractor or some other equipment, it isn't long until the percentage return will have to be modified. Using the principle that each will share in returns in the same proportion as he contributes to the joint farming enterprise, the contributions will keep on varying until they arrive at some standard lease as the livestock-share, crop-share or cash lease.

Therefore, these temporary arrangements described under B-2 must be drawn with the idea in mind that they should be revised promptly as needed. They should strive to get on one of the standard lease arrangements as soon as possible. Lack of such an adjustment will soon give rise to dissatisfaction on the part of the younger man, and the older man may not fully understand why the younger man is dissatisfied.

**Farm Partnerships**

**Characteristics of a Farm Partnership**

1. Intention to be partners.
2. Sharing of profits and losses.
3. Contributions of land, labor, capital or management.
4. Right to bind the partnership with third parties.
5. Partnership agreement or contract. Even an oral partnership agreement can be valid if the other elements are present.
6. A partnership name and a joint bank account are
additional but not essential indicators that a partnership exists.

7. Partnerships must file a federal income tax report but do not pay a tax.

8. Each partnership must have at least one general partner who can be sued for partnership debts.

9. A limited partner has no managerial rights.

10. Where two are in a partnership the death of one automatically terminates the partnership unless otherwise provided in the agreement.

Advantages and Disadvantages of a Farm Partnership

- Common terms of a farm partnership: The situation in a farm partnership can be very similar to that in a livestock-share lease as regards supplying land, labor, capital and management to the farm enterprise. Or there can be various contributions made of productive factors by each partner and returns shared in proportion to what each puts into the farm business. A partnership can involve increased liability over a lease and can provide for a more rapid dissolution.

- Problems and disadvantages of a farm partnership are:
  - What liability is assumed by each partner?
  - How will final decisions be reached?
  - How are records and reports handled?
  - Exactly how will profits and losses be calculated?
  - A partnership of two people ceases immediately upon the death of a partner unless otherwise provided.

- Advantages of a farm partnership are:
  - Dissolution usually can be more prompt than with a lease.
  - Can be used by the landowner as a basis to qualify for participation in the social security program.

Is a Livestock-Share Lease a Partnership?

Does a livestock-share lease constitute a partnership under Iowa law? The answer to this is important for the following reasons:

1. More than one-fourth of Iowa's rented farms are operated on a livestock-share basis.

2. When a banker makes a loan on jointly-owned feeder cattle, does he have two creditors, landlord and tenant, or one creditor, the partnership?

3. In some livestock-share deals a partnership return is filed with the Internal Revenue Service and in others no partnership report is filed.

4. Under the 1955 provisions of the social security law, a landlord on stock-share is not eligible for participation in the social security program but the landowner in a farm partnership can participate.

The Iowa Supreme Court in recent years has not had a case specifically to determine whether or not the usual Iowa type of livestock-share lease creates a partnership.

A farm lease normally runs for a definite period of time and seldom is terminated before that time has expired. It takes a case of extreme waste or negligence before a court will terminate a lease. Even though the landlord or the tenant dies, a lease is binding on his heirs or assigns. Neither the landlord nor the tenant can bind the other with third parties under a lease without securing prior agreement.

Court Decisions

The Iowa courts have held that a regular crop-share rental arrangement is a tenancy and not a partnership. These decisions were made in Florence vs. Fox 193 Iowa 1174 (1922) and also in Johnson vs. Watland 208 Iowa 1370 (1929).

In 1948 the Iowa Supreme Court stated, in effect, that a livestock-share arrangement differs from the familiar grain-share arrangement—principally in that the grain is fed to livestock, much of which may have been raised on the farm and later sold and the proceeds divided.

Had the grain or the proceeds thereof been divided, there could have been no contention that there was partnership. The mere feeding of the grain and the division of the proceeds from the sale of livestock did not transform the farm tenancy into a partnership. However, this was a comment by the court in a case Wilson vs. Fleming 239 Iowa 718 (1948) primarily concerned with another matter. Therefore it cannot be regarded as settling the status of the livestock-share lease.

In Other Cases...

There have been a few cases in which the Iowa Supreme Court did find that one particular livestock-share arrangement or another resulted in a partnership rather than a tenancy. In these cases either one of two situations was found to exist.

1. The agreement contained the word or terms “firm,” “firm property,” “partnership business,” “joint business,” etc. Such cases were Miller vs. Merritt 233 Iowa 230 (1943) and Malvern National Bank vs. Halliday 195 Iowa 734 (1923).

2. It was clear that the parties had established a combined business activity that could be regarded only as a partnership enterprise—even though it was done unintentionally. This situation was shown to exist in the case of Johanik vs. Des Moines Drug Company 235 Iowa 679 (1945). This agreement included detailed management provisions by the farm owner far beyond the normal livestock-share lease arrangement.

In general, it would seem safe to conclude that if all of the characteristics of a partnership mentioned earlier are present in a farm business agreement it would be classified as a partnership and not a lease.
APPENDIX

Table 8. Tenure of Iowa Farm Operators in 1954.*

<table>
<thead>
<tr>
<th>County name</th>
<th>Percent full owners</th>
<th>Percent part owners</th>
<th>Percent managers</th>
<th>Percent tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams</td>
<td>48.9</td>
<td>18.0</td>
<td>0.1</td>
<td>33.0</td>
</tr>
<tr>
<td>Adair</td>
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<td>17.9</td>
<td>0.2</td>
<td>33.1</td>
</tr>
<tr>
<td>Allamakee</td>
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<td>33.1</td>
</tr>
<tr>
<td>Appanoose</td>
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<tr>
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<td>0.1</td>
<td>36.6</td>
</tr>
<tr>
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Source: 1955 Census.

Table 9. Kinds of Rent Paid by Iowa Farm Tenants in 1954.*

<table>
<thead>
<tr>
<th>County name</th>
<th>Percent cash</th>
<th>Percent share-cash</th>
<th>Percent crop and stock-share</th>
<th>Percent live-stock-share</th>
<th>Percent other and unspecified</th>
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Source: 1955 Census.
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*(Source: 1955 Census.)*

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**Check Sheet of Possible Items To Include in a Lease**

1. **Basic data**
   - a. date of making lease
   - b. date lease becomes effective
   - c. date tenant's occupancy ends
   - d. name and address of landlord
   - e. name and address of tenant

2. **Description of property leased**
   - a. name of farm
   - b. term of years such as 1, 5, or 10 years
   - c. place where payment is due
   - d. date notice of termination
   - e. date tenant's occupancy
   - f. privilege of buying at farm

3. **Provisions for cancellation**
   - a. when operative
   - b. conditions under which operative
   - c. length of notice required

4. **Provisions for termination**
   - a. terminates at end of period without notice—see Code of Iowa § 562.6
   - b. date notice of termination is due

5. **Provisions for renewal**
   - a. continues automatically from year to year
   - b. options to renew or extend

6. **Procedure in case**
   - a. of death of either party
   - b. either party becomes bankrupt
   - c. tenant becomes incapacitated
   - d. mortgagee takes possession
   - e. sale of premises

7. **Rent**
   - a. basis for rent
     - f. sliding-scale rent
   - b. relative contribution of the two parties
   - c. participation in agricultural programs

8. **Rent rebates for production conditions**
   - a. hail
   - b. freezes
   - c. disease damage
   - d. fire
   - e. flood
   - f. insect damage
   - g. drouth

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*Arthur: A guide for solving farm rental problems in Iowa*
IV. Conservation and improvements

1. Repairs
   a. supplying materials
   b. supplying unskilled labor
   c. furnishing skilled labor
   d. hauling materials

2. Development and maintenance of improvements
   a. supplying materials
   b. furnishing skilled labor
   c. insuring on buildings

3. Compensation for improvements
   a. major improvements
   b. minor improvements
   c. soil and land improvements
   d. control of noxious weeds

4. Authorization to remove improvements made by tenant
   a. buildings
   b. fences
   c. fixtures

5. Items requiring special treatment
   a. provisions regarding use and sale of:
      - timber
      - sand
      - gravel
      - game
      - minerals
   b. specifications on care and maintenance of:
      - drains, ditches and grassed waterways
      - reservoirs and ponds
      - terraces and check dams
      - bridges
      - roads
      - buildings
      - fences
      - gates
      - windmills
      - motors
      - pumps
      - orchards and vineyards
      - farm wood lot
   c. time and frequency of mowing, grubbing or spraying:
      - fields
      - pastures
      - roads
      - fence rows
      - around buildings
   d. provisions for:
      - compensation to tenant for:
         - baling straw
         - sharing storage facilities
         - new seeding
         - shelling and delivery of grain
   e. water supply

V. Efficient production

1. Rules of good husbandry regarding
   a. general farming operation
   b. supervision by the landlord
   c. time of pasturing livestock
   d. control of disease among livestock
   e. ringing of hogs
   f. spraying crops for insects and weeds

2. Specifications regarding crops and livestock
   a. map of farm
   b. acreage of crops to be grown
   c. location of crops on the farm
   d. rotation to be followed
   e. winter cover crops
   f. kind and quantity of seed
   g. number of each class of livestock
   h. breed of livestock
   i. insurance on crops and livestock

3. Participation in government programs
   a. crop adjustment
   b. soil conservation and contouring
   c. modification in farming system
   d. home wood lot
   e. wildlife preservation

4. Specifications regarding use of crops
   a. sale
   b. feed on farm
   c. handling of straw, fodder, manure
   d. pasturing small grain

5. Actions agreed upon in case of neglect
   a. hiring persons
   b. hiring machines or custom work
   c. buying materials

VI. Responsibilities

1. Relating to performance
   a. delay in giving possession
   b. right of landlord to inspect, improve and repair
   c. sublease and assignment
   d. continuous occupancy throughout the lease period
   e. off-farm work
   f. yielding possession at end of lease period
   g. working for landlord

2. Relating to joint property:
   a. appraisals at beginning of lease
   b. purchases and sales with and without consultation
   c. keeping farm records
   d. furnishing vouchers, receipts and reports
   e. handling joint and undivided funds

3. Relating to settlement at termination of lease:
   a. appraisal of joint property
   b. method of dividing joint property
   c. acreage plowed, seeded or planted to crops:
      1. at beginning of lease
      2. compensation for excess at end of lease
      3. payment for deficiency at end of lease
   d. payment of outstanding debts of joint responsibility

VII. Operating capital and expenses

1. Respective contributions to operating capital
   a. machinery and equipment
   b. special tools and machines
   c. work stock and power
   d. productive livestock

2. Respective contributions to labor and operating expenses
   a. regular labor
   b. special labor
   c. machine hire or custom work
   d. packing and processing charges
   e. feed costs, veterinary charges, breeding fees and other livestock expenses
   f. seeds
   g. fertilizer and lime
   h. spray and dusting materials
   i. fuel and oil for tractors, trucks and power equipment
   j. electricity for farm use

3. Credit for operating expenses
   a. furnished by landlord
   b. furnished by tenant
   c. furnished by bank, PCA, FSA or others

4. Special facilities to increase production
   a. additional or temporary fencing
   b. additional or temporary buildings
   c. special types of seed
   d. development of water supply
   e. development of new pastures

VIII. General provisions

1. Security
   a. lien (Code of Iowa, Ch. 570)
   b. contract lien—exempt property
   c. acceleration of rent
   d. restrictions on removal of grain or produce
   e. damages for violation of covenants
   f. forfeiture for violation of covenants
   g. costs of legal action
   h. holding over (Ch. 562)

2. Settling differences
   a. arbitration
Farm Lease Supplement
for use in
Obtaining Repairs, Buildings and Soil Improvements
on a Rented Farm

PURPOSE. The purpose of this “lease supplement” is to encourage cooperation between tenants and landlords to obtain needed improvements on a rented farm. Most rented farms are in need of repairs, buildings and soil improvements. Many of these improvements that are needed on a rented farm will not be made unless the tenant helps out. But a tenant is not likely to make an important contribution toward a farm improvement unless he is sure of repayment for any unexhausted value of his investment in case he has to move.

PROCEDURE. First step: Agree on the improvements to be made; what each will furnish; rate of depreciation and the estimated value of tenant’s investment in each major improvement.

Second step: Record and sign your agreements on the form. Fill out one copy each for landlord and tenant.

SUGGESTED RATES OF DEPRECIATION. Straight line depreciation is suggested for use here because it is simple and because it is commonly used for accounting and for income tax purposes. The following depreciation rates are offered simply as an aid to you in making your bargain. The two parties may use any rate of depreciation they can agree upon.

Spreading Limestone. The rate of depletion in value of limestone varies with the type of soil, cropping system, the fineness of the limestone used and other factors. Under average conditions the value of limestone may be assumed to last about 10 years. In settling for unused value it may be wise to adopt a more rapid rate of depreciation than is actually believed to exist. This would be done in order to avoid misunderstandings which may arise with the passage of long periods of time. So, for the business purpose of figuring unused or unexhausted value of a tenant’s investment in limestone, it may be wise to settle on the basis of skipping the first full crop year and then using a straight 20 percent per year depreciation for the next 5 years. This will write off all unused value of the tenant’s investment by the end of 6 years.

The return in increased crop yields from limestone does not usually start until one full crop season after it is applied. Consequently, it is desirable to delay 1 year after the limestone is applied before starting to calculate depreciation.

Raw Rock Phosphate. Same as for limestone.

Standard Terraces. Terraces that are properly constructed and maintained may last indefinitely. For the purpose of calculating the unused value of a tenant’s investment in terraces it is suggested that a 5-year depreciation period be used with a flat 20 percent depreciation rate for each year, starting with the year after the terraces are built.

It is the responsibility of the tenant to supply normal maintenance of terraces once they are erected on the farm. If he fails to provide this maintenance, he should make a refund to the landlord for the cost of repairing the damage. In the case of a cloudburst or other disaster which would destroy the terraces, the landlord should share in the cost of their repair.

Other Soil-Conserving Structures. A tenant’s investment in diversion terraces, ponds for livestock water, dams for erosion control and other costly soil structures could be depreciated over a 5-year period the same as standard terraces. For grass waterways, a 5-year depreciation period is suggested, beginning the year after installation. In case a so-called “practice payment” is available through a farm program for any of these practices, there should be an agreement as to how the payment is to be divided.

Relocation of Fences. Where contouring, terracing or strip cropping is to be done, a major program of relocating cross fences may be necessary. If the tenant makes a major labor contribution, it may be desirable to place a value on his investment and write it off at 20 percent per year over 5 years’ time.

Farm Drainage. Farm drainage improvements usually are the entire responsibility of the landlord, although a tenant will often deliver the tile and fill the ditch in order to obtain the benefits of drainage. If a tenant should bear all of the expense of tilting out a pond or the construction of a permanent open drainage ditch, a depreciation period of 5 to 10 years for the tenant’s investment might be used.

Commercial fertilizers. The residual value beyond the year of application of soluble fertilizers containing nitrogen (N), phosphate (P₂O₅) and potash (K₂O) depends on a number of factors, including nutrients applied, rate of application, soil, crops to which applied, succeeding crops and seasonal weather conditions.

Disregard the carryover value of commercial fertilizers applied at rates used in a planter box.

For heavier rates of application the following rates of depreciation are suggested: For nitrogen 70 to 75 percent the first year and 25 to 30 percent the second year. The P₂O₅ in superphosphate or in 0-20-0 will usually be discounted 50 percent for the first year, 30 percent for the second and 20 percent for the third year. Discount potash 33 percent for each year on corn, 50 percent the first year on oats and 50 percent the following year when it is in hay. Discount potash 100 percent the first year on hay land that was low or very low in potash prior to application.

Farm Structure and Repairs. A tenant on a cash or a crop share lease sometimes wants special improvements for handling livestock beyond what the landlord will furnish. If these are easily movable structures such as a brooder house or a movable hog house which the tenant builds, no problem is presented since they can be moved off. But suppose this tenant on a cash or crop share lease wants a milkhouse to produce grade A milk, or a big hen house or feeding floor. These improvements become a part of the farm. The landlord will receive no direct return from such an investment. If the landlord will not provide such a structure, then the tenant might offer to make the improvement provided the landlord will guarantee payment for unused value in case the tenant has to move before fully realizing on his investment. If it is a structure which fits in with the landlord’s improvement plan, the landlord might provide a part of the investment and safeguard the tenant for a period of years on the part the tenant provides.

For major improvements such as the foregoing, a depreciation period of 10 years or so is suggested. This might also apply to such items as a bathroom, a new silo, a feeding floor, an insulation job on the house or linoleum on the floor.
Lease Supplement for Making Improvements on a Rented Farm

(See suggestions on opposite side of this page)

Description of Farm: Section________, Township________, Range________, County________, Size________ Acres more or less________

1. In consideration of the agreements herein contained, the signers agree that the improvements listed in Section A (below) will be completed on the above described farm on or before the date listed in Section B.

2. It is agreed that the signers will share contributions and costs necessary to the completion of these improvements as set forth in Section C.

3. It is agreed that the estimated value or cost of the tenant's contributions will be listed in Section D.

4. It is further agreed that the estimated value or cost of the tenant's contributions will be depreciated at the uniform annual percentage rate listed in Section E. The year of first depreciation is to be listed in Section F.

5. If for any reason the tenant leaves the farm before his estimated value or cost (Sec. D) is fully recovered through annual use and depreciation (Sec. E) then the landlord will pay the tenant for the remaining undepreciated value of the tenant's investment.

6. It is agreed that each item as set forth opposite the signatures of the landlord and tenant will be viewed as a separate contract supplemental to the lease.

New items may be agreed upon at any time during the term of the lease and recorded in the spaces below.

| Section A Type and Location of Improvement | Sec. B Date to be completed | Section C Percentage of contributions assumed by landlord (L) assumed by tenant (T) | Section D Estimated value or cost of tenant's investment | Sec. E Annual rate of depreciation (percent) | Sec. F Lease year when depreciation begins | Sec. G Date signed | Section H—Signatures
I hereby accept my indicated share of the responsibility for the improvements recorded in Section A, which I have approved. |
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