Advantages and Disadvantages of Leasing

One of the main advantages of leasing is the ability to get on with farming without the enormous capital investment required to purchase land. In addition, though, some farmers like short-term arrangements because they experiment with new enterprises or locations without a long-term commitment. This flexibility is particularly useful for start-up farmers. A short-term lease can enable a farmer to test whether her farm plans are financially feasible or whether he is comfortable with his landlord. It allows both parties to decide if a longer-term arrangement would work. A short-term lease also allows the tenant to limit financial risk.

Advantages of short-term leasing

- Lower costs (initial and monthly) than purchasing
- Tax deductions for leasing costs
- Rights to terminate
- Allows savings or investment in short-term capital needs
- Test period for enterprises, locations, and markets

Leases have disadvantages, too. Foremost among them is insecurity of tenure with shorter-term leases. This can lead to disruption of the operation and difficulty in making long-term business plans or personal decisions. Another major disadvantage expressed by farmers is the inability to build equity from the land. Lenders may balk at financing long-term assets such as equipment or livestock if the borrower does not have a written lease covering the loan period. Tenants may have less financial incentive to invest in longer-term conservation practices or install conservation structures.

Disadvantages of short-term leasing

- Cannot recover lease costs as equity in land
- Cannot benefit from appreciation in land value
- Limited control over land and improvements
- Less ability to plan or make improvements
- May be unable to get credit from lenders
- May lose investments in infrastructure and land if lease is terminated

Long-term leases have several distinct advantages, and disadvantages also. Compared to short-term leases, they offer farm more security. A longer lease gives the operator time to build the business as well as the soil, and establish markets as well as community relationships. It is possible to borrow against a long-term lease, and to participate in USDA conservation programs.

In a long-term ground lease, the tenant rents the land but owns the improvements (existing or placed) upon the land (much like a condominium or commercial property), so she can build equity. When the lease terminates, the tenant sells the improvements.

Advantages of long-term leasing

- Longer planning horizon for business and resource stewardship
- Allows farmer to capture the useful life of investments made to the leasehold
- Legacy to the next generation with renew and inherit lease provisions
• Security to participate in community life
• May increase borrowing capacity when the value of the lease is used for security along with tenant-owned improvements on the property.

**Disadvantages for the tenant:**
• Reduces net income without contributing to long-term accumulation of wealth in property
• Cannot rely on land appreciation as a retirement fund
• Typically more complex legal documents and higher legal costs
• Can make loans more difficult or impossible to get without land as security for a loan