



Brockett's Ag Advice

By John E. Brockett
Farm Management Agent
Lewistown Extension Office

Some Rental Case Studies

Last week I discussed some of the considerations involved when prospective landlords and tenants meet to determine a reasonable rent value. This week I would like to explore some possible case studies on rent setting.

Case Study 1

Bill and Sally King were nearing retirement age. They had purchased her parents' farm 40 years ago. The 40 years had been reasonably good years for them. They had raised three children who were now on their own. The only bad thing was that none of the

children had any desire to operate the farm. The Kings wanted to continue living on the farm for a number of reasons. Bill even enjoyed milking cows, but the old knees and back were not what they once were.

Jim and Sue Clark were in their 30's with 2 young children. Both were from farms that were too small to support another family. They had a few cows and heifers and some machinery. No one would lend them enough money to get started on their own. Besides, Sue did not want to get too deeply

in debt. Her father was a bank director and he had told the family about the number of families who had gotten in over their heads financially. The stress and problems they faced was something Sue did not want for her family.

The two families got together through some mutual friends. The Kings went to their county agent and found that their farm was worth from \$750 to \$1100 per month for a rent as a dairy farm. They also calculated that they had to have at least \$495 per month to pay their obligated cash expenses (taxes, insurance, and repairs) and \$455 per month to supplement social security income. The Clarks also went to their county agent and found that the potential annual income from the farm was \$110,000 if they kept the same number of cows and could produce the same amount of milk as the Kings. Out of this they had to make payments on cows and machinery as well as pay operating expenses and family living. Loan payments were \$1456 per month. Family living was \$800

per month. Using 25 percent of income as a guideline for total rent and debt payment, Clarks calculated that they could pay a maximum rent of \$840 per month. Since Clarks potential rent payment was in the range that Kings farm was worth, the two families were able to arrive at a suitable compromise that both could accept.

Case Study 2

Jill Brown was a widow with two dependent children at home. They were both in grade school. There was an older son, but he was a carpenter and had a steady job in a nearby town. There was only one house on the farm so tenants would have to furnish their own house. Jill went to the county agent before offering her place for rent. The county agent ran the land and building rent programs for Jill's farm. She found that the farm (without the house) had a rent value potential of \$1300 to \$1550 per month for dairy. She also found that Jill would need \$1400 per

month to pay debt payments, taxes, and insurance. Jill said the family required \$850 per month for bare-bones living. The county agent estimated a potential gross return of \$95,000 from the farm if the tenant kept 48 cows (the barn had 34 stalls) and sold 15,000 pounds of milk per cow. This meant that Jill would have to find someone with no or a low debt or make some changes, because her projected needs of \$2250 per month exceeded both the rent of the farm and the 25 percent of potential gross cash income.

Some possible changes would be to reduce family living, reduce debt payments, expand facilities, or sell the farm. Jill might also be able to find a job that would help with family living and so reduce her dependence on the rent income. She might be able to work for the tenant on a part time basis. Or she might be fortunate enough to get a tenant with well above average management ability.

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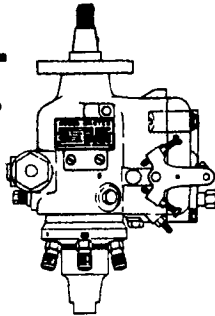
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NEW HOLLAND — New for the 1986 season is a mid-size round baler from New Holland Inc. The new Model 853 is designed to handle the widest range of forage crops at any moisture content for hay or round bale silage, with or without preservatives. Design features, important for quality hay production, are standard on the new Model 853.

The new baler features chain and slat design with roll floor and air-spring bale density control like the firm's larger Model 855. The new baler forms a bale 4 1/2 feet

wide by 5 feet in diameter and is rated at up to 13 tons per hour. A bale counter and chain oiler are standard equipment.

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