

**AN ANALYSIS OF FARMLAND OWNERSHIP VERSUS
RENTAL/LEASING AND MANAGEMENT STRATEGIES OF
PART-OWNERS IN SELECTED AREAS OF SOUTHERN
MANITOBA.**

**A Thesis to be Presented to
The Faculty of Graduate Studies,
University of Manitoba**

**by
TRACY LUSSIER**

**In Partial Fulfillment of Requirements
for the degree of Master of Arts
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A Thesis submitted to the Faculty of Graduate Studies of the University of Manitoba in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

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ABSTRACT

AN ANALYSIS OF FARMLAND RENTAL/LEASING AND MANAGEMENT STRATEGIES OF PART-OWNERS IN SELECTED AREAS OF SOUTHERN MANITOBA.

Economic forces internal and external to the farming sector have influenced the nature and degree of change in Manitoba's agriculture throughout this century. The enlargement of farms to efficiently utilize expensive technological innovations has been accompanied by high land prices which together have pushed the capital requirements of farming operations to high levels.

Rental and or leased land is presently being used in order to arrive at economies of scale in farming operations since credit for capital acquisition in order to purchase land is increasingly difficult to obtain. Rental/leasing has made it possible for established producers to expand without directly purchasing more land. However, renting/leasing is thought to be prevalently associated with undesirable farming practices which have long-term, and often dire consequences.

This study is concerned with the comparison of farm practices which are undertaken on owned versus rented/leased land. Confirmed results included a variety of variations in practices between owned and rented/leased land by part-owners in southern Manitoba. All indications were that intensified positive management practices of part-owners prevailed on owned land versus rented/leased land. Results also indicated positive farm management practices could be obtained by leases or rental contracts which contain specific obligations in the form of provisions.

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1.1 Problem Statement and Research Objectives

Economic forces internal and external to the farming sector have influenced the nature and degree of change in Manitoba's agriculture throughout this century. Technological advances in farm machinery, a substitution of capital for labour inputs and the increased use of commercial fertilizers and insecticides have all contributed to increasing total agricultural production. At the same time, the enlargement of farms to efficiently utilize expensive technological innovations has been accompanied by elevated land prices which together have pushed the capital requirements of farming operations to high levels. Credit for capital acquisitions has been advanced by both private and public agencies. It is primarily through the use of credit that many farmers are able to command sufficient capital to acquire farm property and sustain operations.

Despite the progress made in expanding sources of credit to farmers, the difficulty in securing an adequate capital base presents an increasing problem in the face of high land prices and the high cost of borrowed capital, especially since the mid-1970s and through the 1980s. Credit has become "tight" as well as costly as lending institutions have revised policies regarding the ratio of borrowing relative to collateral requirements. In the process, many young persons may be denied a chance to farm even though they have the appropriate qualifications; they cannot obtain access to land in competition with others who command greater amounts of capital.

Recognizing the limitations imposed by lack of capital, the demand for farm-expansion land can be viewed, on the one hand, as

reflecting labour-saving technology which permits the expansion of individual farms and, on the other, as an economic necessity stemming from a general failure of farm product prices to keep pace with increases in farm input prices. Accordingly, farm-size expansion may provide farmers with larger returns relative to management burden. As long as it is still possible to achieve economies of scale, many theorists advise farmers to expand their holdings, which in turn will facilitate optimum capital use and enable farmers to operate at the lowest point of their long-run average cost curve (Shultz, 1978). Renting/leasing land is one way that farmers can achieve efficiencies of scale without depleting their available operating capital.

It is at this point in the discussion the term "lease" must be defined. A lease (sometimes called a demise) is a conveyance or grant of the possession of property made by the owner of that property to another for a determined period of time, in exchange for a consideration called rent. The person who grants the lease is called the lessor, and the person to whom it is granted the lessee (Prystupa, 1986). The terms lease and rental are therefore not interchangeable even though similarities exist. The differences between these two terms are often subtle, however a lease generally is more formal and refined. Rental contracts are often shorter in term and verbal, as compared to a lease which is more often written and longer in term. This thesis will use rental/lease for simplicity since the individuals surveyed formed no distinction between these two terms.

While the land required to expand individual farm size may be either bought or rented/leased, it is becoming increasingly apparent that the full ownership objective is increasingly difficult to attain and the role of renting/leasing as a means to asset access is strengthening. In effect, land rental and/or leasing has made it possible for established producers to expand without directly purchasing more land. For some, especially young people, renting/leasing presents the prospect for an individual to obtain access to major capital. For a farmer desiring to scale down as he approaches retirement, renting/leasing to others allows him to retain ownership of land as a means of sustaining income and hedging against inflation. Moreover, renting/leasing makes it possible for the renter/lessee to apply available funds to inputs other than land, such as machinery. Depending on the nature of the contract, however, renting/leasing may front-load the cost of production and stimulate aggressive, exploitative production methods, much as interest on debt does.

Inasmuch as renting/leasing land aids the process of farm consolidation and growth, it may also facilitate the transfer of land. In the case of intra-family tenancies, it can facilitate an orderly transfer of land between generations.

It is at this point in the discussion that it is important to distinguish between ownership and other forms of usufruct rights.

Each is a type of land tenure, defined as:

“a concept that involves the many relationships established among men that determine their varying rights to control, occupy and use land

property. Land tenure concerns all the ways in which people, corporate bodies and government share in the bundle of property rights" (Barlowe,1958, p.373).

Property rights assure resource use and control in varying degrees, so that:

"ownership tenure includes rights of access to the distribution of returns from resource utilization without time limit. It comprises also the rights to dispose of access rights and distribution privileges and to impose regulations upon those in whose favour such rights are disposed of. In the case of usership alone (tenancy), tenure is confined to the bundle of rights that are surrendered by the owner for a limited period. Furthermore, the user is restricted in rights of disposal. He is greatly affected, not only by the owner's actual use of disposal rights, but by the mere possibility that the owner may use them" (Ciriacy-Wantrup,1968, p.151).

1.2 TRENDS IN MANITOBA LAND TENURE

Near the turn of the present century, tenancy was considered to be a rung in the traditional "Agricultural Ladder" concept, popularized by Spillman. The rungs of the ladder represented the process towards full land-ownership. One climbed the rungs by advancing through a series of steps. These steps included: from unpaid family laborer, to hired hand, to lessor, to mortgaged owner and, finally, to unencumbered owner (Spillman,1919). Each successive step represented a higher tenure status, attained with the passing of time. Since World War II, the goal of full ownership has become increasingly difficult to attain due to significant increased capital requirements. The "ladder concept" continues to have significance since unencumbered ownership appears to be a primary goal for most farm operators. However, in the face of

capital and credit limitations, farmers have had to accommodate to an increasing proportion of their acreage requirements being met through rental/lease.

Analysis of agricultural census data shows that in Manitoba during the 1921-1986 period, there was a change in the tenure-class composition of farm operators and the size of the individual farm unit (Table 1.1). For Manitoba as a whole, the proportion of census farmers who owned all the land they farmed declined from 81.1 percent in 1921 to 50.4 percent in 1986. During this same period, the proportion of part-owners increased significantly from 6.7 percent in 1921 to 41.4 percent in 1986, while the proportion of tenant-only farmers declined slightly from 11.4 percent in 1921 to 8.2 percent in 1986.

Table 1.1 PERCENTAGE OF TOTAL NUMBER OF FARMERS IN SPECIFIED TENURE GROUPS FROM 1921 TO 1986

Census	Owner	Part-owner Part-tenant	Tenant
1921	81.1	6.7	11.4
1931	69.7	11.8	18.2
1941	70.0	14.4	15.6
1951	71.5	18.8	9.7
1956	69.6	21.6	8.9
1961	65.1	26.8	8.0
1966	66.1	28.0	5.9
1971	61.8	32.0	6.3
1976	57.5	35.8	6.6
1981	54.6	37.7	7.7
1986	50.4	41.4	8.2

Source: Derived From Census Canada: Agriculture, 1921-1986.

The data in table 1.1 shows that there has been a steady decrease in the percentage of farmers who are "full owners" while the percentage of part owners/part tenants have steadily increased.

As the group composition of farm operators by tenure class has changed, so too, has the total number of farms, which declined from 53,252 in 1921 to 27,336 in 1986 or 48.7 percent, while total cultivated acreage increased by over 30 percent, from 14.62 million acres to 19.13 million acres.

Data on the total area farmed by tenure type and total acres farmed are presented in Table 1.2. The proportion of owner-operated farmland in Manitoba decreased from 82.1 percent in 1921 to 63.0 percent in 1986, with the proportion of rented or leased farmland increasing correspondingly by 19.1 percent of the total acreage.

Table 1.2 TOTAL AREA FARMED BY TENURE TYPE AND TOTAL AREA FARMED

Year	Acres Owned	Percentage	Acres Rented	Percentage	Total Area Farmed
1921	12,006,675	82.1	2,609,173	17.9	14,615,844
1931	10,917,126	72.1	4,214,559	27.9	15,131,685
1941	11,608,541	68.7	5,282,271	31.3	16,891,322
1951	13,788,328	77.8	3,942,065	22.2	17,730,393
1956	13,818,460	77.1	4,114,357	22.9	17,931,817
1961	13,716,351	75.5	4,453,600	24.5	18,169,951
1966	14,673,880	77.0	4,410,629	23.0	19,083,817
1971	14,063,306	74.0	4,944,953	26.0	19,008,259
1976	13,590,705	71.4	5,435,550	28.6	19,026,255
1981	12,596,581	67.0	6,222,778	33.0	18,819,359
1986	12,307,564	63.0	7,088,953	37.0	19,126,517

Source: Census Canada: Agriculture, 1921-1986.

Thus farms which were once operated by full-owners and full-tenants have been consolidated into larger enterprises by the addition, principally, of rented/leased land and, secondarily, of

owned land. Part-owners' area-rented/leased compared to area-operated reveals a dependency ratio which signifies the importance of rented/leased land to this particular tenure group. Part-owners' dependency on leased land has increased considerably. Table 1.3 shows that for Manitoba, part-owner dependency on rented/leased acreage was approximately 21.7 percent in 1921, whereas by 1986 this ratio was 60.0 percent.

Table 1.3 **PART-OWNER DEPENDENCY ON RENTED/LEASED LAND IN MANITOBA, 1921-1986**

Year	Dependency Ratio (1)
1921	21.7
1931	38.6
1941	45.5
1951	28.6
1956	29.8
1961	32.5
1966	30.1
1971	35.1
1976	40.0
1981	49.4
1986	60.0

*(1) Area Rented;Leased/Area Operated

Source: Derived From Census Canada: Agriculture, 1921-1986.

The value of agricultural products sold indicates the relative importance of the three tenure categories. In 1986, for the Province of Manitoba, 91.5 percent of the part-owners had total sales of farm products to a value of between \$10,000 and \$24,999, whereas 68.8

and 71.7 percent of the full-owners and full-tenants, respectively, were represented in this category. The same pattern occurs in the \$25,000 to \$49,999 category. In 1986, 79.5 percent of the part-owners sold products with a value between \$25,000 and \$49,999, whereas 47.9 and 48.2 percent of the full-owners and full-tenants respectively sold agricultural products to a value between \$25,000 and \$49,999 (Table 1.4).

TABLE 1.4 **PERCENTAGE OF TENURE GROUP IN CATEGORIES OF AGRICULTURAL PRODUCTS SOLD IN 1986**

Value of Agricultural Products Sold	Owner	Tenant	Part-Owner Part-Tenant
50,000-99,999	30.4	27.4	61.7
25,000-49,999	47.9	48.2	79.5
10,000-24,999	68.8	71.7	91.5
5,000-9,999	80.3	82.0	96.0

1.3 The Significance of the Subject Topic

An important consideration for this study is whether or not the growth of renting/leasing will bring undesirable consequences with it. As such, the inquiry is largely motivated by a concern that the nature of the tenure may affect land use adversely. Particularly, it is the aspect of renting/leasing which gives the farmer incentive to operate such land differently from that which he owns. A hypothesis of many agriculturists is that renting/leasing is prevalently associated with undesirable farming practices which have long-term, and often dire, consequences. There is some consensus that tenants tend to exploit soil resources, so that crop

yields on rented/leased land eventually decline, since the land resource may become irreversibly degraded.

A practice on rented/leased land that is often considered undesirable is continuous row-cropping. Although this practice also occurs on owned land, it does so to a lesser degree than is likely to be the case on rented/leased land. Intensive row-crop monoculture and the production of crops such as grain corn, soybeans, potatoes and sugar beets have been associated with deteriorating soil structure and declining productivity. Various spokesmen have made statements as to the undesirability of monoculture and the intensive production of soil depleting crops (Heady-1956, Smith-1819, Timmons-1953). Concern has been expressed that these practices have been concentrated on rented/leased land. Attempts have also been made to draw a direct link between these practices and the decline in soil productivity that can be expected on rented/leased farmland. So far the connection is not well documented. That there is substance to it is clear, however.

The question of agricultural productivity is important because good agricultural land is a diminishing resource. A federal government discussion paper entitled "Challenge for Growth: An Agri-Food Strategy for Canada", enumerates various constraints on agricultural productivity, grouping them as factors associated with environmental damage and the decline in the natural resource base, namely: soil erosion; environmental pollution; soil compaction; improper soil and water management; a loss of organic matter; and the loss of good agricultural land to urban uses (Agriculture Canada, 1981).

Some farmers are familiar with techniques to limit environmental pollution, to control the deterioration of soil structures and associated soil loss, and to suppress soil erosion from other causes such as inappropriate tillage practices. The failure to take action to forestall these outcomes on rented/leased land may not be a result of lack of education on the farmer's part. Non-application of soil-conserving techniques may also be an attribute of the circumstances and conditions of the contract under which a tenant farmer operates. Ciriacy-Wantrup cites two conditions of instability of property rights which lead to undesirable outcomes:

- 1) "A tenant who doubts whether his lease will be renewed will find it profitable to mine his soil, although soil conservation practices may be quite economical under more stable tenure.
- 2) In periods of political change when stringent government regulations, confiscatory taxes, or outright socialization threatens a sudden and radical redistribution of property rights, all resources users will hesitate to make investments with deferred yield" (Ciriacy-Wantrup, 1968, p.145).

In both cases resource users are likely to adopt a utilization plan which they themselves would regard as wasteful depletion if their property rights were more stable.

A tenant's relative insecurity of tenure is recognized as a potential obstacle to efforts to conserve and improve the land he operates. "Uncertainty allowance" on account of short-term rental/lease contract is offered as an explanation of why tenants

tend to mine the soil and fail to invoke practices designed to preserve and restore soil fertility. Timmons offers three important reasons why a tenant will hesitate to make resource-sustaining investment on rented/leased land. First, he is uncertain that he will retain the usufruct long enough to get full benefit from the improvements. Second, he has no assurance he would be compensated for the residual value of the improvements in case his tenure is terminated. Third, because improvements make the landlord's property more valuable and attractive to other tenants, an increase in rent may be the consequence (Timmons,1953).

The fruits of investments in soil-building practices may not appear for a long period of time. Proper stewardship of the land resource is deterred if rental/lease contracts do not create the proper climate for long-range strategies. If improvements on the rented/leased property are not credited to him, a tenant will be discouraged from developing the appropriate strategy, since he may not realize the full benefit of his investment in labour and/or capital within the period covered by the contract. By contrast, it may be argued that owner-operators typically enjoy a much more secure tenure and may be more readily inclined, given appropriate economic conditions, to adopt and pursue conservation measures because they expect to realize the full benefit of their investments.

A second consideration inherent in this thesis is that problems intrinsically related to renting/leasing may be ameliorated by the form and content of the contract agreement. The contents of a rental/lease contract usually spell out various terms of obligations and prohibitions applying to one or both parties. However, a potential

problem is one of formulating the type of arrangement that will address both security of tenure and change in methods of agricultural production. The terms of a contract must be fair to both parties and provide an incentive for the adoption of an operational strategy that will not exhaust but preserve and sustain the soil resource.

1.4 Purpose and Hypotheses of Thesis

This study focuses on two municipalities of southern Manitoba, namely Rhineland and Montcalm, and involves only part-owners as respondents. The part-owner model may be presumed to be appropriate since it presumably reflects a standardized management strategy.

Farms chosen in close geographic proximity are expected to have less variance in land use practices since they will be sharing similar physical and biological features. This is the situation in the region studied. As long as these conditions are nearly alike, possible differences in land use practices can more reasonably be attributed to tenure.

The region is dominated primarily by the Chernozemic order of soils and more specifically, the Black Chernozem great group of soils. The terrain texture is medium and the topography is that of level to undulating. These soil quality physical factors leads to the conclusion that this region is what may be considered quality land with respect to agricultural land available in Manitoba.

The climate is also characterized by relatively small variations simply due to the close proximity of the two municipalities under consideration. The annual precipitation, which

is based on the total rainfall plus the water equivalent of the total snowfall of a given year, is approximately 45.7 to 50.8 centimeters on average (Environment Canada). The frost free period, stated as the number of days between the date of occurrence of the last spring frost and the first fall frost for a given period of years is in the neighborhood of 115 to 120 days.

Growing degree-day heat units are another form of denoting similarities of these two municipalities. Growing degree-day heat units are calculated as the difference between the mean daily temperatures and the base temperature for the crop under study. The base temperature for most cereal crops (usually 5.5 degrees Celsius) is the point at which plants begin to grow. Rhineland and Montcalm municipalities accumulate approximately 1700 degree days per growing season.

Having described the intent of this study, four principle research objectives may be identified:

- 1) to define rental/leasehold terms and to review the literature on rental/leasing theory and land tenure research:
- 2) to investigate various characteristics of the rental/leasing market such as rates and terms, types and formality of the arrangement, occupation and residence of landlord, in the selected municipalities;
- 3) to discover whether agricultural practices and realized productivity differ between owned and rented/leased land; and

4) to assess the degree to which factors associated with the contract together with other characteristics of renters/lessees and landlords, affect production strategies on rented/leased land.

This study is based on the assumption that part-owners endeavor to utilize their resources in respect to owned land in such a way that the present value of the real net income stream derived from these resources is maximized. For rented/leased land the same objective is considered to hold, but the outcome may be different due to the nature of tenure arrangements. Researchers have often assumed differences in cultural practices and realized productivity between owned and rented/leased land. This thesis will attempt to qualitatively confirm or deny this assumption.

A set of working hypotheses to guide data analysis in this study is provided. These hypotheses state relationships that one would expect to exist on land that is owner-operated or under a rental/lease agreement, namely that:

- 1) owned land in contrast to rented/leased land, will be characterized by;
 - a) better husbandry of the soil,
 - b) higher crop yields, and
 - c) higher levels of annual expenditures on soil maintenance and improvements.
- 2) Part-owners would modify their cropping practices and level of expenditures if they were operating as owners also of the land they now lease/rent.
- 3) Longer-term rentals/leases(3-5 years) and contracts with appropriate provisions lead to better husbandry of the soil than short-term arrangements(1-2 years) and the absence of provisions protecting the renter/lessee.