

# Lease Agreements Can Benefit All

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Leasing is an alternative to land ownership which allows younger farmers to enter the market and more established farmers to expand. As the land will ultimately be returned to the landowner at the expiry of the lease, however, there are some disadvantages including loss of investment in infrastructure and reduced capacity to plan and make improvements.

As a consequence, leasing is generally viewed as a short-term strategy. Through the incorporation of terms creating a right to purchase the land, however, leasing can be integral to the long-term strategy of farming enterprises. Leasing arrangements with buy/sell options, can also present strategic advantages in family farming business succession plans.

The most common terms are an “option to purchase” or a “right of first refusal”, which present different opportunities to the farmer and the landowner.

An option to purchase is a right given to a farmer by the landowner to buy a property, on the terms in the lease. Such terms will generally include the method of calculating the purchase price (for example, an agreed value or market appraisal) and the period in which the option may be exercised. If the option is correctly exercised by the farmer, the landowner must sell the property.

In comparison, a right of first refusal provides that if a landowner elects (at its discretion) to sell the property during the term of the lease, then the landowner must first offer to sell it to the farmer. With a right of first refusal, the seller is in control and the buyer cannot compel the landowner to sell the property.

As a lease creates an interest in land, generally it must be in writing. A clear and carefully considered agreement will protect the parties' interests and reduce the risk of disputes arising.

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