

ORCHARD RENTS

IN

SAN BENITO COUNTY

AN ANALYSIS OF PROPORTIONAL INVESTMENTS
AND COSTS TO OWNERS AND TENANTS OF
APRICOT, PRUNE AND WALNUT ORCHARDS

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ORCHARD RENTS

by

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A large number of San Benito County Orchards are now operated for the owners by tenants under various arrangements. With continuing high costs, it is necessary to examine the rents or other operating arrangements as to fairness to both parties.

Some tenants have lost money under the traditional 75-25 distribution of shares. High costs and low production in some orchards due to a large percentage of the acreage containing replants because of disease problems such as Oak Root Fungus and Cytosporina have been the main reasons. This latter situation must be considered in the agreement.

GUIDE FOR LEASING ARRANGEMENTS

The basis for a satisfactory lease arrangement is a profitable system of farming and a division of the earnings based on the contribution of each party. The terms should be carefully considered, understood, and then put in writing. Generally, the simpler the agreement, the less likelihood there is for misunderstandings.

A good lease should: (1) provide for and allow profitable farming; (2) give a fair division of returns; (3) provide for maintaining or increasing the productivity of the farm; (4) give as much assurance as possible that the lease will continue over a period of years; (5) be in writing.

Since a fair division of the earnings is necessary, the division should be made on the basis of the contribution of each party. The usual procedure is to express the contribution of each party in terms of an annual dollar amount. By doing this, land, buildings, labor, machinery, etc., are expressed in the same terms. The rates used will of course have to be agreeable to both parties. Gross receipts are split in proportion to the contribution of each party.

Provision should be made for keeping an adequate set of records, including inventory. This will lessen friction and provide for future adjustments in the lease.

No two cases are the same, and a sample calculation of the costs met by each party should help them arrive at a rent satisfactory to both parties. A worksheet similar to that used in the example may be helpful and is available upon request.

In order to illustrate the process, examples have been prepared using an 80 acre orchard unit with apricots, prunes, and walnuts. Many 20 and 30 acre orchards are leased, but the tenant is usually farming a larger acreage over which his equipment investment is spread. The landlords investment, especially the irrigation system, may vary from the example. These calculations do show how the percent of inputs can be changed by shifting an expense from one party to the other party.

The facilities furnished by the landlord, such as land and trees are brought into current annual costs as interest on the invested capital and depreciation on the trees and equipment. Those items which depreciate are shown at half the original cost for determining annual charges for interest on the investment.

The per acre investment shown for trees represents the approximate cash cost of developing an existing orchard. Not included would be depreciation on equipment and buildings, and interest on investment during the development period.

A value for management is included in a rental arrangement. Many professional managers charge from 5 to 10% of the gross income, but the average is closer to 10%. About half of this charge is used for office, accounting, and other expenses associated with management. Since these latter expenses are included elsewhere in the sample costs, the management cost is figured at 5% of the gross income.

For Apricots: 5% of 8 tons x \$100/T = \$40.00

For Prunes: 5% of 2.5 tons x \$230/T = \$28.75

For Walnuts: 5% of 1½ tons x \$500/T = \$31.25

These examples assume a high producing orchard on excellent soil. Example #2 for apricots is for a grade B orchard on class II land.

These examples are presented in order to illustrate the process. They are not presented as applicable to any particular orchard. Some orchards might not have all of the costs shown, or the different items might be divided differently between landlord and tenant.

If part of the orchard is non-bearing, this will have to be taken into consideration by adjusting the division of gross receipts or perhaps by contract farming that portion of the acreage.

**SAMPLE COSTS TO PRODUCE APRICOTS
SAN BENITO COUNTY - 1967**

Based on an 80-acre orchard with 20 acres of apricots, with a yield of 8 tons per acre. Labor at \$1.50 unskilled and \$1.65 skilled including compensation and social security. Tractor cash costs @ \$1.25 per hour.

Operation	Hours per Acre	Cash and Labor Cost Per Acre			Total
		Labor	Fuel & Repairs	Materials	
Cultural Costs					
Pruning	60.0	\$82.50	75 trees per acre @ \$ 1.10		\$ 82.50
Brush disposal	1.5	2.48	\$ 1.88		4.36
Cultivation	4.0	6.60	7.10		13.70
Spray	2.0	3.30	6.82	21.82	31.94
Fertilize	0.5	.83	.72	40 lbs. N @ 12½¢ 5.00	6.55
Thinning	22.0	33.00			33.00
Irrigation (sprinkler)	3.0	4.73	.63	Power for 18" 16.49	21.85
Orchard heating	4.0	6.60	1.88	Oil 15.50	23.98
Limb removal	1.0	1.65	.32		1.97
Misc. cultural	2.0	3.00	.75	2.00	5.75
Total Cultural	100.0	\$144.69	\$20.10	\$60.81	\$225.60
Harvest Costs					
Picking		22.50/Ton			\$180.00
Sorting & Supervision		3.00/Ton			24.00
Haul & load boxes		1.00/Ton			8.00
Total Harvest					\$212.00
Cash Overhead					
Misc., office, etc.					\$ 21.82
Taxes					54.25
Total Cash Overhead					\$ 76.07
Total Cash Cost					\$513.67
Annual Cost					
Investment	Per Acre	Depreciation	Interest		
Land	\$1,800		\$108.00		
Trees	600	\$15.00	18.00		
Irrigation system	350	17.50	10.50		
Buildings	81	4.05	2.43		
Equipment	484	40.33	14.52		
Total Investment	\$3,315	\$76.88	\$153.45		\$230.33
Total Cost Per Acre					\$744.00
Cost per ton at 8 T/A yield					\$ 93.00

COSTS OF PRODUCTION PER TON AT VARYING YIELDS

Yield - Tons Per Acre	5	6	7	8	9	10
Cash Costs	\$430.26	\$458.08	\$485.91	\$513.67	\$541.56	\$568.75
Overhead	230.33	230.33	230.33	230.33	230.33	230.33
Total cost per acre	660.59	688.41	716.24	744.00	771.89	799.08
Cost per ton	\$132.12	\$114.74	\$102.32	\$ 93.00	\$ 85.77	\$ 79.91

APRICOTS - Example #1

Sample Division of Costs Between Landlord and Tenant
With a Yield of 8 Tons Per Acre

Investment and Depreciation per Acre

	Tenant			Landlord		
	Value	Interest	Deprec.	Value	Interest*	Deprec.
Land	\$	\$	\$	\$1800	\$108.00	\$
Trees				600	18.00	15.00
Building				81	2.43	4.05
Irrigation system(sprinkler)	200	6.00	13.33	150	4.50	4.17
Equipment	454	13.62	37.83	30	.90	2.50
Total	\$654	\$19.62	\$51.16	\$2661	\$133.83	\$25.72

*Items having depreciation are figured at 6% on $\frac{1}{2}$ of value

Cash Costs per Acre

	Tenant	Landlord	Total
Cultural Costs	\$223.60	\$ 2.00	\$225.60
Harvest Costs	212.00		212.00
Office, Insurance, etc.	15.31	6.51	21.82
Taxes	9.30	44.95	54.25
Total	\$460.21	\$53.46	\$513.67

Summary of Costs

	Tenant		Landlord		Total
	Cost	%	Cost	%	
Depreciation	\$ 51.16	67	\$ 25.70	33	\$ 76.88
Interest	19.62	13	133.83	87	153.45
Cash Costs	460.22	90	53.47	10	513.67
Management	38.00	95	2.00	5	40.00
Total	\$569.00	73	\$215.00	27	\$784.00

APRICOTS - Example #2

Sample Division of Costs Between Landlord and Tenant
With a Yield of 6 Tons per Acre

Investment and Depreciation per Acre

	Tenant			Landlord		
	Value	Interest	Deprec.	Value	Interest	Deprec.
Land	\$	\$	\$	\$1400	\$ 84.00	\$
Trees				480	14.40	12.00
Building				25	.75	1.25
Irrigation System	200	6.00	13.33	150	4.50	7.50
Equipment	454	13.62	37.83	10	.30	1.00
Total	\$654	\$19.62	\$51.16	\$2065	\$103.95	\$21.75

Cash Costs per Acre

	Tenant	Landlord	Total
Cultural Costs	\$225.60	\$	\$225.60
Harvest Costs	156.60		156.60
Office, Insurance, etc.	20.31	1.51	21.82
Taxes	9.30	35.62	44.92
Total	\$411.81	\$37.13	\$448.94

Summary of Costs

	Tenant		Landlord		Total
	Cost	%	Cost	%	
Depreciation	\$ 51.16	70	\$ 21.75	30	\$ 72.91
Interest	19.62	16	103.95	84	123.57
Cash Costs	411.81	92	37.13	8	448.94
Management	30.00	100	-- --	0	30.00
Total	\$512.59	76	\$162.83	24	\$675.42

**SAMPLE COSTS TO PRODUCE PRUNES
SAN BENITO COUNTY - 1967**

Based on an 80 acre orchard with 30 acres of prunes yielding 2.5 dry tons per acre.
Labor at \$1.50 unskilled and \$1.65 skilled including compensation and social security.

Operation	Hours per Acre	Cash and Labor Cost Per Acre			Total
		Labor	Fuel & Repairs	Materials	
Cultural Costs					
Pruning	25.0	\$37.50			\$ 37.50
Brush disposal	1.5	2.48	\$1.88		4.36
Fertilize	0.5	.83	.63	80 lb. N @ 12½¢ \$10.00	11.46
Spray	2.0	3.30	6.82	24.92	35.04
Cultivate & harvest preparation	4.0	6.60	7.08		13.68
Irrigate (sprinkler)	3.0	4.73	.63	Power for 18" 16.49	21.85
Prop, tie, etc.	3.0	4.50	1.15	3.00	8.65
Miscellaneous	3.0	4.50	.95	2.50	7.95
Total Cultural	42.0	64.44	19.14	56.91	\$140.49
Harvest Costs					
Shake and pick	60.0	6.25 tons @ \$12.00/T			\$ 75.00
Haul & load boxes	2.0	\$ 3.30	\$3.40		6.70
Dehydrate		Custom @ \$15.00/T			93.75
Supervision	1.5	2.48			2.48
Total Harvest	63.5				\$177.93
Cash Overhead					
Misc., office, etc.					\$ 22.28
Taxes					51.53
Total Cash Overhead					\$ 73.81
Total Cash Cost					\$392.23
Annual Cost					
<u>Investment</u>	<u>Per Acre</u>		<u>Depreciation</u>	<u>Interest</u>	
Land	\$1,800			\$108.00	
Trees	440		\$11.00	13.20	
Irrigation system	350		17.50	10.50	
Buildings	81		4.05	2.43	
Equipment	487		40.58	14.61	
Total Investment	\$3,158		\$73.13	\$148.74	\$221.87
Total Cost Per Acre					\$614.10
Cost Per Ton at 2.5 dry Ton yield					\$245.64

COSTS OF PRODUCTION PER TON AT VARYING YIELDS

Yield - Tons per acre	1.0	1.5	2.0	2.5	3.0
Cash Costs	\$278.00	\$316.08	\$354.04	\$392.23	\$427.90
Overhead	221.87	221.87	221.87	221.87	221.87
Total costs per acre	499.87	537.95	575.91	614.10	649.77
Cost per ton	\$499.87	\$358.63	\$287.95	\$245.64	\$216.59

PRUNES

Sample Division of Costs Between Landlord and Tenant
With a Yield of 2.5 Dry Tons per Acre

Investment and Depreciation per Acre

	Tenant			Landlord		
	Value	Interest	Deprec.	Value	Interest	Deprec.
Land	\$	\$	\$	\$1800	\$108.00	\$
Trees				440	13.20	11.00
Building				81	2.43	4.05
Irrigation system(sprinkler)	200	6.00	13.33	150	4.50	4.17
Equipment	472	14.16	39.33	15	.45	1.25
Total	\$672	\$20.16	\$52.66	\$2486	\$128.58	\$20.47

Cash Costs per Acre

	Tenant	Landlord	Total
Cultural Costs	\$138.49	\$ 2.00	\$140.49
Harvest Costs	177.93		177.93
Office, Insurance, etc.	18.00	4.28	22.28
Taxes	8.65	42.88	51.53
Total	\$343.07	\$49.16	\$392.23

Summary of Costs

	Tenant		Landlord		Total
	Cost	%	Cost	%	
Depreciation	\$ 52.66	72	\$ 20.47	28	\$ 73.13
Interest	20.16	14	128.58	86	148.74
Cash Costs	343.07	87	49.16	13	392.23
Management	28.75	100	-- --	0	28.75
Total	\$444.64	70	\$198.21	30	\$642.85

**SAMPLE COSTS TO PRODUCE WALNUTS
SAN BENITO COUNTY - 1967**

Based on an 80 acre orchard with 30 acres of walnuts, yielding 2500 lbs. per acre. Labor at \$1.50 unskilled and \$1.65 skilled including compensation and social security. Tractor cash costs at \$1.25 per hour.

Operation	Hours per Acre	Cash and Labor Cost Per Acre			Total
		Labor	Fuel & Repairs	Materials	
<u>Cultural Costs</u>					
Pruning	12.0	\$18.00			\$ 18.00
Brush Disposal	1.5	2.48	\$ 1.88		4.36
Fertilize	1.0	1.65	1.30	150 lbs. N. @ 12½¢ \$18.75	21.70
Spray	2.5	4.12	9.75	30.33	44.20
Cultivate & harvest preparation	4.5	7.42	7.61		15.03
Irrigate (sprinkler)	3.0	4.73	.63	Power for 24" 20.42	25.78
Miscellaneous	3.0	4.50	.75	2.00	7.25
Total Cultural	27.5	\$42.90	\$21.92	\$71.50	\$136.32
<u>Harvest Costs</u>					
Shake	1.5	Custom @ \$12.50 per hour			\$ 18.75
Picking (hand)	50.0	\$45.00 per ton			56.25
Hulling & dehydrating		35.00 per ton			43.75
Total Harvest	51.5				\$118.75
<u>Cash Overhead</u>					
Misc., office, etc.					\$ 17.85
Taxes					<u>56.20</u>
Total Cash Overhead					\$ 74.05
Total Cash Cost					\$329.12
<u>Annual Cost</u>					
<u>Investment</u>	<u>Per Acre</u>	<u>Depreciation</u>		<u>Interest</u>	
Land	\$1,800			\$108.00	
Trees	720	\$18.00		21.60	
Irrigation system	350	17.50		10.50	
Buildings	81	4.05		2.43	
Equipment	<u>472</u>	<u>39.33</u>		<u>14.16</u>	
Total Investment	\$3,423	\$78.88		\$156.69	
Total Cost Per Acre					\$564.69
Cost Per cwt at 2,500 lb. yield					\$ 22.59

COSTS OF PRODUCTION PER CWT. AT VARYING YIELDS

Yield - lbs. per acre	1500	2000	2500	3000	3500	4000
Cash Costs	\$280.46	\$308.02	\$329.12	\$350.02	\$377.58	\$398.58
Overhead	235.57	235.57	235.57	235.57	235.57	235.57
Total Cost per Acre	516.03	543.59	564.69	585.59	613.15	634.15
Cost per cwt.	\$ 34.40	\$ 27.18	\$ 22.59	\$ 19.52	\$ 17.51	\$ 15.85

WALNUTS

Sample Division of Costs Between Landlord and Tenant
With a Yield of 2500 lbs. per Acre

Investment and Depreciation per Acre

	Tenant			Landlord		
	Value	Interest	Deprec.	Value	Interest	Deprec.
Land	\$	\$	\$	\$1800	\$108.00	\$
Trees				720	21.60	18.00
Building				81	2.43	4.05
Irrigation system(sprinkler)	200	6.00	13.33	150	4.50	4.17
Equipment	472	14.16	39.33			
Total	\$672	\$20.16	\$52.66	\$2751	\$136.53	\$26.22

Cash Costs per Acre

	Tenant	Landlord	Total
Cultural Costs	\$136.32	\$	\$136.32
Harvest Costs	118.75		118.75
Office, Insurance, etc.	14.50	3.35	17.85
Taxes	8.75	47.45	56.20
Total	\$278.32	\$50.80	\$329.12

Summary of Costs

	Tenant		Landlord		Total
	Cost	%	Cost	%	
Depreciation	\$ 52.66	67	\$ 26.22	33	\$ 78.88
Interest	20.16	13	136.53	87	156.69
Cash Costs	278.32	84	50.80	16	329.12
Management	31.25	100	-- --	0	31.25
Total	\$382.39	64	\$213.55	36	\$595.94