A Self-Learning Resource From MSU Extension

Grazing Leases

by Kate Binzen Fuller, Assistant Professor/Extension Specialist, Dept. of Agricultural Economics and Economics; and Jeff Mosley, Professor/Extension Range Management Specialist, Dept. of Animal and Range Sciences

This MontGuide is a modified and updated version of Montana State University Extension Bulletin 120, *Pasture Leases and Beef Cattle Share Arrangements,* by Kent Williams, John Lacey, Dave Phillips, and John Ranney

MONTANA STATE UNIVERSITY EXTENSION

MontGuide

MT201601AG New 01/16

"WHAT IS THE VALUE OF MY PASTURE IF I LEASE it out to someone else?" and "How much should I pay to run my cattle on someone else's land?" are very common questions, but the answers are not always straightforward. Often, deciding whether to lease land is the easy part. With so many different types of leases available, decisions regarding the choice of lease and all its details can be tricky. Leases can be fixed or flexible, paid as a flat cash fee or based on this year's production or prices. Agricultural leases can be for land only, but can also include buildings, improvements, and machinery. In this bulletin, we discuss general guidelines for developing grazing (sometimes called pasture) leases.

What is a grazing lease?

A grazing lease is an agreement in which a landowner allows a tenant (the person who leases from the landowner) to graze livestock on the landowner's property. Typically, the tenant will pay the landowner some cash amount in exchange for the use of the land and the forage it provides. That cash amount can be determined in a variety of ways and may not be the same from one year to the next.

Estimating Grazing Lease Rates

Grazing lease rates can be estimated in a variety of ways, including:

- Comparing the grazable forage resource with the rates that others are charging (i.e., market value approach)
- Calculating anticipated income by comparing expected costs and returns (i.e., anticipated income approach)
- Considering the cost of alternative feeds (i.e., alternative feed approach) or
- A combination of these methods

The **market value approach** requires knowledge of local rental rates for grazing. Local rental rate information should be modified to fit each specific set of conditions. For example, local rental rates might be adjusted upward or downward for a particular grazing lease to reflect differences in forage quality, availability of stock water, presence of poisonous plants, responsibility for maintaining improvements, acreage, and length of lease agreement. Average county-wide cash rental rates on a per-acre basis, and for Montana as a whole on a per-head, per-cow/calf pair, and per animal unit month (AUM) basis for non-irrigated grazing lands are computed by the National Agricultural Statistics Service (NASS), and can be found using the NASS Quickstats website (http://quickstats.nass.usda.gov/) or the Montana State University Extension Ag Lease website (msuextension.org/aglease).

The **anticipated income approach** considers the expected returns of both the landlord and tenant. Landlords often seek a grazing rental rate that will cover their property taxes, their opportunity cost on the value of the land (that is, what the land might have earned for them if put to another use), the depreciation of improvements, and operating costs. Tenants often want to be assured a reasonable economic return from the grazing rental, taking into consideration livestock production costs and expected prices of livestock. Both parties will benefit from the development of cost and return budgets for the resources that they would contribute to a lease. The landlord should calculate the costs and returns associated with the grazing resource and associated improvements. The tenant should budget the costs and returns to livestock with grazing rental costs included.

The **alternative feed approach** estimates the value of grazing land forage by comparing it to the current feed value of an alternative feed source, such as grass hay or stubble aftermath. This approach is easier when both feed sources have similar nutritive values. Average prices for several types of hay in Montana are available from NASS Quickstats: http://quickstats.nass.usda.gov/. The Montana Hay Hotline (http://services.agr.mt.gov/Hay_List/) is another source of current, local information, and the USDA Agricultural Marketing Service (http://www.ams.usda.gov/mnreports/bl_gr310.txt) gives current statewide averages for hay sales.

Basis for Expressing Lease Rates

Livestock grazing lease rates can be expressed in a variety of ways – per acre, per whole tract, per AUM, per head, share of gain, or variable basis. The basis on which the lease rate is expressed should best fit the needs of all parties to the lease. The basis of expressing the lease rate is often influenced by local tradition, but it can have important implications for both parties. The way in which lease rates are expressed can also determine whether the landowner is playing an active or passive role, which can be important in self-employment tax calculations. If the landowner is sharing in profit (and risk) in the operation, which is more common in share of gain or variable rate leases, that landowner can be subject to self-employment tax.

Per acre lease rates differ with the productivity of the grazing resource and lease conditions. The landlord usually receives the same rental rate each year for the duration specified in the lease. The tenant assumes the risk of annual fluctuations in forage production due to weather.

Per whole tract lease arrangements refer to leasing a block of land or ranch for a specified annual fee. This type of lease is normally used when leasing an entire ranch for a period of years or when a mixture of land types (rangeland, seeded pasture, crop aftermath, forest) are in the unit leased.

Per animal unit month (AUM) lease charges provide flexibility in allowing for different kinds and classes of livestock by using the AUM as a common denominator. However, the definition of an AUM can vary, so it is important that both parties understand the definition being used, and this definition can be included in the lease itself.

Per head or per pair lease rates, charged per month or season, vary with the type of livestock. Because even one species of animal can consume drastically different quantities of forage, depending on its age, weight, and other factors, utilizing AUMs as a common denominator may be preferable.

Share of gain applies to seasonally-grazed, weight-gaining animals such as stocker cattle, replacement heifers, and lambs. These charges may consist of a pre-established charge per pound of gain or a share of the total weight gain for the grazing period. The economic charge should be justified on the relative contribution to production costs by tenant and landlord, and current or futures prices can be used to determine an appropriate charge for pound of gain. In the following example, animals are weighed before and after grazing, and the landlord charges the owner of livestock 50¢ per pound of steer gain.

Example: Steers grazing from June 1 to August 30:
final weight (August) 900 lbs.
initial weight (June) 600 lbs.
total gain and price *300 lbs. x 0.50 =$150/steer*

Variable leases use a base rate that is fixed for the term of the lease and a variable rate that allows the lease rate to vary annually with livestock prices. The base rate should be established by considering the relative contribution of both parties to total production costs. The variable rate is formulated by considering prices from a livestock market and developing a price index.

For example, consider a base lease rate of $5 per acre adjusted at weaning using the October futures price relative to a rolling ten-year average calf price. Suppose the ten-year average is $1.50 per pound, and the October futures price is $2.00 per pound[1]. The indexed lease rate would be $5 x (2.00/1.50) = $6.67 per acre.

Regardless of how the lease rate is expressed, a grazing lease should always clearly specify the number and kind of animals allowed and the dates that these animals will be allowed to graze the leased land, and what will happen if the animals need to be removed early in the case of drought or fire. In some cases, it may be simplest to write a grazing lease on a per-acre basis and then stipulate in the lease the number and kind of livestock allowed. This approach eliminates potential confusion about the definition of an AUM, and maps can be used to definitively determine the number of acres included in the lease. However, specifying the definition of AUM in the lease will address many of these issues.

Terms of a Grazing Lease

Lease terms should be fully understood by both parties. To avoid misunderstandings and ambiguity in lease terms, leases should be written agreements. An unwritten lease can be very difficult to enforce, and leases over one year in duration must be in writing in Montana[2]. Lease agreements should be signed and dated by both landlord and tenant. Signatures should be notarized, and both

1. Ten year averages can be computed from livestock prices available at http://quickstats.nass.usda.gov/; feeder cattle futures prices are available at www.cmegroup.com/trading/agricultural/livestock/feeder-cattle.html.

2. See MCA 70-20-101 (http://leg.mt.gov/bills/mca/70/20/70-20-101.htm).

landlord and tenant should consider filing the signed lease with the local County Clerk and Recorder. Qualified legal advice is advised in developing the final version of the lease.

Leases must be developed to fit the specific situation. Consideration should be given to the following terms:

Grazing Management Considerations

Maintenance and Improvements. Provisions can be specified in a lease for maintenance necessary to prevent deterioration of fences, corrals, water developments, and other structures. In addition, range improvement practices (e.g., weed control, seeding, fertilization, new fence construction, etc.) may also be incorporated into the lease agreement as part of the fee or a condition of lease renewal. The lease should also specify how and if the tenant will be compensated for costs incurred by the tenant for improvements.

Stocking Rate. A stocking rate guide can be used to help set the allowable stocking rate for a lease. Table 1 provides suggested stocking rates for livestock grazing in Montana during spring, summer, or fall. If livestock grazing occurs only in winter, the stocking rates in Table 1 can likely be increased 20 percent. Your local Montana State University Extension (MSU Extension) office or local office of the USDA Natural Resources Conservation Service (NRCS) can also suggest appropriate stocking rates.

Recordkeeping and Monitoring. It is advisable that a grazing lease require the tenant to keep records of actual turn-on and turn-off dates and the number of livestock grazed. The tenant should also be required to submit these records to the landlord at the end of the grazing season each year. Some leases also require the tenant to further document grazing use with photos taken of the land immediately before and after the grazing season each year. Your local MSU Extension or NRCS office can help establish photo monitoring procedures.

TABLE 1. Livestock stocking rate guidelines for Montana rangelands, pastures, and forests.

Forage Type	Annual Precipitation (inches)			
	11-14 inches		15-19 inches	
Native Rangeland	Acres/AUM[1]	AUMs/acre	Acres/AUM	AUMs/acre
Run-in Sites (i.e., sites where water collects)				
Excellent Condition	0.9	1.1	0.8	1.2
Good Condition	1.2	0.8	1.1	0.9
Fair Condition	2.0	0.5	1.7	0.6
Poor Condition	4.0	0.25	3.3	0.3
Normal Sites				
Excellent Condition	2.5	0.4	1.7	0.59
Good Condition	3.3	0.3	2.2	0.45
Fair Condition	5.0	0.2	3.3	0.3
Poor Condition	10.0	0.1	6.7	0.15
Run-off Sites (i.e., sites where water runs off)				
Excellent Condition	4.0	0.25	2.5	0.4
Good Condition	5.0	0.2	3.3	0.3
Fair Condition	10.0	0.1	5.0	0.2
Poor Condition	20.0	0.05	10.0	0.1
Dryland Seeded Pasture	0.8–2.0	0.5–1.25	0.5–1.0	1.0–2.0
Dryland Hay Aftermath	2.5	0.4	2.0	0.5
Irrigated/Subirrigated Seeded Pasture	0.2–0.5	2.0–5.0	0.2–0.5	2.0–5.0
Irrigated Hay Aftermath	1.0	1.0	1.0	1.0
Grain Crop Aftermath	5.0	0.2	3.3	0.3
Dry Coniferous Forests				
20 percent Tree Canopy Cover	N/A	N/A	3.0	0.33
40 percent Tree Canopy Cover	N/A	N/A	6.0	0.17
60 percent Tree Canopy Cover	N/A	N/A	12.0	0.08

1. AUM = Annual Unit Month, the amount of forage needed by one 1,000-lb cow or its equivalent for one month

General Terms

A lease should include the names of the involved parties; number of acres involved; legal description of the leased land; number and kind or class of livestock; type of lease – annual, seasonal or continuing; starting and ending dates; and the method and conditions of payment. Lease agreements should also include the home addresses, mailing addresses, and emergency phone numbers of the landlord and tenant.

Lease Conditions

The length of the lease, as well as when rent is due, should be specified. Whether insurance is required is also an important consideration. It is recommended that a grazing lease stipulates that the tenant must carry liability insurance for the livestock that graze the leased property. Rights and conditions of renewal should be delineated, along with considerations regarding whether subleasing is allowed, and what will occur if the landlord or tenant dies. The right to terminate the lease, if it is breached or otherwise, must be specified.

Special Clauses

A grazing lease should address procedures to modify or terminate the lease in case of fire, drought, flood, and other emergencies. Prohibited activities or restrictions such as hunting or fishing privileges and logging should be stated in the lease. Grazing leases commonly specify that the tenant's vehicles (trucks, pickups, ATVs, etc.) travel only on established roads or trails, although exceptions are commonly allowed if needed to enable weed control or in case of emergency.

Landlord Services and Tenant Agreement

If the landlord has responsibilities for the tenant's livestock, those should be spelled out within the lease. Landlord services offered as part of a grazing lease vary from no more than collecting the lease payments to taking complete care of the livestock. For example, responsibilities vary among landlords and tenants for treating sick animals, checking water, providing salt and mineral supplements, herding or moving livestock between pastures, and maintaining fences. Guidelines governing the tenant's responsibilities for repairing facilities should also be specified. The landlord's right to inspect the property, and/or how it will be monitored in the landlord's absence should also be clearly defined.

Other

Qualified legal assistance should be consulted to set up the terms of your lease and make sure liabilities are addressed.

Useful resources

Montana State University Agricultural Land Leasing. msuextension.org/aglease

Disclaimer

This publication is not intended to be a substitute for legal advice. Consultation with a lawyer is advised.

Acknowledgement

We are grateful to members of the Business, Estates, Trusts, Tax, and Real Property (BETTR) Section of the State Bar of Montana, as well as Montana State University Extension agents for reviewing this document.

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File under: Agriculture and Natural Resources (Farm Management)
New January 2016 0116SA