



SHOULD I LEASE MY LAND FOR GRAZING?

Every truth has two sides; it is as well to look at both, before we commit ourselves to either. ~Aesop

By John Hewlett

Are you a landowner with excess pasture?

Do you own livestock and need additional forage?

Which side of the situation you are on determines your initial perspective on pasture leases. For this reason, many economists present leasing from the perspective of what constitutes a fair lease.

What is a Fair Lease?

Every lease agreement has legal and economic considerations for the parties. In a fair lease, the individual making the lease (landowner/lessor) and the individual taking on the lease (tenant/lessee) each make equitable and fair contributions. Ideally, the lease agreement is in writing and includes a description of protections for each party in case of default or nonperformance.

What are the Contributions to a Native Pasture Lease Arrangement?

Landowners will generally contribute to a typical pasture lease:

- 1) Land;
- 2) Interest payments on the land;
- 3) Taxes on the land;
- 4) Land improvements, including fences;
- 5) Water developments – water tanks, delivery systems, etc.;
- 6) Corrals or pens;
- 7) Buildings or other fixed improvements such as irrigation systems, etc.;
- 8) Depreciation on improvements;
- 9) Interest costs for improvements;
- 10) Improvement repair costs;
- 11) Property taxes on improvements;
- 12) Insurance on improvements;
- 13) Electricity/fuel for water pumping equipment, electric fencing, etc.

Tenants generally contribute:

- 1) Investment in the grazing animals;
- 2) Animal costs, including interest on the grazing animals;
- 3) Taxes, veterinary, insurance, other animal-related costs;
- 4) Death loss on grazing animals;
- 5) Marketing costs for animals, including purchasing, selling, trucking, etc.;
- 6) Labor costs;
- 7) Management costs;
- 8) Breeding animals, where applicable (cows, bulls, etc.), including depreciation costs;
- 9) Interest costs for breeding animals;
- 10) Repair and maintenance material costs for fences, water developments, corrals, buildings, and



other improvements included in the lease arrangement.

Other contributions that may be added to the arrangement and should be assigned to the appropriate party include supplemental feed, supplemental labor for feeding and watering/livestock, checking/fence maintenance, or fuel for feeding/fencing, among other contributions.

Arrangements for leasing tame pastures or hay meadows should include additional factors, such as which party bears the costs of any pasture maintenance – harrowing, applied fertilizers, irrigation water, application, labor, and fuel costs.

Nearly every lease arrangement is unique. The property leased, what improvements may be included in the agreement, how costs are shared between the parties, and how payment is made varies widely. For this reason, the customary rate or what neighbors are currently charging is rarely the appropriate rate for a given situation. Developing a lease arrangement with the appropriate structure helps ensure the lease accounts for the interests of all parties.

How are Lease Arrangements Structured?

Lease arrangements may be structured several ways. The simplest is the cash lease. The lessee pays the landowner an agreed amount for use of the leased property – often in a single payment.

Livestock share leases are arrangements in which each party makes a contribution toward the costs of the livestock enterprise, and each receives a share of the livestock sales.

A variation on the livestock share arrangement is the share of gain lease. Share of gain leases are arrangements in which each party's contribution to the livestock pasture costs and resulting livestock gain are used as the basis to divide returns from the livestock sales.

Variability in economic conditions can be provided for through flexible prices assigned to either input cost items or market prices used to calculate sale revenue. In this way, variable arrangements provide an opportunity to better share risks and outline a more equitable arrangement in times of uncertain input costs, output prices, or both.

What is the Basis for Payment?

The basis for the lease payment may be per acre, per head/day, per AUM (Animal Unit Month*), per month, or some other agreed-upon value. In addition to the basis, the stocking rate or number of head allowed on the property and the length of time stock will be on the property should be described in the lease arrangement.

Lease Arrangements

Lease agreements are best drafted well in advance of use of the property. That allows parties ample time to consider contributions to the lease

and valuation of those contributions. At a minimum, the lease arrangement should include:

- 1) names of the parties involved;
- 2) description of the property to be leased;
- 3) general terms of the agreement;
- 4) stocking rate;
- 5) outline of the responsibilities for operation and maintenance under the lease; and
- 6) payment schedule.

The North Central Farm Management Committee developed a helpful publication years ago. "Pasture Rental Arrangements for your Farm" (NRC publication 149) covers determining a fair lease between

two parties. Although the values in this publication are old, the approach to establishing a fair lease remains the same. Find it under Lease Arrangements on the Web page <http://farmmgt.uwagec.org/PUBS/HISTORIC.HTM>.

This document also includes an example lease arrangement with blanks that may serve as a helpful basis for creating a custom lease agreement for specific situations.

For More Information

The North Central Management Committee recently updated older lease forms and bulletins. These have been posted, along with blank forms and a Frequently Asked Questions

section, at <http://AgLease101.org>. Ag Lease 101 is intended to help landowners and land operators learn about alternative lease arrangements and includes sample written lease agreements for several alternatives.

For more information on lease arrangements, evaluating leases, or other risks faced by operators in today's challenging economic environment, see the Western Risk Management Library at <http://Riskmgt.uwagec.org>.

*Animal Unit Month – a common basis for leasing pasture in the West and is usually estimated as the amount of forage consumed by a 1,000-pound cow with or without a calf in a month.

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