



Grazing Leases:

Four important questions and answers

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Overview

- ▶ What does a “good” lease look like?
- ▶ What types of pasture leases are available?
- ▶ How should I set my rate?
- ▶ Where can I go for more information?

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What makes a good lease?

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Publications

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- [Pasture Grazing Leases: Put It in Writing](#) (2012 Big Sky Small Acres article by Jeff Mosley, MSU Extension Range Management Specialist)

Resources:

- [Montana Cash Lease Rates, by County](#)
- [NASS Montana Average Grazing Rates](#)
- [NASS Federal Lands Grazing Fees](#)
- [AgLease101.org: General Information, sample leases, and guidelines](#)
- [FairRent: An evaluation tool for crop share and cash leases](#)

What makes a good lease:

What to include

- Who is responsible for what, and when
- Detail on persons involved and the property itself
- Clearly states duration of lease, terms of renewal, rate or how it will be calculated

What makes a good lease?

Once you've decided what to include...

- Written
- Terms are understood and agreed on by both parties
- An appointment with your lawyer and/or accountant is advised.
- Filed at County Clerk and Recorder's office
- **Note:** different states have different lease laws!

Who is responsible for what?



http://cdn2.hubspot.net/hub/13035/file-13126527-jpg/images/cartoon_personal_responsibility.jpg



Who is responsible for... the expected?

- Management practices
 - Monitoring? Landlord right to enter and inspect?
- Government program and disaster assistance
 - ARC and PLC (crops only), EQIP, etc.
- Infrastructure and improvements: describe it!
 - Water access and quality, fencing, corrals, salt blocks...
 - Compensation for long-term improvements



Who is responsible for... the expected? (continued)

- Hunting access (and/or revenue)?
- Mineral rights and extraction, windpower
- Risk management: livestock and liability insurance
 - Talk to insurance agent to make sure covered
 - Other risk management (buying puts, etc.)

What about the unexpected?!

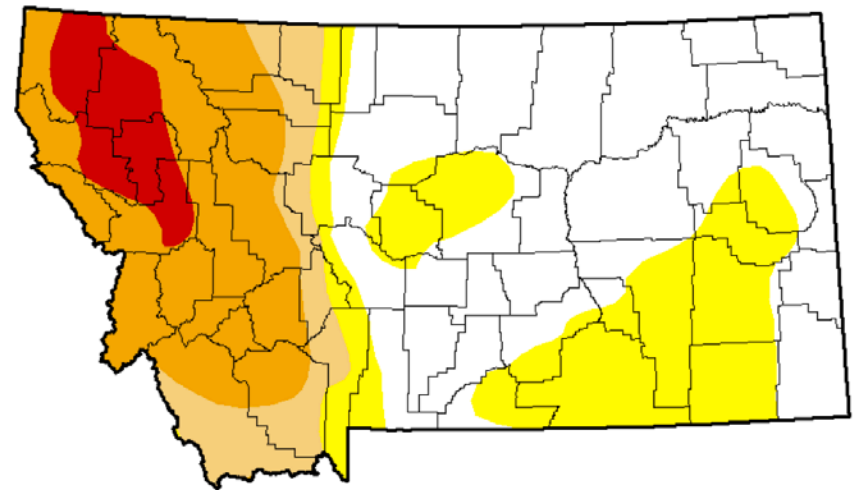


Courtesy Marko Manoukian



What about the unexpected?!

- Drought
- Flooding
- Fire
- Late payments
- Death of landowner or tenant





Why put the lease in writing?

- Expected:
 - Better understanding of expectations by both parties
 - Documentation for tax purposes
- Unexpected:
 - Serves as a legally enforceable reminder of agreed upon terms
 - Statute of frauds: must be written if more than one year to be enforceable

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Types of Pasture Leases

- Fixed cash
 - Per acre, per head, per cow-calf pair, per AUM
 - Most pasture leases in MT are cash
- Share of gain/value of gain
 - Tenant pays landlord for gain or value of gain
 - Landlord shares in price and/or production risk
- Flexing on price or gain
 - Fixed base rate is adjusted to reflect current condition
 - Landlord shares in price or production risk



What is an AU?

- A. A mother cow and calf
- B. One, 1,000 lb animal
- C. 920 lbs of forage/month
- D. 790 lbs of forage/month
- E. None of the above
- F. All of the above

What is an AU?

Table 2. Animal unit equivalents

<u>Type of Animal</u>	<u>AUM</u>
Mature cow	1.0 to 1.4
Bull	1.5
Yearling steer/heifer	0.7 to 0.9
Two-year-old heifer	1.0 to 1.2
Calf	0.4
Ewe	0.20 to 0.28
Replacement ewe lamb	0.13 to 0.17
Horse	0.9 to 1.2

<https://www.extension.iastate.edu/agdm/wholefarm/html/images/c2-23tbl2.gif>

What is an AU?

Table 2

TABLE 1
Animal Unit Equivalents (AUEs)

<u>Domestic Animal Kind-Class</u>	<u>AUE</u>	<u>Wildlife Animal Kind-Class</u>	<u>AUE</u>
Cow – dry	1.00	Antelope	0.10
Cow with calf	1.00	Bison	1.00
Bull – mature	1.25	Deer – whitetail	0.13
Calf – weaned	0.60	Deer – mule	0.17
Steer/Heifer - 2 Years	0.80	Elk	0.48
Sheep – mature ewe or ram	0.20	Goat – mountain	0.14
Sheep – yearling	0.15	Moose	0.83
Goat	0.17	Sheep – bighorn (ewe)	0.14
Horse – mature	1.25- 2.00	Sheep – bighorn (ram)	0.18

0.13 to 0.17
0.9 to 1.2

http://wagoncreekguardian.com/wp-content/uploads/2015/06/table_1.png

What is an AU?

Table 1. Animal Units (AU) equivalent for each class of livestock and livestock types.

Livestock Class and Type	Animal Unit (AU) value	Number/AU
Cattle:		
1,000 lb beef cow/calf pair	1.00	1.00
1,100 lb beef cow/calf pair	1.10	0.91
1,200 lb beef cow/calf pair	1.20	0.83
1,300 lb beef cow/calf pair	1.30	0.77
1,400 lb beef cow/calf pair	1.40	0.71
Calves by themselves over 3 months	0.30	3.33
Weaned calves to yearlings	0.60	1.67
Yearling cattle (600-800 lbs)	0.70	1.43
2-year old dry cattle (800-1000 lbs)	0.90	1.11
Mature Bull	1.30	0.77
Sheep:		
Mature ewe with lambs	0.20	5.00
Weaned lambs to yearlings	0.12	8.33
Mature ram	0.25	4.00

Goats:

Domestic Animal Kind-Class

Cow – dry
 Cow with calf
 Bull – mature
 Calf – weaned
 Steer/Heifer - 2 Year
 Sheep – mature ewe
 Sheep – yearling
 Goat
 Horse – mature

Kind-Class

0.10
 1.00
 0.13
 0.17
 0.48
 0.14
 0.83
 0.14
 0.18

horn (ewe)
 horn (ram)

to 0.17
 to 1.2

<http://onpasture.com/wp-content/uploads/2015/02/AUM-Breakdown.png>

What is an AU?

- A mother cow and calf?
- One, 1,000 lb animal
- 920 lbs of forage/month
- 790 lbs of forage/month
- Something else
- All of the above



Define it in the lease.

Cash Leases: Advantages

- Simple
- Common
- Predictable
- Less decision-making for landowner

Cash Leases: Disadvantages

► Landowners

- No “good year” windfall profits
- Lower payment compared to share leases

► Tenants

- Have all yield and price risk

Flexible Arrangement Advantages

- Reduced production or price risk for tenant
- Both parties see benefits in a good year
- More communication

Flexible Arrangement Disadvantages

- Income for landowner becomes variable
- Self-employment tax considerations
- More measurement, record-keeping, and/or trust
- More communication: transactions costs

Share of Gain

Landowner charges per pound of weight gained by calves.

Example:

Final weight: 500 lbs

\$/lb gained = \$0.50

Initial weight: 150 lbs

Share of Gain

Landowner charges per pound of weight gained by calves.

Example:

Final weight: 500 lbs

$\$/\text{lb gained} = \0.50

Initial weight: 150 lbs

Gain: 350 lbs

Share of Gain

Landowner charges per pound of weight gained by calves.

Example:

Final weight: 500 lbs

\$/lb gained = \$0.50

Initial weight: 150 lbs

Gain: 350 lbs

$350\text{lbs} * \$0.50/\text{lb} = \175 per calf



Share of Value of Gain

- Calculate the change in value of calves during their time on pasture
- Calculate contributions of landowner and tenant
- Divide proceeds according to contribution
- This approach requires a bit more work



Share of Value of Gain

- Example:
 - Initial value: 150 lbs at value of \$1.75/lb=\$262



Share of Value of Gain

- Example:
 - Initial value: 150 lbs at value of \$1.75/lb=\$262
 - Final value: 550 lbs at value of \$1.50/lb=\$825



Share of Value of Gain

- Example:
 - Initial value: 150 lbs at value of \$1.75/lb=\$262
 - Final value: 550 lbs at value of \$1.50/lb=\$825
 - Value of gain=\$825-\$262=\$563



Share of Value of Gain

- Example:
 - Initial value: 150 lbs at value of \$1.75/lb=\$262
 - Final value: 550 lbs at value of \$1.50/lb=\$825
 - Value of gain=\$825-\$262=\$563
 - Landowner tallies costs: \$80/calf
 - Livestock owner tallies costs: \$120/calf



Share of Value of Gain

- Example:
 - Initial value: 150 lbs at value of \$1.75/lb=\$262
 - Final value: 550 lbs at value of \$1.50/lb=\$825
 - Value of gain=\$825-\$262=\$563
 - Landowner tallies costs: \$80/calf (40%)
 - Livestock owner tallies costs: \$120/calf (60%)
 - Total operating costs: \$200/calf



Share of Value of Gain

- Example:
 - Initial value: 150 lbs at value of \$1.75/lb=\$262
 - Final value: 550 lbs at value of \$1.50/lb=\$825
 - Value of gain=\$825-\$262=\$563
 - Landowner receives **40% * \$563=\$225/calf**
 - Livestock owner receives **60% * \$563=\$338/calf**



Flexing on price

- Base rate fixed for term of lease
- Adjusted based on current prices relative to historical



Flexing on price

- Base rate fixed for term of lease
- Adjusted based on current prices relative to historical

Example 1:

- Base rate: \$5/acre
- 10-year avg steer calf \$1.50 per pound
- October *2016 futures contract \$1.60/lb*
- Indexed rate = *$\$5 \times (1.60/1.50) = \$5.33/\text{acre}$*



Flexing on price

- Base rate fixed for term of lease
- Adjusted based on current prices relative to historical

Example 2:

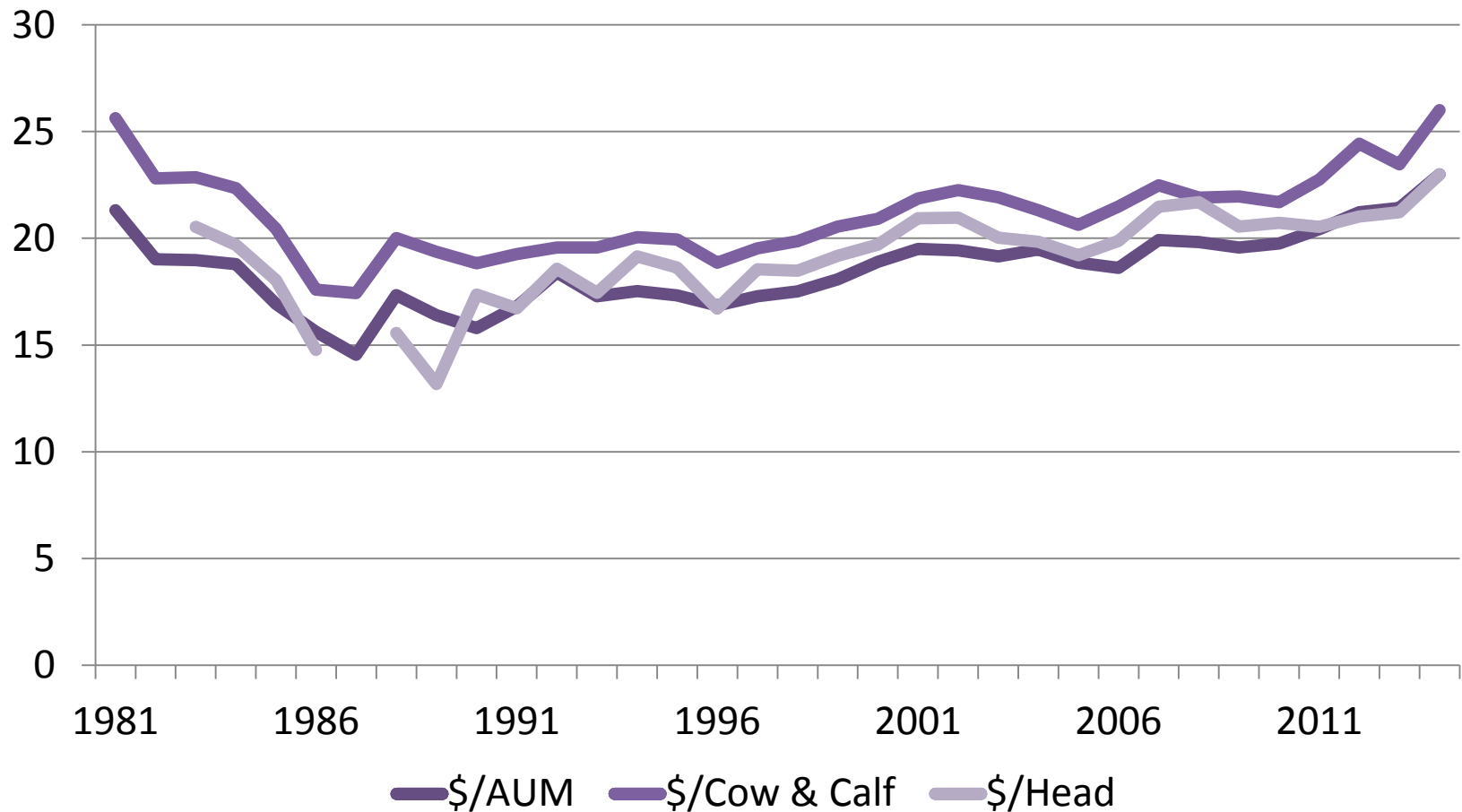
- Base rate: \$5/acre
- 10-year avg steer calf \$1.50 per pound
- October *2014 futures contract \$2.20/lb*
- Indexed rate = *$\$5 \times (2.20/1.50) = \$7.33/\text{acre}$*

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Montana Cash Pasture Rental Rates

(\$2015)



Source: NASS Quickstats

Montana Cash Pasture Rental Rates

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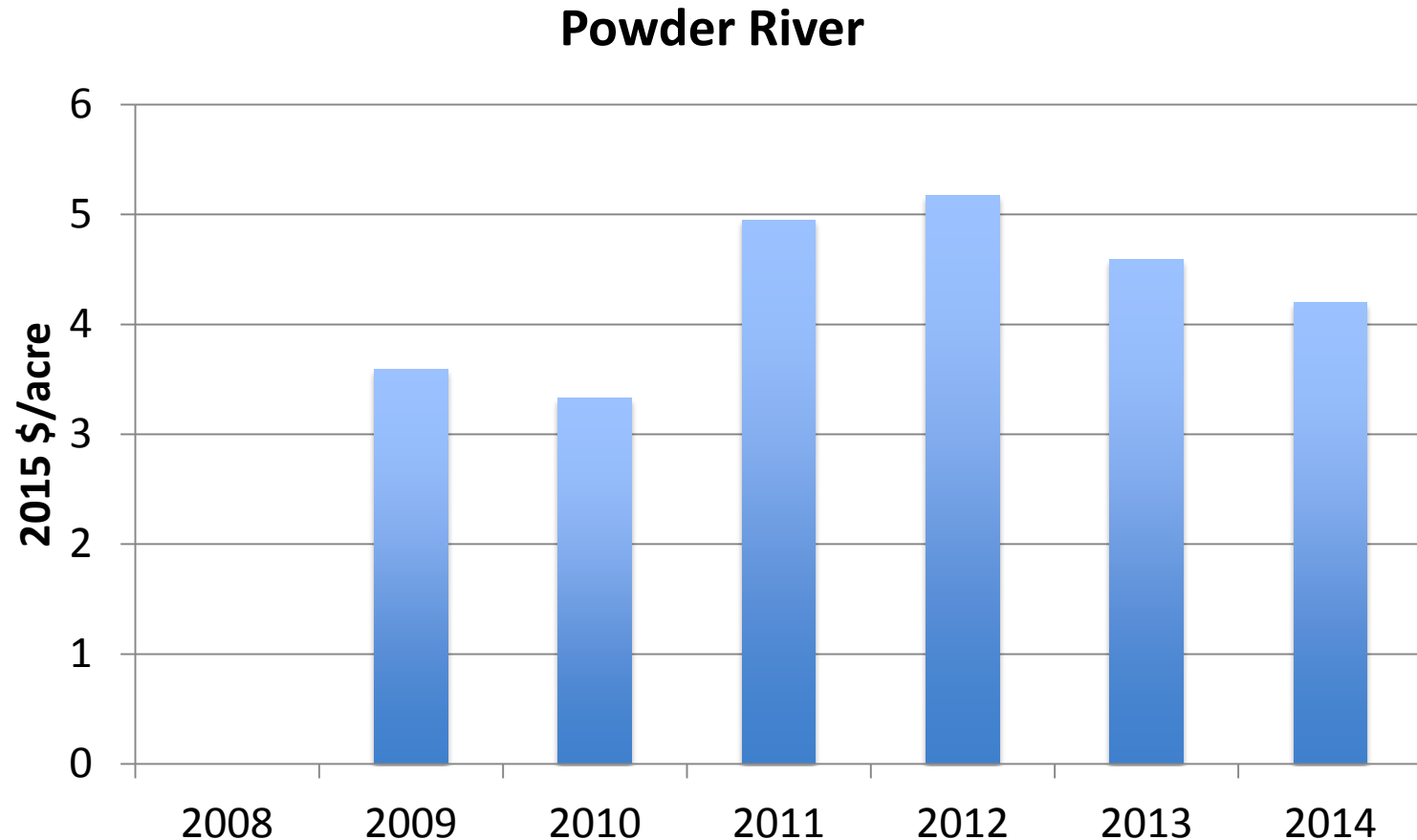
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Lease Rates per Acre, by County



Source: NASS Quickstats

Lease Rates per Acre, by County



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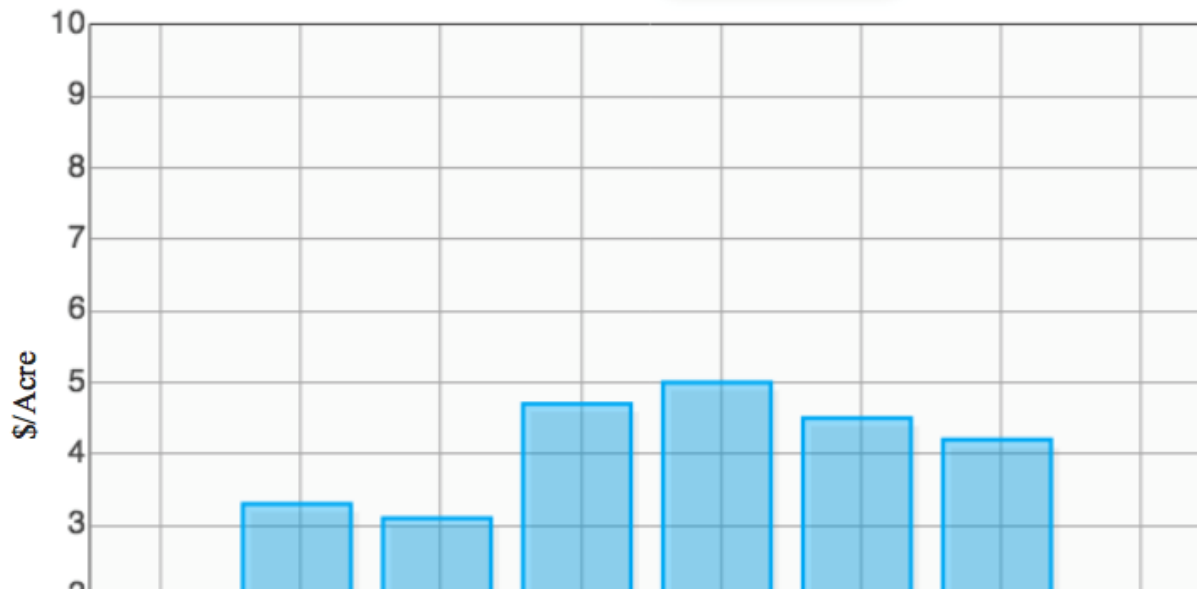
Choose your county here:

Powder River

	Nominal		
Year	Pasture	Irrigated Cropland	Irrigated Cropland
2008	-	-	-
2009	\$3.30	N/A	
2010	\$3.10	N/A	
2011	\$4.70	N/A	
2012	\$5.00	N/A	
2013	\$4.50	N/A	
2014	\$4.20	N/A	
2015	-	-	-

Liberty
Lincoln
Madison
McCone
Meagher
Missoula
Musselshell
Park
Petroleum
Phillips
Pondera
Powder River
Powell
Prairie
Ravalli
Richland
Roosevelt
Rosebud
Sanders
Sheridan

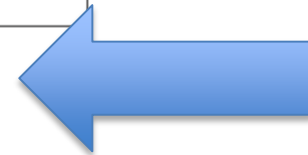
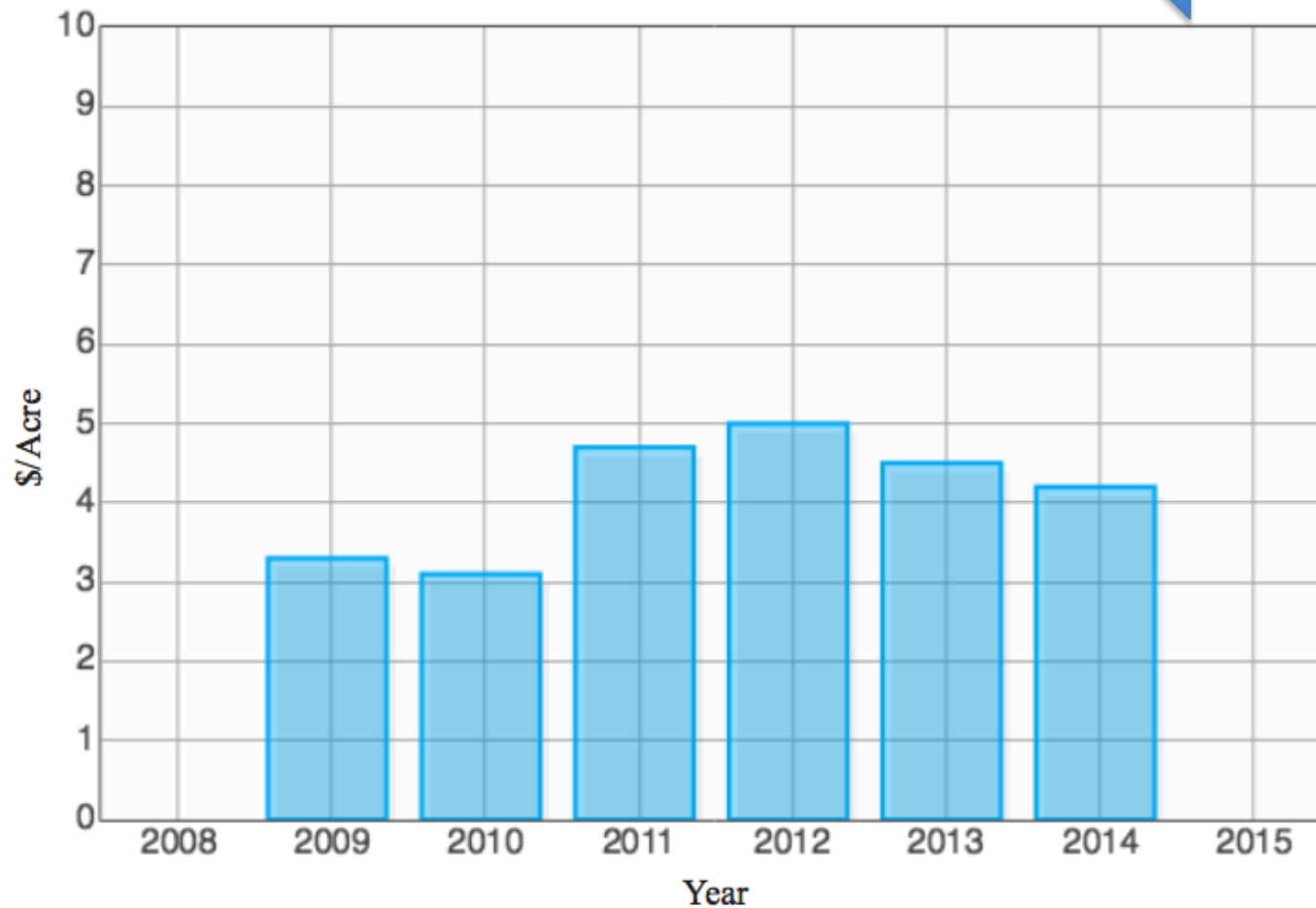
Graph: Pasture ☒ Irrigated ☐



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2014	\$4.20	N/A	N/A
2015	- - - -	Not Available	- - - -

Graph: Pasture ☒ Irrigated ☐ Nonirrigated ☐



Lease rates, cont'd:

What is affecting these averages???

- **Time:** new and old leases
- **Productivity:** quality, quantity of forage
- **Improvements:** fencing, corrals, water, etc.
- **Non-market values:**
 - Good tenant relationship
 - Want to keep the land in ag

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One-stop shop for many leasing resources:

- NASS rates
- aglease101.org
- National Ag Law Center
- FairRent
- Montana Agricultural Leasing Law webinar
- MontGuides

FairRent.umn.edu

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AG LEASE 101

Ag Lease 101 helps both land owners and land operators learn about alternative lease arrangements and includes sample written lease agreements for several alternatives. Ag Lease 101 was created by and is maintained by the North Central Farm Management Extension Committee.



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