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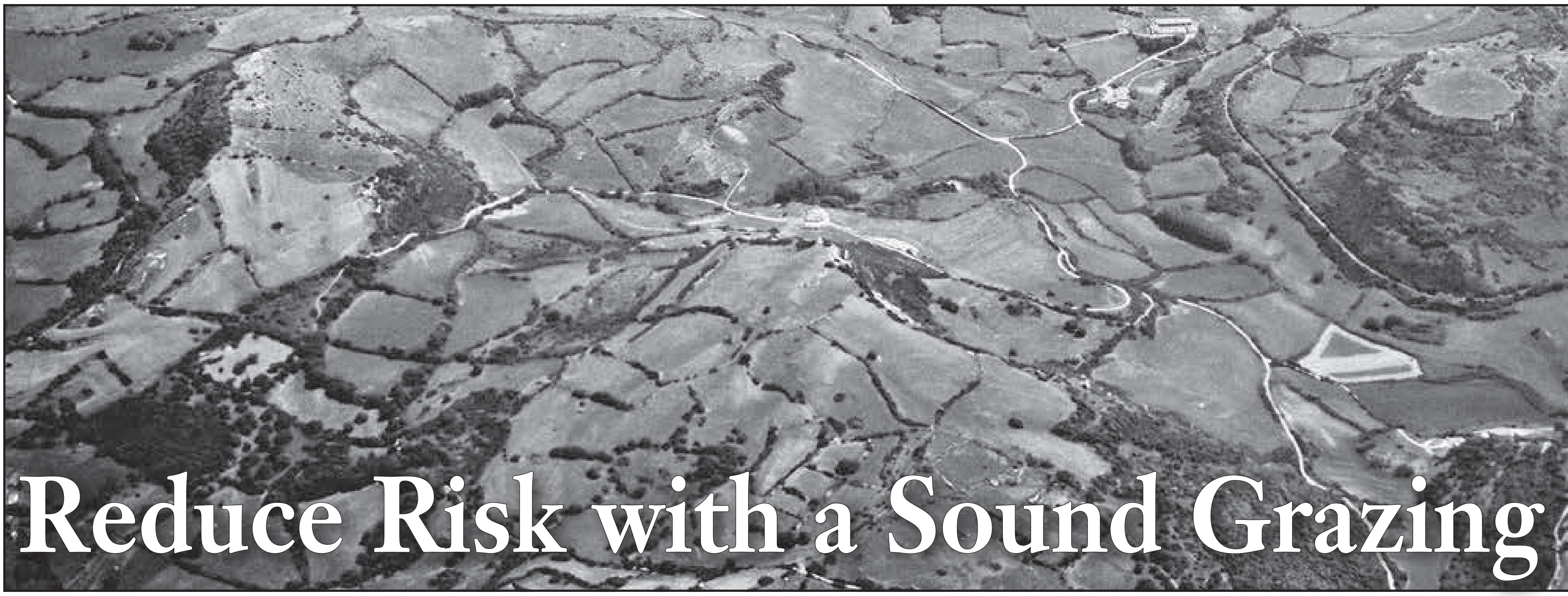


Reduce Risk with a Sound Grazing

Tips offered to enter into an agreeable grazing lease.

Story & photo by
TROY SMITH, *field editor*

What changes will the advancing average age of cattle producers bring to cow country? Agricultural census data suggest the median age of U.S. farmers and ranchers is rapidly nearing 60 years of age. People taking a glass-is-half-full point of view believe that could present opportunities for younger operators and aspiring producers. As the older folk exit the business, many of their farms and ranches are likely to sell or become available to lease.

Leasing grazing land has long been a way for beginning ranchers to get started, and for existing operations to expand. Considering today's real estate prices, Stephen Diebel believes leasing grassland can help mitigate risk. Operating cow-calf, stocker and club-calf enterprises, Diebel manages some 14,000 acres of coastal prairie near Victoria, Texas, and about half of that acreage is leased. He admits that finding and holding on to land leases can be challenging.

"Remember that your reputation precedes you. Word gets around," advises Diebel, reminding producers that their previous management histories and stability of their existing operations are factors that landowners often consider when scrutinizing potential tenants.

"Never undermine a current lease agreement in order to swing a deal your way," Diebel adds, warning that disrespecting others usually backfires, bringing the accuser's own integrity into question.

Before entering into serious lease negotiation with the landlord (lessor), a potential lease holder (lessee) needs to learn all he or she can about the property and its potential. This includes knowing what portion of a property represents "grazeable acres" and how much of the land has limited grazing value due to topography, woodlands or other reasons. A producer also needs to know if other individuals or entities hold rights-of-way for utilities or pipelines, for example. These kinds of things may affect a property's carrying capacity now and in the future.

Property residence

If there is a residence on the property, a producer needs to know whether it is rented to a third party. Diebel says that may be a hindrance or a benefit, depending on who lives there. Having other people residing on a leased property may increase the likelihood of problems, such as gates being left open. Do they have pets that might be a nuisance to livestock? Before signing a lease, a producer also needs to consider how the presence of others affects liability, if other parties were injured or their personal property damaged.

> "Never undermine a current lease agreement in order to swing a deal your way."
> — *Stephen Diebel*

On the other hand, having someone living onsite can be a good thing. It may be a deterrent to unwanted trespassers. A capable and responsible resident might also be available for hire to help keep an eye on cattle, fences or stock water. This could save time, mileage and money for the lessee. Diebel advises producers to consider how they might arrange for win-win situations.

Another thing to think about is who is operating across the fence from a lease property. Is a neighboring rancher a good manager? Do they do their part in maintaining shared fences? Are a certain neighbor's sorry bulls known to run throughout the country during breeding season? Does a neighboring herd have trichomoniasis or other transmissible diseases? Do the neighbors have reputations for being friendly, cooperative and responsible? Prospects for favorable relations with neighbors, or the lack thereof, can affect a lease property's "practical" value.

When considering a lease of grazing land, a producer needs to be familiar with the range of lease costs applicable to the region. The producer must determine his or her upper cost threshold. However, learning as much as possible about a particular property and its neighbors can help a potential lessor determine a practical value. Knowledge of the property also enables the producer to present his or her case when negotiating with a landowner.

"Be prepared to sell yourself and your stewardship," explains Diebel, recommending preparation of a management plan including management practices the lessor wants to implement.

"Consider what you can do (yourself or in cooperation with the landowner) to improve the property — maybe through prescribed burning or water development. A management plan should explain how you would try to leave the land even better than you found it," advises Diebel.

The agreement

A lease agreement should be placed in writing, but it doesn't have to be a

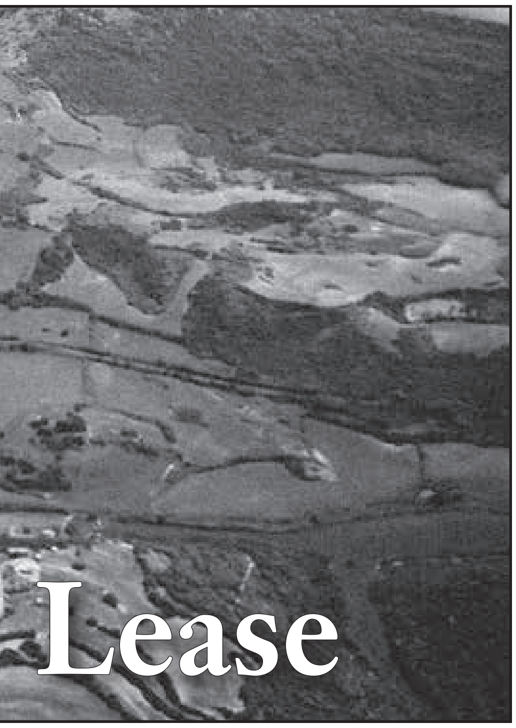
Speaker Stephen Diebel is a fifth-generation rancher whose operation near Victoria, Texas, depends heavily on leased grazing land.

lengthy document written in hard-to-understand legalese. Of course, certain elements are critical to any lease agreement. The terms should include a well-defined lease duration — when it starts and ends. It should state which party is responsible for maintaining existing stock watering sites, fences and other improvements. The lease should assign responsibility for weed and brush control.

If costs for maintenance and certain management practices are to be shared by lessor and lessee, the division of responsibility should be clearly defined. Respective responsibilities for introduction of any new improvements also should be stated.

Diebel recommends that a lease also state who has priority access to properties where other activities, such as hunting, oil and gas development or gravel mining may be taking place. A clear understanding can prevent misunderstandings and unpleasant disagreements from occurring later.

Of course, an agreement must state the cost of a lease and when payment or payments are to be made, whether annually, biannually or quarterly. Diebel reminds producers that making



multiple smaller payments may provide cash-flow benefits to both parties. Grazing land leases are commonly based on cost per animal unit, cost per acre or percentage share of the calf crop.

"A lease based on cost per animal unit is most typical for seasonal or short-term leases, while long-term leases are more apt to be priced on a per-acre basis," says Diebel.

"When leasing grazing land for a cow-calf enterprise, payment based on a calf-crop percentage puts emphasis on good management, and it means the landowner and the lessee share both risk and reward," adds Diebel. "Their lease agreement should explain when and how the value of calves is determined."

Important to the interests of both lessee and lessor is a clearly defined lease exit strategy. In the event of drought, for example, a lease should provide for timely removal of livestock. The agreement should allow sufficient time for a lessee to make arrangements and execute removal, but guard against delayed removal that could damage the lessor's grazing resource.

When seeking grazing land to lease, Diebel advises producers to look for opportunity in properties that are remote, have few improvements or have been neglected. Such properties often are less attractive to other producers and may be available at low cost. Through good management a savvy lessee may be able to implement improvements that facilitate increased forage production, improved forage utilization or otherwise add value to the grazing resource while capturing more value from it.

Typically, however, a lessee cannot afford to invest time and money in improvements to properties held under short-term leases. The benefits of investments in water development, fencing or other improvements accrue over time, and a lease period must be long enough for economic return to be realized. Not all landowners understand this.

As an example, Diebel noted how a lot of grazing land in Texas belongs to absentee owners. Many are heirs to property, and a good many of those are women. Regardless of gender, these absentee owners may not have a working knowledge of production agriculture, or management of grazing land in particular. However, they may be receptive to sound stewardship concepts and come to understand how a lessee's own investments in the property improvements have value to the landowner and should be addressed in terms of lease cost.

"This illustrates what is most important to getting and hanging onto a lease," says Diebel. "You have to be prepared to explain your good stewardship up front, and practice good stewardship from then on — and communicate, communicate, communicate."

Editor's Note: *Troy Smith is a freelance writer and cattleman from Sargent, Neb. Stephen Diebel was a featured speaker during the December 2015 National Conference on Grazing Lands in Grapevine, Texas. The conference was conducted by the National Grazing Lands Coalition, a nationwide consortium of individuals and organizations working together to maintain and improve the management and the health of private and public grazing lands.*