

A New Formula

Figure pasture rent as a share of the calf.



PHOTO BY JERA PIPKIN, 2013 NJAA/ANGUS JOURNAL PHOTOGRAPHY CONTEST

by **TROY SMITH,**
field editor

Countless numbers of cow-calf producers have launched fledgling enterprises or expanded existing operations by leasing cows. Arguably the most common arrangement is for cows to be leased on a share basis whereby the cow owner and the producer leasing the herd each receives a predetermined share of proceeds received from the sale of calves born to the cows.

It depends on the specifics of each individual agreement, but a share deal may be the fairest kind of lease. It is potentially the fairest, at least, because the lease payment fluctuates with calf prices. Both lessor and lessee share in the bounty and the burden of high and low prices, respectively.

Skip Marland, a North Platte, Neb., rancher, land appraiser and real estate broker, thinks the “share” concept can also be used for figuring fair pasture rental rates. *Equitable* might be a better term, notes Marland, who uses the share concept as a framework for establishing pasture rental agreements that are equitable to the landlord and to the tenant. This framework also lends the flexibility needed as market conditions change.

“Pasture rents followed calf prices, as they went up fast. Calf prices came down fast, too, but rents are coming down much slower,” says Marland. “Arriving at rental agreements that are equitable to landowner and tenant can be a challenge.”

There are five key components to

Marland’s method for figuring pasture rental rates. These include:

1. the carrying capacity of the grazing resource;
2. calf value;
3. agreed upon percent share of calf sale income paid to landlord vs. share retained by tenant;
4. landlord costs of real estate tax increases and property maintenance; and
5. reported and rumored rental rates for comparison.

How many cattle?

Establishing the carrying capacity of the grazing resource is not only important to calculating pasture rent, it is essential to the long-term viability of the resource — that sustainability thing everybody keeps talking about. Mutual agreement on how many cattle can be grazed for the predetermined grazing season is critical to fostering favorable landlord-tenant relationships for the long term.

“Both parties should work from the premise of wise resource management for future production and drought preparedness,” Marland advises. “Consider whether you are stocking the pasture according to present production capability, or using rules-of-thumb that do not reflect the current pasture and cattle resources.”

Common mistakes might include assuming that a particular grazing resource will support the same or similar number of animal units, year in and year out, with too little regard to differences in precipitation



Rancher, land appraiser and real estate broker Skip Marland talked about rental rate discovery at the October 2016 meeting of the Nebraska Section of the Society for Range Management.

or changes in range condition. In Marland’s home state of Nebraska, for example, it would be a mistake to repeatedly apply the same stocking rate to pastures where forage production is in slow but steady decline due to decades of encroachment by eastern red cedar. Good range and pasture management behooves both landowner and tenant. Marland advises a conservative approach when setting stocking rates.

He recommends that carrying capacity for a particular grazing resource be set on the basis of animal unit months (AUMs) of forage per acre available during the grazing season. An AUM is the approximate amount of grazed forage required per month by one 1,000-pound (lb.) cow, with suckling calf (one animal unit). Producers can learn how to estimate

forage production or determine AUMs per acre from a Natural Resources Conservation Service (NRCS) range survey.

“If you don’t know how to use the AUM method, you need to learn,” insists Marland.

However, he cautions producers against the all too common practice of counting any and every cow-calf pair as one animal unit. Marland believes many producers underestimate the mature size of their cows, which can lead to overstocking. Many of today’s mature commercial beef cows weigh in the neighborhood of 1,400 lb. A cow of that size consumes more forage than a 1,000-lb. cow. The animal unit equivalent of a 1,400-lb. cow with calf would be 1.4, and the higher forage requirement must be considered when determining how many cow-calf pairs a grazing resource will support.

Sharing calf value

Setting pasture rental rates without regard for cattle markets makes no sense to Marland. Proceeds from calf sales pay the rent, so it makes sense to figure rental rates as a share of income from calves. To determine calf value, let’s assume that calves will be marketed at an average weight of 575 lb. Marland recommends canvassing several area livestock markets to ascertain an average price for 550- to 600-lb. calves, and use this to set a whole number value per calf.

Next, the landlord and tenant

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operator must agree on the baseline percentage share of calf value that each will receive. According to Marland, longstanding agricultural lease agreements suggest that a 25%-35% share for the landlord and 65%-75% share for the tenant are most common. These percentages will vary according to

the contributions each party makes to maintaining or improving the grazing resource, or to cattle care.

However, Marland favors adjustment of the landlord's share to reflect increases in real estate taxes and annual costs of maintaining fences and stock watering systems. The sum total of these landlord

contributions can be calculated on a per pair, per month basis.

Do the math

Putting it all together, let's assume that landlord and tenant agree that, based on the AUMs per acre of forage production, the landlord's section of grass (640 acres)

will support 55 of the tenant's cow-calf pairs for a five-month grazing season. Based on the average of prices received at area markets, the tenant's 575-lb. calves have an average per-head value of \$822. Using the low end of the percentage share scale, in this example the landlord's baseline share (25%) of calf value would be \$205.50, or \$41 per month for the five-month season.

To account for landlord contributions, let's assume that real estate taxes on the property increased by \$204 compared to the previous year. An investment of \$900 was paid toward stock water maintenance, and fencing costs were \$700. The total of landlord contributions for the year is \$1,804, or \$6.56 per pair, per month. For easy figuring, let's round that number up to \$7.

Adding that \$7 to the \$41 baseline share and the landlord receives \$48 per pair per month — an amount that now equals 29% of the calf crop's value. The tenant operator retains 71% of the average value of his calves.

Landlords and tenant cow owners can apply this method to different scenarios, punching in their own numbers. They can compare the results with reported pasture rental rates in their region. However, the numbers don't always tell the whole story. The details of rental agreements can vary widely. A rent price that sounds awfully high might also cover additional landlord contributions. However, another landlord may charge a low rate because the tenant assumes more or all responsibility for stock water, fence or other maintenance costs. Still, it never hurts to keep an ear tuned to the rumor mill of rents.

Marland says basing pasture rent on the concept of sharing calf value is just one option. It is his preferred method, but it should not be considered the first and last word relative to rent discovery.

"There are many other factors that may enter into rent negotiations that cannot be numerically quantified, such as tenant competition for grass, landlord competition for cattle, tenant contributions, additional landlord contributions (such as weed or brush control), desire for tenant or landlord to retain their long-term positions and relationships in good standing and learn to live with the new economic conditions," states Marland.

"Unfortunately," he adds, "The cattle market is in a tough downward cycle now, and there is just so much value in the calf to share."

With that being said, the challenge is to forge a rental agreement that maintains good long-term tenant-landlord relationships. Regardless of how rental prices are determined, Marland emphasizes the need for rent to be affordable to the tenant, but cover the landlord's expenditures for real estate taxes, stock water and fence, and still show some return to the declining value of the land.

