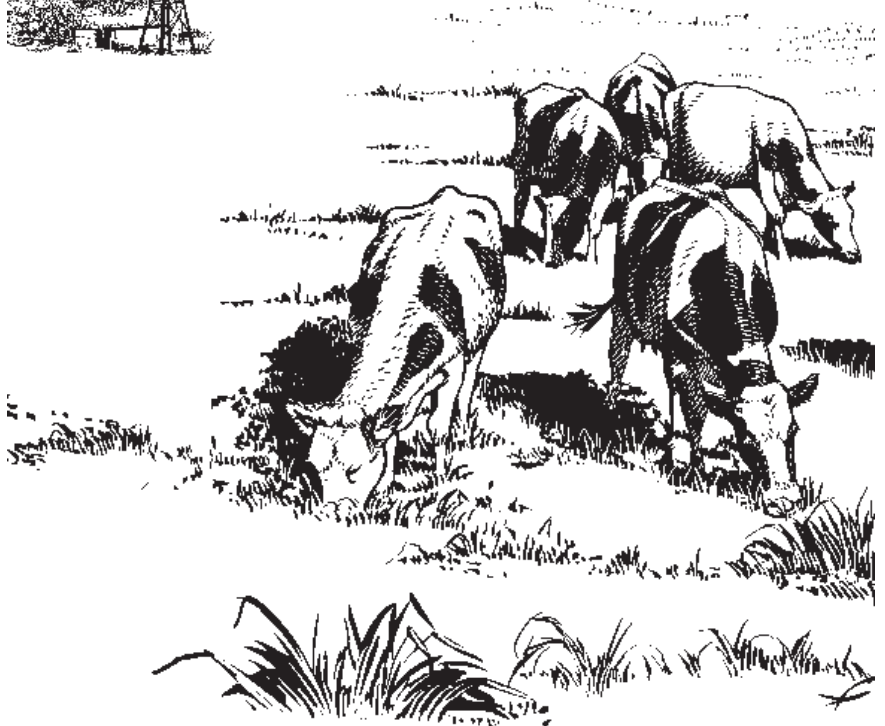




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Pasture Rental Arrangements for Your Farm



Larry N. Langemeier



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The purpose of this publication is to help tenants and landlords make sound decisions and develop fair pasture rental arrangements. Part I provides background information on animal units and stocking rates. Parts II and III discuss establishing lease rates on a per-head or per-acre basis, and Part IV addresses leasing tame-grass pasture. Part V discusses other factors influencing lease rates. Part VI discusses the importance of developing a written agreement. A sample lease form is included at the end of this publication.

Although beef cattle examples are used in this publication, the principles and worksheets outlined apply equally to grazing dairy cattle, sheep, goats, horses, and other roughage-consuming livestock. The values used in the various worksheets represent illustrations of the principles. Tailoring the discussion of the principles developed in this bulletin to a specific situation is advised.

Part I

Animal Units and Stocking Rates

Other than the lease rate, perhaps the most important aspect of any pasture lease is the stocking rate. Clearly, specifying the stocking rate in the lease agreement helps avoid disagreements between both parties and maintains the quality of the grass stand. Stocking rates can be stated in number of head for a given type and weight of livestock or as "animal units." Unquestionably, the stocking rate agreed upon by both parties will have a significant effect on the lease.

Animal unit (au): An animal unit (au), in general, is defined as a 1,000-pound beef cow with a calf less than four months postpartum. This common unit of measurement estimates both the amount of forage demanded by livestock and the amount of forage available in the pasture.

An animal-unit month (aum) is the amount of forage required by an animal unit for one month. An aum generally is based on a 1,000-pound beef cow consuming 25 pounds of forage for 30 days or 750 pounds (air dry or 12 percent moisture). In addition, an aum has a built-in degree of use at 50 percent and a loss of 25 percent of the forage due to insects, trampling, and other losses. For example, a pasture site that produces 2,500 pounds per acre of forage would equal 0.83 aum/acre $[(2,500 \times .25)/750]$.

Stocking rate: The stocking rate of the pasture being considered is extremely important. Setting pasture rent on a per-acre basis gives an incentive to the livestock owner to stock heavily. The landlord, in turn, may desire light stocking rates so as to preserve the pasture. Likewise, pasture leased under a share of gain basis could lead to overgraz-

ing. Thus, it is in the interest of both parties to develop a lease agreement that achieves maximum economic returns to resources while maintaining the grass stand and quality.

Part II

Establishing Rates: Per Acre or Per Head

The landlord's cost and livestock owner's return are two commonly used methods to determine a fair pasture rent on either a per-head or per-acre basis.

Landlord's Cost Basis

For this method, the major task is to establish fair values for the resources and annual-use charges to determine the landlord's cost. The valuation process is outlined in the following discussion.

Land: Land is valued at its current fair-market value for agricultural purposes. The influence of location near cities and other nonagricultural influences on value is ignored.

Interest on land: A percentage of the land value indicates the landlord's return to the current value and also reflects the pasture productivity. A practical "bargaining" rate of interest tends to be approximately 5 to 7 percent for three primary reasons:

1. The current value of real estate is used rather than the purchase price for the basis of returns.
2. Upon sale of the pasture, the net dollars available to the seller would be lower than the fair-market value due to income taxes and sale expenses.
3. Historic returns to land have been in the 4 to 6 percent range as an annual return above all charges, except land.

Returns to owning pasture may include capital gains as well as the annual income from renting the pasture.

Real estate taxes: The actual taxes due annually should be used.

Land development: The average dollars spent annually for land improvements, including conservation practices, should be used.

Building or facility investment: A fair-market value should be placed on the fences, buildings, ponds, wells, and handling facilities. Ownership costs on this investment include depreciation, interest, repairs, taxes, and insurance (the "DIRTI five").

1. Depreciation: Depreciation life for buildings and facilities usually ranges from 15 to 30 years. Fences are seven-year property. Ponds may not be depreciable, and therefore they add value to the basis of land.
2. Interest: Current interest cost on the average investment value (usually one-half the total value) should be used. Utilization of one-half the total investment value assumes a zero salvage value.

3. Repairs, taxes, and insurance: Facility repairs usually vary from 1 to 3 percent of the investment value, with the charge for both taxes and insurance about 0.25 to 1 percent.

Other costs: The average spent annually for fertilizer, especially if some minimum level is required for maintaining the grass, as well as any other costs should be used.

Management: Management is an important contribution to a successful leasing agreement. The function of management may or may not be shared. If the landlord contributes management, then credit needs to be given. If the tenant bears all management responsibility, a value should be placed on this management function.

The value of management is subject to negotiation between the landlord and tenant. Two alternatives are possible.

1. A possible guide is 1 to 2.5 percent of the average capital managed. The average capital managed is equal to the market value of items such as land, buildings and facilities, and livestock.

2. Professional farm managers commonly charge 5 to 10 percent of adjusted gross receipts. (In the case of pasture, gross receipts may be equal to the total or per-acre livestock income.)

Worksheet 1 illustrates ownership costs for 160 acres of pasture. As outlined by the example, the per-acre ownership cost of \$21.54 establishes an asking lease price for one acre of pasture land. Rent per head is determined by the carrying capacity of the pasture for the type and size of animal being considered times \$21.54. For example, a 550-pound beef animal may require 4 acres, which would result in \$86.16 per head per season (4 acres x \$21.54 per acre).

Livestock Owner's Returns Basis

A budget format that can be used to determine the livestock owner's returns is outlined in Worksheet 2. Farm management budgets can be obtained from local and state Extension Service offices if livestock costs and returns are unknown. As outlined in the example for a 550-pound beef

Worksheet 1. Landlord Pasture Ownership Costs — Total Per Acre and Per Head

A. Land investment:

No. of acres	160			
Price per acre	\$ 315			
Land value (No. of acres x Price per acre)		\$ 50,400		
Interest		\$ 50,400	x	0.5 %
Land taxes		\$ 50,400	x	0.5 %
Land maintenance		\$ _____	x	_____ %

B. Other investments:

Fences	\$ 5,280			
Corrals	\$ 480			
Other	\$ 240			
Total	\$ 6,000			
Depreciation		\$ 6,000	÷	25 yrs
Interest *		\$ 6,000	x	5 %
Repairs		\$ 6,000	x	2 %
Taxes		\$ _____	x	_____ %
Insurance		\$ _____	x	_____ %

C. Other costs:

Fertilizer	\$ _____
Other	_____

D. Labor and management:

Labor	\$ _____
Management	_____

E. TOTAL PASTURE OWNERSHIP COSTS \$ 3,447

F. Number of pasture acres: 160

G. Pasture ownership costs per acre [total ownership costs (line E) ÷ no. of acres (line F)]: \$ 21.54

H. Stocking rate: 4 acres per head

I. Ownership costs per acre [costs per acre (line G) x no. of acres per head (line H)]: \$ 86.16

* A percentage rate of 5 percent on \$6,000 is equal to 10 percent of the average investment of \$3,000.

animal, the livestock owner can afford to pay \$78.74 per head or a per-acre rent of \$19.69 if 4 acres are needed per head.

Actual Lease Rate

A final lease rate value acceptable to both the tenant and landlord can be derived from more than one of the methods outlined in this publication. The landlord and tenant should identify areas of agreement and differences based on the values each party has independently developed.

Negotiation provides a means of arriving at a rate that is acceptable to both, and it is an opportunity for both parties to understand the other's point of view. However, negotiations should be undertaken only after the contributions of each party are known.

Given the examples outlined, the landlord would like to receive \$21.54 per acre based on the cost basis method. In turn, the tenant would like to only pay \$19.69 per acre utilizing the owner's return basis. In general, the equitable pasture lease rate is usually somewhere between the landlord's and livestock owner's figures. Thus, the actual lease rate will be a negotiated value.

Part III Establishing Rates: Share of Gain or Variable Rates

Share of Gain

The landlord and livestock owner are sometimes interested in developing a share arrangement where risk is equitably divided between them. Under this type of arrangement, each party's contributions are used as the basis for dividing income.

As outlined in Worksheet 1, contributions of the landlord include interest, maintenance costs, and taxes on the land, as well as taxes, depreciation, interest, repairs, and insurance on the investment in fences, buildings, ponds, and handling facilities. Other contributions may include fertilizer and other inputs. Contributions of the livestock owner include interest on the livestock investment, operating expenses, and management as outlined in Worksheet 2.

The income to be divided is the value of the livestock gain the pasture produced. The value of the gain does require a determination of the price and weight of animals being pastured at both the start and end of the pasture season. Worksheet 3 illustrates one approach to computing each party's share of the

Worksheet 2. Livestock Owner Net Returns — Per Head and Per Acre *

A. Animal investment:						
Animal purchase cost	<u>550</u>	lbs	x	\$ <u>90.00</u> per cwt	\$ <u>495.00</u>	
B. Livestock costs (as percentage of animal investment):						
Interest	\$ <u>495</u>	x	<u>10</u> %	x	<u>50</u> % of yr	\$ <u>24.75</u>
Taxes, vet, ins., misc.	\$ <u>495</u>	x	<u>4</u> %			<u>19.80</u>
Marketing, hauling	\$ <u>495</u>	x	<u>1</u> %			<u>4.95</u>
Death loss	\$ <u>495</u>	x	<u>2</u> %			<u>9.90</u>
Total						\$ <u>59.40</u>
C. Breeding livestock costs:						
Depreciation	\$ _____	÷	_____ yrs		\$ _____	
Bull charge					_____	
Total					\$ _____	
D. Labor and management:						
Labor	<u>0.7</u>	hrs	x	<u>9.00</u> per hr	\$ <u>6.30</u>	
Management					<u>6.45</u>	
Total					\$ <u>12.75</u>	
E. TOTAL ANIMAL COSTS PER HEAD:						
					\$ <u>567.15</u>	
F. Income:						
Animal sold value	<u>815</u>	lbs	x	\$ <u>79.25</u> per cwt	\$ <u>645.89</u>	
G. Livestock owner net returns to pasture per head (line F - line E):						
					\$ <u>78.74</u>	
H. Stocking rate:						
	<u>4</u>	acres	per head			
I. Livestock owner net returns per acre (line G ÷ line H):						
					\$ <u>19.69</u>	

* For more information, see *Farm Management Livestock Cost-Return Budgets* available at local and state Extension Service offices.

gain or loss. The net return on animal needs to be compared with the total costs for each party. The actual lease rate will need to be negotiated. The lease rate determined by the methods shown in worksheets 1 and 2 may be more satisfactory to each party.

Variables Rates

A lease arrangement also can be developed that would shift some of the risk, and thus the probability

of additional profit (or loss), to the landlord. The risk due to weather could be effectively shifted by charging a fixed amount per pound of gain.

To illustrate this type of lease arrangement, the pasture rent for a yearling steer could be set at \$10.60 per month. The total lease charge would be \$63.60 (\$10.60/month x 6 months) for a 6-month grazing season. During the days on pasture, a 265-pound gain per animal would be a reason-

Worksheet 3. Landlord and Livestock Owner Share of Gain Per Animal

	Landlord	Livestock owner
A. Landlord — investment per head:		
Land price	\$ <u>315</u> per acre	
Stocking rate	<u>4</u> acres per head	
Investment per head ¹	\$ <u>1,260</u>	
Fence investment per acre	<u>33.00</u>	
Corral investment per acre	<u>3.00</u>	
Other investment per acre	<u>1.50</u>	
Total investment per acre	\$ <u>37.50</u>	
Facility investment per head ²	\$ <u>150.00</u>	
Landlord — costs per head (as percentage of investment per head):		
Land interest	\$ <u>1,260</u> X <u>5</u> %	\$ <u>63.00</u>
Land taxes	\$ <u>1,260</u> X <u>0.5</u> %	<u>6.30</u>
Facility expenses	\$ <u>150</u> X <u>11.25</u> %	<u>16.88</u>
Other costs	\$ _____ X _____ %	_____
B. Livestock owner — investment per head:		
Animal purchase weight per head	<u>550</u> lbs	
Animal purchase cost per cwt	\$ <u>90.00</u>	
Investment per head ³	\$ <u>495.00</u>	
Livestock owner — costs per head (as percentage of investment per head):		
Interest	\$ <u>495.00</u> X <u>5</u> %	\$ <u>24.75</u>
Taxes, vet, misc.	\$ <u>495.00</u> X <u>4</u> %	<u>19.80</u>
Marketing, hauling	\$ <u>495.00</u> X <u>1</u> %	<u>4.95</u>
Death loss	\$ <u>495.00</u> X <u>1</u> %	<u>4.95</u>
Labor (<u>0.7</u> hours per head X \$ <u>9.00</u> per hour)		\$ <u>6.30</u>
Management charge		<u>6.45</u>
Breeding livestock costs		
Depreciation		\$ _____
Breeding charge		_____
C. TOTAL COSTS PER HEAD	\$ <u>86.18</u>	\$ <u>67.20</u>
	\$ <u>153.38</u>	
% landlord	<u>56.2</u> %	
% livestock owner		<u>43.8</u> %
D. Value of weight gain:		
Animal sold value (<u>815</u> lbs X \$ <u>79.25</u> per cwt)	\$ <u>645.89</u>	
Less animal purchase cost	\$ <u>495.00</u>	
Net returns on animals		\$ <u>150.89</u>
<u>56.2</u> % to landlord	\$ <u>84.80</u>	
<u>43.8</u> % to livestock owner		\$ <u>66.09</u>

D = depreciation = 5.00 %; I = interest = 5.00 %; R = repairs = 1.00 %;
T = taxes = 0 %; I = insurance = 0.25 %

TOTAL = 11.25 %

¹ Land price per acre X acres per head

² Investment per acre X acres per head

³ Pounds per head X hundredweight

able expectation. The cost of gain is \$.24 per pound (\$63.60 ÷ 265 lbs) under these circumstances.

Instead of charging \$10.60 per head per month, the landlord could set a lease rate of \$.24 per pound of gain. If the total gain turned out to be excellent, say 315 pounds, the landlord would receive \$75.60 for the season instead of \$63.60. Yet, if the amount of grass was short and the gain per animal was only 175 pounds, the landlord would receive only \$42. Pasture owners may be unwilling to assume this kind of risk unless, on the average, a higher rent is charged.

The risk due to market price changes can be shifted to the landlord by utilizing a flexible rent formula. The following discussion outlines one such method. For example, the going (base) rental rate (per head per season) could be tied to the long-term average price for good-choice steer calves during the months of October and November at a terminal market. Each year, the rental rate would increase or decrease as the price of calves varied in relation to the long-run average price. The formula for such a method would be as follows:

$$\text{Adjusted rent} = \text{Base rate} \times \frac{\text{Current Oct.-Nov. price of steer calves}}{\text{Long-term average Oct.-Nov. price of steer calves}}$$

$$\text{Adjusted rent} = \$80 = \$64 \times (\$100 \div \$80)$$

This formula also can be adjusted for weather by allowing for variations in the amount of grass produced or in productivity. The formula would include a factor such as the current season's estimated county yield of wild hay, or other comparable forage crop, divided by the long-term average yield of the same crop. The formula for considering both price and weather risk would be as follows:

$$\text{Adjusted rent} = \text{Base rate} \times \frac{\text{Current Oct.-Nov. price of steer calves}}{\text{Long-term average Oct.-Nov. price of steer calves}} \times \frac{\text{Current year's avg. hay yield}}{\text{Long-term avg. hay yield}}$$

Example:

$$\text{Adjusted rent} = \$60 = \$64 \times \frac{\$100}{\$80} \times \frac{0.9 \text{ ton}}{1.2 \text{ ton}}$$

Alternative Feed

The lease rental rate for pasture could be based on the alternative feed concept, such as utilizing hay instead of pasture. The formula for the alternative feed method would be as follows:

$$\text{Pasture rent} = \text{Average weight in hundredweight during pasture season} \times \text{Average price per ton of good grass hay during pasture season} \times \text{Pasture quality factor} \times \text{Pasture season in months}$$

Pasture Quality Factors:

- .22 = Lush, green, high protein pasture
- .20 = Excellent tallgrass pasture
- .15 = Fair to good native pasture
- .12 = Poor shortgrass or considerable weed growth

Example 1:

Assume 1,200-pound cow, \$65 hay, excellent tallgrass pasture, 6-month season.
 Pasture rent = \$93.60 = 1.2 x \$65 x .20 x 6

Example 2:

Assume 800-pound steer, \$65 hay, excellent tallgrass pasture, 6-month season.
 Pasture rent = \$62.40 = .80 x \$65 x .20 x 6

Part IV

Leasing Tame Grass Pasture

Tame grass, as defined in this publication, refers to grass planted on land that has been previously tilled. The land quality can range from class 1 highly productive soil to very low, not suited for crops. Generally, management of tame grass includes the application of annual fertilizer and possibly mowing or spraying for weed control. Some tame grasses may be hayed rather than grazed.

Three major problems arise between the landlord and livestock owner when leasing tame grasses:

1. Fertilizer: The livestock owner usually wants to apply relatively heavy rates of fertilizer when leasing tame grass so as to obtain the maximum production per acre. The landlord, in turn, will want to apply only enough fertilizer to maintain the stand of grass.
2. Stocking rates: The stocking rate of the pasture being considered is extremely important. Setting pasture rent on a per-acre basis gives an incentive to the livestock owner to stock heavily. The landlord, in turn, may desire light stocking rates so as to preserve the pasture. Likewise, pasture leased under a share-of-gain basis could lead to overgrazing. Thus, it is in the interest of both parties to develop a lease agreement that achieves maximum economic returns to resources while maintaining the grass stand and quality.
3. Grazing season: What months can be grazed? Will the grass be harmed by year-round use?

Rate Based on Cash-rented Cropland

By definition, tame grasses are planted on tilled soil, and therefore the land can be used for some crop other than forages. One approach would be to treat the land like cash-rented cropland. For a

complete discussion of cash renting, see Publication NCR-75, *Fixed and Flexible Cash Rental Arrangements for Your Farm*. That publication indicates how to establish fair cash rental rates for land. After the cash rent is established for tame grass pasture, the problem areas can be handled and entered into the agreement as follows:

1. Fertilizer: Leave the amount and payment to the livestock owner. If some minimum level is required for maintaining the grass, this amount should be specified in the lease.
2. Stocking rate and grazing season: Leave the stocking rate to the livestock owner unless there are specific periods when grazing would be harmful to the grass. Specify these time periods in the lease. If the grass species is such that stocking rates should be maintained, specify this in the lease.

Other Methods for Establishing Tame Grass Lease Rates

Forage substitution: Short-period grazing may be priced on the basis of drylot feeding costs. For example, a livestock owner wants beef feeders to gain 1.8 pounds per day. Tame grass pasture can be leased to provide feed for a 45-day period. The drylot feed cost for the feeders would be \$0.35 per pound or \$0.63 per day (1.5 pounds \times \$0.35 per pound). The livestock owner could then afford to pay \$28.35 per head for the tame pasture for 45 days (\$0.63 per day \times 45 days). Lease rates for breeding livestock and other livestock species can be similarly computed.

Value of gain: For example, a livestock owner can lease tame grass for beef feeders for 3 months. The beef feeders weigh 550 pounds and can be sold for \$90 per hundredweight, or \$495 per head. The beef feeders should gain 200 pounds for the 90 days on grass. Consequently, it is critical to determine how much the livestock owner can afford to pay for the pasture.

If, for example, the livestock owner estimates the 750-pound feeders can be sold at the end of the grazing period for \$82.50 per hundredweight, or \$618.75 per head. The increased value for each feeder is \$123.75. From the increased feeder value, the livestock owner must deduct interest on investment, death loss, and expenses such as marketing, labor, repairs, and management. If these costs are estimated to be \$59.25, the livestock owner could pay \$64.50 for the pasture for the 3-month period (\$123.75 - \$59.25 = \$64.50).

Part V Establishing Rates: Other Factors

Market Rates

While each of the previously discussed methods may be used to establish pasture rental rates, the market rate cannot be ignored. The market rate is the going price resulting from negotiations between landlords and livestock owners. Previous year's rates are published by most state crop and livestock reporting services. Estimated livestock inventories, price, and weather conditions for the current year are needed to estimate and bargain the current year's rates from previous year's rental rates.

Valuing Location, Water, and Landlord Services

The value of water, location, and landlord services are subjective. However, these items have some value to the livestock owner.

Location: The pasture location is important if the livestock owner is caring for the livestock. The total cost can be computed by estimating the number of trips per season then multiplying by the number of miles, then multiplying again by the cost per mile. The number of trips should consider checking the cattle for count, health, minerals, and water supply as well as hauling or driving the cattle to and from the pasture.

Water: Good quality water in proper locations improves gain. If the water supplies go dry in mid-season, provisions must be made for hauling water or removing the animals. The lease agreement should establish the party responsible for these costs.

Landlord services: Landlord services vary from mere rent collection to taking complete care of the livestock during the pasture season. A common charge for these types of services is a percentage of the gross rent. In most cases, the value of such services is included in the rental rate. As a result, market rates should be carefully considered.

Other factors: Pasture rental rates per acre should reflect productivity. Past stocking rates, weed growth, and moisture affect productivity (stocking rates or carrying capacity). Poor pastures rent for less per acre than highly productive pastures. Conflicts may arise because the livestock owner wants to stock with the maximum number of head per acre while the landlord desires a low stocking rate as the rent is a fixed rate per acre. Continuous, heavy stocking rates lower the quality of pasture by reducing the stand of grass and allowing weed growth.

Pasture rented on a per-head basis establishes a rate that may not adequately recognize differences

in stocking rates. Compared to per-acre rates, the livestock owner desires low stocking rates (higher gain per head) and the landlord desires higher stocking rates to increase income. Size of animals is not always enumerated in the lease and may lead to disagreements. The stocking rate and cattle weight may be the most important points for both parties to agree upon and enumerate in the lease.

Whole-tract rentals are often part of a farm containing cropland. The rental rate for whole tracts is established by (1) the rate per head times the number of head allowed per tract or (2) the per-acre rate times the number of acres in pasture.

Part VI

Drafting Your Lease

A copy of the pasture lease form (NCR-109) is included in this publication. Some of the advantages of a written lease agreement are:

1. Encourages a detailed statement of the agreement, which assures a better understanding by both parties.
2. Serves as a reminder of the terms originally agreed upon.
3. Provides a valuable guide for the heirs if either the tenant or landlord dies.

The agreement should be carefully reviewed annually to ensure the terms are still applicable and desirable. The sample lease provides for most concerns of both the tenant and landlord. The parties can cross out or omit unwanted provisions. (Both parties must initial these lease changes.) Before provisions are eliminated, the landlord and tenant should remember that one of the functions of a written lease is to anticipate possible developments and to state how to handle such problems if they actually do develop.

Using the Lease

Names: Include names of spouses as the land, as well as the livestock, may be titled in joint tenancy.

Property description: Include both legal and common descriptions.

General terms: The years may be changed to months or days for short-term leases. The other terms are fairly standard but may be deleted by crossing out if not applicable. (Be sure both parties initial any lease changes.)

Stocking rate: This section is perhaps the most important section of the lease form if disagreements are to be avoided between the parties and the grass stand and quality is to be maintained.

Operation and maintenance: The lease form specifies which party performs the most common operation and maintenance practices. Additional provisions should specify what happens in the event of water or grass failure. Will the landlord provide feed and water? Will the livestock owner remove the cattle? What adjustments in rent are needed if these events should occur? Each situation is different; however, one of the purposes of a written lease is to consider these possible situations and include them in the lease.

Payment schedule: The lease form provides space for three different methods of payment. Complete the section for the method to be used.

Three ways to quote pasture rent predominate and follow methods I or II of the lease form.

1. Per-acre
2. Per-head per month or season
3. Whole tract

Less often used methods:

1. Share of gain
2. Variable rates

The details of these calculations can be shown in Method III of the lease form.

Worksheet 1. Landlord Pasture Ownership Costs — Total Per Acre and Per Head

A. Land investment:

No. of acres	_____			
Price per acre	\$ _____			
Land value (No. of acres x Price per acre)	\$ _____			
Interest	\$ _____	x	_____ %	\$ _____
Land taxes	\$ _____	x	_____ %	\$ _____
Land maintenance	\$ _____	x	_____ %	\$ _____

B. Other investments:

_____	\$ _____			
_____	\$ _____			
_____	\$ _____			
Total	\$ _____			
Depreciation	\$ _____	÷	_____ yrs	\$ _____
Interest *	\$ _____	x	_____ %	\$ _____
Repairs	\$ _____	x	_____ %	\$ _____
Taxes	\$ _____	x	_____ %	\$ _____
Insurance	\$ _____	x	_____ %	\$ _____

C. Other costs:

Fertilizer				\$ _____
Other				_____

D. Labor and management:

Labor				\$ _____
Management				_____

E. TOTAL PASTURE OWNERSHIP COSTS \$ _____

F. Number of pasture acres: _____

G. Pasture ownership costs per acre [total ownership costs (line E) ÷ no. of acres (line F)]: \$ _____

H. Stocking rate: _____ acres per head

I. Ownership costs per acre [costs per acre (line G) x no. of acres per head (line H)]: \$ _____

* Interest charge should be computed on average investment in facilities.

Worksheet 2. Livestock Owner Net Returns — Per Head and Per Acre *

A. Animal investment:

Animal purchase cost _____ lbs x \$ _____ per cwt \$ _____

B. Livestock costs (as percentage of animal investment):

Interest \$ _____ x _____ % x _____ % of yr \$ _____
Taxes, vet, ins., misc. \$ _____ x _____ % _____
Marketing, hauling \$ _____ x _____ % _____
Death loss \$ _____ x _____ % _____
Total \$ _____

C. Breeding livestock costs:

Depreciation \$ _____ ÷ _____ yrs \$ _____
Bull charge _____
Total \$ _____

D. Labor and management:

Labor _____ hrs x _____ per hr \$ _____
Management _____
Total \$ _____

E. TOTAL ANIMAL COSTS PER HEAD:

\$ _____

F. Income:

Animal sold value _____ lbs x \$ _____ per cwt \$ _____

G. Livestock owner net returns to pasture per head (line F - line E):

\$ _____

H. Stocking rate:

_____ acres per head

I. Livestock owner net returns per acre (line G ÷ line H):

\$ _____

* For more information, see *Farm Management Livestock Cost-Return Budgets* available at local and state Extension Service offices.

Worksheet 3. Landlord and Livestock Owner Share of Gain Per Animal

	Landlord	Livestock owner
A. Landlord — investment per head:		
Land price	\$ _____	per acre
Stocking rate	_____	acres per head
Investment per head ¹	\$ _____	
Fence investment per acre	_____	
Corral investment per acre	_____	
Other investment per acre	_____	
Total investment per acre	\$ _____	
Facility investment per head ²	\$ _____	
Landlord — costs per head (as percentage of investment per head):		
Land interest	\$ _____ X _____ %	\$ _____
Land taxes	\$ _____ X _____ %	_____
Facility expenses	\$ _____ X _____ %	_____
Other costs	\$ _____ X _____ %	_____
B. Livestock owner — investment per head:		
Animal purchase weight per head	_____	lbs
Animal purchase cost per cwt	\$ _____	
Investment per head ³	\$ _____	
Livestock owner — costs per head (as percentage of investment per head):		
Interest	\$ _____ X _____ %	\$ _____
Taxes, vet, misc.	\$ _____ X _____ %	_____
Marketing, hauling	\$ _____ X _____ %	_____
Death loss	\$ _____ X _____ %	_____
Labor (_____ hours per head ⁵ \$ _____ per hour)		\$ _____
Management charge		_____
Breeding livestock costs		
Depreciation		\$ _____
Breeding charge		_____
C. TOTAL COSTS PER HEAD		
	\$ _____	\$ _____
		\$ _____
% landlord	_____ %	
% livestock owner		_____ %
D. Value of weight gain:		
Animal sold value (_____ lbs X \$ _____ per cwt)	\$ _____	
Less animal purchase cost	\$ _____	
Net returns on animals		\$ _____
_____ % to landlord	\$ _____	
_____ % to livestock owner		\$ _____
D = depreciation = _____ %; I = interest = _____ %; R = repairs = _____ %;		
T = taxes = _____ %; I = insurance = _____ %		
TOTAL = _____ %		

¹ Land price per acre X acres per head

² Investment per acre X acres per head

³ Pounds per head X hundredweight

Pature Lease

**North Central Regional
Publication No. 109 (Revised 1996)**

This form can provide the landlord and tenant with a guide for developing an agreement to fit their individual situation. This form is not intended to take the place of legal advice pertaining to contractual relationships between the two parties. Because of the possibility that an operating agreement may be legally considered a partnership under certain conditions, seeking proper legal advice is recommended when developing such an agreement.

This lease entered into this _____ day of _____, 19_____, between
_____, landlord, of _____
(pasture owner) _____
(address)

_____, spouse, of _____
(address)

hereafter known as "the landlord," and

_____, tenant, of _____
(livestock owner) _____
(address)

_____, spouse, of _____
(address)

hereafter known as "the tenant."

I. PROPERTY DESCRIPTION

The landlord hereby leases to the tenant, to occupy and use for pasture purposes, the following described property: _____

consisting of approximately _____ acres situated in _____ County (Counties), _____ (State) and on any other land that the landlord may designate by mutual written agreement.

II. GENERAL TERMS OF LEASE

A. Term. [If a continuing lease is desired, use paragraph (1) and strike out (2).]

(1) Continuing lease — The term of the lease shall be by _____ year(s), commencing on the _____ day of _____, 19_____, and shall continue in effect from year to year thereafter (as an annual lease) unless written notice of termination is given by either party to the other at least _____ days prior to expiration of this lease or the end of any year of continuation. If a definite term is desired, use paragraph (2) and strike out paragraph (1). No notice of termination is necessary if paragraph (2) is used. (Note: State laws differ on the duration of agricultural leases.)

(2) Annual lease — The term of this lease shall be _____ year(s), commencing on the _____ day of _____, 19_____, and ending on the _____ day of _____, 19_____.

B. Review of lease. A request for general review of the lease may be made by either party at least _____ days prior to the final date for giving notice to terminate the lease.

C. Amendments. Amendments and alterations to this lease shall be in writing and shall be signed by both the landlord and tenant.

D. No partnership created. This lease shall not be deemed to give rise to a partnership relation, and neither party shall have authority to obligate the other without written consent, except as specifically provided in this lease.

E. Binding on heirs. The terms of this lease shall be binding upon the heirs, executors, administrators, and successors of both landlord and tenant in like manner as upon the original parties, except as provided by mutual written agreement otherwise.

F. Transfer of property. If the landlord should sell or otherwise transfer title to the farm, such action will be done subject to the provisions of this lease.

G. Right of entry. The landlord, as well as agents and employees of the landlord, reserve the right to enter the farm at any reasonable time for purposes (a) of consultation with the tenant; (b) of making repairs, improvements, and inspections; and (c) after notice of termination of the lease is given, of performing customary seasonal work, none of which is to interfere with the tenant in carrying out regular operations. Landlord also may request right of entry to hunt and fish.

H. Additional agreements regarding term of lease:

I. Animal units (maximum allowable). Not more than _____ animal units shall be kept in the pasture at any one time without the express written consent of the landlord. Deliberate violation of this provision shall constitute grounds for termination of this lease. (In general, each 1,000 pounds of average weight shall be one animal unit. If the pasture owner and the owner of the livestock prefer, they can use the following basis for calculating animal units: one bull, 1.25 animal units; one 1,000-pound cow, 1 animal unit; one yearling steer or heifer, 0.75 animal unit; calf, 6 months to 1 year, 0.5 animal unit; 3 to 6 months, 0.3 animal unit; sheep, 5 per animal unit; horse, 1.25 animal unit.)

Stocking rate	Number head	Number animal units
Bulls	_____	_____
Cows	_____	_____
Yearling steers	_____	_____
Yearling heifers	_____	_____
Calves, 6 to 12 mos.	_____	_____
Calves, 3 to 6 mos.	_____	_____
Other	_____	_____

III. OPERATION AND MAINTENANCE

A. The livestock owner agrees:

- (1) Not to pasture livestock that continue to break through fences. Should any animal be found outside the pasture on at least three occasions, the pasture owner may request its removal.
- (2) Not to assign rights and duties under this lease without the written consent of the pasture owner.
- (3) Not to put any cattle in pasture without getting specific approval from the pasture owner in advance regarding number, health, sex, breed, and age.
- (4) To furnish health certificates as follows:

B. Both agree:

- (1) Not to obligate the other party. Neither party hereto shall pledge the credit of the other party hereto for any purpose whatsoever without the consent of the other party. Neither party shall be responsible for the debts or liabilities incurred, or for damages caused by, the other party.
- (2) Responsibilities. Additional responsibilities for each party shall be divided as follows:

	Landlord	Tenant
Inspect fences not less than once per _____ .	_____	_____
Furnish labor for repair of fences.	_____	_____
Furnish materials for repair of fences.	_____	_____
Supervise supply of water to livestock.	_____	_____
Furnish labor for repair of water system.	_____	_____
Materials for repair of water system.	_____	_____
Furnish salt & mineral	_____	_____

	Landlord	Tenant
Count livestock not less than once per _____ .	_____	_____
Return stray animals to pasture.	_____	_____
Call veterinarian in case of emergency.	_____	_____
Pay veterinary expenses.	_____	_____
Provide loading and unloading facilities.	_____	_____
Furnish supplementary feed, if needed.	_____	_____
Notify other party of short-age in count _____ .	_____	_____
Provide facilities for fly control.	_____	_____
Keep fly-control facilities in working order.	_____	_____
Liability insurance.	_____	_____

(3) Additional agreements:

IV. RENTAL CALCULATIONS AND PAYMENT SCHEDULE
 (Use method I, II, or III and strike out the two methods not used.)

Method I — The tenant owner agrees to pay \$ _____ per acre for use of the property described in paragraph I. Total rent of \$ _____ shall be paid as follows:

- \$ _____ on or before _____ day of _____ (month)
- \$ _____ on or before _____ day of _____ (month)
- \$ _____ on or before _____ day of _____ (month)
- \$ _____ on or before _____ day of _____ (month)

If rent is not paid when due, the tenant agrees to pay interest on the amount of unpaid rent at the rate of _____ percent per annum from the due date until paid.

Rental adjustment. Additional agreements in regard to rental payment:

Method II — The livestock owner agrees to pay the rates outlined in Table 1 (the period may be a month, pasture season, or year).

The minimum rent shall be \$ _____. Such rent shall be required regardless of whether or not livestock are actually being pastured. The total rent of \$ _____ (from Table 1) shall be paid as follows:

- \$ _____ on or before _____ day of _____ (month)
- \$ _____ on or before _____ day of _____ (month)
- \$ _____ on or before _____ day of _____ (month)
- \$ _____ on or before _____ day of _____ (month)

If rent is not paid when due, the tenant agrees to pay interest on the amount of unpaid rent at the rate of _____ percent per annum from the due date until paid.

Table 1 — Rental rates

	Number		Rental rate per period	=	Total rent per period
Bulls	_____	X	\$ _____	=	\$ _____
Cows	_____	X	\$ _____	=	\$ _____
Yearling steers	_____	X	\$ _____	=	\$ _____
Yearling heifers	_____	X	\$ _____	=	\$ _____
Calves, 6 to 12 mos.	_____	X	\$ _____	=	\$ _____
Calves, 3 to 6 mos.	_____	X	\$ _____	=	\$ _____
Other	_____	X	\$ _____	=	\$ _____
TOTAL RENT					\$ _____

Rental adjustment. Additional agreements in regard to rental payment:

Method III — Other rental arrangements (share-of-gain, etc.)

V. ARBITRATION OF DIFFERENCES

Any differences between the parties as to their several rights or obligations under this lease that are not settled by mutual agreement after thorough discussion, shall be submitted for arbitration to a committee of three disinterested persons, one selected by each party hereto and the third by the two thus selected. The committee's decision shall be accepted by both parties.

Executed in duplicate on the date first above written:

 (tenant/livestock owner)

 (landlord/pasture owner)

 (tenant's spouse)

 (landlord's spouse)

STATE OF _____
 COUNTY OF _____

On this _____ day of _____, A.D. 19_____, before me, the undersigned, a Notary Public in said State, personally appeared _____,

_____, _____, and _____ to me

known to be the identical persons named in and who executed the foregoing instrument, and acknowledged that they executed the same as their voluntary act and deed.

 Notary Public

Other North Central Regional publications in this series:

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