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Pasture Rental Arrangements

Economics Objectives

- Livestock owner:
 - obtain economic returns to investment and labor
- Landowner:
 - obtain acceptable economic returns to land
 - Maintain the grass stand and quality
 - Key to success: Understand that the perennial nature of pasture makes pasture rental a long term concern – even if the lease is renewed annually

Stocking Rate Definition

- Clearly define the stocking rate to avoid conflict and problems.
- Animal Units (most common in the western US)
 - Historical – 1000 pound beef cow with calf less than 3 months of age.
 - Current, animal science definition – consumption of 17.6 pounds of dry matter per day; 528 pounds in 30 days.
- Number, size and type of animals

Stocking Rate Critical Factors

- When is the stocking rate measured?
 - Beginning?
 - End?
 - Maximum during the lease period?
- What is the duration of stocking rights?
 - Full year?
 - Specified portion of year?

Other Factors Affecting Lease Rates

- Location, location, location
- Water
- Landowner services
- Pasture that is an “incidental” part of a crop farm rental.

Rental Rate Options

- Per acre basis –
 - Simple
 - Gives incentive to stock heavily
- Share of gain basis –
 - Requires trust in livestock owner reporting
 - Gives incentive to stock heavily
- Per animal-day or animal unit-day
 - Requires trust in livestock owner reporting
 - Reduces incentive to stock heavily

Landowner's Cost Estimate

- Ownership costs associated with land and facilities
 - Value only facilities that benefit the livestock producer
 - Rent-to-value ratio is usually lower for pasture rents than crop rents.
- Variable costs –
 - Fertilizer?
 - Labor?
- Landowner naturally computes cost on a per acre basis.

Livestock Owner's Net Return Estimate

- Net returns to grazing =
Increased value of animals during the grazing period less the costs of purchasing and raising the animals.
- Livestock owner naturally computes net return on a per animal basis.
- Divide net returns to grazing (\$/head) by stocking rate to determine net returns (\$/acre).

Determining the Lease Rate

- Cash Rent – landowner and livestock owner negotiate from their respective contributions.
- Share of Gain – share return to livestock production between landowner and livestock owner according to their respective contributions.
- Variable Rates – cash lease rate is raised or lowered based on pounds of gain or market price.

Put the Agreement in Writing

- Encourages a detailed statement of the agreement, with better understanding of expectations by both parties
- Serves as a reminder of agreed upon terms
- Guide to heirs of either party
- Documentation for tax purposes
- Go to <http://aglease101.org/> to obtain NCFMEC-03 for a sample form