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## Pasture Leases

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**Purdue University**  
**Cooperative Extension Service**  
**West Lafayette, IN 47907**

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# Pasture Leases

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Leasing of pastureland serves an important economic purpose. It permits the capable producer with limited capital to acquire the use of additional pasture without making a large capital outlay. At the same time, the landlord\* with available pasture obtains income from its utilization without becoming involved in the cattle business. \*(The terms "landlord" and "landowner" are used synonymously even though some pasture may be subleased by renters.)

Determining a fair and reasonable rent that will benefit both the landlord and the tenant is difficult. Unlike cash and share rental arrangements for cropland, the terms of pasture rental arrangements are not generally known. Furthermore, the quality of pastureland varies widely. An arrangement used by a farmer for improved pasture likely is not appropriate for a neighbor who has nonimproved pasture partially covered in brush and trees. Pasture rental rates and terms thus may vary widely within the same locale, yet still be acceptable to both landlord and tenant.

## VARIATIONS IN PASTURE

"Pasture" is a word with many meanings. Total production as well as the seasonal pattern of production depends a great deal on the kinds of grasses and legumes in the pasture. Some are more productive than others.

Much of the land used for pasture is too rough, rocky, or wet to cultivate. Pasture makes up a small proportion of the total acreage on many Indiana farms and accounts for an even smaller proportion of farm income.

If management in past years has been poor, pastures might produce more weeds and trees than forage. These are the pastures sometimes described as "exercising grounds."

At the other extreme are fertilized grass-legume pastures found on tillable land. The vegetation may include orchardgrass, brome, fescues and legumes; weeds are controlled. These pastures are highly productive and profitable when used in good livestock programs.

The protein content of different pasture plants varies and is reflected in gains or milk production. Good grass-legume mixtures produce larger gains and more milk than straight grass pastures, especially during the drier part of the pasture season.

## THE PASTURE RENTAL MARKET

Like other leasing arrangements, the terms of pasture leases reflect local custom, the contributions of one or both parties, and bargaining. Leases are usually oral and seldom involve more than a single pasture season. The most difficult part of pasture leasing is determining a rental rate agreeable to both parties.

### Variations in Rates

During seasons when rainfall is good and grass is abundant, the demand for rental pasture is low, and "customary" pasture rents tend to be a lower. During dry seasons, the reverse is true. But, in general, variations in rent from year to year are small--smaller than the variations in production in most cases. Similarly, farm to farm differences in the amount charged for the use of pasture are seldom as great as differences in productivity.

Rents also reflect demand to some extent. When numbers and prices of consuming livestock are high, rents tend to go up, but again, the changes are comparatively small.

### Different Methods of Quoting Rent

Generally, pasture rents are quoted either on a per head per month basis or on a per acre basis.

*Per Head per Month.* This method is most often used when only a few head of livestock are involved. The rates usually apply to mature cows. In most instances, no differentiation is made between cows with calves, cows in milk but without calves, and dry cows. Likewise, differences in size of mature cows are seldom reflected in rental charges despite the fact that feed consumption increases with size.

When pasture is rented on a per head per month basis, rental rates would be more meaningful if they were expressed in terms of animal units, e.g., \$5.50 per animal unit per month. By using the animal unit values shown in Table 1, a cow-calf pair would be charged \$7.15 per month ( $\$5.50 \times 1.3$ ), a yearling in the 12- to 17-month age range, \$3.58 ( $\$5.50 \times .65$ ), etc.

**Table 1. Animal Unit Values for Different Kinds of Cattle and Other Livestock.\***

Class of livestock	No. of animal units
Cows (1,000 pound weight)	1.0
Cow and calf pairs	1.3
Two-year-old steers	.9
Yearling cattle (18-24 mo.)	.8
Yearling cattle (12-17 mo.)	.65
Calves (under 12 mo.)	.5
Bulls (mature)	1.4
Saddle horses (mature)	1.25
Sheep	.2

\*Valentine, John F. and Donald F. Burzlaff. Nebraska Handbook of Range Management, E.C. 68-131, University of Nebraska.

Rental rates generally do not adequately reflect differences in stocking rates or in quality of grass. Livestock owners should keep these factors in mind since variations in either factor can and do affect gains or the amount of milk produced.

When pasture is rented on a per head per month basis, the renter tends to be interested in getting as much gain per head as possible. Therefore, his selfish interest will lead him to keep the stocking rate low. However, there is a stocking level which will give maximum gains per animal. Any reduction in the grazing rate from that optimum level will not result in additional gains per animal (the feed will simply be wasted) and will reduce the potential income to the owner of the pasture without benefiting the livestock owner.

*Rent per Acre.* Rent charged on a per acre basis should reflect productivity. Differences in pasture productivity make it impossible to use quoted per acre rates\*\* without knowing a great deal about the particular pasture. Factors that affect the productivity of pasture include natural soil productivity; kinds of grass and legumes in the stand; amount and kinds of weeds; previous fertility practices; stocking rates; source and quality of water; and condition of fences. When pasture is rented by the acre for the season, the renter will be interested in maximum production per acre. He will be inclined to stock a pasture more heavily if he rents by the acre instead of by the head. But this needs further examination. There is little doubt that the stocking rate is sometimes so high that the amount of feed available is scarcely enough to provide for maintenance. Thus, to maximize returns, the renter usually should try to stock at a rate that will produce the greatest total weight gain. \*\* (State average pasture rental rates are published annually in Form Real Estate Market Developments, USDA, ERS, Washington, D.C. The rental rate reported for 1984 was \$36.40 per acre.)

From the pasture owner's point of view, the stocking rate can exceed the long run optimum level for one or more seasons but at the expense of reducing the vigor of the more desirable plants and causing more erosion. If overgrazed long enough, the carrying capacity and productivity of the pasture may be seriously damaged. Therefore, the landlord has good reason to be interested in a lease provision which limits the stocking rate to a level which will result in the greatest production over a period of years. If the limitation is expressed in terms of animal units, as suggested in Table 1 and the lease forms, differences in feed consumption by animals of different sizes would be recognized and taken into account.

When pasture is rented by the acre, the fences, wells, and power units (windmill or motor) should be in working order at the start of the pasture season. During the season, however, it usually is the renter's responsibility to provide the labor for maintaining both the fence and the power unit. It is his job, also, to make sure salt and water are available; to keep a record of numbers, and to look after sick or injured animals. The pasture owner normally supplies materials for repair of fences and major repairs for the well and power unit.

The maintenance responsibilities usually are not assumed by the renter on a per head basis; thus the amount of rent paid during a season may be a little less when pasture is rented by the acre (assuming comparable stocking rate). The difference would be small, however--probably not more than \$1.50 to \$2.00 per acre for the season. (This assumes that the per head per month lease would be in effect for the entire grazing period.)

## COMPUTATION OF RENT

Local supply and demand conditions play an important role in determining pasture rent. If a large quantity of pasture is for rent in an area and very few producers need pasture, the rental rate will likely decline in that area. Pastures must be used where and when grown rather than being stored for later use. Since so few alternative uses generally exist for pasture land, the agreed upon rent must be established by bargaining between the landlord and the tenant. In many cases, especially those involving small acreages, few farmers may be interested in renting, so the person who can utilize the pasture may get a "bargain."

In estimating what he can afford to pay for pasture rent, the tenant needs to consider his profit potential from using the pasture. For example, if a rented pasture will be used to graze steers, the tenant should consider the price for feeder cattle this spring, what the expected selling price will be this fall and what some of the costs associated with the pasturing program will be, such as: supplementary feed, water supply, mineral and salt, medication, implants, and interest on investment in cattle. He should also estimate his labor costs and possible travel costs if his home place is far from the cattle. From these, the maximum amount that he can afford to pay for pasture rent can be estimated. This will be tempered by quality of pasture and location relative to his home farm and water supply.

On the other hand, landlords want to recover some of the costs of owning the pastureland. At a minimum, this might be property taxes and expenses of maintaining fences and water supply. Of course, they hope to receive some return on their investment in land.

The costs of fertilizer, fence repair and maintenance of water supply may be borne by either the landlord or the tenant. The rent will vary depending upon how these costs are handled.

A satisfactory rental agreement is one in which all parties understand and willingly agree to the terms and conditions. Once such an agreement is reached, it is critical that it be written so that both parties can refer to it and determine their responsibilities.

## ALTERNATIVE LAND USE VALUE

If pasture is on tillable land, landowners should think in terms of what such land might produce in other crops like corn, soybeans, wheat, or hay. If pasture rents are not about equal to the net income that could be realized from other crops, landowners are likely to want to plow up the pasture and plant crops. This is particularly true where land is level and erosion is not a problem. On nontillable land, however, the only alternative to pasture use may be the relatively low, long run returns from forestry. Capital and management for efficient forestry production may not be available.

## ALTERNATIVE FEED COST FOR LIVESTOCK

Under farm conditions, it is difficult to estimate the production of a pasture and arrive at an "ideal" rental rate. Thus, the formula in Table 2 was devised as a guide to establishing and evaluating pasture rental charges. This formula takes into account the price of alternative feeds and, through a general evaluation of the condition of the pasture, reflects the kind and condition of the pasture growth. The scarcity of pasture available in a community enters the formula indirectly through the price of hay. The pasture quality factor is determined as follows.\*

Lush, green, high protein pasture	.30
Excellent grass pasture	.275
Good pasture	.25
Fair pasture	.225
Poor grasses or considerable weed growth	.20

\* Factors were derived from table on page 11 of EC 627, New Method of Feeding Milk Cows, C. W. Nibler, University of Nebraska.

**Table 2. Guide to Establishing and Evaluating Pasture Rental Charges.\***

Average weight (in thou. of lb.) of forage production during pasture season	x	Average price of good hay (per ton) during pasture season	x	Quality factor	=	Rate per head per month**
Examples: 1.2 (1200 lb. cow)	x	\$40 (price of grass hay)	x	.275 (factor for excellent pasture)	=	\$13.20
.75 (750 lb. steer)	x	\$50 (price of alfalfa hay)	x	.275	=	\$10.30
.75	x	\$40 (in year of lower hay prices)	x	.225 (factor for fair to good pasture)	=	\$6.75

\*Based on Nelson, T. R. and L. Bitney, Figuring Pasture Rental Rates, FM64-7 (mimeo), Dept. of Agricultural Economics, University of Nebraska.

\*\*To determine rate per acre where pasture owner has no responsibility for supervising livestock, multiply the rate per month by the number of months, subtract a per head charge for supervision, and divide the remainder by the number of acres required to carry an animal on this pasture.

The price of hay used in the formula can be estimated, perhaps based on present and past market prices, and the rental rate established in advance. Or, mid-month prices over the pasture season can be averaged and the rent determined at the end of the season. A minimum rent could be established and paid in advance with additional rent, if any, paid at the end of the season. Use of this formula gives pasture and livestock owners a starting point in discussing pasture rental rates. Customary rates in the community, and the relative bargaining position for each party will undoubtedly enter into negotiations and consequently into the final rate agreed upon.

## SHARE OF GAIN

Occasionally, owners of pasture and cattle are interested in working out a share arrangement. Such an arrangement can divide production and price risk between the two parties. Under this arrangement, the contribution of each party is used as a basis for dividing income. Contributions of the pasture owner almost always include land taxes, interest on the pasture investment, depreciation and repairs on water systems and fences, and may include part of the cost of such things as salt, mineral, and labor. Depending on the ownership of the cattle, the pasture owner may also bear some of the risk of cattle death loss.

Contributions of the cattle owner include interest on the cattle investment and any other contributions such as grain, salt, mineral, labor, and risk of death loss.

The income to be divided would be the value of the milk or livestock gains produced from the pasture. The value of livestock gains should be calculated on the basis of the net increase in value. This would require a determination of the value of animals pastured at the beginning and at the end of the pasture season.

For example, a steer calf may weigh 400 pounds May 1 and be worth \$70 per cwt. for a total value of \$280. On October 1, the weight might be 600 pounds worth \$60 per cwt. for a total value of \$360. During the 5 months, the value of the steer increased from \$280 to \$360, or \$80 per head. This amount would be divided according to the lease agreement. Agreement should be reached in advance as to whether death losses are to be included in the calculation of weight gain.

With this "share of gain" arrangement, the tenant shifts some of the production and price risk to the landlord. In return, he agrees to allow the landlord to share in unexpectedly good weight gains and/or prices. Minimum and/or maximum rental payments can be set if desired.

## VARIABLE RENTS

Other leasing arrangements could be developed which would also serve to shift some of the risk and the chance for profit to the landowner. For example, the risk of poor weight gain because of weather could be effectively shifted by charging a fixed amount per pound of gain.

To illustrate how this might work, assume the pasture charge for a yearling steer is \$3.50 per month. For a 5-month grazing season, this would amount to  $\$3.50 \times 5$  or \$17.50. During the 150 days on pasture, a 225-pound gain might be a reasonable expectation. The pasture rent would amount to 7.8 cents per pound under these circumstances.

Instead of charging \$3.50 per head per month, the landlord might charge 8 cents per pound of gain. If gain turned out to be unusually good, (perhaps 275 lb.), he would receive \$22 for the season instead of \$17.50. On the other hand, if grass was short and the gain was 175 pounds, he would receive only \$14.

Pasture owners might not be willing to assume this kind of risk unless they expect to receive a little higher rent on the average for doing so. How much higher can be determined only through a bargaining process.

Price change risk can be shifted through a flexible rent formula. The following is a description of one method. A base rental rate per acre and a base price (average of October and November) of good to choice steer calves at a stated market were established. Each year the rental rate was changed by the same percentage that the price of steer calves changed. More simply, the per acre rent could be calculated as a multiple of steer calf prices. For example, if agreement were reached on a base rent of \$30 per acre with a base calf price of \$60 per cwt., the rent multiple would be .5. If calf prices rose to \$70 the next year during the agreed-upon time period, rent would rise to \$35 per acre. This procedure can be used to adjust the rent for a given reason or to establish a renewal rate for the following year.

Rent can also be adjusted at the end of the season for changes in pasture productivity due to weather conditions. This could be done by changing the rent by the same percentage by which the season's county hay yields changed from the 5- or 10-year average. Estimates of hay yields are usually available from the Office of Agricultural Statistics at Purdue University. County averages usually are not available until several months after the season ends.

## OTHER CONSIDERATIONS

Leasing arrangements should be in writing. The very process of putting an agreement in writing tends to force the spelling out of details concerning agreements which otherwise might not be discussed or might be understood in only a hazy way. Once these ideas are put down in writing, they serve as a reminder to both parties and as a legal record (if properly executed and signed) of the responsibilities of each party. In case one or both parties to the agreement should die, the written lease provides a basis for understanding and action on the part of heirs and estate administrators.

The following is a checklist of items which might be included in the lease. Items 1-4 and 10-15 are the minimum essentials for a lease agreement. For a lease to meet specific legal requirements, the services of a lawyer may be necessary.

1. Names, addresses, and interests of parties involved.
2. Date lease becomes effective.
3. Date of termination.
4. Legal description of pasture, possibly supplemented by a map.
5. Limitation on number of animals that can be pastured.
6. Details of agreement concerning health requirements.
7. Provisions concerning breachy animals.
8. Agreement concerning identification.
9. Agreement relative to male breeding stock to be pastured and rights of owner of female stock.
10. Stated responsibilities of both parties relative to water, salt, repair of fences, counting cattle, etc.
11. Provision for right of pasture owner to enter pasture.
12. Provisions concerning subleasing.
13. Amount of rent or how it is to be calculated.
14. When rent is to be paid.
15. Provision for settling disagreements.

Leases may be written to terminate after one or more time periods (year, month, season). Provision can be made for re-negotiating the lease during a specified time prior to termination. Some lease forms have an automatic renewal clause similar to the following:

"This lease shall continue in effect from year to year thereafter until written notice of termination is given by either party at least \_\_\_\_\_ months before the anniversary month and day of this lease, which is \_\_\_\_\_."

Pasture owners may be interested in keeping their pastures free of soil borne diseases to protect the health of their own cattle and cattle accepted for pasturing. This can be done only if animals known to be sick are kept out. An affidavit or health certificate from a veterinarian should provide acceptable evidence of an animal's state of health and serve as a basis for accepting or rejecting livestock.

Any animal that is inclined to crawl under, through, or over fences (a "breachy" animal) is apt to cause damage to fences and adjoining crops. Damage to a fence or the mere fact that one animal is out may lead to other cattle getting out. Perhaps the greatest hazard is the liability involved if an animal strays onto a road and causes an accident. Repeated offenses on the part of a particular animal is a good indication that an animal is a habitual fence "crawler." The pasture owner is justified in including lease provisions for removal of such an animal to eliminate the liability hazard. He will be especially interested in such a clause if he retains the responsibility for looking after the cattle, keeping fences in repair, etc.

Under conditions in which cattle belonging to several owners are pastured together, the problem of identification may be substantial. Some clearly definable mark or brand provided by the livestock owners is the best solution.

Under ordinary conditions, the pasture owner is expected to provide an adequate source of water. This could be in the form of ponds, or wells with mills (or motors) and tanks. Cattle owners may wish to do some checking on the dependability of the water supply before completing any rental agreement. A shortage of water can be extremely detrimental to livestock gain and may necessitate hauling water or removal of stock.

The risk of death loss from poisonous plants often increases under drought conditions. Consequently, cattle owners have reason to be concerned with the presence of poisonous weeds and plants and the efforts of the pasture owner to eliminate them.

Pasture owners who take in livestock for summer pasture should keep livestock owners informed regarding plans to add breeding males in a pasture. Some cattle owners may not want females bred. If plans to include males are changed after the pasture season begins, owners of female stock may want to reserve the right to remove them without penalty.

Unless a lease specifically provides for it, a pasture owner may technically be prevented from entering his own pasture. It is desirable, therefore, to include a section in the lease which will define the entry rights of the pasture owner.

## LEASE FORMS

Three lease forms are available for your use. See your county agent for:

[Pasture Lease 1 \(Cash Rent per Head per Month\) EC-624-W.](#)

[Pasture Lease 2 \(Cash Rent Based on Acres\) EC-625-W.](#)

[Pasture Lease 3 \(Rent to Be Paid by Share of Gain\) EC-626-W.](#)

This publication was prepared to assist in reaching pasture leasing arrangements. Assurance that specific legal requirements are met may require the services of a lawyer.

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