**The Appeal of a LEASE**

By MARTHA HOLLIDA GARRETT

Sometimes the landowner and the cattle owner are two different people. Leasing grazing land can be a good deal for both.

Leasing grazing land across the Southwest is a longstanding practice and it continues to be a strong component of the beef industry.

Leasing provides a viable opportunity for cattlemen who need to maintain or expand their numbers, but yet can’t afford the cash outlay to own land. For absentee or older landowners, it is an attractive way to maintain the land and have income with limited time and expenses involved.

According to the Texas AgriLife Extension Service (TAES), rangelands make up almost 90 million acres or about 59 percent of the land surface in Texas, and most of it is privately owned.

The use of leased lands is expected to continue to increase due to several factors, according to TAES including:

• The need to expand the size of ranching organization to achieve economic efficiency.

• Decreasing ranch size because of inheritance and purchases.

• The fact that the cost of ranchland is considerably more than its value in agricultural productivity.

• The expanding market for short-term consumer uses, such as hunting, nature tourism and recreation.

**Positive experience**

The use of leased land is critically important because of the impact on overall land resources, the livestock populations and wildlife populations.

According to Hugh Aljoe, Samuel Roberts Noble Foundation pasture and range specialist, leasing can be a positive experience for both parties, and every effort should be made to address problem areas prior to establishing a lease contract.

Aljoe, who for years leased land in the private sector as a ranch manager, says that most leases are usually outlined for a fixed rate or dollar amount and for a short time frame, usually year to year.

He outlines the following problems, which are often encountered in leasing and should be given consideration in advance.

“Stocking rates are the one area that causes the most problems in a lease. It is important for the landowner to establish if he is going to lease per acre or per head. Also weather conditions should be considered and most leases do not address this issue. If a drought -happens in the term of the lease, are the stocking rates reduced or do they remain the same? This presents a problem for both parties. The landowner does not want his land overgrazed, while the leaser has to sell livestock while trying not to purchase or lease additional land, which is not feasible in these kind of conditions,” Aljoe says.

He recommends that both the lessor and lessee work with Extension personnel and visit with experienced cattlemen to establish lease values, stocking rates and other aspects of a lease arrangement. He says it is important to know the capacity of the resource in terms of livestock and include this in the agreement. (See sidebar page 29).

**Lease length**

Most landowners are older and they want short-term leases to keep control of how the land is being utilized. Many do not want their families to have to deal with renters in case of an untimely death. Also, Aljoe says, many older landowners are concerned the land may need to be sold to pay inheritance taxes upon death and long-term leases could present additional burdens to remaining family members.

A short-term lease allows the landowner to take advantage of changing economic climates and possibly run his own cattle, if cattle prices go up or charge more for leases as land becomes more difficult to find.

A landowner must also be aware that the more restrictions placed on a piece of property, the less likely it is to rent. But, since there is less land available each year, the landowner has the upper hand to some degree. Aljoe recommends the landowner take an -adequate amount of time to find the right tenant.

**What about improvements?**

A landowner needs to establish the types and amount of improvements expected, what they are willing to pay for and what they are willing to negotiate.

“A lot of things do not get taken care of to the degree the landowner is accustomed to or wants and this can be a real problem area when it comes to renewing a lease. Also a landowner needs to outline what they expect in terms of fertilizer practices and brush and weed control methods,” says Aljoe, adding that infrastructure, maintenance and repair methods of things like fences and facilities are areas to address up front.

He points out that over time if these issues aren’t addressed then the place begins to degrade, the landowner is not happy aesthetically with their property and can lead to the values of the land decreasing.

On the other side, the renter experiences problems with many of these same issues.

“For the renter, if the term of the lease is only for one year, then it is difficult to justify land and/or forage improvements. A renter may be willing to put out nitrogen only on the pastures,” describes Aljoe, adding that the same applies for weed and brush control methods as the cost is often prohibitive in terms of how long they have the property for use.

He suggests renters cover the types of maintenance and repair that is expected. A renter can suggest that for fencing he provide the labor and the landowner the material, since fencing is something that should be built to last a few years or a number of years. If the renter only has the land one to three years, they will probably use lower quality material than the landowner. There is another issue to address – water and who will maintain water lines and tanks if applicable.

“A lessee really needs to have the property for three years to warrant improving soil fertility levels or applying soil amendments such as lime. Increased soil fertility and improving the pastures can lead to additional stocking rate numbers, but it takes a minimum of a three-year lease for the renter to recoup the investment of liming the soil,” describes Aljoe.

**Face to face**

He says it is important for both parties to have the same, or at least similar goals about the land. It is also important for both parties to understand the level of knowledge of each other concerning cattle production, land use, resources and management issues.

He suggests that both parties in their initial meeting sit down, face to face and be frank about their -intentions and their goals regarding the property. He encourages agreement on the proper stocking rate from the beginning and all other issues to be considered after that critical point is decided.

“The landowner needs to voice what they want done with the land, how they expect it to be treated, stocking rate they will accept and what improvements they expect to transpire over the course of the lease. The renter needs to verbalize what they are willing to do, the improvements they will or will not consider their responsibility and of course stocking rate,” stresses Aljoe, who adds that these meetings should continue on a quarterly basis throughout the length of the contract. The purpose is to maintain open and forthright communications.

He suggests that renters maintain photos of the land/facilities when acquired and as the terms of the lease progress. Also it is suggested to keep all receipts related to land improvements so the landowner knows the investment being made by the renter towards the upkeep of the land.

Renters should also provide an owner with current stocking rates on a quarterly basis, as cattle move in and out, and calve, also.

In conclusion, a good leasing arrangement is fair to both parties and is one that will provide for long-term maintenance and or improvements to all the ranch’s resources. The lessee must make a fair return for labor, investments and management and the landowner must receive a fair return for his investment in land and continued costs. n

Editor’s Note: In the next two issues, Aljoe will provide insight into areas to address in a contract and how to maintain grazing leases with other land practices, such as hunting and recreation.

**Problem Points of Grazing Leases**

• Stocking Rate

• Length of Lease

• Forage improvement expectations

• Infrastructure Repair and Maintenance

• Communication

**Stocking Rate Information**

According to TAES, a lease should specify an annual maximum and minimum number of animal units that can be carried on the property. The definition of an animal unit must be provided for various classes and kinds of livestock that may be grazed on the property. (see Table 1). Provision should also be made for both parties to understand the method to calculate actual number of livestock for periodic use of the property (less than one year). Additional considerations include planning for desirable wildlife populations and the means to achieve wildlife harvest.

The initial negotiated grazing lease price should be based upon a conservative annual “average” stocking rate that can be expressed as an annual price per acre or animal unit. However the lease price is expressed it should have as its basis the animal unit rather than a fixed “per acre” price that does not change with changes in annual forage production. Properly priced leases will allow a tenant to make a profit without the pressure to overstock.

One of the most important components of the lease is an economic incentive for a tenant to adjust stocking rates up or down depending upon annual forage conditions. The procedure for increasing or decreasing the annual stock rate must be identified. Rainfall records and forage surveys can be used to document changing condition for deciding appropriate stock adjustments. The adjustment from “average” should be done with mutual consent.

**Table 1. Animal Unit Equivalent for Different Classes of Livestock.**

Class of Stock Animal unit equivalent

Mature cow\* 1.00

Mature cow with calf to wean 1.00

Heifer/steers 400 to 600 lb 0.5

Heifer/steers 600 to 800 lb 0.7

Bulls-mature 1.25

Horses 1.25

\*based on a 1,000 lb animal; if 1,200 lb animal than A.U.E. + 1.20