# Pasture Rental Agreements Considerations 2024

# **Pasture Lease Arrangements: Estimating a Rental Price**

Although beef cattle examples are used in this Factsheet, the principles and worksheets outlined apply equally to grazing dairy cattle, sheep, goats and horses. The values used in the various worksheets represent illustrations of the principles and should be adjusted for the individual situations of the landlord and tenant.

# **Stocking Rate**

Determining an appropriate stocking rate for the pasture is very important to both the landlord and tenant. The livestock owner is incentivized to stock heavily when pasture rent is based per hectare/acre. The landlord, in turn, may desire light stocking rates to preserve the pasture. Similarly, pasture leased on a share-of-gain basis could lead to overgrazing.

It is in both parties' interests to discuss the stocking rate issue and develop a lease agreement that achieves maximum economic returns to resources while maintaining the pasture stand and quality.

## **Market Rates**

While landlords and tenants may consider their own costs and returns in establishing a rental rate, market demand will ultimately influence the final rate. The market rate is the going price from negotiations between landlords and livestock owners. Previous year's rates, livestock inventories, price, and weather conditions for the current year may all influence the market price.

#### **Calculating A Rental Rate**

The landlord's cost and livestock owner's return are two potential methods of estimating the cost and returns of the landlord and tenant. These may become a starting point for negotiating a fair rental rate. This may be calculated per hectare/acre or on a per-head basis. The detailed calculations are shown in an OMAFRA Fact Sheet

#### Landlord's Cost Method

The primary task of this method is to establish fair resource values and annual use charges to determine the landlord's cost. The valuation process is outlined in the sample in **Example 1**. Sample numbers are used to show how the calculations are completed; they do not reflect actual values.

**Example 1.** Calculation of landlord pasture ownership costs

Number of hectares = 100; Land value per hectare: \$10,000

A. Value of land (bare land, excluding personal portion)	\$1,000,000
Average return on investment from land (@ 3.0% = \$300/ha)	\$30,000
Property tax/year (use actual if available) (@ 1.0% = \$100/ha)	\$10,000
Value of land improvements/ha (@0% = \$0/ha)	\$0
Other investments (current value)	
Fences	\$3,000
Handling facilities	\$1,000
Total Other Investments	\$4,000
Depreciation - number of years of remaining life (\$4,000 ÷ 25 = \$1.60/ha)	\$160
Average interest (use half rate to obtain the average) (2.5% x \$4,000 = \$1/ha)	\$100
Repairs (@ 2.0% = \$0.80/ha)	\$80
Insurance (@ 0.25% = \$0.10/ha)	\$10
Labour - time landlord spends on livestock	
B. Labour charge	\$15.00/hr
C. Hours/week (avg) x no. of weeks in lease x labour charge (6 hr/week x 26 weeks x \$15/hr	\$2,340
D. Total pasture ownership cost (\$426.90/ha x 100 ha)	\$42,690
E. Stocking rate	1.0 head/ha
F. Pasture Ownership Cost Per Head (Line D ÷ Line E/100 HA)	\$426.90

Note: Appendix 1 explains the terms and calculations used in this sample.

# **Livestock Owner's Return Method**

A budget format that may be used to determine the livestock owner's returns is outlined in **Example 2**. In this example, for a 650-lb beef, the current interest cost on the average investment value (usually half the total value) may be used. The use of imperial measurements reflects the standards used in the beef industry.

## Negotiating the Rental Rate

In Examples **1** and **2**, the analysis shows that the landlord would like to receive \$426.90/ha, while the tenant could afford no more than \$315.50/ha.

These figures would be the basis for negotiating the rental rate. Negotiation allows both the landlord and tenant to understand the other's point of view and consider the contributions that each party is making and their costs. The equitable pasture lease rate is usually between landlord and livestock owner figures.

Animal purchase weight	650 lb	
Purchase price	\$1.00/lb	
A. Purchase price/animal	\$650.00/head	
Livestock costs (as a percentage of animal investment)		
Average interest (interest required for only 1? 2 years) (@ 3%)	\$19.50/head	
Veterinary, insurance & miscellaneous (@ 3%)	\$19.50/head	
Marketing, trucking (@ 2%)	\$13.00/head	
Death loss (@1%)	\$6.50/head	
B. Total Livestock Costs Per Head	\$58.50	
Labour and management		
Labour	0.5 hr/head	
Value of labour(@ \$15/hr)	\$7.50/hr	
Management (% of value of animal) (@ 1%)	\$6.50/head	
C. Total labour and management	\$14.00/head	
D. Total per animal costs	\$72.50/head	
E. Total Animal Costs Per Head	\$722.50	
Revenue from sale		
Weight of animal	865 lb	
F. Sale price (@ \$1.20/lb)	\$1,038.00/head	
G. Net returns (Line F - Line E)	\$315.50/head	
H. Stocking rate	1.00 head/ha	
I. Maximum tenant can afford to pay for rent (Line G x Line H)	\$315.50/ha	

**Example 2.** Calculation of livestock owner's net return

## **Share of Gain or Flexible Rental Rates**

Share of Gain (Note: this method does not work well for horses)

The landlord and tenant are sometimes interested in developing a shared arrangement where the risk is shared. Under this arrangement, each party's contributions are used as the basis for dividing income. The landlord's contributions 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 may include interest in livestock investment, operating expenses, and management, as outlined below.

The income to be divided is the value of the livestock gain the pasture produced. Sharing the gain in this manner requires the animals' price and weight to be measured at the beginning and end of the pasture season.

## **Flexible Rental Rates**

The rent can be based on the animal's gain over time for shorter-term rentals. The first method uses a base price and adjusts for the animals' gain rate. The second method uses a base price and adjusts according to the animals' price.

Method 1: Base price adjusted for the rate of gain

- Pasture rent is estimated.
- The cost per gain is calculated based on an estimated gain and the rent per hectare/acre.
- This rate times the actual gain and is then used to calculate the rental rate at the end of the grazing season.
- Pasture owners may be unwilling to assume this kind of risk unless, on average, a higher rent is charged.

Example	
Estimated lease/ha	= \$150.00
Expected gain	= 265 lb
Cost of gain (\$150.00 ÷ 265 lb)	= \$0.57/lb
Total gain	= 300 lb
Rent (0.57 x 300)	= \$171.00
Total gain	= 200 lb
Rent (0.57 x 200)	= \$114.00

Method 2: Base price adjusted for the price of animals

• The rental rate (per head per season) adjusts based on the difference between the long-term average price for similar good-choice animals during October and November at a terminal market and the current price. **Example** 

Base rent	= \$50/head
Current OctNov. price of animal	= \$120.00
Long-term average	= \$100.00
Rent = \$50 x (\$120 ÷ \$100)	= \$60.00

# **Summary**

Pasture rental arrangements allow both the landlord and the tenant to use their assets in the most effective way possible. Good communication and the development of a written lease allow each party to benefit from the arrangement.