

Pasture Rental and Lease Agreements

Midwest Perennial Forage and Grazing Working Group

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Pasture rental and lease arrangements offer livestock producers the opportunity to affordably start or expand their operations and limit financial risk. With the high price of grains and the growing interest in grass-fed beef and dairy; managed productive pastures offer an alternate and affordable way to feed cattle. Sheep and goats have traditionally been fed a mostly forage diet but managing their pasture can lead to greater profitability. Additionally, land owners without livestock can consider leasing out their land to realize some income while helping a beginning farmer the chance to get established.

What is the difference between a rental agreement and a lease for a pasture rental?

When you rent out a property, you will need to decide if you wish to offer your tenants a lease or a rental agreement. Although these terms are often used interchangeably, they are not the same.

Rental agreements are month to month, with no set period of residence. At the end of each 30-day period, both you and your tenant are free to change the rental agreement (subject to any rent control laws). These changes may include raising the rent, changing the terms of the initial agreement, or asking the tenant to vacate the property. However, in most states, both landlord and tenant are required to give 30 days' notice before any changes can be made. If your state doesn't require notice, you can change any part of the rental agreement at your discretion. A rental agreement typically renews automatically after each 30-day period has elapsed. There's no need to give notice about this automatic renewal, as long as neither you nor your tenant has stated that the tenant will vacate the premises.

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A **lease** has a set term, such as six months or a year, during which the tenant agrees to rent the property. During that time (also known as the duration of the lease), the tenant and the landlord must adhere to the agreement. For example, tenants agree to make monthly rent payments and follow any code of conduct or other stipulations in the lease.

Neither party can change any terms of the agreement until the lease expires, unless both parties agree to the change. A tenant can't vacate the property without breaking their lease, in which case they can be held liable for the rest of the rent due under the lease, or can be required to find someone else to take over the lease.

Amount to pay or amount to charge:

Both land owners (lessors) and graziers (lessees) need to determine a fair rental or lease rate. What is a fair amount to charge for rent? The answer is always: "It depends". The devil is in the details and there can be many details to work out. You as a renter need to determine what kind of gain you can expect on feeders or how many animal units an acre can support. How you manage the pasture can make a big difference on the stocking rate. If you manage the pasture as a continuously grazed system, the results could be different than if you rotationally graze in smaller paddocks or mob graze in a high density grazing system. The more gain you can achieve, the more you may be willing to pay or the less your risk might be. Typically, most pastures are rented by the month on a per acre or per head basis. An alternative is to consider an amount of gain in a season. Two very important items that must be clear and agreed upon are the maximum number of animals allowed on a unit of land and the weight of the animals. These will greatly affect the impact on the pasture stand life and soil health. If you rent on an acre basis, you may overstock to reduce cost per head. If you rent on a per head basis, you may want to lower your stocking rate to improve rate of gain. These decisions might be in conflict with the landowner's expectations.

Consider some different scenarios: You have a 75-cow beef herd and expect you will have 75 cow/calf pairs to put on pasture May 1. You hear of a pasture available to lease for the year for \$15,000 for 100 acres. Is this a fair price? In the past you have paid \$1/cow/calf unit per day for pasture rental. If we can expect 180 days of pasture growth adequate to support the 75 cow/calf units; our math would tell us that would equal \$75/day in pasture costs for 180 days which would equal \$13,500. If you pay the \$15,000; the cost comes out to \$83.33/day or \$1.11per cow/calf unit per day.

As a second example, say you have 75 bred Holstein heifers that you want to gain at least 1.75lbs/head/day by calving time in the fall. In order to achieve this rate of gain, it will be necessary to divide the pasture into 30 paddocks with movable electric fencing which you will have to provide. It will also require you to move fences and animals daily. The alternative is the landowner offers to custom raise the heifers for \$2.50/head/day, without a guarantee of rate of gain.

These scenarios serve to illustrate things that need to be considered in negotiating a pasture lease. The things are: what is the forage production potential of the pasture; is it composed of diverse and productive grasses and forbs or weedy Kentucky Blue grass? What is the fertility status of the ground and who will be responsible for the additional fertilizer needed? What is the soil type? Is it good loam, or sandy and rocky with little water holding capacity? Who will pay for supplemental feed if required in time of drought?

What is the water supply and quality in the pasture and the location of the water source? Will different fencing plans work with the water available? What happens if the water supply dries up in late summer? Who is responsible to provide water?

The landowner is usually responsible for establishing/providing effective perimeter fences. Multiple paddocks in a more intensive system are usually the renter's option and responsibility.

Whether it is a rental agreement or a true lease, it should be put in writing with the guidance of legal counsel. Names of the parties involved, legal description of the land involved, length of the agreement,

pay provisions and all the items agreed upon. It should then be signed and dated before livestock take occupancy.

Other fact sheets in this series that address other issues in pasture use:

- The Basics of Contract Grazing
- Evaluating Land Suitability for Grazing
- Rates Charged for Two-Party Contract Grazing Arrangements