

## Developing a Grazing Lease in Florida<sup>1</sup>

G.W. Tanner<sup>2</sup>

Cattle operators in Florida commonly lease grazing land in order to provide forage for their herds. However, not everyone is familiar with the variety of lease types that exist. Leases may vary mainly in three ways: 1) price setting method, 2) degree of landowner involvement, and 3) duration. Some lease types are more conducive to range conservation than others. This fact sheet presents some of the basic lease options available and the pros and cons of each.

### Why Lease?

There are many reasons why landowners lease grazing rights to cattle operators. Absentee landowners can provide a caretaker for their property. Others are motivated by possible reductions in real estate taxes. Corporate landowners may wish to encourage a favorable local public image by leasing to neighboring cattle operators. Grazing in forested range can reduce fire hazards, especially in younger stands where forage production often is greatest. The main reason, however, is simply the profit-making potential for both the landowner and the cattle owner. Presently, most land prices are too high to allow cattle operators to purchase land and produce beef cattle profitably. Instead, many livestock operators

lease grazing land in order to provide additional forage for their herd, or for herd expansion.

### Types of Leases

Grazing lease agreements vary greatly, depending upon many factors. However, leases may generally be categorized as **FIXED** or **FLEXIBLE**, based upon the way the lease value is determined. Fixed leases do not allow value to vary for the duration of the lease, whereas flexible leases are geared to changes in the cattle market and in range conditions.



flexible leases.

### Fixed Leases

There are three main types of fixed leases:

1. **Traditional Terms.** These are informal agreements that frequently are not written down. They are generally of long duration, and much

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2. George W. Tanner, associate professor and wildlife extension specialist, Department of Wildlife Ecology and Conservation, Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville FL 32611.

trust is involved. Landowner involvement in ranch practices is minimal, or nonexistent. A mutually agreeable lease value is set between the landowner and the cattle operator, often with little regard to the exact amount of acreage or forage available.

2. **By the Acre.** In this case, a fixed rate per acre is agreed upon and placed in a written contract. The lease may be of short or long duration. The landowner may specify certain restrictions in the lease as to range use, but generally his involvement is minimal.

3. **By the Amount of Forage.** This type of lease uses the AUM (Animal Unit Month) concept in order to determine the grazing capacity of the range. An AUM is defined as the amount of forage necessary to feed one mature cow (weighing 1,000 lbs) with calf for one month. The number of AUMs available for consumption is related to the total number of acres in the pasture and their forage producing capability. AUM equivalents may be computed for other animal types and age classes. Lease duration and landowner involvement vary, depending upon the agreements made by the two parties. AUM leases based on the amount of forage available are more protective of range land than is the 'By the Acre' type of lease, since this quantity-and quality-oriented lease controls the number of cattle that can graze the land for a given period of time.

**Pros And Cons of Fixed Leases.** Fixed leases are the simplest to negotiate and they do not change for the duration of the lease. They have proved adequate in the past under stable market conditions. The terms are easy to understand, and they provide a steady income to the landowner. Fixed leases that have rates determined by the amount of forage, however, are more conducive to range conservation and, hence, in the long run can benefit both parties. For instance, increases in forage production capability allows the cattle operator to produce more beef per acre, which

consequently results in more profit to be shared with the landowner.

Since they are fixed, these leases do not allow the landowner to share in extra profits during good years. Likewise, fixed leases do not protect the cattle operator during bad years. In such situations, narrowing profit margins and increased pressure to meet fixed payments may entice the cattle operator who is leasing on a per-acre basis to exploit the range resource by grazing more cattle. As a result, the grazing capacity of the range may be lowered. This would not occur if the fixed lease rate was set on the basis of AUMs.

### Flexible Leases

**Flexible leases**, also known as **shared-risk leases**, are commonly variable in content. The terms of the lease are adjusted on a regular basis to reflect changing economic and range-environment conditions. Two major variables which are considered are (a) the present market value of cattle and the costs associated with producing those cattle and (b) the carrying capacity of the range (as expressed in number of acres per AUM). A minimum rental rate may be established. Rental rates are adjusted up or down depending on calf price index fluctuations around a base year. Flexible grazing leases are generally of long duration (5 to 10 years). This allows the cattle operator the opportunity to practice conservation methods in order to increase forage production, and thus beef production, on a per-acre basis. Landowner involvement in this type of leasing agreement is high.

**Pros And Cons of Flexible Leases.** Flexible leases are designed to provide both for protection of range resources (by controlling animal numbers based on AUM availability) and the equitable sharing costs and profits between parties. Stocking rates are revised regularly in response to changing range conditions. A positive incentive to practice good range management techniques is offered to cattle operators, since they can profit by the increased productivity of the land. Flexible leases create systems of grazing that are profitable and sustainable on a long-term basis. An added bonus from healthy range land is the improvement of wildlife habitats,

which may offer the landowner additional revenue through hunting leases.

**Cons--**Flexible leases require a record-keeping system whereby all costs and returns associated with managing the forage base and herd are logged. A great deal of trust is involved, since this type of lease approximates a true business partnership between the landowner and the cattle operator. Flexible leases also require periodic reevaluation (e.g., on an annual or biannual basis) to adjust stocking rates and rental fees. A good understanding of cattle marketing and range management practices is necessary. In most cases, consultation with trained professionals is needed.

This type of lease does not guarantee a steady income for the landowner. Also, since stocking rates may be lowered during the first few years to allow for the revitalization of range forage production capabilities, the cattle operator may see an initial drop in profits.

### Establishing a Lease

For the landowner who wishes to enter into a grazing lease agreement with a cattle operator, the first step is to determine the acreage of land to be leased. The local office of the USDA Soil Conservation Service (SCS) may be able to supply aerial photos and technical assistance which will aid in determining acreage. The SCS also can help with range-site interpretation. By considering such factors as degree of present use, species of grass present and amount of forage (AUMs) being produced, soil moisture regimes, and the needs of both parties a good range management plan can be developed. This plan will specify stocking rates, the type of grazing system to be used, and various conservation techniques which may be needed.

Various other items may affect the lease terms, and these, too, should be considered when forming a grazing lease agreement.

- Provisions for material and labor for the construction and maintenance of improvements, such as fences, gates, pens, cattle guards, fire lanes, etc.

- Responsibility for carrying out and/or paying for range management practices that might be necessary, such as prescribed burning, brush control, etc.
- Lease duration
- In flexible lease situations: a schedule for both parties to meet to reevaluate the terms of payment, stocking rates, etc.
- Liability for any damages, vandalism, and violations that occur on the property
- Provisions for breaking the lease if lease conditions are not satisfied by either party.

### Record Keeping

For cattle operators involved in a grazing lease agreement, good records are essential for ensuring the fairness of the agreement. Herd-related items, such as numbers of animals by class, AUMs per land parcel, birth and death rates, cull rates, replacement heifers, and total pounds of beef sold, should be recorded. Other inputs to consider recording are labor, mileage driven to leased lands, equipment used, maintenance and construction costs, costs of any supplementary feedstuffs and fertilizers, and lease fees. Keeping a record book in your vehicle may help you get into the habit of recording facts and figures as they come up. Such records are essential for taxation purposes and can prove very helpful in determining total costs for both the landowner and cattle owner involved with producing beef.

### Example Lease

The following example lease is for illustrative purposes only. It must be remembered that leases, especially flexible leases, need to be worked out to fit each individual case. The advice of an attorney, CPA, range conservationist, or other professionals may be necessary in developing your lease. (*Note: This lease is drawn up on an AUM basis.*) This LEASE made and entered into this day of, YR, between, hereafter called the "LANDOWNER," and, (the person or group to whom grazing rights are being leased), hereafter called the "LESSEE." WITNESSETH THAT:

1. LANDOWNER for and in consideration of the rents and covenants hereinafter referred to does hereby lease unto LESSEE for the purpose of grazing cattle the following premises: (the legal description of tract of land).

2. LANDOWNER will inventory the tract of land described in Paragraph 1 on an annual basis and determine the total amount of forage in terms of Animal Unit Months (AUMs) available for leasing.

3. The term of the lease will be for the period of 5 years, beginning on , YR , and ending on , YR .

4. LESSEE shall pay unto LANDOWNER a base price of \$ / AUM in cash, one-half of the total to be paid on or before , YR . The base price fee in years two (2) through (5) will be adjusted up or down, by percentage, with the increase or decrease of the calf price index established for Florida by the Florida Crop and Livestock Reporting Service, as reported in the Annual Livestock Summary.

5. In the event that LANDOWNER determines that the forage production, or AUMs, available for grazing in years two (2) through five (5) has declined by more than ten (10) percent of the first year's production level, LESSEE will have a period of ninety (90) days to reduce the number of cattle in order to meet the specified number of AUMs present.

6. Costs of fence and building (shed, work, work pens, barn) construction and maintenance will be shared whereby LANDOWNER provides all materials and LESSEE provides all labor.

7. A maximum of one-third (1/3) of the tract of land described in Paragraph 1 can be control burned each year. Control burning will be done by LANDOWNER or his/her designee. LESSEE may be permitted to control burn upon giving seven (7) days written notice to LANDOWNER and only after receiving permission from LANDOWNER.

8. LANDOWNER reserves the right to terminate this lease at any time. Upon written notification of such termination, LESSEE shall be granted a sixty (60) day period to remove all cattle from the property described in Paragraph 1.

9. LESSEE agrees to save harmless LANDOWNER against any and all claims of loss, damage, liabilities, or other expense of any nature, character, and kind that may arise out of, or be connected with, or as a result of LESSEE's occupancy and activities on the leased property.

10. If LESSEE defaults in the performance of any of the conditions or covenants hereof, then such breach shall cause immediate termination of this lease and forfeiture to LANDOWNER of all of the rentals prepaid.

, LANDOWNER , LESSEE

## References

Tanner, G.W. Determining Grazing Capacity for Native Range, Forest Resources and Conservation Fact Sheet FRC 31 or WEC 31, Florida Cooperative Extension Service, University of Florida.

Marion, W., and J. Hovis. *Developing a Hunting Lease in Florida*, Forest Resources and Conservation Fact Sheet WRS 1, Cooperative Extension Service, University of Florida.