

Cattle Business in Mississippi – May 2012 **“Beef Production Strategies” article**

Lease Arrangements for Cattle Operations

Jane Parish – Extension Beef Cattle Specialist, Mississippi State University

Beef cattle production requires significant resources. Land, labor, cattle, and supplies are just some of the inputs into cattle production. Some of these inputs may be leased as opposed to purchased by the beef cattle operation. This allows the operation to use more than just owned resources. Before deciding on whether or not to lease an input, consider the pros and cons of the lease option.

Land Leases

One of the most commonly used leases in beef cattle production is the land lease. The first consideration is how much land is needed for the cattle operation. Be sure to factor in the additional time, labor, and operating expenses that may come with increasing the amount of land managed in the operation. Do not overlook the fact that separation of land by even just a few miles from the operation's headquarters can necessitate spending significant amounts of money on fuel for traveling back and forth to the outlying land over time.

Operators without adequate owned land to meet the needs of the cattle operation may consider either purchasing more land or leasing additional land. Determine access to and cost of capital. Then consider availability, location, and features of land for sale or rent. Shop around and compare various leasing options. Make sure to have a feel for the fair market value of rental rates in a local area. Some land parcels are better set up than others for housing cattle. If land to be leased does not have adequate cattle handling facilities, fences, or water sources, then these crucial features must be established on the property prior to moving cattle there.

If permanent improvements are made to leased land, then make sure that this is equitable to the lessee as well as the lessor. If the lessee spends time and money to build a new perimeter fence, for instance, then a cost-sharing arrangement or break on the rental rate may be worth negotiating. Be sure also to understand what is expected from each party in the rental agreement regarding maintenance of the property. Does the lessor expect routine fertilizer applications to pastureland to maintain soil fertility levels? Is there an expectation that fencelines be kept clear of brush? Which party will arrange and pay for maintenance of gravel roads on the property? These questions should be answered and agreed upon in the lease terms.

Cattle Leases

As with a land lease, a cattle lease can be used to expand a cattle operation. Ownership of individual cattle should be clearly defined. Cattle differ in value, so account for this if more than one party shares in ownership or returns from cattle sales. If two people contribute the same number of cattle to an operation but one puts in cattle with greater worth, then they have not made the same capital contribution to the operation. Cattle

maintenance costs also differ among cattle of different sizes and stages of production. So, make sure that this is considered as well. Having a good animal identification system in place and keeping up-to-date, accurate financial records is very important for achieving an equitable arrangement over time.

If an animal is leased for a finite period with the intention that it will be returned to the lessor, then lease terms need to address the health and nutritional status of the animal upon return to the owner. When cattle are shared among operations, steps should be taken to minimize risk of disease transmission from one herd to another. Sharing a bull infected with trichomoniasis as a herd sire among multiple herds will only serve to devastate production on a wider scale.

Lease Terms

Many specifics should be agreed upon by all parties prior to entering a lease. These lease terms should be clear and written. A lease does not have to be complicated, but it should at least cover the important points of the agreement. Basic components of a lease agreement include names and addresses of participants and lease term (start date and length of lease). Note if a lease is automatically renewed or requires participant action to renew. Financial responsibility for various expenses should be clearly stated. For example, if a land lease includes property with electricity and community water, then make certain each party knows up front who will pay these utility expenses.

Sometimes exchanging money is not the only means of compensation in a lease arrangement. Investing dollars, materials, or labor in improving or maintaining assets within the lease framework is part of the contribution a party makes to the contractual arrangement. Make sure that the lease terms recognize non-monetary contributions appropriately.

Plan ahead for unexpected events. If there is a hay fire caused by improperly stored wet hay that results in a storage barn burning down, then how will the resulting property losses be handled? How will cattle production losses or death loss be dealt with? What happens in the case of extreme drought? If someone gets hurt handling cattle on the operation, then how will liability issues be handled? Does the lessor require the lessee to maintain farm liability insurance to protect against major financial losses in these types of situations? Try to think of and address relevant questions in developing the lease terms. Do not just assume that a close friendship or familial relationship will allow for a quick, fair resolution to any problems that may arise with a lease. Spell out specific responsibilities in the written lease itself to protect all parties involved and hopefully avoid unnecessary disputes later.

A wide variety of leasing arrangements can be drafted to suit a vast array of purposes. Partial budgets can be used to evaluate the cost-effectiveness of leasing decisions. These budgets should compare the cost of owning versus renting assets and should take any expenses or revenues directly tied to either alternative into account. From a legal standpoint, consult with a lawyer for specific language to include in a lease agreement. For more information about beef cattle production, contact an office of the Mississippi State University Extension Service.