

Evaluating Lease Arrangements

Leasing or renting pasture or forage is commonplace for many livestock producers across the West and is often an integral part of an operation. While there are many types of arrangements used, establishing a fair and equitable agreement for both parties involved can be a challenge at times.

External information sources can provide pricing information on various types of arrangements. However, these estimates often do not accurately reflect the true value of the forage for individuals on either side of a potential lease. Each side of the agreement brings certain resources and makes contributions; these likely will not be correctly accounted for when using the average price or the “going rate” for leases in the area.



Forage Risk Analyzer tool

The Forage Risk Analyzer (FRA) tool, from RightRisk.org, is a spreadsheet-based tool designed to help a single or multiple parties (up to six) understand the full value of everything involved in a potential lease and formulate a more fair and equitable agreement.

RightRisk Analytics
Tools and guides are available at no cost at the website <http://RightRisk.org>

The tool divides contributions into six resource categories including: land, livestock, housing, stored feed, labor, and machinery. The user can allocate estimated costs and returns for up to six lease participants, after entering the basic information into the tool; the tool

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Summary and Risk Analysis

FRA generates a summary table showing the total net return, after entering all income and expenses associated with the lease arrangement. Allocating the costs associated with the corn lease to the XR Ranch and the expected revenues from the livestock, we see an estimated net return of \$38,700 to the XR ranch (Table 4). Conversely, the landlord can expect a net return of \$54,500 (\$65,000 for the two leases minus the \$10,500 in expenses).

Table 4. XR Ranch Net Return Analysis

Resource Net Return Analysis Worksheet		Supplier #1	Supplier #2	Supplier #3	User #1	User #2	User #3
	TOTAL	Landlord			XR Ranch		
LAND Resource Net Return:	-\$76,902	-\$10,500	\$0	\$0	-\$66,402	\$0	\$0
LIVESTOCK Resource Net Return:	\$106,456	\$0	\$0	\$0	\$106,456	\$0	\$0
HOUSING Resource Net Return:	-	-	-	-	-	-	-
STORED FEED Resource Net Return:	-\$1,354	\$0	\$0	\$0	-\$1,354	\$0	\$0
TOTAL Resource Net Return:	\$28,200	-\$10,500	\$0	\$0	\$38,700	\$0	\$0
Total Resource Net Return Allocation:	100%	21.3%	-	-	78.7%	-	-

A unique feature of the FRA is the ability to account for the risk under each of these leases. A risk probability curve can be generated for various risk factors: the user selects the factor and a maximum and minimum expected value.

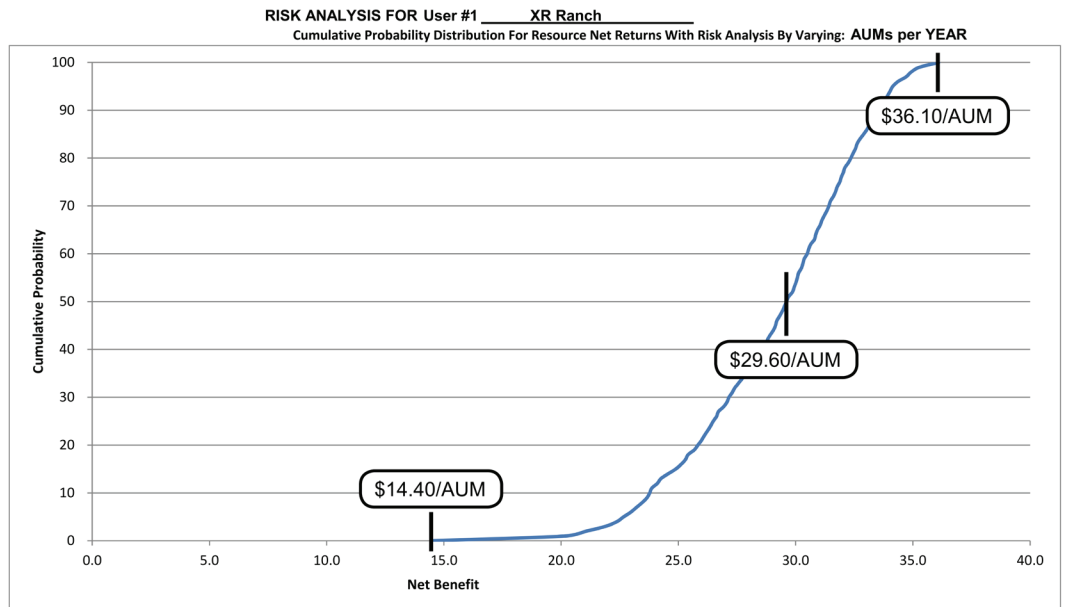
Net Return Analysis*	Supplier #1	Supplier #2	Supplier #3	User #1	User #2	User #3
Net Return per YEAR	\$28,200	-\$10,500	\$0	\$0	\$38,700	\$0
Net Return per ACRE	\$14.10	-\$5.25	\$0.00	\$0.00	\$19.35	\$0.00
Net Return per ANIMAL	\$59.24	-\$22.06	\$0.00	\$0.00	\$81.30	\$0.00
Net Return per POUND of AVAILABLE TDN	\$0.04	-\$0.02	\$0.00	\$0.00	\$0.06	\$0.00
Net Return per ANIMAL UNIT MONTH	\$22.56	-\$8.40	\$0.00	\$0.00	\$30.96	\$0.00
Net Return per ANIMAL UNIT	\$270.72	-\$100.80	\$0.00	\$0.00	\$371.52	\$0.00

* Net return analysis for suppliers and users allocated based on their relative share of total resource expenses per YEAR.

The main concern for the XR Ranch is variability in AUMs available, depending on changing weather conditions. We enter 2,000 AUMs for a maximum value and 800 for a minimum, with 1,715 as the most likely value generated by the tool.

Table 5. XR Ranch Net Risk Analysis

The resulting probability curve (Table 5) shows the net benefit to the XR Ranch ranging from \$14.40/AUM (\$18,000 total) to \$36.10/AUM (\$45,125 total), with a 50/50 chance of earning \$29.60/AUM (\$37,000 total).



* The XR Ranch is a case study example created to demonstrate RightRisk tools and their application. No identification with actual persons (living or deceased), places, or agricultural operation is intended nor should be inferred.

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