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Cow Lease – Cash versus Shares – Determining what is "Fair"

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Cow cash lease and cow-calf share lease agreements are a way for individuals to join forces to leverage resources in the production of weaned calves. Both parties need to understand what value they are contributing in either a cow cash lease or cow-calf share lease agreement to determine what is "fair" to those involved.

Cow-calf enterprises typically require large investments for breeding stock, facilities and equipment, as well as pasture, feed and other inputs. This large capital investment, combined with what historically has been a low return on investment, restricts entry into this business. This is especially true for beginning cow-calf producers who are often short on capital to invest, but have labor and management skills they could contribute to a cow-calf enterprise.

Then there are those who have built cowherds over time who would like to maintain ownership of the cowherd or transition out over an extended period, but want someone else to provide the day-to-day labor and management. This provides a scenario where two parties can collaborate in a cash lease or share agreement. Each party brings an investment that when combined together, provides what is needed for operating a cow-calf enterprise.

Cash lease and cow-calf share lease agreements have advantages and disadvantages for both the cow owner and operator. Understanding how each agreement works allows those involved to make an informed decision as to which option best fits their own scenario.

Cash Lease Agreements

Cash leases are often the simplest and most straightforward way to enter into a cooperative cow-calf agreement. The cow owner agrees to provide bred females, and potentially bulls, to the operator in return for an agreed upon cash value per cow. For the cow owner, a cash lease provides less risk than a cow-calf share lease agreement. The operator agrees to pay the owner a set amount, based on the number of bred cows provided to them. The cow owner knows what their income will be regardless of weather, markets or percent calf crop weaned. In return for this reduction in risk, the cow owner often agrees to a cash lease value that is less than what they could receive if they were in a cow-calf share lease agreement.
For the cow owner, four things impact what is a "fair" return: average cow herd value, cow and bull depreciation, replacement rate, and expected rate of return on investment. Changes in these values significantly impact what a cow owner determines to be a "fair" cash lease payment.

For the person leasing the cows from the owner, the primary advantage of a cash lease agreement is its simplicity. The operator, or person leasing the cows, knows upfront the money they need to lease the cows for the year. All of the weaned calves belong to the operator, and they can then manage those calves as they desire. There is no need to weigh or

sort calves at weaning to equitably divide the calf crop, as is often done in a share agreement. The disadvantage for the operator is that they have all of the risk in the production of weaned calves, and they have to come up with cash to make the cow lease payment.

Cow-calf Share Lease Agreements

In a cow-calf share lease agreement, the cow owner and the operator identify what each party contributes to the production of weaned calves and then determines the "fair" share of the calf crop each should receive. Determining the total value each party is contributing can be a daunting process. Nebraska Extension Agricultural Economists Matt Stockton, Ph.D. and Roger Wilson developed an Excel® based decision aid tool titled "Cow-Calf Share Decision Aid" that can be very helpful in identifying what an equitable share lease arrangement would be. This spreadsheet takes into account all values each party is providing and shows what each is contributing as a share of the total. Based on this calculation, both parties can then negotiate how the calf crop should be divided.

Points to Consider When Creating a Cow-calf Share Lease:

- Terms of the lease should provide that "investment equals compensation."
- Keep it simple. This will make it easier for both parties to uphold the agreement.
- Flexibility is important. Change in production, market and management practices need to be addressed as they arise.
- Situations are often unique. Develop a lease that best fits the needs and circumstances for both parties.
- Put the lease in writing and clearly define the terms and expectations. A written lease provides clarification for both the cattle owner and the operator.

The Nebraska Extension Circular *Beef Cow Share Lease Agreements,* provides information on cow-calf share or cash lease agreements. This document also provides an example lease agreement. In addition to this resource, several articles, as well as a webinar on cow-calf share lease agreements, are available at the beef.unl.edu website.

Summary

Beef cow share or cash lease agreements can be a way for two parties with complementary resources to partner together in cow-calf production. Excellent communication and trust are foundational to making these agreements work. Clearly laying out expectations and processes for the agreement in writing can help ensure each party understands the goals of the other, and that each is treated fairly.