RENTING COWS

The key to an enduring lease arrangement is equitable terms.

Story & photos by **Troy Smith**

► Jim Ramm's young Angus pairs are at home on the Hollenbeck Ranch near Rose, Neb.

When trying to establish or to expand a cow-calf operation with limited capital, producers often access additional resources through leasing arrangements. Most common is the renting of land for pasture, or to grow feed for an owned cow herd. However, for producers who already own the land and particularly for those who make payments toward that goal, leasing or renting cows is a potential alternative.

For cow owners, leases may offer a way to expand an existing business without increasing land base, or a way to eventually exit the business by transferring ownership to others over time. Investors may want to own cows, but may be unable or unwilling to muster the other resources necessary for a cow-calf enterprise. Whatever the appeal, the key to an enduring lease arrangement is equitable terms.

► Jim Ramm hoped to lease his 500 commercial Angus cows to someone who shared his goals for genetic selection and production testing.

Lease arrangements

Beef cows are leased between parties on either a cash basis or by sharing the calf crop. The latter typically calls for one party to provide the cows and bulls, while the other party provides facilities, feed, labor and management. Share deals seem to be more common, but can be short-lived if either the cow owner or the operator becomes dissatisfied with his or her share of the income.

Atkinson, Neb., rancher Jim Ramm has been involved in a variety of cow lease arrangements since 1988. Some worked well enough to survive for several years. Others soured rather quickly, but his greatest disappointment grew out of inconsistency.

Raised in the Angus business, Ramm built what many would call a fancy herd of 500 commercial cows and a reputation for producing replacement-quality females. Merchandising cattle of consistent, uniform quality always has been a priority. Feeling pinched by limited land resources, but reluctant to pay high pasture rental rates, Ramm decided to lease out the cows and run his stocker enterprise from home.

"I couldn't find anyone who would take the whole herd, so I ended up placing small groups of cows with several different ranchers," Ramm says. "Each one's management was different. When it came time to divide up the calf crops, I ended up with a lot of little bunches of calves of varying weights and conditions. I couldn't put together the potloads of uniform feeder calves or strings of heifers that would demand premium prices."

There were situations where cows didn't receive the best care, and conception rates suffered. A few cows simply disappeared. Some of Ramm's share-partners didn't share his desire to keep

production records. And there were some unexpected phone calls from partners who, for various reasons, wanted to send cows back to Ramm.

"What I really wanted was a stable, long-term arrangement for the whole herd," Ramm says.

A solid partner

While most of his lease partners were good people, Ramm says Marty Hollenbeck ranked among the best managers. Marty and his wife, Dee, had managed about 400 of their own cows on a rented place prior to buying a ranch near Rose, Neb. To facilitate the purchase, the Hollenbecks cashed in their own cows and started custom-grazing yearlings. They also took in other ranchers' cows, and had managed a set of Ramm's cows.

"We never knew from one year to the next if our customers were going to send us more yearlings, so we really needed something we could count on too," Hollenbeck says.

Now Ramm and Hollenbeck believe they've found the long-term relationship that suits them both. They're two years into a five-year contract whereby Hollenbeck leases all of Ramm's cows — not as a share deal, but for a flat fee paid annually. Ramm furnishes the bulls and winters them, too. During the first two years, Ramm also brought in the replacement heifers and hauled away the cull cows.

"We scrutinize the cows pretty hard, so we replace about 20% of the cows every year. We do give some of the young cows that come in open a second chance by shifting them to a fall-calving herd," Ramm explains. "After two years, Marty has had time to raise and develop replacement heifers to go back into the herd to keep numbers constant, but now he gets the proceeds from cull cows."

And since Hollenbeck pays cash rent for the cows, he

►Leasing Ramm's cows on a five-year contract suited Marty (left) and Dee Hollenbeck better than single-season deals. Daughters Fallon and Brooke and son Chase share their parents' interest in ranching, so the Hollenbecks appreciate Ramm's desire to build a long-term relationship.

receives all proceeds from the sale of calves. Two-thirds of the cows deliver spring calves that are backgrounded and sold during February. Fall-calvers make up the remaining third, and their calves go back to grass in the spring until they are sold at a special summer "barbecue sale," which is held annually at the auction barn in nearby Bassett, Neb.

Of course, Hollenbeck also assumes all of the risks associated with fluctuating feeder prices. In that regard, this arrangement is much like owning the cows.

Both benefit

"It's about as close as you can get to owning cows without having a big note at the bank," Hollenbeck says. "We couldn't afford to buy this ranch and cows to stock it, too — certainly not this kind of quality and numbers. I'm 40 years old, and I'd hate to start from scratch. But I'm benefiting from the good genetics in Jim's cows, as well as from his experience and contacts."

At 54, Ramm isn't even thinking about quitting the cattle business, but he is interested in helping someone else continue building and improving upon the Ramm family legacy.

"Starting with my dad and uncle, my family has been raising Angus cattle for about 60 years. My own kids probably aren't going to be involved, but I like how the whole Hollenbeck family is interested in cattle and the business of ranching," Ramm says.

"The past couple of years, I might have made more money from a share deal, taking 35% or 40% of the calf crop, but our arrangement looks better for the long term. We have similar long-term goals for keeping the herd Angus, production testing and striving for consistency."

Ramm says he and the Hollenbecks are considering opportunities they might pursue together. He says he is sure he will want to buy Hollenbeck heifers to develop and resell, and he wants to help the Hollenbecks build their own reputation as a source of replacement-quality females. They are pondering possibilities for joint private treaty marketing, and they haven't ruled out retained ownership as a partnership venture.

"I'm young enough that I can do this for a while, and I'd like to," Ramm says. "I think our arrangement has some future to it. If Hollenbecks' kids eventually want to work into the deal, it's OK with me."

Cow lease considerations

According to University of Nebraska Extension beef specialist Dick Clark, cash leases like the Ramm-Hollenbeck arrangement are easiest to work with when comparing the cost of leasing cows to the cost of owning them. The first step is to determine the cost of purchasing or raising replacement females. Clark says the estimated total annual ownership cost for purchased or raised cows represents the sum of economic depreciation cost, interest on investment, death loss and property tax (in states where applicable).

To figure the economic depreciation cost, divide the difference between a cow's beginning value and her ending (cull) value by the expected number of years she will be in the herd. For example, an $800 heifer that is expected to have a cull value of $400 after eight years would have an annual depreciation of $50. Clark says interest on investment is an opportunity cost on money tied up in cow or bull ownership. Calculate that by multiplying

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the average value of an animal by the interest rate. The average value of the cow in our example is $600, so at a rate of 8%, interest on investment would be $48 per year for the cow.

Death loss is another cost of cow ownership that Clark calculates on average animal value. Estimating a 1% death loss, the annual cost would be $6. In states where property taxes are assessed against cattle values, taxes would be added to the ownership cost. This is not the case in Nebraska, so the total cow ownership cost, including economic depreciation, interest and death loss ($50 + $48 + $6) would be $104 per year.

Of course, the same process can be used to calculate the cost of owning a bull. If a bull costs $2,000 and has a cull value of $800 after four years of use, his annual depreciation cost is $300. With 8% interest and an average value of $1,400, interest on a bull investment would be $112 per year. Multiplying the 1% death loss estimate by average bull value yields a death loss cost of $14. With no tax worries, the total bull ownership cost ($300 + $112 + $14) is $426. To estimate the bull's per cow cost, divide that total by the female-to-bull ratio. If that happens to be 30 cows per bull, divide $426 by 30 to arrive at an annual bull ownership cost of $14.20 per cow.

In situations where bulls are provided as part of the lease, compare the lease cost to ownership cost that includes the cost of bulls. In Clark's example, the cash lease would be compared to the ownership cost of $104 per cow, without bulls, and $118.20 per cow ($104 + $14.20) with bulls provided.

"If the cash lease exceeds that, we would be ahead to purchase the cows and an appropriate number of bulls," Clark explains.

Conditions of the cash lease are important to the comparison, too. If the cow owner stands death loss and replaces cull cows, the comparison is fairly straightforward. However, if the cow owner expects compensation for any death loss, Clark recommends reducing the lease payment by an amount equal to the estimated death loss. If the lessee is expected to provide replacements for culled cows, that too should be reflected in the cash lease cost.

►Marty Hollenbeck (left) and Jim Ramm discuss genetics and marketing decisions.

Share leases

With a cash lease, the lessee usually bears the risk of production and price risk. Share leases, however, permit the sharing of risk with the lessor. Just which risks are shared depends on how the lease is written. And yes, Clark recommends a written contract that spells out all conditions.

Comparing ownership to share leases is more difficult than the comparison to cash leases. In an equitable share lease arrangement, partners share the calf crop, or the revenue it generates, proportionate to each party's contribution to the operation. If the value of the cow owner's contribution, as calculated above, represents 30% of the cost of production, that partner should receive 30% of the revenue.

That seems simple enough, but agreeing on the appropriate value of various inputs (including cow value) can be difficult. Evaluation of the resources contributed by the lessee is critical. Both parties should carefully consider the conditions of their lease to make sure both sides use appropriate costs.

"The cost of a share lease (value of calves shared with cow owner) will change if the market goes up or down and if productivity of the cow herd changes," Clark says. "After determining cow ownership costs, the producer wishing to lease cows on a share basis must estimate the cost of leasing in terms that can be compared to costs of ownership. This requires estimation of the number of weaned calves, weaning weights and weaned calf prices."

Suppose a rancher takes in 100 share cows and expects to wean 88 calves with an average weight of 500 pounds (lb.). And suppose the average sale price is $90 per hundredweight (cwt.). The expected cost per cow leased is the share of the calf revenue paid to the cow owner (assume the cow owner receives a 30% share) multiplied by the net revenue per cow. In this case, the net revenue per cow (500 lb. × $90 per cwt. × 88% calf crop) is $396. The cow owner's 30% share, or the rancher's lease cost, would be $118.92 per cow. This cost of "renting" a cow may be compared to the estimated annual cost of owning the cow to determine which is more attractive.

"If risk-sharing is important and dollars for purchasing or raising cows are limited, a producer might prefer the share lease where the cow owner is sharing the production and price risk with the lessee. That is, if production or calf price is below expectations, the rent goes down. If higher, the rent goes up," Clark says.

"If a share lease arrangement compares favorably to ownership costs, it is probably equitable. Testing a lease arrangement for equity will help both parties be more comfortable," he adds. "A lease that strongly favors one party over the other is not likely to last in the long run."