Grazing rental rate

Formula overview

About Alberta’s grazing disposition rental rate framework

The rental rate framework calculates lease rents based on the profitability of operating a grazing lease, considering issues such as market prices, transportation, operating and labour costs. To calculate rent we use a model based on the purchase of yearlings in the spring, weight gain on the lease during the grazing season, and sale price in the fall.

Although there is considerable variability in how cattle operations and grazing leases are managed across the province, this standard was chosen to provide consistency. Inputs to the model come from actual market reports (e.g. Canfax) and take into account long standing cycles between spring and fall markets, as well as yearling and calf markets. Grazing lease cost surveys provide inputs to the model such as weight gain on the lease and direct and indirect operating costs.

The grazing lease rental rate varies as net revenue from cattle (steers) minus additional input costs and grazing lease operating costs (i.e. profitability) either increases or decreases.

Three key calculations undertaken by the model

1. **Net Revenues**\(^1\) resulting from activities on the lease – considers the purchase weight and cost for Alberta steers at the end of April, the weight gain, and sales price in September after cattle have been on the lease for an average four-month period\(^2\). Weight gain data was collected by a grazing lease cost survey and will be periodically updated using information collected in stock return forms to ensure that gain data is as accurate as possible.

2. **Operating Costs while on the lease** – costs incurred by the leaseholder to own and operate the lease. These include direct costs such as transportation costs, sales costs, rent and taxes, fence maintenance. Cost inputs for the model are gathered by the same grazing lease cost survey as mentioned above.

These lease related costs are then subtracted from net revenue to provide the residual income the leaseholder retains once all costs have been taken into consideration. Investment costs such as water developments and range improvements are gathered by the survey as well. A Return on Investment (ROI) calculation is done for the model lease by comparing residual income to these investment costs.

3. **Rental Calculation** – a minimum grazing lease rental rate applies when revenues are equal to or less than the operating costs ($2.30/AUM in Southern Alberta, $1.30/AUM in Northern Alberta). As revenues exceed operating costs a variable rent is added to the minimum rent (a base percentage of the amount by which revenues exceed costs). As profitability increases, and residual income exceeds the ROI and a return on capital employed\(^3\), the rate of the variable component of rent increases as well. This progressive tiered rental payment increases the variable rental rate component added on top of the base rate as profitability increases.
1 Note that ‘Net Revenue’ refers to the difference between the cost of 6-700lb yearlings in the spring, and the sale of 8-900lb steers in the fall before operating costs are incorporated. Net income refers to the income the leaseholder retains once all costs have been taken into consideration.

2 The sale price used in the model is calculated based on the 2 year rolling average of the 800 to 900 lb. steers at the end of September. This provides for more stable rental rates than might be experienced with year on year actual spring and fall market prices but over time should result in very similar rents paid.

3 Return on capital employed (ROCE) is a financial ratio that measures profitability how efficiently an operation can generate profits from its capital employed by comparing net operating profit to capital employed.