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DEVELOPMENT AND MANAGEMENT OF FISHING LEASES

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Abstract: The popularity of developing sportfish leases is increasing rapidly in the South, much as development of hunting leases has done over the past three decades. This trend is occurring because an increasing number of: (1) landowners realize that their ponds and reservoirs are valuable resources capable of generating additional profits and (2) anglers desire a level of exclusivity not normally available on public waters. A sound economic evaluation of sportfish leasing opportunities is essential if landowners are to identify their most profitable alternatives. Net present value analysis is recommended as one method for evaluating compared profitability of selected investment and leasing strategies. Case studies are presented to illustrate analyses where sportfish leasing is the sole recreational lease and where sportfish leasing is viewed as a value-added amenity when combined with a hunting lease. Key economic values directly affecting the profitability of sportfish leasing alternatives include investment costs, lease rate, annual operating costs, interest rates, and desired rate of return on investment.

INTRODUCTION

Leasing of hunting rights to generate income for landowners has become a common practice in most southern states. However, leasing of fishing rights largely has been limited to "fish-out ponds," where channel catfish, rainbow trout, or other species are stocked at high densities in specially designed (aquaculture) ponds. Other fee fishing systems include day and long-term leasing of ponds and reservoirs for sport fishing. The popularity of fishing leases as farm or ranch enterprises has not kept pace with hunting leases largely because water resources held in the public domain have been more available compared to state and federal land for sporthunting.

Nevertheless, a new trend involving fee fishing is slowly developing across the South. An increasing number of landowners that lease hunting rights are realizing that ponds and reservoirs on their property are valuable resources with the potential to generate additional profits.

Properties with sportfishing opportunities should be more valuable than lands leased for hunting alone depending on the profitability of sportfish leases. A survey of Texas hunting leases reported that ponds were present on nearly a third of the ranches.

Furthermore, fishing was considered a popular recreational activity on 18% of all Texas hunting leases. Results of a 1985 survey by the U. S. Fish and Wildlife Service indicated that while 16.7 million adult Americans hunted, over 2½ times that number (46.6 million) went fishing.

Demand for opportunities to lease sportfishing rights is expected to increase as the number of American anglers increases. It has been reported that the real demand for fishing is more than twice the real demand for hunting among Texans. Furthermore, anglers reported that on average they would take almost twice as many trips as hunters. Anglers were willing to take five trips at an average of 125 miles/trip, while hunters were willing to take three trips at 250 miles/trip.

Sportfishing as an income generating enterprise in combination with hunting leases recently has begun to interest some landowners. This is especially true on properties that are not capable of supporting hunting recreation because of limited tract size, urbanization, etc. An increasing number of pond owners have realized that there is a demand for quality sportfishing opportunities. Much of the demand for leased fishing rights results from increased fishing pressure on public waters, decreased construction of new reservoirs, desire for exclusivity, and reasonable expectations of catching fish.

The most important ingredient to successfully leasing private waters for sportfishing is proper management of fish populations to ensure they remain at levels capable of supporting reasonable harvest rates. The increasing interest in catch and release fishing enhances the opportunities for more anglers to share the available fisheries resources. Catch and release also is consistent with anglers' desire for exclusivity and expectations of catching fish.

MANAGEMENT

Major steps involved in sportfish leasing include locating lessees, establishing the terms of the lease, and drawing up the lease agreement. Landowners offering fishing rights based on a management plan of "there's the gate and here's the key" will seldom be successful. Careful consideration of expected revenues and costs of starting a sportfish leasing program will provide reasonable expectations for profit. Landowners will have to plan carefully their leasing enterprise to match resources, demand, and profit expectations. For instance, sportfisheries emphasizing trophy size fish receive considerable publicity, yet surveyors report trophy fishing ranks low as a motivation to go fishing.

Larger ponds and reservoirs offer more options for managing fish populations. For example, a landowner with a 10-acre reservoir is better equipped to manage exclusively for largemouth bass than a landowner with a 1-acre pond. Even though a market may exist for a target species such as largemouth bass, landowners might consider that other species such as channel and blue catfish, sunfish, crappie, and even rainbow trout may be compatible, appeal to a broader range of clientele, and offer increased angling opportunities.

Marketing is an important responsibility managers face in operating successful fishing leases much as it is for successful hunting leases. Landowners successfully leasing private waters for fishing will offer unique experiences at reasonable prices. This experience will be something that is not readily available or accessible to the general public. Careful evaluation of direct competition from other leasing operations, of alternatives anglers have for fishing in public waters, and of the number of potential lessees is necessary.

Lease fees received by landowners consist primarily of various input costs and returns to landowner labor and management. Investment costs may vary from one-time expenses such as pond construction or improvement to annual operating input costs including fertilizers, labor, chemicals, etc. Many landowners will be leasing fishing rights on existing ponds or lakes and not be incurring actual costs involved in pond or reservoir construction.

Three management strategies are important to developing fisheries on private lands: 1) appropriate stocking rates and species balance; 2) control of noxious aquatic vegetation; and 3) fertilization to increase carrying capacity. Other important operational activities include water quality maintenance, fish attractor construction/maintenance and fish population surveys conducted by a professional biologist. Additional expenses may include security, liability insurance, and a portion of the property's ad valorem taxes.

VALUE-ADDED AMENITIES

In addition to the basic input costs previously mentioned, additional amenities that are often provided to clientele include service-related items such as boats and motors, fishing tackle, guide services, meals, and lodging. These value-added items increase the cost of the lease, but are often desired by clientele. The landowner establishing a profitable leasing enterprise must determine in advance the extent that potential customers are willing to pay for value-added amenities. It is important to ensure that revenues exceed costs of establishment and operations for the enterprise to be profitable.

ECONOMIC ANALYSIS

The potential profitability of investing in a sportfish lease enterprise should be evaluated prior to start-up in much the same way as any long-term investment with expected returns during future years. Net present value (NPV) analysis is an appropriate economic tool for estimating the profitability of establishing a sportfish leasing enterprise while accounting for the long-term nature of the investment. NPV also accounts for the time value of money or, in other words, the earning potential money has if placed in an interest-paying account.

For example, the value today of a contract promising to pay $100 after 5 years is $68.05 (assuming money would earn a real rate of 8% interest in an alternative investment). On the other hand, a $68.05 investment today at 8% (real rate compounded annually) interest would grow to $100 at the end of 5 years. In other words, a person would be indifferent between having $68.05 today and $100 5 years in the future with the opportunity to earn an 8% real rate of interest.

The discount (interest) rate used in estimating NPV is determined by several factors, including the landowner's goals, expected return of alternative investments, level of risk involved, and prevailing inflation rate. It also is appropriate to consider opportunity costs in economic evaluations and in establishing the discount rate since other activities may be negatively impacted by the decision to lease part or all of the available fishing rights.

For example, a landowner facing costs and revenue in Table 1 for an existing 10-acre pond receives more than the 8% real return on investment included in the NPV analysis, as indicated by the positive NPV estimate. In this example, the lease fee could decrease to $902 before the landowner begins to realize an 8% return on investment. If the 10-acre lake was located on a 1,000-acre hunting lease, the $1,250 annual lease fee for fishing rights might be included with the 1,000 acre hunting lease by adding $1.25 per acre to the original hunting lease charge.

MARKETING AND PROMOTING SPORTFISH LEASES

Outdoor recreation experiences consist of five parts: planning and anticipation, travel to activities, on-site activities, travel from activities, and recollection of experiences. All of these elements are important to successfully marketing the fishing enterprise.

Marketing consists of matching the resources of an operation with the needs and desires of the clientele. However, marketing a recreational enterprise differs from marketing traditional commodities such as crops, livestock, and timber. Landowners interested in marketing

Table 1. Example net present value (NPV) analysis of sportfish leasing on an existing 10-acre lake[1].

Item	Start Up	Years 1	2	3	4
Revenue-Lease Fees	$1250	$1,250	$1,250	$1,250	$1,250
Fingerlings	700				
Fertilizer	150	150	150	150	150
Lime	40	40			
Herbicide	200	200	200	200	200
Labor	250	250	250	250	250
Taxes	30	30	30	30	30
Insurance	100	100	100	100	100
Net Income	(220)	250	520	520	520
NPV[2]	$1,502				
Breakeven lease price[3]	$902				

[1]Assumptions used in creating this example include: 1) lease fees collected at the start of each year to eliminate borrowing operating capital; 2) start-up costs are assumed to be on owner capital contribution; 3) operating costs are incurred at the beginning of each year; 4) NPV calculated using an 8% real rate of return; and 5) lake contains fish populations but supplemental stocking of Florida bass and channel catfish fingerlings is planned.
[2]NPV = current value of future net incomes minus initial start-up costs.
[3]Lease price at which NPV equals $0.

sportfish recreation will deal with a "non-standard" commodity and will, more likely than not, deal directly with clientele (marketing retail).

If on-site lodging is available and/or the property is close to an urban area, landowners may want to employ a lease of limited duration (i.e., day, weekend, or week). However, if landowners do not desire a high degree of contact with the public or cannot provide lodging, a season-long or year-round lease may be preferred. Each landowner must determine the marketing strategy that best suits the individual situation.

Many people mistakenly believe that marketing is just another word for advertising. Promotion of sportfishing recreation as a commodity is based on the principle that the product is inherently desirable and that consumer familiarity is all that is missing from the marketing mix.

Promotion can take on many forms, only one of which is advertising. Personal selling by landowners and word of mouth by satisfied customers are two very effective ways to promote leasing arrangements. Advertising techniques that have proven successful for hunting leases also apply to sportfish leases. Word of mouth, local news, and Chambers of Commerce are primary sources of advertising for hunting and fishing lease information. Other successful advertising techniques include, but are not limited to, magazine articles, television, radio, sports shows, trade journals, and direct mailouts.

LEASE AGREEMENTS

In order to prevent misunderstandings and clearly define the terms of the sportfishing lease, a written lease agreement should be developed by the lessor and signed by both parties. With obvious modifications, many considerations included in hunting leases can be used as a basis for developing written sportfishing lease agreements. Deer lease agreements include duration of the lease, description of the lease tract, access, species available, hunting methods, density of hunters, price, payment schedule, use of facilities, lease transferability, and rights of renewal of the lease.

Although it is possible to prepare a written sportfishing lease on your own, it is recommended that you consult your lawyer during the actual drafting of the document. Money paid for such services may well prevent potential legal problems. It also is important that at least two copies of the lease are prepared and properly signed; one copy for the landowner and the other for the lessee(s).

LANDOWNER LIABILITY

As with hunting leases, landowners must address the issue of liability whenever sportfishing rights are leased. Landowners leasing sportfishing rights should include a "hold harmless" clause in a written lease agreement that protects them from liability and makes lessees responsible for damage or accidents. Since hold harmless clauses are not infallible, landowners should consider extending insurance coverage or requiring lessees to purchase liability insurance that covers both parties.

SUMMARY

Although the leasing of sportfishing opportunities is a relatively new enterprise compared to hunting leases, management and marketing concepts are similar. Landowners interested in marketing sportfishing recreation must wear two hats: the hat of a fisheries manager to maintain suitable fish populations and the hat of a successful business manager to maintain positive cash flows and profitability while working with clientele.

Unfortunately, many individuals are accomplished and comfortable in one of these roles, but lack the skills or interest to be attentive to the other. The success of sportfishing operators depends upon a well-thought-out, detailed, and written management and marketing plans. The intense competition that exists today for the public's recreation dollar almost ensures that those depending on blind luck will not succeed. The availability of quality fishing is an important component of a sportfish recreation enterprise. However, it is only one part of the entire recreational experience.

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