FACT SHEET

Share Farming and Leasing - some things to consider

Lots of leasing and share farming opportunities have surfaced recently. In some parts of the state these opportunities are so prevalent that some clients may be presented with 3-4 deals to consider. Having a process for evaluating these deals easily and effectively is critical, as a business can grow too quickly by taking them all on in one go.

Share farming involves the land owner and share farmer working together to manage, grow, harvest and market a crop.

Simplistically, the land owner provides:

- The land
- A percentage of the working capital for seed, fertiliser, chemicals, freight and insurance.

The share farmer provides:

- Management service
- Machinery, fuel and labour to grow, manage and harvest the crop
- A percentage of the working capital for seed, fertiliser, chemicals, freight and insurance.

The income is split according to the percentage paid for the seed, fertiliser, chemicals, freight and insurance, by the share farmer and the land owner. These percentage splits will vary according to the quality of the land and climatic risk.

In reliable, good quality country a share farming agreement may be split 50:50, but in more marginal country the share farming split maybe 80% share farmer and 20% land owner.

The main benefits associated with share farming are:

- The production risk is shared between the parties
- The land owner can maintain primary producer status
- The share farmer can develop their business revenues further without purchasing the land.

Leasing involves a farmer paying rent to a land owner. This rent buys a right to manage the land without interference from the land owner. For this reason alone, a lot of farmers prefer to lease instead of share farming.

Valuing a lease, however, can be tricky. There are a number of valuation methodologies available. The first approach is as a percentage of the value of the land. The historical rule of thumb, is that a lease should be 3-5% of the land value. The weakness of this approach is that if the land is overvalued, this will translate into the lease being over valued. This is then compounded further by the fact that, if there is a production problem, the revenues generated may not be sufficient to pay for the lease and provide an appropriate profit.

Another lease valuation methodology is to determine the total revenue that will come from a lease. From the total expected revenue, you then deduct your expected profit, variable costs and overhead costs.

What is left over is then available for paying, as a lease fee, to the land owner. With this methodology it is also prudent to undertake a weighted revenue calculation. This will smooth the revenue for variability on prices and yields and overcome the tendency to put in top numbers to make a deal work.

The main benefits of a lease include:

- Control over production and marketing decision making
- A well priced and profitable lease will add revenue to the bottom line of a farm and increase the business return on equity.
- A cheaper way to access land when compared to buying it
- Spreading business overheads across a larger area.

Common problems associated with leasing include:

- Paying too much for the lease
- If there is a production failure, the lease still has to be paid.
- Taking on a one year or short term lease
- Taking on a lease with CPI increments
- Lack of security with a lease - the land owners can pull the pin
- The land cannot be used as security when financing the farm.

Contact us on 08 8841 4500 to speak to a consultant who can step you through all aspects of leasing and share farming.

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