Share farming & leasing models

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Should I expand

- 3 lenses to an expansion opportunity:
    - Strategic,
    - Operational &
    - Financial

They should be applied in the above order. If an asset is not a strategic fit, or it will negatively impact existing operations, there is no point investigating further.

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Comparison

	Capital Upfront	Annual Finance Cost	Equity Long Term Growth	Management Responsibilities
Buy	High	Highest	Best	Highest
Lease	Low	Middle	Ok	High
Sharefarm	Low	Lowest	Ok	Shared

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Nationally in Australia

- 28% of farms have some lease land*
- Sharefarm is low in comparison to lease

*Source: Rabobank 2020

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Comparison

	Lease	Sharefarm
1) Land Use & Crop Selection	100%	Shared
2) Term (years)	Fixed	Can be flexible
3) Income & Operating Costs	100%	Shared
4) Financial Risk	All the risk	Shared
5) Seasonal Volatility	All the risk	Shared
6) Potential for Conflict	Low	Higher

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Lease

Landlord (land owner)

- Fixed income
- Suits those in retirement or needing certainty

Operator (leasee)

- Full control
- High annual upfront costs
- Higher risk
- Higher reward

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Sharefarm

<u>Landlord (land owner)</u>

- Continues an involvement & interest
- Some control of property management/ caretaking
- Shares the risk of the good and bad years

<u>Operator (leasee)</u>

- Lower upfront costs
- Income can be influenced by landlord priorities
- Good years – not as good
- Poor years – not as tough

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Written agreement

- Confirms what is intended
- Common understanding

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Farm Financials

$/Ha	Current
GROSS INCOME	**1,022**
Less	
Overheads	80
Inputs	313
Machinery Operating	188
Machinery Capital	162
Labour	117
Interest & Fees Paid	54
TOTAL COSTS	**914**
SURPLUS	**$108 / Ha**

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Adding a new land lease

$/Ha	Current	New Lease
GROSS INCOME	**1,022**	**1,022**
Less		
Overheads	80	10
Inputs	313	313
Machinery Operating	188	188
Machinery Capital	162	10
Labour	117	25
Interest & Fees Paid	54	
TOTAL COSTS	**914**	**546**
SURPLUS	**$108 / Ha**	**$476 / Ha**

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New land lease vs. buying ($4,000/acre)

$/Ha	Current	New Lease	Buy
GROSS INCOME	**1,022**	**1,022**	**1,022**
Less			
Overheads	80	10	15
Inputs	313	313	313
Machinery Operating	188	188	188
Machinery Capital	162	10	10
Labour	117	25	25
Interest & Fees Paid	54		593
TOTAL COSTS	**914**	**546**	**1,144**
SURPLUS	**$108 / Ha**	**$476 / Ha**	**-$122**

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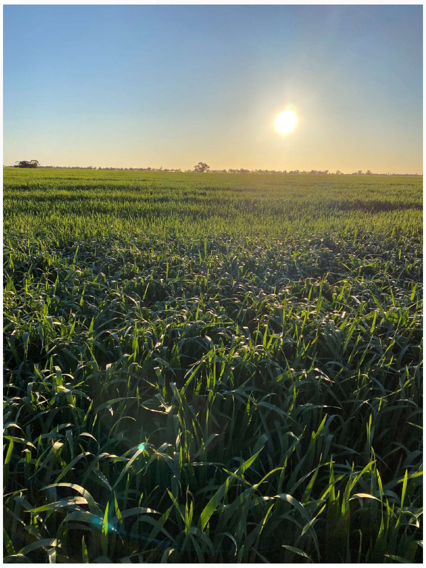
What to pay for lease

Surplus	$/Ha	476

Both parties need reward

Landlord – return on capital invested

Operator – reward for effort



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What to pay for lease

Surplus to split	$/Ha	476

Start with:
50:50 share of surplus
$476 * 50% = $238/Ha each ($96/ac)

60:40 share
$476* 60% = $286/Ha to Operator
$476* 40% = $190/Ha to Owner ($77 /ac)

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Lease - Landlord

Land Value	$ 4,000/ac	
Income	$96/ac	$77/ac
less		
Rates/overheads	$10/ac	$10/ac
=	$86/ac	67/ac
Return on asset	2.2% OR	1.7%

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Lease - Operator

Return $96/ac OR $116/ac

Most costs are already covered :

- Machinery Operating
- Labour
- Inputs

Other costs to cover :

- Extra Machinery depreciation
- Interest cost on trading account
- Extra labour

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Sharefarm

Popular until the early 2000's

Lease became more popular due to:

- New farming systems, improved efficiency
- Increased competition to expand
- Profits stronger and more reliable

Sharefarming, going forward may become more relevant if:

- Rising 'cost of production'
- Lower the financial risk for operator
- Owner can see potential for higher returns (good years)
- Owner can run livestock on the non-crop paddocks

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Sharefarm – Income $1,022/ha ($414/acre)

Percentage share is determined by the contributions by the owner.

SURPLUS to split $193 / acre	Operator	$ / ac	Owner	$ / ac
1) Land only	80%	$110 (193 – 83)	20%	$83
2) Some inputs (fertiliser, chemical - $120/acre)	67%	$96 (193 – 137 + 40)	33%	$97 (137 – 40)
3) Inputs & some machinery/labour	50%	$66 (193 - 207 + 80)	50%	$127 (207 -80)

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Summary

Lease

- Has shifted from 5% to 1.5 – 2.5% of land value
- Spreads the fixed costs - lower per hectare costs
- Modern farming systems can do more hectares

Sharefarm

- May become relevant if operator profits reduce
- Good years can demonstrate higher income to owner

Profitability depends on:

1. Term of the agreement 3 or 5 years (longer is better)
2. Combination of good & poor seasons
3. Leverage of existing resources of machinery & labour

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