

Is Leasing A Dairying Option?

by Jack McAllister

With dairy producers retiring from dairying after many years in the business and young people wanting to get a start in dairying but not being in a financial position to buy a dairy farm, could leasing be an option?

Leasing a dairy farm involves making available some or all of the farm's assets for a fee. Generally, there are three approaches that can be used to determine the cash rent for the assets to be used: 1) market value approach, 2) cost approach and 3) income approach. Both the lessor (the person who owns the assets to be leased) and the lessee (the person who desires to pay rent for the use of the assets) should make all three calculations separately. The lessor will have a particular interest in determining the cost of the assets as will the lessee have in determining the expected income to be generated from the assets. In the market approach, market values can be determined from the local area. Prices can be expressed on a total monthly amount or a per acre or per cow basis. The cost approach should determine the fixed costs for the 1) land and improvements, 2) buildings and improvements, 3) the raised breeding livestock and improvements and 4) the purchased breeding livestock. For each of these categories any depreciation, interest, repairs taxes or insurance which applies needs to be calculated. The income approach is based on determining the expected revenue and expenses from the arrangement. This includes the value of the production from the use of all the land buildings or livestock involved and the operating expenses incurred as well as a value for the labor and management. The difference between the value of production and the cost of production then represents the maximum that can be paid for rent. Spreadsheets are available to be used in determining the lease amount by the cost and income approach.

Determination of a lease amount by both parties using these approaches and consideration of other aspects will lead to negotiation of the final written lease arrangement. The lease agreement needs to be negotiated between the parties in such a way that the personal and business objectives of both parties are met. The lease agreement should specify: 1) the assets and their value, 2) the details of all relevant aspects of the arrangement and 3) the rights and responsibilities of each party. Once these details have been worked out, the services of an attorney should be secured to draw up the legally binding agreement. With a properly created legal agreement, each party can sign and know what to expect.