Dairy career paths and farm ownership - Leasing

Like anyone involved in a business, the long term goal for dairy farmers is to grow assets and wealth during their time in the industry.

Traditionally, progress in the dairy industry has been focused on achieving the ultimate goal of farm ownership, as this has been seen as the best way to grow wealth. Entrants into the industry have generally spent time as an employee and/or experienced a period of share farming, during which there is growth in skills and assets, followed by a period of leasing, with a further increase in assets and skills and eventually dairy farm ownership.

Land and infrastructure contribute about 75% of the capital required to own a dairy business. For example, the land infrastructure for a 260 cow farm is likely to be worth about $1.8 million. Cows and mobile plant contribute the remaining 25% ($0.6 million).

For someone wanting to enter/progress in the industry the money required to buy a farm can be prohibitive, especially as land prices climb. They know they have the skills to operate a successful dairy business and generate a healthy business profit, but just can't get into the game because of a lack of adequate funds.

However, this traditional approach is not the only way to achieve the desired result. Lack of farm ownership does not prevent successful wealth creation.

A more reachable financial target for someone moving along the dairy career path is to initially own all or part of the cows and mobile plant. Then the decision to own the remaining 75% of the capital required (the land) can be assessed in terms of such factors as the available funds to do so, the effect on the business bottom line in terms of debt repayment, or simply one's personal feelings about land ownership and investing off farm to generate wealth.

For some, the next step will be to continue along the path towards farm ownership. Depending upon their equity position at farm purchase, when they borrow money at 8% to own the $16,000 per hectare land, they are renting money costing $1,280/ha per year ($518 per acre), but they will receive the gain in capital value of the land which could be 0 - 5% per year and are not at risk of losing the land on which they farm.

Other dairy farmers are not worried about not owning their 'place of business'. They are comfortable to rent it. For example, at 4% of capital value for a farm worth $16,000/ha, the rental calculates to $642/ha ($260 per acre). They believe that they can achieve a far greater return than 4% by renting the land owner's asset and investing the profits made from operating their dairy business in assets not connected to their business. However, they do not receive the capital growth in the land over time, and are at risk long term of losing the land on which they farm.

Neither is wrong or right; it is possible to grow significant assets in either way but the absolute requirement in all situations is to have a profitable operational dairy business - making money out of converting grass and supplements into milk.

Further information: Stepping Stones provides information on the different types of careers on a dairy farm and explores pathways available for people looking to start or experienced people who want to progress their dairy career further. Visit thepeopleindairy.org.au/steppingstones

Share Dairy Farming Model Code of Practice promotes share farming as an effective way to operate a dairy farm business and set an industry standard by describing acceptable share farming practices, with guidelines and tools for assessing and establishing share farming arrangements. Visit thepeopleindairy.org.au/sharefarming