



Phil Dowling and his cousin Logan Dowling want longer-term farm leases to spread the risk and ride out the bad years.

Equity partnership a family affair

Immediate and extended family have given an Otago couple a great start in farming. **Lynda Gray** checked out how.

Family support, an equity partnership and leasing have put Logan and Fi Dowling on the road to farm ownership.

Fi's dad Ross Smith and Logan's cousin Phil Dowling have been the big investor change-makers along the way, but Logan's siblings and other close relatives have also helped.

The couple are forever grateful to Ross

who provided the cash before his death for a 50% stock and plant ownership in an equity partnership farm lease.

"That was what got us in, we couldn't have done it without him," Logan said.

Ross was keen to see Logan, Fi and their then two young sons settled on a farm and working towards farm ownership.

"It was great that he got to see us settled and had a look over the place

before he died," Fi said.

Phil Dowling, a first cousin, also came up with the cash to make it happen. He and Logan have always got along and worked well together.

Phil, along with wife Jo and his parents Gerald and Angela farm sheep, beef and dairy grazers on 1030ha near Ranfurly. When they sold 488ha for dairying in 2010 Phil and Jo looked for new

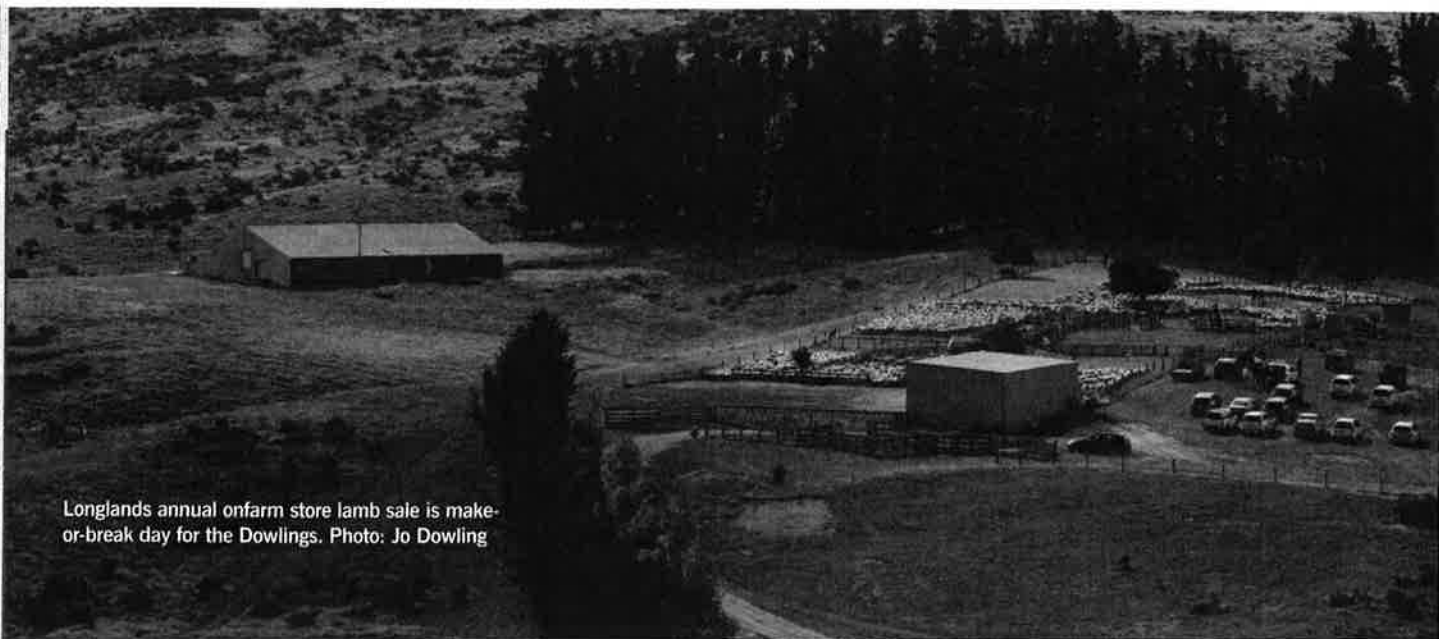
FARM FACTS

Logan and Fi Dowling, Phil and Jo Dowling

- 50-50 equity partners in stock and plant, and a five-year lease with an agreed three-year extension of Longlands Station, a 2000ha extensive Kyeburn dryland mostly hill-country store lamb and cattle breeding.

Stock

- 3400 Romdale ewes
- 800 ewe lambs
- 90 breeding cows
- trading cattle



Longlands annual onfarm store lamb sale is make-or-break day for the Dowlings. Photo: Jo Dowling

investment options. They bought into a dairy farm and also bought a 50% stake in a lodge accommodation business at Naseby, as well as the equity partnership.

'We bought on a high market and the following year the price fell. We wanted a minimum of eight years to spread the risk and ride out the bad years.'

"I knew they were looking for something and we saw it as something a bit different," Phil said.

Logan was head shepherd at Linburn Station when he heard whispers about the lease of Longlands Station in September 2011. He'd been on the lookout for quite some time but choice

The Dowling family, from left: Fi, Finn (3), Mac (5), Logan and Charlie (1).



was extremely limited with most of the local farms selling for dairyland prices. But Longlands was an exception because it was mostly dryland hill country with no potential for dairying or dairy support.

After taking a look around the almost

2000ha they decided to progress lease details with Longlands' owner, Geoff Preston. Logan and family moved to Longlands to take on the lease in February 2012.

The lease value was calculated on a stock unit value and is paid monthly. Many farm leases are for a five-year term but the Dowlings and Geoff Preston agreed that the extra three years will hopefully be reflected in a higher average return on investment.

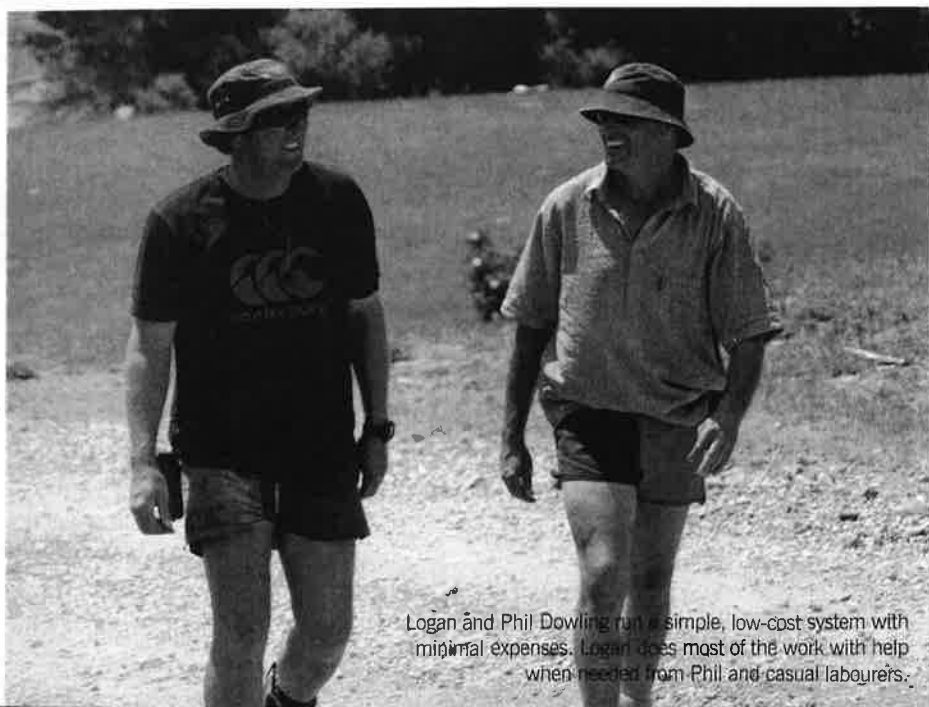
"We bought on a high market and the following year the price fell. We wanted a minimum of eight years to spread the risk and ride out the bad years," Phil said.

They took a forward-contract approach to agreeing on the price paid for the sheep and cattle. A minimum and ceiling price was agreed. The final price, paid two weeks after taking on the lease, was based on stock agent valuation. Setting a stock price range from the outset gave Logan and Fi the figures needed to work-out the partnership split.

"We knew then we could manage a 50-50 partnership. It gave us certainty and I'd recommend it," Logan said.

Farm budgets were based on the ceiling price.

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Logan and Phil Dowling run a simple, low-cost system with minimal expenses. Logan does most of the work with help when needed from Phil and casual labourers.



Logan and Finn Dowling with, from left: Charlie, Fi and Mac.



Simple low-cost system

Longlands Station's system is simple and low cost, and hinges on minimising expenses. There is no irrigation so no pumps to deal with and most of the work is done by Logan Dowling with help from his cousin Phil Dowling or casual labour.

Management of the 3400 Romdale ewes is kept simple with the main mob spending most of the time on the higher hill country. After mating to terminal sires the lighter end of ewes are taken off and grazed on the better country. Silage is

fed to the lighter ewes from mid-June and to the rest of the ewes from mid-July.

After scanning in early August twinning ewes get three weeks of either swedes or Winter Star, an annual ryegrass. All ewes get Selenium, a five-in-one and drenched before going back to the hill in late August where they stay until after lambing.

Lambing performance (ewes to ram) is usually in the 125-129% range. Tailing is in the third week of November, and

weaning at the end of January. All lambs are sold at the onfarm sale and replacement ewe lambs are bought local in April.

The Hereford-Angus breeding cows are low cost, hill grazers whose progeny is sold at the autumn Waipiata calf sale. Dairy cows and heifers have been grazed in the past but none have been sourced for this year.

The make-or-break day for Longland is the annual onfarm sale of store lambs.

"The hammer goes down and that's it's all over in 20 minutes and after it you know what we've got to work with for the next year," Phil said.

At last year's sale the 4100 lambs sold for a price average of \$69. Making a profit from breeding store lambs boils down to keeping a tight rein on expenses, Logan said.

"There are obviously fixed costs involved in a lease but beyond that we try to spend as little as possible."

A big expense is fertiliser. The annual application is based on the developed area and an agreed dollar value a tonne. Other yearly expenses are the spraying of Matagouri, usually 20ha and regrassing of a 10-12ha lower lying paddock.

The Dowlings are pleased with the performance achieved but said there was still a long way to go.

"We still haven't got a nest egg, which makes it hard to plan ahead," Logan said. They plan to see out the eight >>

LONG LEASES

Longer leases, of five years and more, are becoming a popular choice for younger couples looking for a break into farm ownership. Long lease arrangements also work for farm owners in their fifties or sixties wanting to ease back and bring in a young farming couple, or looking to retain the farm in a trust for the family.

"It's a win-win, especially for younger couples who are in farming for the long run," Rabobank's Brent Irving said.

While there was no one-size-fits-all lease price formula, a percentage of gross farm income, typically 20-22%, was usually fair and realistic.

Establishing a price per stock unit was another method, but could be tricky given the huge variation in stock unit performance on different farm types. In Central Otago for example, price per stock unit could be anywhere from \$17-\$24 although a high-performing farm with irrigation could push that closer to \$30.

Another important determinant of lease price was the amount of capital expenditure the owner was prepared to invest during the term of the lease.

"It depends very much on how much the owner is prepared to spend on capital and development for the term of the lease, if they don't that should be reflected in the price."

Irving said there were many standard lease agreements that provided the baselines and could be altered to suit.



Fresh thinking needed

Lynda Gray

Getting the next generation into farming by providing a pathway to farm ownership is an ongoing battle for the industry, central Hawke's Bay's Crowe Horwath agribusiness adviser, Sean Bennett, says. The topic was closely linked with succession, which was a two-part issue.

"You have older farmers seeking to release capital for retirement, while the next generation are often struggling to raise enough to get themselves a foothold in the industry."

But Bennett reckoned that fresh thinking about some of the lease-type arrangements could help pave the way and that it was up to rural professionals to work together and present "visible and viable pathways".

Equity partnerships, profit sharing,

modern leasing where the lease cost is linked to gross farm income or commodity prices, and wages plus performance-based incentives were all options where the farming business generated income for the owner and the young farmer gained management control and was rewarded for achieving results.

Bennett said agreements that required "skin in the game" consistently produced better results than those that didn't. All could be structured into low equity-type agreements to make it a win-win for both parties.

"It might be that the lessee comes up with 10, 20 or 30% of the equity, or owns a percentage of the land or stock.

Also, if the two parties kept working together the type of agreement could morph into a new arrangement.

A possible example was a wages-plus-



Sean Bennett, Crowe Horwath agribusiness adviser.

performance agreement changing to a stock-plant lease and then an equity partnership.

He said that in the central Hawke's Bay, hill-country lease values were still about \$275-\$300/ha. Flat land lease values had softened slightly from \$780 to \$750 but would most likely hold, especially on land that could be irrigated if the Ruataniwha dam gets the go-ahead.

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Snow raking at Longlands in winter 2013 is one of many examples when friends and family have been quick to pitch in and help. Photo: Logan Dowling



Making it work

Tips on making a farm lease and equity partnership work include:

- Communicate – the Dowlings are in regular contact with each other and Longlands' owner, meaning there are no unexpected surprises
- Be open-minded on the best structure of an equity partnership
- Look for a supportive farm owner-lessee, and
- Minimise expenses.

»» Form p18

year lease and will look out for other opportunities in which they can continue the partnership.

What's not reflected in the Longlands Station lease is the value of a supportive lessor.

Owner Geoff Preston has been excellent to deal with, Logan said, going beyond lease agreement terms by supplying fencing materials for some further subdivision and building a new set of yards.

Geoff is the great, great grandson of the original owner Joseph Farrar Preston who bought 13,000ha in 1858. The farm was one of the first settled in Maniototo.

"He looked everywhere, even in Australia, before buying it," Geoff said.

"He had to go to Nelson to get the sheep because Johnny Jones (the other main landholder in the region) wouldn't sell him any."

Geoff, along with his wife Susan and two children lived and farmed at Longlands for 20 years then shifted to Dunedin. He said the five-year lease with the addition of another three suits them.

"After five years our youngest will be finished at school and we haven't thought past that."

He still runs stock on part of Longlands so regularly visits and stays in what was the cookshop.

"Him being on the spot a lot of the time means he understands what's going on so there are no surprises," Logan said.

Family and friends have also been supportive. Logan's dad Mike and Phil's dad Gerald often help-out with tractor work. Fi's uncle Eric Stringer, who also farms at Kyeburn has also been helpful, as has Logan's brother Ryan, a PGG Wrightson stock agent.

"He's a great ideas man and keeps us up with what's happening in the market."