Agribusiness in Schools
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The win-win on farm leases

Read **"The win-win on farm leases"** below, and the answer the following questions.

Questions

1. Describe how a farming family can utilise two separate business entities (such as a Family Trust and a Private Limited Company/Partnership) to manage land and farming operations. Identify two standard financial terms of traditional farm leases that can create working capital strain for the tenant entity.

2. Explain how an informal "sharefarming" allocation of profit between a landowning Trust and an operating Company benefits capital accumulation. Contrast this with how traditional fixed-lease structures impact asset maintenance and business relationships during downturns.

3. Evaluate variable sharefarming arrangements as an alternative business structure to traditional fixed land leases for sheep and beef or dairy operations. Assess how this model balances risk and return and discuss the structural barriers to its adoption.



The win/win in farm leasing

With 40 years of farm consultancy experience, Kerry Dwyer has sat on both sides of many tables. He shares some advice on leasing farms and some basic principles.

WORDS **KERRY DWYER**

IN EARLY 2021, *COUNTRYWIDE* published an article I wrote concerning farm leasing. Since then, I have had regular enquiries about that article and topic. That tells me a couple of things: the power of this magazine in reaching its audience; and that farmers seek further information on the topic. So here is my update on farm leasing.

The article outlined how farms have serious investment in infrastructure, the maintenance cost of which should be taken into account when setting a farm lease. The norm is that the lease value is set relative to an expected income or simply by the optimistic view of that.

Seeking the win-win

Firstly, any deal involves price, quality and service. You are unlikely to get all three in your favour.

For those looking to lease the farm out – why are you doing that? And what are your future expectations?

For those looking to lease a property – why are you doing that? And what are your future expectations?

If both parties can articulate those, then the outcome might be a win/win rather than a win/lose or lose/lose.

Note that my comments generally refer to sheep and beef properties, although they might also be relevant to other enterprises.

"The norm for farm leasing is that the tenant pays by instalment, in advance at the start of each time period. In most cases, that means an outlay well before receiving any income, let alone any profit, from the farming business."

KERRY DWYER
OAMARU



ABOVE Farm consultant Kerry Dwyer.

The landowner vs the tenant

It has been interesting observing landowners who have been actively farming, who then decide to lease their property. They might have been farming for many years through good times and lean, and with leasing they expect that the farm can generate a consistent income at the top end of previous levels. In 2026, do we budget on income levels seen in the past six months or the average of the past three years?

The norm for farm leasing is that the tenant pays by instalment, in advance at the start of each time period. In most cases, that means an outlay well before receiving any income, let alone any profit, from the farming business.

Another norm is that the tenant pays a fixed annual rental regardless of actual income from the farming business.

The tenant has to allow for those in their working capital calculations, which impacts the level of rent they can afford. In the event of their not making sufficient profit to grease the wheels, they will naturally spend less on maintaining the property.

The due diligence done on farm leases is often minimal, for example, few landowners can or will provide information on previous stocking rates or production and financial achievements. And most prospective tenants don't ask for such data. With the development of farm plans and environmental requirements, more of this information is fortunately being sought and provided.

Informal land leases

Many farmers have the situation where they have several parts to the system, that is, they have a landowning entity such as a trust and a farming business entity such as a company or partnership.

Effectively the same individuals have ownership of the land and are also tenants of that land through a different business entity.

If you have this situation, at the end of each financial year your accountant works out the results and allocates the profit to match the requirements of providing for debt servicing, taxation, personal expenditure and capital accumulation. Effectively, this is leasing the land

assets and allocating profit by sharefarming between the entities.

The success of many farmers, who are running a business which is a tenant on land they also own, is due to this type of informal lease and sharefarming allocation of costs and profit. It has allowed capital accumulation to both parts of the deal to aid success of both, often without formal recognition or understanding of the mechanisms involved.

Interestingly, I have had clients running farming companies on trust-owned lands with no issues. However, when the ownership of those same companies has been changed to allow the next generation into the businesses, the accountants and solicitors involved form the opinion that the informal lease and sharefarm profit allocation is no longer suitable and fixed lease payments have to be set. Go figure.

As an aside to that, are you aware of the Trust Act 2019 and the requirements it puts on trustees? I am constantly disappointed by the level of education provided to farmers by their solicitors and accountants regarding this Act.

Successful leases

What constitutes success in land leasing, for both parties, over time?

In my experience, if both parties can talk to each other peaceably at the conclusion of the lease term, that is a big win, because that is not the norm. Success will be having met the objectives of both parties i.e. a win/win result. If it was never discussed what the relevant objectives were, then it will be tough to achieve success.

I would rate a low percentage of farm leases that I have dealt with or observed as being successful. The majority range from untidy to very messy. When I had an enquiry about my 2021 *CountryWide* article, that is something I stressed. The farm leases I see as being unsuccessful have not resulted in maintenance of the land and infrastructure assets involved, and have not resulted in sufficient capital accumulation by the tenants.

The model seems to be outdated at best, or maybe it never worked that well? Agriculture faces constant variation in climate and prices of inputs and outputs.

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When setting a rental – what values are set for all of these? Looking at a lease today – do we work on this year’s meat prices or the average of the past three years? What will next year’s prices be? Will we have a drought or a tropical cyclone flood impacting production and damaging the land?

Options

The landowner has to feel like Father Christmas at times. Recently I sat at a table being told the landowners were taking a huge risk in leasing the farm to a young couple. From my side of the table, I rated the young couple’s risk as huge while the landowners had risk at both low and manageable levels. To get agreement, the final deal had to accommodate the young couple’s level of input and risk, in some preference to that of the landowner’s.

Over the past few years, I have been working with some formal sharefarming arrangements in sheep and beef systems, as an alternative to leasing. These have been working quite well once the expectations of both parties have been sorted out and their relevant professionals have been educated.

The starting point for this pathway was many years ago having a dairy farming client lease their property with the rental set relative to the dairy payout. Basically, it went that the per hectare value was set at the district average kgMS production times and was 15% of the payout. In today’s world, that might be 1500kgMS



ABOVE Communication and trust between parties are essential in any lease situation..

times $10/kgMS times 15% which comes to $2250/ha/year. That worked well for the landowner and it worked for the tenant because it fitted within their bankers requirements and was below the cost of capital of owning the land.

With the dairy farming example it may have been considered a lease, but was effectively sharefarming because income was split according to the change of dairy payout and rental paid as income was earned rather than paid in advance.

Getting this model to work for dairy farming is simpler than with other enterprises because agreeing on expected production levels is reasonably transparent; income is generated earlier in the season and more consistently. Also, there is one main source of income and one main buyer of that product, which allows a high degree of trust between parties.

Getting this model to work for sheep and beef has taken some tweaking but can be done given open communication and trust between parties. Reach agreement on the production benchmarks relevant to the property and then the percentage of gross income to be allocated to the landowner.

Reach agreement on the time of payments relative to income being received.

There are several arguments against this sharefarming arrangement:

1. Lack of trust between the parties i.e. ability to diddle the books;
2. Acceptability to IRD i.e. can accountants and solicitors accept a new model?;
3. Lack of sufficient profitability to suit both parties. If that is the case then a lease arrangement will not work any better.

Given the variable environment we farmers deal with, sharing the gains along with the pains makes for better success than leasing where either party will be the loser at any particular time. ∞

Answers

1. **Describe how a farming family can utilise two separate business entities to manage land and farming operations. Identify two standard financial terms of traditional farm leases that can create working capital strain for the tenant entity.**

   - *Dual-Entity Structure: Many New Zealand farming families split their operations into two distinct entities:*
     - *Landowning Entity: A Family Trust or separate property-owning entity holds the fixed land and infrastructure assets.*
     - *Operating Entity: A Private Limited Company or Partnership owns the stock, plant, and handles day-to-day farming operations, acting as a tenant on the Trust-owned land.*
   - *Financial Constraints of Traditional Leases:*
     - *Tenants are typically required to pay lease instalments in advance at the start of each period, forcing an outlay well before receiving farm income or profit.*
     - *Traditional leases require a fixed dollar amount regardless of climate impacts or fluctuations in commodity payout prices.*

2. **Explain how an informal "sharefarming" allocation of profit between a landowning Trust and an operating Company benefits capital accumulation. Contrast this with how traditional fixed-lease structures impact asset maintenance and business relationships during downturns.**

   - *In family-owned dual entities, accountants often allocate year-end profits dynamically between the Trust (landowner) and the Company/Partnership (tenant) based on tax, debt servicing, and capital needs. This flexible arrangement allows both entities to accumulate capital and share risk without enforcing rigid, high fixed cash flow demands on the operating business.*
   - *Fixed lease structures force tenants to absorb all market and climate risks (e.g., severe droughts, fallen meat prices, high input costs). When market returns fall, the tenant's profit margin collapses, leaving insufficient working capital. As a result, tenants cut spending on repairs and pasture maintenance, leading to deteriorated land infrastructure, compromised asset values for the owner, and strained business relationships.*

3. **Evaluate variable sharefarming arrangements as an alternative business structure to traditional fixed land leases for sheep and beef or dairy operations. Assess how this model balances risk and return and discuss the structural barriers to its adoption.**

Evaluation of Risk and Return (Gains and Pains):

- *Unlike traditional leases where the tenant carries almost all operational and market risk while the landlord takes a guaranteed fixed return, a formal sharefarming structure ties land payments directly to production benchmarks and payout percentages (e.g., 15% of gross payout).*
- *Revenue is paid as earned rather than strictly in advance, easing working capital strain on young farmers or entering sharefarmers. Landowners share in the upside during high-payout years and absorb downside protection during lean years, ensuring the tenant retains sufficient cash flow to maintain land infrastructure and stock health.*

Structural Barriers and Challenges:

- *Lawyers and accountants often default to standard fixed leases, especially when generational ownership changes occur, due to familiarity rather than suitability.*
- *Sharefarming requires transparent record-keeping, verified production benchmarks, and high trust between parties to prevent disputes over accounting books.*
- *Establishing formal sharefarming requires legal frameworks acceptable to the Inland Revenue Department (IRD) and compliance with trustee duties under the Trusts Act 2019.*

Conclusion: While fixed leases offer landowning entities predictable income on paper, they frequently fail in practice during economic or climatic downturns by damaging land assets and exhausting tenant capital. Transitioning to structured sharefarming aligns the financial incentives of both the asset owner and the operating entity, fostering a resilient, long-term agribusiness structure.