

Dairy Share Rent Agreements

As the dairy industry evolves, people continue to seek ways to partner resources with others. Various agreements to share land, labor and capital can allow people to reach goals they may not be able to attain on their own. For instance, today's farmland and facility costs, along with the reluctance of many lenders to participate in dairy, make it difficult for most young people to buy the kind of operation needed to make economic progress. Volatile milk prices greatly complicate efforts to forge agreements that are fair to all parties involved.

Much has been learned about fixed and flexible cash rents for cropping operations, and much has been learned regarding sharemilking or percentage cash rents for dairy operations. Straight cash rents continue to be most common in both crops and dairy, and are the simplest to figure out and operate. But given all the volatility, a hybrid model, "Dairy Share Rent," might make some sense. The Dairy Share Rent idea carries the simplicity of straight cash rent, while sharing between owner and renter both risk and profit as milk prices rise and fall. It seeks to reduce risks for the beginning partner, while offering the potential for very good returns in high milk-price years for landlords who are willing to assume a little more downside risk in order to help the renter get started in dairy.

Land and facility rents are all over the board. In the Midwest alone, per-acre cash rents for decent farmland can vary from \$60 to \$400. The Dairy Share Rent concept may not work very well at the higher levels. Dairy facilities rents appear to range from \$8-\$18/stall per month (\$96-\$216 per year) depending on facilities, labor efficiencies and cow comfort issues. Since milk prices are the only variable in determining cash rent, it is important to figure a fair base for rent. To do so, determine the number of rental "units" held by the farm in the form of both acres and cow stalls, and multiply the total of units by the rent cost for each.

To explain the concept, I'll use \$150 rent for land and \$150 per stall for facilities. For the example, I'll use a model grazing farm with 80 cows on 80 acres — a model proven to be a good starting point for getting into dairy farming. This provides 160 rental units — 80 for the land, and 80 for the facilities.

Now we'll multiply these rental units by each month's per-cwt. milk price. For instance, if the milk price was \$13 per cwt. for the past month, then next month's rent would be 160 units multiplied by the milk price of \$13, or \$2,080. Below are tables showing the rental rates for this farm at various milk prices.

Table 1. Monthly Rental Rate Variance based on Milk Price:

\$10	\$1,600	\$15	\$2,700
\$11	\$1,760	\$16	\$2,560
\$12	\$1,920	\$17	\$2,720
\$13	\$2,080	\$18	\$2,880
\$14	\$2,240	\$19	\$3,040

Table 2. Annual Rental Rate Variance based on Milk Price:

\$10	\$19,200	\$15	\$32,400
\$11	\$21,120	\$16	\$30,720
\$12	\$23,040	\$17	\$32,640
\$13	\$24,960	\$18	\$34,560
\$14	\$26,880	\$19	\$36,480

These are just suggestions. Adjustments might be needed in cases where land quality or market rents are much higher or lower. For instance, a more accurate monthly multiplier for high-rent land and great dairy facilities could be the milk prices shown here plus \$2/cwt. Poorer land and/or facilities might merit subtracting \$1/cwt. to achieve a more accurate value. These adjustments would be based on what both parties feel is fair. The rental rate could also be capped at both ends to set minimum and maximum rent. Let's look at some examples for determining a fair rent.

For Farm A, a fair land rent is \$200/acre, which comes to \$4,000 more annual rental value than with the 80-acre farm on \$150/acre land described above. The above table tells us that multiplying by the milk price plus \$2/cwt. would provide the landlord with \$3,840 in additional annual income for 80 units of land, which comes very close to matching the difference in land values.

On the other hand, Farm B has less efficient facilities (no milking parlor) that are worth only \$10/stall per month, or \$120/year instead of the \$150 value in the previous examples. This is an annual difference of \$30 per stall, or \$2,400 for the 80 stalls. Based on the table, a fair rent may be the milk price minus \$1/cwt.

Or there is Farm C, which has both of the above — higher land rent value but the lower-value buildings. Since both acres and stalls are at 80, one could credit the land at milk price plus \$2, but lower the facilities by price minus \$1. The net result would be milk price plus \$1.

While the system isn't perfect, it could fit the bill in terms of reducing the risk of low milk prices for a beginning dairy producer, while providing a better return for the property owner when times are good.

Whatever system you might use, it needs to be kept simple and fair, or else it will invite its own destruction. As with sharemilking or other rental agreements, consider a three-party arbitration clause for your deal, with one person chosen by the landlord, one by the tenant (sharemilker), and the third chosen mutually. This will help you handle any legal issues stemming from unforeseen circumstances.

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