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Shared Equity Arrangements
By Joan Snyder

An alternative to a farmer-landowner lease arrangement is a business model of "shared equity" that accomplishes two important goals:

- It enables the two parties (farmer and landowner) to come together as potential partners – each offering different resources to the partnership
- It allows both parties to earn equity in the assets of the business – without just concentrating on cash flow

Variations of this arrangement are very common in New Zealand, where the practice is known as "share milking." The basic premise is that the landowner has assets – land and sometimes cows – and needs farm management and labor to achieve an economic return from those assets. A young farmer starting out rarely has assets that can be contributed to a business partnership, but energy, drive, and a willingness to work long, often unpredictable hours, are assets upon which every agricultural enterprise greatly depends. In New Zealand, this established tradition has created a professional pathway in dairying for those starting out in agriculture, and it has provided land-owners access to a pool of farm-workers whose vested interest in the enterprise assures dedication to its success.

The basic business arrangement normally works as follows: the landowner buys and builds any assets that are required to manage a dairy. The laborer, who is salaried, is compensated partially in cash, and partially in cows – that is, a percentage of the young cows born on the farm, become assets owned by the farm labor. This "separate" herd is integrated back into the main herd when ready to milk, and they produce a portion of the milk that is sold to a processor. Hence the landowner's income is enhanced with this added milk, and the incremental income is returned, in whole or in part, to the laborer who owns the cows.

In due course the laborer may leave the first farm he/she joined, with his/her herd, in order to go to a larger farm, where the process is repeated, and the laborer's herd increases over time. Eventually (s)he sells some or all of the cows to buy enough land to build his/her own dairy, at which point, another young farmer is hired and given the same opportunity.

The share-milking arrangement is well suited to New Zealand because there is a very vibrant (unregulated) market for milk, there is a clear opportunity to earn a comfortable living from dairying, many parcels of land are suited to small farms where grass based dairying is the mainstay of the operation, and mobility amongst herdsmen is the norm. But a comparable approach is equally well suited to Columbia Country, not only in dairying, but in other forms of livestock agriculture.

One local farm that has established this business model is a meat sheep farm, where the landowner is only minimally involved in day to day farm practices; the manager has responsibility for the animals, and for general maintenance of the property. He is compensated with monthly cash payments, on-farm housing, and also with an annually increasing share of the lamb crop each season. The cost of inputs, (feed, minerals, medication, etc.) is divided according to the percentage of the flock owned by each party. This percentage changes each year, as the ownership of the flock moves increasingly into the hands of the manager.

This arrangement provides flexibility to both parties; the manager can leave with his/her flock if he/she finds he/she needs more land, needs to relocate due to family demands, or wants to shift production to a second agricultural focus. It also provides the owner flexibility because the farm can be sold to inexperienced farm-owners, with a resident manager who is capable of running the farm business properly and is compensated for his own skills and success is so doing.

As with any businesses partnerships, there are always issues that are not considered in advance, but in general, the "shared-equity" arrangement is built around these principles:

- Most agricultural landowners want to see their land profitably producing food or fiber.
- The resources required for a successful agricultural enterprise include both land and labor, neither is sufficient on its own
- The provider of each resource should be able to build equity over time and to own assets that can be leveraged or sold
- Owning equity in a business enterprise generally engenders a more dedicated attitude and expenditure of effort than a work-for-hire, or land-for-hire arrangement.

Shared equity is a flexible business model that can be modified to suit many situations where it is not practical to share land ownership, and where the farmer's professional skills are valued as a form of capital that cannot be borrowed or acquired elsewhere.