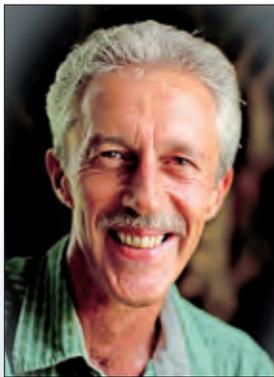


LEASE IN (OR OUT) YOUR DAIRY COWS

If you can't afford to buy more dairy cattle, you can rent them for a monthly fee. If you have surplus animals, a lessee can pay you a monthly sum and cover their upkeep. **Gerrie du Preez**, an independent dairy cattle broker and former general manager of the Holstein Breed Society, explains the ins and outs of leasing dairy cattle to **Robyn Joubert**.



GERRIE DU PREEZ

BELOW: Cattle are leased for different reasons, but it remains a good deal for both lessor and lessee. FW ARCHIVE

WHAT ARE THE BENEFITS FOR THE DAIRY FARMER WHO LEASES COWS?

The lessee gets the income from the milk, the calves born and the salvage value at culling. There is no outlay capital, but merely a monthly charge. It's very similar to a hire-purchase.

HOW DOES DAIRY COW LEASING WORK?

Let's say we're both dairy farmers – you need more cows to grow your business but don't have enough capital to buy them. Meanwhile, I have too many cattle and lease out some to you.

We decide on a lease term of three to five years, and negotiate the rates you pay me monthly.

Our contract should also stipulate what happens after the lease term expires. The options are:

- You as lessee give me, the lessor or investor, back the same number, quality and status cattle as I placed with you at the beginning.

- You give me back money equal to the current market value of the cattle, but not less than their value at the start of our contract.

- You give me back money equal to the original value of the cattle, plus growth in the capital (value of the cattle) if determined as such in our contract.

- I simply take back the same number, quality and status cattle and sell them on the open market.

- We decide to renew the contract for a further term.

WHAT RETURN ON INVESTMENT CAN THE LESSOR OR INVESTOR EXPECT FROM A LESSEE?

It varies from region to region and from farmer to farmer, depending on the feeding and management system used, how big the lessee's business is and why they want to lease in dairy cattle.

Some lessees pay 2% above the going prime lending rate, which could fluctuate. Some would pay a straight rate of around 15%, and others would



also work in a capital growth rate of 5% to 10%.

There are also those who'd pay 1,5£ to 2,5£ of milk/cow/day. This would be coupled to the lessee's milk price and can fluctuate according to the price received.

IF THE COWS NEED VETERINARY OR OTHER ATTENTION, WHO PAYS FOR THAT?

Both the pain and the gain are for the lessee to endure.

WHAT HAPPENS IF YOU AS LESSOR WANT TO GET OUT OF THE CONTRACT?

It depends on the arrangement and terms of the contract. That's why a proper contract is critical and should cover all possibilities from both sides.

'SUSTAINABILITY IS AFFECTED BY THE "BULLYING-DOWN SYNDROME" FROM RETAILERS TO PROCESSORS.'

HOW CAN YOU BE SURE THE FARMER LEASING YOUR COWS IS HONEST ABOUT THEIR PERFORMANCE?

It doesn't matter as I don't want the same cows back after the contract term. It's in the lessee's interest to look after them well as they're the one gaining from them.

WHAT HAPPENS IF THE COWS AREN'T GOOD PRODUCERS?

The lessee usually selects the cows, or appoints an agent to do so.

Cows or pregnant heifers from a well-managed and sound herd help to minimise the risk of culls or duds.

There are no absolute guarantees with plants and animals – just probabilities.

Erratum

Due to unforeseen circumstances, certain errors occurred in the May 6 'Bottom Line' feature. Herewith a reprint of the correct article. We apologise for any inconvenience caused.

HOW DO YOU PICK A GOOD FARMER TO LEASE TO AND HOW DO YOU PICK GOOD COWS OR PREGNANT HEIFERS TO BUY?

In short, by reputation and pedigree, with a bit of help from the terms of the contract/lease agreement.

IF YOU'RE THE LESSOR, WHAT HAPPENS TO YOUR INVESTMENT IF THE LESSEE GOES BANKRUPT?

It must be stated in the contract that your cows are your property and not part of the lessee's estate.

to be listed on my books as lessees. That number has reached nearly 50.

Slowly but surely I'm starting to help them as I'm getting investors, mainly retired farmers and people with some kind of relation to agriculture.

These investors are starting to see the concept as an opportunity to receive a passive income, aside from their usual means. They know exactly what they're buying and what they're getting.

WHAT ARE THREATS TO THE DAIRY INDUSTRY AND WHERE DO YOU SEE THE FUTURE OF DAIRY FARMING?

Currently, the sustainability of dairy farming is affected by the "bullying-down syndrome" from retailers to processors, and farmers get squeezed. There is no one below farmers who they can bully, and no one above them either. They can at best negotiate upwards.

So they have to take a lower milk price on the chin as it comes, as well as rising input costs such as feed, fertiliser, fuel, electricity and labour.

But the dairy industry has so much to offer that I can only be positive about it. Dairy farmers who have the skills, capabilities and willingness to work hard will get far. But if you want to start dairy farming without enough capital on hand, you're lost.

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[investindairycattle.co.za](http://www.investindairycattle.co.za). ■FW

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