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"ENTRY INTO FARMING"

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Introduction

There are several avenues that can be followed if a person wants to go farming. The criterion of this occupation is owning a farm but if ownership does not follow through inheritance, a substantial amount of finance is necessary. However, employment as a farm worker, or setting up as an agricultural contractor, or taking on a sharemilking position, are all most satisfying and rewarding pursuits.

Farming has its hazards, long hours are worked at times, it is an out of doors life and so the adversities of the weather have to be contended with. For the farm worker, wages may not appear to be high, but house rents are low and "perks" such as firewood, milk, meat, etc., keep the cost of living to a reasonable level.

Ownership is usually the foremost desire of a farmer, but with a rising population and an increasing demand for primary products, competition for land has increased and has set high figures for land and stock values. In the long run values will probably continue to appreciate. With the present marketing outlook, newly-established farmers will have to be more highly skilled than their predecessors and prepared for harder work. There is certainly a potential in New Zealand for higher production per acre, which will balance the lower prices for products and the high prices paid for land.

In New Zealand there are approximately 80,000 farm holdings of over one acre in size of the various types, from poultry runs to sheep stations. Annually 7-8000 of these units change hands; half of them being units of over 50 acres. Family transactions are included among these so it appears

that each year about 2500-3000 farms are sold on the open market. In addition the Lands Department makes available approximately 150 ballotted farms annually, and the Maori Affairs Department expects to settle 50-60 units each year.

THE PROSPECTIVE FARMER:

In view of the present markets and likelihood of continuing land price structure, prospective farmers should extend their farming knowledge and become proficient in all the tasks they are likely to perform on a farm. Practical experience on farms representative of all the main types of farming in this country is beneficial as with this experience the farmer will be better able to diversify and/or intensify his farming programme according to market demands. Stock pay the way, so that stock knowledge, stock sense and stock management should be perfected. Knowledge of plant and machinery, how to work it properly and maintain it, will ensure maximum efficiency of all plant and minimise expenses. By learning building construction the farmer will be able to repair and construct farm buildings.

A farmer must be capable of appreciating the farm as a unit, and capable of organising the physical and financial inputs and outputs to his own best advantage. To do this he needs to be able to analyse his annual financial statements (accounts and balance sheet), and to construct a forecast statement by preparation of a farm budget. This also assists him to appreciate market price trends and economic forecasts.

A good education is desirable to assist develop that capacity for management so necessary when a farmer is:

(a) observing things about the farm and conceiving ideas about them, or conceiving ideas about the farm as a result of information obtained from various sources, (b) analysing these ideas and making further observations to confirm the correctness of his conclusions, (c) making policy decisions on the basis of his conclusions, (d) taking action to implement his decisions, and (e) accepting responsibility for the results of his actions.

As will be illustrated later, unless he inherits a farm, a prospective farmer must have a substantial sum of money to contribute to the purchase of even a bare economic unit of any of the three main farming types, dairy, sheep or mixed cropping. Many young farmers have accumulated this sum through hard constant work while depriving themselves of many luxuries. The process is slow unless augmented by an inheritance, a dowry, or winning a lottery.

SELECTING A FARM:

Before starting to select a farm, the farmer should decide whether he has sufficient practical experience and knowledge to start on his own, and whether his finance is adequate to enable him to buy the type of unit he desires, plus the stock and plant for it, or whether he should accumulate more capital to get a larger farm. He should also consider the sources from

which to obtain the balance of the total purchase price, and also the question of whether he should invest his money in a farm just now with present prices for farm products not particularly stable. Would he obtain a greater return from his money by investing it in shares?

With limited cash, a start can be made by sharemilking on a 50 per cent basis if he is interested in dairying; or by leasing a block of land on a short term basis and cropping it or running a flock of sheep on it; or by purchasing a small unit and augmenting his income by working on wages or contracting in the district.

Having made the decision to take this bold step and buy a farm, he must clarify some of these points, (1) the type of farming he wishes to undertake, (2) the approximate total capital involved in a unit of this type, (3) the district he wants to farm in, (4) how many acres constitute an economic unit of this type in this district to ensure that he can maintain a satisfactory standard of living, meet his financial commitments and maintain the farm over the years, envisaging some fluctuations in prices for products. Alternative tenures must be considered, and also the services that are required: schooling, electricity, telephone, roads, etc.

Capital requirements are approximately as follows:—

TABLE 1.

	Fat lamb unit of 500 ac.	Mixed cropping unit of 300 ac.	Dairy farm of 80 ac.
Land	£25,000 (£20 per ewe)	£30,000	£12,000 (15/- per 1 lb. b.fat)
Stock	3,650	1,400	2,300
Plant	1,800	4,000	1,400
Working capital	1,500	2,000	500
Legal Expenses	560	640	340
Totals	£32,510	£38,040	£16,540

Acquiring a Farm:

Land transfers can take place within the family, the farm may be inherited upon the death of a relation, or it maybe sold at a reasonable price from

father to son. Farms may be won in a ballot in the General Land Settlement Scheme, but more often they are acquired either at auction or through a land agent. Some sales are effected

after private negotiations with the owner; occasionally sales are made by tender.

Normally sellers wish to obtain the highest price possible. To do this they place the sale in the hands of an agent, who earns a commission from the sale, usually after having acquainted a large panel of buyers with the availability of the property.

Farm sales usually take place in these ways (1) the land only is sold and the purchaser buys his stock and plant at the vendor's sale, or at the local sale, or he might have his own stock and plant, (2) the sale might be as a going concern when the price asked includes the land, stock and plant, or (3) the land at a certain price and the stock and plant at a valuation assessed at a later date by private valuers, one acting for the vendor and one for the purchaser.

The land agents take the prospective buyers to the farms, conduct the negotiations of price between the buyer and seller, the date of possession and an option if the purchaser desires one. If sold at auction they show prospective buyers the property, and conduct the sale on the appointed day. At auction 10 per cent of the price is required on the day of the sale and the balance on the day of possession.

ASSESSING THE PURCHASE PRICE:

Unless a vendor is forced to sell, the price asked is normally high, but with negotiations this price may be reduced. Hence the necessity to assess the purchase price. Likewise at auction the purchaser must have determined a price he is prepared to bid to. Professional valuers can be engaged to produce a valuation, but more often than not buyers do not seek their services. A buyer is influenced in deciding on his price by the desirability of the unit, the state of improvements and the amount of cash he contributes to the transaction. His age and ability to work hard will determine whether, with the same amount of money, he can buy an improved small unit, or obtain a larger less developed unit entailing greater physical demands. Other sales in the district should be noted and analysed to some standard term

of production or carrying capacity such as per pound of butter fat, or per ewe, or per ewe equivalent to take account of replacement stock and cattle. The Government roll valuation may be available: these revisions are made about every fifth year and even current ones are based on the willing seller-willing buyer concept so in prosperous times are often 20 per cent below sale prices; thus they are a guide but must be carefully noted.

It is sound practice to analyse the annual financial receipts and expenditure on the farm. If the vendor allows the perusal of his balance sheets, determine from them the taxable balance, the personal drawings, the stock balances and the amount spent on top-dressing; your own accountant can interpret more valuable information from them. If they are not submitted it is wise to construct a budget of your own, estimating income conservatively and over estimating expenditure. Ensure that mortgage commitments are included; the balance will be available for living expenses, and any development or capital programme envisaged. These analyses show the productivity of the unit and also help determine the purchase price. The interest return on the total capital involved, or on the farmer's equity in the place, can be obtained by determining the net surplus after standardising personal drawings and discounting interest and mortgage payments to show return on the total capital, or by discounting mortgage payments only to show return on the farmer's equity (total capital less mortgages). These interest figures are useful to compare returns from other types of investments, or returns from other farms.

A developed unit offers no great problems, the undeveloped unit demands hard work and a constant source of finance which if not available out of income, must be provided by the farmer or be available from lending institutions; the budget will show all this including the ability to repay the loan charges of both interest and principal.

A criterion of valuers is to give full value to a highly productive unit and to improvements in good order, but

to reduce values on a low producing unit with a poor potential which is hard and costly to obtain. This criterion could well be observed by prospective purchasers.

It is essential when looking over a farm to make a **thorough inspection** of it, to be absolutely sure of what you are going to buy.

Upon agreement of the price, a contract to sell is drawn up between the two parties and agreement as to when possession and final settlement should take place, is decided. A deposit binds this contract and is usually about 10 per cent of the price. If it is a sale subject to fulfilment of certain conditions, then the buyer must safeguard this deposit by ensuring that the total deposit is refundable if these conditions, such as raising finance, or sale of his own property, are not completed. Solicitors are engaged to search the titles, to draw up land transfers and pay the stamp duties at the rate of 22/- per £100 of the total price of the land. If mortgages are required solicitors also assist arranging them and drawing them up, and if a company is to be formed, they complete the necessary details. The legal expenses as illustrated above include transfer fees, stamp duties and conveyancing charges, involved in drawing up mortgages and also the formation of companies. They are substantial but comply with a set scale of fees. It is wise to decide on the form of ownership at this stage; the solicitor can advise you on the virtues in your case, of forming a private farming company, a partnership, a trust, or individual ownership.

LAND TENURES.

Of the 44 million acres occupied for pastoral use in New Zealand, nearly 22 million acres are freehold, 19 million acres are Crown leases or licences and 3 million acres are private leases. **Freehold** is best suited to the mentality and tradition of New Zealanders. A disadvantage is that purchasers have to invest more of their money in the property, possibly thus restricting working capital.

The advantages of leasehold tenure depend on the terms and conditions of the lease. Crown leases are usually for long terms and at reasonable rents,

with the Crown owning the land only, and improvements belong to the lessee. The **Renewable Lease** is for a 33 year period, it can be renewed, and at any stage freeholded, for cash or on a deferred payment licence, at a current valuation. The leasehold value or Crown rental value must always be obtained and added to the purchase price to determine the total land value on a freehold basis for comparative purposes. Buyers must safeguard themselves by finding out how many years the lease has to run, for rents are renewed upon expiration of the lease and the rental value may be so high as to leave little margin of security for any mortgages. In this case the mortgagees, if lending on a flat mortgage basis, might desire the repayment of their money when it falls due, to the embarrassment of the land owner.

Leases in perpetuity were evolved at the close of the last century but were discontinued after only a few years. They are for 999 years at very low rentals so that today they are treated as virtually freehold units. **Pastoral leases and licences** do not contain the right to renew, they are to be found in the High Country of the South Island only.

Private leases give little security for they are usually for short periods and do not contain the right to renew, and may not give compensation for improvements. Rents are high, and often the lease includes restrictive covenants, which while in the lessor's interest, do not enable the lessee to make high returns off the unit.

Leases have the advantage of not requiring the same amount of capital at purchase. Lending institutions grant loans on the equity left in a property after regarding Crown rental values as virtually first mortgages (see Table 3).

Financing the purchase.

A buyer may have sufficient cash to finance completely the total purchase of land, stock and plant and legal expenses and also have sufficient to use as working capital. As shown above this involves a fairly substantial amount. Most purchasers rely on borrowing money to complete their establishment on a farm.

Money can be borrowed on mortgage by offering the land as security

for the debt. A mortgage operates as a charge against the land, the legal ownership of the land remaining vested in the mortgagor (the person who owes the debt). This person alone is responsible for the repayment of the debt, hence the Personal Covenant of the mortgage—"I promise to pay", and it is his responsibility until repayment, or death or sale of the land. The personal factor is of great importance to lenders. While the margin of security on the land is important a sound personal factor is paramount. It is the farmer who organises the land and the enterprises undertaken on it to gain financial reward and who maintains or destroys the security.

There are two kinds of mortgages, Table mortgages and Flat mortgages. Money borrowed on a Table mortgage is repaid together with interest on an amortization table over a long period, usually between 25 and 35 years. The annual charge (the interest plus principal) are the same throughout the term of the loan. Some lending institutions have the right to review interest rates every five years but most are constant throughout the term. This type of mortgage has the advantage that at the end of the term, the loan is repaid, and because it is spread over a long period of years, annual charges are reasonable. An unseen feature is that money when borrowed for a term of 30 years or more, involves the payment of interest that amounts to the same or more than the sum borrowed. If £10,000 is borrowed for 30 years at six per cent over the term of the loan, £11,837 is paid out as interest.

Flat mortgages are loans granted for short periods, three, five or even ten years. The principal sum is borrowed for the period stipulated and at the end of the term this sum is either paid up in full or renewed. The interest only is paid during each year. It is a satisfactory way of borrowing if one can see one's way clear to saving up the principal sum and paying it back at the end of the term. Often it is the only way money can be borrowed on second mortgage. In difficult times one can never feel secure, for the mortgagee may call up the loan at the end of the term, and if the money is not available through re-financing, or cash

on hand, a forced sale may be necessary.

Money to complete the financing of stock and plant may be obtained in the form of a bank overdraft or a current account advance from a stock firm. These institutions may or may not require security for their loan. Banks usually lend for working expenses, the amount more often than not depending on the personal factor. Security can be offered on stock and plant for a loan. In this case the document securing the loan is an Instrument by Way of Security, more commonly known as a Bill of Sale. This document is operative for five years only, and must be renewed upon expiration of this period, or discharged upon payment of the debt. Crop and Wool liens are documents covering the security of a particular crop or wool clip when pledged as guarantee for the payment of a debt. They are operative over the specific crop named or the specific wool clip and exist for one year only. Usually the money is borrowed from a mercantile firm. Life insurance policies are at times held by lenders of money as security when money is loaned.

Lending margins are at the discretion of the lenders. As stated above, security is important but even more so is the personal element. Margins are varied according to the economics of the times, values of land, and terms of the loans. At present most lending institutions offering table mortgages are lending around 50 per cent. of their assessment of the value of the property, which is not necessarily the sale price. This margin may be more or less, depending on their policy, the personal element and the land offered as security. When stock and plant are offered as security, firms at present are lending up to 50 per cent of their value, but depending on the total amount involved and the personal element this could be more. For instance a good client requiring £3000 and offering stock and plant worth £5000 as security would be fairly assured of a loan for that amount.

Sources of Finance.

Long term table mortgages are obtained mainly from these Institutions: State Advances Corporation, Govern-

ment Life Insurance Office, The Public Trust, A.M.P. Insurance Society, National Mutual Life Association, and other life insurance companies. The Lands Department acting for the Marginal Lands Board lends to established farmers needing finance but unable to secure a loan from other sources.

Short term financial arrangements in

the form of Flat mortgages are made with Solicitors, or Trustee Companies, or Finance Companies. Current account advances may be obtained from Stock and Station Agent firms and Banks.

Financial assistance and cash requirements on a fat lamb farm could be assessed as follows:

TABLE 2.

	Purchase Price	Valuation	Loan	Cash Required
Land	£25,000	£24,000	£12,000 (50% margin)	£13,000
Stock & Plant	5,450	5,000	3,000	2,450
Working exp.	1,500		1,000 Bank O/D	500
Legal	560			560
Total	£32,510		£16,000	£16,510

Taking a farm with a Crown renewable lease of £5000 on it, with 20 years to run, finances could be arranged as follows:

TABLE 3.

	Purchase Price	Valuations for loans	Margin of Security 50% of Freehold	Crown Rental Value	Loans	Cash Required
Land	£20,000(a) (Lessee's interest)	£24,000(b) (as Freehold)	£12,000(c)	£5,000(d)	£7,000(e) (c-d)	£13,000 (a-e)
Stock & Plant	5,450	5,000			3,000	2,450
Working exps.	1,500				1,000	500
Legal	560					560
Total Ingoings	£27,510			£5,000	£11,000	£16,510
Crown Rental Value	£5,000					

The total purchase price on a freehold basis would be £25,000 assessed by the addition of the lessee's interest and the Crown rental value. The valuer has valued, for lending purposes, the lessee's interest at £19,000, which together with the Crown rental value of £5000, gives an assessment of £24,000 on a freehold basis.

General Land Settlement Scheme.

Large areas of undeveloped Crown land have, since the war, been developed by the Lands Department and settled by returned servicemen with finance supplied through the State Advances Corporation. Development is still being carried out by the Lands

Department and as rehabilitation of servicemen is drawing to a close more civilians will be able to secure units through the ballot system when they are ready for settlement. The present policy is that eligible graded returned servicemen have first preference, second preference is granted to graded emergency force servicemen, third preference to ungraded servicemen, fourth to civilians.

Cash deposits vary according to the state of development, the tenure (freehold or renewable leasehold) and to the total value of the units. Recently-advertised units in the Rotorua district required cash deposits of £3-5,000 on a

leasehold basis and £6-8,000 if freehold. Applicants seeking admission to participate in the ballot are interviewed by the Land Settlement Committee in that district. The successful ballottees are granted finance by the State Advances Corporation for the purchase of the land, stock and plant, plus further amounts to carry out essential improvements if required. They are run on a budget administered by the State Advances Corporation for three to four years.

SUMMARY.

Most young men going farming wish eventually to own a farm but substantial cash contributions are required to achieve this. Because of the demand for primary products through population increases, land will always be in demand and so maintain land values.

A farm can be acquired by buying it, by inheriting it, or by being a successful ballottee in a ballot for a farm under the General Land Settlement scheme.

The amount of finance granted by any lender of money depends on the personal factor, as well as on the security of the land offered.

When buying a farm, guidance should be sought if the buyer is not familiar with the district. Even if he is, he should ensure that he makes a thorough inspection of the whole farm. In assessing the purchase price, an indication of the productive worth of the unit should be ascertained by analysing the vendor's accounts if available, or if not, by constructing a current budget for a normal year. This budget will also indicate whether loan repayment commitments can be met and whether any development plans can be safely undertaken.

The actual transfer of land, and financial arrangements are usually made by a solicitor. His guidance should also be sought on the form of ownership that should be taken, whether it be as a company, a partnership or an individual purchase.

10. I hereby declare that the information provided in this application is true and correct to the best of my knowledge and belief, and I understand that any false or misleading information may result in the denial of my application and may constitute a criminal offense.

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