



agnote

For all districts

Buying a farm

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by Banjo Patterson, district extension officer, Hamilton

Many people dream about owning a farm, but making the dream come true is not as easy as it sounds. This agnote will help you decide what to do if you want to buy a farm.

You must decide—

- whether running a farm fits in with your family and personal goals,
- what type of farming you would like to go into, and the district which would suit your choice,
- which particular farm you would like to buy,
- a management plan for the property and how much you can afford to pay for it, and
- whether the price being asked is reasonable.

Family and personal aims and goals

Living in the country is different from living in the city. Wives and children used to the city may feel isolated in the country, especially since entertainment in the country is different from that in the city. The farm may also be a long way from a shopping centre, schools and other facilities taken for granted in the city. However the aesthetic benefits of rural living are now highly valued by many people, particularly those who have spent a considerable time in larger cities. You and your family must decide whether such considerations are important.

Financial considerations are important too. A farm requires a large investment and will probably not return as much profit on the investment as many city businesses would. Income from many farms is irregular during the year and may differ greatly from year to year.

The type of business entity is also important. You may want to operate as a sole trader, a husband-wife partnership, a larger partnership, a family company or a trust. Which is best for your situation will depend on management and tax considerations.

The enterprise and the district

Once you have decided to go farming, you must decide what type of enterprise you want to run and which district will suit the enterprise. Alternatively, you may want to decide on a district first in which case it means you will then have to select the type of enterprise that is suitable for your chosen district.

Farming land varies in price throughout Victoria, depending on climate, soil type, flexibility etc., and some enterprises need a bigger capital investment than others to allow a reasonable profit. Officers of the Department of Agriculture can give you estimates of land values in their districts, and can also advise you about the profitability of various enterprises. A list of these districts is provided at the end of this agnote. The sales section of rural weeklies and country newspapers will also give some idea of the cost of land, stock, machinery and equipment.

Management of different enterprises also needs different skills. Make sure that you and your family have the skills needed to run the enterprise of your choice successfully.

The amount of capital you have and any further amount you may be able to borrow will limit your choice of district and enterprise.

The farm

Now you must choose the farm to fulfil your goals. Once you have narrowed the possibilities down to a few farms, there are a number of aspects that should be thoroughly investigated and compared during the vital farm inspections —

1. The general situation

- location and availability of amenities like schools,
- climatic aspects including reliability and extremes,
- re-sale potential and the possibility of capital gains.

2. The management considerations

- livestock, cropping and pasture production,
- soil types and fertiliser history,
- potential problems like weeds, pests, diseases, erosion and salinity,

- development and diversification possibilities,
- standard of present management,
- state of repairs and adequacy of improvements.

3. The terms of sale

- type of tenure and title held,
- availability of vendor finance and if so, terms,
- items included in the sale like fodder on hand, temporary fencing, furniture and fittings in the home, growing or standing crops,
- improvements that require immediate attention and are to be carried out prior to the sale at the vendor's expense.

Management plan and ceiling price

The next step is to prepare a management plan for the farm. This will involve the preparation of annual cash flow budgets for at least the first three years and in some cases, many more until a stable "year-in, year-out" situation is reached.

Some of the information required for this task will be obtained from the farm inspection; however district economists from the Department of Agriculture, agricultural consultants and some bank officers can help you do this. It is worthwhile paying for the information if you have to — a little professional help at this stage could save a lot of money and worry later.

You will now have most of the information required to calculate your "ceiling price"; that is the maximum price you can safely pay for the farm, regardless of the market price. This ceiling price will depend on—

- cash resources on hand,
- amount of borrowed funds available,
- likely farm income plus other investment income,
- annual farm costs including living expenses,
- annual debt servicing commitments, and
- amount of capital expenditure (apart from the cost of land and improvements) that will be required to bring the property to a stage where farming can proceed.

This information can now be drawn together in the cash flow budget to arrive at your "ceiling price".

A reasonable price

The final step is to assure yourself that the price asked is reasonable and that you and your family can achieve your goals. Even at this stage, more than one farm may suit your requirements and a choice must be made. Ideally, an estimate of the expected return to capital should be made, however if past records are poor, this can be a lengthy task. To overcome this problem, a number of quicker methods are available to compare the prices but it must be stressed that the short-cut methods are less accurate and therefore less reliable.

1. Carrying capacity

If the farms being compared run similar livestock enterprises, then their prices could be compared on the basis of the cost of the area required to run a livestock unit. The most usual livestock unit is the dry sheep equivalent (DSE) as this enables all classes of stock to be brought back to a standard measure.

2. Gross return

The second technique of making a quick comparison between the price of farms is to compare the expected gross incomes as a percentage of the asking prices. This gives a guide to the farm's ability to produce income for each dollar invested.

As explained previously, the only truly reliable method of comparing prices is to calculate a percentage return to capital for each farm. Alternatively, if only one farm is being considered, it is still of value to look at the expected percentage return to capital, to give an indication of whether or not it is overpriced relative to its ability to earn an income.

You can get help and information from many sources but the final decision is up to you and your family. Remember that the vendor, the agent, the next-door farmers and the prospective providers of finance, all of whom you may seek advice from, are looking after their own interests. Interpret the information they give you with this in mind. Independent advice, even if you have to pay for it, may be a lot cheaper in the long run.

Further information

District centres of the Department of Agriculture are located:

Centres Telephone number

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|--------------|---------------|
| Bairnsdale* | (051) 52 4138 |
| Ballarat | (053) 37 0666 |
| Benalla* | (057) 62 2588 |
| Bendigo* | (054) 48 4505 |
| Colac | (052) 31 5377 |
| Echuca | (054) 82 1922 |
| Hamilton* | (055) 72 3722 |
| Horsham | (053) 82 3166 |
| Leongatha | (056) 62 2204 |
| Maffra | (051) 47 1541 |
| Melbourne | (03) 651 7011 |
| Mildura* | (050) 23 2056 |
| Seymour | (057) 92 2699 |
| Shepparton* | (058) 21 4788 |
| Swan Hill* | (050) 32 4461 |
| Warragul* | (056) 23 1227 |
| Warrnambool* | (055) 62 4277 |
| Wodonga | (060) 24 1510 |

*Indicates district centre where district economists are located.

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