Farmland Investment Models:
Innovative Land Access in New England

A summary

Access to land is a top challenge for both new and established farmers. Many young farmers cannot afford to purchase land to start or expand their operations. At the same time, investment companies are buying farm and ranch land in the US and globally. Farmland investment models vary in their scope, goals and methods. How do they work? Do they benefit farmers? And in particular, do they help farmers access, transfer or gain more secure tenure on land? These are the questions that guide Land For Good's ongoing investigation of farmland investment.

The second report, Farmland Investment Models: Innovative Land Access in New England, shares the findings and analyses of an investigation of four farmland investment companies that espouse a social mission and acquire farmland in New England. LFG, in partnership with the University of Vermont Extension Center for Sustainable Agriculture, sought to understand the potential of private "values-based" investment capital to provide beneficial, affordable land access and security for farmers in the New England region. This report builds from LFG's 2013 research on farmland investors. Specifically, the project investigated how these companies operate and in particular how farmers engaging in these transactions would benefit from them. The companies in this study are: Dirt Capital Partners; Iroquois Valley Farms; Local Farms Fund; and Entrepreneur Agrarian Fund.

The potential for success for farmland investor models lies in their attractiveness for farmers as well as investors. The purposes of this investigation were to:

- Help farm seekers better understand these models so they can make informed decisions about whether or not to pursue them; and
- Enable farmers to contribute constructive feedback about the models and lend insight as to whether or not they would work and why, and how they could be improved.

The observations and recommendations for farmers were based on two focus groups with farmers, including one in dialogue with the investment companies, and a review of company materials by a team of legal and financial advisors. The companies acknowledged that they are evolving. Their willingness to negotiate and respond to farmers' needs, and to receive feedback from this project is applauded.

Overall, farmers' initial skepticism about the investment companies was somewhat tempered after engaging in face-to-face dialogue with company representatives. The main questions of the participating farmers centered on rent calculations and other aspects of affordability, the lease-to-own terms, and stewardship provisions. While not all the farmers came away comfortable with these models, and questions remained, several could see them as potentially useful and expressed a willingness to consider them for their situation.

Legal and financial advisors reviewed lease examples provided by the companies. Overall, advisors felt that the legal and financial documents were clear and sufficient. Echoing the farmers, the main area of advisors' concerns centered on whether the financial arrangements would work for the farmers, especially the timeframes specified for the purchase options. No one, including the investment companies, assumes these models will work in all circumstances. And because the models are very new, it will take at least 5-10 years for them to be truly tested, and for further analysis to determine how these arrangements work for farmers over time.

Why might a farmer choose to work with a farmland investment company?

- An investment company can provide a bridge to the eventual sale of an easement and purchase by a farmer by securing (buying) the property until easement funds are available. The property is then rented to the farmer with a future purchase agreement.
- An investment company can purchase a desirable property that comes on the market when the farmer is not in a financial position to make an immediate purchase, and then rent-to-sell. Similarly, if land becomes available where competition for land is high, a farmer may secure this land for the future by renting it from a company that bought it, and thereby deferring land debt.
- An investment company may be attractive to a farmer with a new operation and lacking sufficient capital or a track record to get conventional financing. Start-up farmers may be able to incubate in place with a good chance of eventual ownership.
- An investment company may be seen as a more stable and supportive landlord than a private individual. Further, the investment company may provide expertise such as business planning assistance that helps the farmer with a specific transaction or in analyzing the likelihood of a future purchase.

Guidelines for farmers considering working with investment companies:

- ***Recognize that each investment company operates differently.*** One company's approach may be more suitable to the farmer's particular situation and preferences than another. It's important to understand each company on its own terms, undertake due diligence of the model and any agreements.
- ***Assemble a team of advisors.*** The right advisors are essential to assist farmers in evaluating the offering of any given company, while comparing it to other options. At minimum an advisory team should include a farm business advisor and an attorney.
- ***Develop a business plan that compares alternatives.*** Farmers should examine how the cost of leasing from the investment company compares with the cost of ownership, including by traditional means. Farmers should examine the viability of operating during the lease term of any agreement. If a farm purchase is the goal, a farmer should assess that likelihood under the terms of the agreement with the company.
- ***Research the availability of other financing.*** Other financing options may be comparably favorable to those of an investment company. These include state, USDA/Farm Service Agency and Farm Credit, as well as owner-financing, a lease with an option to purchase from the original owner, land contracts, family assistance, crowdfunding, and taking on partners.
- ***Research the potential role of conservations easements and land trusts.*** A farmer may consult with land trusts and other conservation organizations early on to determine interest in the property, and their willingness and ability to work with an investment company. If an

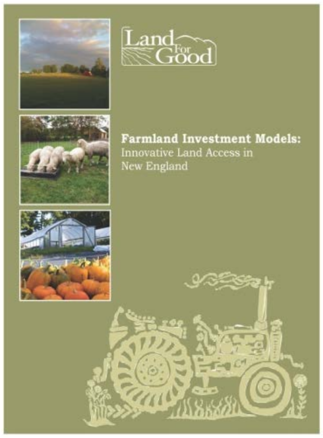
easement exists on a property, the farmer should understand its implications generally and for any potential arrangement with an investment company.

- ***Invest time into relationship building.*** The parties should to get to know one other before pursuing any agreement. The more documentation that farmers can provide to investment companies the quicker and easier the relationship can develop.
- ***Understand the cost of leasing.*** A farmer should compare the cost of leasing from an investment company to the market cost of leasing from other landlords, and to the cost of direct ownership with conventional financing. If a farmer intends to lease indefinitely, it is important to project changes in lease costs, especially relative to built-in rent increases and variable rent tied to farm revenues.
- ***Understand how improvements and repairs are handled in the lease.*** The farmer should budget for any infrastructure expenses that will needed during the lease period, who is responsible for them, and how improvements paid for by the farmer will be addressed in the lease, and potentially in the purchase price to them of the farm
- ***Consider acquiring infrastructure separately.*** Separating the ownership of these assets can make the arrangement much less complicated for both parties in many cases.
- ***Understand the costs of a future purchase.*** The farmer should understand the implications of different bases used by the companies for determining their purchase price.
- ***Ensure that the lease and related documents provide adequate tenure security.*** As with any lease, these agreements should specify how disputes will be handled. Leases and purchase options should be bearing on heirs, successors, buyers, agents, and assigns. In the cases where the farmer will lease indefinitely, longer term leases or "rolling" or "evergreen" terms may offer more security.
- ***Prepare to negotiate – and to opt out.*** These investment companies express willingness to work with farmers to attempt to accommodate their needs, provided that it makes financial sense within the company's business parameters. Farmers can advocate for their own needs and suggest creative options that work for both parties. Farmers should never feel obliged to enter into any agreement, even if they have received significant support and technical assistance from the investment company.

This report increases our understanding of how four farmland investment companies work and how they differ. It analyzes the potential implications of these models for land affordability and security for farmers. It does not draw conclusions about the companies studied, such as which offer better options for farmers, nor does it judge the farmland investment concept more broadly.

Whether engaging with investment companies is in the best interest of a specific farmer depends on that farmer's financial position, the property in question, the proposed arrangement, and the other financing and land access options available. In the end, farmers will need to decide for themselves.

A socially motivated investor who takes a modest return on investment, encourages land stewardship, and values farming opportunity can contribute to the sustainability of farmers and their communities. Only time will tell which companies and models will succeed, and which will provide long-term benefit to the farmer, the investor and the land.



The full report is available online: [Farmland Investment Report](landforgood.org/farmland-investment-models) at landforgood.org/farmland-investment-models.

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Appreciation goes to the investment company representatives, farmers and advisors for their substantial contributions. A list can be found in the report's appendix.

Land For Good (LFG) is a New England nonprofit organization. Its mission is to ensure the future of farming by putting more farmers more securely on more land in New England and beyond. Since 2004, LFG has provided support and guidance to help farmers, landowners and communities navigate the complex challenges of land access, tenure and transfer. LFG's comprehensive and collaborative approach helps realize family, farm business, landowner and community goals. For more information, visit landforgood.org.