American Farmland Trust

What About My Equity?

The Impacts of Zoning on Farm Businesses

One of the first questions often asked by farmers and rural landowners in communities considering new zoning ordinances that could limit landowners' ability to develop their land is "how will this affect my equity?" This is an important question as the land owned by farmers may constitute a significant portion of their personal or farm business assets. It is not uncommon for the sale of a farm to pay for their retirement. Farmland is also often used as collateral for financing farm businesses. For these reasons, new zoning ordinances that could decrease the value of farmland draws close attention.

The issue of how zoning laws will impact land values and the viability of farm businesses has been raised and considered in communities across the country. While the specific requirements of these "zoning" laws differ by town, county and state, they generally place significant restrictions on landowners' ability to develop their property for non-agricultural purposes. Common concerns raised about these laws can be broken down into three questions:

- Will zoning impact farmland values? If so, how much?
- Will the proposed zoning law impact farmers' ability to secure financing?
- How might zoning positively impact farm business' viability and the business environment for agriculture?

Impacts of Zoning on Farmland Values

This first question has been addressed in several studies in Maryland, New Jersey and Wisconsin[i]. The studies sought to evaluate the impacts of zoning laws on farmland values by either evaluating land sales prior to and after the adoption of zoning laws, comparing land sales in counties with restrictive zoning with neighboring counties without such restrictive zoning or analyzing the impacts of different variables on land sale prices in areas with and without restrictive, lower-density zoning.

It is important to note that the specific provisions of the zoning laws evaluated in these studies varied considerably. However, in general, these zoning measures reduced permitted housing density to a minimum of twenty acres per new residence.

One of the consistent findings in these studies was that many factors influence the value of land including the strength of the local, state and national agricultural and non-agricultural economy, suitability of land for development compared with its suitability for agricultural or rural use, proximity to transportation, water, sewer and good schools and in some cases local land use laws. It is likely then that farmland values will differ considerably as these characteristics differ with each property.

Furthermore, the studies found the impacts of zoning on land values to be mixed. Three studies in Maryland suggest that the argument that zoning will diminish land values is not supported by land sales in Maryland counties with restrictive, lower-density zoning when compared with counties without such restrictive zoning. By comparison, studies in Wisconsin and New Jersey found that zoning or similar land use controls can have both positive and negative impacts on land values. In Wisconsin, land prices for large farmland parcels somewhat removed from urban areas increased in value when restrictive zoning measures were established. This was believed to be due to greater certainty that future land use patterns would be compatible with agricultural production and a reduction in risk of future farmer/non-farm neighbor conflicts. At the same time, smaller agricultural parcels relatively close to urban areas were found to have higher prices if not restricted by zoning. In New Jersey, restrictive land use regulations were found not to have caused "wipeouts" in values for landowners in "Preservation Areas" but that the value of this land was not appreciating as quickly as land in "Development Areas". Additionally, land use regulations in the New Jersey Pinelands did result in some "windfall gains" for residential property owners as the supply of housing was restricted.

Possible Impacts of Zoning on Farm Businesses

Positive	Negative
- Create supportive business environment for farms	- Reduce fair market value of farmland
- Insures that future land use patterns are consistent with agricultural production	- Impact farmers' borrowing power by reducing farmers' collateral
- Reduce risk of farmer/non-farmer neighbor conflict	- Decrease farmers' financial flexibility by limiting options for disposing land
- Enhance farmers' ability to make suitable return on agricultural investments	- Diminish amount available to farmers for retirement (with sale of the farm)
- Maintain more affordable farmland prices – thus requiring lower debt loads for farmers and supporting young farmers entering into agriculture	

These studies suggest a more nuanced answer to the question "will the proposed zoning law impact farmland values?" Impacts will likely differ depending upon previously mentioned parcel characteristics. Smaller agricultural properties in rapidly developing areas appear more likely to be impacted while larger farm parcels in rural areas may have little negative and possibly a positive impact in value. However, the Maryland studies indicate that restrictive, lower-density zoning may not significantly impact the value of even smaller agricultural parcels in areas experiencing higher development threats. These findings in Maryland may reflect a real estate market with high demand for large rural parcels or farm estates (20-25 acre) as well as for smaller lots for residential development.

Impacts of Zoning on Farmers' Ability to Secure Financing

As suggested above, one of the frequent concerns voiced by farmers is that a reduction in farmland values by zoning will hurt their ability to secure operating or real estate loans. This is an important consideration because if correct it suggests that zoning could severely weaken the financial stability of capital-intensive farm businesses that frequently require loans.

Impacts of zoning on farmers' borrowing ability depend both on 1) the impacts of zoning on farmland values (as discussed above) and 2) the characteristics considered by banks in lending money. Surveys of banks in several of the previously mentioned studies indicate that the following factors are often considered in evaluating loan applications:

- Borrower's ability to repay debt from farm income
- Character and management ability of the borrower
- Borrower's reputation for repaying debt
- Value of collateral

Lending institutions surveyed in several of these studies including Farm Credit banks, the Farmers Home Administration and other commercial lenders suggested that the borrower's ability to repay debt from farm income is the most important factor in making loan determinations. While collateral value is an important consideration, it is primarily used to determine the maximum size of a loan.

When asked about the impacts of zoning on farmers' borrowing ability, several surveyed banks did express concern about possible impacts on farmland values as this could influence the size of loans offered to farmers. However, none of the surveyed banks could document a situation where a loan was denied due to zoning.

Thus, these studies suggest zoning may impact the amount of money made available to farmers by lenders. However, as farm businesses' ability to repay loans is the most important factor considered by agricultural lenders, concerns about borrowing ability may be overstated. As zoning may help improve farmers' ability to operate profitable businesses, it can help sustain the value of the agricultural investments and reduce risk associated with production agriculture. Lastly, the impacts of zoning on farmers' borrowing ability will likely differ as the impacts of zoning on farmland values will differ by property along with their farm business portfolio.

Impacts on Farm Business Viability and the Business Environment for Agriculture
The third question, how new zoning measures may positively impact farm business viability and the business environment for agriculture, is often overshadowed by a focus on the first two questions. When established with an explicit focus of supporting farm businesses and the retention of farmland in agricultural use, zoning has been argued to be able to:

- Support the viability of individual farm businesses as well as the overall health of the agricultural sector by insuring that future land use patterns will be consistent with production agriculture,
- Maintain the availability of productive farmland at more affordable prices,
- Reduce the likelihood of costly conflicts between farmers and non-farm neighbors.

These benefits are particularly important for agricultural producers requiring large blocks of agricultural land such as dairy farms, field crop operations and large-scale fruit and vegetable farms.

By comparison, zoning ordinances that permit poorly planned residential development in farming areas create significant challenges for farm businesses. While these zoning laws provide greater flexibility for farmers to dispose of their land, they prescribe conditions that threaten the continued viability of larger scale, land-intensive farm operations that are an important segment of New York agriculture.

Some issues to consider when trying to assess the impacts of new zoning measures on farm business viability and the business environment for agriculture include:

- Is the new measure explicitly aimed at supporting farm businesses and the retention of farmland in active agricultural use? Using local land use tools to support agriculture is not the same as planning for open space. Is the measure targeted specifically at planning for agriculture?
- Is the zoning measure part of a broader local strategy to address the business and land use needs of local farms? Are there incentive-based options to compliment new zoning measures?
- Does the ordinance include strategies for reducing the footprint of new development and its impact on agricultural businesses? Are siting requirement included that will steer new development away from the most productive agricultural soils?
- Does the ordinance promote the retention of parcels large enough to be farmed by a range of farm businesses? Increasing the required minimum lot size from 2 acres to 5 acres is unlikely to support continued agricultural viability in a community. This may reduce the density of new development but will likely result in parcels "too big to mow" and "too small to farm". Will the new measure promote the retention of parcels large enough for continued agricultural use?

Conclusion

The impacts of zoning or other planning measures limiting non-farm development on land values are not as clear as often presented. Restrictive zoning measures appear more likely to impact farmland values on small parcels in rapidly developing areas. However, even in these situations the impacts will differ depending upon the intensity of development pressure and the scope of the change. By comparison, restrictive zoning measures likely have fewer impacts on larger farmland parcels in rural areas. Potential impacts are also likely to be influenced by a number of factors that will differ for each property.

Communities considering new zoning that limits non-farm development are most likely to be successful when:

- These measures are considered as part of a comprehensive strategy to address the business and land use needs of farms.
- Impacts on farmland values and associated effects on farmers' borrowing ability are investigated along with possible positive impacts of zoning on farm business viability.
- These measures are targeted at strategically stabilizing larger blocks of high quality farmland for long-term agricultural use.
- New zoning laws are complimented by other "carrots" or incentive-based options for landowners.

[i] Coughlin, Robert. "The Effects of Zoning on the Ability of Farmers to Borrow Money." ***Report to the Mid-Atlantic Office of the National Park Service***, 1984.

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