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What you will learn

1. Prepare to secure land by buying it
 - 1.a. Describe the basic concepts of property ownership and property rights
 - 1.b. Describe factors that affect affordability including land prices and tax considerations
 - 1.c. Identify key lenders and lender requirements
 - 1.d. Recognize elements of a basic land contract and apply vocabulary used in contracts and real property
 - 1.e. Identify the steps in closing a deal including key legal and inspection issues for purchasing land

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Part 1: Get Ready to Buy Land

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Make Sure You Understand the Rights of Property Ownership

- Owning property comes with a “bundle of rights”
 - *The right of possession*: as long as you hold title, it's yours
 - *The right of control*: you can do what you want with the property, within the limits of the law
 - *The right of exclusion*: you have the right to decide who comes onto and uses your property – or not
 - *The right of disposition*: you can sell or transfer your property in whole or in part (or protect it forever using a conservation easement)



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Are You Ready to Be a Landowner?

- Along with rights come responsibilities
 - Paying a mortgage
 - Paying taxes
 - Maintaining the property
 - Following local land use laws and state and federal regulations
 - Insuring against liabilities
 - Defending title defects, if any



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When You Are Ready, Assemble a Team

- Buying a farm or a ranch is a big commitment
- It helps to pull together a team to help you find, finance and purchase the best property for you
- Key professionals to reach out to include:
 - A real estate agent
 - A qualified accountant
 - An appraiser
 - A farm advisor
 - A lender
 - An attorney



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What to Look for in a Real Estate Agent

- Look for someone who has experience with agriculture and transferring large estates
- If possible, find a “buyer’s broker” to work for you
- Ideally, one who:
 - Has relationships with ag lenders and
 - Local knowledge and contacts



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Work with an Accountant

- A qualified accountant will help you:
 - Gather financial information for your loan
 - Help you to develop financial statements for your business, if needed
 - Understand your short- and long-term tax situation and
 - Prepare your taxes
- What to look for in an accountant:
 - Someone you trust and who listens well
 - Preferably someone with experience with farm taxes



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Find a Property That Meets Your Needs

- Follow your plan, not your heart
 - Buying property is a long-term commitment, so be sure it is where you want to be
 - Will the property support your business, financial and personal goals?
- Make sure you can afford it!
 - Purchase price – how much can you invest and put toward a mortgage?
 - Carrying costs – how much can you pay to support the ongoing costs of ownership, e.g., taxes and insurance?



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Assess the Site and Surrounding Area

- Find out what kinds of farms or ranches are in the area: Is the community “farm friendly”?
- Will the property meet your personal, financial and business needs?
- Is there enough infrastructure to support your operation? Or can the site be built out or planted to meet your needs?
- How has the property been used?



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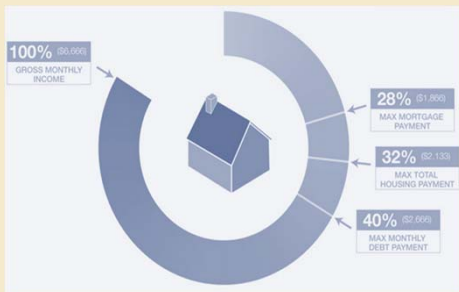
Figure Out Prices

- Land prices depend on market forces and things like location, infrastructure and improvements
- You can get an idea of local real estate prices from:
 - Local real estate listings – in newspapers, online or through Multiple Listing Services
 - Local real estate agents
 - Government agencies
 - Assessors and
 - Appraisers



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Determine Affordability



For most lenders, affordable means your total debt payments should be no more than 40% of your total gross income



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NYFC Affordability Calculator



Land Affordability Calculator

[findingfarmland.youngfarmers.org]

A website designed to help farmers and ranchers across the country make informed decisions when buying land

- > Choose between financing options to build land access scenarios
- > Compare the costs of different financing scenarios and different properties
- > Determine whether you can afford the properties you are considering
- > Prepare yourself to meet a loan officer



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Consider the Tax Implications

- Income taxes affect your available cash; buying land will change them.
- If you buy a property with certain kinds of assets (e.g., barns, fences, orchards, vineyards), you can deduct the cost of those assets over time.
- If you buy a property with a loan, the interest is a deductible business expense.
- If it also has a house where you will live, part of the interest is deducted as an “itemized deduction.”

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Calculate the Ratio of Personal to Business Assets


1. Identify the values of your assets, both personal and business
 - Business assets go on your balance sheet and are depreciable over time – e.g., an orchard valued at \$10k is depreciated over 10 years, so you can deduct \$1k annually
2. Calculate the ratio of personal and business assets and apply it to:
 - Mortgage interest
 - Property taxes and insurance
 - Shared maintenance and utilities – if any and if appropriate

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Part 2: Line up Your Financing



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Identify Financing

- **USDA Farm Service Agency (FSA)**
 - Temporary loans to prepare you for commercial credit
- **Farm Credit System (FCS)**
 - Geared toward farmers/ranchers/rural homeowners
- **Aggie Bonds/state loan programs**
 - Geared toward beginning farmers/ranchers
- **Local commercial banks**
- **Seller financing**
- **Personal loans (friends and family)**


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Beginning Farmer Oriented Loans

- **Farm Service Agency**
 - Direct Farm Ownership Down Payment Loan
- **Farm Credit**
 - Many have beginning farmer/rancher programs, need to investigate in your service area
- **Aggie Bonds**
 - Available in 16 states
 - Offer below market interest rates for beginning farmers and ranchers


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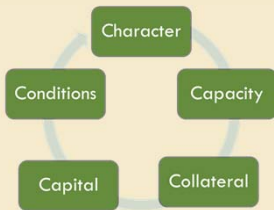
When Approaching a Lender: Be Ready!

- Know how much you really can afford:
 - How much down payment you can make
 - How much loan you can repay
- Have all your financial documents in order
- Be prepared to describe your financial position and convince them you can handle debt



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The 5 Cs of Credit



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Main Documents You Need to Approach a Lender

- Statement of personal assets and debts
- Balance sheet and income statements for any businesses you own
 - 3 years unless business is newer
- Business plan and cash flow budget
- Credit report
- Production histories – often 3 years
- Tax returns – usually 3 years



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Most Lenders Require a Business Plan

- It's a roadmap to success
- It's critical for long range planning as well as to get financing
- It should be written down and general enough to be flexible, but provide clear direction
 - Reflecting your vision and goals
 - And how you will get there



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Elements of a Business Plan

- The 5 Ws:
 - Who, what, why, where, when (and how)
- Mission statement
- Objectives to achieve your mission
- SMART goals for each objective
- Action plan to achieve the SMART goals
- Cash flow budget or pro forma financials



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Part 3: Close the Deal



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Practice Due Diligence

- Find out what state inspections are required
- Identify local land use regulations
 - What is the zoning?
 - Is there a local right-to-farm act?
 - Is the property in an agricultural district?
- Conduct a soil survey
- Identify water sources
- Perform an environmental site review



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Take Care of Legal and Inspection Issues

- Legal
 - Review title, survey and deed to the property
 - Identify water and boundary rights
- Inspections
 - Determine prior land use
 - Look at condition of buildings and other infrastructure
 - Test soils and water quality
 - Inspect septic system



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Sign a Purchase & Sale Agreement


- P&S agreements are legal documents that cover the weeks between when a property is taken off the market and the closing date
- Key elements include:
 - Details of exactly what is being bought and sold, and its condition
 - All terms of the purchase
 - A statement that the seller has clear title
 - The final sale price
 - Conditions that must be met for closing to take place
 - A termination provision



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Check for Clear Title and Review the Deed


- Title is the legal way of saying you own something
 - You can have full or partial rights to a property
- Deeds are the legal documents that transfer title from one person to another
 - They must be written and
 - Must be recorded in the Courthouse or Assessor's office



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What Is Covered in a Deed


- Date of ownership transfer
- Purchase price
- Names of buyer and seller and their addresses
- Legal description of the property
- Expression of "intent to convey"
- Signature of the grantor



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What Is Clear Title?


- You own the property "free and clear"
- There are no liens on the property
- There are no heir property issues



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Review the Deed Carefully


- What to look for:
 - Is the grantor's legal name and signature correct?
 - Are the boundaries clear?
 - Is the legal description correct?
 - Are there any encumbrances?



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What Are Encumbrances?


- An encumbrance is a limitation on or claim or liability against real estate
- Common encumbrances include:
 - Liens
 - Deed restrictions
 - Easements and
 - Encroachments



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A Note on Agricultural Conservation Easements


- Pay special attention to agricultural conservation easements in a deed
- They permanently protect farmland, which:
 - May make land more affordable
 - Supports land access and farmland succession
- But they also:
 - Limit what you can build on the property and where
 - Require regular monitoring and engagement with a land trust or government agency



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Title Review

- Banks require title insurance
- An attorney will conduct a title review after the Purchase and Sale Agreement is signed
- Look for any deed restrictions or other encumbrances



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Saving the Land that Sustains Us



www.farmland.org

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