Getting Started in Ag:
Obtaining Land, Services

Barriers to Entry

There is simply no substitute for land when it comes to production agriculture. Even if you are new to production agriculture, chances are you are well aware of the old cliché about land: They aren't making any more of it. Access to land, in whatever form, can be one of the biggest barriers to entry for new or beginning producers.

Recently, inflationary trends have seen most classes of farm and ranch land increase significantly in value. This trend, along with recent increases in interest rates, have made obtaining land for agricultural activities considerably more challenging. Fortunately, there are many alternatives for beginning producers seeking to obtain and use land needed for their operations.

Before You Begin

First and foremost, it is important to have a long-term view when talking about land and agricultural production. A successful ag business rarely appears overnight; it often takes many years of work, planning and preparation.

Risk Controls: Financial Planning Resources at RightRisk.org

—Found under the Resources tab

—Provide a wide range of important information from USDA's Agricultural Marketing Service (AMS) and other reports

—Organized into risk management categories: market, production, legal, human and financial risk

In particular, financial planning and preparation is extremely important, both for operational success and to demonstrate to others (prospective sellers, lessors, business owners and others) that you are dependable and well established. People you deal with, from lenders to landowners and others, want to see that you are reputable, trustworthy, and worthy of their time and effort. Developing complete and detailed business plans, financial statements and a sound long-term business model can help you earn their trust and respect.

Land Purchase Options

The standard fee title purchase is the most common and conventional land purchase. The purchaser agrees to a price and lines up financing, if necessary. Generally, if financed, the borrower will provide a down payment, often around 25 percent of the purchase price. Many states, including Wyoming, offer programs providing financing incentives for new or beginning producers. These programs may include a reduced down payment, reduced interest rate or a deferred interest rate schedule.

In Wyoming, these incentives are available through the Office of State Lands and Investments. Government financing through the USDA's Farm Service Agency (FSA) and Rural Development initiative are also options for most beginning producers. These programs offer direct financing or can assist producers through a guaranteed loan program with a commercial lender. Utilizing these options requires extensive financial planning and preparation before applying, but can also provide an excellent gateway to an otherwise inaccessible land purchase.

Another outright land purchase option is owner financing. Under this scenario, the owner of a property agrees to sell to a purchaser who makes payments directly to the owner, rather than working through a lender. Instead, the owner holds the title of the property until the terms of the purchase agreement have been fulfilled.

This type of agreement can offer advantages for both the buyer and seller. Buyers may be able to negotiate a better and more flexible payment schedule with this type of arrangement. First-time producers and those with limited resources have the advantage of not needing to meet the terms of a standard or commercial lender.

The Forage Risk Analyzer Tool (FRA) Tool from RightRisk.org

The RightRisk Analytics Toolbox includes the FRA tool designed to help one or multiple parties (up to six) understand the full value of the contributions of all parties to a potential lease and formulate a fair and equitable agreement.

At the same time, a seller who does not want or need to reinvest their land sale proceeds as a lump sum has the advantage of an income stream, with interest, from the sale proceeds. This can help limit capital gains and income tax liability issues for the seller.

When entering into an owner financing agreement, it's important to obtain the assistance of appropriate legal counsel in drafting the contract. This can help ensure all potential issues and the needs of both parties are addressed.

Leasing Options

Leasing land for agricultural production can provide advantages for new and beginning producers who are already established, but may not yet have the financial resources necessary for a land purchase. For new producers, leasing is often the least expensive way to obtain land for production.

Important Leasing Considerations:

1) Comprehensive written agreement

2) Maintain good lines of communication

3) Consider factors other than just lease price

4) Long-term approach is more beneficial

A lease agreement must include several key components, to be a benefit to all parties involved. First, the agreement should be in writing and comprehensive in its provisions and terms, including those involving dispute resolution process and termination. As with all business decisions, make sure to incorporate long-term financial planning. For example, a lease can be helpful as a means of working toward ownership or developing safeguards for long-term operation of the business.

Land leases usually fall into one of several categories: cash, share and flex/hybrid. Under cash rental leases, the tenant pays a fee to lease or rent land based on a fee schedule. Under a share lease, a landowner takes a share of production as payment for use of the land. Flex/hybrid leases usually include some combination of both a share and cash lease, such as using a lease with a cash payment as a minimum, while offering more to the landowner as production levels increase.

Lease-to-purchase arrangements, sometimes called lease-to-own, are another option that can help beginning producers secure land for production. These types of arrangements generally fall into two types. The first involves leases in which the tenant agrees to lease and has to an option to purchase at a later date as specified in the agreement. Usually under these agreements, the lease price is not applied to the land purchase. These terms may take the form of a "first right of refusal" option, which provides the lessee first chance at purchase should the property be offered for sale.

The second type of lease-to-own arrangement is the lease-purchase agreement, in which the terms of purchase are built into the terms of

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the lease. For example, a farmer might lease a property for a specified number of years before the agreement is converted to a purchase agreement. In this type of lease-to-own arrangement, the rental amount may go toward the eventual purchase of the property.

Remember, when leasing to own or entering into other forms of leasing or purchasing agreements, long-term planning is key for success, both in terms of risk management and building the business for the future. This may mean planning for eventual purchase, putting money aside in case a purchase opportunity arises, and planning for contingencies should production levels not generate the funds necessary to cover the lease payment.

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FOR MORE INFORMATION

Visit farmanswers.org for more information on obtaining the use of land and land services. The library features articles, publications, presentations and other resources developed for producers across the country. Visit RightRisk.org for additional resources on making informed land resource management decisions to get the most from your land investment.

James Sedman is a consultant to the Department of Agricultural and Applied Economics in the University of Wyoming College of Agriculture, Life Sciences and Natural Resources, and John Hewlett is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu

University of Wyoming Extension
USDA