



United States  
Department of  
Agriculture

National Institute  
of Food and  
Agriculture



The logo graphic for the American Farmland Trust, showing a silhouette of a farm with a barn, silo, and trees.  
**American Farmland Trust**

# Purchasing Land

An aerial photograph of a farm with a large barn, silos, a house, and surrounding fields. A green circle highlights the text in the bottom left corner.

**BEGINNING FARMER AND RANCHER  
DEVELOPMENT PROGRAM  
AWARD: 2015-70017-23901**

*Disclaimer: This presentation doesn't constitute legal advice and shouldn't be construed as such*



## Part 1: Get Ready to Buy Land



# Make Sure You Understand the Rights of Property Ownership

## Owning property comes with a “Bundle of Rights”

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- ***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)



# Are You Ready to Be a Landowner?

## Along with rights come responsibilities

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- Paying a mortgage
- Paying taxes
- Maintaining the property
- Following local land use laws and state and federal regulations
- Abiding by any easement terms associated with the property
- Insuring against liabilities
- Defending title defects, if any

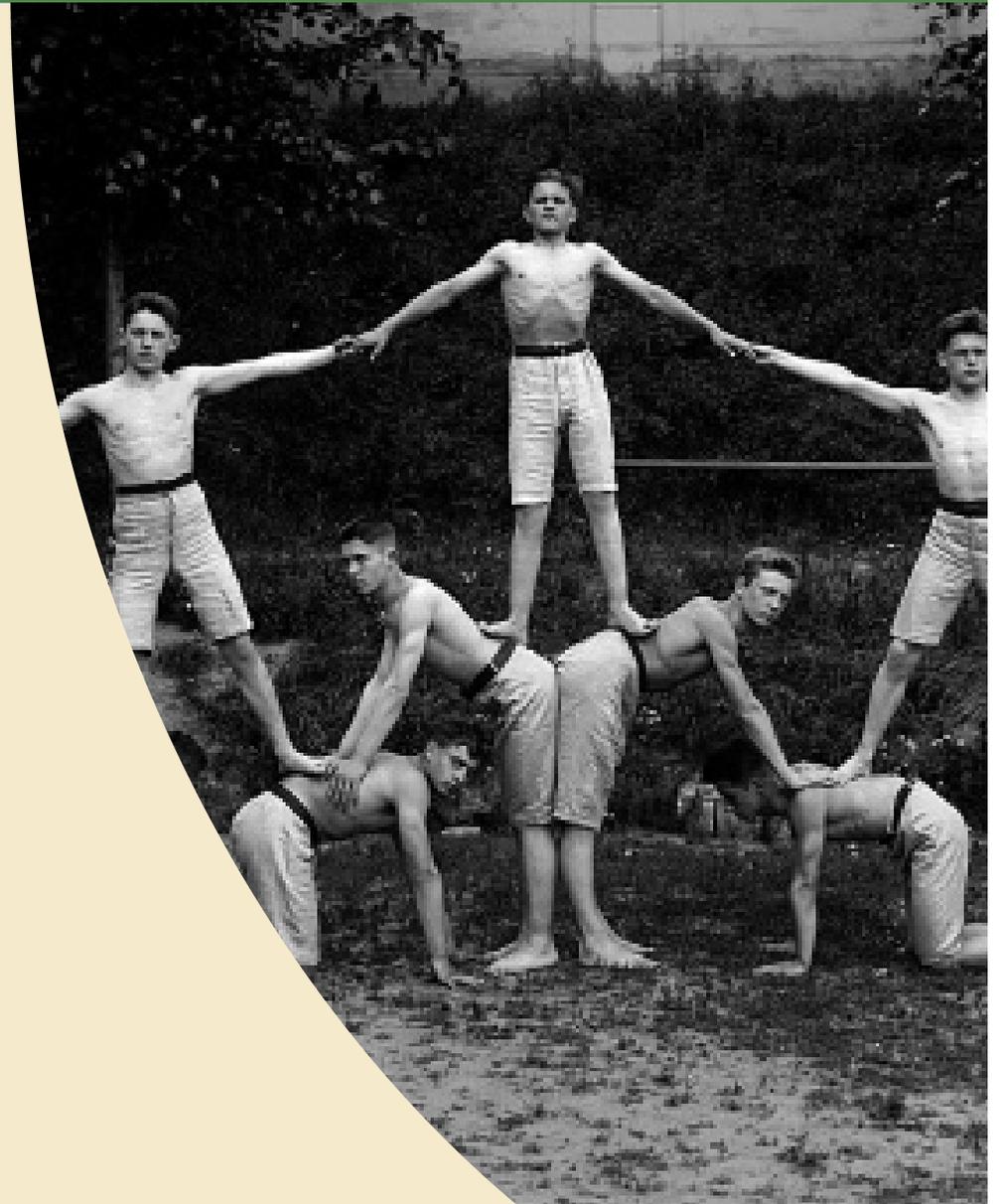


# When You are Ready, Consider Team Members

## Buying a farm is a big commitment

It helps to pull together certain experts to help you find, finance and purchase the best property for you

- **Key professionals may include:**
  - A real estate agent
  - A qualified accountant
  - An appraiser
  - A farm advisor (Rutgers Cooperative Extension, NJ Department of Agriculture and experienced farmer)
  - A lender
  - An attorney



# 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?

# Find a Property That Meets Your Needs



## 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?

# Assess the Site and Surrounding Area

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

# 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 Appraisers
- List of resales of preserved farmland

<https://www.nj.gov/agriculture/sadc/farmpreserve/appraisals/appraisalresources.html>

# NYFC Affordability Calculator



## Land Affordability Calculator

[ [findingfarmland.youngfarmers.org](http://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



# NYFC Affordability Calculator

## My Farm

\$235,000 | 28 acres

February 26, 2019 | NYFC Affordability Calculator

### Financing your property

#### DOWN PAYMENT

**\$25,000** | 10.64% of property price

#### FSA DIRECT OWNERSHIP LOAN

**\$210,000** | 3.75% interest | 30 yr amortization

**\$5,000** annual taxes      **\$3,000** closing costs (2%)  
**\$1,000** annual insurance      **\$0** capital investment

**\$561,353** total payment over 30 years

#### TOTAL PAYMENT BREAKDOWN

Principal  
**\$210,000**  
 Interest  
**\$143,353**  
 Down payment  
**\$25,000**  
 Insurance  
**\$30,000**  
 Taxes  
**\$150,000**  
 Closing costs  
**\$3,000**

#### MONTHLY PAYMENT BREAKDOWN

YRS 1-30      **\$1,482 / mo.**

### Financial Statements

<b>GROSS PERSONAL INCOME</b>	<b>\$0 / year</b>
Farm income	\$0 / year
Non-farm income	\$0 / year
<b>PROPERTY EXPENSES</b>	<b>\$982 / month</b>
Monthly loan payment	\$982 / mo.
Property taxes	\$5,000 / mo.
Property insurance	\$1,000 / mo.
<b>PERSONAL ASSETS</b>	<b>\$0</b>
Cash	\$0
Vehicles and equipment	\$0
Other property and buildings	\$0
Other assets	\$0
<b>BUSINESS ASSETS</b>	<b>\$0</b>
Cash	\$0
Accounts receivable	\$0
Vehicles and equipment	\$0
Property and buildings	\$235,000
Supplies	\$0
Crops & marketable livestock	\$0
Perennial crops & breedstock	\$0
Other inventory	\$0
Other assets	\$0

### Affordability

# Consider the Tax Implications

**Income taxes affect your available cash; buying land will change them:**

## **Depreciation**

If you buy a property with certain kinds of assets, like;

- Barns
- Fences
- Orchards
- Vineyards

**You can deduct the cost of those assets over time.**

# Consider the Tax Implications

**Income taxes affect your available cash; buying land will change them:**

## **Interest & Property Taxes**

- 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.”



## Part 2: Line up Your Financing



# Identify Financing



**Seller  
financing**



**Personal  
loans  
(friends  
and family)**



**Local  
commercial  
banks**



**Farm Credit East (FCE)**

- Geared toward farmers
- Has beginning farmer programs

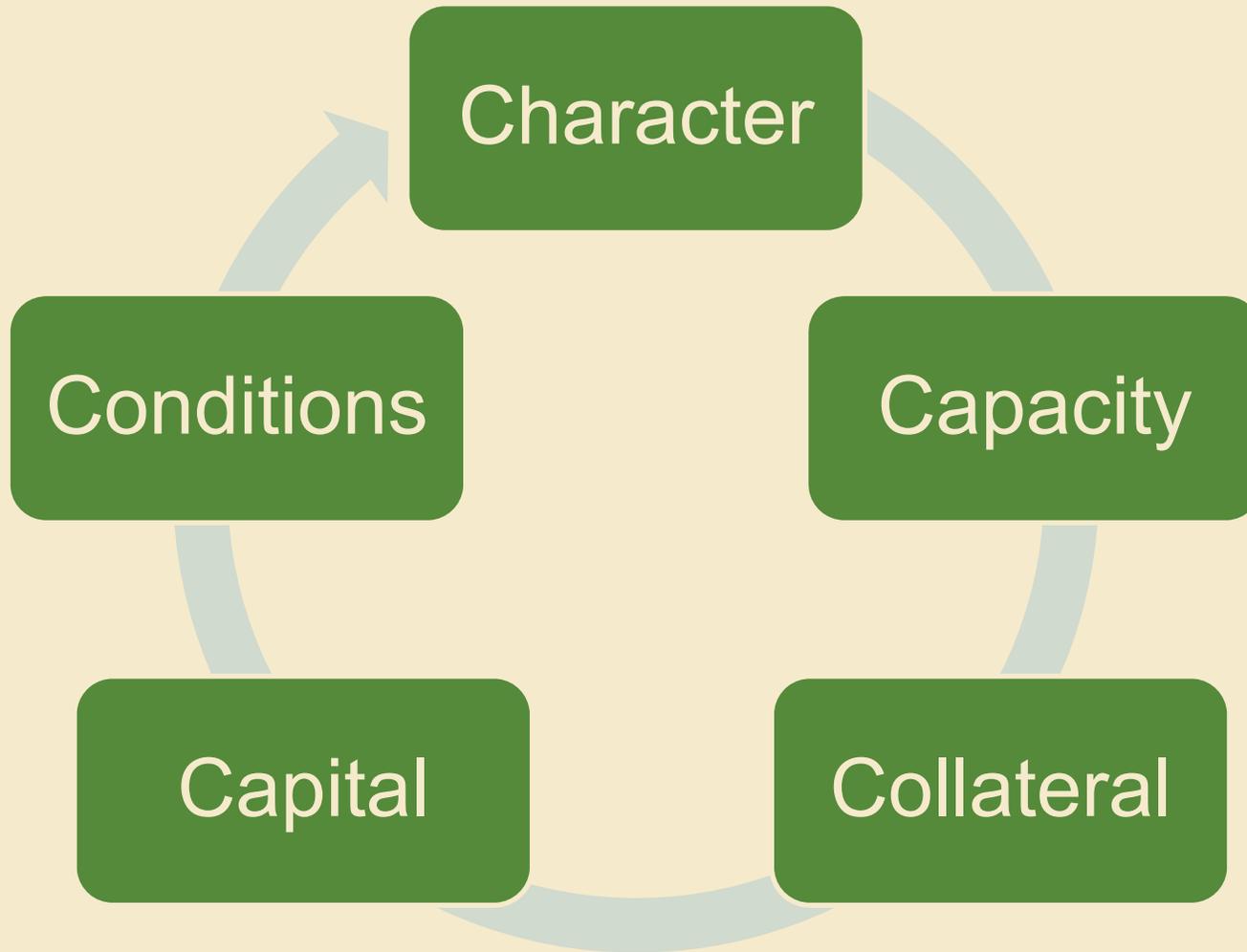
**USDA Farm  
Service Agency  
(FSA)**

- Loans to prepare you for commercial credit
- Direct Farm Ownership Down Payment Loan

# 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

# The 5 Cs of Credit



# 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

# 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

# Elements of a Business Plan



## The 5 Ws:

- **Who** you are and who your customers will be.
- **What** you plan to produce
- **Why** you plan to start the business
- **Where** your business will be located
- **When** you plan to start and **How** you plan to produce your product and market it.

# Elements of a Business Plan

- Mission statement
- Objectives to achieve your mission 1-3-5 years out
- **SMART** goals for each objective
  - **S**pecific
  - **M**easurable
  - **A**ttainable
  - **R**ewarding
  - **T**imed
- Action plan to achieve the SMART goals
- Cash flow budget



## Part 3: Close the Deal



# Practice Due Diligence



- Identify local land use regulations
  - Zoning, permitted uses
  - Is there a local right-to-farm ordinance?
- Find out what state inspections are required
  - Soil survey/Wetland Area assessment
  - Environmental site review (especially important for organic production)

# Take Time for On-Site Inspections and Inquiries

## **Inquire about:**

- Prior land use
- Prior farming practices
- Water sources

## **Inspections:**

- Look at condition of buildings and other infrastructure
  - Septic systems, storage tanks, irrigation systems, etc.



# Making an Offer and going Under Contract

**P&S Agreement** is a legal document that covers the time period between when a property is taken off the market and the closing date

## Key elements include:

- Property Info of exactly what is being sold
- The final sale price and how it will be paid for
- A termination provision



# What is Title?

**Title** is the legal way of saying you own something

**Deeds** are the legal documents that transfer title from one person to another

**“Clear Title”** means you own the property “free and clear” with no outstanding interest or liens on the property

# Title Review and Title Insurance

A title search provides details about the property such as owners and encumbrances

Pay close attention to any deed restrictions or other encumbrances

Title insurance can be purchased to protect you and your ownership

Banks require title insurance

A Survey may be needed

Identify boundary lines, encroachments & easement locations

# What Are Encumbrances?

**An encumbrance is a limitation or claim against real estate**

Common encumbrances include:

- Mortgages and other liens
- Easements
  - Rights of others to use the land
- Restrictions
  - Limits the use of the land

# Common Title Issues

## Estate Issues

- Farmland is commonly passed down from generation to generation without settling estates

## Difficulty locating easements

- Water rights or access rights from 50-100 years ago

## Boundary lines

- Missing markers, boundary line disputes

## Encroachments

# A Note on Farmland Preservation Easements

- Pay special attention to **Farmland Preservation Easements** in the title
- 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



# Saving the Land that Sustains Us

  
**American Farmland Trust**  
[www.farmland.org](http://www.farmland.org)

