



Gaining ground for farmers

Use of Investor Capital in Securing Farmland

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Defining Investment

DEFINITION of 'Investment'

An [asset](#) or item that is purchased with the hope that it will generate income or appreciate in the future...In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

What we are NOT examining:

In this examination, we are generally looking at where there is an investor “ownership stake” in the land. We are NOT looking at:

- Crowd Funding (Donations)
- Advanced Sales of Farm Products
- Cooperatives or Partnerships (Generally)
- Peer-to-Peer Lending
- Traditional Debt Financing (with exceptions)

History of Farmland Investment

Farmland investment and speculation have been occurring for centuries.

Over the last decade, there has been significant growth in interest from private capital investment companies.

Recently, the interest has included “values based” or socially responsible investment.



Our research

Observing values-based farmland investment company interest in the NE, LFG did initial research in 2012.

In 2014, LFG with UVM Extension began an in-depth research project to examine how some of these scenarios work for farmers.

Our Research

Invited Investment Companies working in New England to participate:

- Dirt Capital Partners
- Entrepreneur Agrarian Fund
- Iroquois Valley Farms & Local Farms Fund
- Northeast Farm Access (did not participate)

The Project

- Request for Information to all the Investors
- Assembled a VT Farmer Focus Group
- Focus Group met with Investors and also separately
- The farmers generated additional questions and engaged in a dialogue
- Assembled a Legal Team to review
- Assembled a Financial Team to review

Models Differ

The Models differ between each investment company.

If a farmer talks to one investment company they can't assume that they understand how others work.

Commonalities

- Working with properties with a potential for a reasonable rate of return
- (Generally) Lease to farmers that they select at the outset of the relationship
- Looking for land to be “sustainably managed”
- Looking for the farmers to be financially successful

Differences and Variables

- Number and “type” of Investors
- Structure of the Company and Ownership structure of the land (Securities, LLC, REIT)
- “Buy and hold” vs buy with intent to sell
- Revenue sources for the investor-rent, interest, appreciation, ecosystem services
- Investment in infrastructure and housing

Differences and Variables

- Use of Debt Financing
- Role of Conservation Easements/Affordability Clauses
- Requirement to certify organic
- Involvement in the farm business
- Farmer selection incl. beginner v. established

Why a farmer might engage?

- Bridge to conservation easement
- Start-up wanting to incubate in place; build
- Wants to invest capital in the business not land
- Looking for substantial expansion and needs to build production and sales first to make purchase less risky
- Quick capital needed to make quick purchase

Factors for Farmers to Consider

- Costs of rent compared to market rate
- Change in rents over time (rent escalators)
- Security of the Lease and other legal aspects
- Buyout costs and viability of purchasing
- Fixed Appreciation vs Appraisal
- Appreciation Rate; Financing
- The role of conservation easements & OPAV
(In VT sales to farmers don't trigger OPAV)

Factors for Farmers to Consider

- Capital Investment--real estate improvements; Significant Repairs
- Costs relative to other options for land access
- Default, Dispute Resolution, Mediation
- Their business plan and contingencies

Farmers Need to Consult:

- Farm Financial Advisors
- Attorney with real estate background
- Land Access Specialist such as
 - Land For Good
 - Extension
 - Land Trusts

Models Are Evolving

They have already changed since 2014 and are likely to continue to evolve

Thank you!

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