



United States  
Department of  
Agriculture

National Institute  
of Food and  
Agriculture



# Purchasing Land

FARMLAND FOR THE NEXT GENERATION



PennState Extension

**Monday**

1

- March  
• 29<sup>th</sup>
- **Intro &  
Access**

Linda Falcone  
Maria Graziani

**Tuesday**

2

- March  
• 30<sup>th</sup>
- **Finding  
Land**

Christi Powell  
Megan Chawner

**Wednesday**

3

- March  
• 31<sup>s</sup>
- **Leasing  
Land**

Lynn Kime

**Thursday**

4

- April  
• 1
- **Purchasing  
Land**

Jay Eury

**Thursday**

5

- April  
• 8
- **Lawyer  
Panel**

# Meeting Schedule

6:00 to 8:00 PM

6:00 - 7:15 Content

7:25 - 8:00 Q&A



**PennState Extension**



# *Get Your Questions Ready!*

**April 8, 6:00 – 8:00pm**

1. Attorney Brook Duer, Penn State Ag Law Center
2. Breakout Sessions for Panel Discussion
  - Eastern PA
  - Central PA
  - Western PA

*Submit questions via Chat during our session, and indicate if the question is for the Panel Session.*


*Or keep a running list and come prepared April 8.*

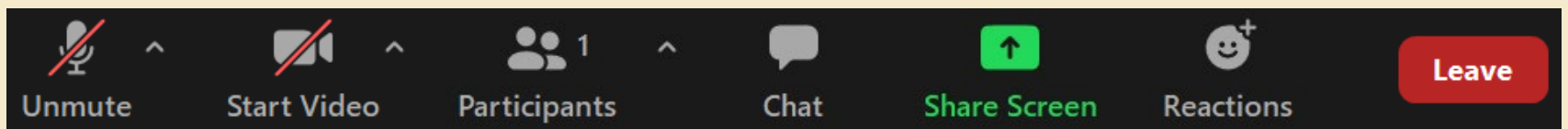


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# Zoom Housekeeping

- Meeting Sessions are being recorded 
- Please Mute your Microphone!!!
- Chat can be seen by the panelists and attendees, or just panelists



- Technical issues email [DJM428@psu.edu](mailto:DJM428@psu.edu)

# Acknowledgments

- Farmland for the Next Generation was created by American Farmland Trust, supported by a four-year Educational Enhancement grant from the USDA Beginning Farmer and Rancher Development Program.



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- Thanks also for support from the Farm Credit Contributions program, an Educational Enhancement Team of national experts in farmland access, and the members of American Farmland Trust.

A blue-tinted image of the Statue of Liberty's head and crown, holding a torch, set against a dark blue background with a white arc.

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# Disclaimer

This seminar is intended solely to provide information to the public. It is not intended as legal advice. We recommend speaking with legal and real estate professionals about your personal situation. The views and opinions expressed by panelists as part of this Internet seminar do not necessarily state or reflect those of Penn State Extension or American Farmland Trust.







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# Part 1: Get Ready to Buy Land



# 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)



# 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



# 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



# 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



# 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



# 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?



# 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?



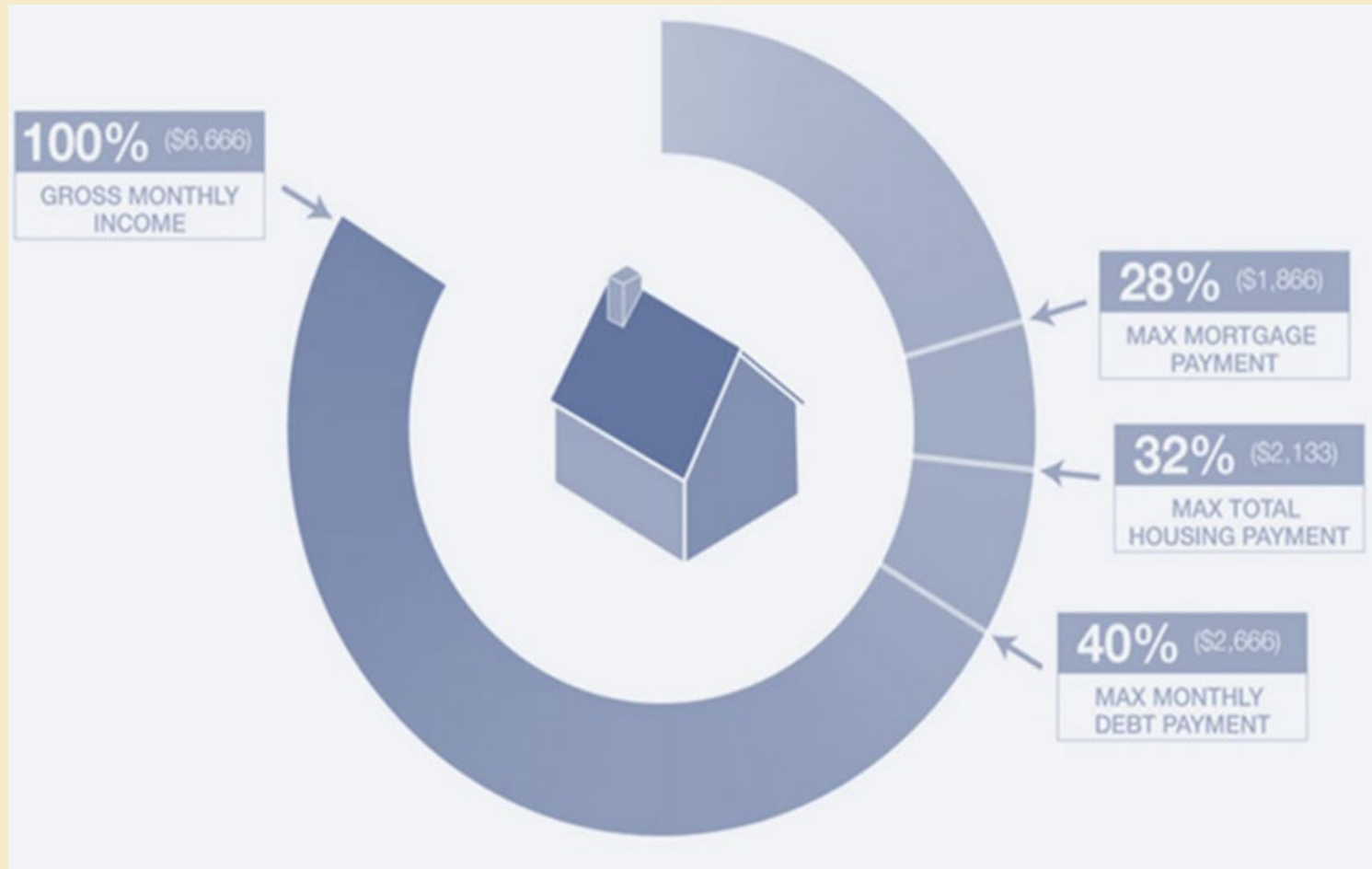


# Figure Out Prices

- 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



# Determine Affordability



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

# 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



# 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.”



# 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



## Part 2: Line up Your Financing



# 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)

# 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



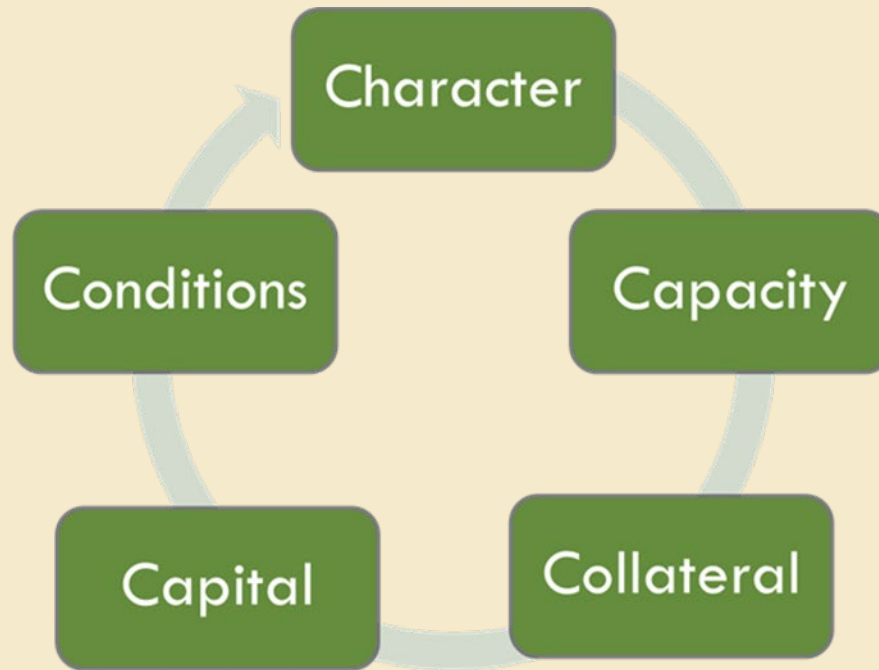


# When Approaching a Lender: Be Ready!

- 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, 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



# Part 3: Close the Deal



# 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



# 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





# 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



# 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



# 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



# What Is Clear Title?

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



# 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?



# 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



# 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



# 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







# Saving the Land that Sustains Us



American Farmland Trust

[www.farmland.org](http://www.farmland.org)



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