FACT SHEET 1.1

STARTING A FARM OR RANCH BUSINESS IN IDAHO

UNDERSTANDING LAND TENURE TYPES

Securing land is one of the greatest challenges for farmers and ranchers across all scales of production. Land tenure refers to the way people obtain and hold land, usually through ownership or a lease agreement. Depending upon the life cycle of the farm or ranch business, the types of land tenure utilized may change. Whether land is accessed through purchase, leasing, or through a gift or succession process, secure land tenure is vital for a farm or ranch business. Secure land tenure requires a stable relationship with the land over time. Conditions necessary for stability include affordability, compatibility with land use laws, lease agreements, deed terms and access to capital, infrastructure, and other resources necessary to achieve your personal and business goals.

Whatever method you utilize to secure land for your business, each will have legal, political, and business considerations. Land use laws, such as zoning laws, dictate how a property can be used or managed. Landowners are responsible for ensuring the land is managed in accordance with those laws. The requirements of tenants are outlined in lease agreements.

Leasing

Leasing, or renting, land is where you enter into an agreement with a landowner to farm or ranch on property that does not belong to you. Land can be leased from a variety of owners including individuals, for profit and non-profit businesses, from public entities, or from a conservation organization such as a land trust. How you negotiate and set the terms of the lease will vary depending on who owns the land. Leasing from private owners means negotiations will just be taking place between you as the farm or ranch business owner and the owners of the land. Lease agreements on public land may be more rigid in their requirements. Land under conservation or agricultural easements, often secured through your local land trust organization, may involve negotiations with a board of directors and come with specific easement requirements that could restrict how you are able to utilize the land for your farming or ranching practices.

Lease agreements can be oral or written, short or long term (1 year, 5 years, etc). and can have different payment arrangements. A well-written lease not only details the length of the lease and financial arrangements between parties, but also details communication flow, management responsibilities of both parties, ownership of permanent and semi-permanent infrastructure and provisions for termination. Generally, oral leases are less favorable as they can lack clarity on the rights and responsibilities of both the landowner and the lessee, might be terminated without warning, and are hard to enforce. Ground leases, which can last 50, 75 or up to 99 years, provide opportunities for people to invest in real estate without the commitment of hands-on property management. At the end of a ground lease period, all the improvements to the property, including buildings and other permanent infrastructure, are turned over to the property owner.

Benefits of Leasing

Leasing allows you and your business to grow with less risk and more flexibility than you would have with a mortgage. Instead of investing capital in a land payment, leasing frees up capital to invest in equipment, livestock, and movable infrastructure. Similarly, leasing allows you to slowly grow your business as you develop production and management skills. As a shorter-term commitment, leasing allows for flexibility where you can try out different farm sites or market areas without being locked into a permanent location by a loan. Often with leases you can barter for a reduction in rent in exchange for goods or services provided to the landowners.

Drawbacks of Leasing

The opposite side of the flexibility of leasing is the lack of security. The property owners may decide to sell, or other factors could change your status as a tenant. However, good contracts, (*see Fact Sheet 1.2 Pursuing Land Tenure for more information*) can help mitigate this risk. With leasing, you may have to walk away from serious investments you might have made in soil improvement, weed mitigation, or infrastructure. Leased land may or may not come with the option to live on site. Be sure to factor in travel costs when making business projections.

Purchasing

Purchasing land is often thought of as the gold standard for land tenure in farming or ranching businesses. Owning the land provides security, the ability to build equity in the land, to secure loans against the property value and grow at a faster pace, and to reap the long-term benefits of investment in the property's improvement. If you purchase from another farmer, you can gather valuable information about the property such as any frost pockets, how the land was managed previously, trouble spots, or other intel. However, land is expensive, and it can be difficult for farms or ranches to qualify for a bank loan. If you are buying a house with land and intend to farm, a traditional home loan may not include provisions for agricultural production. Always discuss this with your lender before moving forward!

Succession

Farmland transfer often occurs through a combination of succession and inheritance. Farm succession or transfer is a process, not an event. Though this method of land transfer is often an intergenerational transfer within a farm family, that is not always the case. Many farmers and ranchers would be delighted to see their land continue to be used in agricultural operations, and not all have children interested in or available to succeed them. Land transfer generally involves both succession planning and estate planning. Succession planning is the transfer of farm or ranch management and estate planning addresses the transfer of farm or ranch assets.

Inheriting land or transitioning land to a new generation of producers may include a gradual transfer of land and/or assets, lease agreements, purchase agreements and considerable negotiations with non-farming family members. Coming to agreement on the terms of a transfer requires self-reflection, planning and trust between all parties involved. The final provisions of a transfer are driven not only by what the incoming and outgoing generations value and desire, but also by what the elder or exiting generations need and what the incoming farmers can afford. There are many courses on land succession to help navigate this experience while honoring the values, needs and expectations of all parties involved.