Land For Good

Farmland Investors

An Exploration for New England and Beyond

Land Access Project

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USDA United States Department of Agriculture National Institute of Food and Agriculture

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SECTION I

Background and Context

This report presents findings and a discussion of investor interest in farmland, particularly as it is being expressed in New England. While the profile of farmland investment in our region is a far cry from the global land grabbing that is of increasing concern, the larger issues help inform our investigation. This report sets the broader context and explores several domestic farmland investment models and experiments.

For this report, the authors interviewed individual investors and representatives of investment entities. We propose a rough typology based on our findings and discuss the implications of these examples.

> *Food is the new oil.*
> *Land is the new gold.*
>
> Lester Brown, in Food: The Weak Link. Utne Reader January–February 2013. P. 46. Adapted from Full Planet, Empty Plates www.earth-policy.org

At the core of this exploration is our desire to promote values-based approaches to farmland investment. Socially responsible and mission-driven investing have been applied to other investment sectors. What do we need to understand about farmland investment and investors? How do and can principles of secure tenure, equity and stewardship play out? What unique opportunities can farmland investors offer farmers who struggle to overcome one of their biggest hurdles—access to land?

Historically, U.S. farmers have identified access to land as a key challenge. Today the challenge is even greater as available land is converted into non-farm uses, land prices escalate, farms consolidate, and fewer next generation and future farmers acquire farms from their families. And while cultural mythology calls forth the Jeffersonian vision of yeoman farmer property owners, over one-third of U.S. farmers rent some or all the land they farm. Non-farming landowners own over three-quarters of the land that is rented in the U.S.

So who are these landlords? Does it matter? What are the implications of landownership and the land owner-land user relationship for the farmer, the owner, the community, and the land? What are the conditions, if any, under which certain values related to secure land tenure, land stewardship, and equity might be fostered? "The ownership of agricultural land can have far-reaching implications on the food and fiber system," states a recent USDA report."[1] And if it is true, as Mark Lapping wrote about the "tenure factor" in New England in 1983, that "If control over the farmland base is out of the hands of the farm community, then its future survival cannot be guaranteed"[2] then who owns the land—including investors—does matter.

The surge in farmland investments is expected to grow over the next decade, both globally and domestically. The concern for increased food production at local as well as global levels, along with increasing focus on natural resource limits and social justice, "…puts the question of land at the center of a new security agenda. New risks are being created for investors, for communities and for nations, which must now be acknowledged and dealt with."[3]

The relative weight of these considerations varies according to the broader context. "Human rights concerns will be very relevant in countries where informal property rights have not yet been normalized, but may be less relevant to investors that are only investing in farmland in developed countries."[4]

We might argue that the land rights of Native Americans and southern Black farmers are "very relevant" as are the rights of all farmers to appropriate security and control on land they farm. The locus and level of decision making are important "given that the majority of land acquisitions still happen within national borders, carried out by local actors."[5] For example, the influence of individuals will vary depending on whether they are directly investing in farmland assets versus indirectly into funds.

"LAND GRABBING"

In a 2012 policy brief titled "U.S. Farmland: The Next Big Land Grab?" the National Family Farm Coalition (NFFC) brought

[1] Nickerson, C., Morehart, M. et al. (2012). USDA ERS Economic Information Bulletin Number 92. February.

[2] Lapping, M. and H. Clemenson (1983.) The Tenure Factor in Rural Land Management: A New England Perspective. Landscape Planning (10).

[3] www.earthsecurity.org/wp-content/uploads/2012/10/ESI-Report.pdf

[4] Ibid.

[5] Ibid.

the issue of global land grabbing to a domestic focus.[6] Land grabbing is the term given by various environmental and rights organizations to the surging practice of investment entities acquiring tracts of farmland, typically in the global south. There appear to be two impulses that drive this phenomenon. One is concern—some would say panic—over a country's future ability to feed itself. More affluent countries such as China, Saudi Arabia and South Korea are buying or leasing land in other countries (mostly in Africa) to grow food for themselves. The other motivator is financial. The global financial crash, coupled with the collapse of the housing market, left investors searching for new avenues for capital. Investors see farmland as "an *extremely* effective way to provide portfolio diversification."[7]

At its worst, global land grabbing dispossesses indigenous populations, drives up land prices, and deprives communities of their own food security. Others see it as an economic opportunity for the rural poor worldwide.[8] Tens of thousands of hectares of arable land are now in the hands of multinational corporations and investment entities. Estimates suggest that more than $100 billion has been invested in buying farmland internationally since 2008.[9] And while the U.S. is not in immediate danger of not being able to feed itself (not to mention "feeding the world"), domestic investment in farmland has its own set of issues and concerns.

Although land and food prices are rising in the U.S., many small farmers are facing economic distress similar to peasant farmers worldwide. Meanwhile, investors such as banks, universities, pension funds, hedge funds and commercial agribusinesses are acquiring farmland that farmers cannot hold onto, resulting in further consolidation in American agriculture. A 2012 report by the Economic Research Service finds that only 1.7% of U.S. farmland is in foreign ownership, and much of that is Canadian ownership of forestland.[10] Nonetheless, in the opinion of NFFC, "Without intervention, the coming years could mark the beginning of the great American land grab."[11]

Thirty percent of U.S. farmers are age 65 or older, and an estimated 70% of U.S. farmland will change hands in the next two decades.[12] "The growing proportion of farm assets owned by non-operating landowners …suggests growth in ownership and control of productive assets by individuals and/or organizations with no direct agricultural experience, whether… city-dwelling heirs or institutional investors.[13] With fewer farms transferring within families and more retiring farmers without identified successors, more land is vulnerable to acquisition by investors eager to buy up farmland and get in on rising land values. Investors formerly focused on purchasing land overseas are turning more to U.S. farmland. At the Global AgInvesting Conference held May 2012[14] in New York, special attention was paid to the added benefits of investing in U.S. farmland.

However, the extent of this trend has not adequately been researched. According to NFFC, "With growing enthusiasm from investors and concurrent crises for small U.S. farmers, the question remains whether small farmers will be able to stay on their land without government intervention. Though further data must be published to show the rate of consolidation and how much acreage investors are purchasing, preliminary information demonstrates an alarming trend in the U.S. that reflects what is happening globally."[15]

RESPONSIBLE INVESTING

Investors in farmland cannot and should not all be painted with the same brush. Some investors are very concerned about the impacts of farmland investment. "Responsible investing" has come of age across investment categories, more recently including farmland.

Consider for example the United Nations-supported Principles for Responsible Investment (PRI) Initiative. UNPRI brought an international network of investors together to develop and implement six Principles for Responsible Investment (not specifically farmland). The goal is to promote these principles among signatories toward "the development of a more sustainable global financial system."[16]

[6] www.nffc.net/Learn/Fact%20Sheets/US%20Land%20Grab%20backgrounder_5.24.12.pdf
[7] Colvin, G. and T.M. Schober. (2012). Investors' Guide to Farmland. Self-published, New York. p. 12.
[8] www.iss.nl/research/research_programmes/political_economy_of_resources_environment_and_population_per/networks/land_deal_politics_ldpi/
[9] Shepard D. (2012). Situating private equity capital in the land grab debate. Journal of Peasant Studies, 39:3-4, 703-729.
[10] www.ers.usda.gov/media/377487/eib92_2_.pdf
[11] National Family Farm Coalition. (2012). U.S. Farmland: The Next Big Land Grab? www.nffc.net/Learn/Fact%20Sheets/US%20Land%20Grab%20backgrounder_5.24.12.pdf
[12] Kohl, D. and A. White. (2002). The Challenges of Family business Transition. Farm Credit of the Virginias.
[13] Ferrell, S., D. Peel, D. Davies & R. Jones. (2013). The Future of Agricultural Law: A Generational Shift. Drake Journal of Agricultural Law V. 18. 107-136.
[14] www.globalaginvesting.com/conferences
[15] National Family Farm Coalition

The principles are "voluntary and aspirational." They are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.[17] They are built around three areas of concern that have developed as the central factors in measuring the sustainability and ethical impacts of companies. The three areas are environmental, social and corporate governance, known as ESG.

Among the ESG factors, social concerns include human rights, laborer welfare, impact on communities, and diversity. Land tenure is not specifically addressed. However, UNPRI states that, "Farmland investments are particularly sensitive to ESG issues. Endogenous environmental issues such as soil quality, biodiversity loss and water availability can affect the profitability of an investment. Additionally, social issues, especially those associated with land grabbing such as land ownership rights or human rights of workers, can impact the security of tenure and stability of productivity which in turn may impact profitability and the reputation of investors. Such issues require specific expertise to recognize [sic] and manage.[18]

As a consequence of this recognition, UNPRI developed five Principles for Responsible Investment in Farmland. They are "designed to guide institutional investors who wish to invest in farmland in a responsible manner."[19] The adherents to these principles "believe that the interests of [their] beneficiaries and clients will be best served by farmland operations that respect the environment, adhere to responsible labour [sic] practices and maintain positive stakeholder relations."[20] Of the nineteen signatories, TIAA-CREFF and Treetops Capital are U.S. companies.

These five principles were developed in the context of international farmland investment. Briefly stated, they are:

1. Promoting environmental sustainability
2. Respecting labor and human rights
3. Respecting existing land and resource rights
4. Upholding high business and ethical standards
5. Reporting on activities and progress towards implementing and promoting the Principles

With respect to land and resource rights, investment managers are expected to sensitively address investment projects with "potential significant adverse impacts." According to the Notes, adverse impacts are significant if they severely impact the well-being and livelihood of whole communities, as opposed to the well-being and livelihood of single individuals or groups.[21] In the global context and at a global scale, as these principles are intended, they aim to address ESG concerns. Single individuals or groups are not in the "adverse impact" equation. Nor is the essential relationship between a farmer and his or her land.

Shift focus to the U.S. As mentioned, acquisition of U.S. farmland by non-farming investors is increasing. "Investing in farmland was one of the original investments as immigrants homesteaded the Midwest in the 1800s. Institutional and high net worth investors have not been major participants in the farmland sector, until the last twenty years or so… . We find the lack of interest in investing in farmland surprising, especially since the historical return profile for U.S. farmland positions it as one of the most competitive classes."[22]

In their book, "Investors' Guide to Farmland," Colvin and Schober are enthusiastic and instructive about investing in U.S. farmland, with a focus on the Midwestern Corn Belt.

[16] www.unpri.org/about-pri/about-pri/
[17] Ibid
[18] www.unpri.org/viewer/?file=wp-content/uploads/2012.10RIinfarmland.pdf
[19] www.unpri.org/areas-of-work/implementation-support/the-principles-for-responsible-investment-in-farmland/
[20] Ibid.
[21] Ibid.
[22] Colvin & Schober. p. 111.

They lead readers through understanding farmland and the rationale for investment in it. They believe that Midwestern farmland "provides investors the best opportunity and risk to reward."[23] Their opinion rests on anticipated world need for grain crops, natural factors such a soil quality, adequate infrastructure and "solid ownership rights" embedded in our culture and government.

"Farmland is like gold with intermittent cash flow" that is typically based on cash rent that insulates the landowner from risk. "The landowner can sit back and not have to worry…"[24] The authors do not reference ESG guidelines or PRI for farmland.

FOCUS ON NEW ENGLAND

New England is probably one of the last places that global farmland investors and those Colvin and Schober address are likely to turn to acquire farmland. TIAA-CREFF is not going to buy tracts of land here. In our region, investor interest is more inclined toward forested parcels. This observation can be confirmed by companies such as Lyme Timber and LandVest.

And yet, investor interest in New England agriculture is gaining. It has—and will have—its own unique profile, along with its own set of challenges and opportunities. Building from a socially responsible investment framework, and at a scale that does consider "adverse impact to individuals and groups," local models for farmland investment could inform the larger picture. At a minimum, good models could positively influence farmland access and tenure in our own New England backyard.

Some individual investors (including philanthropies) and investment advisors wish to "do the right thing." They see farmland investment in a social context. They may seek to protect the land from development, foster certain production practices, enable new farmers to get a start, and/or contribute to the local food economy. These values-driven investors typically are willing to forego market return in favor of a "Slow Money" philosophy. Any yet, farmland is not like other assets. Farmers make their living off of the asset. They may live there. Some may wish to own the asset (land) someday.

We seek a better understanding of what kinds of investment transactions have occurred and what potential investors are considering. We want to learn whether and how protecting and advancing the land access and tenure needs of farmers can be addressed. We want to understand how land stewardship at the farm level can best be fostered within farmland investment models. We want to grapple with "the complex political economy question of 'who has [or ought to have] what rights, to which land, for how long, and for what purposes.'"[25] This report is just a start.

Our exploration is framed around several key questions. These include:

- Is "responsible investment" in farmland possible and under what conditions?
- What are the differences between individual and institutional investors?
- Is institutional ownership inherently bad?
- What is the farmer's place and future in the equation?
- What are "best practice" arrangements between owners and non-owning users of farmland?
- How does treatment of the land figure in?
- What are the most appropriate land tenure models within the investor framework and upon what values and beliefs are they based?
- Is there a role for government?
- What are the scenarios that would attract and adequately reward socially responsible, values-based and mission-driven investors?

[23] Ibid. p. 165.

[24] Ibid. p. 65.

[25] Borras, S. Jr. and J. Franco. (2010). From Threat to Opportunity? Problems with the Idea of a "Code of Conduct" for Land-Grabbing. Yale Human Rights and Development L.J. p. 510. www.tni.org/sites/www.tni.org/files/Yale%20April%202010%20Borras_Franco%20CoC%20paper.pdf

SECTION II

Methodology

Over the summer and fall of 2012, we interviewed over 20 individuals and entities that are, or desire to be, investing in U.S. farmland. For our purposes, we define a farmland investor, in general, by the expectation of some financial return on an investment in agricultural property. This return may be in the form of fees (rent) and/or appreciation of the asset. For this report we focused on investors with environmental and/or social motivations in addition to a financial return. Entities not specifically seeking an annual or appreciated asset return had broad social goals and multiple properties in mind. We did not include organizations acquiring specific farm properties solely for programmatic reasons.

We identified our interviewees through initial contacts and referrals from others, along with an online search. We contacted them, explained our project and requested an interview. No one declined. We did not seek to interview investors or investment entities that had asset diversification and return on investment as their sole motivations. Not all of the investors interviewed are currently investing in farmland in New England and some are not interested in investing in New England at this time or at all. Several are at the "idea stage" with hopes for future investment in New England farmland.

The interviews were conducted by telephone and lasted between 30 and 60 minutes. The authors posed a pre-determined standard set of open-ended questions (see Appendix B) during the interviews to gain insights on the following subjects:

- The motivations and purposes driving investments in farmland, from speculation to philanthropy;
- The business models or strategies in place or anticipated;
- Existing and emerging models for/toward values-based investment in farmland;
- The pros, cons, opportunities and challenges associated with these different models;
- How to compare various models and approaches;
- The return on investment expectations for each investment strategy;
- The preferred farmer-to-investor relationship for each investment strategy;
- Exit and asset disposition strategies
- The extent to which targeting new and beginning farmers fits in each investment strategy;
- The need for third-party assistance in either finding farmland, farmers or both; and
- The extent to which state and/or federal tax and land conservation policies can influence investments in farmland.

The investors we interviewed fell into six general categories:

- **Individuals and groups of individuals.** Private investors working with their own funds to acquire farms to lease to farmers with a Return on Investment (ROI) based on lease terms (typically cash leases), and in some instances the sale of conservation easements on the farm. We include as subsets individuals organized as limited liability companies or pooled partners as examples of opportunities for a group of individuals to join forces in an investment.
- **Family Trusts.** Typically family-owned lands, now held by non-farming heirs, currently leased to farmers on a cash lease basis.
- **Philanthropic Foundations.** Provide funding to a third party, typically a land trust, to invest in securing farmland to then be protected and sold to a farmer. Farms purchased are typically at risk of being sold for development. Some philanthropies may be interested in direct mission-related or program-related direct investment in farmland at some point.

- **Non-Government Organizations (NGOs).** Typically land trusts using funds supplied by foundations or donors, or in some cases, their own endowment funds to acquire farmland to then be protected and at some point sold to a farmer.
- **Investment Advisors.** A group ranging from general investment advisors that may advise clients based on a client's stated interest in investing in sustainable farming to advisory firms established specifically to attract clients to invest in farmland—in this case, sustainable farming. The latter group offers knowledge and a set of skills around investing in sustainable farming to potential clients, but the ultimate environmental and social goals and ROI expectations of the projects are determined by the investors themselves. The definition of sustainable farming is fluid, but typically refers to farming practices that are e-source conserving.
- **Investment Firms.** Entities providing an investment product for potential investors to consider, like any private investment company. In this case, the product is a ROI based on sustainable farming enterprises as a group, these entities more than the others tend to tie their investments to organic farming, building the ROI in part on the demand for and premiums paid for organic products and/or the anticipated appreciation of organic land.

SECTION III

Findings

The interviews offered rich information and varied perspectives. We engaged entities with some track record in this investment space, and we talked with people who are at the visioning stage. We report our findings along several dimensions that emerged from the interviews. See Appendix A for a chart summarizing the findings.

1. **Type of entity.** As mentioned above, we organized the entities into several categories. In some cases, the entity isn't totally clear or formed. One major category is individuals who are investing in a farm or farms on their own. Some individuals communicated a desire to pool funds with other "small" investors but did not have a mechanism in mind. At the other end is large investment firms with accredited (high worth) investors. Philanthropies are a unique category. Some in the investment advisor category are well established while others are in the early stages of grappling with the practicalities of setting something up to meet their goals.

2. **The investors.** Regardless of whether they are individuals working on their own, a foundation making a program-related investment or an accredited investor participating in a product offered by an investment firm, the investors we interviewed are interested in investing in agriculture and farming as a social and environmental good. Some of the offerings (e.g., Farmland LP) are limited to accredited investors due to the long horizon for a return or taking money out of the investment and/or level of risk. This is to be expected when the basis of the investment is farming and the goal is to maintain land in farming and not cash-in on appreciated real estate values driven by non-farm development pressures.

3. **Motivation.** All the entities we interviewed are driven by a desire to promote more sustainable farming systems and farming opportunities. As with most "Slow Money" investments, the "return" is a combination of doing good and realizing a reasonable monetary upside. Some see an opportunity to contribute to the explosion in interest in locally grown farm products, to facilitate the transition of conventional farms to organic systems, to assist in securing land ownership for farmers, and for some, a combination of all of the above. The common denominator for this group is to not invest in farmland as a hand's-off, one-off portfolio diversification strategy.

4. **Business strategy.** The business strategies are quite specific and tailored to the individual investors, investment products or the circumstances of the particular farm property purchased. A common element is a commitment to sustainable farming, but here is where any standard pattern ends. The lease-purchase agreement is perhaps the most commonly utilized strategy. But even here, some entities engage with farmers upfront to identify farms to purchase while others find farms of interest and then look for farmers for the project. For those driven to shift conventional farms to organic farming, the three-year transition period is built into the strategy and the engaged farmers act more as hired managers during this period.

   Some entities design their business strategy around the resources on the farm. For example if the farm is large enough with different resource areas tailored to different farming operations, the farm might be sub-divided and made available to more than one farmer, or some of the land may be carved off for non-farm use. A few of the entities (e.g., foundations, land trusts and individuals) rely heavily on selling a conservation easement to provide a return on the principal and, importantly, to reduce the ultimate price of the land to the farmer.

5. **Expected return on investment.** The expectation of return on investment (ROI) is quite broad across the investor categories. As might be expected, ROI tied into the mission or goals of the entity. The ROI ranged from breaking even (e.g., the foundations) to a high of 7–8% for some of the private investment products (e.g., Clean Yield and New Island Capital on farms growing certain high-valued crops).

   In all cases we interviewed, however, the ROI is below what a comparable, conventional marketplace investment in land would be expected to yield. This is not universally true of all farmland investment. Among the investors we interviewed that expected some rate of return, the individuals and family trusts are the most flexible in their expectations and the least tied to a hard and fast ROI target.

6. **Exit strategy for investors.** For all but the Castenea Foundation and the Vermont Land Trust, these are long-term investments or, in the case of individuals and family trusts, the exit strategy is flexible. An individual, for example, could at any time decide to divest himself from a purchased property and, depending upon the terms of their agreement, participants in a limited liability company or pooled partnership could sell out their "shares" in a project to the rest of the group or, theoretically, sell the property. The destiny of the farmer on that property is tied to the investor exit strategy details in the agreement.

   In the case of some of the products offered by investment firms (e.g., Farmland LP and Iroquois Valley Farms), there is a minimum holding period before investors may redeem some or all of their investment. Other entities (e.g., New Spirit Farmland Partnerships and Vilicus Capital) tie the exit point to the length of the lease-purchase agreement with the participating farmer, typically 10 to 15 years. It is fair to say that since the motivation of all the investments in our study is to advance objectives beyond a strict return on investment, the investors are "in it for the long haul," whatever that might be to achieve their expected farming, environmental and societal goals.

7. **Ultimate disposition of the property.** Investors' interest in the farmers involved in their investment projects is quite variable. For a subset of the private investment firms, the farmer tenants are viewed as temporary and interchangeable managers. There is no specific intent to transition the ownership of the land to these farmers. In one case, the farmer-to-farmland relationship was likened to a professional renting space in an office building. Generally speaking on a continuum from private investment firms to philanthropic organizations, the more philanthropic the entity, the more motivated the investor is in securing eventual ownership of the land by a farmer.

8. **Tenure model during investor ownership.** For those investors for which it is intended that the land will be owned by a farmer, the primary tenure vehicle is a lease with an option to purchase. The timeframe for the investors holding the land asset was variable with no real pattern emerging that would point to any strong connection between the holding period and the expected ROI. However, the foundation and NGO investors that are willing to break even or had a low expectation of ROI wanted their projects to have a quick turnaround from initial purchase to re-sale to a farmer, so that they could get their funds back into circulation on other projects.

9. **New and beginning farmers.** While a few of the interviewees identified new and beginning farmers as an interest, most did not. It's likely that new farmers are not on the radar screen as a unique subset of farmers. They may also be seen as higher risk, in terms of general business success and ability to carry the payments—which is a reasonable assumption. Some of investment strategies are built on turning a property around quickly (e.g., Castenea Foundation), so a farmer with available credit or cash will be a preferred take-out buyer.

10. **Farming system.** The objective shared by all the interviewees is that the farmland be managed in a sustainable manner to achieve a range of environmental/health benefits. Within this objective, the range of interest spanned from instituting sustainable conservation and farming practices on conventional farms to practicing organic farming, only. Of those focused on organic farming, some included transitioning conventional farmland to organic as an additional investment objective.

11. **Land Protection.** Those investors that have ownership of the land by a farmer as a primary goal of their investment indicated a willingness to sell a conservation easement to a publicly-funded farmland protection program as a way of recouping some of the value of the land and reducing the price of the farmland to the farmer. In some cases this is a central component of the investment strategy. This practice will also protect the land in perpetuity thus ensuring the investment as a long-term commitment to farmland and farming. It was also noted by some investors, especially individuals, that a limited amount of non-farm development on non-productive land (i.e. limited development) is another possible way to recoup principal and reduce the price of the farmland itself to a farmer.

Analysis and Food for Thought

What does this mean for agriculture in New England? Is there a role for investors investing in farmland to contribute to future farming opportunities and access to land for farmers in the region?

DO THE MODELS PENCIL OUT IN NEW ENGLAND?

The majority of the private investment firms and advisors that we interviewed are working on farmland projects in the Midwest. While their expected rates of return on their investments are tempered by ancillary sustainable farming and family farming objectives, they all have factored revenue from cash rents into their calculations. In the case of investments that are promoting organic farming as an additional objective, the rents charged assume a premium to be paid in the marketplace for the products raised on the farm. In many of the cases in our investigations, the eventual sale of the farm to the farmer renting the farm will re-coup the original capital invested in the property and perhaps any appreciation in farmland sales over the holding period. This model appears suited for investments in Midwest farmland. But can it pencil out in New England?

In the Midwest, where a great deal of farmland sells for farming as its highest and best use in the marketplace, competition with other farmers and traditional farmland investors will limit ownership access to farmland. In this environment, socially and sustainable farming conscious investors can secure land at what may be an inflated value for farming, but a farmland value nonetheless. Competitive rents for farming can be expected to cover the carrying costs of the purchase and provide a reasonable, annual return over the life of the investment.

In New England farmland values are influenced heavily by non-farm market pressures to develop open farmland for residential and commercial uses or to purchase farms for recreational, hobby and lifestyle reasons. In this scenario it will be difficult for affordable, competitive farm rents to cover carrying costs and provide any return on investment. Even when an annual rent may provide a sufficient return for the investor(s), if the non-farm value of the land is not captured through the sale or donation of a conservation easement, the land will still be too expensive for a farmer to afford at the end of his or her lease term.

In this environment, socially and sustainable farming conscious investors must re-evaluate their investment objectives and expectations. While any socially conscious investor is not out to a make a windfall profit, the "Slow Money" investor in farmland and farming in New England may need to consider tenure models, investment horizons, land disposition strategies, and rates of return other than those uncovered in our investigations.

ROLE OF EASEMENTS

The presence of publicly funded Purchase of Agricultural Conservation Easement (PACE) programs in all New England states presents an opportunity for investors to in effect "buy-down" the inflated values for farmland in the region due to non-farm, market pressures. These programs financially compensate landowners for restricting the future use of their land with a conservation easement. The sale of a conservation easement will enable an investor to re-coup a significant percentage of their original purchase price of a farm or farmland. This enables a competitive farm rent to represent a reasonable return on investment in the remaining value of the land and reduces the value of the land at the time of sale to a farmer (if that's part of the plan).

Taking advantage of the PACE programs will require the investor to apply to the programs, to accept a conservation easement on the property and, in the case of Massachusetts and Vermont, to only sell the protected land to a qualified farmer, if and when the fee-simple interest in the land is sold.

Engaging PACE programs as an integral part of an investment strategy for New England-oriented investors is not without its challenges. Some state PACE programs such as in Maine and New Hampshire are not consistently funded. In some years no conservation easements will be purchased (with public funds). The other four state programs are very popular and interest in the programs typically outstrips available funds. These programs may prioritize enrollment of farms owned by farmers versus farms owned by non-farm investors.

In addition, for those programs that utilize federal matching funds from the Farm and Ranch Lands Protection Program (FRPP), there is a non-farm, Adjusted Gross Income limit on enrollment that will affect the ability of some investor/landowners from applying to the program. Also, the current restriction in FRPP on land trusts applying to sell easements on farms that they own in fee will limit their creativity and potential to assemble land transactions to effect land access and ownership by farmers.

Land trusts and other qualifying organizations can raise private funds to acquire easements to help make these investor projects pencil out. The challenges include, of course, raising the dollars to pay for the easement.

OTHER STRATEGIES AND CHALLENGES

Larger farm properties. Mission-driven investors in New England may consider purchasing larger farm properties to sub-divide into smaller farm units for rent and eventual sale to individual farmers. The region is home to many large farm holdings typical of the traditional dairy farm operations that until recently dominated New England agriculture. Subdividing these larger farms into smaller parcels to accommodate high-value, direct-to-consumer farming operations may allow per acre rents to be higher while each unit could eventually be a more affordable and appropriately sized purchase for each farmer through a lease-to-own arrangement. This strategy, however, will require addressing issues such as shared and/or individual housing and farm infrastructure for each farm unit, and the challenges of managing multiple tenants and leases.

In addition, these larger farm properties in New England typically present opportunities to include carefully planned, limited non-farm development on non-productive lands that would help to reduce original land purchase costs and the subsequent price of the farmland to be sold.

New and beginning farmers. The risks associated with even a "Slow Money" investment in farmland are further complicated when the goal of providing access to farmland to new and beginning farmers is added to the mix. Very few of the investment entities we interviewed had this objective as a priority. Some indicated that their business and exit strategies specifically favored established farmers with available credit and/or capital. Because farm entry is an issue of great concern in New England (as elsewhere) it is important to understand how investment models impact—or could impact—land access for this sector.

The more mission-driven the investor (e.g., land trusts and foundations), the greater the opportunity to address the additional goal of securing access to farmland for new and beginning farmers. With a lowered or more flexible expectation of ROI, non-profit and philanthropic entities can better shoulder the risks of working with this segment of farmers in return for meeting stated organizational goals.

For any and all investors, tax incentives to lease or sell land to new and beginning farmers could increase the likelihood that farmland investments target such farmers in their business and exit strategies. (See, for example, policy suggestions on tax incentives.)

Scale and place. Farmland investment in New England is still a very small and new phenomenon. What we learn from global and national models and trends may or may not have relevance for our region. There is not enough history to draw observations or conclusions about how various investment models would actually pencil out here. With farmland investment in the Midwest, for example, the properties are much more likely to be add-on acres for established farmers who own their home farms. Investing in a property that is the farmer's sole or main farm and possibly also residence is different for the investor and the farmer. The more typical New England farm has smaller acreage, more diverse enterprises and more infrastructure compared to 800 acres of beans.

Individual investors may be more drawn to investment property that has "place value"—meaning some specific connection or draw for the investor. For example, an investor might purchase the farm across the road, an historic farm in town, or a unique property near his or her vacation home. This one-off scenario could offer significant creativity and flexibility for both investor and farmer. On the other end of the continuum is the large investment firm that hires farm managers. Several farmland investment models either require or choose a management intermediary. That intermediary's role and performance will impact the success of the model. New England does not have a strong presence by farm management companies; if investment models evolve in our region, such intermediary entities will likely have their own regionally appropriate functions and spin.

For small (i.e. non-accredited), place-focused investors, certain pooled fund strategies may offer some creative, win-win opportunities. While it is beyond the scope of this paper, and the expertise of its authors, we mention the direct public offering model, as well as the new crowdfunding securities exemption created under the JOBS Act. The rules for this exemption have yet to be promulgated.

The farmer. In terms of the rights of these farmers farming on land owned by investment entities, these can be viewed through a tenure lens. Most of the investment models presented here allow for ultimate ownership by the farmer. (We don't know whether any of the interviewed models provide that lease payments go toward the purchase.) Particularly when coupled with affordability provisions, these scenarios go a long way toward addressing concerns about perpetual tenancy and equity building for farmers.

Longer-term leases offer more security as well as possible provisions to build equity as a tenant. For the farmer tenant, the terms of the lease and the relationship between the farmer and the investor (individual or entity representative) determine the extent to which the farmer is viewed (and experiences him- or herself) as a commodity or a partner. As with other absentee landlord situations, the agreements and relationship between the landowner and the farmer are fundamental to success. One investor interviewed contemplated an equity investment in the farmer's business as well as the land. In this version, the investor would draw ROI from the business and also possibly contribute "business know-how." How might this work?

There are many questions to be answered and aspects of these emerging and untested models to explore. One of the most important next steps is to find out from farmers what models and approaches they find attractive and feasible. With partners, Land For Good is seeking funding for a project that would bring New England farmers together to talk among themselves and with a few investment representatives about the realities, opportunities and challenges presented by these farmer-investor landowner scenarios.

Does it matter? These considerations bring us back to an initial question in this report: whether it matters—to the farmer as well as to the community—who owns the land. A socially motivated investor who takes a modest ROI and encourages sustainable practices can be a positive community influence by keeping the farm in active farming, providing farming opportunity and fostering good stewardship. This may hold true even for the investor who at some point sells the land on the open market sometime in the future.

"Who owns the land does matter for rural communities. Land ownership still determines who has the power and resources. Economic… [sic] but also political and social, in many cases."[26] Social scientists have determined that in general, "local landowning by farmers is better… than absentee ownership—especially ownership by large corporate entities."[27] Several Midwestern states limit corporate ownership. This report does not investigate whether or how these laws specifically address investment. This is where questions about the role of government in farmland investment come up, but we do not have enough information or knowledge to address them here.

"There is some economic impact if the asset is owned by somebody that doesn't live there." The degree of impact depends on the individual.[28] We might add that it also depends on the model of ownership. This is not to say that investor ownership of farmland is bad. It is to say that *the investment model matters*.

Farmland investment is a provocative issue. The people we interviewed want to do good—for the land, the farmer and the community. We applaud their vision and efforts. There is much more to learn and test. This report is a step in an exploration that we hope will yield models and refinements in the area of farmland investment that will serve New England and also contribute to the larger discussion.

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26 Marttila-Losure, Heidi "ownership of land affects rural communities and conservation" http://dakotafire.net/farms/ownership-of-land-affects-rural-communities-and-conservation/5155/

27 Ibid.

28 Ibid.

APPENDIX A

Investor Matrix

Investment Type Interviewee	Investors	Motivation	Business Strategy	ROI Expectation	Exit Strategy for Investors	Ultimate Disposition of Land
Family Trust A family trust (anonymous)	Family members	Maintain this family's land in farming.	Provide multiple opportunities from leasing entire farm to one operator, to leasing portions to different farmers, or setting up incubator.	Since property is owned free and clear, break even to modest annual return.	Flexible, returning principal is not factor.	Flexible.
Individual Several individuals (anonymous)	Individuals	Profiting from production and sale of locally grown food, promoting sound farming practices and sustainable agriculture.	Purchase farms are offered to and managed by farmers as their own operations.	Generate annual returns on lease of farm, protect principal through expected growth in real estate market or capture principal through sale of	No set timeframe; eventual sale of the property.	Land will be sold to a farmer or on the open market (with or without an easement).
Individual: Pooled Partners Individual (anonymous)	Non-accredited investors	Provide for small-scale farming opportunities, linked to product sales into specific market or geo-location.	Purchase farm, maintain as single unit or sub-divide into smaller units, then offer farm(s) through lease/purchase agreement to farmers. Farms can be identified by farmers in group.	Modest rate of return (not specified) over a long period of time (not specified).	No set time frame for buy-out, as it will depend upon each circumstance and agreement reached.	Owned in-fee by farmer.
Individual: Organized in LLC Individual (anonymous)	Non-accredited investors	Provide for small-scale farming opportunities.	Purchase farms, work with local land trust to place easement on properties, divide farms as appropriate into smaller units, and then sell farms through lease/purchase agreement to farmers.	Modest rate of return (not specified) over long period of time (not specified).	No set time frame for buy-out, as it will depend upon each circumstance and agreement reached.	Owned in-fee by farmer.
Investment Advisor New Island Capital	Family trust	Improve outcomes in yield and input efficiencies (water, pesticides, fertilizers); encourage small-scale, place-based agriculture.	Trust owns land and, depending upon farm and crops grown, leases land to farmer either directly or through management company, or has farm managed on contract basis.	Commodity crops — 4%; High value crops — 7 to 8%.	Willing to be involved in properties for up to 30 years, depends upon crop grown and performance of operation.	Not determined at this time. Trust could continue to own land. Leased properties may allow for purchase.
Investment Advisor Imprint Capital	Foundations, family trusts, high net-worth individuals	Sustainable agriculture, promoting local food opportunities.	Depends upon interests of individual investor.	Depends upon interests of individual investor.	Depends upon interests of individual investor.	Depends upon interests of individual investor.
Investment Advisor New Spirit Farmland Partnerships	Individuals	Promote organic and biodynamic farming and help farmers gain access to land they need to grow and maintain their operation.	Farmers approach New Spirit who need land, sometimes with land already identified and sometimes not. Investors buy land needed by farmer and rent to them on 15-year lease with option to purchase basis.	3% to 5% at the start of the lease.	Investor exits when land is sold to farmer or when donated/sold to land trust.	Land is either sold to farmer or placed in land trust.
Investment Firm: specifically, joint ownership of farmland via a Limited Partnership, similar to a REIT Farmland LP	Accredited Investors—$500,000 minimum investment (will be lower in next fund -- Q4 2013)	Transition conventional farms to organic farming to promote a healthy, sustainable environment	Buy farms, facilitate the 3-year transition to organic certification, manage farmland using sustainable agriculture best practices while renting farmland to organic farmers and livestock managers.	Farmland has returned 11.8% annualized return since 1992 (source: NCREIF Farmland Index). Returns are from farmland appreciation and cash flow from rent. Managers expect additional profits due to rising demand for and limited availability of organic food products	Several liquidity options. First, investors may sell their LP interest any time. Second, after a 3-year initial holding period (to cover the period of organic transition), investors may redeem their interests two times per year at the appraised or sale value of the farmland. Investors may also hold their interest until fund liquidates at the end of its 30-year +/- term. Cash flow is distributed to investors, not used to purchase more farmland.	Ideally the farmland will end up in a public Farmland REIT for sustainable agriculture, and thus not be sold. Otherwise, if investors exit farmland may be sold, with or without a conservation easement. Due to the many farmers on the land and the large scale of the farmland (6,300 acres), there will most likely not be a single partner farmer to sell it to.
Investment Firm Anonymous	Institutional and accredited individual investors	Invest in organic farming, both existing farms and transition farms.	Identify candidate farm properties and farmers, purchase land, enter into lease-to-purchase agreement with farmer within 10-year horizon. Farmers may approach Fund with land they are interested in renting and eventually acquiring.	During organic transition period, ROI of 2 to 3%. Post-transition, expected ROI is 4% after taxes.	Typically within 10-year term of lease-purchase agreement with farmer.	Owned in-fee by farmer.
Investment Firm The Lyme Timber Company	Investment advisors, high net worth individuals, private grant making foundations, family foundations, pension funds, philanthropic advisors, academic endowments, social impact investors and investment funds	Deploy private capital to generate return for investors while facilitating permanent conservation of high priority agricultural land and permanent ownership transfer to farmer or farming entity.	In partnership with NGOs, acquire farmland with high conservation values, sustainably manage property (through lease or other arrangement) and provide return to investors via blended approach that includes sale of conservation easement, lease income and ultimately sale of protected farmland. When available, sell eco-system services and other assets associated with a specific property.	Still under consideration.	At time of sale of farm.	Intended outcome: Owned in-fee by farmer.
Investment Firm Limited Liability Company	Individuals	Provide for small-scale farming opportunities.	Purchase farms, work with local land trust to place easement on properties, divide farms as appropriate into smaller units, then sell farms through lease/purchase agreement to farmers.	Modest rate of return (not specified) over long period of time (not specified).	No set time frame for buy-out, as it will depend upon each circumstance and agreement reached.	Owned in-fee by farmer.
Private Company Iroquois Valley Farms	Accredited Investors, minimum purchase of $34,500	Transition conventional farms to local and organic farming to promote healthy, sustainable environment.	Purchase farmland with generational lease tenancy for family farmer that is renewable, indefinitely.	Investors take equity risk in purchasing company stock. Returns should exceed or equal conventional farmland rates.	Investors sell their stock to exit. Company agrees to only sell land to farmer.	Company continues to own and lease, or tenant purchases at FMV.
Philanthropic/ Non-profit Castenea Foundation	The foundation, non-profit and/or private partners	Conserve land in transition to ensure that it remains in farm ownership, and promote sound land stewardship practices.	Working with local land trust, buy land, sell or donate easement, re-sell land to farmer.	Break even.	Exit transaction in 3–5 years.	Owned in-fee by farmer.
Philanthropic/ Non-profit New World Foundation	The foundation and other philanthropic partners	Test and demonstrate various farm incubation, land access and affordability options.	Purchase farm property to test and demonstrate various farm incubation, land access and affordability options.	N/A	N/A — This is long-term commitment for Foundation.	Not determined at this time.
Philanthropic/ Non-profit Vermont Land Trust, Land	Capital raised by the land trust, loans provided by foundations and conservation lenders	Create opportunities for those looking to purchase their first farms and enhance diversification of Vermont's agricultural economy.	Buy land or receive land as gift, sell easement, re-sell land to qualified NBF.	Break even to 5% over and above all transaction costs with target of 2.5% across entire portfolio.	Close transactions ASAP.	Owned in-fee by farmer.

Investment Type Interviewee	**Tenure Model During Investment** (including farmer fees and lease terms)	**New and Beginning Farmer Connection**	**Farming Practices/System**	**Land Protection**
Family Trust A family trust (anonymous)	Leases with automatic renewals built-in with earned-discounts against future purchases, if property or portions of property were to go on market.	Not single focus, but will work with beginning farmers.	Sustainable ag practices.	Will consider selling easement.
Individual Several individuals (anonymous)	Leases or licenses of varying lengths.	Not necessarily priority.	Sustainable ag practices.	May or may not sell easement depending on circumstances.
Individual: Pooled Partners Individual (anonymous)	Lease/purchase agreements.	Not single focus. Projects are often connected to existing farming operation in need of secure land base.	Sustainable ag practices.	Would sell easement if possible.
Individual: Organized in LLC Individual (anonymous)	Lease/purchase agreements. However, if farmers are not immediately identified, firm will manage farm as appropriate using farm manager.	Not single focus, but since farm properties are small, most participants likely to be beginning farmers.	Sustainable ag practices.	Selling easement is central to strategy.
Investment Advisor New Island Capital	Row crops — leases; long-term crops — managers.	Not single focus, but have desire to work with beginning farmers.	Lower input, best management practices, but not necessarily organic.	Would sell easement if possible.
Investment Advisor Imprint Capital	Depends upon interests of individual investor.	Depends upon interests of individual investor.	Depends upon interests of individual investor.	Depends upon interests of individual investor.
Investment Advisor New Spirit Farmland Partnerships	Lease with option to purchase.	Not priority.	Organic or biodynamic.	Would sell easement, if possible. May donate to land trust after two lease cycles.
Investment Firm: specifically, joint ownership of farmland via a Limited Partnership, similar to a REIT Farmland LP	Land is offered to farmers on a lease basis only – one-year and multiple year leases are available. It is not intended that the land will be owned by the farmers leasing it, so there are no lease-to-purchase agreements offered.	Farmland LP works with Vitality Farms to help younger, but talented, livestock farmers acquire enough livestock to build a successful business, including sheep, pastured poultry, cattle, and hogs.	Sustainable agriculture best practices, similar to Holistic Management. Utilizes livestock as key part of land rotations. Manages Organic certification process to save costs for partner organic farmers.	Will sell easements whenever possible
Investment Firm Anonymous	Lease-purchase agreement with 10-year term.	Not single focus, but will work with beginning farmers.	Organic.	Would sell easement if possible.
Investment Firm The Lyme Timber Company	Lease with option to purchase.	Not priority, more concerned with stability of farmer and farming operations.	Sustainable practices as dictated by easement terms and/or eco-service programs.	Selling easement is central to strategy.
Investment Firm Limited Liability Company	Lease/purchase agreements. However, if farmers are not immediately identified, firm will manage farm as appropriate using farm manager.	Not single focus, but since farm properties are small many participants have been beginning farmers.	Sustainable ag practices.	Selling easement is central to strategy.
Private Company Iroquois Valley Farms	Lease with option to purchase.	Almost all tenants are young and growing their farm business. Last $7.0M invested was for young and beginning farmers.	Local and/or organic.	Selling conservation easement is not specific strategy.
Philanthropic/ Non-profit Castenea Foundation	Farm may be leased prior to re-sale of farm to farmer. Foundation may provide bridge loan for up to 3–5 years.	Lower priority. Reliance of strategy on sale of protected land in-fee requires access to financing, thus model skews to farmers with access to capital.	Promoting sound conservation practices through lease and/or easement terms.	Selling or donating easement is central to Foundation's mission.
Philanthropic/ Non-profit New World Foundation	Various arrangements will be employed including leases and incubator agreements.	Providing access to new and beginning farmers is one of project priorities.	Sustainable ag practices with eventual transition to organic or other resilient methods.	Would convey easement and/or affordability provision as appropriate.
Philanthropic/ Non-profit Vermont Land Trust, Land	6–12 month temporary lease while deal is coming together.	Providing access to highly qualified new and beginning farmers is project priority.	No specific land stewardship requirements, beyond what easement may require based on resources on farm. Any forestry activity requires approved forest management plan.	Selling easement is central to strategy. Easement includes option to purchase at agricultural value.

APPENDIX B

Investor Interview

BACKGROUND

Globally and locally, there is increasing interest in farmland by investors—from individuals to multi-national corporations and pension funds, etc. A group of sustainable agriculture professionals is concerned about this dramatic trend. LFG's Land Access Project is building from several meetings that have begun to explore ways to foster a values-based framework for such investing. We are focusing on New England. We are collecting ideas, approaches, perspectives and stories from the field.

OUTCOMES/OBJECTIVES:

- To build the base of knowledge and practice around values-based investment in farmland
- To contribute toward a framework for values-based investment in farmland in New England

WE WANT TO UNDERSTAND:

- Motivations and purposes driving investments in farmland, from speculation to philanthropy,
- Existing and emerging models for/toward values-based investment in farmland,
- The pros, cons, opportunities and challenges associated with these different efforts,
- How to compare various models and approaches,
- The return on investment expectations for each investment strategy,
- The preferred farmer to investor relationship for each investment strategy,
- The extent to which targeting new and beginning farmers fits in each investment strategy,
- The need for third-party assistance in either finding farmland or farmers or both,
- To what extent state and/or federal tax policies can be modified to promote investments in farmland,
- To what extent state and/or federal purchase of agricultural conservation easement programs can be modified to promote private investments in farmland.

QUESTIONS:

NOTE: Not all questions may apply

1. What are your motivations and purposes for investing in farmland? Why do you think these are important?
2. Who is/are the investor(s)?
3. How are investors identified and recruited?
4. What are your/their expectations? Expected/promised/actual return on investment, conservation goals, alternative agriculture goals, societal goals, etc.
5. What is the structure of your investment model (or proposed model) for investment?
6. How is the investment structure managed?
7. What is the exit strategy for the investor(s)?
8. What is the business model or plan for the farm?
9. What types/sizes of farms and farmland are targeted? Is there a geographic target?
10. Who is or would be farming the property? What does the farmer "get" from the arrangement?
11. Is there any preference toward new and beginning farmers?
12. What is the tenure agreement? Now and into the future? (e.g., only renting, lease-to-own, ground lease, etc.)
13. What is the farmer-investor relationship? What is the structure for that? Who manages it? Is a management entity part of your scenario?
14. Does the investor have any role in the farm *business*? If so, what role(s) and how is that handled?
15. Does the farmer have opportunity to build equity? If so, how?
16. Is there a pre-determined exit strategy for the farmer?
17. Is there any preference toward certain farming practices or approaches?
18. How is land stewardship (use and practices) addressed?
19. How is farmland preservation (removing development rights) addressed?
20. Do you need help finding farmland to invest in and/or finding farmers for your projects? If you have worked with entities to handle either of these, whom have you worked with on this?
21. What are the biggest challenges with your model/approach; private and governmental?
22. What actions could be taken to remove or ease obstacles to your model/approach? (There may not be enough history to answer this.)

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Land For Good is a nonprofit organization. Our mission is to support the farmers, landowners and communities that keep New England's agricultural lands working. We help people get onto, care for and pass on farms and other farm properties.