

## Project Draft Research Findings and Recommendations

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### *I. Farm and Ranch Access and Tenure*

#### **Research Findings**

##### *1. Ownership*

- About two-thirds of the country's farm asset wealth is held in real estate. Farmland ownership is concentrated; four percent of owners hold nearly half the land.
- Agricultural land is increasingly in the hands of older owners (60 + years), with owners under 35 accounting for an increasingly smaller proportion. Fewer young people are entering into farming, and of these even fewer are able to purchase their own land to farm.
- Seventy percent of farmland will change hands in next 20 years. Women owners are increasing; they may own up to 3/4 of farmland transferred in the next 2 decades.
- Absentee ownership is increasing. Eighty-eight percent of farm landlords are not farm operators. Of all farm landlords, over 60% are over the age of 60 and 40% are over 70 years old. They own 44 percent of the nation's farmland
- Investor ownership is increasing. In 2002, 34 percent of farmland owners in Iowa were investors, double the proportion in 1989.
- In Western regions, water rights are integrally connected with land rights and must be considered in tandem. Water rights are treated similarly to rights to real property, and can be conveyed, mortgaged, and encumbered in the same manner.

##### *2. Acquisition*

- Farm real estate values more than doubled from 2002-2008. In some areas, values are nearly ten times the national average.
- Cost, competition and availability of land are major challenges for most beginning farmers as is finding suitable property. Housing availability and costs are also obstacles for many entrants.
- Government subsidy programs inflate the cost of land. Much of the increase in government payments accrues to landlords in the form of higher rents.

- Socially disadvantaged populations face additional challenges acquiring farmland. These include persistent discrimination, cultural and language barriers, and fractionated heir property.
- Fewer entrants acquire farms from family members; more entrants come from non-farm backgrounds. “Traditional” succession —passing from older to younger generation within the family through purchase, gift, or inheritance—accounts for only about half of farmland acquisitions.
- Despite government loan programs, many beginning farmers report not being able to secure loans for real estate. Only 3 percent of land buyers were new farmers.

### ***3. Tenancy and landlords***

- Tenancy has always constituted a significant percentage of farm tenure. Since 1950s there has been an increase in partial and full tenancy. Full ownership tends to be more associated with smaller farms.
- Farm tenancy not inherently bad. Under the right conditions, farm rental can offer beginning and other farmers a flexible, lower-cost alternative to purchasing land.
- Nearly one-third of principal operators rent some or all the land they farm. In general, young farm entrants generally own fewer acres than they rent.
- From 2000 to 2008, national average cash rents for cropland increased by 37 percent.
- Nationally, eighty-eight percent of farm landlords are non-operators, owning 40% of U.S. farmland. They are a varied demographic including: public (Federal, state, county, municipality; private (absentee and resident non-farming, widows and daughters, socially conscious and other investors); and institutional (religious, educational, intentional communities, land trusts) owners. The vast majority of land transfers and farm succession will happen in the private sector.
- Most rental agreements are short-term, usually annual. At least a third are verbal, and there is a strong culture and bodies of law regarding oral leases. Short-term agreements are inherently insecure and discourage investment. Cash leases are three times more common than share leases, with the proportion growing.

### ***4. Opportunities***

- Key factors for successful tenure are appropriate rental agreements and engaged tenant-landlord relationships. Less traditional tenancy models (e.g., longer-term leases, ground leases and lease-to-own) and share-lease and flexible cash agreements hold promise for increasing security, shared risk, investment and stewardship.
- Private, public and institutional landowners can play key roles in making land available and engaging new models for tenancy and acquisition. In particular, public and institutional sectors can:

- Provide new models for secure land tenure arrangements
  - Provide new models for environmental stewardship on rented land
  - Play key roles farmland retention in areas of high land costs
  - Secure access to farmland in areas of high land costs
- Education and assistance programs are essential to help entrants and other farmers make appropriate tenure choices, find land, and negotiate fruitful agreements.

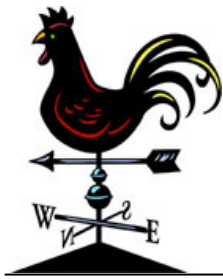
**Policy Goals and Recommendations.** For a resilient structure of agriculture, both land ownership and tenancy—under the appropriate conditions -- should be accepted and promoted as tenure options. U.S. agriculture policy should foster farm entry and viability by promoting:

- a. Increased opportunity to access to farms and ranches;
- b. Affordable options to acquire land and housing; and
- c. Security of tenure.

Furthermore, farmland owners should be educated and encouraged to offer tenure situations that are affordable, secure and promote conservation, and to actively participate in relationship with the land operator. Policies and programs should address ways to enhance access to agricultural land, land and farm housing affordability, and security of tenure. Given the predominance of non-operator landlords, we need to engage private farmland owners of different kinds (e.g., absentee, women, conservation investors). Less traditional tenure arrangements and landlords, especially in areas of the country where land is particularly scarce and expensive offer fruitful models for access, security and stewardship.

1. **Articulate national policy objectives** for agricultural land tenure that will serve as a framework for USDA agencies and offices, programs, rules and resource allocation.
2. **Conduct AELOS (scheduled for 2011) or enhance ARMS** to gather contemporary data on farmland ownership and tenure. Project and understand trends and impacts in land transfers in the next twenty years.
3. **Promote more advantageous leases.** Educate about the benefits of written agreements. Encourage and reward more secure leases. Provide information, education and technical assistance to landowners and tenants to enter into longer-term (5 or more year) agreements and share-leases. Make share-lease models and regionally appropriate share formulas widely available.
4. **Anticipate and respond to changes** in banking regulations and standards in response to economic conditions (e.g., additional requirements such as written leases as part of loan documentation).
5. **Educate and reward non-farming landowners.** Promote and provide resources for educational programming, outreach and assistance, particularly for absentee landlords. Encourage greater involvement and investment, and more secure tenure agreements through tax incentives or disincentives and/or other measures.

6. **Promote farming and ranching on public lands** and remove barriers to secure tenure on public land (length of lease, ownership of improvements). Provide information, models and technical assistance to public land managers to encourage agricultural uses.
7. **Promote increased and appropriate use of loan programs.** Improve outreach to enhance use of FSA loan programs and the contract sales guarantee program. Insist on borrower training for beginning farmers seeking ownership loans. Encourage Aggie Bond programs in states that don't have or underutilize them.
8. **Offer tax and other incentives to landowners** who lease or sell their land for farming, drawing from models in Nebraska and Iowa.
9. **Help farmers find properties and landowners find farmers.** Obtain a solid understanding of how farm linking programs are addressing and might more effectively addressing this objective. Provide adequate public support for such services. Link them with land acquisition preparedness education and assistance.
10. **Promote affordability provisions in easement programs.** Add language such as the Option to Purchase at Agricultural Value (OPAV) to conservation easements to eliminate speculation and assure perpetual affordability for farmers on conserved farms.
11. **Address farmer housing.** Develop schemes to link housing and land; emphasize affordable housing for beginning farmers.
12. **Encourage innovative land use and zoning** that prioritize and reward agricultural land uses such as farm-centric residential developments, cluster zoning with agricultural uses on set-aside land, etc.
13. **Address heir property** and fractionation: specific recommendation?
14. **Promote tenancy arrangements that help new farmers build equity** (e.g., share milking, ground leases, shared equity)
15. **Conduct research** in the following areas:
  - a. **Non-operator farm owners:** Who are they? What do they need? What are the most effective ways to reach, educate and support them? Place special emphasis on women landlords and "socially responsible" (conservation) investors.
  - b. **Farm Bill programs:** Evaluate new programs for their effectiveness in addressing land access and tenure.
  - c. **Innovative models:** Evaluate state, local, institutional and private efforts and models (e.g., leases, housing affordability)
  - d. **Tax barriers and incentives:** What are the major tax issues for land access and tenure? What reforms and innovations would be beneficial?
  - e. **Share-leases:** Research the trend toward cash leases and away from share? What can be done to increase share leasing?
  - f. **Current trends and projections:** Monitor and evaluate the impacts of the current recession on farm real estate values and farmland purchases.



## ***II. Farm and Ranch Succession***

### **Research Findings**

#### ***1. General trends***

- Up to 25 percent of the nation's farmers and ranchers will retire in the next two decades.
- A substantial portion of the 87 million acres owned by the 42 percent of operators planning to either rent or sell their land will likely become available in in the next several years.
- Older farmers are staying in farming longer than did earlier generations. A recent Iowa survey found that one quarter of that state's farmers do not expect to ever retire.
- Given the weighty financial and emotional considerations, older farmers often resist developing farm succession plans. A recent study found that 88 percent of farmers and farmland owners neither had an exit strategy nor knew how to develop one.
- The smaller (in sales) the farm, the less likely it is to have a succession plan and less likely to have an identified successor.

#### ***2. Financial, tax, and legal matters***

- Farm financial viability is an important pre-condition to a successful transfer from one generation to another. Exiting farm families must balance an adequate retirement income with making the farm affordable for the next generation.
- Retirement income is of particular concern to farm wives who typically outlive their husbands.
- The importance of taxes on the transition of the farm business is often overvalued. There are approaches and instruments to minimize tax consequences and address complex legal issues.

#### ***3. Identifying a successor***

- Of farmers planning to retire only about 30 percent have an identified successor.
- While historically first-born male children were identified as successors, a growing percentage of farmers identify daughters as potential successors.

- The actual farm transfer mechanics are not very different whether the successor is a family member or not. The key issues is finding a non-family successor, building the relationship and settling with non-farming heirs.

#### ***4. Transferring management***

- The transfer of management of the farm operation is a critically important part of farm succession that is often overlooked—by farmers, researchers and service providers.
- The transfer of management is a process, not an event, which can involve positive mentoring and mutually rewarding shifts in responsibility or conflicts and power struggles.
- Across cultures, the more important the farm management decision, the less likely the senior operators are to hand over the decisions to their successors, and the longer they delay in transferring responsibility for those decisions.
- Effective succession planning begins well in advance of when the younger generation is expected to take control so managerial roles and legal ownership of the farm can be transferred gradually.

#### ***5. Addressing family issues***

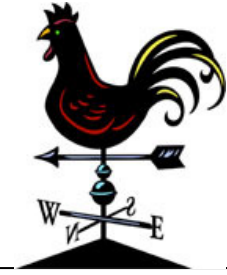
- The soft (social, family, interpersonal) issues are the hard issues. Both family and business goals must be articulated and addressed. The first step in initiating a successful farm succession is discussing the goals, wants, and needs of all parties involved
- A survey of IA farmers found that nearly half had not discussed retirement with anyone.
- The transition into retirement is often experienced as a profound change for the exiting farm family that can involve loss of identity, control, and community status, as well as lifestyle changes, health and health care concerns, and residential choices.
- A key challenge for many exiting farm couples is how to treat heirs. It is important to distinguish equitable from equal treatment.
- Succession planning is challenging because many farm families are disinclined to seek professional help. To be most effective, farm succession and transfer planning requires a team of professionals working in concert toward the farm family's goals. While a number of agencies, land grant universities and private groups offer succession planning assistance, help is uneven, scattered, uncoordinated and often hard to find.

### **Policy Goals and Recommendations**

Public policies at all levels should encourage and support the timely transfer of farm businesses and properties in ways that assure a comfortable transition and meaningful legacy for the retiring farmer and affordable opportunity for the next generation. Farm families should be able to obtain adequate, informed assistance by teams of advisors equipped with the full arsenal of

transfer tools and methods. Special attention should be paid to families without farming heirs, the junior generation, women inheritors and socially disadvantaged populations.

1. **Educate professionals.** Inform providers about succession issues more innovative approaches to succession plans. Motivate advisors to work with the farming community on retirement, estate and transfer planning. Provide, support and reward professional training especially in regions where agricultural services have been diminished.
2. **Build teams and service networks.** Foster local and regional cross-discipline professional succession planning teams (attorneys, land use planners, financial advisors, tax accountants, etc.); encourage use of Internet-based planning tools and resources. Strengthen regional and national farm transfer associations and networks.
3. **Build community awareness.** Educate community stakeholders, professionals and policymakers about farm succession issues and challenges. Engage community and economic development, municipal agency, civic and conservation groups in supporting farm transfer. Emphasize the connection between farm entry and exit
4. **Encourage and reward farm families to plan for succession.** Provide incentives; offer cost-share or other financial support for families to obtain planning assistance.
5. **Reward or prioritize farm operators with succession plans** applying to programs such as public and private purchase of development rights and farm viability programs.
6. **Examine tax laws** for barriers to intergenerational farm transfers and amend federal and states tax codes to remove them.
7. **Further develop programming** to support and educate about farm succession. Focus on the junior generation. Include non-family and non-ownership options. Emphasize and support effective management transfer.
8. **Develop and promote better estate and transfer planning tools and models.** Find alternatives to the heavy reliance on farmland sales to fund retirement (e.g., pension programs to encourage exiting farmers to transfer sooner.
9. **Place special emphasis** on the needs of women inheritors, African-American exiters and other socially disadvantaged groups regarding farm exit, transfer and retirement.
10. **Develop, improve and strengthen programs** that help exiting farmers find and successfully connect with non-family successors.
11. **Research farm linking programs** to evaluate their successes and challenges; develop recommendations.



## Project Draft Research Findings and Recommendations

### ***III. Land Tenure, Conservation and Stewardship***

#### **Research Findings**

##### ***1. Economics and economic incentives***

- Federal, state, and local programs provide financial incentives to landowners and tenants for land stewardship and ecosystem services, and engage producers early in their careers.
- Other economic calculations related to land conservation practices can be more complex as with the distribution of responsibilities and rewards between tenants and landowners.
- “Flexible incentives” approaches to private rental agreements can support the land stewardship goals and economics of both landowners and tenants.

##### ***2. Community norms, social influences, and operator and owner education and attitudes***

- The more information farm and ranch operators have about land stewardship and conservation, the more likely they are to practice it.
- Education levels and attitudes of farmland owners and operators are positively correlated with agricultural conservation and stewardship practices.
- Absentee and other non-farming landowners receive little or no education or assistance regarding conservation and stewardship. Social ties can be important for environmental decision-making by local landlords, but play less important roles with absentee landlords.
- Sometimes tenants are more motivated toward conservation activities than their landlords; sometimes the reverse is true.
- Women landlords can find it challenging to obtain changes in conservation behavior of renters. They desire information on conservation, often to provide them with more influence in dealing with male tenants.
- Farmers’ and conservation organizations that provide both social support and practical land stewardship knowledge can significantly influence operators’ conservation practices. Professional farm management companies and other providers are important providers of education for landowners and operators regarding land conservation and stewardship.

#### ***4. Land tenure terms and tenancy relationships***

- The relationship between land tenancy and agricultural stewardship is important because over 40 percent of the nation's farmland is rented.
- The "tenancy hypothesis," which linked tenants to agricultural resource degradation is being replaced by a more complex set of relationships between land tenure and conservation practices. There is nothing inherent in tenancy that results in inferior environmental stewardship. Problems arise largely depending on the nature of the rental agreement and landlord-tenant relationship.
- Short-term leases and the uncertainty associated with them tend to discourage environmentally related investments or practices on the part of tenants. Verbal lease agreements offer a mixed picture with regard to conservation practices.
- Certain lease models foster on-farm conservation: share rental agreements; longer term, written lease agreements with clear environmental stipulations and cost-share provisions; and lease-to-purchase agreements.

#### **4. Government conservation programs**

- Owner-operators, landlords and tenants can and do participate in government conservation programs.
- Local participation by operators and landowners in the governance of federal and state conservation programs can increase farmer participation in those programs.
- Opportunities exist to link farm conservation practices to beginning and exiting farmer programs at all levels of government. Several USDA conservation programs offer incentives for beginning farmers to adopt conservation practices.

#### **B. Policy Goals and Recommendations.**

Policies and programs at all levels should recognize the relationship between land tenure, conservation and land use. Tenants and landlords should be encouraged to implement conservation activities on farm and ranchland through a combination of information, education, incentives and removal of social and economic barriers. Lease arrangements that foster longer-term security, equitable sharing of costs of conservation, and landlord engagement should be encouraged.

1. **Develop a federal policy position** about land tenure and conservation to shape conservation and land use policy within the USDA and other government agencies. Similarly, encourage states to adopt a policy platform that addresses conservation and agricultural land tenure. At minimum, such a policy framework would address the realities of tenancy and mitigate or reverse trends toward non-engaged landlords and short-term, cash leases.

2. **Strengthen state programs** that reward landowners for leasing to beginning farmers by including environmental stipulations or incentives. Explore other creative opportunities at state and local levels to link farm entry with conservation.
3. **Encourage landowners** to make lease agreements equitable so that the costs and risks associated with required conservation practices are not borne entirely by the tenant. This could be done by lowering the cash rental rate or selecting a share lease that distributes risk equitably. This may result in higher risks and costs for the landowner, but s/he should also understand the long-term economic (as well as social and environmental) return from maintaining or improving the resource.
4. **Tie beginning farmer farm ownership loan programs** (FSA and IDA, Farm Credit and Aggie Bond programs) to environmental stewardship. This could take the form of preferential loan terms, debt forgiveness, debt for nature swapping, and/or advantageous terms for capital associated with transition to organic or sustainable practices. Require a conservation plan for property acquired with FSA loans.
5. **Encourage and reward longer-term leases, share leases and lease-to-own agreements** as these foster and reward sustainable agriculture, longer-term conservation and stewardship. Addressing costs of tenants' conservation practices may lead to more conservation behaviors. A tenant is less likely to practice conservation unless additional costs are shared or the tenant is assured repayment of an unexhausted value in case the lease agreement ends. Also, meeting conservation goals may restrict the tenant's management options and increase risks, resulting in lower yields or higher production costs.
6. **Couple purchase of development rights programs and farm viability programs** with succession planning *and* conservation planning. Provide a financial incentive (PDR or viability funds) for operator and landowner to think in terms of on-farm conservation and transfer.
7. **Support public programs** that provide financial payment for ecosystem services, particularly those that engage producers early in their career.
8. **Continue and strengthen public and private informational and technical assistance programs to beginning farmers.** A core message should be responsibility for the land regardless of who owns it. Additionally, educational and assistance programs could help tenants calculate realistic returns for conservation investments on rented land. Integrate conservation planning into curriculum and informational materials about leasing and land acquisition for beginning farmers, established farmers and landlords.
9. **Develop landlord education and assistance programs and services.** Encourage farm conservation planning by all landowners and tenants. Broad outreach by public and private entities (USDA agencies, conservation organizations, farm management companies, consultants, etc.) should inform non-farming landowners about conservation planning, and urge them to have a professionally designed plan. Focus on the particular

needs, strengths and preferences of women landlords. Special assistance should also be extended to socially disadvantaged landowners and tenants.

10. **Get non-farming/absentee landlords more involved in conservation.** This might include providing them with information on ecologically responsible farming/ranching systems, offering examples of stewardship provisions in a lease, farm tours, and consultation. Agricultural support organizations and consultants could offer absentee landlord educational workshops. For example, NRCS State Technical Committees and Local Work Groups could reach out to and include non-farming landowners.
11. **Promote and foster regular reviews of conservation activities** and plans by both tenants and absentee landlords returning to the farm/ranch to participate in these (annual) monitoring meetings, using such times to strengthen social ties with the tenant and neighbors. Absent such direct landlord involvement, there might be a place for farm management companies and non-profit “environmental consultants” (Dubois 2002) who would represent absentee landowners in such annual environmental monitoring.
12. **Explore ways to overcome social barriers** standing in the way of environmental decision-making and stewardship practices especially for; a) absentee and other non-farming landlords; b) women landowners; and c) other special groups. Research and evaluate strategies for reestablishing ties for absentee landlords to rural communities and conservation decision-making for their land.
13. **Specify environmental stewardship practices in tenure agreements** and encourage regular review of conservation activities on rented land. Promote long-term agreements, ground leases and agricultural easements that incorporate conservation and stewardship provisions.
14. **Research the intertwining factors that influence farmer/rancher decisions** to adopt conservation and stewardship practices:
  - a. The relative influences of economic, social, and land tenure factors;
  - b. The relative influence and attractiveness of specific government programs for landowners and tenants;
  - c. The relative attractiveness of various conservation practices to tenants compared to landlords; and
  - d. The relative influence of region and farm enterprise type. Studies of tenure status and conservation, for example, tend to focus on only one type of farming system, i.e. corn and soybean farms. While this controls for some forms of variability, it is difficult to extrapolate to other farm types. More quantitative and qualitative studies should include at least two farming systems, and perhaps more than one region to allow for comparison and increased generalization.
15. **Conduct research to explore and evaluate the influence of existing and new forms of lease agreements** on stewardship decisions and conservation practices. Focus on how long-term, ground, and share leases with environmental stipulations can foster environmental practices. Address why share leases have fallen out of practice, and how they might be resurrected in forms appropriate for 21<sup>st</sup> century tenancy arrangements.