

Are you prepared to sell your farmland?

By Tim Cobb

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Growing up in production agriculture, uttering the words “sell the farm” was akin to deserving having my mouth washed out with soap. To consider selling something that you or a family member worked so hard to preserve can, at times, be a daunting and arduous task. However, in the course of a farm’s life, the decision to sell may end up being the most appropriate end when facing factors such as changing financial needs, a shift in the management direction of current owners or the prospects of ensuring future productivity and care of the land.

If the time has come for you or your family to consider a transfer of ownership of your legacy asset, then below are four essential topics to consider in order to better prepare.

Market price analysis. Often the first place to start when considering the sale of your farm is to understand its current value in the marketplace. The market value is derived not only from comparable sales (what the neighbor said they received) in the local area, but also from a return-on-investment calculation that is based directly on what the farm produces on an annual basis in crop as it relates to dollar revenue. There is no substitute for true “price discovery” to get a real sense of what to expect in today’s market. This specialized type of information comes readily from a qualified real estate or appraisal firm. It is essential that the professional you hire is one who specializes in analyzing agricultural properties, as there can be no substitute for direct knowledge of the industry to ensure the most accurate valuation.

Condition of title. Understandably, it’s easy for title records of farmland that have been passed down through generations to sit on a shelf out of mind—and a lot of times—out of date. However, it’s not uncommon for encumbrances to occur over the normal operation of a farm (loans, liens, ownership divisions, etc.) that are recorded on the land’s title history. As such, one of the best ways to prepare to

sell property is to know the condition of the current title prior to taking the land to market so that any items that may come up can be dealt with ahead of negotiations or a time-sensitive closing process. A title company can supply a preliminary title report to be reviewed for accuracy and remedied of impediments, if needed. When working with a brokerage, pulling a title report of the subject property is usually done systematically by the firm in their initial process of representation, but one can also be obtained directly by the owners for a minimal fee.

Production review. The ability to yield a crop is the greatest asset that production agriculture land has to offer in the marketplace. One of the items that is most sought after by potential buyers is the average production data that is kept on the crops grown. Having this information accurate and available will propel you forward in the ability to adequately market and ultimately sell your farmland. Often, this information is an incomplete afterthought, and I can say from professional experience that the more correct and complete the yield information is, the more likely the price can be justified, allowing for potential buyers to validate that the land produces as advertised.

Leasing agreement and information. One of the largest reasons a farm is kept in the family revolves around a current (often long-term) lease arrangement with a farm tenant who depends on access to leased land for a viable farming operation. Ensuring a smooth ownership transition in this regard includes first discussing a potential sale with your farm tenants in order to understand their current positions and their potential to be part of the buying pool. This provides an earnest approach to transparency and can also potentially aid in an eventual sale if the buyer is needing a tenant farmer already in place to continue operations. On the other

hand, if you know that selling your farm is a potential on the horizon, then be sure to negotiate a lease with the tenant with that future sale in mind. This will safeguard the rental decisions and current lease agreements by allowing flexibility of both the owner and farm tenant when operating within the sales process. Not only may an existing tenant not want to work with new ownership and need the flex-



ibility to terminate the lease, but a piece of farmland with a long-term lease agreement may also be a negative impact on the general buyer pool and value of the land.

Being prepared to sell farmland can seem like a daunting task. However, when broken down, it is merely a series of methodical steps that can be taken over time in order to help the experience be both positive and profitable. ■

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