

PRACTISE DESCRIPTION



Access to land with a farm related land fund

Question

How to separate the use of land and the ownership of land?

Problem

For many start up farmers, finding and particularly financing land is very challenging. Purchasing land is often above the financial possibilities of a young business and lease, or rental, is much more common. This is often in the form of a one year contract that give little security and makes it difficult for farmers to plan for the future.

However, there are now alternative possibilities to finance land, that do not involve financing from a bank. A well-known example is Crowdfunding. This allows new farmers to borrow money from civilians/clients in order to purchase their land. In some cases the loan is paid back with interest, and in others, clients are paid back in farm products.

Despite the many advantages of Crowdfunding and other alternative options of financing, there are also disadvantages. In particular, the loaned money is classed as a subordinated loan. This means that if the entrepreneur goes bankrupt, or otherwise cannot meet his repayment obligations, other debts will be repaid first. Thus, first the tax authorities, the National Institute for Employee Insurance, the bank, etc and lastly the lenders of the subordinated loan.

Consequently, if there is not enough capital to repay all the debts the lenders of the subordinated loan may not get all their money back.

For the farmer a potential disadvantage with crowdfunding is that they must be very open with their (financial) business management and the funders are often permanently involved with the company. In some cases, the funders also have influence in business operations, which many entrepreneurs are not keen on. A further potential disadvantage is that ownership of the

land makes the company much more expensive for others to buy. If someone wants to take over the farm, they must also purchase the land, which is very expensive in The Netherlands.

Besides crowdfunding there are other solutions that are not organised by the farmer, but as a regional initiative. For example, the Lunters land fund and a land fund in Binnenveld (the land between Wageningen, Rhenen, Veenendaal and Bennekom). Civilians in these areas put money in the fund, which then buys land. This land is then made available to farmers under certain conditions of use. In addition to the advantage of strengthening the bond between the local community and farmers, there are also challenges. Due to the small amounts invested in the fund it takes a long time before land can be purchased. Furthermore, the involvement of all the investors requires a great deal of organization and there is often not enough land for the many farmers who would like to lease it. Consequently, the chance that you, as a starting farmer gain access to the land is relatively small.



A land fund, with wealthy investors, for one particular farm gives the farmer certainty and minimizes the financial risks for investors.

Solution

A new opportunity recently realized by two companies ([De Groote Voort in Lunteren](#) and [De Hooilanden in Bennekom](#)) is a farm-related land fund. This is a land fund that leases land to a specific farm, for a reasonable price.





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In this case, a number of wealthy individuals each invest a minimum of €25,000, which makes them an owner/director of the land fund. The land fund then purchases land and leases it for a reasonable price to the farmers who are connected with the land fund. The land fund is then the land lord and the farmer is the tenant.

The benefit of this construction are:

- The decoupling of land ownership and land use.
- The land remains the property of the investors, so there is little to no risk for them.
- Investors do not have any influence on (financial) business operations of the farmer.
- The land fund and farmer are connected to each other, this gives the farmer security to invest in the land.
- The farm is easier to take over because the land doesn't belong to the in the farm. Making the business cheaper to purchase.

Practical recommendations

- Sufficient (wealthy) people in a network who are willing and able to invest in the land fund.
- The farmer needs good communication skills to pitch the land fund to investors.
- A distinct business model with social goals is often more attractive to investors.
- Legal advice is important when drafting the contracts.
- Be aware that national legislation and the legalities of land funds may differ in your country. This can also effect the risk for investors in the land fund.

Read more

There is currently no further documentation of this type of land fund. At the time of writing there are two successful cases in The Netherlands. Further projects to learn and disseminate the lessons of this form of land fund are in development.

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NEWBIE Dynamic Learning Agenda

This practise description is developed to answer one of the questions from the NEWBIE dynamic learning agenda.

Theme: Access to land - What are innovative solutions for new entrants to gain access to land?

Question: How to separate the use of land and the ownership of the land?

Find more practise descriptions and the dynamic learning agenda on www.newbie-academy.eu/publications

