



## CONSIDER THIS WHEN BUYING FARM, RANCH, OR RECREATIONAL REAL ESTATE

1. **What type of property are you looking for: Farm, Ranch, or Recreational Real Estate?** This is probably the easiest question for you to answer, based on your intentions for the property. It is imperative that you ensure the land you choose will meet your specific needs. You may need to find a place with a combination of different elements so the land can serve multiple purposes.
2. **Cash flow generation for Farm, Ranch, or Recreational Real Estate.** Most lenders will agree that cash flow is king! Buyers and lenders are normally interested in property that has the ability to support itself by generating enough net income to support the debt service. Why wouldn't you be? Unfortunately, in today's time, we see these opportunities are becoming rare. Most farm, ranch, or recreational real estate properties require additional cash flow to meet their income needs.
  - a. **Farm Real Estate** - Typically farm real estate will see the greatest return. This is indicated by trends in rental rates.



- b. **Ranch Real Estate** – Volatility of the cattle market has definitely some to subsidize their ranching operations depending upon their financial position and management ability. Although, we continue to see strong demand for quality pasture and ranch land.



- c. **Recreational Land** - Recreational real estate almost always require supplementation by other income sources. In order to generate income for this type of property, many recreational land owners will cash-lease a portion of the pasture or farm land to a local operator.



3. **Quality, Quality, Quality.** In housing you will hear real estate agents state “location, location, location” as the most important deciding factor when purchasing real estate. In farm, ranch, and recreational real estate location is also important; however, *quality* of the real estate trumps location, hands down.
- a. **Farm Real Estate** - In farm real estate we continue to see stronger returns in those parcels that are of excellent quality. This would include soils, terrain, water quality, historical yields, CSR, etc. These are all qualities to consider when purchasing farm real estate.
  - b. **Ranch Real Estate** – The primary way to consider quality when looking at pasture is the carrying capacity of the ranch. How can grazing management improve the carrying capacity of the ranch (rotational, cell, fertilizer, chemicals, etc)?
  - c. **Recreational Real Estate** – Does the real estate have the type of land mix you are looking for? Are there adequate woods, pasture, and crop land for your intentions? Remember, quality of woods will determine how they can be utilized. Crop land may be utilized as food plots and can generate additional cash flow if leased to a local farmer.
4. **Financing Options.** Land Loans are specialized. That doesn’t mean more complicated. Most farm, ranch, and recreational real estate lenders still do things, for the most part, in a very traditional manner. When picking a lender for your farm real estate, consider the following:
- a. **Relationship** - Choose a lender that you can relate to and make sure they understand your goals for the property. Do they understand the farming practices, cattle industry, or just the desired way of life that you will find in your operation?
  - b. **Philosophy** - Will your lender be excited when you pay them off? I promise most will NOT, and understandably so, as they are in the business of making money and they do so by carrying your farm loan. We take a different approach; we believe those that are able to pay off are most likely to look to expand their operation and grow their farm real estate holdings, allowing us the opportunity to work with those individuals again. Your best interest is definitely in our best interest.
  - c. **Service** - Will your lender contact you when they see an opportunity for you to obtain a lower interest rate? As rates decreased, we contacted nearly all of our clients and offered them the opportunity to complete a Loan Conversion (note modification). Our cost of funds dropped so why shouldn’t we pass those savings on to our borrowers? Most lenders will not do this. They will simply retain the difference in rate to increase their earnings. The conversion process is very simple and saved our customers thousands of dollars on their farm loan.

**d. Interest Rates & Terms** – Each lender will have different rates and terms.

Whether this is the down payment requirement or simply the interest rate offered. Please be sure and compare apples to apples to determine what makes the most sense, financially, for you and your farm loan.

**5. Knowledge is Crucial before Making that Purchase.** Finding out as much as you can before making the purchase is definitely helpful. Talk to the neighbors. The saying, “good fences make good neighbors” apply to country life as well as city life. Take the time to develop a friendly relationship. You may need them to oversee your property when you are out of town sometime or help you change a flat tire. Find out how the neighbors utilize their land. Will it interfere with how you plan to utilize yours and vice versa? You don’t want to buy property for hunting to find out your neighbors like to race dirt bikes on the week-end!

Find out everything you possibly can about the property. You can do online searches; locate plats outlining the property’s boundaries; look for any easements on the property; and determine what the property has been used for in the past. Is there a history of flooding or wildfires in the area? If the land was used for farming, were pesticides used or fuel tanks buried? Find out what the land taxes usually cost and the last assessed value and sales price. Determine if the land and surrounding properties normally appreciate in value in case you decide to sell the land later.

There are many elements to consider when making a real estate purchase. It could well be one of the largest investments you ever make. We hope you found this article helpful and informative.

At Hall and Hall, we pride ourselves on being experts in land acquisition from the beginning to the end. Once the qualification part of the lending process has been established, we will take care of ordering the appraisal and obtaining title insurance on the property. Whether you have chosen that special piece of property that you want as your own or your still in the looking process, please visit our website at [www.hallandhall/finance.com](http://www.hallandhall/finance.com) or call one of our offices today to meet your lending needs. We look forward to financing your farm, ranch or recreational real estate. We’ve been doing it for 70 plus years and we will be here when you need us.