How Landowners *Earn Income* From Farmland

When you hear about investing, farmland isn't always talked about with the same excitement as, say, the latest tech company. So some might be wondering: is farmland actually a good investment?

When it comes to value of farmland, the trends are pretty clear: U.S. farmland value continues to climb, according to the USDA, and the opportunity to earn income through those investments are plenty.

So how does farmland investing really work? There are a few main ways for farmland investors to make their money:

Collecting cash rent

Of all the ways to invest in farmland, this one might carry the lowest amount of risk. So what exactly is cash rent? Think of this as a landlord/tenant relationship: you own the land, then charge rent from the farmer, who pays you a set price per acre for the right to farm that land.

The farmer writes their own checks to pay for inputs, equipment, or other expenses. You, as the landowner, are relatively hands-off, and don't have to make decisions about how to run the farm, or worry about whether a bad crop year will lead to your income being lowered. The rent payments remain the same no matter what.

Collecting cash rent for the farmland in which you invest is a great option for someone looking for passive income, who doesn't necessarily want to be involved in the day-to-day operations of running a farm. It's also a great option for someone who doesn't want to take on a huge amount of risk, who doesn't have a lot of experience with farming, or who wants their monthly income to stay the same, no matter the conditions of that season.

Earning dividends through a Crop Share Agreement

Earning your income through a crop share agreement is another hands-off approach: you're not the one doing the farming or upkeep. But this isn't as low-risk of an option as charging cash rent.

A crop share agreement involves the cash flow generated from crops that are harvested on your land. There's more risk here because your income depends on how the crop does that season. Weather, pests, and disease can all be enormous factors in how much you earn from this option. So can the general economic conditions/commodity prices that affect what you produce, or how much you can earn from your crops.

If you want to earn income through a crop share agreement from the land you invest in, crop insurance is vital. This will protect you against natural disasters or otherwise negative conditions that might have a huge impact on your crops (and therefore your income).

Also important with this option is diversification of your land. Putting all your eggs in one basket is risky, and it's good to have multiple options for income. If one crop doesn't meet expectations or falls prey to a severe drought or insect infestation, for example, then you can try to make up for it with your other commodities. Instead of relying on one, you could run a combination of soybean and corn, for instance, or a wheat and cotton combination.

Land purchased through Field Yield, for instance, offers this diversification. In addition to land that can produce regular row crops, nearly all of our acres also include timber. Whether that's the combination you want to invest in or not, it's always important to diversify your farmland investment, just like any other investment.

Custom Farming

A related alternative to leasing farmland through a Crop Share is Custom Farming. In this scenario, the custom operator agrees to perform all the machine operations on the owner's land in exchange for a set fee. The landowner pays for all seed, chemicals, and other inputs, and keeps all the crop and commodity payments.

An obvious advantage to the custom operator arrangement is that you need little or no additional operating capital. Fuel, lubrication, and repairs are usually the only added costs. Additionally, custom farming offers a fixed return. Although the possibility of higher repair bills poses some risk, this is minor compared with the price and yield risks faced by the tenant. In a good year, of course, profits from custom farming will be smaller than under a conventional lease, but this is a common trade-off for reducing risk.

Landowners find advantages to custom farming as well. Owners with small acreages can make most of the production and marketing decisions without investing in a full line of machinery. There are no lease payments to collect, since the owner receives all of the crop. The owner would usually be considered a material participant for tax purposes, and would be entitled to all government payments."

Becoming the owner-operator?

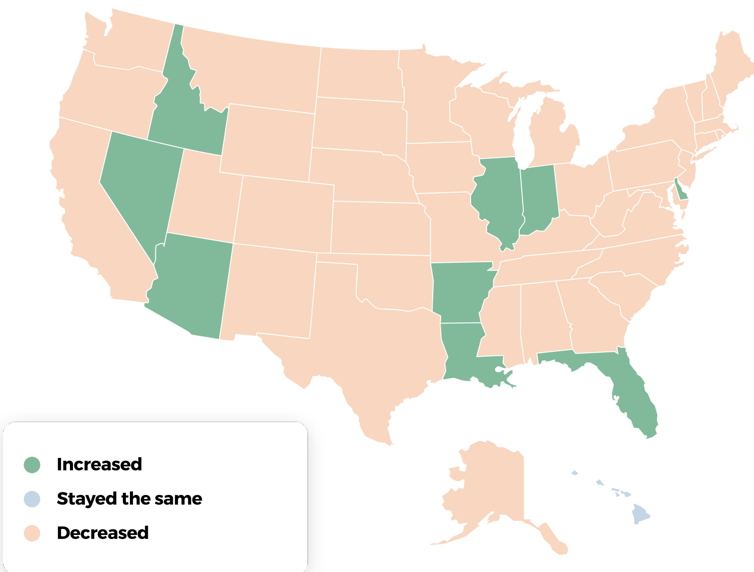
If you're looking for a hands-on approach to farmland investment, you always have the option to buy your land and farm it yourself. Instead of relying on someone else to plant, take care of, and harvest your crops, you would take on all that responsibility yourself. Some like this approach, especially if they already have experience on a farm. However, it also adds on a lot of stress to be both the owner and the grower. You take on all the responsibility and benefits — but you also take on all the risk.

[1] Iowa State University Extension & Outreach Custom farming-An Alternative to Leasing William Edwards February 2019.

Appreciation (and eventual sale)

Thanks to a myriad of factors — urban sprawl, rural land development, climate change — less and less farmland exists in the U.S. As available farmland decreases, the value of this limited resource increases.

Land in Farms (US) 2011-2021



That's why another potential income opportunity from investing in farmland is money earned through the sale of an appreciated asset. When you purchase a parcel of land, then wait for its value to increase as the supply continues to decrease, you stand to make a significant profit down the road.

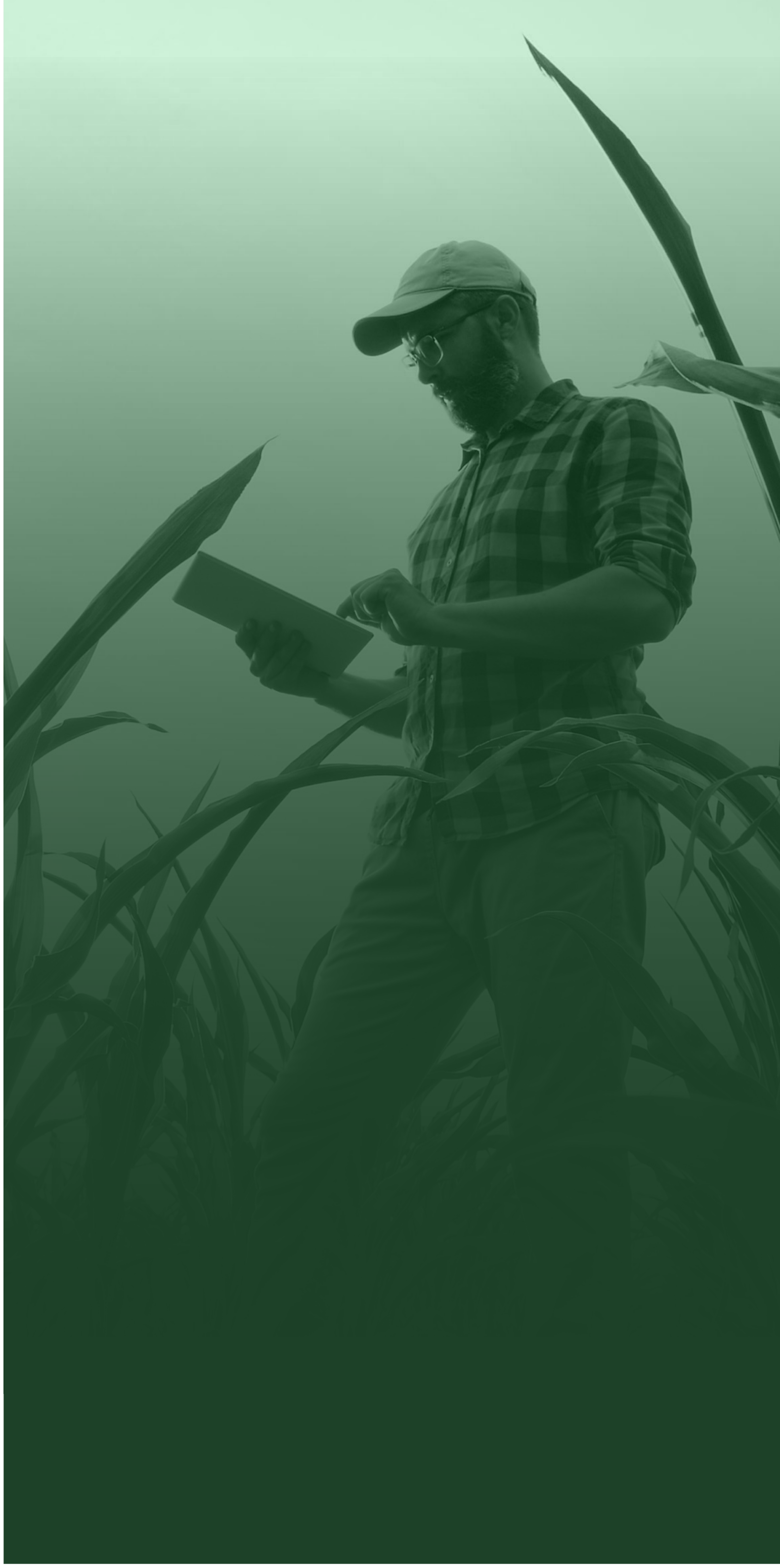
There is some risk with this option, as with any investment. The market could crash, you could struggle to find a buyer in your region of the country, or natural disaster could strike your land in the years leading up to a potential sale. Still, if you're wondering whether farmland is a good investment, remember that U.S. pasture value continues to increase, including a 5.7% bump in value per acre from 2020 to 2021. The opportunity for those figures to continue climbing is certainly there.

At Field Yield, we recommend 10-year investment timelines, with a typical IRR range between 8 and 15%, depending on the mix of land and timber, and as high as 20% if we are developing the farm from the ground up.

While you wait for your land to appreciate, you could still earn income from the options above, then sell when you're ready.

When you invest in land through Field Yield...

We help you through the logistics of actually finding land, we offer acres that are already diversified, and we're there to answer your questions at every step of the way. Our investors typically earn money through annual rental income on the irrigated farmland, timber sales, and land appreciation.



Still have questions?

Contact us at FieldYield.io

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