

# Considerations for Accessing Land and Capital

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C O L L E G E

“A system of conservation based solely on economic self-interest is hopelessly lopsided. It tends to ignore, and thus eventually to eliminate many elements in the land community that lack commercial value, but that are essential to its healthy functioning. It assumes, falsely, I think, that the economic parts of the biotic clock will function without the uneconomic parts.”

Aldo Leopold

# Barriers to Adoption

The existence of obstacles or hindrances, both perceived and real, that reduce the probability that a new technology will be adopted.

- Structural
- Strategic
- Regulatory
- Social



# Structural Barriers to Land and Capital Access

- Collateral Lending –
  - Highest and Best Use

- Risk Analysis-
  - Information Asymmetry

- Land Tenure-
  - Impact of rental agreements



# Collateral Lending

- Access to financial resources based on the “market value” of assets
- “Market Value” is a concept that is based on Exchange Value
  - What would a prudent, informed, and willing buyer pay a prudent, informed, and willing seller for the property rights to the asset?
- Environmental concerns are lumped in with the “informed” buyer and seller.

# Highest and Best Use and Agroforestry

“The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are **legal permissibility, physical possibility, financial feasibility, and maximum productivity.**

Alternatively, the probable use of land or improved property – specific with respect to the user and timing of the use – that is adequately supported and results in the highest present value.”

*The Appraisal of Real Estate, 14<sup>th</sup> Edition, P. 333, The Appraisal Institute*

# Highest and Best Use and Agroforestry

- “Legally Permissible” – Uses of land that are allowed by zoning, regulations, deed restrictions, and land-use planning.
  - Usually Agroforestry meets the legally permissible test
- “Physically Possible” – The physically possible uses of land are almost limitless; however, Culture and Norms often narrow the list.
  - What is considered “Physically Possible” is often limited by the resource base and the social context

# Highest and Best Use and Agroforestry

- “Financially Feasible” – Revenue must exceed cost (Net Present Value must be positive)
  - Methods for calculating Net Present Value only consider cash benefits and costs; and, often discount the long-term benefits.
- “Maximally Productive” – There can be only one “highest and best use”, this is the use that has the highest net returns
  - Agroforestry practices are compared against all other uses and often are deemed to be “not maximally productive”.





# Risk Analysis and Agroforestry

- Risk versus Uncertainty
  - Risk – a statistical probability of a negative event can be calculated
  - Uncertainty – the ability to predict a negative event is limited
- The impact of Information Asymmetry (or the fear of the unknown)
  - Common commodities have risks; those risks are translated into interest rates and insurance premiums.



- Niche products have uncertainties; those uncertainties translate into higher costs for capital and high insurance rates.
- Diversity as a risk management strategy has been replaced by insurance mechanisms.

# Land Tenure

- Due to the changing structure of land ownership in the US, rental arrangements are becoming more popular.
  - Rental arrangements are generally not conducive to long-term, perennial crop systems.
- Land trusts, family trusts, and limited family partnerships
  - Multi-generational farms are more likely to adopt agroforestry practices.

# Opportunities for Accessing Land and Capital

- Federal Tax Laws

- Section 194 Treatment of Reforestation Expenditures

- Allows the landowner to deduct reforestation costs from taxable income

- Section 175 Conservation Deduction

- Allows the landowner to deduct expenses for soil or water conservation, erosion prevention, or endangered species recovery

- The Business of Farming –

- You are not farming if you are engaged only in forestry or the growing of timber.
  - Agroforestry is the business of Farming



Questions?