

Questions to Ask Before Buying or Leasing Farmland

Strong commodity prices can generate positive margins, causing many producers to think about buying more farmland. But before you decide, make sure you have a thorough financial plan and that you consider the pros and cons. A clear, detailed purchase plan will help you decide if buying land now is a good investment.

Here are some questions to ask yourself before buying or leasing farmland:

- **Why do you want to buy farmland?** Think about why you want to buy. Decide if you want to expand your own operation; bring in a partner; ensure control of productive acres, etc. Be clear about whether it's a business or an emotional decision and, if you have business partners, that everyone agrees.
- **What is your farm's financial condition?** Consider your current financial situation, what kind of investment is needed, what it'll cost over time and projected crop conditions. Decide if your farm is financially healthy enough to handle the increased debt load and if it's the best use of your cash.
- **Have you created a cash flow statement?** Research the expected revenue of the potential land purchase and see if it fits your business plan. Decide if the potential return meets your goals and objectives, if your farm can handle the additional debt and what the risk is on your current equity.
- **Given your revenue forecast, are you overpaying?** If you are paying a premium land price, figure out how long it will take you to recoup your investment. Decide how much debt the farm can carry and the revenue required to repay that debt. Decide if you can weather the possibility of lower commodity prices or increased interest rates in your profitability and revenue forecasts.
- **Should you go all-in with your cash?** Talk to your banker or accountant about alternatives to using all your cash to buy. Using all your cash will affect your farm's working capital and its ability to meet all your commitments as they come due. Look at the loan amortization length and loan payments to see if they meet your cash flow and ownership goals. A longer loan amortization with a pre-payment privilege may reduce stress on cash flow if your crop margins tighten.
- **How will you register the property title?** Will you register title individually; jointly with a spouse, partner or family member; or with a family-owned corporation or trust? The pros and cons of how you own the land will depend on your long-term goals. Get advice from your lawyer or accountant.
- **How long will you actively farm?** Make sure your financing plan matches the rest of your intended career as an active producer. Decide if you will fully pay off all debt from the purchase before you retire; if you have sufficient credit, life and disability insurance, and if you have enough cash to meet your living expenses.

Resources

[Guide to Farmland Ownership](#) explains the factors to consider when inheriting, buying, renting or leasing farmland.

- For more information, contact a [Farm Management Specialist](#)
- Email us at mbfarmbusiness@gov.mb.ca
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