

# Sale-Leasebacks – When, Why, and How Do They Work?

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Across the land brokerage industry, we commonly receive calls or inquiries from farmers looking to perform a “sale-leaseback”. While these have proven to be a highly effective vehicle for a multitude of reasons, there are several things to consider before deciding to head down the sale-leaseback path.

A sale-leaseback is when a farmer sells a tract of land to an investor and enters into an agreement to lease it back after the closing. This allows for a discrete transaction without the need for any signage, marketing, or knowledge of the sale by the general public. A common misconception is that 5-10 year leasebacks are expected, but in reality a typical leaseback period is typically 1-3 years. This allows time for the owner and the tenant to get to know one another and prove themselves to the other with the overall intent to continue in a long-term business relationship.

Another frequent misconception of the sale-leaseback transaction is that the seller is always in a “need to sell” situation generated by a high debt load. Although a portion of these sales are brought on through pressure from a bank or financial adviser, Peoples Company agents have successfully closed several deals over the past year where this has not been the reason. Sale-leasebacks have also been a successful option when:

- Farmers are looking to sell a piece of land further away from their home operation so they can purchase closer to home while increasing the number of acres farmed.
- Farm families looking for a capital gains benefit while transitioning from a C-Corporation to an S-Corporation.
- Farm tenants who have the first option to buy a leased property from their landlord but may not be in a position to buy or who are too far away for it to fit into their current operation.
- Farmers looking to build a relationship with an investor to provide long term growth opportunities.
- Farmers who are looking to free up capital to expand or improve other areas of the farm such as equipment or grain storage, or are looking to invest in a secondary business.
- Heirs of an estate who have differing opinions on selling or keeping their portion of a farm but would like to see a sibling or tenant continue to farm the land.

While utilizing the sale-leaseback method can be very effective, it won't be the ideal scenario for every situation. The typical investor wants to feel that they have purchased a property at or under market value and has less of an emotional attachment to a farm than someone who has driven by the property their entire life. Farmers are still buying approximately 80% of the land sold and tend to put less of an emphasis on the return expectations. Because of this, sale-leaseback transactions frequently see a value slightly less than a person may expect from a traditional listing or public auction. That said, the word "investor" is not all-encompassing and may vary from a "local investor" such as a local businessperson, 1031 Exchange buyer or retired farmer, to a regional focused asset manager, or a national investment partnership. The ultimate question for the farmer considering selling is whether they want to ensure maximum immediate value and offer the farm to the public or if a leaseback is a better strategic plan for their operation.

There isn't one perfect scenario for each farmer or investor, and there may be multiple suitable paths to take. This bodes well to the specialties across all divisions of Peoples Company with land brokers who are well versed in private transactions, public auctions and listings, land managers who have cultivated relationships with a number of farmers and investors across the country, and our Land Investment division allows access to a multitude of investors with varying backgrounds and a wide variety of needs. Whether you are a farmer looking to sell or an investor looking to buy, reaching out to a land professional with Peoples Company will allow you to receive a professional opinion to ensure you are doing what is best for your operation or investment.