# Exploring the Path to Generational Wealth - Lease vs. Sell

I often hear that landowners who lease their property aim to build generational wealth for their heirs. I deeply respect this intention and admire landowners who think ahead to secure their family's financial future. Recently, in a conversation with a family considering leasing their land to a renewable energy developer for this reason, I shared a perspective that may be worth considering: if wealth-building is the primary motivation, it might be financially wiser to sell the land rather than lease it.

Now, while I'm not a financial planner, CPA, or investment strategist, I decided to run some preliminary numbers after our conversation to see if my advice was on the right track. Here's the "back-of-the-napkin" analysis I used.


**Scenario One: Leasing the Land**

Imagine a landowner is approached by a renewable energy developer looking to lease 100 acres for development. Suppose the developer offers $2,000 per acre per year (a relatively high rate), increasing by 3% each year to keep pace with inflation. Over 30 years, this lease would generate approximately $9,515,083 in total income.

For reference, the calculation is as follows:

Total earnings=200,000×(1+0.03)^0+200,000×(1+0.03)^1+…+200,000×(1+0.03)^29

Since this is a lease, the property owner retains ownership and could sell the land at the end of the lease term. If the land currently values at $17,000 per acre, the total current value would be $1,700,000. Assuming a conservative annual appreciation rate of 5%, the land's projected value in 30 years would be about $7,347,302.

By adding the lease income ($9,515,083) to the projected future land value ($7,347,302), the owner could potentially create approximately $16,862,385 in generational wealth after 30 years.

**Scenario Two: Selling the Land**

Now, consider if the landowner sells the property outright at $17,000 per acre, generating $1,700,000 in revenue. Suppose the owner invests 100% of this sum, aiming to create generational wealth. Let's examine two possible investment paths.

Conservative Approach (3% Annual Return): If the owner places the sale revenue in a low-risk option, such as a money market account or a long-term CD with a 3% return, the investment would grow to about $4,126,346 over 30 years. Comparing this with the lease income, the landowner would miss out on potential earnings of $12,736,039 by choosing the sale.

Moderate-Growth Approach (10% Annual Return): If the owner invests in a diversified index fund, such as an S&P 500 SPDR, with a historical average return of 10%, the investment could grow to around $29,663,984. Compared to the lease scenario, this approach leaves the landowner ahead by $12,801,599.

For reference, the calculation is as follows:
Future Value = $1,700,000.00 X (1+Annual Return Rate)^years

**Conclusion: Making the Right Choice for Generational Wealth**

Between these two scenarios, if the primary goal is to build wealth for future generations, selling the land and investing in a broad-based, relatively conservative fund that tracks the S&P index may provide a more substantial financial legacy. However, it's crucial to remember that this is just a rough analysis meant to spark consideration.

I urge you to conduct a thorough review and consult financial professionals before making any decisions. Factors like outstanding debts, taxes, and other unique circumstances should be carefully evaluated. This is simply my perspective—based on rough math—intended to offer an alternative to consider in your wealth-building journey.