EPISODE 547

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Brandon Silvera. Thanks for being on the show, Brandon.

[0:00:33.0] BS: Hi there. How are you?

[0:00:33.8] WS: Great, pleasure to have you. I was just telling Brandon that he has a superpower that I don't think we've had on the show yet and a unique skill that I'm really looking forward to diving into today and I think it's going to open a lot of the listener's minds to a new type of investment or new option out there that you may not be familiar with.

But a little about Brandon: He's a fourth-generation farmer and has bought and sold millions in real estate. Currently manages over 100 million in assets. His specialty is in farm management, land acquisition and a variety of farm and land financing strategies. He's passionate about bridging the gap between the farm and the consumer which led him to launch FarmFundr which makes investing in farmlands simple.

Brandon, you got to fill us in a little bit, you know, maybe back up and tell us how this happened, how this came about, let's dive in to really what this is and just the opportunity that's there for all of us that we don't even know about?

[0:01:29.9] BS: Sure, like a lot of things, pop up out of necessity. I started my farm pretty much from scratch, started building it up and realized that we need more capital and we need better options. When the Jobs Act first came out and crowdfunding had became a thing, equity crowd funding, I kind of knew what that time that this was really big for farming. You know, I thought to myself, "How cool would it be to be able to get investors to invest in farm land with farmers that know the land, know how to farm, know what they're doing and get a good return for the investors who get to own this property and get to see the appreciation of this property?"

At the time, it just wasn't being done on a scale that normal investors could invest in. It was being done on large scale pinch and funds, things of that sort but just not where normal investor could invest in and I knew it could be huge. That's kind of what led me on this path.

[0:02:27.8] WS: What kind of farming were you doing? Before the Jobs Act, what kind of farming were you doing specifically, what type of operation are we talking about?

[0:02:34.8] BS: We're in central California so we're growing a lot of almonds, walnuts, grapes, nut crops are great investment right now. but we also have some roll crops and we've dabbled with organic tomatoes, processing tomatoes, garlic, onions, cow feed, things of that sort. Corn and alfalfa, pretty good around these parts, so that's kind of our focus. We really like the permanent crop and the vineyard model seems to be a good return, that's kind of our sweet spot.

[0:03:02.7] WS: You were doing that and then you realized you needed capital and you could raise capital. I love how you talked about – it's so similar thought process to what we do in multifamily. It's just like you know – investors are investing with operators that know what they're doing because they don't have the time to go develop that skill most of the time and to operate the deal, operate the property and it seems so similar here to where you're the expert, we're ultimately investing in you and your skills, right?

[0:03:29.1] BS: It's interesting because like a lot of things, if you buy a piece of property, they want you to personally guarantee and say, the building or whatever you're buying and they want to encumber your other real estate, right?

Well, in farming, imagine having a farm that's been in your family for a hundred years and you want to buy the farm next door. But doing that, you have to have the risk of encumbering all of your family farm that had been for a hundred years and you might lose that someday. It may not want to take on that risk.

The thought process is, "Why not have the ability for investors to come in and invest with the farmer where he doesn't take on so much risk, but yet he's familiar with the ground because he's next door or the soil is familiar and he's already growing those crops?"

It really first the whole syndication type of a model fits so good with the agriculture and my personal opinion I think we're just kind of, this is just the start.

[0:04:24.4] WS: Yeah, it seems like this thing that's just kind of unknown, right? People, first time they do hear about it, maybe they're a little fearful, but they're just uneducated maybe.

[0:04:32.6] BS: I think there's a learning curve, for sure. I think there's a learning curve on both ends when you talk to farmers about bringing investors on, the first thing a farmer says, "Well, I don't want someone from the city telling me how to farm."

"Well, that's not how it works, you know?" When you talk to investors about investing in farm land, telling them that, "Hey, you're going to get paid once a year instead of every month," there's a learning curve there too. And that profit from your investment changes every year depending on weather and how good those crops do.

What we do is not – we don't lease back to a farmer. Investors are invested with the farmer in those crops which helps us to see a higher return for the investors.

[0:05:11.3] WS: Tell me, elaborate on that a little bit there, as far as leasing. You talk about you're not leasing back, explain like why that would be a problem so we understand?

[0:05:19.4] BS: It's not a problem. So, t's pretty common that I would say, what most people, most institutional investors and a lot of investors do when they want to invest in agriculture, they go out and they buy farm, they lease it to a farmer. That farmer pays X amount of dollars per acre and it's paid once a year. Not a lot of risk, it's pretty safe which is good, but your returns tend to be lower and two or three percent return on your money and whatever appreciation you get from that farm.

Now, that farmer who is farming that is obviously needs to make profit farming and pay you the rent so we're kind of capturing that profit from the farmer, but you're also getting that risk. If you're going to farm say almonds is what we're big into over here. You're going to own the trees with the farmer, the farmer is going to own the trees. It's all going to be in an LLC and if those trees make 13%, you know, you're going to make 13%, instead of just getting the rent and the appreciation.

We think it's pretty safe, we think the risk is definitely worth the reward doing it this way so that's kind of our model compared to traditional models.

[0:06:24.1] WS: You mentioned, being paid once a year and that's kind of a learning curve there as well. I could completely understand why that is that way but maybe you could elaborate for those that don't really understand farming process.

[0:06:34.4] BS: Sure, we're for example in an almond orchard of a vineyard, right now, we're farming for a harvest that's going to be in the fall. And we're going to sell that product and probably get paid after the first of the year in 2021. There's no monthly income, it's just kind of – when you sell the product that you grow, that's when you get paid. That's kind of how it works.

There are some other cash flowing crops out there but not too many. For our model, this is how it's done.

[0:07:03.4] WS: How do you project returns on something that's going to be sold so many months from now?

[0:07:09.5] BS: I look at the historical average. I see what the price has been selling for, what we think the price is going to be, what we think demand is. What we think the crop is going to be. There's some really good – not just the USDA but also some other research group out there that are doing some really good reports on – for example, on almonds, it comes to bloom, we have a bloom period and we'll look and see was it a good bloom time? How many almonds are set on the tree? And we get an estimate of how big the crop's going to be so we can, within reason, figure out what we think the crop's going to be and what we think the price is going to be.

Obviously there's so many different variables but we get a decent idea and we put that over time because in farming, this isn't a one year or two year, you really want to look at it in a seven to 10-year type of a model and look at it over that time. If you look at it a year by a year basis, you probably won't be too happy.

[0:08:01.7] WS: That makes sense. Explain just how it's structured a little bit, you know, you talked about like going over five to seven-year period and a lot of the investors that are listening are used to that even in multifamily, we're going to hold it say five to seven years but explain just how a deal like this is structured? It maybe even, how the returns are structured as well?

[0:08:20.4] BS: I'm going to use an example for the almond orchard we currently have on our website. You buy into an LLC. The LLC owns the almond orchard and whatever percentage of the money that you put in will be the return that you get. The LLC sees 100% of that appreciation of the land.

We look at an orchard for a 10-year hold period. Almonds have a lifespan of say 20, 25 years so that these trees are five years old, we're looking to see these trees really see the maximum potential of yield over the next 10 years. Plus, we're going to see some good appreciation on a 15-year-old almond orchard that's taken care of will still have a really good resell value.

We're going to look at where the market is after the seventh year and say, "Okay, do we want to sell it this year, next year? How much profit are we making, what do we want to do with the ranch over this time period." We may sell on year nine, we may sell on year 11. We just kind of what I want to see the feel of this asset during that time.

[0:09:22.0] WS: That's selling the crop or that's selling the land or –

[0:09:24.2] BS: That would be selling the land. When we exit out of an investment, we'll exit out of the farm completely, that would be our goal. It's possible we may not, depending on what the investors like to do or what we feel we want to do but that's most likely – we want to capture that appreciation.

[0:09:40.3] WS: Somebody that's coming in to buy that, if you've managed that well and now you have a cash flowing crop there, I assume the value the land is a lot more?

[0:09:49.5] BS: Yes. We want to capture as much appreciation as possible. Historically, it's been very good.

[0:09:54.3] WS: Where do you most mess up when investing in agriculture like this?

[0:09:59.0] BS: I think from the outside, investing in an asset like this and you are not familiar pretty much you have to find the right piece of property for whatever it is that you are looking for. So, I think most people mess up by getting talked into something that maybe isn't a class one soil or wasn't a crop that maybe didn't have enough water. You know water is a big issue here in California or buying too high.

I have seen that a lot you know they pay whatever the market value is and it slips 10% because of crop prices. I think there is so many variables to mess up. An outside investor should really look at who is going to be farming it and the history of that farm to make sure that they are a reputable farmer or a reputable person.

[0:10:43.9] WS: Is there a way to know that or maybe help us to find a good operator like yourself or maybe some questions that we should even ask so we know, they know the farming operation?

[0:10:52.8] BS: I think you want to look at the history of the farm and what kind of soil class it's in and what crop is suitable for it. So, there is some USDA information out there that would say "You shouldn't plant an almond here, you shouldn't plant a vineyard here but you can plant pistachios or this crop here." You want to look at what the soil is and where it's located and you want to make sure there is enough water.

You know in the Midwest we get a lot of rainwater that is kind of the method of irrigation but here in California we're all irrigated through canals and ditches. So, you want to make sure there is two sources of water. Those are the first two things you want to look at. And you really want to feel out the operator that they know what is going on kind of look at their history.

[0:11:32.5] WS: What is a typical investment range in something like this? Can somebody invest at 10,000 or is it a 100,000, what does that look like?

[0:11:40.3] BS: So, we start out at 10,000 for our offerings. I would say 50 to a 100,000 is probably a normal amount to invest in something like this. And when you get above a 500,000 to a million dollars, you really want to start looking at owning a farm on your own and hiring that manager and possibly being able to dictate, which crops are going to be put on that particular farm, which we offer a program like that as well. Anything over 300,000 we can find you a farm.

[0:12:07.0] WS: Wow! Tell me about that so somebody has a large enough investment amount, you actually help them find a farm and potentially farm themselves?

[0:12:14.9] BS: Right yeah, in the crowdfunding structure is pretty hard for a 1031 exchange to happen here. So anytime we get a large amount of money that people want to invest in a farm, a lot of times they want it to be – there are certain things that they want. A certain crop that they may want. They may be 1031 exchanging and that period of going, we can 1031 exchange into a piece of property when the farms named after X investor and they have a little bit more control over what is happening.

[0:12:43.5] WS: What are the typical types of returns? Do you have preferred return or do you do like a 70-30 split like some typical structures do in commercial real estate?

[0:12:52.4] BS: So currently that is not how I have it structured. We are in it with the farmers so we'll go – am sorry with the investor. So, if you see a 30% return that investor gets a 30% return. We are not taking any kind of preferred returns or waterfall type situations. We are just not doing that. I am not saying that that may not be something in the future, especially when we get more sponsors onboard. But this particular point in time, we want it straight and simple.

The farm makes X amount of money and what's left over goes to investors. I think in the commercial world, it can be done a little bit easier. Some of those types of set ups, because there is a little bit more predictability in the farming world, we are going to share the upside and we are going to share the downside.

[0:13:34.8] WS: So, we had briefly talked about just how farmland has it's proven to remain stable. Elaborate on that a little bit just how it is maybe over many years, you know just how that's proven to be stable and why people are looking more to invest in it lately?

[0:13:49.2] BS: The best thing about farmland, especially when the markets kind of tank, it is a great inflation hedge. We're essentially a manufacture. So, we are producing a tangible product. It is a product that we all need on planet earth to survive. So, it is in demand at all times when the economy is up, it is in demand and when the economy is down, it is in demand. That is a good thing especially.

And we see like what happened in 2008 when the dollar gets a little weaker, our products tend to really sky rocket because we are on a global economy. And we're selling to places overseas that really like that our dollar has weaken. We have seen commodity prices skyrocket during this time. So, there is so many different ways, I think, for farmland and the commodities that come off this land to benefit during economic uncertainties.

It comes with the good and bad. I mean I am not going to say it is the tell all, you know the best investment in the world. It's stable and it is a long-term investment. For myself, I am heavily invested in agriculture but if I was from the outside looking in I'd take a portion, throw an ag because it's always going to be stable. It is always going to be there. The population is growing, we're losing farmland at a record pace. So, at what point is that going to really catch up to us? So, I am a big fan.

[0:15:05.5] WS: So, what's been the hardest part of this syndication journey for you, Brandon?

[0:15:09.2] BS: I think the educational aspect of it, getting people to invest in such a traditional unique asset through a non-traditional method. Essentially you're investing a farm on the internet, which is weird. It is different and I think there is a learning curve that a lot of people, a lot of investors need to learn, which thank God the commercial world is really kicking butt right now because it helps us. It helps people to understand what is going on in apartments and other deals. Where they can look and say, “Okay I have done this with this asset. Oh, I see, farming has the same type of setup” you know?

But it is just hard. I think there is still – I think we have a couple more years of really educating people how it works and what to do.

[0:15:55.0] WS: What is a way that you have recently improved your business that we could apply to ours?

[0:15:58.6] BS: For me this whole journey of crowdfunding and marketing has been because we come from the agricultural side and not the investment banking side, you know doing these podcasts and really improving our visibility online has been so crazy to me. I really look at how other larger companies are doing SEO placement and how everyone’s getting to the top of the search for these particular assets and I think we are improving marketing wise every single day.

[0:16:29.9] WS: How are you finding investors for an asset class like this?

[0:16:33.9] BS: Mostly the internet right now. So, it is word of mouth. It is keyword search though one good thing about this, if you want to invest in apartments there is a whole list of people. If you want to invest in almonds, there is not too many people. So, we’re lucky to get in there and get on the first page and really get interested people that want this particular asset. So, we have been very lucky.

[0:16:56.8] WS: What’s the number one thing that’s contributed to your success?

[0:16:59.4] BS: My success in this particular asset has got to be just one, I’ve been in it my entire life and two, passion. You got to be happy doing what you’re doing and I couldn’t imagine doing anything else. So, the farmer’s the eternal optimist, right? We are always optimistic and having that passion I think has really helped our success.

[0:17:19.2] WS: How do you like to give back?

[0:17:20.6] BS: Well, we do quite a bit for the Children's Hospital here so that is my little sweet spot. Anytime I can do anything for them I'm in.

[0:17:28.7] WS: Well thank you so much Brandon for just coming on the show and sharing this new asset class with the listeners and myself. I know I've learned a lot and I'm sure they have too. But tell them how they can get in touch with you and learn more about you.

[0:17:40.4] BS: So, the best way would be is to check out our portal, which is farmfundr.com and there's no E in there so that is farmfundr.com. They can reach me at info@farmfundr.com, email me, check out our Instagram, Facebook, we are all over the place. Anywhere we should be we're there.

[0:18:00.4] WS: Awesome, Brandon, that's a wrap.

[0:18:02.0] BS: I appreciate it.

[END OF INTERVIEW]

[0:18:03.2] WS: Don't go, yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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