

EPISODE 618

[INTRODUCTION]

[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]

[00:00:24] WS: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today, our guest is Dax Cooke. Thanks for being on the show, Dax.

[0:00:32] DC: Great to be here, Whitney.

[0:00:34] WS: Yeah. All the way from Colombia, right?

[0:00:35] DC: That's right, yeah. We are talking to you live from Medellin here. We're actually at about 7,000 feet elevation up here and we are in the midst of quarantine like everybody else, but we're doing just fine.

[0:00:47] WS: Awesome. Well, a little about Dax, in case you haven't heard of him before, he's founded Farmfolio, has successfully democratized an agribusiness sector with the goal of creating value throughout the agriculture supply chain by connecting stakeholders around the world to unique opportunities in emerging markets.

So, I'm looking forward to this conversation because it's a totally different asset class, and we've got to talk about it very often. But he has successfully created a tropical fruit brand called – Is it La Dona?

[0:01:16] DC: La Dona, yup. La Dona.

[0:01:17] WS: La Dona.

[0:01:17] DC: We call it La Dona, yup.

[0:01:18] WS: Awesome. La Dona Fruit. That is present in over 15 countries in Europe. Farmfolio is now the number one exporter of airfreight pineapple out of Panama. Dax's vision has led him to create unique opportunities for investors to capitalize on teak transformation facilities and fruit packaging houses.

Dax, thank you again for your time. I'm looking forward to this. Give us a little more of your background because this is a very unique asset class that we haven't talked about before.

[0:01:47] DC: Yeah. It's kind of random how I got into this business. I spent 12 years in a financial services business from investment banking all the way to wealth management and sold the business in the early 2012, 2013 timeframe and moved Panama. Actually, I was going to take a hiatus. When I moved into my condo building in Panama, I met two guys that were sourcing produce for Whole Foods, and they talked me into creating financial modeling for some of their farmers. I started looking more and more into the business and really just it was so much of a romantic business. It was going to be a hobby before I realized that there was a major opportunity that was, in my mind, really undiscovered to the mass group of investors that are looking for cash flowing types of real estate.

Over the last five years as you'd mentioned, we developed four farm properties, a packing house, and a sawmill here in Colombia and Panama. We've also developed a fully integrated sales channel. We have our own sales team in Europe as you mentioned through our La Dona Fruit channel, so it's been an adventure. We've been moving so fast over the last five years but we have created numerous opportunities and continuously are rolling out new opportunities for investors seeking yield in the real estate category. So, it's great to be with you and talk to traditional real estate investors and bring some awareness to what's going on in the agriculture space.

[0:03:14] WS: Very interesting. Obviously, most of the listeners are thinking. They're usually talking about or thinking about multifamily or retail or office, different thing, medical. We've talked about lots of those. But can you just elaborate on just this type of investment and how we compare to something like multifamily? How do we get our mind around like what your type investment is?

[0:03:35] DC: Yeah. I mean, when you look at multifamily, there's a growth component to it. There's a cash flow component to it. Agriculture is the same. I mean, there's a growth component depending upon where you're entering the market and there's also a cash flow component depending on where you're in the market. If you look at devaluation characteristics and how real estate is valued, it's very similar to real estate. You just substitute the tenants for crops essentially, and that is your cash flow obviously.

We use net present value calculations to value property. If you look at the development aspect of starting new farms and developing those, which is wonderful growth opportunity, whether you're even in developed markets or emerging markets because you can take a raw piece of land just like real estate and instead of putting a condo building, you put several thousand trees or crops in that particular area, and you've got a source of cash flow, and you can use that cash flow to value that real estate. So there's a large growth opportunity through valuation and potential resale.

But more importantly, I see when you compare your multifamily and commercial opportunities versus ag, you've got a significant increase when you look in the tropical space, where we're focused, in those yields. I mean, in these markets, you're looking at as high as 20, 22%. If you're looking at tree crops, you have some time for development in that. But certainly, looking at the two of them, there is a great opportunity to diversify.

You and I were chatting before we started. Farmland, in the US, just the land component of it has outperformed every other asset class according to the NCREIF Index, which is the farmland index. In Latin America, it's even greater than that. There's just so many opportunities. We're trying to create opportunities not just in the real estate aspect of it, but we create opportunities throughout the supply chain. We're building packing facilities. We're really creating businesses, and that's when we call it agribusiness investment as opposed to farmland investment.

[0:05:39] WS: Explain a little bit about just the structure of a deal like that as you might explain it to an investor, just the way a deal is done. It seems you have a financial background and it's an odd way to get into this type of business. It's like you didn't see this coming when you went down there, and now look at you.

[0:05:55] DC: Yeah. That's exactly right. I mean, it just kind of came out of nowhere for me but I have been able to leverage all of that knowledge, maybe a little bit more of a financial approach to the farming aspect, and the combination has been great.

From a structuring standpoint, these are very similar private equity structure to the real estate established projects. Instead of using an LLC like most of the deals or an LP in the US, we use a Cayman-based structure. Farmfolio operates as a general partner, and we structure limited partnerships that we manage and we raise capital really from almost a crowdfunding standpoint. We put on a lot of content and we've raised a little over \$15.5 million dollars into our five projects really purely based off of the content and just promotion of this online.

Our compensation model is 2 and 20, very similar to the private equity space with success piece. But we also make direct investments. We are the first investor into every project. We're usually putting anywhere between 10 and 30% down on the project before we even open it for investment, so we're not starting from scratch. We typically have gotten a base structure together and either started construction or started planting or actually purchase some of the land before we get into a deal. It's a very similar structure.

The reason we use the Cayman Island structure is we have investors from all of the world, and we have people in Europe and Asia and the US and here in Latin America as well. You need to tax that neutral domicile to run the distributions back to investors. Because if you set this in one particular location like the US, you're going to have a withholding tax to the international investor, so we want to keep it tax neutral. But it's a very common structure. Obviously, the Cayman Islands has a lot of fund-based business, and it's a fairly low-cost location to do business.

[0:07:52] WS: I was going to ask you a little about just investing internationally versus locally or maybe why someone would do that. Is there – Or maybe you can elaborate why like an investor

from the US would invest in this, as opposed to just say, “No, I just want to invest in the US.”?

[0:08:07] DC: Yeah. I mean, it's a pure margin play. You can – There are agriculture investments available in the US primarily in the row crops business; corn, soy, wheat, things like that. You have little bit in the now popping up in California in like almonds and the nut-based businesses.

But the yields in the US because of the cost of labor and land are much less than what you're looking at in emerging markets. If you look at – We're developing projects and all of our operations budgets are based in foreign currencies like the Colombian peso for instance, which is trading today at 3,700 to 1 on the dollar. A good farm wage here, a healthy wage for an individual is \$500 a month with benefits. In the US, you'd be at 2,000, so you've got three to four times the operating cost, the land is more expensive.

The beauty of our situation is you've got this arbitrage with we're exporting in primarily euros. We do some US exports as well. But when you're looking at bringing euros, which is even stronger than the dollar back into Colombian pesos, I mean, there's a spread just on that. So, you're going to see in the US, your yields are going to be between 3 and 6% on agriculture, whereas in Latin America, depending upon the country, you're going to be somewhere between, depending on the crop, 8 and 20 to 25. So, your yield is much higher and you're not as dependent upon the sale of the property to make a return.

I think that's really the difference and that's why we came here and why we focus here in Latin America. There are other places around the world that are also great. Africa has some opportunities that are starting to pop up. It may seem really foreign to a US person, but things run the same here. I mean, the farming business is the same. I've been here long enough to completely be comfortable with the entire political structure, the environment. But I think it is the future of agriculture and I think it will continuously show significantly higher returns than domestic real estate.

[0:10:23] WS: Would you – I guess could you maybe give us an example of some returns we would expect to maybe like hold times and distributions, what that normally looks like? Just common investor questions that they are going to want to know.

[0:10:34] DC: Yeah, sure. Right now, we've got two open projects that we're still raising for. Just to give you an example, we got Tahiti lime, so just your common lime that you would put in your beer or whatever else you're eating. We've got a packing facility that we're developing. It's going to ship approximate 500,000 kilos of lines on a monthly basis. Projected returns on that, 10 to 12%. Again, that's different than a farming investment. It's a packing opportunity. It's still real estate but it's a facility-based investment and it's an agribusiness investment, meaning you're participating in the gains of the business itself.

That's a conservative estimate. That's based on very low prices. We try to bake in as many problems as we can think of that would hold up the returns. But I actually did a back-testing analysis. If we had the same investment last year, our returns would've been up to 30% based on last year's fruit prices. Now, we base that on a very low price and, again, an unfavorable exchange rate which has actually gotten stronger. But that would be somewhere between the 10 and 12 is what we're going to project on our financial model.

If you look at some of the projects we already have in place, we have a pineapple operation which has now become the number one air shipping pineapple operation in Panama. We're paying approximately 8 to 11% annually on that, and that's just yield. When I'm telling you these returns, they're pure yield. We're not factoring in any property appreciation, anything like that. That's probably double what you'd be looking at in a domestic situation.

[0:12:14] WS: What kind of hold time are investors looking at for something like that?

[0:12:18] DC: Yeah. We structure everything primarily between a 5 and a 10-year window. We're structuring buybacks, so we have a buyback set up after a minimum holding period where we're actually going to buy it back from the LP. That is our long game with Farmfolio is to continuously develop projects, have participation from investors, and then buy it back.

We will continuously add new products. This month actually, we're rolling out debt opportunities as well for people who want to participate in debt on some of our existing operations, and that money is used for financing trade movements. For instance, when you ship product from one location to another, you typically have a receivables time period that can last up to 90 days.

We've figured out that it's actually – It's better for us and better for investors if we just offer that as a debt instrument to the general public as opposed to paying higher interest rates with factoring companies or other receivables financing outlets, and those will range anywhere between 7 and 9%, depending on the project, and that's a fixed interest rate.

[0:13:21] WS: What are some common maybe investor concerns as far as investing in a project like this internationally, especially if they're US – We'll say they're US-based. Maybe some concerns that, I mean, I wouldn't even know to ask you because I'm not familiar with the asset class.

[0:13:35] DC: I mean, I would say the main thing we get before even the international component is the farming risk for foreign-based operations and people who are overly concerned about climactic issues. That's probably the number one question that we get. And we do a very deep analysis on any farming operation that we're going to do of soil studies, source of water. Those are some of the first things that we investigate before we do anything.

But then when you go into packing facilities, it's a pricing and currency exchange. What happens if the currency exchange rate changes and your fruit gets more expensive or your operational cost gets expensive? Those things we can also mitigate with forward contracts, direct trade operations. We're able to fix the price at a given moment in time if we're purchasing fruit from farm operations.

But in relation to the international component of it, there's not a whole lot of difference in investing in a private equity structure in the US or in the Cayman Islands, right? Primarily, because you have a prospectus, right? You're going to get a prospectus with both projects. It's going to tell you about all the risks. It's going to give you all of the potential changes and things that could take place with tax rates, all the normal disclosures that you're going to have.

Depending upon the domicile, we do get a lot of questions about Colombia specifically. It has a past that everybody knows was in complete disarray in the '90s, but people forget that Pablo Escobar has been dead since 1993. Even though TV shows have come out recently talking about that time, it's a very different landscape here. Colombia is second fastest growing econo-

my in Latin America. It's the oldest democracy in Latin America, so you don't have much risk of a Venezuela situation happening, even though they're our neighbor. This is a major US ally. One of the largest embassies in the world for United States is 45 minutes on a plane from where I'm sitting today, and there's a large US presence here. Of a lot of the countries I've worked in, this is very safe, and it's a very well-established economy.

Panama, home of the Panama Canal. It's one of the most important pieces real estate in the world. Our farm in Panama sits about 45 minutes in the Panama Canal, a huge strategic advantage to be able to ship off of the Caribbean and the Pacific Coast. From a logistical standpoint, you've got a lot of benefits there. But those are the main things that we get asked in terms of questions and risk profiles of investing in or out.

Even though we are set up as a Cayman structure, you can still invest through an IRA, through a self-directed IRA program. I would say about half of our investments come from qualified plans and also IRA type investments, so it's very similar and it's a very easy process. We got a great management system with regular updates of what's going on with the farm. Very similar to what you would experience in a brokerage account or in a real estate managed account.

[0:16:41] WS: Do you all have an investor portal or how do you handle updates and things like that?

[0:16:46] DC: Yeah. Up until recently, it's been very manual. We do send out quarterly reports at each project, so each investor gets an update of what's going on on a quarterly basis. Customized to their existing project, we put out an annual financial report that has all of comprehensive P&L, balance sheet, etc. and we're putting out sales reports based on the product. For instance, with our pineapple operation, we put out P&Ls on a quarterly basis so that people can have a sense of what's going on. Then we make dividend distribution or distribution declarations on a quarterly basis based on what's happening at the project.

We've got something that's recently been rolled out called our ag investor portal is what we call it, and that is a comprehensive backend system. It's a portal where you can log in all your documents in there, your K-1s, anything that you would get related to distribution statements and then all of the farm reports. If you actually want to read the agronomical reports, you can read

those.

[0:17:46] WS: You mentioned that you had raised like \$50 million, and you're in Colombia and raising money from all over the world. I think that's a great testimony, like guys who are getting started and they listen to me every day and we're talking about how to find investors. There's so many that we can just go and network with in our own community or town one way or the other, but you're raising this kind of capital from all over the world. Can you elaborate a little bit on how you've been successful raising capital and meeting investors like that?

[0:18:14] DC: Yeah. I mean, like everybody else in the private equity space, we're restricted to accredited investors, right? I mean, if we could take non-accredited investment, we might be over 50 million by now and raise capital. But that accredited investor pool of people is a small group of people relative to the population, and we really have had to be our own lead generator in terms of we're in a new space, and trying to go out to other larger funds and trying to raise capital on this without proof of concept initially was difficult. Now, we're having conversations with family offices on a regular basis, larger ticket sizes.

We started out, for example, on our first project with a \$25,000 entry ticket price, and some of that was friends and family. I'd say of the 15 million, we've raised about a million and a half of that total was from my own network and my partner's network. But we've just been relentless about writing content, project updates on a regular basis. I mean, really bringing transparency to what's happening, and I think that's the difference. I think people – It was slow for the first 18 months in really getting that, because this was such an out-of-the-box. I mean, people are like, "What? Colombian –" You can imagine what that sounds like when you first start. But now, people subscribe to it, and I think initially they were just curious is this going to work.

The more – We went on road shows like everybody else. We've gone to every real estate or any type of capital raising convention, money shows, everything we could possibly do to get ourselves in front of people. People were dipping their toe in the water. They were giving us 25,000, 50,000 at a time, and that lasted for about 18 months. We were just every week, every month, comprehensive reports of what's going on, showing photos, drone images, like everything, showing that it's actually happening here. That really built the trust I think with our investment community and those \$25,000 investors. Probably a lot of those people now have 100, 200,

300. I mean, I think our large investor is a million and a half, and that person started out at 110.

There are lot of things that you can do but you have to really focus on content and just keeping people up to date and having a very transparent and good or bad, right? I mean, it's – I think people even feel more confident when you tell them things are going wrong. You just have to be honest with people and really divulge all of the projects, so they can make their own assessment of do I want more exposure to this space. We've done a good job with that, and I think that's been the key for us.

[0:21:01] WS: What's the biggest – I mean, like as far as a detrimental or something that could happen to farming other than climate. I mean, I know the climate obviously plays a massive role. But like this pandemic that's happened now and everybody's worried about how that's going to affect obviously the market and how it has affected it. But what's the big thing that people are worried about when they think about your type of investment?

[0:21:22] DC: Well, I don't know if people are worried about it. I don't think they know enough about it when they think about the space. But one of the keys to our success particularly through the pandemic has been diversification in our market channels. As you mentioned in the introduction, we're selling all over Europe. For instance, we have customers in pretty much every European country and some Eastern European countries. If we didn't have that, if we were reliant on just selling to one big importer, we would be in big trouble right now.

You hear about farmers are losing money in the US, and there's all these disasters in the meat industry and pork and beef and some of these short-term crop farmers like lettuces and tomatoes and stuff like that. Most of those types of farms are completely dependent on one outlet. They don't have a sales team. The pork industry, they're going to sell to a slaughter house, and that's it. They've got one or two options. If you don't have diversification in your market, to me that's the biggest risk if there's a market shift.

Other than the agriculture – I mean, the climate situation obviously. But we really try to balance all that on the front end. I mean, we don't get anywhere near the hurricane belt when we're developing anything, when there are certain areas where you just can't go and develop things because you're having a massive weather problem. But the second thing, and again just going

back to it, is that diversification of market. Wholesale markets, retailers, food service, you have to be selling to everybody so that if one channel shuts down, which is what happened in the US food service for restaurant delivery is completely shut down. Those are the people who are hurting right now. The other people who are well diversified are doing great.

[0:23:10] WS: That's a good question for us to know. If we're looking to invest with somebody like yourself, well, how many people are you selling to? How many importers do you have?

[0:23:17] DC: Yeah. Who are your customers? Yeah. Who are your customers? What's your distribution? What happens if you lose one account? We have a role in our European sales office. Depending on the product, we will not sell more than 25% to one customer. That's been great for us.

[0:23:32] WS: What's a way you've recently improved your business that we could apply to ours?

[0:23:36] DC: Improvement? I mean, for us recently, obviously like everybody else, just getting everything as virtual as possible. We were virtual just because of how we work throughout the world. I mean, we have independent contractors everywhere and we've had them for a while. I mean, I think the more you can do to create a mobile virtual team regardless of what you're doing so that you have as little – Obviously, it's going to increase your margins as well. You don't have so much [inaudible 0:24:05]. But we've just been more effective.

I mean, we've been – People have been able to do more stuff working virtually, in every aspect of what we do, and I would say that's probably been one of our saving graces for the last three months. But the more you can do to make your organization more virtual and digitize everything that you're doing, the better off you are. Invest in that and you're going to save that money ten-fold going forward and eliminate a lot of problems and have access to better pools of talent.

[0:24:37] WS: What's the number one thing that's contributed to your success?

[0:24:41] DC: Tenacity. I mean, we've just – I mean, just relentless. I mean, you have an idea that you believe in. Regardless of what everybody else is telling you, until you're proven wrong,

you just go full speed. I think that's really been our key is we've got a phenomenal group of people here on the ground that have been able to just overcome so many challenges, small things that just – Jumping hurdles every day. Really that's been the key to our success is problem-solving.

[0:25:10] WS: How do you like to give back?

[0:25:12] DC: We actually do a lot of giving back here in the communities. We've actually launched a foundation here in Colombia. We do a lot of things like we set up water filters in people's homes around some of the farms. The farms that we operate in a lot of cases are very rural, and these communities are – The farms are really the business engines that power the area around the community, and the things that we do to give back are really related to those communities. We're more about giving people opportunities to make themselves sustainable, as opposed to just giving things away. But I love the If you teach a man to fish, he can fish for a lifetime quote. That's what we try to do here, and it's been really successful for us and it's been a great experience.

[0:25:55] WS: Awesome. Dax, I'm grateful to have met you and just learn more about your business and just exposing my network and people that are listening just to this type of investment that it's even out there. I think for a – You didn't even know some of this is an option until you hear a podcast like this and somebody that's an expert like yourself. So grateful for that. Tell people how they can get in touch with you and learn more about you.

[0:26:19] DC: Yeah. You can – Everybody can check us out farmfolio.net. We've got a great agriculture investment guide. If you just want to learn more about ag investing in general, it's completely just an educational piece. I encourage you to download that. If you have any questions for me, you can email me at D-A-X, dax@farmfolio.net or you can get in touch with us via the web. Again, farmfolio.net. All of our contact information is on there as well and all of our project information. I'm happy to speak with anybody and would love to educate more people on this as we go forward.

[0:26:50] WS: Awesome. That's a wrap, Dax. Thank you very much.

[0:26:52] DC: Okay, Whitney. Great to be with you. I appreciate the opportunity.

[END OF INTERVIEW]

[0:26:56] 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. Subscribe too, so you can get the latest episodes. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

[0:27:36] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

[END]