EPISODE 836

[INTRODUCTION]

[0:00:00.0] 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]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Peter Badger, thanks for being on the show again Peter.

[0:00:32.7] PB: Pleasure Whitney, always great to be here.

[0:00:34.3] WS: Peter was a guest on shows 652, we talked about building wealth through Global Investor Alliance. I encourage you to go back and listen to that show. He's an avid real estate investor and educator. With his partner Karen, they invest mainly in US multi-family and oversees agriculture. Real estate investing and education is their full-time endeavor and quenches their thirst for service, global travel and adventure.

Peter, welcome back to the show and you know, I want us to quickly dive in and get some of your thoughts about the – maybe current situation, the pandemic and you know, your syndication stuff and even, we're going to dive into thinking about farm land. I know you're doing overseas farmland and wow, that seems like such a big endeavor to me, you know?

Not thinking about something like that before and very few guests have talked about oversees farmlands. Looking forward to getting into that and maybe opening the listener's minds a little bit to a different opportunity that are a potential there.

But why don't you get us started and where you all are at right now in your multi-family syndications and the pandemic, all that stuff and let's jump in.

[0:01:35.1] PB: It's an interesting time to say the least so our portfolios weathered the storm, literally, but yeah, I think for us, we kind of focus, we talk about our Maslow's Hierarchy of Needs Investment Strategy.

It's obviously, in the Maslow's Hierarchy of Need, on the bottom is food and shelter and that's really been our approach for the past eight to 10 years. Broadly, you know, the shelter is multi-family in the US and strong markets, good job growth and all the statistics I talked about in the last episode, we talked about this stuff.

Then the other side is the food, because you know, we're seven and a half billion, going up to nine billion people and there's never going to be an end to the needs to supply people with nutritious food. Mostly fruit, vegetables and aspects.

Yeah, it's been a crazy year, honestly — and I would say that we've paused our multi-family investing since March and predominantly, that's because you can't really peg valuations, you can't value these deals at the moment because there's so much uncertainty. There's eviction moratorium, there's a lot of unemployment's as you know. These stuff all has to play out — whether there's a second stimulus bill or not, I think you'll agree, Whitney. It's like, it doesn't matter, the economy is broken, unevenly — hospitality, travel, leisure as you say in American.

But generally, it's concerning right now, it's turn around's okay. I can value this building at X based on this rent because we just have to wait for this thing to play out a bit more in 2021. I'm not sure if you found that with your other guests in the multi-family space.

[0:03:11.4] WS: Yeah, I find, it's kind of all over the place honestly. Some are like, "No, it's time to find deals," and others, you know, like yourself are, "Wait a minute", you know? How do we know what this is worth? I've heard it back and forth, you know, both ways. I know the listeners have as well.

A couple of things I wanted to point out though, just what you mentioned there. You know, okay, well you pull back from multi-family but you didn't just say we're going to just sit over here and wait, you did find another option or another way to keep investing and all about your thought behind like food and shelter, we all have to have it. Both of those things, so important.

I wanted to ask you too, before we move on is just, you know, talk about your portfolios that weathered the storm and maybe you could just provide one or two things that have – that you put in place when you either purchase a property or through the deal or whatever, that has helped you to now weather the storm before we move on to the different opportunity that you're investing in now?

[0:04:02.2] PB: Yeah no, that's a great question Whitney, because I think, well I think some people don't understand, especially if they're new investors is what your behavior should be or what behavior syndication leads in the case of multi-family should be during these, let's call them, recessionary periods or uncertain periods.

I tell people that their goal for me as an investor and for our investors is capital preservation. When the markets are good, made the property perform, keep raising the rents, rehabbing, raise to better that building, give us higher cashflow and improve the appreciation of the building itself.

But once that market turns, I care lesser about the profit side of things to me it is more about keeping occupancy up, it's about making sure that our buildings are 85 to 95% occupied throughout that dip as we go back into the next cycle and so, this is what's occurred in pandemic world.

We, originally, in our investment models, required the syndicator to demonstrate to us, especially in recent history, "Okay, what if we have another dip like 2008? In your market, what was the lowest occupancy level for those zip codes we're investing in? How does the model perform during that period and therefore, how much cash is in the bank to get you through that?" And it's obviously with that going in, we've been fortunate because our buildings have mostly been B-class. So our tenants have been working from home, we're not on the C-class where there's a lot more, let's call it frontline workers who are suffering economically with job loss and requiring stimulus.

Our portfolios weathered the storm but generally, you know, I implore people as a multi-family investor, make sure that your syndication needs no less, supposed to preserve your capital during these periods because that's all that matters. If you can weather this storm, preserve the capital, come out the other side and then make more profits going forward and that's really the only goal for these people at these points.

[0:05:58.2] WS: Capital preservation. No doubt about it, it's so important. Your operator or your syndicator better have that on top of their mind, right? Man, I love that – you know, just some of the points you mentioned too, just keeping 85 to 90% occupied through the dip, what were the occupancies at the worst time, you know, in 2008/9 whatever. If that happened again, how are we going to be performing, how is the operator prepared for that? Some great thoughts.

Well, you know, you've taken a shift too, Peter and you're doing a new asset class and you know, let's jump into that. Give us kind of a feel for what this is and then we'll jump into some of the risk metrics and different things like that so the listener and myself can get to learn more about this and maybe even consider it as an opportunity.

[0:06:37.9] PB: Yeah, let's jump into the farmland side of things. We kind of stumbled on it, in all honestly, because you invest in stuff where you are networking and people around you who have been to the same things.

Fortunately, we would ditch the nomads for three or four years, we traveled the world and we were doing real estate. A lot of short-term rental, you know, looking for lifestyle investments, let's call it, to enhance the multi-family in the US, and we started seeing agriculture pop up everywhere.

There's kind of there's two flavors of it broadly, there's either the syndication. Just like in value-add people will take a large plot of land in Central-South America, they'll lay the irrigation, and they'll clear the trees, they'll then plant the crop and you'll wait for a few years for the crop to grow and et cetera, et cetera. That's the syndication side, you're stuck at value-add multi-family but you're producing food and vegetables instead of tenants at multi-family buildings.

On the other side of that is land owned or titled in your name — and so you can go to certain operators who will have done that, that have produced the crop — it will be income producing then they'll basically divide that up into titled hectares, which is 2.2 acres for people who aren't into hectares. They'll basically then sell you that land, income producing at that time.

Because if you think about the lifecycle here, patient capital, invest in the bare land, wasted a four, five, six years for that crop to grow and then they can resell that later for profit to that patient capital coming in the seller to syndication. Kind of think of it in two buckets. Syndicated value-add, just like multi-family and/or titled income producing hectares in their own right.

[0:08:26.9] WS: Nice. That's so interesting. Are you participating in both sides of that? Or is that something you're active in?

[0:08:34.0] PB: Yeah, we are and actually, we were patient capital in a bunch of deals upfront actually and we are also now brokering some of those loss on the back end because we sat there for four, five years, waiting for that crop to grow and we're wanting to actually help our positions in LP in a syndication deal to then actually help the investors realize some of the problems.

More importantly, to share that. We're trying to kind of make sure that everybody can access it because there's also two sides to think about here, depending on where you are listener. In a syndication, all of these things are still within the SCC overview, therefore you have to be accredited. But with titled farmland, it's just like buying real estate, it's just like buying a house and so you can take title, you can be a non-accredited investor. Our goal is both LP's and investors ourselves is to basically try and democratize farmland ownership and we'll talk about it in a second because from my perspective is like, you have to go through this journey of understanding the risks and returns of these asset classes.

To me, I kind of like have gone up the chain over the years — you know, single-family homes, most people are back into an 8% cap rate or return or return. You're going to value-add multi-family, you can squeeze up 15 to 20%.

So, where does agriculture fit in that scale? Well honestly — syndications can match multi-family, go even higher, depending on whether you're in Central-South America, for instance, and then like a single-family home — when you buy productive farmland, you can expect 11 to 15 to 17% year on year for decades and there's all these things like you buy a single-family home or on your roof. Probably has what? 20, 25, 30 years max.

In farm land, you plant a coconut tree, it will last for 40 to 60 years. There's no tenants moving out, trashing your farm, you know? There's no major rehab costs for tenant turnovers, it's basically – the key to think about it is as I go up the different asset classes, I kind of kept getting advice from different people as supposed in this space.

They were like, "Listen, single-family home, we got to maintain all these infrastructures for one family." Multi-family, you scale, don't you? Your expenses are spread across a number of apartment units. Even better is mobile home parks because in most cases, a concrete pad with utility hook-ups.

You go up to farmland, which actually is a bare plot of land. You plant it and you're only maintaining the crop. There's no roofs, air conditioners, you know, the three T's, tenant, trash and toilet. It is a very different asset class with different risks, which we can talk through today.

[0:11:19.5] WS: Yeah, I want us to jump into that because I want us to be able to hammer out some risks. You're doing this internationally. Why internationally and not in the US?

[0:11:27.0] PB: Multiple reasons. The two predominant ones is the cost of land is so much cheaper overseas and the cost of labor is so much cheaper overseas. The weird thing is that there is a ton of farming overseas. The problem is, there's no way for them to get that crop to our markets where it's most profitable.

What we do is we look for operators who operate in Central South America, cheap land, cheap labor, multi-generational farming, it's all there — in the right climate. Avoiding the hurricane belt for instance.

But then also, we can then take that produce, pack it, put it through shipping in containers, up to markets in Europe, US, wherever we can get the most profit for it and really, what we're doing again is not only to try and democratize the ownership of the farmland, generally, from a purchase standpoint. We're also trying to help these farmers earn more money locally because their crop can actually command much higher prices in Europe and in the US.

[0:12:28.6] WS: Nice, let's jump in to some of the risk metrics just so you know, listener and myself can be thinking through these things as maybe we're thinking about investing in this way.

[0:12:36.9] PB: For me, we had to create our own risk metrics. If we're in the multi-family space, you will learn how to value it, there is standard spreadsheets you can pull down from the Internet, you know, yes, they require a bit of finagling but people generally understand that the value of a multi-family building is where it's net operating income and you can back into the right numbers and value stuff and you can then model out those risks based upon population growth, job growth, all those metrics and frame-rates, you name it.

The key to investing agriculture is like investing in any private company and so we actually built a 10-point risk matrix and it was around bucket one was created around product, what is the crop you're going to be producing, you want to understand the market price, history and projections. Rent projections, what your market price and history and projections are a good crop.

Maybe we'll talk about a couple of crops like coconuts and limes as an example so you can go out to major websites, public websites and you can look for instance on the rangiest wholesale market in Paris, how much the price of a kilo of limes is this week and so you can start to basically trust and verify the data.

You know, you'll be giving us a syndication model for a farmland ownership model and you're looking for the price of the fruit, while their assumption of the price of that fruit average throughout the year because it's seasonal and you can kind of go out there and verify that data against known public sources of true kilos of lime pricing on the Internet.

In that product area is the growth and yield cycles, how long does it take since you plant a lime tree versus a coconut tree to produce the initial crop and then mature the full crop. What diseases are there, longevity of transport and storage? You know, coconuts are so versatile, you can get green coconuts, they can get mature coconuts, they can last a long time compared to citrus fruits, they've only got 18 to 30 days to transport them from the farm to the market to sell.

You can put them in cold storage, lasts up to 60 days in the proper right temperature. There's all these things around the product you need to consider from that side and you know, sales distribution, branding, the transport logistics, trade and customs, how do you actually make sure that you can actually get your crop from Columbia or Panama through the port system into the US.

[0:15:03.6] WS: That's something the operator better have figured out, right?

[0:15:05.6] PB: This is right. We have all these areas that you can ask those questions and you know; it's always only use operators who have done it before. Look for the track record and that's the key to this thing. That's kind of the bucket one.

What product are you into and what are the pros and cons on that product for me? Farming, sales and distributions standpoint.

[0:15:26.6] WS: Wow, are any other risk metrics that are just key to you, Peter, that we need to just know that we need to ask that operator about?

[0:15:32.8] PB: Yeah, the second major pocket for us is the investment itself, you know, the country or the region, you know, obviously political stability, don't buy farm in Venezuela, that's a cheap offer of advice there. Economic aspects are on the currency.

You know, so Panama is in the USD. There is going to be currency risks depending on certain countries. There's climate and environmental, the weather, avoiding, you know I do Central and

South America because the hurricane belt comes around the Caribbean and sweeps up these close to the US. It doesn't hit Columbia. It doesn't hit Panama. That's just one of the great things about these locations.

Plentiful of water sources past the arrived point on the planet. Equator has been those, the centers where you are going to get plenty of water, decent soils, et cetera. You know, another reason we don't invest in the US climate is because the soil has been ruined by big ag, by pesticides, by over farming, so you've got to go in places where we can guarantee better soils and better care of the land so to speak and then you know, investment structure and jurisdiction. The banking's, you know, ownership structure is this a Cayman entity or is it a Delaware made normal for US investors.

There's always aspects around the investments itself and of course, you know all the regular financial aspects of the project distributions, the timeline, capital buffer, you know the returns you're expecting is it value add or study annuity stream for 60 years. There is a big bucket around the investments itself and those aspects and then you know, finally the big third bucket is the team as always. I tell people you are not making an investment in anything other than the people.

Because honestly, they're the ones who have the experience, multi-generational farming experience. They understand how to do all of the transport, trade, custom, logistics, how to sell in certain markers. They have that track record or they don't. They have the language, the culture, the location, you know? I would not deal with a, sorry to put in these terms, but a local team who has no English and or no expectation what American investors require.

I am looking for those dual nationals looking for Columbian-born who have been educated in the US, understand what are our expectations are in terms of what our investments should look like or places of land sale and they then go back down to their home country, they hopefully adapt to trading in, making sure they don't get taken for a ride, the gringo effect I call it and so you're looking for those kind of like, you know, let's say mixed culture individuals with the American aspect of knowing how to build businesses and show these investments. That's the big third bucket, the team as always.

[0:18:14.2] WS: That is so crucial and I tell everyone, you know you're investing an operator more than anything else. I mean the deal is so important but it is so secondary to the operator and we have about a minute if we're going to go through 10 of these, we go just about a minute per for the rest so I want to get that. I wanted the listeners to be able to hear each of these at least so they'll have questions and they'll know to ask questions about each of these points.

[0:18:34.8] PB: Yeah, I know. I jammed the fullest nine in those three big buckets.

[0:18:38.5] WS: Okay.

[0:18:39.6] PB: It's a big break, you know it's product, investment, team are the big three areas and yeah, we've built a model. We build a bunch of stuff around us because we truly are valuing these ag investments like a private company and therefore, you need to do the due diligence in these separate areas and obviously it's like anything else. You do one, you're a bit rocky, you're a bit rusty, you're learning that's why I have an alliance of members because we kind of do it together and you know, bring in different aspects of knowledge.

Then you keep stamping them out and overtime, you'll see patterns. You'll start to see which operators are understanding the product from crop they're producing, the pros and cons. You'll see the aspects around the deal structure. You'll see around the documentation. You know, look for American-style legal documentation. Make sure you're looking if you're in a Spanish speaking country, that both documents, you want to see the base document in Spanish against applicable law in that country.

Where that purchase or investment is and more importantly, to see a verified translation into English so you can follow it if you don't speak or read Spanish. There is some other angles to this but that's why we kind of like – have strong operators. We have a good team where those are alliance members to kind of look at these deals holistically to make sure you're investing the right thing.

[0:19:58.3] WS: What about pros and cons of just being an international investor, Peter? You know we work with lots of international investors that are investing with us, you know, in multi-family. However, thinking about, you know me investing in another country in their farmland, things like that, what are some pros and cons to that?

[0:20:14.3] PB: We actually stumbled on this ag bucket because we love to travel and so we enjoy the fact that we can go out a couple of trips a year, Central South America to visit our existing investments and look for new ones and so if you have a thirst for travel that is great because you know, I am not the kind of guy who can sit on the beach for eight hours a day, you know? I'm just not that person. I mean maybe my English complexion I burn but the point is to actually is to combine global travel with your investing is our joy and that's what we're passionate about.

You have to have one of that. You know to your point, I've met many of our, you know, a few of our alliance members don't want to travel internally and that's okay. You know, they want to see their investment in the US dollars in markets they know like Cincinnati, Ohio or Austin, Texas or Tampa, Florida. That's where they want to stay enough where they want to go to occasionally and check out their investments to make sure it's all okay.

We have other wide range of people, our investor group are all over the world, you know they're in Columbia directly, they're in Panama, they're in Canada and UK, Australia, all over the world, France, you name it, Singapore. And they're the ones predominantly where the goods. Someone said the American investors who want to combine travel with investing and you've got to go down there, okay? Either you go down and see these investments or you have a trusted third party.

Me and Karen play out for some of our members who don't want to travel, who haven't gotten the time to travel. You know they're cash rich, time poor, they've got these big corporate jobs and they build their own companies. We'll head down there, we'll video these things and really like any investment or any purchase of overseas real estate, you wouldn't buy a condo and not see it, would you? Well, some people do — foolishly — but you shouldn't is my point.

Put your face on the ground, meet the operator, shake them in the hand, look them in the eye, meet the farm management team. You will meet like Millenio, who runs our coconut farm in Monterey, Columbia and he actually was born on a coconut farm. His dad was a coconut farmer and so you want to see these things in this kind of, you know, realm and you kind of do that by being there in person.

[0:22:21.4] WS: You know, I probably going to ask you this Peter, right, you know just preparing for a downturn with farmland, international farmland like this, what does a downturn look like? You know, farming I think all of us, whether you've lived on a farm or not, you just think of how risky it is. You know, farming and however, maybe you can speak to that and just being prepared for some kind of downturn with international farmland.

[0:22:41.3] PB: Yeah, so you have to consider it's slightly differently in this realm. What is our business model for these things so like multi-family, you have class-C student housing, you know senior living, you have all of these flavors of real estate. It is the same in ag and farmland, so what do we do? We look for high quality fruit and premium markets. Just in the same that my people in my multi-family buildings right now are in class-B working from home.

A lot of them are not impacted too badly by this pandemic. They're working for corporations, they're able to do that. They have the luxury of that. We are as an example selling high-end, high-quality lines to the wholesale market in Berlin, Paris. You know we even actually distributed to Walmart and so honestly, there is always a demand for high-quality fruits and high-end customer wholesale and retail realms and so to us, we're not looking to produce billions of fruits a year like the big people.

You know, we're not saying a big banana producer, you know very slim margins. We're taking extremely high color, juicy Columbian limes, shipping them two or three containers a week to Walmart on the east coast to basically be repackaged and shipped to their source. I just want to see there is always a need for that kind of fruit and in that scale, so look for the investments where they are really looking for the high-end premium consumer and that's how you avoid that downturn.

[0:24:18.2] WS: I know we've talked about this a little bit, you're shift from multi-family to overseas farmland but what do you predict to happen over the next six to 12 months just in the real estate market and you can speak to that to international farmland or local or US real estate.

[0:24:30.7] PB: Yeah, I mean I am having a pretty good thing. I think anybody predicting anything right now would be foolish, you know? I mean –

[0:24:36.9] WS: Nobody really knows, right?

[0:24:38.2] PB: In our world, none of us understand. You know the Fed is propping up the entire stock market. It has no connection to reality. I get wide as a bubble in tech stops and you know, Zoom and stuff we're going to use and the move to basically accelerating trends but there is also another side of this market, which just hasn't been recognized yet and so let's see what happens in 2021. It's probably going to take until the end of the year to get the vaccine out.

If things return back to normal, that's in the developed countries. You know ignore the developing countries, which is 2022, 2023. It is going to be a fascinating year next year and so we're going to basically be hanging there, waiting for those deals. I mean we've seen crazy deals already. It's not hitting the press like anything else. You know, the press always reports in the past, you know? If it's in the mainstream media, it's already happened so you're too late.

We're in, in investing full-time, as many of your listeners probably are and so we were offered a hotel in Oklahoma last month. A $20 million asset for $3 million.

[0:25:44.6] WS: Wow.

[0:25:45.3] PB: For a reason, you know? This is starting to play out in hospitality and leisure. Now, do we want to buy that? No, we're not hotel operators. We can't predict how long before these assets can be recovered and we haven't gotten those deep pockets to maintain that asset through an uncertain period of time until markets recover if they recovered to previous levels at all in the next 18 months.

Sorry, I am not predicting anything for you Whitney — but I think for us, we're going to stick to farmland because we've opened up markets for fruit and vegetables the supply chain, which we can leverage and that's not going away. In fact, we can't produce any enough fruit and vegetables for some of these consumers, wholesale and retail customers and we're going to sit on the sideline and wait for whatever happens in 2021 for those multi-family deals to appear because believe you me, we had a deal fall through in September.

The person we're buying it from refused to discount the price by 6% because of the weakness of the market or the sub-market that building was in. They are leveraged to the hilt, they go in late in the game and I think if this takes a turn for the worst, those buildings will start to be resolved at a discount on the market. If you've got money in your pocket, keep it in your pocket, wait because those deals are going to come, I believe.

[0:27:07.8] WS: Peter, how do you like to give back?

[0:27:09.2] PB: In many ways, let's link it back to agriculture. One of the reasons we do this is because we can go into developing countries. We can actually, for the first time, get an asset-based investment with deep cash reserves. We can give the workers regular salaries; we can give them worker's comp in case they get injured. We can then start to give back to that local village in terms of providing fresh water sources in various other aspects that they can't rely upon from prior agricultural capabilities.

Yeah, we try and go into these towns and countries and create holistic investments that not only take care of our profits and the consumer purchasing the products but more importantly, taking care of the families and the towns where these investments in ag deals are located. That's part of our big deal.

[0:28:00.3] WS: Peter, another great show. Grateful to have you back and really expose us, the listeners and myself to just a different asset class that maybe we should be considering asking questions of finding people like yourself that are experts in this so we can learn and potentially diversify outside of even the US much less, you know, just multi-family or this specific asset class or even more in market. Just grateful for your time and telling us about your pals on multi-family in the US and thinking through international farmland.

But even then, you know, those risk that we need to be thinking through as we're learning about this new asset class, which we have to do for any type of investment, so I'm grateful for you just sharing those. That saves us a lot of time having to do that research to find all of those things but tell the listeners how they can get in touch with you and learn more about you?

[0:28:46.2] PB: Yeah, so we are at globalinvestoralliance.com. We actually have a group of investors, you're welcome to join, chat to us about it but more importantly, we started democratizing farmlands. You can go to go.buythefarm.net and there you'll see kind of a way you can get involved in investing in ag and leverage our experience and dip your toe in the water for the first time if you are new to this space and you want to work with us and you know, learn how to invest in ag safely for 40 to 60 years income, annuity income, which you can live on yourself and pass down to your kids and or heirs, so that's the goal, go.buythefarm.net.

[0:29:26.6] WS: Awesome Peter, that's a wrap. Thank you very much.

[0:29:29.4] PB: It's a pleasure.

[END OF INTERVIEW]

[0:29:31.2] 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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