

EPISODE 880

[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 Chris Rawley. Thanks for being on the show Chris.

[0:00:31.5] CR: Hey, thanks for having me, Whitney, glad to be here.

[0:00:33.7] WS: Chris is CEO and founder of Harvest Returns, currently a captain in the US Navy Reserve and has invested in real estate and income-producing agriculture for nearly two decades. While visiting a farm investment in central America, Chris conceived the idea of building a crowdfunding platform to streamline agricultural investment. He has held corporate management roles ranging from electronic data systems, L3 communication and served as a defense consultant at special operations command with Blackbird Technologies.

Chris, again, welcome to the show. It's always great to learn about different ways to invest and the way different people are helping investors to streamline that process, right? And expose them to different things that they probably haven't heard of before potentially.

Get us started a little bit about maybe your background and let's jump into Harvest Returns.

[0:01:25.0] CR: Yeah, I've got a pretty diverse background. A lot of it investing, investing in my own account. Started with single-family real estate, that sort of thing and kind of grew my

investment portfolio from there, got into some multi-family, got into some passive, some land deals, that sort of thing.

Then, after the 28 crisis, financial crisis, we saw a lot of real estate kind of fall apart at that point. I started looking to even more diversify. I'm a big proponent of investment diversification and so one of the things that I started becoming aware of was agriculture and farming and decided I wanted to invest in a farm.

It turns out that's a pretty hard thing to do. You need to have a lot of capital, a lot of knowhow, it's not – I say that you've kind of seen one single-family home, fix and flip or seen one passive multi-family investment, you've seen them all. Well, with farming, you've seen one farm, you've seen one farm. It's a much different asset class.

So started looking for ways to invest in it. At the time, this was around 2015, there was only a kind of a few vehicles where you could go out and invest in farming indirectly. You could always go out and buy a farm and either figure out how to farm it yourself or pay somebody to do it but that was inaccessible to most people.

At the same time, there were platforms that were springing up all over the place, allowing you to invest in real estate, whether different asset classes of real estate, using equity crowdfunding. So kind of had this idea that, why don't I see if I can build a platform that allows people to invest in farms and take care of all the work and all the due diligence side so that people can just come in passively and diversify their portfolio?

That's what we did in 2016. Brought along my partner, Austin Maness, who had more of a background working on farms when he was growing up. I didn't. I was kind of a city boy and didn't have that background but did appreciate farming and the asset class.

[0:03:22.6] WS: Let's jump into that asset class a little bit. I know it's great that you bring up, you see one multi-family deal, it doesn't mean you've seen them all, however, you will have a pretty good understanding of how to maybe underwrite and look at other deals or it goes pretty quickly, or the learning process anyway.

You mentioned that each farm is very unique, right? Specialized. And you see one farm, you've seen one farm. Let's talk about that, that can be scary as a new investor, right? Thinking through well, "Investing in a farm, I've never" – most of them maybe have never even heard of that before or thought about that being an option to diversify and maybe you could even, before we get into that, speak to why invest in a farm and where are these farms at that you're investing in?

[0:04:05.1] CR: First thing to know is agriculture farming, it's just another form of real estate so you're taking a piece of land and you're producing value with that land and there's – in our case, we do some very unique types of offerings with agriculture. Most people, when they think of farming, they probably think of like row crop farming, driving down the highway and seeing acres and acres of corn or soybeans or cotton or whatever.

That's a very typical form of agriculture that farmland [inaudible 0:04:34] and that a lot of people are, institutions are investing in, where they're buying these large tracts of land and then paying somebody to farm it for them and they pay them rent. In that way, it's like agriculture or it's like you know, any other kind of real estate.

For us, we're focused on some very unique verticals in farming. One of those is indoor agriculture. This is where somebody takes a piece of land and either builds a greenhouse on it or they're taking an existing building and it might be a building that was converted for another use. It might have been a warehouse or an industrial building, that sort of thing, and they're putting vertical farms in them, hydroponic farms. So they're growing food indoors and the reason we like that, that we're kind of bullish on this indoor agriculture is because it's called controlled environmental agriculture because you're essentially controlling the environment. You're taking a lot of the weather equations out of it. A lot of the weather unpredictability and risks that come with droughts and things like that, come with pest infestations and things like that, you're taking that out and you're doing it very sustainably and more importantly, you're growing food closer to where it's consumed. You're taking a lot of the supply chain risk out as well. We like indoor farming in particular.

[0:05:45.7] WS: Indoor farming. I think that's interesting, indoor ag, it's not something we thought of before really or especially thought about investing in. Tell me about as far as this type

of asset class as a passive investor, what should they be asking somebody like yourself or an operator? Or what do we need to know? Because obviously, it would be brand new to most. How do you find somebody that's an experienced operator and know what to ask?

[0:06:10.6] CR: A lot of people that have been in it for decades, there are some and for us, the ideal sort of sponsor for us to syndicate an indoor ag deal, the ideal sponsor has a nice mix of growing experience but also business experience and in the case of, in some cases, real estate development experience because that's what we're talking about here.

You're taking either an empty piece of land and putting a large greenhouse, you know, multi-million-dollar greenhouse on it or you're taking abandoned vacant industrial building and you're putting in the right environmental controls, HVAC, lighting, humidity and then the actual system for growing the produce. You want somebody that's got that business experience in an operator but also somebody on their team at least that knows how to grow things.

Because indoor farming it, it looks very push button and automated but it's still hard work. They're still out there planting and harvesting and although there's some systems that take out some of the – take out, like I said, some of the variables from compared to outdoor farming.

[0:07:12.8] WS: Are most people operating the farm, like most operators, if I'm investing with someone, that operator, are they most of the time operating the farm operation also or is that hired out sometimes? How do we look at that?

[0:07:26.2] CR: Yeah. In our experience, they are. I mean, the principles may not be out there actually planting and harvesting the tomatoes inside or whatever but someone on their team is so it's not like they're hiring a third-party operator for the most part. We haven't seen that, that sort of model yet. It's the actual teams that are putting together the deals that are either running themselves in some cases and actually doing the farming or bringing somebody in onboard to do that.

[0:07:53.0] WS: Nice, okay. I wanted to ask too, just like, you started a crowdfunding platform. Maybe you can speak to why you chose crowdfunding versus syndicating each farm individually?

[0:08:04.2] CR: Yeah, we wanted a business that we could scale and some of the automation that crowdfunding technology brings, that automates the investment process that has – we have back-end providers that help with things that you have to do for compliance with the SEC, money laundering checks and accreditation checks and all those sorts of things that when you syndicate a real estate deal that if you've never done one before, it can seem like an obstacle, a big challenge. And so we have systems in place, people and systems and providers that sort of take a lot of the uncertainty with those functions and automate them and iterate them so that you're not having to start from scratch every time you syndicate an offering.

[0:08:49.2] WS: Who does that open your platform up to? Since you're crowdfunding versus syndication, can anyone invest, accredited, non-accredited, what would be like a minimum investment as well?

[0:09:00.9] CR: Yeah, currently, we're doing regulation D offerings so we do both 506(b) and 506(c) which means, primarily, we're dealing with the credit investors but we do have some offerings on a 506(b) side that allow a limited number of non-accredited investors and those have been very popular for our investors. Even though most of our investors are registered, seem to be accredited, the 506(b) is popular.

At some point in the future, we'd like to do offerings that allow more retail investors. So right now, our biggest obstacle if you're an investor is our minimums and we still think they're pretty low when it compares to some things like farmland rates where you might have a fifty hundred thousand or a hundred thousand minimum for our investments, so minimum is 5,000, 10,000, some cases it's higher than that.

It is open to a wider variety of investors. We think that farming is important, we think more people should have access to that investment. We think it's a great diversification tool. If you look at some of the institutions that are investing in farmland for decades, there's like pension funds in university endowments and people like Bill Gates who is the largest farmland owner. We found out a few weeks ago that he's the largest farmland owner in America.

Investors like farming, they like the asset class. Now, it's just a matter of getting more accessible to more people.

[0:10:16.7] WS: You mentioned earlier, and for the operators that are listening, you mentioned earlier like some back-end providers or any providers that help automate some of that process that you could recommend?

[0:10:27.2] CR: Yeah, we use a company called Prime Trust that does our escrow services and they do our money laundering checks and they were set-up specifically to be kind of a back-end for crowdfunding platforms but also I'm sure they can do people that do the syndications one or two or more syndications that are putting that together. They help with all that.

There's other more specialized providers that might do a single piece of the syndication process, compliance process, like either your escrow, which most banks will do that for you. But you're also, money laundering checks, accreditation checks, you can get all of that done by outside services.

I would recommend if you're – whatever kind of property you're syndicating, putting together syndication for, whether it's multi-family or a pool of houses or whatever that you think about how you're going to scale it. You gotta do it once and the first time's always the hardest but once you do it once, in order to grow your company, you're going to need to do it over and over again. Think from the beginning how you can scale and don't put together one-off processes.

[0:11:29.0] WS: Is there a third party you use for verifying the accreditation status if you are doing a 506(c)?

[0:11:35.1] CR: Yeah, I'm trying to remember who we use. I don't want to quote because I generally don't touch that but we do have a third party accreditation provider that's a service.

[0:11:43.4] WS: Yeah, no it's just that a lot of people don't even know that's an option out there and unless you've done a 506(c) before where you have to verify all of that. Because we want to make that process as streamlined as possible for our investors and as easy as possible.

But speak to a little bit also about or maybe you can share just like from your time working with your investors, how much of their portfolio are they trying to put in farmland versus what they have in the stock market or other real estate like multi-family or self-storage or something else?

[0:12:13.2] CR: That's a good question. Kind of by our estimates it's generally like five to 20% of our portfolio and if you look at some of the institutions that are investing in farmland and natural resources, it's roughly the same percentage. We don't advise people, we're not an investment adviser or anything like that, but we do think it's a great tool. We got a lot of educational resources to help educate people on why they should diversify with farm land and agriculture.

[0:12:38.4] WS: What's the hardest part for a passive investor when investing in a project like ag?

[0:12:43.4] CR: Yeah, I think it's understanding. You know, we've done some deals over and over again. I'd say they're all unique and they are but we are trying to do more and more certain verticals like indoor hydroponic farms using the exact same system. We've done a few deals, which uses a technology called ZipGrow.

So for them to learn that just the different ways that revenue that's produced on a farm and that depends, there's so many different types of crops. There's so many models on how it's sold. It can be, some people are selling direct to consumer. We do a lot of beef where they are starting to sell grass-fed cattle direct to consumer versus selling wholesale distributorship.

There's a lot of different ways that farmers and people in agriculture make money and so make sure you understand what the revenue sources are before you invest in a deal.

[0:13:28.3] WS: Make sure you know what the revenue sources are before you invest in a deal, great point. What about just timeline? I know it is much different when talking about an ag operation of actually receiving returns, when should they expect those, how long should they expect this hold period to be?

[0:13:42.7] CR: Yeah, I mean we do have a lot of real estate investors and that was my background and we have a lot of people that might have invested in multi-family or whatever. They're used to like, "Hey, I wrote a check and then I am going to start getting quarterly payments right? in three months." Like maybe, but more realistically, you're dealing with growing natural processes and in the case of tree crops, you may not see a return for three or four years. Trees have a maturity level where you are basically getting zero revenue for the first few years and then it ramps up and it ramps up and then it kind of exponentially goes up and then after 20 or 30 years depending on the type of tree, you are going to start a slow decline.

Some things like olives will grow or produce crops for decades, if not longer, whereas other crop cycles are very short. We're dealing with, some of our indoor folks are growing things like micro-greens where it might be a three-week crop cycle and they're growing them over and over and over again. It's going to restaurants.

So again, understand the math whether it's cow math or hydroponic greens math or whatever, make sure you at least have an idea of how that crop is being produced and being sold as well.

[0:14:50.1] WS: How do you prepare for a downturn when investing in ag?

[0:14:53.1] CR: We generally tend to avoid commodity-based crops. If there was a big commodity slump with things like soybeans and corn, that's kind of starting to reverse this year but because we're more into the specialty types of crops, one of the things we do is, that are in high-demand and in some cases premium, like grass-fed beef is a premium product. Even during COVID, our product was in high demand and it was actually very high demand because a lot of the conventionally raised or grain-finished beef, the supply chains were disrupted due to COVID. Whereas ours are using smaller processors. Our producers are using smaller processors that weren't shut down because of COVID so they kept on producing, kept on selling.

[0:15:38.1] WS: I guess tell me what different types of products you're in, you mentioned grass-fed beef, what else would be that specialty-type product or crop that we should consider?

[0:15:45.5] CR: Grass-fed livestock is one of our verticals that indoor farming where it's produced closer to the consumer, whether it's in a large scale greenhouse or a smaller hydroponic urban farm.

And then the other thing, we just call it sort of specialty crops. We've done cocoa, we've done bamboo, which is interesting. Bamboo is a crop where it's very high demand right now for floors and textiles but over 90% of it is imported to the United States. So we're starting to see people growing it in the United States and in climates like the southeast of the United States, in Florida, where our bamboo farm is and people are growing it to meet local demand.

The same thing with even grass-fed beef. Most of it is imported in the US from Australia and New Zealand. People don't realize that. You see cows everywhere when you drive through the country but a lot of those are going to feed lots to be grain-finished. They're not grass-finished and that's kind of the distinction and so we're helping to grow that grass-finished beef product in the US.

[0:16:42.6] WS: Interesting, especially cocoa and bamboo and things like that too that, you know, we don't really think about where those things come from, even the grass-fed beef. You know, you mentioned where most of it is coming from another country. It's just interesting to think through what you are putting in your mouth, right? Even when your flooring is coming from.

But Chris, any predictions over the next six to 12 months in the real estate market that you may have that you could share?

[0:17:02.8] CR: Yeah, I mean for our sector, we think we're going to see more growth in indoor farming. There is a company called App Harvest that recently did an IPO via a special purpose acquisition spec and so that was huge. It is basically a unicorn agriculture company, which people wouldn't have thought of agriculture as a technology sort of thing but it is with some of these farms and we see a lot of new ag tech companies and we're working to get those up on our platform to give investors an opportunity to diversify with sort of a higher ag technology before it becomes public or more well-known and accepted.

We're excited about agriculture in general, we're bullish about it as an investment and we like indoor ag specifically.

[0:17:48.8] WS: Do you have any daily habits that you are disciplined about that have helped you achieve success?

[0:17:54.4] CR: Yeah, I try to – you know, we all get a lot of spam emails every morning and I try to sort through those and pick out the nuggets, people put out some good content through email. And I love podcasts. I don't know if it's necessarily a daily thing but when I am out exercising, I don't listen to music, I listen to podcasts like this one and that's where I pick up a lot of stuff, learn a lot of things. Reading is important, you've gotta always be kind of figuring out what's next and the best way to do that is to listen to people that are out there doing it.

[0:18:23.9] WS: What about your best source for meeting new investors right now?

[0:18:27.9] CR: Yeah, we bring in most of our investors through word of mouth but digital advertising, a little bit of advertising but it's one of those things when you're putting together a syndication, you have some success and word gets out and that's the best way to do it. It's just to keep doing it and that's how you're going to grow your investor base. People are going to be satisfied and talk to their friends and family members and bring those on board.

[0:18:52.2] WS: Yeah, we love referrals. That's a great point, what about the number one thing that's contributed to your success?

[0:18:58.9] CR: Perseverance, I mean we were kind of a pioneer. There's some other competitors out there doing agriculture investments now but we were, back in 2016, we were one of the very first platforms that were enabling people to kind of come in passively and invest in farming. It has not been easy and we, as a pioneer you get a lot of arrows in your back but that's a way you learn. We're out there, constantly learning, constantly improving and trying to offer new products to our investors and helping our farmers just stay farming.

[0:19:33.7] WS: How do you like to give back?

[0:19:35.3] CR: You know for us, it's just a big reward seeing that going out and visiting a farm and seeing the jobs that have been created and seeing people growing food, it is a very tangible thing. It's like – that's why I like real estate because it is a very tangible thing where you're creating a product that people are using whether they're living in it or working in it or conducting some sort of business operation. For us, it's just the reward of seeing farmers out there doing their thing.

[0:20:02.8] WS: Chris, grateful to have met you and have you on the show and also just learning more about this ag industry that we could invest in to help diversify our portfolio and just the importance of that. But it is such a new thing I feel like, or just something we're not as exposed to, right? You know a lot of listeners, it's like getting exposed to the ag industry.

I just appreciate you shedding some light, even thinking through crowd funding versus syndication and just the different types of commodities that we need to be thinking about. What are we investing in, where are these things even coming from? But then also just questions to ask an operator like yourself and thinking through, you know, is this somebody I want to invest with, what does the horizon look like on returns and hold periods, things like that. I also wanted to thank you for your service as well. Tell the listeners where they can get in touch with you and learn more about you?

[0:20:48.5] CR: The best way is harvestreturns.com, you know that is our website. You can sign up, get on there and look through our offerings and decide if you want to invest but we are also out on social media, on Facebook and Twitter and Instagram and LinkedIn, places like that where we try to put out a lot of educational material because as you said, it's a fairly new asset class to people. We want you to be educated before somebody decides to invest.

[0:21:12.8] WS: Awesome Chris, that's a wrap. Thank you very much.

[0:21:15.3] CR: Thanks Whitney.

[END OF INTERVIEW]

[0:21:17.3] 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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