EPISODE 965

[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.

0:00:24.4 Whitney Sewell
This is your daily real estate syndication show, and we are introducing a new segment called The Real Estate Syndication Show Highlights, where we're bringing you a look back at episodes focused on a specific topic that we believe have added value to you in your syndication journey.

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[INTERVIEW 1]

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Whitney Sewell
Our guest is Chris Rawley. Thanks for being on the show Chris.

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Chris Rawley
Hey, thanks for having me, Whitney, glad to be here.

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WS: 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?

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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.

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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?

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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.

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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?

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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.

[INTERVIEW 2]

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Whitney Sewell: Our guest is Peter Badger, thanks for being on the show again Peter.

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Peter Badger: Pleasure Whitney, always great to be here.

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WS: 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.

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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.

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

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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.

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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?

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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.

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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.

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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.

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WS: That's something the operator better have figured out, right?

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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.

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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?

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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.

[INTERVIEW 3]

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Whitney Sewell: Our guest is Evie Brooks. Thanks for being on the show, Evie.

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Evie Brooks: Thank you. I'm pleased to be here. I'm glad you had me.

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WS: Your focus is agriculture?

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EB: Agriculture is my passion. I really loved the agricultural side of it and Panama has opened up doors for agriculture around the world and of course, with the pandemic and everything that's going on with that, it's a new buzz word, it's an essential item. Food is essential.

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WS: Sure is.

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EB: We have such an influx of interest for this because of what's happened with the COVID-19.

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WS: I guess I'd go in a little bit about – Like you said, it is essential, obviously, we all have to eat. Everybody does, right? We enjoy it too which is a plus or we hope but why is agriculture one of the best real estate investments?

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EB: Well, there's a number of different reasons. But first of all, with any investment, one of the things that I'm looking at, the underlying asset. It's never going to just disappear and vanish. Then with the agricultural you got a stream of income; it's a business in addition to the assets. You got ongoing stream of income, you don't have to wonder, "Am I going to be able to get renters? Am I not going to be able to get renters?"

I have a lot of assets and clients that have assets, condominiums in Panama that are 100% occupied and have been for months now because of COVID. But yes, everybody's still eating.

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WS: I know you said, you elaborated a little bit there but why agriculture, why Panama, why not agriculture in the States somewhere or in another country?

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EB: Well, because I've never found the opportunities that I found in Panama. And the reason that is, is because with so many other places, there's plenty of farmers to produce the food.

Well, when one of the companies that I worked with came to Panama and realized there's no farmers to actually get their food to transport because there's not even enough food in the country to feed their people.

85% of all food required in Panama is imported into the country. But yet, there was all these virgin land throughout the interior of Panama that had never been used. And the USDA came in and immediately granted USDA certified organic.

And so, a very large company, one of the ones that we work with, has huge operations in Peru. Hundreds of thousands of acres of land that they farm but they have a co-op where they came into Panama, they couldn't put together a co-op because there were not enough farmers to have a coop so they have created a concept called a reverse co-op. Where they bought the land or they put options on the land, 14, 15 years ago and then they purchased the land and then sell it to the wannabe farmers like myself.

And I want to be a farmer, I just don't want to be out there hoeing those rows, I want somebody else – partnership where I own the land, I own the asset and I partner with this large management farm management company and they do all the work and I get the lion's share of the profits.

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WS: That sounds pretty good. Yeah. What about just the – is this something that you can create passive income from and you know, is this a high return or what kind of risks and things like that?

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EB: Well, you've got several different investment opportunities and the first one that we started was called the farm-in-a-box concept. That concept was a situation where you brought the land and the trees and the trees are long-term income-producing trees. Mangoes, limes and avocadoes.

They produce for 50, 60, 70, maybe even 80 years. Most of us are not going to be around when that's no longer a concern but with the farm-in-the-box, you actually own the underlying asset which is the dirt and when the trees start producing, your income continues to go up year over year. And it takes four years, for that income to start coming in. And so many of our investors are retired people that's wanting to put their assets to work like their IRAs, the 401(k)s, the 403(b)s, the pension funds and they're like, "Well, I'm not going to be here in 50 or 60 years. I'm not even going to be here in 30 years."

Waiting four years to start seeing a return for some people is a concern. On the flip side of that, a lot of us people are looking for legacy investments. It just depends on the individual person and what they're looking for.

But then, we started getting into greenhouse smart farming. In hydroponics and that is a whole different animal, it produces, you start seeing returns in 24 months. It is a machine because no matter what happens in the elements, the weather, the torrential rains, the strong winds, you're still going to have production inside these green houses. They are massive. They're one hectare which is two-and-a-half-acre green house. They produce rotational crops on a 10 to 20-week basis depending on if it's melons or berries or cucumbers or whatever.

You've pretty much got a money printing machine because it's controlled, you don't have the pest and the insects and you don't have the weather issues. And so, it's a whole different mindset. It just depends on – There's not a right or wrong, they're both wonderful investments but your return on investment typically, what we – refer to is an internal rate of return, you're going to see on the low end, 10, 11, 12% on the high end 16, 17%.

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