

U.S. AND FOREIGN LAND INVESTMENT

Examples of situations and the process explained at ASFMRA convention.

■ By Richard Keller, editor

The American Society of Farm Managers and Rural Appraisers added considerable meat to its annual meeting program under the title of “AgroNomics—Vision 2012,” which was touted as combining the ASFMRA annual meeting with “a U.S. ag investment conference.”

Even though the society brought in several non-member speakers, its members with special knowledge and experience also provided plenty of useful and interesting information.

It was suggested in several presentations that commercial investors are still looking at agricultural investments as making more sense than other investments because of economic issues around the world.

The New Orleans Employees Retirement Fund lost 30 percent of its assets in 2008. “We would have done better if we had more invested in agriculture,” said Jerry Davis with the retirement fund.

Steady income is necessary, and the right investment of pension funds into the appropriate category of agricultural investment can meet the steady income requirement, he suggested. “We must earn 7 ¾ percent per year to keep the fund viable.” The fund has monthly demand for payout to retirees.

He noted there are many giant state retirement pension funds with those of California, Florida, New York and Texas being the largest. Internationally, Japan has a huge \$1.6 trillion national pension fund.

Due diligence must be done to assure the right investments. He admitted activists that are anti-biotechnology, anti-livestock production and pro-organics can have an influence on the ag investments made. More important than anything to the final decision is risk aversion. “You need to tell us you have addressed risk issues,” Davis said in explaining the investment decision process.

Davis explained that pension funds in general are looking for investments they could liquidate easily for switching to another investment. But some investment funds are for long term.

LONG-TERM INVESTMENT

“As far as we are concerned, we are going to hold these lands forever,” said James McCandless, the managing director, agricultural investment, UBS Agrivest, LLC.

Investing in U.S. farmland requires major due diligence in looking at percentage tillable, soil classification, topography, drainage, buildings and improvements, production history, environmental issues, long-term expenses, capital improvement needs, crop economics and irrigation. “It is always the water, the water and the water in the West,” said McCandless. Water availability and permits for water are what overrides everything in areas where crops are irrigated.

Three scenarios of possible return on investment are compiled, he explained. The low, medium and high return scenarios include risk factors and how those risk factors might play out. “The process is very logical and straightforward,” McCandless claimed. But he and other commercial investors have highly educated analysts doing the calculations. Input is also always needed from those who know agricultural land management and appraisal.

ASSISTING IN EXECUTION

F. Howard Halderman, AFM, Halderman Farm Management Services, reported from his observations that seven out of 10 farms are being sold to other farmers with a “slice being sold to what I call individual investment;” these are corporations, private equity funds, pension funds and other institutional investors.

Assisting those investors, as the Halderman services does, requires knowing the client’s goals, objectives and investment strategy. “The one thing I will guarantee is that if they come to Indiana and buy farmland, assuming zero debt as an equity investment; they will always achieve a positive net dividend above cost of ownership,” he said.

There has been strong capital value growth for the past 35 years, even taking into account a 60 percent decline in values during the 1980s as well as the big rise in the last four or five years. “So, they get strong capital value growth, steady cash dividend of three, four or five percent cash ROI, and the other thing that is a little bit different than other real estate types is a zero vacancy rate.”

Agricultural investors are looking to diversify their portfolio and agriculture allows that, but accomplishing the investment is sometimes too complicated for those investment groups.

“They will call me up, we’ll talk about it, I’ll send them information and nothing really happens because one of the



The passing of the gavel and presentation of past president's plaque occurred at the beginning of the ASFMR annual meeting in Phoenix between Jeff Berg, ARA, incoming president, (left), and Kirk Weih, AFM, outgoing president.



Paul Bierschwale, ARA, was presented the Appraisal Professional of the Year award.



Edward Kiefer, AFM, ARA, was named the Professional Farm Manager of the Year.

key things is execution. Execution is what we members of the American Society of Farm Managers and Rural Appraisers are all about. It is what we do every day," Halderman said.

The first thing required by an investor is establishing their investment thesis and parameters; second, they need an acquisition strategy. Next is establishing management of the assets. Halderman said the investor has to ask, "Who do I get to manage assets, and who do I get to manage it that also knows the global market and knows the industry extremely well?"

Reporting back to the investor on a regular basis in the format necessary and appropriate has to be a priority, too, so that any fund can meet stringent reporting to the government and shareholders. The last item that Halderman mentioned was the need for appraisals on an annual to three-year timeframe, which can be easily arranged through business associates within ASFMR.

LOOKING AT BRAZIL AG

One of the most straight forward examples of investing outside the U.S. came from David Kruse, CEO of Brazil Iowa Farms LLC, which has owned land in Brazil for seven years. Their primary crop on 23,000 acres is cotton, and they do their own ginning.

"We are operating very profitably at this time," Kruse said. This has occurred after investigation of the best crops to grow and learning on the go with how to do business in Brazil.

"Brazil is going to be a major corn production rival to the U.S., given time," he said. "Cotton is our primary crop, and corn is going to be our secondary crop."

He projects in another three or four years that Brazil will be a major player in corn production for world use because it originally was a tropical crop that does well in warm days. Modern technology can breed hot-weather production back into corn, Kruse contends. In the seven years that the Iowa owners have tried raising corn, they have been able to double

production from their first year to this year.

"The arable land in Brazil equals 33 countries of Europe," Kruse noted. The governmental regulations that are not well enforced require that 20 percent of land be kept in reserve as there are environmental regulations on the books.

In the seven years that Brazil Iowa Farms has existed, the infrastructure of roads and railroads have improved although today only 26 percent of roads are in "operational condition." An east-west railroad is in the early stages of construction.

There are still other issues that have to be dealt with for Brazil "to be a dynamic country" even though the economics seem good at first look, Kruse said. There is no real government support or overall plan to achieve quick advancement of agriculture. Labor is really unskilled and requires a lot of training. Police do not get involved to assist in big issues, and the local judicial system is not honest, although Kruse is more favorable about the upper courts. Civil and political graft, separate from the judiciary, is in the system top to bottom. Lending for operations and capital improvements is not available in the country in general; and operations have to be established with money brought in from outside the country.

Brazil, in the most recent rankings by the World Bank, is listed as 127th in ease of doing business compared to the U.S., which is listed as fifth. The Ukraine and Ethiopia rank 145th and 107th respectively.

With all of the issues outlined by Kruse, he said the price of developed, well-located quality land that would have cost \$800 in 2005 will now sell for about \$5,000 per acre. Even with the land price increases, Kruse warns against investing in "green fields."

His recommendation on the best way to invest in Brazil is to partner with an experienced and established local company, outsource capital needs by bringing money with you, outsource operational management to transfer liability risk and avoid legal entanglements that includes not going near the Amazon jungle.

ANALYZING LAND PITCHES

Gary Thien, AFM, ARA, Thien Farm Management, provided examples of his international experience in due diligence as the boots on the ground and analyzing "pitch proposals" from landowners trying to sell to investor

groups, mainly hedge funds.

“The biggest thing that I’ve been involved with since 2008 is reviewing the pitch materials. Big properties are being pitched to the investment community, and they don’t put together a little brochure, it is a prospectus or quite a pile of pitch materials. They send it to potential investors around the world,” Thien said.

Thien checks out the pitch data for accuracy related to agricultural production. If the investment passes a couple of analyst reviews, Thien can end up flying to the usually remote property to further check if the projections are true and to provide a visual check on the soil quality, water availability, fertility levels, equipment, infrastructure, facilities such as storage and more.

“All those things we do in analysis as a farm manager on our level in the U.S. need to be done on a larger level with these massive operations,” he said.

Hedge fund companies put together their own thesis on investment in agriculture, which determines if they are interested at all in pitches sent them. Thien’s main experience has been with funds looking to divide their investments among South America, Eastern Europe and “a little bit in Africa.”

The hedge fund presents its concept, thesis to private and public pension funds and big investors to earn investing, Thien explained.

Each thesis is different per hedge fund as some spread the risk around the globe as in Thien’s experience, while others concentrate on specific countries, different crops globally or U.S. crops and regions. Hedge funds seem to focus quite a bit of attention on pension funds, but Thien noted that hedge funds aren’t the only ag investors.

“There are some people in the United States that have enough money they don’t hire fund companies; they staff their own offices to do their investments,” he said.

RISKS NEED TO BE CONSIDERED

One of the most worrisome issues in international agricultural investment is political risk. “Political risk is a huge, huge topic on the minds of everybody when they are looking to invest internationally. There are some countries you don’t want to go to. Zimbabwe would be one of them,” he said. “There are a lot of countries you just don’t want to put your dollars into because you will

never get them back.”

The lowest risk comes with investing in developed countries such as the U.S., Canada and Australia. Mid-risk “nice developing areas” are in South America and Eastern Europe including the Slavic countries. The highest risk goes along with investment in “frontier countries” including the Soviet Union, Uzbekistan and Africa.

“You can find some very large, extensive operations of up to 100,000 hectares integrated with beef, dairy, poultry and maybe even some processing. Obviously, those investing in something like that are taking a lot more risk but also expect a lot higher returns,” Thien said.

“A lot of these funds when they made a decision to invest in an asset have an exit strategy at that time. How are we going to get our money back out,” Thien explained. For investment in the U.S., the exit can easily be accomplished in most cases because of the appreciation of land and numerous buyers. Exiting foreign developing or frontier countries might not be as easy because of the limited number of possible buyers for land and equipment.

Thien works with investment companies that have large investment analyst staffs. “In my mind, they are tremendous economic analysts, but there isn’t a single farm boy among them. They can build extensive models of these investment thesis and portfolios. But I keep telling them there are three lines—yield, place and cost of production. If those aren’t right, this thing is out the window, and those are the areas where they are searching and wanting some assistance.”

The turnaround time can become frustrating, but when working on massive investments of up to \$100 million tracts of land, time is not overly important in most cases. What some investors don’t realize or seem unable to deal with is the purchase of U.S. land where the extended analysis cannot be completed before the land will be sold.

Thien recently has heard a lot more interest in U.S. farmland investment from around the world instead of vice versa. “They (foreign investors) think U.S. land is the absolute gold standard and its cheap compared to other productive ground in the world. And with the U.S. dollar the way it is now, there is a huge interest by other countries to come into the U.S. and acquire what they think is a rock solid asset. Expect to see that compound in the near future.” **AG**



A member from each region of the U.S. presented the findings of a land-value survey completed by ASFMRA members.