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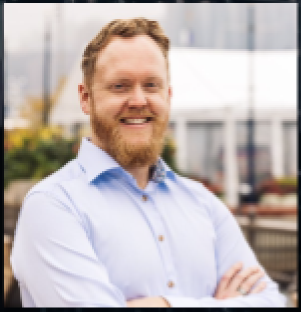
Virtual Event Series

Passive Farmland Investing

Guest Speaker:

Michael Iseman
Director of Operations
AcreTrader

Hosts:



Kenny Estes
CEO & Founder
Diffuse

Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: Passive Farmland Investing

Last time on DiffuseTap, Michael Iseman, Director of Operations at AcreTrader, talked to us about how farmland continues to be one of the most stable investment opportunities out there, the lack of correlation between the stock market and the ag market, and how the average investor can directly invest in land without a large upfront capital.

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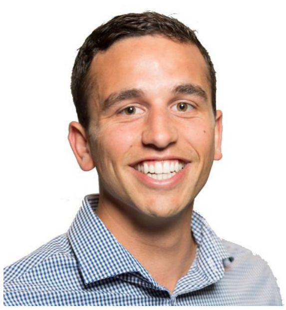
DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)… straight from your armchair like a boss.

Meet the Speaker



Michael Iseman is the Director of Operations at AcreTrader, an easy-to-use online platform that allows investors to own shares of farmland. AcreTrader aims to provide transparency, security, and liquidity while eliminating the barriers traditionally associated with owning land. Before joining AcreTrader, serial entrepreneur Michael worked with hundreds of early and growth stage companies.

LinkedIn: @michael-iseman

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We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit www.diffusefunds.com.

KENNY ESTES: Our speaker of the day is Mr. Michael Iseman. Welcome, sir. Do you want to introduce yourself a little bit to the group?

MICHAEL ISEMAN: Thank you for having me! As mentioned, my name is Michael. I'm the head of operations for AcreTrader, which is a farmland investment platform. I grew up in the Midwest, in Kansas City, so I've always been around farmland as an asset class. However, I spent most of my early career in finance and entrepreneurship.

I spent three years at a group that was helping cultivate the entrepreneurial community here in Northwest Arkansas, in Fayetteville. That was how I met the team at AcreTrader and was opened to the finance side of agriculture. I saw how it was an asset class that had so much potential and a great history, but was very difficult for many people to access. I joined about three years ago. I was the fifth full time person on the team, and I spent most of that time on the investor education front. Earlier this year, I moved into the head of operations role.

AYLA KREMB: Beautiful. I'm going to put you right on the spot and start asking questions. What is fractional farming, or passive farmland investing? Could you give us an overview of that? I don't think everybody has a clear understanding of the options of investing in farming these days.

MICHAEL: Passive farmland investments are what we offer here at AcreTrader in a nutshell. The one step removed would be, why invest in farmland in the first place? And how can I invest in farmland? There have been various other options before AcresTrader started. You can buy a farm yourself, but it's difficult to evaluate all the different criteria as you're doing your diligence on a farm.

And then, there's also all of the ongoing management operations, which is difficult if you are not located in the immediate area of the property. There is a lot of transaction volume that happens off market, so you can't set up alerts for MLS listings where you can get notified whenever farms are put up for sale.

That's the problem we're trying to solve at AcreTrader. We have a team that is evaluating different land opportunities to invest in. We've had about 100 properties funded on the platform. Each of them is a private placement offering, where a pool of investors could invest in an LLC or an entity that directly owns the farm. As an investor, you would be a limited member or partner of that entity.

We handle all the management administration so you could have distributions on a regular basis with your portion of the income, which is usually generated from the operations on the farm, or from renting the farm out to an operator. Eventually, whenever the farm is sold, that appreciation of land will be the primary driver of farmland returns. Whenever the farm is sold, you will have the larger distribution at the end. That's the lifecycle of a deal. It's a passive way to have some income that's uncorrelated to the market, and exposure to this natural asset class.

KENNY: When you talk about income and interest, are we talking about single digit types of income? Or is it typically more meaningful than that?

MICHAEL: It's typically single digits. There are two types of farms that we have focused on to date. One would be row crop farms. That would be your wheat, corn, soybeans, or anything that is planted and harvested on an annual basis. In those scenarios, we're primarily buying the real estate for 100% equity, where there's no debt involved in the transaction. And then, we lease it out to a tenant. That can yield a 2 to 4% annual distribution based on the rental income, but you have a rent contract that's usually paid upfront. And so, there's not a lot of variability in that. It's consistent, but it usually yields low to mid single digits.

The other type of investment that we've done has been permanent crops. Think about a vineyard, where you have this fixed asset that has some production. Over time, it gets a little more complicated because the trees also have production lifecycles. When they are fully productive, they do tend to have higher yields. But it's specific to that type of crop.

KENNY: That's interesting. One question for you. ESG is a term I've heard a lot. What is it? And how do you view yourself relative to, or through an ESG lens?

MICHAEL: ESG stands for environmental and social good. There is a lot of greenwashing in the industry, and we don't want to be a part of that. But I think that there's a lot of opportunity there from an environmental and financial standpoint. For instance, we buy a farm with the intention of selling it for more than we purchased it, because of that long term appreciation. If it doesn't have productive soils because it hasn't been farmed properly, that's not great for the environment, and that's not great for the investors from a financial standpoint.

We try to look for more win-win situations. All of the farms that we have purchased are managed or enrolled in a Leading Harvest program. We don't want to mandate a bunch of think tank ideas on a farmer. We want to partner with the farmers who are operating, who have that local knowledge of how to cultivate the soil and make sure that they are using best practices for soil sustainability.

On the sustainability element, there's environmental sustainability, and there's also the sustainability of these farming families. Just to give one example of the 100 farms that we have funded through the site, we met someone whose family had a $20 million farm. This person had planted it and was part of the family operation.

His father was ready to sell and liquidate his part of it. He didn't have the cash or the balance sheet to support buying that, but he still wanted to be the owner operator. So, he was able to put a deal together where he raised most of the capital to buy it on our platform. He co-invested in the offering. And so, there is an alignment of incentives there. He still keeps that farm in his family by raising outside capital through us. Previously, you would usually have to buy or sell it to a third party and then just contract farm it. That's more of a transactional relationship, rather than a deal that has aligned incentives.

AYLA: That preempts my next question. How do you work with farmers? Maybe you could explain more about the plan in the example you provided.

MICHAEL: We wanted to be a capital partner for farmers. Owning farmland is part of it, but many farmers rent some of the land that they operate so they can have a larger footprint. We want them to bring us as many offerings as possible. And hopefully, we can serve as that infusion of capital and help them grow their company.

AYLA: I'm curious. Do large Agtech corporates and accelerators come to you? You have a captive audience that includes a bunch of farmers, and they use many things on an annual basis, like seeds and tractors. Do partners want to work with you because you have this aggregated audience of farmers? Or is it up to the farmer to make their own way once they have received the capital?

MICHAEL: Usually, these farmers are already well established. They already have relationships with input providers, including providers of seeds or machines, like local grain elevators. We have a team here who's very plugged into the Agtech world. We can provide advice or insight to the industry, and people can use us as a consultant in a non-contractual way. But as they're evaluating new technologies, they usually have pre-existing relationships and can get some economies of scale within their local co-op or local situation.

KENNY: We have a question from Craig. Weed, cannabis, hemp. Is that something that's in scope for you? Or are you taking the more traditional path with grains and crops?

MICHAEL: We've been more on the traditional side. When we look at farmland, historically, you've got this asset class where there's less and less land, and more and more mouths to feed. There's some great basic economic principles that have supported it, and these are really large markets. Commodities markets are fairly well understood.

A couple years ago, the price of hemp dropped by 90% within one year. It's very speculative and early. There are people who will make plenty of money, and there are plenty of people who will lose their shirts. Regulatory development is also ongoing in the cannabis and hemp industry. I think we're more comfortable on the sidelines for that, and go with more traditional routes because of the lack of volatility, the lack of correlation with the market, and the strong historical performance. Those are the things that really draw investors to farmland. You don't necessarily have those with such an early market.

KENNY: When you think about the farming environment as it's changed over the last few years, how do you see the investment opportunities changing in the future? Do you think the yields on these investments are going up, or are they going the exact opposite way? Is this becoming a better opportunity as the planet becomes more populated? How do you see the future of this asset class?

MICHAEL: I can't make too many forward looking statements. I don't have a crystal ball, just like you. But when we look at the macro trends of this asset class in general, we can see that there is a depleting supply of productive soil. It's not like some natural assets, where you can all of a sudden discover more and have this influx into the supply. There is a limited and shrinking supply. And consequently, there's a growing global demand for what is produced there. There's no indicator that that trend is going to change either.

And so, it's not something that we see as a get rich quick scheme, or a very short term trade. We view it as an investment in the long term stability of land as an asset class. It's producing something productive that the world is going to continue to need. We are very bullish and excited about this asset class.

KENNY: I've heard that, apparently, the financial markets are a little bit choppy these days. How is your business or your positioning relative to that? Is it counter cyclical, where people fly to safety when they get scared? How does that work in the larger cycle?

MICHAEL: Over the last four years, we've seen some turbulent or concerning markets a couple of times. I think COVID in March of 2020 would probably be the most recent example of this. Usually, when the markets really shake, people freeze. But in general, as people are looking for safety and diversification, farmland has been a very consistent asset class. It has performed very well during times of inflation, which makes sense. There is less and less land available, and there's not an influx of supply there.

I wouldn't necessarily call it counter cyclical, but we've seen a lack of correlation there, and more interest as people reset what their expectations are. During the COVID pandemic, as people see their work life changing, people went to a more fully remote environment. The students went to a more remote environment, and there was turbulence in the markets. As people started looking at opportunities outside of the market, they began looking at real estate. While student housing or commercial real estate wasn't the first thing on their mind, farmland was not as impacted as many other traditional asset classes. And so, that was actually an inflection point in our businesses. There was quite a bit of demand that followed.

AYLA: Obviously, farming in Africa is different from farming in Arkansas. But looking at Europe and the U.S., is there some level of arbitrage between these markets in terms of farming and in the support that your team could potentially provide? Is there a difference in how capital can be distributed across these different geographical regions and the returns that they might yield? How do you see the global aspect of this farming?

MICHAEL: There's the global aspect, but there's also the regulatory aspect to that as well, which I won't dive into too much. We actually did expand to Australia last year, where we had three different investments of about $30 million in equity that we raised for Australian AG. And what we saw is that Australia is a very developed agricultural economy. They have a water trading market as well. Just like you can trade real estate, you can pay for water rights, which is something that we do not have in the United States. They have a permanent crop market, which includes citrus and avocados, and they also have a pretty developed row crop grain market.

And so, we look for those high level buckets. Does it have appropriate soil for the type of crop that they're trying to produce? Does it have adequate water access not just for this year, but for the long term? Is there a strong agricultural community? Will there be a number of sophisticated operators to farm or grow on that piece of land? We want to have some confidence in the stability of that underlying asset and in the title. And ultimately, we do see that in Australia, and we hope to continue to work there. If markets have those macro things going for them, then yes, we would be interested in supporting international farmers as well.

KENNY: On to another question. What are some of the surprising lessons you've learned? You've been in this space for a while now. What has surprised you about how people invest and where the opportunities are?

MICHAEL: One of the surprising lessons is where the opportunities are. Early on, on the supply side, we wanted to target people who want to sell farms. That's who we thought we should market to, and that's how we thought we would find good opportunities. We'll still run through this thorough diligence process, but that's our top of funnel approach.

And usually, when people are searching that, they're a little bit further on in their cycle, and they've already got a lot of people who are marketing to them. Instead, we're looking to partner with farmers who are looking to grow their operation.

For instance, it could be somebody in the middle of Illinois, one of the largest ag producing states in the United States, who farms 2,000 acres and is in their mid 30s. Let's say they want to grow to 8,000 acres over the next six years. Obviously, buying 6,000 Acres is difficult to support on their balance sheet. But that's the person who's going to be interacting with all of their neighbors. They're going to know who's going to sell their farm, or who's going to want to sell their farm in a few months.

Instead of purchasing outright, they could connect that person with AcreTrader and say, “here's someone who wants to sell a great piece of farmland. I want to farm it and rent it out from you. I'll pay $350 per acre to rent out this farm.” That way, we have easy access to capital, and to liquidating that farm for the seller. We provide this off-market opportunity to investors, and that farmer gets to expand their operation. They're probably going to bring more and more offerings to us too.

That was one of those early lessons we learned. That has really been something we were wrong about early on, and it’s been an incredible growth area for the company, in terms of finding ways to partner with farmers. Because it's really a two-sided marketplace.

KENNY: That makes sense. It's funny you mentioned that because for a while, I actually owned about a few hundred acres of farmland, and that was exactly how it went down. There was a guy who wanted to rent it. He said “Hey, I’m looking to find property. I can't afford it. Do you want to help out?” And I said, “yeah, sure.” That is totally how that game works. So what was your transaction experience on the buy side or sell side of that?

MICHAEL: Oh, it was terrible, on both sides. It was just so inefficient. There are a lot of efficiencies in the commercial and residential real estate world that just have not taken place in the ag market. That includes buying and selling land being common, transparent, and easy. It's none of those right now in the ag market, and that's what we're really focused on.

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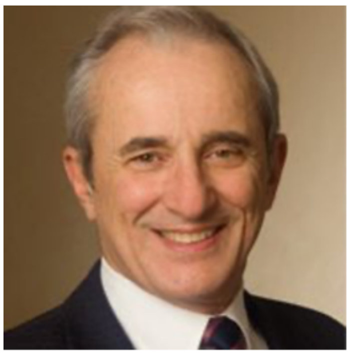
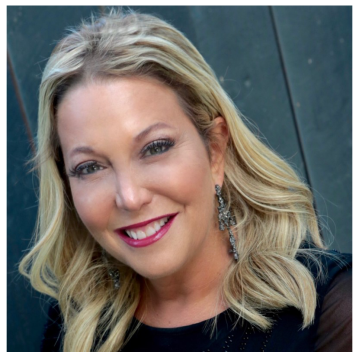


Dennis Chookaszian

Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on

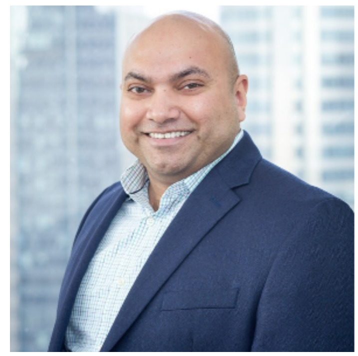


Susan Brazer

CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on



Raj Mukherjee J.D.

VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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