

# FARMLAND 101

## ACCESSING ASSETS IN AGRICULTURE

### | 2022



# INDEX

- 3 About Farmfolio**
- 4 Why Farmland**
- 6 Gold With A Coupon**
- 7 Farmland For Diversification**
- 8 Farmland As An Inflation Hedge**
- 10 Farmland As An Income Investment**
- 12 Farmland As An Arbitrage Opportunity**
- 14 Farmland For Retirement**
- 16 Accessing Assets In Farmland**
- 17 Logistics & Markets**
- 19 Region**
- 21 Management Team**
- 22 Transparency**
- 23 Title Structure**
- 24 Owning Farmland**



## DISCLAIMER

The information shared in this document is not all-encompassing or comprehensive and does not in any way intend to create or put into implicit effect any elements of a contractual relationship. The primary purpose of this whitepaper is to provide readers with pertinent information in order for them to thoroughly analyze the economic sector in question.



## ABOUT FARMFOLIO

### PROVIDING ACCESS

Farmfolio is dedicated to making farmland ownership easy. Since our founding in 2015, we've given individuals the unprecedented ability to become investors in the operations of a diverse selection of high-demand agricultural products in emerging markets, and now with LOTs (Land Ownership Titles) the opportunity to directly own the land. As our exceptional quality drives increasing demand, Farmfolio has quickly become one of the largest exporters from Colombia.

### CREATING VALUE

With thousands of global stakeholders and tens of millions of dollars in assets under management and in capital raised, Farmfolio is a trusted source for creating value for stakeholders through agriculture. Our hands-on approach means we identify every piece of land in our portfolio, and then an expert onsite third-party management team handles everything from seed to shelf including land development, property management, harvesting, packing, and sales, with the profits distributed back to LOT owners.

### INTEGRATING SUPPLY CHAINS

Farmfolio is based on the understanding that the agriculture space, especially in emerging markets, is a world of untapped potential. We have created a pioneering integrated system for agribusiness development designed to create significant value across the supply chain and deliver that value back to LOT owners.



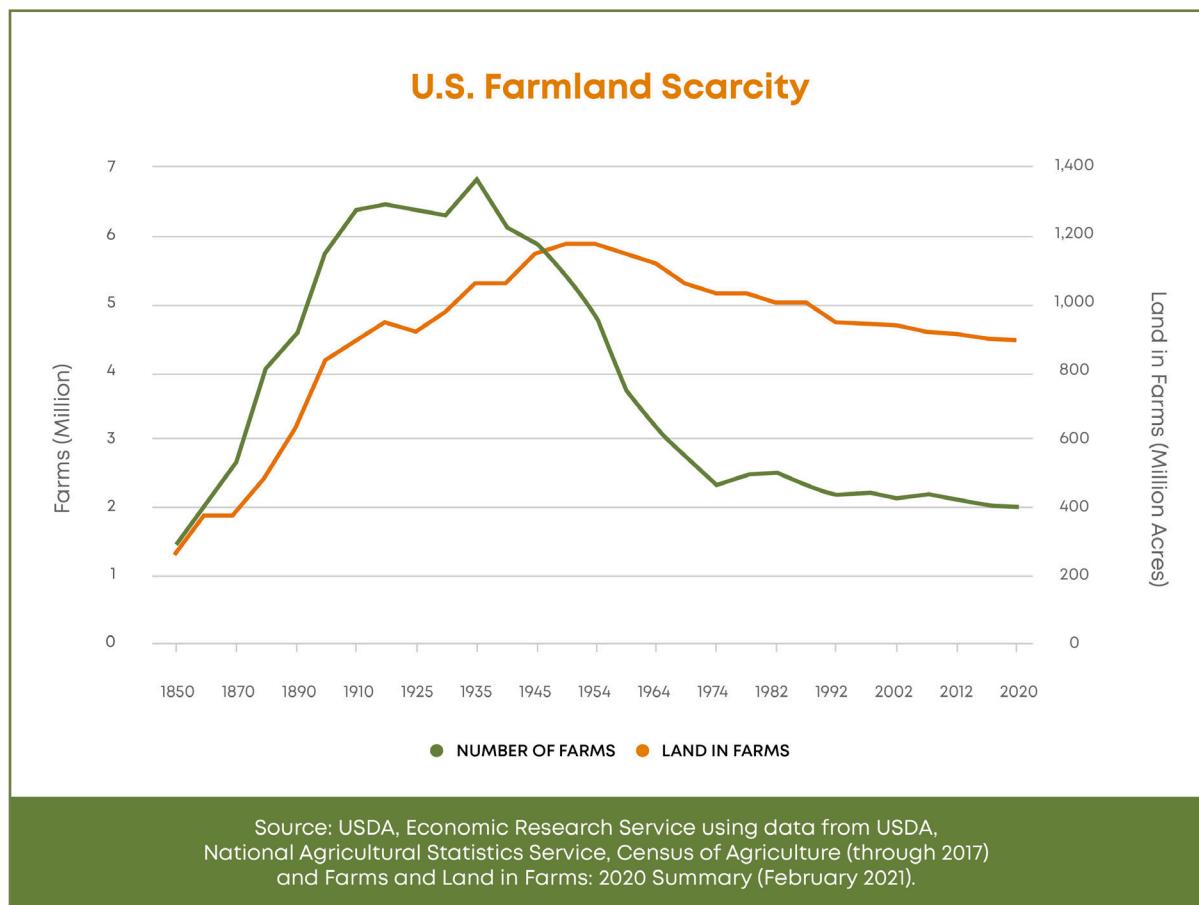


## WHY FARMLAND

"Buy land, they're not making it anymore."

— Mark Twain

Indeed, the law of supply and demand favors farmland. With the global population expected to grow from 7.8 billion in 2021<sup>1</sup> to 9.8 billion in 2050,<sup>2</sup> the world's food demand will skyrocket by 50 percent over the next 30 years.



But an increasing population isn't the only reason to consider farmland, land supply is another issue worldwide. Look at the U.S., where total farmland has decreased by about 22 percent since the 1950s.

Another factor to consider is where we have come from since March 2020. In the current environment, uncertainty reigns, and stability is becoming increasingly scarce. This is doubly true in financial markets – no one knows what twists and turns we will see in the future, especially with what seems

to be unending economic and political volatility. All of these factors point towards an investment strategy weighted heavily towards alternative, preferably hard assets – part of a large-scale shift towards capital preservation that is happening across the board.

As we prepare for the inevitability of the next crisis, it's worth taking the time to look at asset classes that have traditionally performed well in times of stress – and none have a better track record than farmland. In fact, farmland has consistently

<sup>1</sup><https://www.census.gov/popclock/>

<sup>2</sup><https://research.wri.org/wrr-food>



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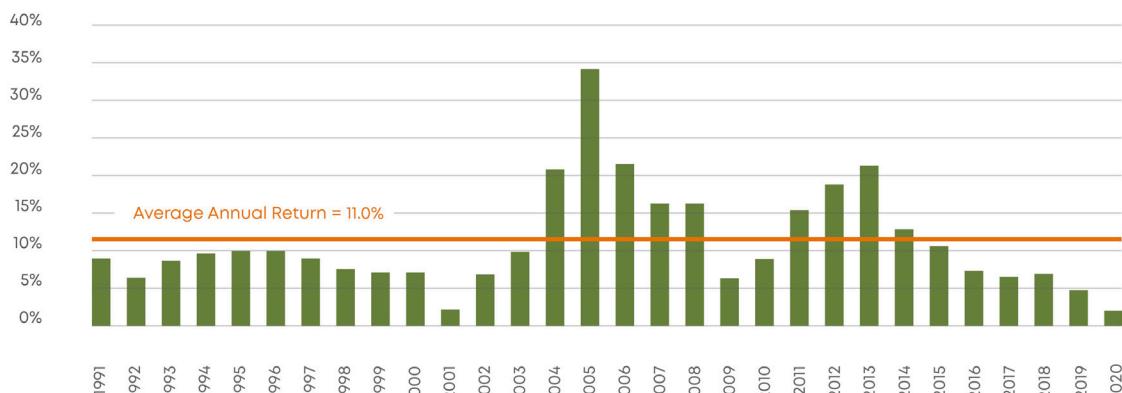
### ACCESSING ASSETS IN AGRICULTURE

#### | 2022

outperformed stocks. According to the U.S. Department of Agriculture (USDA), farmland values have risen almost every year since 1988.<sup>3</sup> During the past four decades, the average annual return on U.S. farmland was

more than 10 percent after factoring in crop yields and cash rental payments,<sup>4</sup> and these returns can be even greater abroad.

### U.S. Farmland Annual Return



Source: NCREIF

Additionally, farmland has no correlation to stocks<sup>5</sup> and many other traditional assets. As such, it's ideal for portfolio diversification. In an economic market downturn, it could help balance your portfolio and offset some of the losses in stocks and other asset classes.

Moreover, farmland is a powerful inflationary hedge. Along with other real estate investments, it has long been considered reliable protection against inflation<sup>6</sup> because land value tends to maintain or appreciate during inflationary periods.

### Annual Return vs. Volatility (1970 - 2018)



Source: Bloomberg

<sup>3</sup><https://www.ers.usda.gov/topics/farm-economy/land-use-land-value-tenure/farmland-value/>

<sup>4</sup><https://seekingalpha.com/article/4282268-farmland-investment-asset-class>

<sup>5</sup><https://www.ft.com/brandsuite/nuveen/why-farmland-now-a-durable-and-consistent-investment-with-up-side-growth-potential.html>

<sup>6</sup><https://farmfolio.net/articles/3-under-the-radar-inflation-hedges/>



## GOLD WITH A COUPON

"I would rather own all the farmland in the U.S. than all the gold in the world."

— Warren Buffett

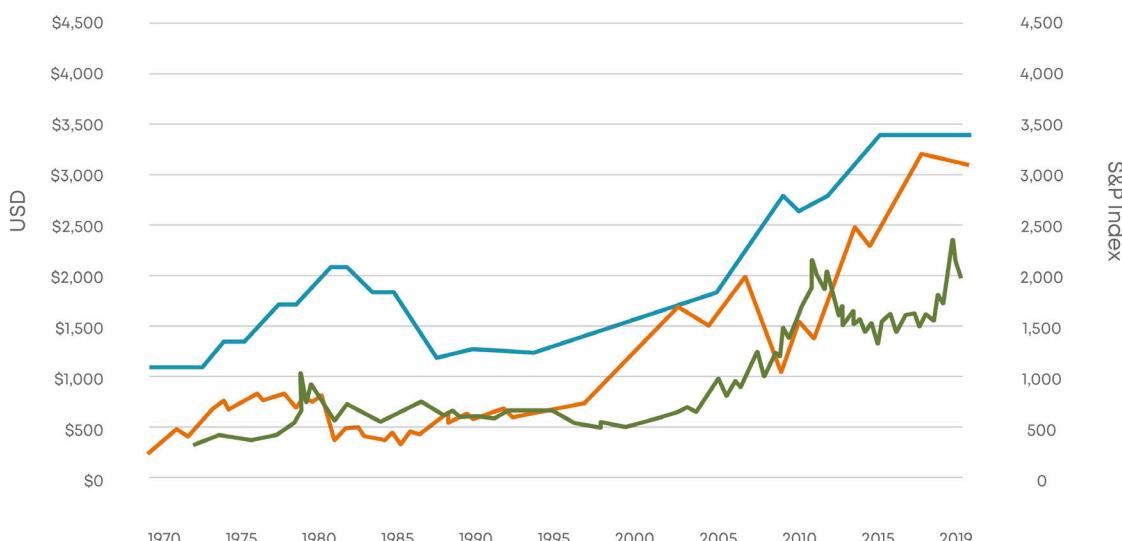
Everyone knows that in times of uncertainty, gold is one of the go-to asset classes for diversification. Given that it tends to hold its value against publicly traded debt and equity markets, investors flock to gold in a crisis. But there's an asset class that displays a similar pattern, only with the added benefit of cash yields - farmland.

This combination of appreciation and cash yields has led many to call farmland "gold with a coupon." In fact, many even go so far as to say that farmland is better than gold. Consider this - gold has seen depreciation as high as 32 percent in a single year,<sup>7</sup> while farmland has posted positive combined annual returns every year for over 20 years.<sup>8</sup>

A hard asset like gold can be a valuable store of wealth in times of uncertainty. But it's non-producing. Farmland, on the other hand, produces valuable crops like limes and coconuts that can average between an 11 and 13 percent yield annually.<sup>9</sup> Not to mention that farmland is even less correlated to publicly traded markets than gold.

### Farmland Outperforms Other Assets

● U.S. FARMLAND VALUE PER ACRE   ● S&P INDEX   ● GOLD PRICE PER OZ



Source: Bloomberg, USDA (inflation adjusted)

<sup>7</sup><https://www.macrotrends.net/1333/historical-gold-prices-100-year-chart>

<sup>8</sup><https://www.ers.usda.gov/topics/farm-economy/land-use-land-value-trend/farmland-value/>

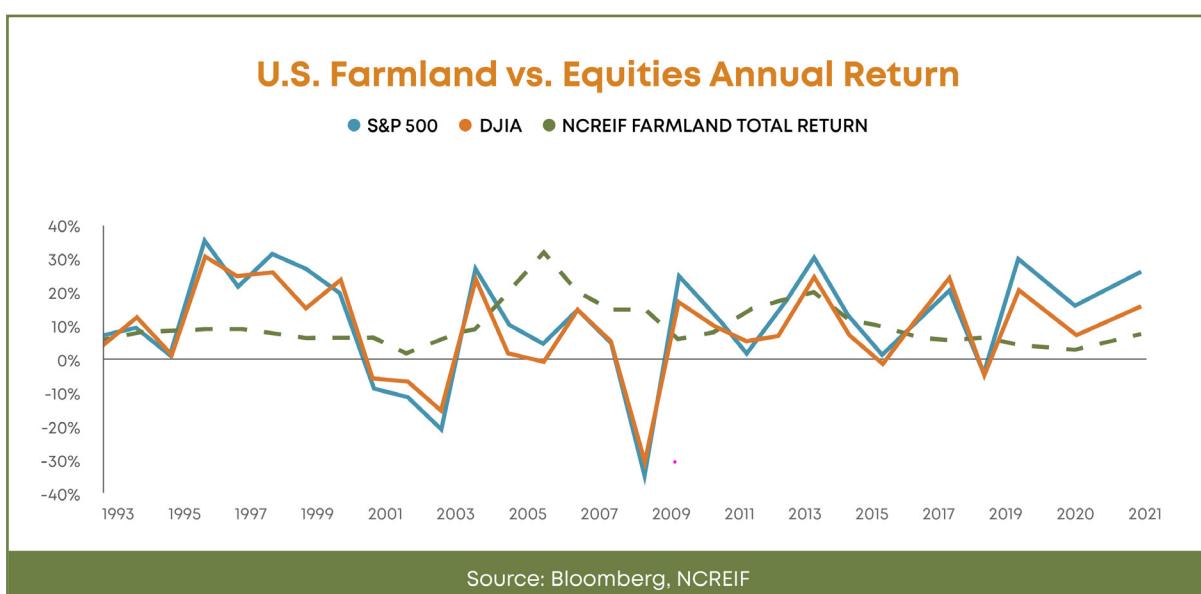
<sup>9</sup><https://www.ncreif.org/data-products/farmland/>



## FARMLAND FOR DIVERSIFICATION

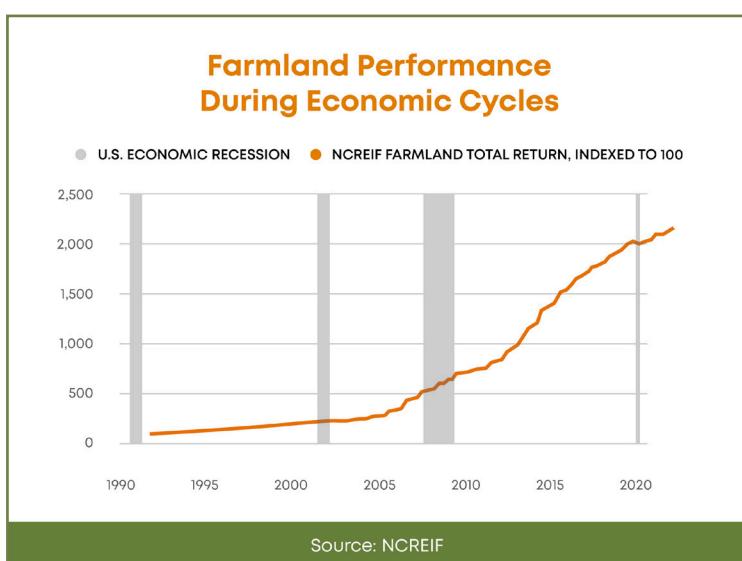
The phrase “diversification” gets thrown around a lot, but when it comes to farmland, it’s safe to say that there are few asset classes, if any, that can help diversify a portfolio so effectively. Over the decades, farmland has proven one of the most resilient, least volatile asset classes on the market.

In fact, total returns from farmland have outperformed traditional investment types over the long term, including stocks and bonds. Between 2000 and 2018, U.S. farmland values had a volatility rate similar to the U.S. 10-year Treasury note,<sup>10</sup> the safest asset class. Yet despite its ultra-low volatility, U.S. farmland delivered much higher yields.



For the savvy investor, holding real assets in farmland isn't a question of yes or no - it's a question of how much. Farmland is a unique economic asset and investment type

because it allows you to achieve the ultimate purpose of diversification - risk reduction - while maintaining a high level of return.



Farmland's ideal diversification potential helps explain why so many of the world's super-rich are heavily invested. Bill Gates, for example, accumulated more than 269,000 acres of farmland across 18 states in less than a decade. Other billionaires like Jeff Bezos and Warren Buffett aren't far behind. Considering armland's performance during economic crunches, it's no surprise that the super-rich are buying it at scale.

<sup>10</sup><https://www.nuveen.com/global/insights/alternatives/why-farmland-now>



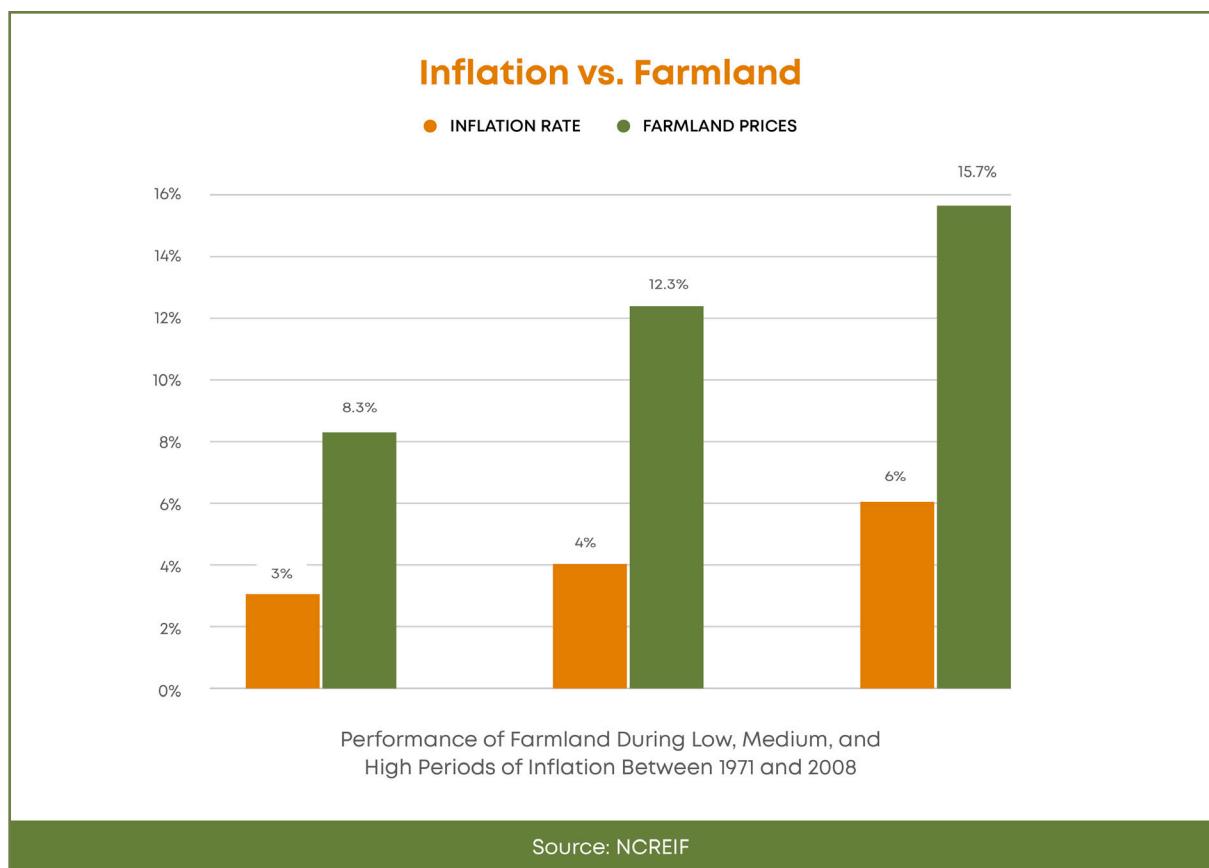
## FARMLAND AS AN INFLATION HEDGE ↴

The financial world is rife with dire warnings about inflation. Federal Reserve Chair Jerome H. Powell said in a recent news conference that "Supply and demand imbalances related to the pandemic and [to] the reopening of the economy have continued to contribute to elevated levels of inflation."<sup>11</sup>

As we entered 2022, the U.S. inflation rate hit a 39-year high of 7 percent,<sup>12</sup> thanks to the quantitative easing undertaken by central banks during the pandemic and the volatile supply chain. With the Fed and other central banks pumping trillions of dollars into economies across the world, holding cash at this point isn't an attractive option.

During times like these, the most prudent investors turn to real estate to hedge against inflation. Between 1971 and 2008, whenever the economy started overheating, farmland tended to appreciate even more when inflation was higher. According to NCREIF index data:<sup>13</sup>

- During periods of 3 percent inflation, farmland prices rose by 8.3 percent
- When inflation rose to 4 percent, farmland prices rose by 12 percent
- When inflation reached 6 percent, farmland prices rose by 15.7 percent



<sup>11</sup><https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20211215.pdf>

<sup>12</sup><https://www.bloomberg.com/news/articles/2022-01-12/inflation-in-u-s-registers-biggest-annual-gain-since-1982>

<sup>13</sup><https://farmland.illinois.edu/wp-content/uploads/2020/10/Relationship-between-inflation-and-farmland-returns.pdf>



Investing in farmland offers various advantages over office and residential real estate. For instance, office REITs were hit hard by the pandemic,<sup>14</sup> and remote work continues to create uncertainty in the market. Residential real estate is a historically popular option. But for many investors, the memory of the 2008 housing crash is still fresh. Plus, prices around the U.S. and in many major cities worldwide are already at record levels.

Unlike these real estate investment options, farmland is highly resilient to location pressure. It doesn't depend on tourism, development, or even economic growth to sustain its value. It only requires good, predictable weather, and a local workforce

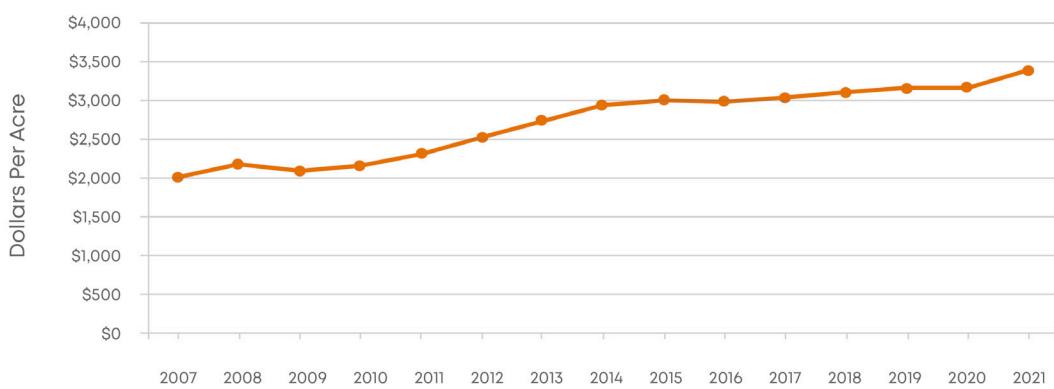
to generate value. Not to mention, there is always a demand for food. And all of this applies globally.

All these factors make a strong case for farmland as a real estate purchase that can serve as a powerful hedge against inflation. It retains its value in ways that other asset classes can't while generating income through the sale of crops.

If you're concerned about inflation and are looking for a long-term store of wealth in an environment where conventional alternatives like gold and residential real estate are looking severely crowded and overbought, farmland is the right choice for you.

### Average Farm Real Estate Value

UNITED STATES: 2007-2021



Source: USDA - NASS | Aug. 6, 2021

<sup>14</sup><https://www.millionacres.com/real-estate-investing/articles/remote-job-searches-up-460-bad-news-for-office-reits>



## FARMLAND AS AN INCOME INVESTMENT

The search for yield has become an exhaustive journey for many investors. The lowest coupon in the U.S. Treasury bond in 1990 was 5.9 percent. Today's 30-year yields of 2.1 percent<sup>15</sup> represent a 64.4 percent decline, requiring a principal over three times larger to achieve the same income stream as 30 years ago.

### U.S. Treasury Yields

NAME	COUPON	PRICE	YIELD	1 MONTH	1 YEAR
GT5:GOV <b>5 Year</b>	1.50	99.44	1.62%	+36	+119
GT10:GOV <b>10 Year</b>	1.38	96.31	1.79%	+28	+71
GT30:GOV <b>30 Year</b>	1.88	94.84	2.11%	+21	+26

Source: U.S. Treasury

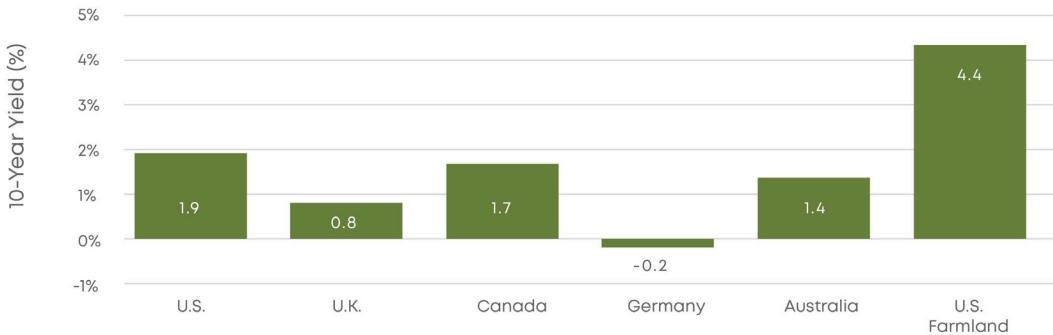
These developments are deeply troubling for investors. While a 30-year U.S. Treasury bond currently yields 2.1 percent, inflation has hit 7 percent. Risk-free investments in the form of bonds can no longer preserve wealth, let alone guarantee income.

Farmland might be as close as you can get to lower risk with a higher return, as it is very stable compared to other asset classes. This "slow and steady" characteristic has led to outsized wealth creation, especially during times of crisis. Between 2005 and 2012, U.S. farmland saw over 10 percent annualized

returns, with land valuations outperforming U.S. Treasuries, the Dow Jones, and the S&P 500.

For example, the average U.S. 10-year bond yield was just under 2 percent in 2019. This figure was 1.7 percent in Canada and nearly 1 percent in the United Kingdom. Meanwhile, Germany had a 10-year bond yield of -0.2 percent, thanks to its "black zero" budget-balancing approach.<sup>16</sup> During the same year, U.S. farmland enjoyed a 4.4 percent yield.

### 10-Year Government Bond Rates Relative To U.S. Farmland Yield (%)



Source: NCREIF Dec. 2019

<sup>15</sup><https://www.bloombergquint.com/gadfly/germany-s-infamous-black-zero-budget-rule-may-be-gone-forever>



## FARMLAND AS AN ARBITRAGE OPPORTUNITY

Up until now, we've been looking at farmland mostly from the perspective of developed markets, namely the U.S. In the U.S., farmland has seen healthy returns, outperforming publicly traded markets and sovereign bonds. Even in times of crisis, U.S. farmland has been incredibly stable.

But the U.S. isn't the only place where attractive farmland opportunities exist - far from it. In fact, opportunities in emerging markets become even more attractive thanks to the low cost of land and labor, the opportunities to sell further down the value chain, and the favorable exchange rates against the dollar.

As the economic outlook for the country improves, its labor capacity will increase while still offering low operating costs to foreign investors, especially in agriculture.

For example, the Colombian minimum wage was equal to approximately \$230 USD per month in 2021, enabling considerable growth for agricultural businesses that employ a largely manual workforce. This significantly lowers the cost of production and opens up arbitrage opportunities for investors in the U.S. and other importing countries.

For example, the value of a Tahiti lime in the Rungis Market in Paris is 314 percent more expensive compared to La Mayorista Market in Medellín. Even when accounting for transportation and import/export duties, there are clear arbitrage opportunities available simply by relocating where the product is sold. By exporting to developed markets, farms can pay costs in a cheaper foreign currency and generate revenue in a stronger currency.

Commodity	Medellín Wholesale Market	Paris Wholesale Market
Tahiti Lime	\$0.71	\$2.94
Mango	\$1.71	\$5.65
Hass Avocado	\$1.18	\$3.80
Melon	\$1.00	\$1.88

Source: La Mayorista Market, Medellín and Rungis Market, Paris as of Aug 2021 in USD

At the same time, the Colombian government is taking decisive action to roll off transitory pandemic-related spending, improve tax administration, and boost revenues by incentivizing foreign investment. For example, employers can deduct 120 percent of payroll taxes paid to first-time

employees under the age of 28. Companies that meet certain criteria and provide jobs to rural areas can get a ten-year exemption on their income tax liabilities. All these factors create favorable conditions to directly own farmland in Colombia.

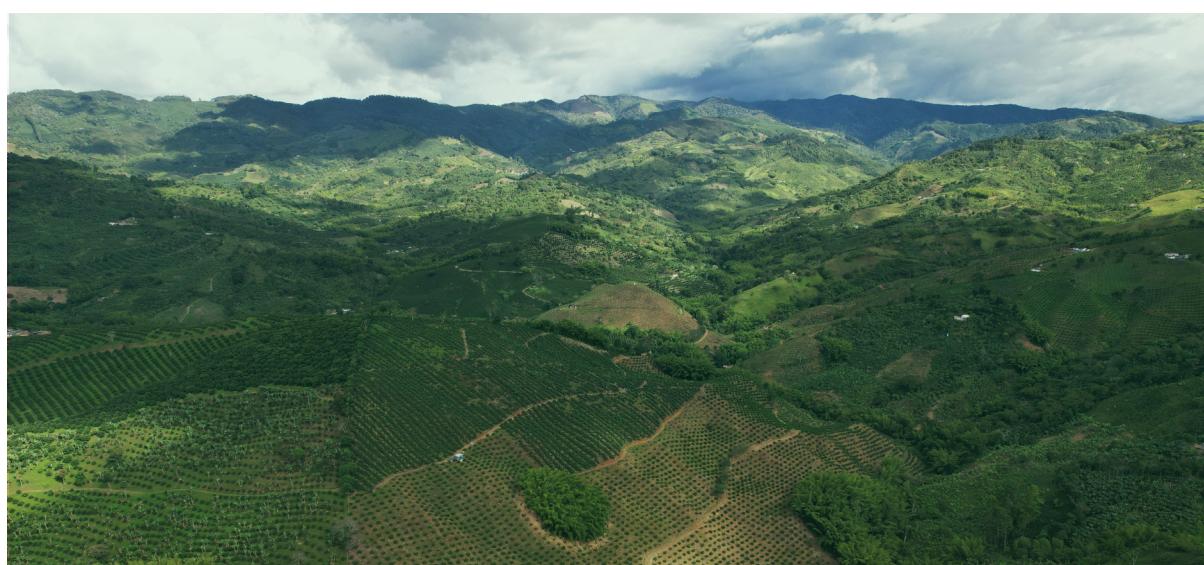


And while American monetary policy will taper gradually over the next year, Colombia—an emerging market in the global agriculture scene—is opting for a more aggressive stance to stabilize the economy and reduce the threat of

inflation.<sup>17</sup> This move will be a net benefit for the financial, real estate, and agricultural sectors, giving Americans a favorable arbitrage opportunity when they invest in Colombia's post-pandemic economy.



While there's always a tremendous amount of due diligence and vetting that goes into selecting a farmland property for ownership, it's worth remembering that developed markets aren't the only places where attractive farmland opportunities exist. Arbitrage in emerging-market farmland can be a big win.



<sup>17</sup><https://www.nasdaq.com/articles/colombia-central-bank-set-to-up-interest-rate-by-75-points-on-inflation>



## FARMLAND FOR RETIREMENT

We're currently witnessing a structural shift in the retirement landscape. In the U.S., the over-65 population has grown by over 33 percent in the last decade.<sup>18</sup> Americans hold trillions in retirement accounts, mostly IRAs, 401(k)s, and pension plans. Despite the increasing risk and ever-lower yield, many of these funds are in stocks and bonds.

For savvy retirees, farmland is an asset that can accomplish the oft-cited goals of providing stable, hands-off income while appreciating significantly over time. Since farmland is not correlated with most conventional investment vehicles, it makes an ideal alternative for those seeking diversification and more stability during their retirement years.

### U.S. Farmland Returns 1972 - 2016

Asset/Index	Annual Average Return	Standard Deviation	Correlation
<b>Average U.S. Farm</b>	<b>10.2%</b>	<b>6.6%</b>	<b>1.0</b>
S&P 500	6.9%	16.9%	-0.3
NYSE	6.5%	16.7%	-0.2
10-Year Treasury Note	6.6%	3.0%	0.1
AAA-Rated Bonds	7.7%	2.6%	0.1
Gold	7.3%	23.3%	0.3
REITs	9.3%	20.3%	-0.1
CPI	3.9%	2.9%	0.7

Source: Seeking Alpha

<sup>18</sup><https://www.census.gov/newsroom/press-releases/2020/65-older-population-grows.html>



## FARMLAND 101

### ACCESSING ASSETS IN AGRICULTURE

#### | 2022

What many people don't know is that any type of self-directed retirement account can invest in alternative assets like farmland, including solo 401(k)s, IRAs, and Roth IRAs. With these types of accounts, you can direct and control your retirement funds beyond the limited offering of index and mutual funds that are available in traditional accounts.

If you decide to do so, there are various types of passive farm investing options that don't require any knowledge or experience in agriculture. These include agricultural stocks, agricultural exchange-traded funds (ETFs), agricultural mutual funds, farm real estate investment trusts (REITs), and online platforms. Besides offering the benefits of

diversification and acting as an inflation hedge, farmland investment may protect you from certain tax burdens. Farmland ownership, sheltered through a retirement account, accumulates income that is tax-deferred and continues to compound for years - even decades - before you are taxed on the withdrawals you'll need to take in retirement.

With its combination of appreciation and income, farmland is a unique asset class that perfectly suits the needs of retirees. Whether you're looking for a turnkey source of income or a long-term investment to pass down to your descendants, farmland can help you meet your goals.





## ACCESSING ASSETS IN FARMLAND ↴

Like any major decision, owning farmland requires an intensive and thorough due diligence process that involves a detailed analysis of a wide variety of factors. For many, the most difficult part of accessing farmland is not the decision to invest in the sector, but identifying an opportunity that they feel comfortable with.

You can think of the farmland due diligence process as a series of filters. If a potential opportunity makes it through the entire series of filters, that opportunity is worth investing in. These filters begin with the basic, fundamental aspects of agriculture, and then progress into the more abstract and intelligible elements.

As with any asset class, farmland involves a certain level of risk. But by partnering with the right provider, you can access higher risk-adjusted returns and sleep better at night knowing that your capital is safely parked in a secure, vetted piece of farmland.

Arguably the most important thing to focus on is the crop itself. When looking at a

crop, there are three major considerations: the crop's natural characteristics, the crop's logistical processes, and the crop's broader market.

Let's start at the beginning. One of the most important things to consider is crop type: row or permanent? Row crops, such as corn, wheat, soy, barley, and cotton, are planted and cultivated on a seasonal basis, and a single year can consist of multiple harvests.

Permanent crops, such as citrus fruits, nuts, apples, and avocados, take three or four years at minimum, often requiring over five years to begin production. The trade-off is that permanent crops generally produce higher yields and a higher land appreciation.

Not everyone has the patience or available capital to wait several years to start seeing returns. But for those who can, it's worth investing in permanent crops, which generally provide higher land appreciation and yield.

### Crop Type

	Permanent Crops	Row Crops
Lifecycle	Does not require replanting, and a single tree can produce for over 60 years depending on the crop	Requires constant replanting, sometimes multiple times in a year
Harvest Procedures	Non-intensive, may not require use of heavy machinery	Requires use of harvesters, balers, and other equipment
Soil Depletion	Does not deplete the soil as quickly, especially when supplied with constant nutrition	Depletes soil quickly, creating the need for crop rotation or soil resting periods
Start-Up Time	Three to four years minimum, sometimes up to 10	As short as a few months or half a year
Labor Requirements	More workers needed, especially during the harvest season	Highly mechanized, few laborers needed
Annualized Yields	As high as 15 percent depending on the crop	Generally in the single digits, especially for grains



## LOGISTICS ↴

It's also worth noting that each crop is different in terms of how it needs to be processed, packed, and delivered to its destination. Agricultural logistics is an entire universe unto itself, and farmland owners need to have a clear understanding of how the product will arrive at their intended markets in a timely and fresh manner.

### Agriculture Supply Chain: 5 Flows



**Farmers**



**Agri & Food**

Industry / Processors



**Wholesale**

Distributors



**Retailers**



**Consumers**

The basic steps in this process begin even before the product is harvested. Make very sure that any opportunity that you investigate comes with a comprehensive and detailed strategy for the entire logistical chain, including pre-harvest, post-harvest, phytosanitary regulations, customs protocols, temperature controls, and beyond.

Remember, each crop is different. Berries, for example, do not have an especially long shelf life and must be cooled to between 32-36 degrees Fahrenheit throughout the entire transportation process. Grains, on the other hand, can keep for over half a year if stored properly. Understanding these factors is vital to the success of a farmland investment.

It's particularly important to do your due diligence in today's market where the supply chain crisis<sup>19</sup> is impacting both the import and export of agricultural products. For example, the soaring container prices will affect the cost of getting products to distributors and retailers as scheduled.

Factors to consider include labor crunches, the impact of droughts on barges, congestion at ports, shipping container shortages, constrained capacity in trucking and rail freights, and equipment and parts that are in short supply.

<sup>19</sup><https://www.farmprogress.com/farm-policy/supply-chain-issues-hitting-all-segments-ag>



## MARKETS ↴

Transporting goods to market is one thing – selling them is another. This is perhaps the single most important factor in any agricultural investment: does the project have a strategy in place to sell their product, and does that strategy seem viable given the present and forecasted conditions of the market?

Global markets tend to be massive and complex, so it can be tough to know where to start investigating them. The easiest way is to separate the major regions of production and consumption: where is the crop grown and where is it consumed? And, more importantly, which producers serve which consumers?

Let's use coconuts, a product that has seen dynamic changes in recent years, as an example. Principally grown in Southeast Asia, coconuts have become a big hit in developed markets. But supply chains in the major regions of production are under serious strain, and export volumes are declining across the board. This creates an opportunity for new suppliers.

Many would-be farmers are attracted to the space for its consistent returns and long-term appreciation – but those benefits can only be gained with a well-considered and well-executed sales strategy.





## REGION ↗

Selecting a region for farmland ownership is one of the most strenuous and intimidating parts of the planning process. For that very reason, it is probably the part of the process where people lose the most value and miss the most opportunity.

Why? Because understanding a country or a region is much different from understanding a market or a crop. It involves factors that are much more nuanced and subtle: language, culture, history, tradition, and geography. For many, these things may seem impenetrable, but they aren't.

Although many are inclined to stick to regions that they know, the most attractive opportunities in farmland often can be found elsewhere. This is especially true in developed countries, where the agriculture industry is already heavily financialized, and farmland appreciation has become less robust.

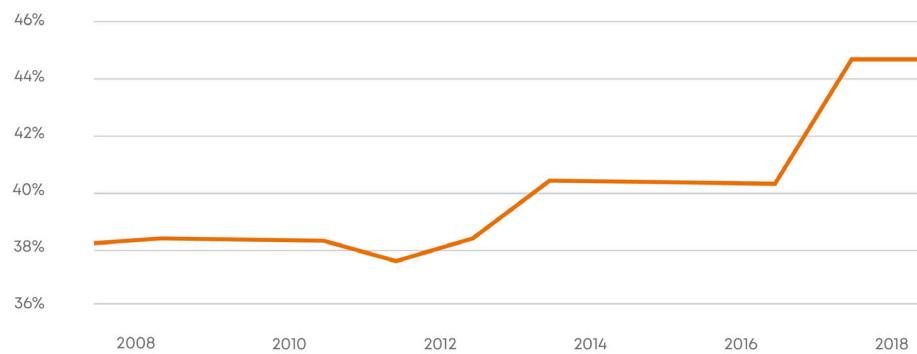
Not so in emerging markets. Imagine that you had been an early entrant into what would eventually become the U.S. farmland

boom of the early 1970's - you would have seen the value of your farmland appreciate by over 100 percent in less than 5 years!

It would be unthinkable for U.S. farmland to replicate those results today. In fact, average U.S. farmland values grew less than 7 percent from 2019 to 2021.<sup>20</sup> Not to mention that the rock-bottom interest rates spurred by the pandemic may lead to farmland becoming dangerously overleveraged - a factor that has contributed to U.S. farmland busts in the past.

But in emerging markets, opportunity abounds. There's no shortage of regions with the potential for farmland booms in the future. You can take advantage of lower land and labor costs, favorable exchange rates, the surge in commodity prices, and more. For example, a farmworker in the agricultural regions of the U.S. makes \$1,800 to \$2,200 per month,<sup>21</sup> while one in Colombia makes between \$280 and \$320 per month<sup>22</sup>—including health insurance and other benefits.

### Agricultural Land as a Percentage of Total Land in Colombia



Source: World Bank as of Nov 2021

<sup>20</sup>[https://www.nass.usda.gov/Publications/Todays\\_Reports/reports/land0821.pdf](https://www.nass.usda.gov/Publications/Todays_Reports/reports/land0821.pdf)

<sup>21</sup><https://www.ziprecruiter.com/Salaries/Farm-Worker-Salary>

<sup>22</sup><https://www.lexology.com/library/detail.aspx?g=5d524c93-b456-4c85-99c9-0cdf91545eaa>



For those who know where to look, emerging market farmland is an investment class like no other. Here are some of the key factors that can help you determine which countries are ripe for a farmland boom.

## KEY COMPONENTS

- **Climate:** What type of crops can grow in the country? What are the regional climate profiles? Average temperature? Annual rainfall? How will climate change affect the country?
- **Infrastructure:** Where are the major seaports and airports? What markets can they access? Are there internal highways? How much money has been invested in infrastructure and where?
- **Long-Term Stability:** What is the political and economic situation? What does the fiscal/monetary policy look like?
- **Market Access:** What trade agreements does the country have in place? What are the tariff structures for each individual crop? Is the country likely to open new markets in the future?
- **Intangibles:** What do you know about the country's history and culture? How well-established is the crop in question? What idiosyncrasies are at play? Is the labor force sufficient?





## MANAGEMENT TEAM ↴

No farmland opportunity is complete without an experienced and effective operating team. But how do you know that you're dealing with one? If you don't have any experience with farming, this can be a difficult task.

Like many steps in the due diligence process, there are no shortcuts. You can always take the team's word for it, but the best course of action is to independently verify that the team has the experience needed to guide the project to success.

Look at the team by department. On one end, you have the people structuring the deal and managing the financial end of things. On the other end, you have the farm team, the people out in the field getting their boots dirty.

The more overlap there is between these two groups, the better. The office people need to get out into the field and the field people need to come into the office. If there is too much disconnect between these groups, the project is likely to face challenges.

This means that the management team has to be located in the same relative area as

the project. You don't want to get involved with a project that is based in Vietnam and managed in Norway, for example. The lines of communication won't be sufficient.

This is especially important in emerging markets where, as mentioned before, the potential for yield and appreciation is higher. There can be so many subtle idiosyncrasies in the local culture, geography, language, etc., that management from afar becomes all but impossible.

Then you have the farm team. Farming is an ancient practice, and knowledge and skills are often passed down from generation to generation. If you can, find a farm manager with generational experience. These people tend to see farming as a labor of love, not just a job, and they will put in the time and effort required to succeed.

When it comes to vetting the management team, there is no such thing as too much scrutiny. Look at past projects the team has been involved with, take time to consider their individual backgrounds, their long-term goals, and how they are incentivized. You need to make sure you're putting your money into the hands of people you can trust.



## TRANSPARENCY ↴



Transparency is the ultimate litmus test of a project. This is the point in your due diligence process at which you have to be willing to walk away. No matter how attractive a deal may seem, if the organization you're working with isn't willing to put their cards on the table, saying no is the best choice.

How can you test for transparency? The first step is to ask for documentation. If the would-be sellers can't produce thorough, well-presented, accurate information about the opportunity, this is a red flag.

The importance of this phase can't be overstated. Look through each document carefully, especially the financial projections. If those projections don't seem realistic, be warned. There is no shortage of entities out there making empty promises about 40-50 percent annual returns, but real projects, however profitable, tend to be a bit more modest.

The next question is reporting. How often can you expect to receive updates on the status of the opportunity? How in-depth are these reports? Are they well-prepared? And, critically, do they occasionally contain some negative information?

After all, business isn't always perfect, as there are setbacks, inefficiencies, bottlenecks, and all sorts of other issues. Is the entity in question honest about what those challenges are, how they are affecting the business, and how they can be overcome?

There are many transparency factors to consider, but when you get down to it, you need to know that the people who represent the opportunity are telling you the truth.



## TITLE STRUCTURE ↴

This can be one of the trickiest parts of due diligence for farmland ownership. Title ownership, direct or otherwise, is one of the major benefits of owning farmland, and it's worth taking the time to make sure that such ownership is as secure and as straightforward as possible.

In short, what you're looking for is a "fee-simple" title structure. This structure, also called a "freehold title", imposes no fixed duration on tenure of ownership, limitations regarding transfer of property, or restrictions on the rights of the owner. This structure is not offered everywhere, and you can get yourself into some messy situations without it.

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### BENEFITS OF A FEE SIMPLE TITLE:

- Increased liquidity
  - Land, soil, and air rights
  - Higher transparency
  - No limitations on duration
  - Easy to pass along to heirs
- 

Crucially, holding property under a fee-simple structure, whether directly or indirectly, can massively increase the liquidity of your property. In foreign countries, dealing directly with foreign governments can be a hassle – it is usually best to have the title held in your name by a local entity.

Next, don't take the history of the title for granted. These issues can get really complicated, really fast, so you want to be sure that you've got a clean title. First, make sure that there are no errors in the public records – even a slight discrepancy could result in problems down the line.

Then, make sure that the property has no unknown liens that were hidden or overlooked by previous owners. One tip-off is that the owner is frantic to sell – that

might mean that the property has some unpaid debts.

Lastly, it's always a good idea to be aware of any possible encumbrances the property may have. A third party may hold full or partial claim on a property, which can make full ownership and resale all but impossible. There may be conflicting land surveys which designate others as partial owners, as well as other issues.

When it comes to the title structure, don't be afraid to get into the gritty details. Make sure that the title in question checks all the boxes – fee-simple, clean history, no liens or encumbrances, and no boundary disputes. It can't be stressed enough – don't move forward unless you're comfortable with the title.

# SUMMARY

Owning farmland is not like owning other types of assets. The easiest way is to take a hands-off approach, but you'll still be able to participate as an owner, even from afar.

Once you've bought your land, you should have a pretty clear idea of what type of farmland owner you're going to be. Do you want to sit back and watch your farmland generate returns, or do you want to see it happen up close?

Regardless, there is a basic level of involvement required for farmland ownership. Fundamentally, it consists of carefully reading the investor correspondence and other material put out by the management team.

If you did your due diligence well, your management team will be sending you regular, in-depth updates on what's happening on

your land. These should be bi-annual at least, along with a more detailed annual report. Read this information carefully.

Consider visiting your farm personally. There's no better way to see what's happening than to take a look up close. Plan a trip with your farm management team. Get them to give you a tour. If you've signed on with a transparent, committed manager, they'll be happy to oblige.

Ultimately, owning farmland is a journey, but one that can be very rewarding. It's about investigating, building relationships, and learning something new. It's something to be proud of, something to tell your friends about. It's about investing in something real, something that creates a legacy of meaningful impact on people's lives and livelihoods, including your own.

Email [info@farmfolio.net](mailto:info@farmfolio.net) or visit [www.farmfolio.net](http://www.farmfolio.net) to get started.