

ALTERNATIVE ASSET INVESTMENTS AND AGRICULTURAL LEASES

September 22, 2021

Presented by: CAPTRUST & DowneyBrand



DOWNEY BRAND



Agenda

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- 02** Overall Portfolio Considerations
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- 04** Land as a Viable Real Estate Investment
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Introductions

This presentation is intended to be educational only and is not a recommendation to invest in any securities or participate in any investment strategy. CapFinancial Partners LLC (“CAPTRUST”) is an investment adviser registered under the Investment Advisers Act of 1940.

This presentation is for informational purposes only and not intended to be legal advice.



Rob Cook, CPA, CFP®

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Rob specializes in traditional investment management, tax planning, and real estate investments. He focuses on helping clients and their families use their wealth to create meaningful legacies for generations to come. Through thorough tax planning, he aims to grow wealth while efficiently meeting goals.

Prior to CAPTRUST, Rob was a senior tax accountant with Ernst & Young working with family offices, corporate executives, world-class athletes, and local family businesses.

He earned both a Bachelor of Science degree and a Master of Accountancy degree from Brigham Young University.



Kimberly Grambrall, Esq.

Associate Attorney, Downey Brand LLP

Kimberly Grambrall is a transactional attorney who focuses on commercial real estate, business transactions, and agricultural land.

Kim works with developers, investors, brokers, and property owners to close deals on the acquisition and sale of shopping centers, buildings, and agricultural land. She represents property managers, landlords, and tenants entering retail, office, industrial, and agricultural leases or amending current lease agreements. Kim also previously spent years working for her family owned and operated agribusiness wherein she gained industry knowledge of business operations and property management. Her unique perspective and understanding assists growers, farmers, and ranchers plan for continued success of their livelihoods and brings added value to help business owners achieve desired results.



Alternative Asset Investments and Agricultural Leases

Overall Portfolio Composition



Overall Portfolio Composition

What does your portfolio consist of?

- Stocks
- Bonds
- Mutual funds
- Exchange-traded funds (ETFs)
- Private equity funds
- Hedge funds
- ???

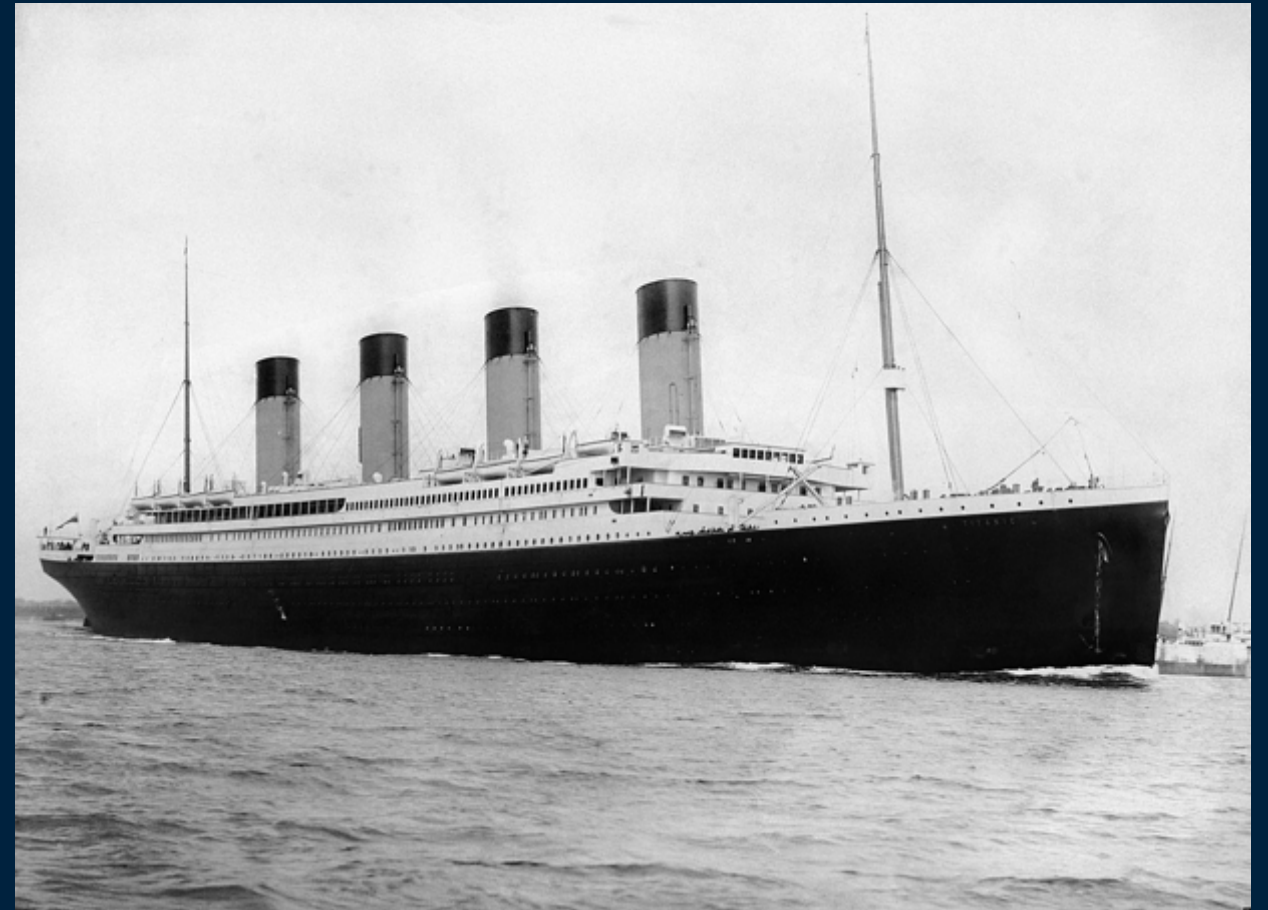
What could be missing?

- Real estate
- Collectables
- Coins
- Art
- Private investments
- Syndicated investments
- Etc.

Overall Portfolio Composition

What's the danger in seeing only part of the picture?

The point of proper risk management is to see all the risk and to be able to mitigate or respond to them appropriately.



Alternative Asset Investments and Agricultural Leases

Real Estate within a Portfolio



Real Estate Within a Portfolio

The Rise of Bond Alternatives

U.S. 10-Year Treasury Note Yields
(1962 to Present, in %)



Source: Bloomberg

Real Estate within a Portfolio

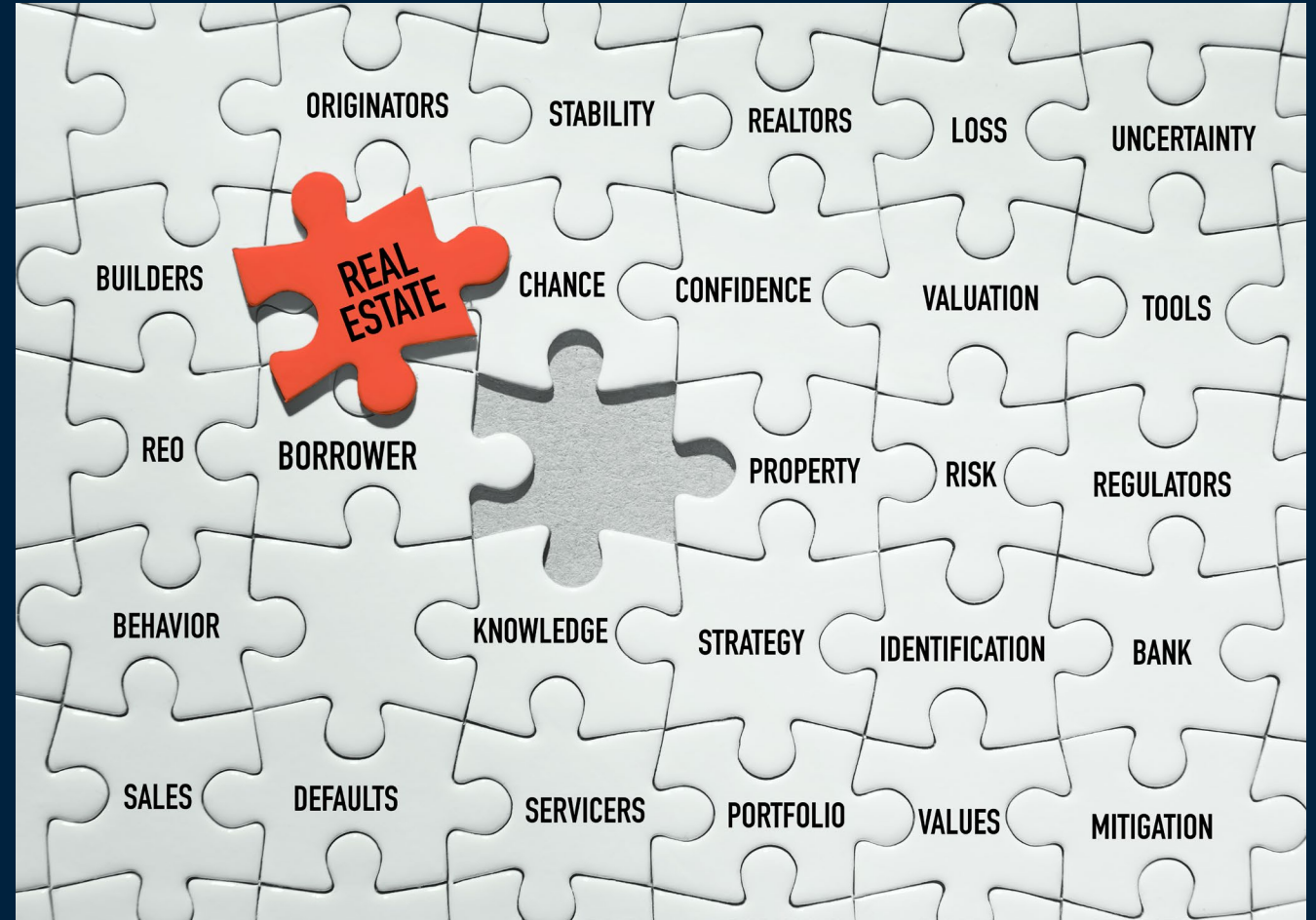
Real estate's appeal:

- Consistent cash flows
- Historically low volatility
- Equity build up unlike bonds
- Inflation hedge

Real estate's drawbacks:

- (Lack of) liquidity
- Long holding periods
- High taxes at liquidation
- Management

Paper assets vs. physical assets



Alternative Asset Investments and Agricultural Leases

Land: A Viable Real Estate Investment?



Land: A Viable Real Estate Investment?

Reasons to Consider Land

- No toilet, tenants, or trash
- Volatility of Treasuries with long-term growth potential
- Cash Flow Opportunities
 - Leases
 - Installment sales
 - Rights (mineral, water, timber, etc.)
- Uses for Land
 - Storage
 - Farming
 - Grazing
 - Construction
 - Leases



Land: A Viable Real Estate Investment?

Due Diligence on Land is Different from Traditional Real Estate Investments

- Title issues (split, parcel number match, description match, etc.)
- Feasibility of intended use
- Zoning or HOA restrictions? Required setbacks?
- Topography (flood zones, marshes, wetlands, steep inclines, natural beauty, etc.)
- Holdings costs (property taxes, back taxes, etc.)
- Road or other access (easement?)
- Check if rights are separate title
- Percolation?
- Previous uses? (may need to check environmental reports)
- Cell service?
- Utilities (water well, city water, septic, electricity, etc.)
- Endangered species? Potential tribal issues? Squatters? Hunting rights? etc.?

So you're invested, what's next?

Land Niche: Agricultural Leases



When are agricultural leases used?

DB

Estate Planning:

A family forms partnership to own family land and a limited liability company (LLC) to farm the land

Retiring Farmer:

Retired orchard owner receives rent for neighbor's use of orchard

Investment:

Individual purchases land and leases to a farming business

Partnership:

Individual purchases land and forms partnership with another individual or entity to farm



Types of Agricultural Leases



Perennial Crop Leases

DB

- **Examples: almonds, walnuts, grapes, pistachios**
- **Lease term is tied to economic value of crop (Long Term Lease)**





Pros and Cons

DB

Landlord Pros

- High income opportunity
- Property tax advantages
- Vested interest of tenant to care and maintain the land
- May have a viable orchard at the end of the lease

Tenant Pros

- No investment in land
- Lower base rent

Landlord Cons

- Land is tied up for life of lease
- Land may be less marketable with lease in place

Tenant Cons

- No potential for gaining from appreciating land value
- Remove or abandon improvements



Typical Lease Terms



Lease Terms

Put it in writing

California Unique Provisions

- Holdover tenancy
- Term limit of 51 years
- Farm Labor Contractor Liability
Cal. Labor Code, Section 2810.3

- Term
- Rent
- Use
- Entry
- Expenses
- Waste, Repairs, Alterations
- Insurance
- Indemnity
- Default
- Early Termination
- Assignment/Subletting
- Record Memorandum of Lease

Common Terms





Other issues you may not have thought about:

DB

- Lender issues and subordination
- Personal guaranties
- Condition of Property at end of lease term
- Tenant contracts for crops produced
- Use of pesticides
- Liens
- Residence or farmworker housing on property
- Easements, access roads, staging areas for harvest, turnarounds, ingress and egress
- Include a map as an Exhibit
- Noise, dust abatement/buffers for sensitive groups
- Death of Tenant
- Sampling fruit



Water Issues

DB



- Water infrastructure?
- Water availability?
- Riparian with wells or part of irrigation or reclamation district?
- Responsibilities for payment for water?

Thank You!

Questions?

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