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# The U.S.'s first organic farm REIT is based in Evanston

Evanston's Iroquois may be the first such REIT in the U.S.

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Kendall Karmanian

David Miller, left, and Stephen Rivard, co-founders of Iroquois Valley Farms.

Access to capital is notoriously difficult for farmers. Growing and raising certified organic food is even more daunting. That's because the USDA requires organic farmers to work the soil for three years before allowing them to certify their crops as organic. What's more, yields are lower for a good five years after starting out while the soil becomes richer.

To make the process easier, Dr. Stephen Rivard—former co-director of emergency medicine at Good Shepherd Hospital, and David Miller, former vice president for First Chicago Bank & Trust, created Iroquois Valley Farms to invest in land leased to farmers who convert conventional operations to organic. Rivard was spurred on in part because he saw patients hospitalized after

coming into contact with pesticides.

Many younger farmers are looking for funding, says Miller, noting 72 percent of his private-equity firm's farmers are millennials. "The big guys don't operate there," he says, noting his average farm purchase is between 100 and 120 acres. "It's hard for family farmers to find funding to buy parcels of small to medium size. We are reactive to farmers looking for a specific piece of land. It's their business, and they come to us with a specific opportunity they want to finance."

A small group of 10 original investors has grown to 250—from 34 states and Canada and Great Britain—who converted their limited-liability company and began offering what they say is the first organic family farm real estate investment trust in the U.S. on Jan. 1, says Kevin Egolf, CFO of Iroquois Valley.

The Iroquois Valley Farmland REIT public benefit corporation, based in Evanston, includes 32 farms across nearly 4,500 acres in Michigan, Maine, New York, Kentucky, Montana, West Virginia, Illinois and Indiana; 73 percent of that acreage has transitioned into certified organic land. It has some \$30 million in assets, with 41,500 shares valued at \$568 per share, Egolf says. Compared to other private farmland funds and REITs that focus on conventional farming, Iroquois is small.

The concept blossomed after Miller purchased his uncle's 10-acre farm in Danforth, Ill., 30 miles southwest of Kankakee in Iroquois County, in 2005. Miller asked Harold Wilken—a local conventional-turned-organic fifth-generation farmer of Janie's Farm Organics, which grows hard and soft wheat, black beans, corn and soybeans—to look for other property that might become available.

Miller and Rivard, high school friends and college roommates at Loyola University Chicago, began with the \$650,000 purchase of a 142-acre farm near Danforth in 2007, which they bought with eight friends and family members to start Iroquois. They followed that with an \$800,000 investment for a nearby 160-acre farm in 2008.

Iroquois doubled its holdings from 302 acres in 2010 to four farms and 606 acres in 2011, in part, Miller says, after attending the Sustainable Responsible Impact Investing Conference, where Iroquois met with financial advisers. Soon after, Iroquois landed on a list of socially responsible private-equity and debt impact investment fund managers, a spot it's held for four consecutive years. That helped Iroquois scale its investments to 1,790 acres across 15 farms by the end of 2013 and 3,518 acres across 25 farms in 2015.

"There's no cookie-cutter approach," says Wilken, who sits on the company's board, owns shares and farms more than 2,000 acres among 16 farms. "Each family farm is structured differently. They aren't investing and only looking for a financial return. They are also looking to build up soil, build up the farmer and also be responsible stewards of the investments."

About 15 percent of Iroquois Valley Farms investment assets—five investments total—are mortgage finance offers to farmers, Egolf says, and the remaining 32 investments are in farmland the company owns and leases to organic family farmers.



Investments in farmland increased by \$4.5 million to total \$23.2 million in 2015, according to Iroquois Valley Farms' audited reports for 2014 and 2015.

## **TWO OFFERINGS ON TAP**

Iroquois posted a net unrealized loss on investments in real estate of \$312,018 in 2015 due to a decline in land value. "The market is a little soft right now," Egolf says. Since the audited report compares organic farmland to conventional farmland, which tracks the commodity market— something organics don't do since produce is sold at higher prices once it's certified—Egolf says it's not an accurate comparison, and it makes the organic farmland appear undervalued.

Later this month Iroquois will issue a \$5 million to \$7 million offering for "Soil Restoration Notes" to help pay millennial farmers to transition their land with short-term loans with a minimum of \$25,000 buy-in amount for investors, Egolf says. The program is part of a three-year, \$944,715 Conservation Innovation Grant the U.S. Department of Agriculture awarded Iroquois. Proceeds from the notes will help Iroquois' partner farmers increase profits while transitioning land to organic production and help Iroquois research how organic management practices affect soil health.

In April, Iroquois plans to issue a \$15 million offering of REIT shares to accredited investors. Egolf says Iroquois will also issue two offerings for non-accredited investors in the third and fourth quarters of 2017 with a goal of raising at least \$20 million. Aside from typical farm risk factors (weather, disease, labor), Iroquois cites reliance on tenants and the possibility that organic certification requirements could change.

The offerings come at a time when organic farming is becoming more popular and profitable, says Jeff Moyer, executive director of the Rodale Institute, a nonprofit research and education center. He cites a 2008-10 study conducted with Mississippi State University that found organic farms generate \$558 in profit per acre, almost three times the \$190 from conventional farming. Consumer demand for most organics is outpacing production growth, but investors have to decide if the trend will continue in the long-term, says Robert Johansson, the Department of Agriculture's chief economist. Because organic farming doesn't follow commodity prices, it can be more profitable, says Moyer, because farmers can help set the price and value of an organic product.

In 2015, a little more than 2 million farms were left in the U.S., and 14,861 certified organic farms with 5.3 million acres—up from 12,941 farms and 4.8 million acres in 2008—according to the USDA. While the number of certified organic farms in Illinois increased to 218 in 2015 from 50 in 2008, the number of acres decreased to 27,275 in 2015 from 35,887 in 2008.

Iroquois partners say that bodes well for the company's prospects as demand increases. "They aren't making more farmland," says Arne Lau, Iroquois chief operating officer. "We will always need food, and sustainable farming practices are critical."