

# Basics of Real Estate and Farm Finance

Jan 12th, 2023



## Overview

- Intro self and role
- Dynamics of ag and Hawai'i
- Basic concepts
  - Impacts of ownership
  - Process of acquisition
  - Managing team of vendors



## Question for chat...

Where's your place?

What's a plant or agricultural product that you identify with?



## Personal intro

- Currently reside in the ahupua'a of Pueo, in moku of Hilo



# Acknowledgement

Hawai'i is

- Indigenous space
- Shaped by generations of native Hawaiians
- Kingdom yielded under duress
- Colonization is ongoing process

*Have respect for the land where make our home and livelihood*



# ‘Āina

Wehewehe Wikiwiki: *n. Land, earth*

Not simply property, but “that which feeds”

With ‘āina comes kuleana (right, privilege, responsibility)



# Why learn?

...so you don't get buffaloed by it.



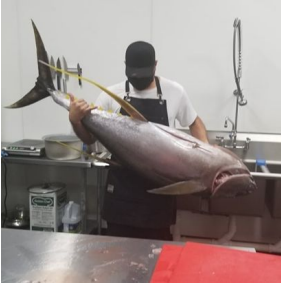
# Personal intro

- Career in food and ag
- Finance in underserved markets
- Volunteer Hawai'i First FCU



## As a Loan Officer

- Support business planning, financial modeling, and budgeting
- Network with other lenders
- Coach through loan application
- Analyze loan request and present memo
- Support borrowers



## Support Applications





## Dynamics of Ag

- Capital intensive
- Labor intensive
- Intergenerational asset
- Income
  - Years out
  - Seasonal
  - Impacted by weather events
  - Sensitive to inflation



## Ag in Hawai'i

- Extra capital intensive
- Underdeveloped
- Far from markets
- Expensive
  - Land
  - Labor
  - Fuel and fertilizer
- Range of profitability
- <0.50% state's GDP



# Recipe

## Multiple revenue streams

- Sale of raw product
- Value added
- Direct marketing
- Off farm job
- Hosting tours or events
- Rental property income



# Ag Needs Capital...

...and a lot of it.

- Land acquisition
- Housing
  - Worker
  - Farm owner
- Capital expenditures
  - Infrastructure
  - Equipment
- Working capital



## Quick Scenario

- New BCS Tractor ~\$7k
- \$10k at 4% for 5 years = \$184 per mo.
- Matches expense over equipment's life



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### Questions

- How long to save up \$10k?
- How much labor could be saved?
- What would be impact on profitability?





## Real Estate

- Multiple sources of value
  - Capitalization (profit)
  - Appreciation
  - Amortization (loan payments)
  - Depreciation (tax)
- Farm land appreciation
  - 4-5% 20 yr avg
  - 7-8% over past 2 yrs
- Combined returns ~12%



## Asset Characteristics

- Economically
  - Scarce
  - Durable
  - Location
- Physically
  - Indestructible
  - Immobile
  - Unique
- Financially
  - Illiquid
  - Improvements
  - High startup costs
  - Leveraged



## How to shop

- Develop a wish list
- Consider development costs
- Walk the property
- Understand neighborhood
- Evaluate services
- Confirm access
- Water availability



Taken from: [www.northwestfcs.com/financing-insurance/rural-residential-financing/land-buying-checklist](http://www.northwestfcs.com/financing-insurance/rural-residential-financing/land-buying-checklist)

## Develop Criteria

- Price
- Location
- Elevation
- What?



## Start shopping!

Use sites to access the MLS



LandWatch<sup>®</sup>

REDFIN



## Analyze Criteria

15 min on MLS sites...

Address	Price	Acres	Per acre	Elevation	Notes
11-2433 Makoa Rd	\$35k	3	\$12k	Volcano	Forested
11th Ave	\$70k	1	\$70k	Keaau	Wooded lot, option to sell with homesite
13-4034 Pahoia Kalapana Rd	\$500k	17.8	\$28.5k	Pahoia	3 TMKs



## Off market deals

Not all deals are on the MLS

- Talk to realtors
- Talk to neighbors
- See fallow land
- Look at public records
- Send off letters to landowners/heirs
- County auctions



### Search by Location Address

Exact address match?

enter address...

Search for an address xx-xxxx by inputting both the 2 and 4 digit section, then the street name

### Search by Parcel Number

enter parcel number...

[Parcel Number Search Examples...](#)



## It's a Numbers Game!

For one successful transaction,  
you might...

- Analyze 10 - 100 opportunities
- Make 3 - 15 offers
- Enter into negotiates on 1 - 5
- Spend money on dead end deals





## Quick thoughts

- Major financial decision
- Learn your market
- Takes time; 6 to 18 months
- Whole new skill set
- Scary, stress inducing journey



## It takes a team!

### Primary

- Real estate agent
- Mortgage lender

### Secondary

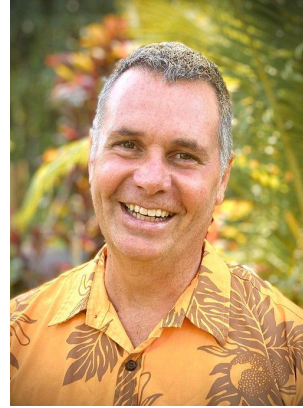
- Insurance agent
- Inspector
- Title company
- Appraiser



# Agents

Works for both buyers and sellers

- Understands the market
- Earns commission; paid by seller
- Negotiates the transaction
- Manages deadlines
- Refers vendors
- Deciphers paperwork

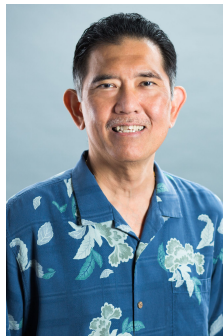


*Join next Thurs. the 19th for more on this topic from Brent Wenner*



# Lenders

- Financing is the heart of the transaction
  - Loan officers work for a lender
  - Brokers work with various lenders
- They want to say yes!
- Different lenders, different programs



*Join Feb 2nd for more on this topic from Jason and Linus*



## Farm Lender “Starter Pack”

**USDA FSA:** Jennifer Balderas

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**American AgCredit:** Linus Tavares

[ltavares@agloan.com](mailto:ltavares@agloan.com)

**Commercial Business Lending:**

Jason Okuhama

[jokuhama@cblending.com](mailto:jokuhama@cblending.com)



## Working with your team

They work for you, treat them like it

- Know your expectations
  - Experienced in your market
  - Able to perform
  - Communicative
- Interview multiple options
- Get references/referrals
- Be ready to replace



## Key Points

- Like it or not, farmers are “in real estate”
- New industry to learn
- How net worth is generated
- Financing is at the center
- Takes a team
- Teams take management



## The Bottomline...

...Reach out if you:

- Want to think through options
- Are ready to raise money
- Are confused or stuck about how to get started
- Need help planning

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