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Field Reports

Restoring the Heartland

By Kathy O. Brozek

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FIELD REPORT

Harold Wilken rides his tractor to plant grains at his farm, Janie's Farm, in Danforth, Illinois.

Restoring the Heartland

Iroquois Valley Farms' impact investment model ushers in a new era for farmers looking to create a sustainable future.

BY KATHY O. BROZEK

The disruption of the status quo by new technology has transformed how individuals perform mundane tasks and how businesses operate, producing both limitless opportunities and unforeseen consequences. US agriculture, particularly the richest, most fertile farmland of the US Midwest, has experienced disruption with devastating efficiency. Beginning in the mid-1990s, the share of US cropland acres planted with genetically modified crops (GMOs), primarily corn and soybeans, skyrocketed to more than 50 percent, now totaling 166 million acres. Biotechnology has indelibly altered the food and livestock-feed chain.

But US agriculture appears primed for another transformation—one of restoration. The declining efficacy and rising costs of GMOs have prompted some commodity farmers to change direction. Consumption of organic and sustainably grown crops and meat is at an all-time high, and processed food products are increasingly adopting non-GMO labels.

Business, too, is steadily reshaping the sector. Iroquois Valley Farms, a finance company based in Evanston, Illinois, offers equity investments through its real estate investment trust (REIT) and promissory notes issued by its LLC entity to institutional and accredited investors. Iroquois is unique because its proceeds are used solely to assist farmers in acquiring, or leasing for extended periods, organic and transitional-to-organic farmland located primarily in the US Midwest and Northeast. Approximately 70 percent of the farmers who receive the financing are part of the millennial generation, and Iroquois is now in a position to scale its model further.

"The first question we hear from farmers is, 'Will I be able to own this land someday?'" says Dave Miller, CEO and cofounder of Iroquois. "They want to be successful, and we can help them be land-secure. We expect to hold the farmland indefinitely, so we're able to tell the farmers, 'If you want the land, after seven years we'll sell you all of it or any part you want to own.'"

PHOTOGRAPH COURTESY OF HAROLD WILKEN + JANIE'S FARM

Today, Iroquois holds approximately $50 million in farmland investments. It has either purchased farms that it has leased to tenants, or provided mortgage financing for 56 farms located across 14 states. There are increasingly more transactions with existing tenants who wish to expand, an indication that the business model is viable. In some states, such as Wisconsin and Iowa, however, restrictions on the types of entities able to buy farmland limit Iroquois to providing only mortgage financing.

TRUST AND COMMITMENT

Miller was born and raised in a rural area south of Chicago that borders Iroquois County. In 2005, after a career in banking, he bought a 10-acre farm in Iroquois County that his extended family had owned and turned it into organic farmland. The experience inspired a new vision for investing in organic farmland and led to the formation of Iroquois Valley Farms LLC. With pooled resources from family and friends who supported organic farming, in 2007 the company made its first purchase of a nearby 142-acre farm.

There were unusual investment terms at the outset: The investors were not given an exit date as to when they could withdraw their funds, mostly funneled from IRA accounts, rendering their investments illiquid for an indefinite time. But the investors' commitment to Iroquois' environmental mission prevailed over the uncertainty. "I wanted a triple-bottom-line investment in farmland that fits with my long-term vision," says Tony Demma, an early investor who is based in Illinois. "I'm holding the investment in my children's college funds for several years, since I know Iroquois will manage it in a way that will rehabilitate the farmland."

It took seven years, until 2014, for the investor base to grow large enough for Iroquois to be able to provide an exit date, which was seven years with a defined number of shares

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available for sale annually. In 2016, a REIT was formed to attain efficiency related to both equity capital-raising and administration as the company sought to scale.

Only a small percentage of investors have chosen to exit. Iroquois now has a track record of consistent profitability, and in recent months two major financial services firms have included Iroquois on their lists of recommended alternative investments. Plus, the nonprofit B Lab has designated Iroquois a Certified B-Corp with a top-tier rank among designees for the last three years.

Current investors are made up of accredited investors, trusts, family offices, foundations, and institutional investors. Of the nearly 300 investors, approximately half are steered to Iroquois from financial advisors who prioritize socially responsible investing.

Given a business model that heavily depends on the aspirations and operational capabilities of the farmers, the board's investment committee conducts a robust vetting process. The farmers bring a parcel of land they are interested in to the committee's attention, which then assesses the potential for a purchase or mortgage.

Andy Ambriole, a young farmer in Indiana who founded Bio-Steward Farms, has an especially strong connection to Iroquois: He is an investor, a board member, and a tenant who leases 450 acres. He farms a total of 1,400 acres, all of which are organic or in transition-to-organic, some of which he owns and the rest he leases from other landowners.

"We make decisions on the farmers that may last a generation or two, so we make sure it's a good fit for everyone," explains Ambriole. "We first get to know the farmer and their operations, typically over a six-month to one-year period. The investment committee looks at the potential of long-term gains and benefits for the farmers and the entire community."

A critical aspect of the leases is the length, which is at least five years, with rent typically kept at a fixed, below-market rate the first three years, during the farmland's transition process to organic; the crops are sold as conventional and do not command the certified organic price premium. Plus, the farmers are given autonomy.

"With Iroquois, I'm still an independent farmer running my own independent operation," says Ambriole, who grows organic feed that he sells to small Amish dairy operators, as well as chicken farms, located mainly in northern Indiana. "I make all the on-the-ground management decisions, and Iroquois is not involved as they would be if I was their employee."

MIDWEST ORGANIC FARMING

Iroquois is agnostic as to whether the farmers who lease the farmland actually purchase it down the road. The company was founded on the premise that the land would be sold only to family farmers who would use organic methods and, importantly, not sold to the highest bidder regardless of farming methods.

"In our view, we are regenerating an asset we're lending against," says Miller. "Our investors understand that our business model is enhancing the value of the underlying assets. This is not traditional finance." Besides the equity investment option for which shares are offered and 90 percent of earnings are distributed in dividends, Iroquois also offers a debt vehicle: Soil Restoration Notes. This was made possible by a $945,000 grant awarded to it in late 2016 from the Natural Resources Conservation Service, a division of the US Department of Agriculture (USDA), to help private landowners conserve, maintain, and improve the natural resources on their land. The notes are usually structured in a three-year time frame to match the time period that farmers face when converting their land to certified organic. A portion of the proceeds will offset a farmer's lease or mortgage costs; reimbursements for soil testing and soil improvement expenses may also be available.

The farming operations of the Iroquois farms run the gamut, from specialty grains and row crops to prairie-pastured livestock. Harold Wilken, a farmer who runs Janie's Farm in Danforth, Illinois, holds the distinction of transitioning Iroquois' first parcel of land to organic. He leases 400 acres from Iroquois and another 2,100 from other landowners and has witnessed a changing dynamic—more landowners are seeking tenants who farm organically.

Wilken grows organic specialty grains amid the surrounding corn and soybean farms. "Our neighbors follow strict protocols to keep us from being affected by their GMO acres," says Wilken. "There are economic incentives as well—if we are denied organic designation, they must pay the organic price premiums we can no longer receive."

In the last few years, Wilken has observed another shift: "Larger commodity farmers are switching away from GMO crops because of the higher costs." USDA data supports this assertion: Acres planted with GMO corn and soybeans dropped by 1.5 million in 2018.

The Mint Creek Farm, located in Stelle, Illinois, has expanded its offerings in recent years thanks to a new debt financing arrangement provided by Iroquois in 2016. Harry and Gwen Carr, along with a few friends, own the certified organic 220-acre farm where livestock and poultry all roam the pastures. The new financing allowed the Carrs to pay off their current mortgage and higher-interest-rate short-term debt. "Our method of farming is regenerative and wild compared to the monoculture of today's industrial agriculture," explains Carr. "We would like to broaden its footprint with greater acreage, which would not only be ecologically sound, but also economically rewarding."

Iroquois is taking steps to broaden its impact. It will soon offer its investment offerings to nonaccredited investors, allowing individuals who do not meet the net worth or income parameters of accredited investors to hold a position. It also plans to further diversify its farm portfolio with regard to crop varieties, locales, and production methods.

The company's success has created a new challenge: The number of organic farmers who are waiting to lease or receive a mortgage, from Iroquois outpaces its current capacity to provide such financing. Although, as nature reminds us, there is a season for everything. And Iroquois appears ripe for the next. ■