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**Local
Agricultural
Lenders:**

Farm Credit
Tom Gulliver, Santa Maria
805-922-7991

Mid-State Bank & Trust
Dave Wright, Santa Maria
805-938-7132

Lend Lease Agri-Business
Mark Clarke, Santa Maria
805-934-8188

Santa Barbara Bank & Trust
Paul Forrest, Santa Maria
805-739-2694 x219

Heritage Oaks Bank
Krista Kodl, Arroyo Grande
805-489-5260 x104

Peter Holmes & Co.
Peter Holmes, Woodland
888-711-6464

Wells Fargo
Rob Swanson, Salinas
831-754-5048

Bank of America
Greg Bland, Santa Maria
805-349-2330

RINCON SELLS TWO MORE! RINCON'S QUICKSALE PROGRAM EMPLOYED

Rincon closed escrow in March on two ranches located on the east side of Santa Maria. Representing the sellers in both transactions, the two sales combined totaled over 240 acres and over \$4.5 million.

In both cases the sales involved sellers that are long time farming families in the Santa Maria area. Also in both cases, the buyers are local growers. According to Larry Lahr, President of Rincon, "It is no longer uncommon for owners of farm ground to enlist the services of a broker to ensure they receive the most dollars possible from a sale. It is also no longer uncommon for buyers to utilize the services of a broker to ensure they can find the right property and make a deal before it's sold. And of course, there are no other brokers that can equal Rincon's depth of experience and range of services in accomplishing this."

In one of these sales, Rincon represented both the buyer and the seller. This sale qualified for Rincon's QuickSale Program, which limits the commission paid by the seller to 2%. If a property can be put into escrow in the first thirty days, it can qualify for the QuickSale Commission Program. In order to accomplish this, Rincon maintains its proprietary database of prospective local and out-of-area buyers. When a new listing comes in, Rincon immediately contacts each of the parties in this database.

Paul Allen of Main Street Produce was the buyer



represented by Rincon in the QuickSale transaction. "Although we have known the sellers for a long time and have done business with them before, we didn't know that they wanted to sell this ranch. This ranch fit our plans perfectly, and if Rincon hadn't made us aware of its availability we probably wouldn't have heard about it until after it was sold. Even though the buyer doesn't pay the commission, we were anxious to keep the seller's commission to 2%. This kept the seller's cost to a minimum, which allowed us to make the best deal possible," says Paul Allen.

Contact Rincon for information about our programs, and how we can help find the best deal for you.

NEW SALE/LEASE-BACK PROGRAM

Rincon has been working for several months to develop its new Sale/Lease-Back Program. This is an exciting new financing program designed for owners of farm ground, and it is anticipated that the program may grow to include other types of agricultural real estate.

The concept of sale/lease-back has been used in corporate America for a long time. Corporations

that own real estate, including their own prestigious corporate headquarter buildings, have sold their buildings to institutional investors and negotiated back a long term lease of the property. This is a financing arrangement whereby the corporation can use the capital that is tied up in the real estate for more efficient uses and the institution investor gets a solid, conservative investment.

(Continued on page 2)

SALE / LEASE-BACK PROGRAM (CONTINUED)

(Continued from page 1)

Grower Advantages:

- **Maintain growing operations as they currently exist**
- **Control lease payments well into the future**
- **Reduce debt**
- **Diversify asset base**

The same concept of sale/lease-back is now available to owners of farm ground. Rincon has established an investor base with interest in investing in farm ground in the Central Coast area. These investors are looking for high quality land with strong seller/tenants. This program offers the investor a unique opportunity to diversify their portfolio into prime agricultural farm ground; an option which has essentially never been available before.

For the growers, this program offers a new alternative to an outright sale of their ground. Many growers have developed significant equity in their land through the appreciation that has occurred in the last few years. But getting the use of that equity can be somewhat tricky. Lenders usually don't like to have a borrower take a significant amount of equity out of a property, even if the lending guidelines are in line. Even if this is possible, often a landowner/grower is looking to end up with less debt, not more. Formerly, the only way to get to use of that equity was to sell the property outright. This is contrary to the principal benefit of land ownership... to get control of the farm ground and avoid being at the whims of a landlord.

With Rincon's new Sale/Lease-Back Program, the grower and the investor negotiate the term of the lease, the lease rate, and the other lease issues as a condition of the sale. The lease terms that investors are currently looking at range from five to ten years. Usually there is an annual CPI adjustment to all lease rates.

"The interest we have had from growers has ranged from those who want to diversify their asset base into commercial real estate investments, to those who want to reduce their debt levels but keep farming at the same or greater levels," says Frank Ferrero of Rincon. "This is also a great alternative for estate planning where the property can be sold and proceeds distributed, without disrupting the family farming operation."

"Also, the seller and the tenant don't have to be one in the same for this to work. We just need to bring a strong and reliable tenant together with a quality piece of farm ground to the investor. We have even had interest from tenants who have

Investor Advantages:

- **Leased investment with a solid tenant**
- **Conservative risk factors**
- **Diversify asset base**
- **Long term appreciation potential**
- **Professional management from Rincon**

wanted to purchase land, but couldn't quite swing it. With an investor buying the land, this tenant could set themselves up with a solid long term lease. Sometimes it is even possible to negotiate an option to purchase the property as part of the lease."

"We believe this is a win-win program for both growers and investors," says Larry Lahr of Rincon. "Growers have yet another financing vehicle to consider, and investors have a new opportunity to invest in quality farm ground on the Central Coast. Since Rincon will be providing them property management, the investors can be assured of professional oversight of their asset."

While Rincon will be focusing on row crop ground initially, we hope to be able to expand this program to other areas, such as vineyards and orchards. For more information, please contact Larry Lahr or Frank Ferrero.

"Although we have known the sellers for a long time...if Rincon hadn't made us aware of the property's availability, we probably wouldn't have heard about it until after it was sold."

Paul Allen

Main Street Produce



Al and Paul Allen of Main Street Produce

FINANCE YOUR PROPERTY NOW

Interest rates have been at an all time low recently. However, at the time of writing this newsletter, they are starting to move back up. Have you stopped to think about taking advantage of this window of opportunity while you can?

Long term fixed interest rates for agricultural property are now running between 6.5% and 8.2%. Variable rates can run as low as 4%. Rates will vary according to the terms of the loan, the aggressiveness of the lender, borrower's credit, loan quality, and the loan purpose.

What is a lender looking for as a good loan? A standard "maximum" that most lenders are comfortable with is a loan-to-value of 65% or less. The debt service ratio, or the relationship of overall available income to pay overall debt obligations of the obligor, must be at least 1.25:1. The total debt of the primary obligor should not exceed 50% of its total assets. The income a property can produce should be at least equal to the taxes and debt servicing obligation.

The term of the fixed rate period greatly affects your interest rate. Of course, the longer you fix the rate for, the higher the rate you pay. But the relationship between longer term rates and shorter term rates (the yield curve) changes over time, and the various options should be studied every time, and compared to your financial needs and objectives.

One of the most significant, and most often ignored, loan terms is the ability to pre-pay a loan. Prepayment penalties (PPP) usually apply only to fixed rate loans. The amount of a PPP will vary widely, accord-

ing to the loan terms and the interest rate environment. We recently saw a PPP of more than 25% of the loan balance! Since most PPP's are designed to offset the lender's cost of taking those funds and re-investing them, the PPP is substantially larger when rates go down (which is when you want to refinance). There are several different ways to structure PPP's in a loan. The ability to totally pre-pay a loan at any time without penalty can cost you up to 40 to 50 basis points (bps), or hundredths of a percent, in your overall interest rate. You can often get the ability to pre-pay after a three year or five year window for a lesser interest rate cost. PPP's come into play in the future not only if you have extra cash to get rid of, but also if you want to refinance, get additional improvement financing, or sell your property.

Some other loan terms that will effect your interest rate include payment frequency. Semi-annual payments which are popular in ag loans, will generally cost you about 10-20 bps versus monthly payments. Excellent credit, or a "gold plated" loan that substantially exceeds standard criteria can save you an additional 20 bps. Due on sale clauses don't affect your rate, but they do affect your flexibility in the future. Loan fees vary, and are sometimes negotiable.

Rincon maintains a working relationship with the local area agricultural lenders. Rincon's staff has over 20 years experience working for financial institutions. Call us if you would like us to help you in finding, structuring, and negotiating financing on your behalf.

- Reduce current interest rates
- Fix rates for a long term at record low rates
- Consolidate short term borrowings with mortgage loans
- Take equity out for more efficient use elsewhere

RINCON DID WHAT?

If you are one of the four thousand regular readers of AgLand News, you know by now that Rincon is the only full service agricultural real estate company on the California Central Coast. But did you know how broad "full service" means at Rincon?

Some of the diverse projects Rincon has undertaken are a logical extension of applying its agricultural expertise to further areas, such as negotiating four different leases of cell sites on one ranch, or supervising the installation of wells, irrigation system, and a reservoir. Rincon has also been the general partner and operator of a 22,000 acre commercial cattle ranch in Arizona.

Using the experience of its staff in agricultural lending, Rincon has represented clients in obtaining new financing, as well as negotiating work out plans on behalf of client's with their lenders. Rincon once formed a consortium of four different lenders secured by one property, worked out a repayment plan agreed to by all four lenders, and led the marketing effort for a troubled commercial real estate property.

Some of Rincon's activities are unrelated to agriculture, but utilize the staff's other areas of expertise. For example, once Rincon negotiated the sale of an oil drilling rig. Rincon has bought and sold numerous office buildings in California and Arizona for investment groups it had formed, and has provided property management for office buildings as well. Today, Rincon manages a commercial land development project for a client in Ventura County.

Still not impressed? Rincon provides services to other small businesses, such as accounting for payroll, receivables, payables, and general bookkeeping. Rincon has performed the accounting and reporting requirements for political campaigns; and still does today for the Los Padres Ag & Land PAC.

The fact is, Rincon and its staff has had a wide breadth of experience, which has been recognized as valuable tools by its clients ever since Rincon was formed in 1991. Got an unusual problem, give us a try!

"It is no longer uncommon for owners to enlist the services of a broker to ensure they receive the most dollars possible ...

...there are no other brokers that can equal Rincon's depth of experience and range of services in accomplishing this."

*Larry Labr, President
Rincon Corporation*



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WHO WANTS AN APPRAISAL?

BY ED HAWKES, CERTIFIED GENERAL APPRAISER

No one wants an appraisal. In fact, usually no one gets an appraisal unless he or she is forced to get one. Why must we get these expensive things when we already know what our property is worth? While the estimated value is the most obvious result of an appraisal, the value often becomes the focus of an adversarial process, and the ability of the appraiser to support and defend the value is probably the most important aspect of the appraisal. What you are really paying for in an appraisal is the ability of the appraiser to support and defend a credible estimate of value.

In adversarial systems, fairness is established through the actions that opposing sides take to protect their interests. In the case of appraisals, the appraiser's work is subject to scrutiny by those whose interests could be adversely affected by an incorrect value. The most common source of scrutiny is a bank review appraiser, whose job is to protect the assets and financial integrity of the bank. Borrowers and loan officers have a common interest: getting the loan allows the customer to achieve his objectives, and in making loans the loan officer makes money for the bank. One of the

principal functions of an appraisal is to provide a warning when security is insufficient. A review appraiser, by ensuring that the appraisal is competent and the report accurate, serves to protect the bank. Appraisers can avoid conflict by being conservative, but they are ethically bound to consider the use to which an appraisal will be put. In being too conservative, an appraiser can fail to serve the borrower, but being excessively aggressive can be expensive for the lender and, ultimately, the appraiser. Similar pressures occur in nearly all appraisal situations as both sides to a transaction try to work the system to their own best advantage.

It is the appraiser's role to provide information that allows parties to transact business with confidence. As such, a consistent, unbiased, realistic reporting job is essential. The reliability of the value produced depends on the appraiser's knowledge of the property being appraised, the markets in which it competes, and the proper use of the appraisal process. But the usefulness of an appraisal also depends heavily upon the appraiser's understanding of his proper place in the transaction, and his ability and willingness to defend his estimate of value.