Agriculture in Romania
CPD Seminar
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NAI Global is based in New York

NAI Global – owned by C–III Capital Partners

C–III Manages over 55 billion in assets

300 Offices across USA

NAI Global is the single largest, most powerful global network of owner-operated commercial real estate brokerage firms
55 markets
375+ local offices
6,700 local market leaders
NAI Romania

75 People

41 Counties

5 National Offices
Services:

• Appraisals and Research

• Construction Monitoring

• Green Buildings

• Brokerage and Consultancy
  • Offices
  • Residential
  • Commercial

• Agribusiness Department
Committed to Service & Value
Agriculture as an investment sector in Romania!
The economic rationale behind the increasing wave of investments!

1. Agricultural land market in Romania recorded a particular interest in 2014 and it will continue to do so in 2015

2. This alternative real estate asset class will generate an exciting annual income and capital gain over a targeted investment period of 5 years

3. Targets a Gross IRR of 15 to 20% annually over the next 5 years

4. The growing popularity of Romania among international investors has resulted in prices more than doubling between 2007 – the year Romania entered the EU – and 2013

5. However, at €2,900-5,000 per ha, land prices are still well below those in Western Europe or even earlier EU entrants such as Poland. This trend is predicted to continue for the following 5-6 years, resulting in values being doubled once more during the time frame of 2015-2020
Key Investment Value Drivers are:

- EU Membership and legal framework
- High potential for farming productivity improvements and operational efficiencies
- Economies of Scale
- Land Consolidation
- Possibility of direct foreign landownership
- Soil Quality and Diversity
- A good network of agro-consultants providing the managerial know-how and international or local farmers/lessees providing best farming practices
- Good transport infrastructure, with access to Europe and Asia by both land and sea routes
- Subsidies until 2020 and further
Where is the investment focused geographically and key statistic facts of the sector?

- 14.8 million agricultural land
- Over 1 mil ha are owned by foreign investors
- 10.0 million arable land
- 6% - 7% Agriculture input in GDP
- 830,000 farms of 1-5 ha (19% of total surface)
- 176,000 farms from 5-30 ha
- 11,700 farms from 30-50 ha
- 8,600 farms from 50-100 ha
- 13,100 farms over 100 ha (50% of total surface)
Investor’s FOCUS:

1. South East, BARAGAN area
   IALOMITA, CALARASI, BRAILA, GALATI

2. West - South West
   ARAD, TIMIS, CARAS SEVERIN
Value factor drivers:

- Natural and anthropic amenities of that land
- Consolidation level
- Quality of soil, pluviometer regime, proximity of surface water resources that can be used for irrigation
- Technical possibilities for irrigation
- Storage capacity
- Proximity and accessibility of sale facilities for the harvest
- Optimum ratio between total area and level of consolidation
- Subsidies for different crops
- Land Book registration
Who are the principal participants, and what are the business models applied?
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Investors

- Foreign Investments Funds from United States, United Kingdom, Denmark, Germany, China, Middle East.
- International Family Offices
- Asset managers
- Large Romanians farmers
- Small groups of investors (Italian, Danish, Hungarian, German, Austrian, Arabian, Spanish)
- Local clients represented by specialized companies in meat production or mills owners
- Small entrepreneurs for speculative purpose or setup micro farms who look after EU funds, especially horticultural
- Farmers or owners of small plots of land
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<td>• Valuers</td>
<td>• Local City Halls</td>
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<td>• Project managers</td>
<td>• Land Registry Authority</td>
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<td>• Lawyers, Topographers</td>
<td>• Ministry of Agriculture</td>
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<td>• Real Estate agents/brokers</td>
<td>• Ministry of Defense</td>
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<td>• Notaries</td>
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<td>• Engineers</td>
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<td>• Other Experts</td>
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How the sector is structured with Investors, Asset Managers and farmers?
What are the key criteria for successful investment?
Large vegetable crops are economically viable on larger areas over 1000 ha.

Smaller plots are economically adequate for horticulture and specialized harvest.

100% consolidation is ideal, but also plots with total areas of 5-20 ha are desirable.

Firstly the existing farms will have to be bought. These crop farms are most often founded and consolidated by Western European farmers.

Another option for a quick acquisition of scale size and production is the acquisition of existing lease contracts of already cultivated lands which can be bought at a later stage from the various owners via an option to purchase. In this way these lands can also be added to the basic farmlands of the created farm-unit.

Subsequently, clusters consisting of a number of farm-units can be built, which are more or less situated in the same region and can therefore be managed efficiently by one local management team.
What are the barriers to entry and what are the legal & administrative issues to be addressed by investors?

- Region selection
  - Soil quality
  - Weather conditions
  - Water
  - Infrastructure, storage and distribution
  - Availability land to be consolidated
  - Selection contract farmers

- Indexing investment opportunities
  - Local network
  - Local purchasing & consolidation agents
  - Collecting and analyzing appreciation & aggregation possibilities

- Performing purchase
  - Prescan
  - Quick scan
  - Due diligence study
  - Feasibility study
  - Negotiations
  - Supervision juridical route
  - Purchase

- Operational implementation
  - Proposal final/optimal scenario
  - Choice farm operator
  - Formalize contract with farm operator
  - Supervision of portfolio
  - Supervision of operational scenario

- Portofolio Management
  - Supervision of portofolio
  - Strategic advice
  - Financial reporting
  - Independent valuations
  - Quarterly report owner/investor

- Exit
  - Contract exit planning
  - Supervision sales process
  - Appointment land agents if required
  - Negotiations
  - Supervision juridical route
  - Manage exit process
Values vs Leases
Crop yields and profitability

Farm costs Estimation for a 3000 ha
5 tons of grain @ 200 euro = 1000 euro crop yield
6 tons of grain = 1200
7 tons of grain = 1400

1000 crop yield (5 tons)
200 subsidies (Subsidies are approx. 160 EUR/ha and will increase to 220 EUR/ha in 2020)

1200 euro p/ha
+/- 430 euro p/ha (direct costs: seeds, chemicals crop protection, fertilisations)

770 euro
+/- 300 euro p/ha Labour, amortisement machinery, maintenance

470 euro
+/- 175 euro lease (Depending on location, between 150-260 EUR/ha)

295 euro profit per ha (up to 695 euro per ha)
(First three years with uncultivated lands additional direct costs: 250/ha/yr)
Financing investments

The acquisition of farm land is financed by:

1. Financial resources coming from investment funds (deposits on medium term of 10 years or longer term of 15-30 years)
2. Individual private resources (family office) where the depositors invest on very long term (50-100 years).
3. Banking finance is used mainly by local purchasers.

The main reasons behind the acquisition of farmland vary based on the profile of the purchaser:

1. Foreign investment funds
2. Holding companies (family office) specialized in agricultural investment mainly aim to obtain quality soils, a high level of consolidation, but also the natural amenities of the neighborhoods.
3. Small private investors are aware of the great opportunity to invest in Romania, as the main reason for acquiring land in Romania is the subvention, high profitability of the harvest and the speculative purpose when the dispose of the plot is considered.
Valuation issues

Based on our experience we strongly suggest to valuers to:

1. Annalise the location of farmland based on proper GIS topographical and satellite maps
2. Split the land portfolio based on farming possibility to crop the land in an economical way
3. Annalise where is productive land or not (roads, ex vineyards, lakes...)
4. Clearly separate “under registration land”, “freehold land” by the “lease hold land”
5. Understand where there are mutual agreements between farmers
6. Verify the terms of lease contracts (short/long time, lease paid in cash or goods)
7. To separate value of land from value of infrastructure as farm, silos and irrigation systems
8. To take in consideration if land was or not cropped in the last years
9. Possibility to irrigate the land
10. Distance to major buyers siloes
11. Possibility to continue land consolidation process
12. Calculate the compaction rate
13. Meteorological history data and length of agriculture period/year in the area
14. Trend for the subsidies
Recommendation for Valuers:

Require a Proper technical due diligence with GIS topographical or satellite mapping !!!
...and after it proceed a correct valuation
A recent article pointed to a transaction in Timis - Arad region with an average acquisition price of 9,400 Euro/hectare.

Considering the current crop performance, leasehold of land and subsidies, a sustainable price per hectare would be around 3,500 Euro/hectare.
During the last 10 years, farm management has changed lot. In the first years because of low prices for cereals and oilseeds crops and prices of the land was very attractive, farmers were focused to create big fields through doing swap, for reduce their costs of production.

Beginning of 2007, because of improvement of prices for commodities agriculture is became attractive for lots of people so the competition for the land between farmers has started to be bigger. Between 2007-2013 farmers have tried to increase their cropping area without take care of the position, the quality or the fragmentation of the land.

Since last 2 years because prices for the rent and prices for the land have increase and in the same time prices of commodities have start to decreased farmers are no more very interesting to take land everywhere.

Today farmers are looking to consolidate their position and their business through the acquisition of land which is worked by himself or to do some swap to be sure that where they are farming they are in good right.

Today for farmers, the land portfolios can be classified in different case with a different of interest and for sure a different value for each case.

Between a land portfolios for renting very fragmented and a land portfolios very compact for buying the value is very different and the interest for these will be very different.
For 2015, an increasing evolution of prices is expected, considering the natural tendency towards the prices quoted in other countries members of the European Union.

However this evolution is not dependent exclusively on the expectations of the owners, but also on the correlation between the profitability of the harvest and the level of investments in land.

An essential element for the future evolution of the agricultural land prices would be the prices for cereals that might moderate the ascending evolution of prices.

At the end subsidies remain an important factor.
Romania vs alternatives

• Ukraine: 2\textsuperscript{nd} largest, 32 mln ha; top 5 largest farms = 700,000 ha; farms with over 1,000 ha = <50%, largest farm 300,000 ha

• Poland: 15.5 mln ha (14 mln ha private held and operated); average farm = 10.5 ha; 11 bln E exports = 785 E/ha; 80\% of total farms = >10 ha; price: 3,800 E/ha (2009) - 4,500 E/ha (2011)

• Romania: 8\textsuperscript{th} largest, 8.3 mln ha; average farm = 3.5 ha; 3 bln E exports = 360 E/ha, average price: 3,000 E/ha; lease 100 E/ha

• Bulgaria: 4.4 mln ha; average farm = 12.1 ha; 3.4 bln E exports = 772 E/ha; price: 304 E/ha (2013), up 8.6\% from 2012; lease 19 E/ac (aprox 45 E/ha), up 11.8\% from 2012
Thanks to:

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