

Proposed Philippine Agrarian REIT & BT

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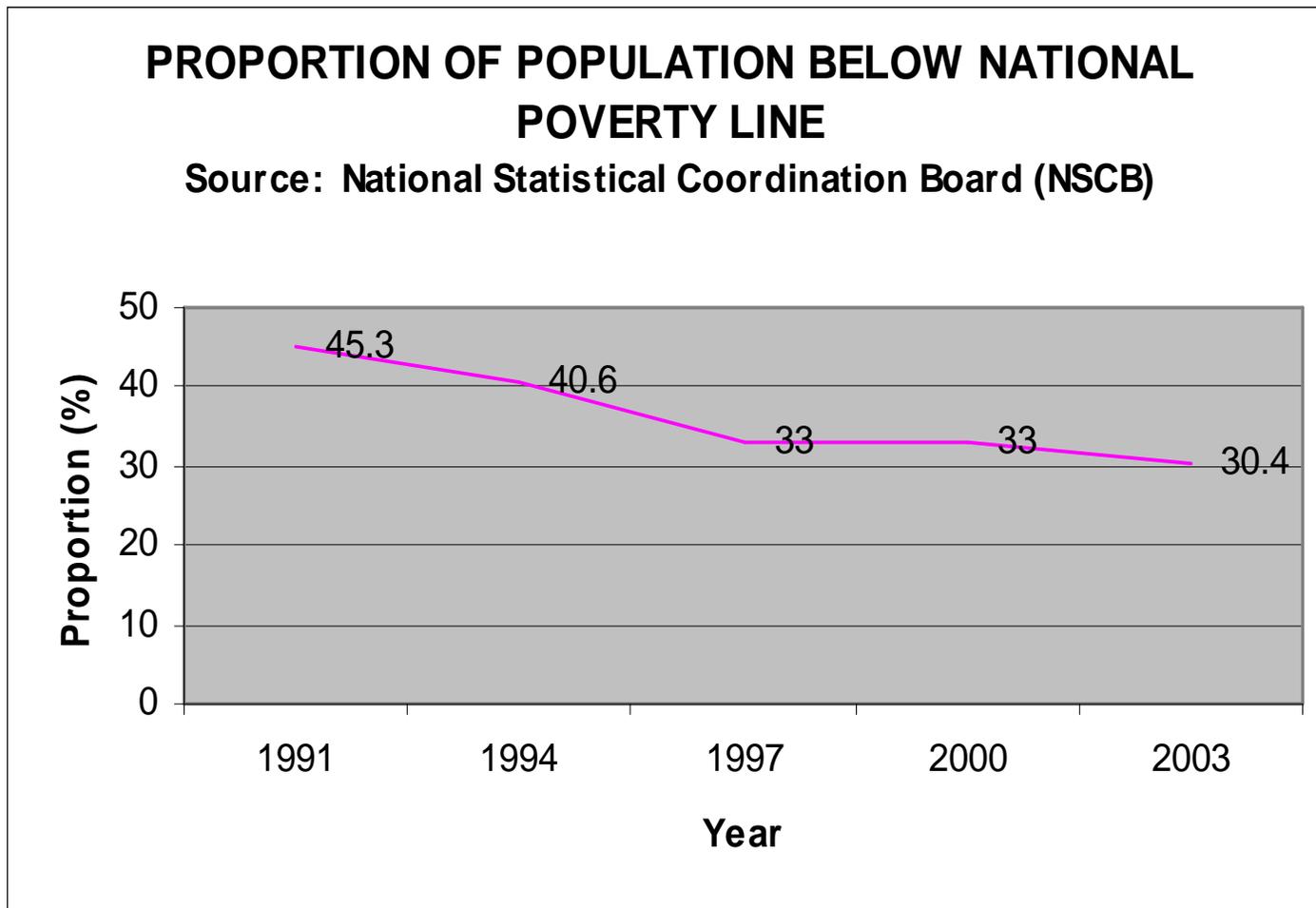
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- Agrarian REIT Structure
- What Needs to be Done to get Started

Poverty and the Countryside



- Due to urban migration, poverty in the Philippines is observed to grow faster in the cities.
- Rural population growth is declining by 0.2% p.a.
- “57% of city-dwellers and 67% of people in the countryside live in housing that is dead capital.”
(H. De Soto)

Poverty and the Countryside



Poverty and the Countryside

“Cities have enormous potential for improving people’s lives, but inadequate urban management, often based on inaccurate perceptions and information, can turn opportunity into disaster.”
(United Nations Population Fund)



Poverty and the Countryside



- “Economic growth and improved infrastructure are allowing many rural dwellers to obtain better paying jobs outside agriculture, in turn leading to increases in agricultural wages.”
(FAO)

Poverty and the Countryside

- Because labor is the most important input in many production systems, rising wages are forcing farmers to mechanize operations, adjust cropping patterns and/or resort to migrant labor.





Poverty and the Countryside

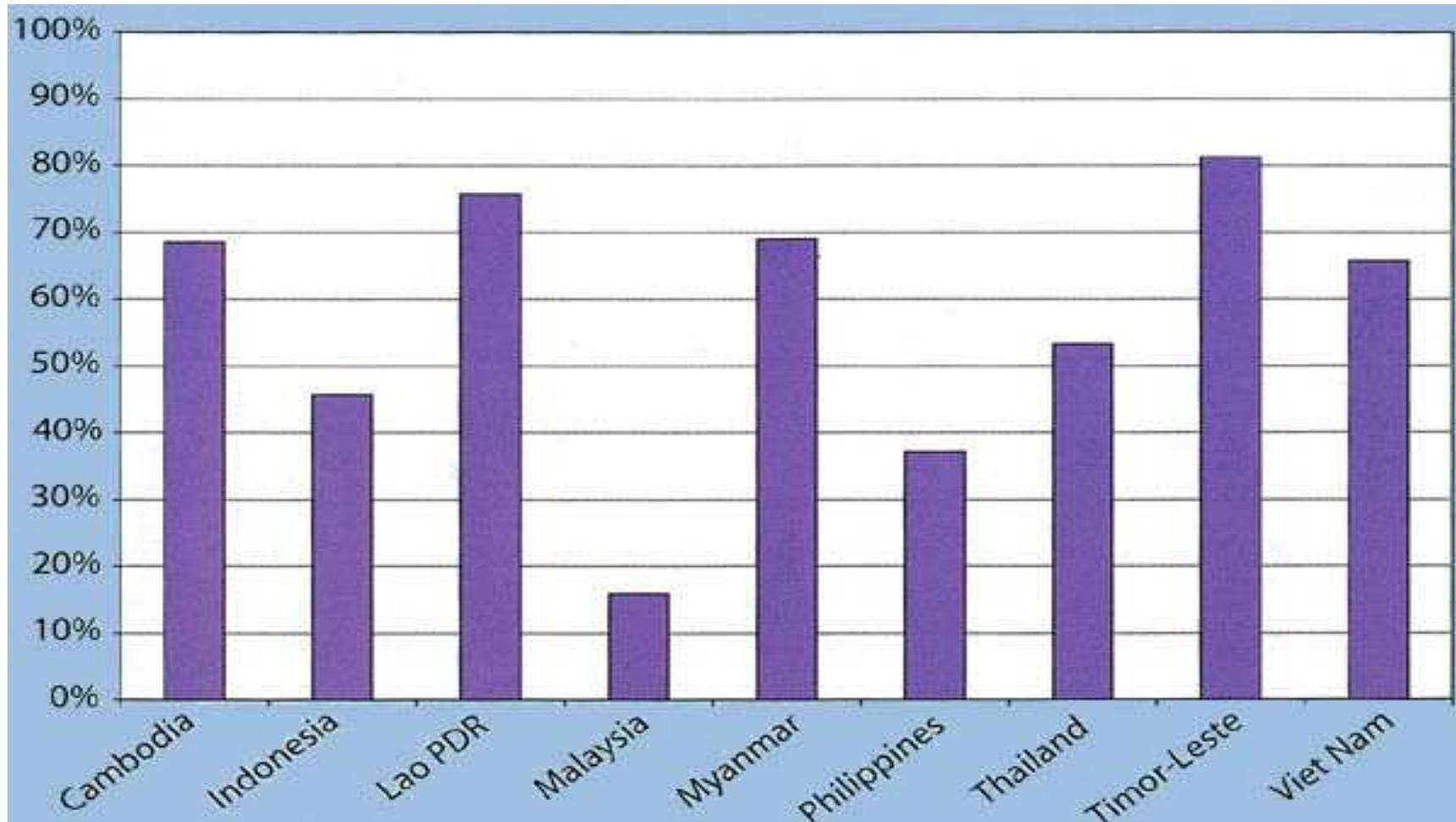
- Studies have shown that agricultural research has historically been one of the most effective means for government spending to reduce poverty (Fan, 2002).
- Other research has shown that agricultural growth in Asia is typically more "pro-poor" than growth in other sectors (FAO, 2005).
- Global export market for agriculture produce will grow rapidly and the Philippines has only been able to capture a small and declining share of this market (World Bank, 2006).

Poverty and the Countryside



- The agricultural sector's GDP share, which will continue to play a strategic role in the economy and rural growth, has been declining for years because of the slow rate of output growth (World Bank, 2006).
- Agricultural exports now account for less than five percent of foreign earnings due to slow agriculture and productivity growth, subsidies, and limited diversification away from staple crops, almost entirely raised for the domestic market (World Bank, 2006).

Poverty and the Countryside



Percentage of labor force in agriculture, Southeast Asia, 2004 (FAO 2006)

Poverty and the Countryside

- The number of farms in the country decreased by 2.36 percent, from 4.61 million in 1991 to 4.50 million in 2002
- On the other hand, the number of farms of the agricultural operators residing in the National Capital Region (NCR) posted the highest increase of 52.18 percent when compared to the 1991 figure.

Source: National Statistics Office





Poverty and the Countryside

- The reduction in the average farm size could be attributed to the Comprehensive Agrarian Reform Program (CARP).
- Only 1.4 million hectares were distributed to 751.9 thousand farmers in the span of 10 years since 1993 through the Comprehensive Agrarian Reform Program (CARP).

Comprehensive Agrarian Reform Program (CARP)

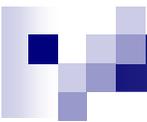


“In supporting a more conducive investment climate in agriculture, the priorities are: (i) increasing the stock of rural agriculture; (ii) enhancing productivity and production, (iii) expediting the completion of agrarian reform; and (iv) implementing governance reforms to reduce agricultural policy, price and market distortions.”
(World Bank, 2006)

Comprehensive Agrarian Reform Program (CARP)

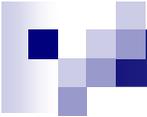
Support to investment in agriculture can be achieved by:
“(i) improving rural infrastructure;
(ii) improving land and labor productivity and improving agribusiness; and
(iii) encouraging land reform by removing distortions and uncertainties in asset valuation, property rights, and efficient land markets.”
(World Bank, 2006)





Comprehensive Agrarian Reform Program (CARP)

- In the 1960s and 1970s, Philippine agriculture grew by at least 4 percent annually, at par or better than its neighbors in Asia. The era witnessed heavy investments in agriculture that more than doubled irrigated areas from 541,000 hectares in 1964 to 1.23 million hectares in 1980 (World Bank, 1987).
- “By 1980s and 1990s through 2002, growth declined sharply to 1 percent and 2 percent annually, respectively, perhaps one of the worst in the region. As a result, some 20 million people in the rural areas live in poverty today and, consequently, rural markets are weak as the poor have little purchasing power for consumer goods.” Dr. Rolando Dy (UA&P).



Comprehensive Agrarian Reform Program (CARP)

Table 1. Comparative Agriculture Growth Rate of the Philippines versus Selected Asian Countries, 1980-2002

Country	1960-1970	1970-1980	1980-1990	1990-2002
Philippines	4.3	4.0	1.0	2.0
Malaysia	Na	5.0	3.4	0.3
Thailand	5.6	4.4	3.9	1.5
Indonesia	2.7	4.1	3.6	1.9
Vietnam	Na	na	2.8	4.2
China	1.6 (a)	2.6	5.9	3.9
EAST ASIA AND PACIFIC	Na	3.1	4.6	3.1
WORLD	Na	na	2.6	1.8

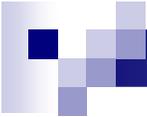
(a) 1961-1970

Source: World Bank - World Development Report, various issues.



Comprehensive Agrarian Reform Program (CARP)

- Growth in labor productivity was dismal at only 6 percent in the last twenty years, possibly one of the lowest growth rates in Asia. China's productivity doubled during the past two decades while Malaysia grew by almost 76 percent.
- CARP did not improve productivity.



Comprehensive Agrarian Reform Program (CARP)

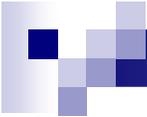
Agricultural value added per worker, 1995 US\$

Country	1979-81	2000-02	Absolute Growth
China	161	338	109.9
Indonesia	604	748	23.8
Malaysia	3,939	6,912	75.5
Philippines	1,381	1,458	5.6
Thailand	616	863	40.1
Viet Nam	-	256	-

Source: World Bank - World Development Report, 2004

“The Philippines lagged behind its neighbors in East Asia in total factor productivity. It showed, at best, stagnant productivity growth in almost four decades, mainly as a result of the very dismal productivity of physical capital, but not of education. This can be attributed to the growth and quality of investment and perhaps the quality of maintenance of capital.”

Dr. Rolando Dy (UA&P)

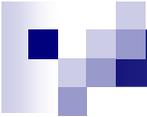


Comprehensive Agrarian Reform Program (CARP)

Overall Growth Contribution, East Asia, 1960-1996, in percentage annually

Country	Total Factor (Multi-factor) Productivity	Education	Physical Capital
Philippines	-0.4	0.4	1.0
China	2.7	0.6	1.8
Indonesia	0.9	0.5	2.0
Korea	1.5	0.8	3.2
Malaysia	1.1	0.4	2.4
Taiwan (China)	2.0	0.6	3.1
Thailand	1.0	0.3	2.7

Source: Updated data from Bosworth and Collins (1999) as cited by Macaranas, 2004.



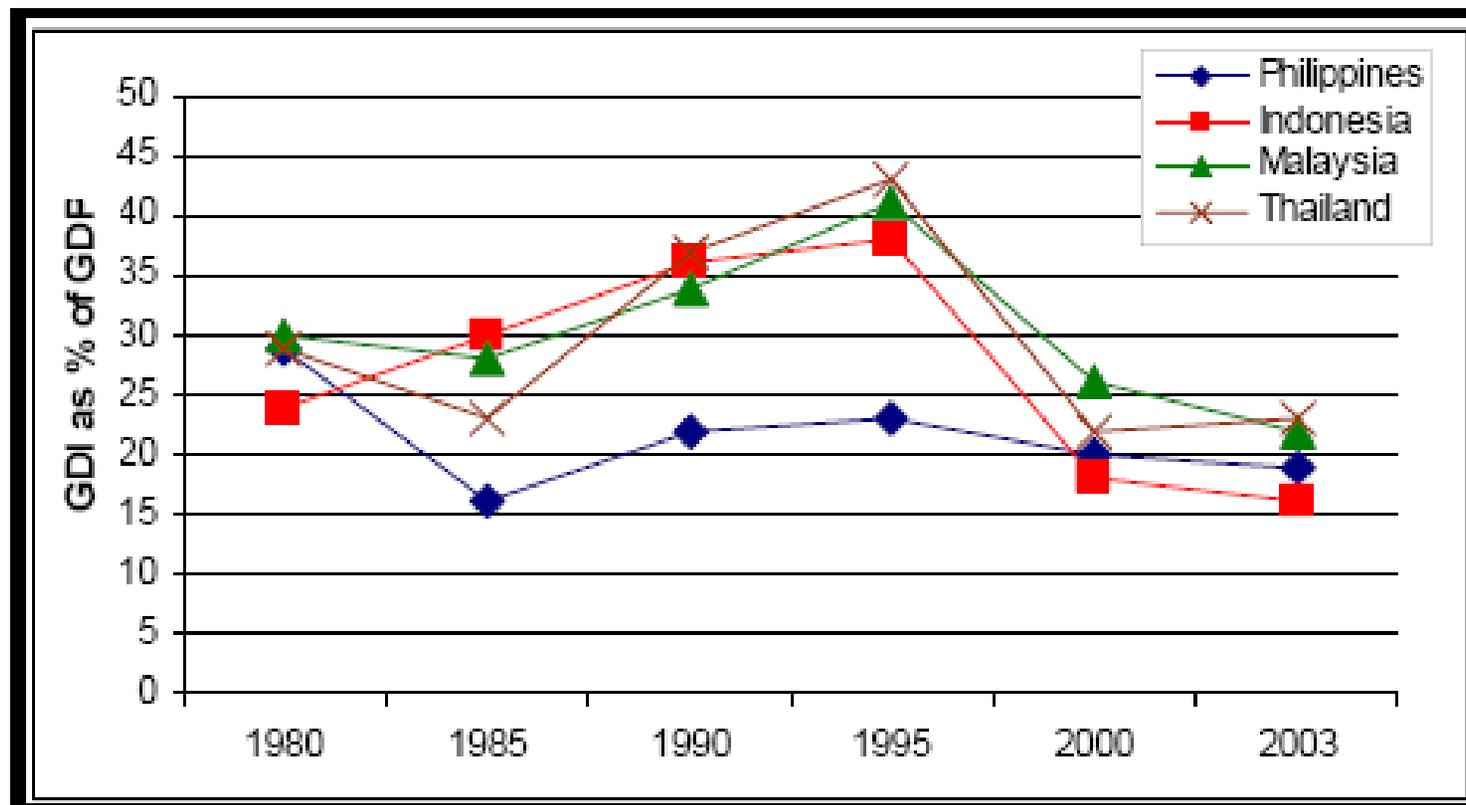
Comprehensive Agrarian Reform Program (CARP)

- “The experience of many Asian economies suggests a high positive correlation between investment and economic growth. The higher the “investment intensity” (gross investment to GDP ratio), the higher the economic growth.”
- “Among the four “competing countries,” the Philippines has the lowest investment to GDP ratio. By contrast, China, Malaysia, and Thailand have relatively high ratios.”

Dr. Rolando Dy (UA&P)

Comprehensive Agrarian Reform Program (CARP)

Figure 2. Gross Domestic Investment as Percent of GDP



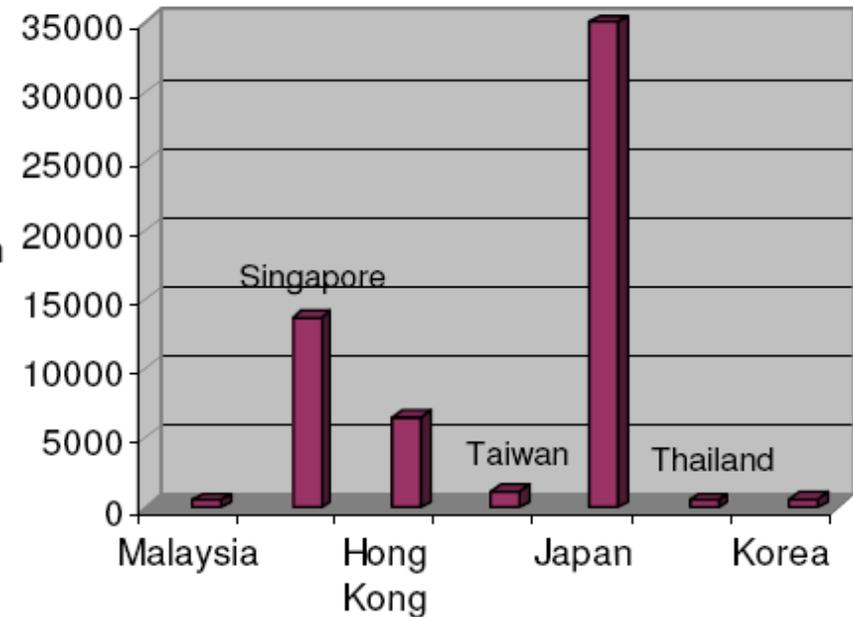
Source: World Bank, World Development Report, various years

Agrarian REIT & BT an Alternative to CARP

1. What?
2. Why?
3. How?
4. Who?
5. Where?
6. When?

MREIT – 550 million
SREIT – 13.5 Billion
HK REIT – 6.5 Billion
TREIT – 1.2 Billion
JREIT – 35 Billion
THREIT – 560 million
KREIT – 700 Million

Million
USD





What is an Agrarian REIT?

1. It is a way of turning income-producing private agricultural land public by having it listed as a security in the stock exchange.
2. It is a legal structure that provides the small investor an opportunity to participate in a self-liquidating, diversified agri-business by having access to land, capital and the maximum productivity of professional management.
3. It is an opportunity for investors to receive special tax considerations and high yields, as well as a highly liquid method of investing in agrarian real estate.



Why Agrarian REIT?

- It is a viable way of implementing agrarian reform.
- It has the ability to produce capital.
- It is a way of increasing the supply of agricultural land.
- It will enhance productivity and agricultural production.
- It will reduce agricultural policy, price and market distortions.



How Can Agrarian REIT Work?

- Professional farm and business management to improve efficiency
- Proper economies of scale to lower cost, improve sales and introduce new technology
- Designed to meet the needs of both vendors/landowners and investors/capital.
- Thru the increase in employment, family incomes and the viability of funding the poor



Who are the Proponents in Agrarian REIT?

- Trustee – to hold title of all the properties in trust for the unit holders
- REIT Manager – to manage the REIT and deal with Strategic Advisors
- Portfolio Manager – to manage the operations and deal with Farm Managers and Agri-business Managers
- Unit Holders – the landowners and investors who pool their resources together in a listed corporation
- Strategic Advisory – the advisors that invite capital investments and income properties to the REIT
- Farm Managers / Agri-business Managers – the professional managers who manage the farms and agri-businesses.



Where Can Agrarian REIT & BT be Applied

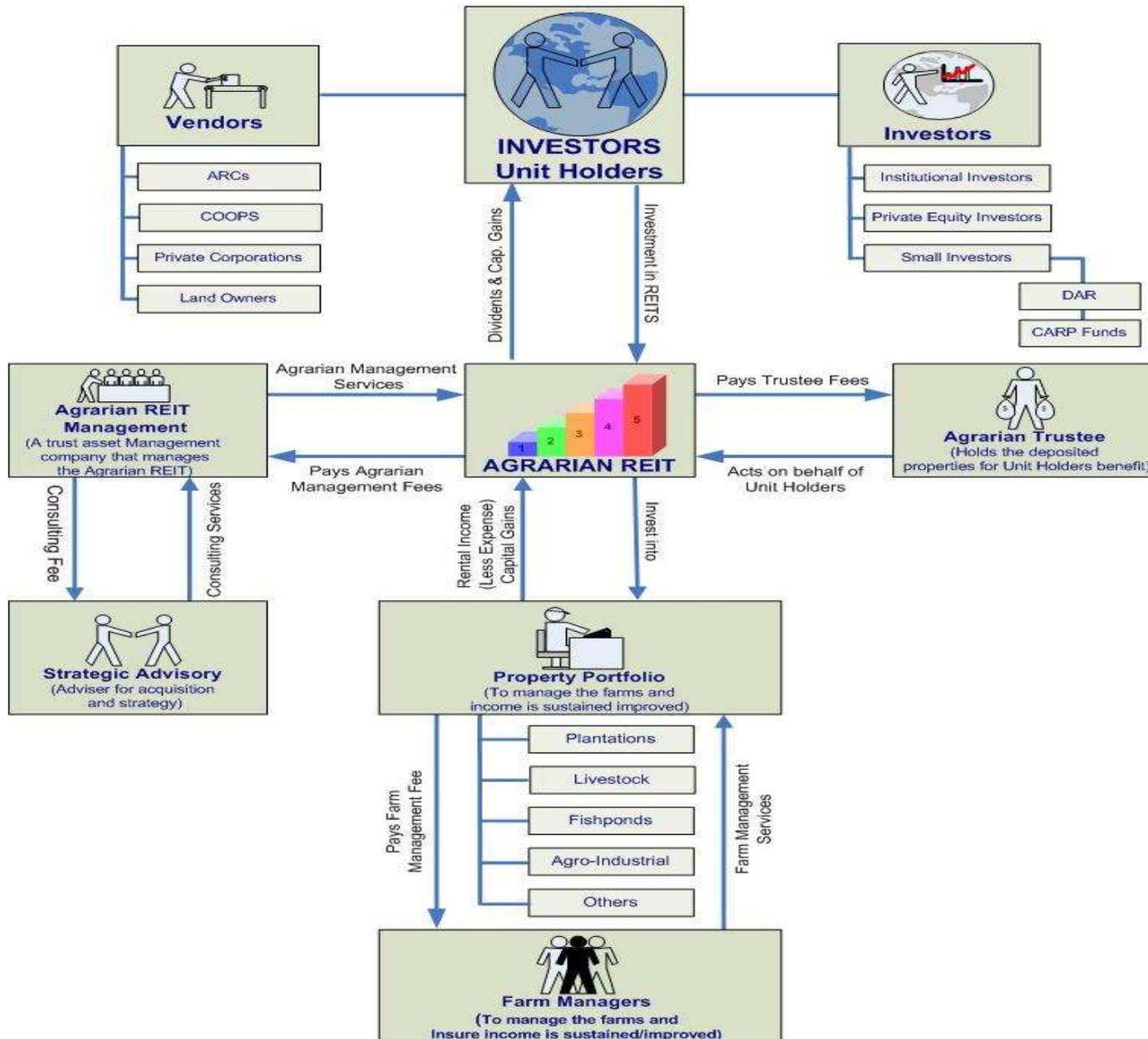
- All high-yield plantation land leases
- All types of livestock business trust
- All types of fishpond business trust
- All types of agri-business trust (BT)
- All agro-industrial business trust (BT)
- In the development of new farms and agri-businesses (BT)



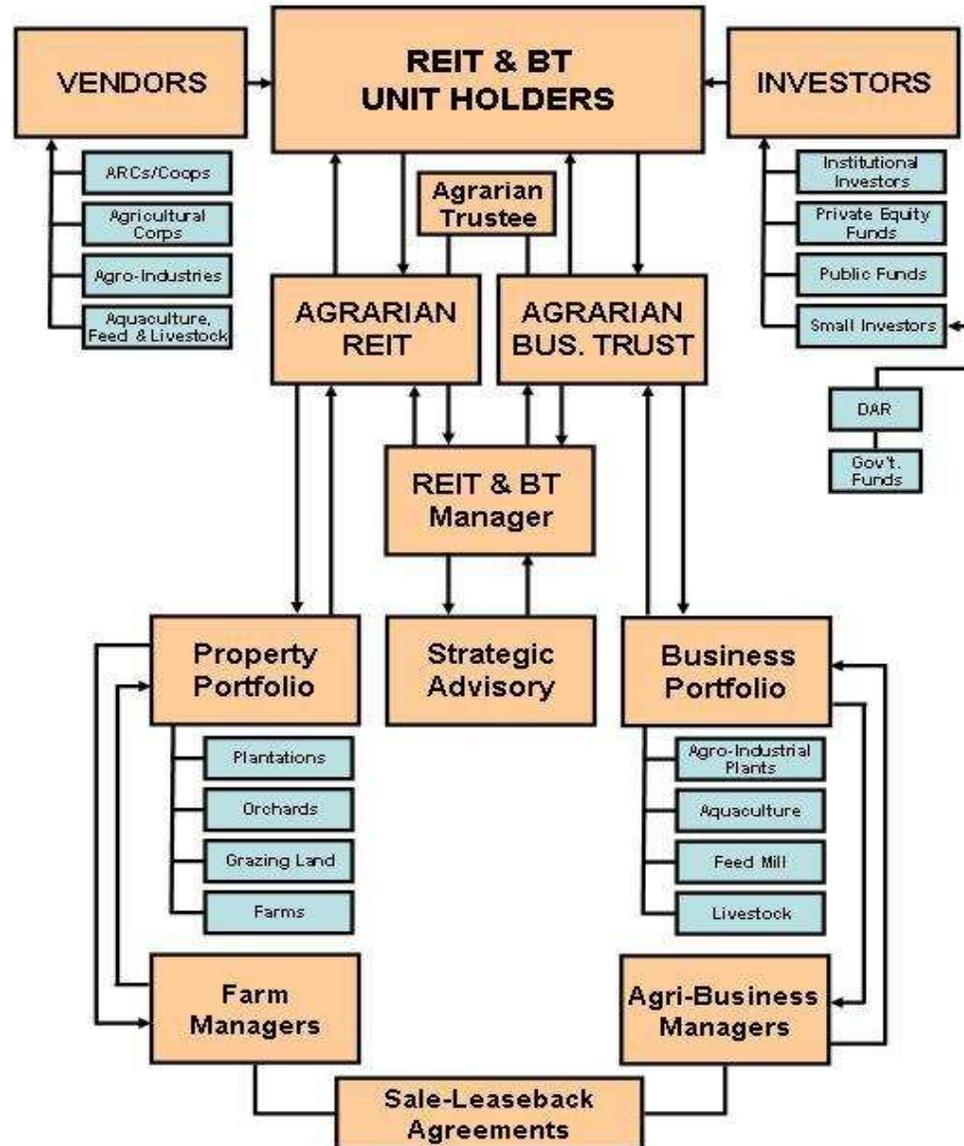
When Will Agrarian REIT Start?

- ❖ After the Philippine Legislators pass the Agrarian REIT & BT Law.
- ❖ After the institutional investors, direct equity investors and lenders provide the funds needed to produce capital.
- ❖ After the advocacy and capacity-building to the local governments, farm managers and workers on the advantages of Agrarian REIT & BT.
- ❖ After agricultural land can be maximally productive to qualify as a sustainable high-yielding cash flow.

AGRARIAN REIT STRUCTURE



STAPLED AGRARIAN REIT & BT STRUCTURE





Agrarian REIT & BT Structure

1. What do investors want?
 - Strong management team.
 - Ability to **generate cash**.
 - Significant growth potential.
 - Ability to **create value**.
 - A clearly defined **exit** strategy.



Agrarian REIT & BT Structure

❖ Creating Value

In Agrarian REIT, value is created by consolidating small underutilized farms into a continuously growing, more efficient and maximally productive agrarian estate. Financial and operational efficiencies will result from the economies of scale, professional management, tax incentives, transparency, diversified portfolio, rural infrastructure, liquidity and access to better markets, research, technology, training and leverage.



Agrarian REIT & BT Structure

❖ Leverage and Cash Flow

In Agrarian REIT, leverage is used to increase the return on the invested capital. The amount of leverage employed is determined by the farm's ability to service the debt with cash generated through operations.

Because cash flow is the basis for valuation, the ability to improve operations to generate increased cash flow will also yield a greater return on investment upon exit.



Agrarian REIT & BT Structure

❖ Exit

In Agrarian REIT, money is made from both the cash flow of the acquired farms and from the proceeds generated upon exiting the business. The exit provides the investor a mechanism to turn into cash the firm's equity. The exit provides the investor with a finalization of the investment and an opportunity to distribute profits. In fact, a significant component of a REIT is based on this profit distribution.



Agrarian REIT & BT Structure

2. How can it help the poor?

- Provide an opportunity to a sustainable, low risk and self-liquidating investment
- Create more jobs and increase in family income.
- Turn extralegal farming into the formal property system
- Turn unit shares into capital anytime
- Can be used as a collateral for a loan



Agrarian REIT & BT Structure

3. How can it help the government?
 - It will reduce urban migration by creating opportunities in the countryside
 - It will widen and improve its real estate tax collection
 - It will reduce social and political problems
 - It will make viable rural infrastructure projects
 - It will facilitate human resource development



Agrarian REIT & BT Structure

4. What are some strategies to maximize growth?
 - Produce windfall profits from partial land use reclassification and sales
 - Balance capital appreciation with agricultural & agro-industrial business income for a desired total return



What Needs to be Done to get Started

1. Pass the proposed Agrarian REIT & BT Law and amend several out-dated conflicting Philippine laws.
2. Follow the guiding framework of the structure of successful REITs.
3. Restore value on agricultural land by allowing the sale of agricultural land to be put at its highest and best use and permit the sale of CLOAs (Certificate of Land Ownership Awards) prior to its 10-year prohibition.



What Needs to be Done to get Started

4. Make agriculture maximally productive by attracting capital and professional management to work together with the rural poor.
5. Prioritize labor expenses over cost of capital, management fees and investment profits.
6. Introduce capacity building and technology transfer for new job assignments and livelihood opportunities for workers observed to be redundant and inefficient.



What Needs to be Done to get Started

7. Train the workers to their best capacity as required by farm management.
8. Create a sustainable income stream from a professionally managed agri-business with the proper economies of scale.
9. Use local government to help consolidate small inefficient farms into clusters of agricultural and agro-industrial investments to facilitate infrastructure and human resource development.



What Needs to be Done to get Started

10. Turn non-productive rural land into income-producing agrarian property.
11. Transfer ownership to informal settlers of rural residential lots at affordable prices to benefit from their contribution and commitment in the agrarian business.
12. Provide the qualified rural poor with soft loans for their participation in the REIT.
13. Use the Agrarian REIT & BT Law to convert labor into capital.



What Needs to be Done to get Started

14. Use government funds for social services and for funding the poor instead of making payments for “just compensation” in the compulsory acquisition of private agricultural land.
15. Maximize the use of labor to improve productivity.
16. Use Agrarian REIT & BT to initiate additional production.
17. Use Agrarian REIT & BT to bring into the formal sector the informal entrepreneurs and infuse capital into their dead assets.



What Needs to be Done to get Started

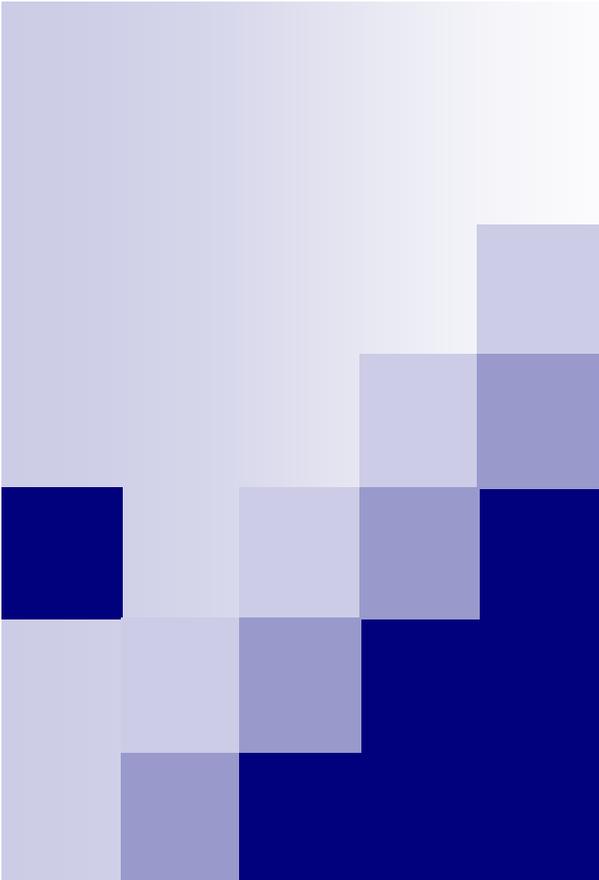
18. Use Agrarian REIT BT as the formal property system where capital can be created for the poor.
19. Use Agrarian REIT & BT as an easy access for the poor to produce, secure and guarantee greater value to their assets in the expanded market.
20. Use Agrarian REIT & BT to transform idle land into its full productive potential.



What if the Farmer Refuses to Join the Agrarian REIT & BT?

The farmer will have two options:

- Have a sibling who wants to continue his footsteps buy out the other siblings; or
- Continually subdivide their farm for each generation until the parcels are too small to farm profitably, leaving the descendants with two alternatives...
starving or stealing.



THANK YOU

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