

GTA Organic Farm Co-operative Project (OFC)
1812 Brock Road
Freelton, ON L0R 1K0 Canada

Status Report as of May 28, 2017

Timeline

1. This project was started in Summer of 2014 by Royce Hamer who was helping some friends and family obtain organic food from local farmers.

Soon after, Jim Namaste started assisting with both organizational development and web presence. Jim's was interested in advancing the concept of co-operative organization by increasing member collaboration with the new technologies.

2. Royce knew a family that owned a farm property who were interested in selling.

OFC's first goal was to organize and recruit enough members to obtain the equity capital and loan that would make it possible to purchase the farm. This was done by establishing a co-operative form, a multi-stakeholder co-operative, with one class of members, the land-owners, who would each own part of the property (land-owner positions or LOP's).

3. In time, it became clear that traditional financing organizations, such as banks, were not likely to loan the necessary funding because of the unique nature of the organization.

However, by early 2016 the group had grown enough to be able to attract private lending. Unfortunately, a dispute arose among the members regarding the property that was targeted for purchase, which setback the group's progress. Even so, the group continued to grow slowly.

4. Then, in early 2017, the owners of the targeted property decided not to sell, and suddenly a new property had to be identified.

Royce spend considerable time looking for another farm and in April found the property at 2692 #9 Haldimand Road, York, Ontario N0A1R0, which is the most attractive value Royce has found since the project began.

By mid-May, after some back-and-forth, an offer was made by Royce, representing OFC, that was accepted with a purchase price of \$1,277,000, a deposit of \$50,000 and a sign-off date by May 29 with closing scheduled for mid-June.

5. At that point we started to increase efforts to bring in more land-owners as interest increased due to the fact that an offer was in place. Modest Facebook advertising was started that started to generate excellent results.

In early 2017 the organization had assets totaling about \$100K in cash assets, or cash commitments, plus about \$200K in purchase notes. However, when the first property was taken off the market three persons took out cash totaling as much as \$55,000. Those funds were replenished by mid-May in part due to Facebook activity.

Property Acquisition and Financing

1. As negotiations took place to acquire the property, Royce had been in touch with a mortgage broker, Justin McIntyre, who found at least two lenders who were willing to loan the balance of the purchase price, depending on the outcome of a final appraisal.

The acquisition would proceed as follows:

- (1) Purchase price is set at \$1,277,000
- (2) Sellers hold a first mortgage for \$527,000.00
- (3) Lender holds second mortgage for \$700,000
- (4) OFC will pay \$50,000 down plus ~\$40,000 in closing costs

The purchase included equipment with an approximate replacement value estimated at \$90,000. [Both Royce Hamer and Richard Archambault, a member of the Co-op's Organizing Board, are experienced equipment appraisers.]

2. As of May 19, 2017 the property was appraised at \$1,185,000 by Bill Boros, AACI, P.App., AIMA of iAppraise, Oakville, Ontario L6M 0K8. This appraised amount is therefore \$92,000 less than the purchase price.

However, the appraisal did not account for updated improvements worth at least \$25,000 or more that were made since 1998 AND it did not include a value for the equipment.

This omission was pointed out by the sellers' agent and evidently occurred due to some miscommunication.

In any case, in practical terms, the purchase price and the appraisal, once corrected for the omission of equipment and updates are quite comparable.

3. On or about May 25, the lenders, not being informed about the appraisal issues told Mr. McIntyre that the group had to increase their equity stake by as much as \$150,000 to \$200,000.

Suddenly, there were only a few days left to complete the property purchase. Several people sprang into action and by May 27 close to \$80,000 in cash, cash commitments and LOP's came in, with \$10,000 of that coming from a person in Kansas, in the United States.

On May 27 Facebook advertising was increased and 2-3 inquires regarding the land-owner positions were made for practically every hour that the advertising was running.

In addition, 5-10 persons per hour were joining the Co-op's Facebook Group. Of course, the follow-up communication and related activities are time-consuming.

4. Because the Co-op holds ~\$300,000+ in purchase notes assets, it was decided to offer at least \$100,000 of those notes as five(5) bundles of \$20,000 each with interest of 7% calculated over 5 years.

We are also seeking to finance the equipment for \$75,000 again at 7% interest over 5 years or less.

These offers are made with highly secure terms and the Co-op is open to negotiating some attractive premiums as well.

5. As of today's date, with the additional cash that has been raised and committed, the financing situation is as follows:

The purchase price for the property

- (1) Purchase price is set at \$1,277,000
- (2) Sellers hold a first mortgage for \$527,000.00
- (3) Lender holds second mortgage for \$570,000
- (4) OFC will pay \$180,000 down plus ~\$40,000 in closing costs

Clearly, the group made a lot progress in barely three days, demonstrating the power of this idea and the demand that exists for this type of organization.

Assessment of financial risks

OFC is an innovative Multi Stakeholder Co-operative project, but that fact does not increase risk but rather mitigates it significantly for the following reasons.

1. OFC is an especially viable project because of the innovative feature of having a large number of land-owner members as one of the stakeholder classes of the Co-op.

With an ongoing traditional organic farm operation, such an operation would have every expectation to be financially successful as the premium for organic food is close to double that of non-organic food.

One of the models that OFC intends to improve upon is the non-profit organic farm example of Farmshare Austin, which was established around 2011 and has been quite successful in the Austin, Texas area. The Austin metropolitan region has a population that is 1/3 that of the GTA.

<https://farmshareaustin.org>

As a multi-stakeholder co-operative operation OFC has significant advantages as compared with both a traditional farm operation and Farmshare Austin that greatly reduce financial risks, assuming of course that the Co-op is reasonably well-managed.

2. From a business perspective, what most people do not realize is that a Co-op such as OFC benefits from contributed labor that is easily worth as much as \$200K in cash flow. (For example, think 80 persons contributing 5hrs/wk = 10 full-time personnel.) Further, Farmshare Austin has proven that there are many individuals who will pay to be trained to work on farms! This has been a growing trend.

OFC already has a pool of more than 3,000 known supporters and prospective customers out of a total targeted market audience of more than 250,000 individuals living in the GTA who have a strong interest in organic food. An additional 1.5MM individuals living in the GTA have a general interest in organic food and sustainable activities.

OFC currently has about 100 land-owner positions committed and considerably more persons who have very recently expressed interest in participating due to the progress that has been made toward acquiring a farm property. Within the last 10 days, with an advertising budget of about \$200, OFC identified ~200+ additional prospective customers and recruited several land-owners who added \$30,000 to \$35,000 to OFC's cash position and notes (bonds).

OFC has increased advertising to recruit additional land-owners to obtain the needed cash infusion.

3. The organization is in place to move forward with this project. What remains is to identify a lender with the resources to help OFC complete the purchase of a property.

Such a lender, in addition to earning a better-than-average rate of return, will also be able to benefit by establishing a financial relationship with OFC that can result in favorable future lending opportunities for similar projects.

Prepared by:

Jim Namaste, MPA, PhD
Organizational Development and Web Presence Consultant (Pro Bono)