

**Discussion of Purchase Decision
Duda Labelle**

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Citrus

The citrus operation will provide most of the revenue, and potentially will occupy about half the land area, so it represents the bulk of the value of the property.

The citrus trees are living things, so their behavior can only be predicted to a certain point, plus the citrus market is a reflection of national and international financial trends. A number of factors will influence the actual financial outcome of the citrus operation over time.

Fruit production: An inherent value of the Duda project is that the water control, climate, and soils all reduce risk, and assure positive responses to grove care inputs. No premium to the land value was assigned to these factors, but I did reflect those expectations to some extent in the citrus financial projections, which would affect valuation. Duda's past yield history indicates that the property is capable of achieving fruit production that is higher than state averages – in some cases double the average. Therefore, the site offers the capability of high fruit production.

Production Costs: Grove care programs are based on the needs of the trees, but also have a risk management factor. Good care, regardless of fruit prices, maintains trees in a healthy condition, which helps them to withstand environmental and pest challenges. Therefore, if at all possible, grove care programs should be complete and aggressive, because that's the only way to realize the potential offered by the site.

A significant factor that affects production is the "average tree age". This concept can be viewed from the standpoint that the most productive period in a tree's life is from about 10-15 years. For a collection of trees, history has shown that it works kind of the same way – if the average tree age is in that range, fruit production will be higher. If the average age is less or more, fruit production will be less. Duda's grove has a good average age right now, which is translated into good production. Constantly removing and replanting trees to assure that the average age remains in the optimal range should be a permanent component of annual operating costs. This would be the reset program – replacing trees in existing blocks – as opposed to a solid set replanting of a vacant block discussed in a separate analysis.

Fruit Prices: In the 1990's, there were over 900,000 acres of citrus in Florida. Now, the total is about 560,000. This reduction has caused a number of impacts, one of which is higher fruit prices. Studies from the University of Florida show that we should be entering a period of stable, higher prices.

Process oranges are often sold through long-term contracts with processors. I used an average price of \$1.50 per pound solid for the processing fruit – which is the predominant business of the citrus operation – since that seems to be a good figure to use for long-term projections. However, today's contract price for Valencias is \$2.25 per pounds-solid. Since the picking is the same for a box of fruit regardless of price, and grove care costs would be the same, the additional \$.75 would be pure profit for the operation. If, for example, we could negotiate a long-term contract at today's price instead of \$1.50, the annual net revenue from citrus for 2011-12 would be \$6 million higher, or about 40% more, than I projected. Therefore, fruit prices have the ability to influence the outcome of the operation much more than cost control.

Duda currently has a long-term fruit contract with a processor that specifies both price and volume of fruit. They are unable to reveal the particulars of the contract at this point, but I would assume that if the process moves forward toward purchase, we will be able to learn more.

In my opinion, if the process moves forward, one of the most critical components of due diligence will be to negotiate a long-term fruit contract. I am presuming that the Duda contract is a good one, but we will need to understand the terms and whether it is binding on the new owner. If so, it would become a further consideration that would need to be modeled. If not, we would need to do some research on available relationships with processors, and refine the projections accordingly.

Farming Leases

The farming lease arrangements at Duda are exceptional. The site obviously offers significant advantages for growers of high-value crops, and for research. Normally, the vegetable business is extremely volatile, with boom or bust cycles happening almost daily in many crops. Apparently, Duda has formed relationships with solid operators who are capable of weathering the fluctuations. The land rent is a small portion of the total cost of producing a crop of vegetables – stake tomatoes can cost up to \$50,000 an acre to grow a crop – so the price is not so much of a consideration as the ability to pay anything at all during the bust years.

Duda has long-term contracts on most of the vegetable lease areas, so assigning a value to the land based on revenue is a fairly certain exercise. Some of the Duda contracts have annual escalators to offset inflation, which is unprecedented in vegetable leases in my experience. A small percentage of the leased land is on a year-to-year basis, and not all the available land is leased for vegetables, so there is some upside potential.

Sod

The entire project has about 900 acres of sod land, of which about 60% is in production. The total sod land represents about 4% of the total land area, but can make a significant contribution to annual cash flow.

Duda had mothballed some of the sod fields because demand fell due to the housing meltdown. At the moment, though, there is apparently a statewide shortage of the most popular sod variety (Floritam), so they are evaluating bringing the dormant fields back into production. Sod is easier-entry than citrus. The establishment costs are lower, and the time to first harvest is a little more than a year. So, it's easier to grow and shrink the operation based on market demand for the product.

The land values assigned to the sod operation are conservative, and based on the current level of output. If the demand holds steady, the annual revenue could approach the Duda projection, which is significantly higher than what Phil used in his appraisal.

Cattle, and Grazing Land

Cattle: Florida is the largest cattle producer east of the Mississippi River. The predominant industry is calves for beef. It's cheaper to ship a calf to the Midwest for fattening on grain than it is to ship the grain to Florida, so the industry revolves around producing 400-750 lb calves that are all trucked out of state to grain producing areas.

It's a very low-margin operation, and is highly dependent on the "cattle cycle". Nationally – and now internationally – beef cattle herd size fluctuates according to market demand. During periods of high cattle numbers, prices drop, so ranchers sell more calves to generate cash flow. When prices are high, the ranchers can sell fewer cattle to attain their desired operating income, so they retain more female calves ("heifers") to build the productive capacity of their herds.

When growing costs, land taxes, and interest on operating loans are considered, the beef cattle operations don't make much money per acre. Successful ranching operations are usually very large tracts of land with a low basis. A lot of land is leased to cattlemen for only the cost of building the fences in order to retain the agricultural exemption for ad valorem taxes. Duda reports that cash rents for fenced land would be in the neighborhood of \$10-15 per acre per year. Therefore, the land value for cattle production is low – less than the "residual value" of the acreage.

Bahia Sod: Bahiagrass is an imported forage grass that is very drought tolerant, competes well with native vegetation, and has high protein even with low fertilizer inputs, so it is the most popular forage variety on sandy land in Florida. Land planted in Bahiagrass is called "improved pasture", because the carrying capacity for cattle is higher than the native vegetation.

Traditionally, pastures were developed by clearing the land and growing a few crops of vegetables to take advantage of the natural fertility in the soil. The vegetable grower would then plant Bahiagrass seed, and move to another tract.

Bahiagrass is also used for sod – primarily for erosion control along highways. Typically, when a new road is built, two strips of Bahiagrass sod are laid along the edge of the pavement, and the remainder of the right of way is seeded to Bahia, which is

cheaper than laying sod. Even two strips along miles of highway, though, can require a lot of sod.

So, ranchers typically also sell Bahiagrass sod. The Bahia sod price is much lower than for Floratam, so the system relies on low transportation costs. Therefore, the demand for Bahia sod is highly related to road building in the proximity of the ranch – only local projects are candidates.

The sod company typically pays the rancher \$.01-.02 per square foot, and there are about 35,000 harvestable square feet per acre. So, Bahia sod is a much higher revenue producer than the cattle, and always takes precedence when there is a demand. The downside is that the demand is highly volatile.

Value: There are about 8,000 acres in the Duda project that are dedicated grazing land, or about 31% of the total – second only to citrus. However, these acres contribute very little to the annual operating revenue. Therefore, the “income approach” portion of the appraisal breaks down when analyzing the cattle and grazing land.

There is a “residual land value” for land in Florida. It’s significantly higher than the figure that would be derived from capitalizing the income stream. Therefore, this land must be viewed differently than the other components of the project.

Essentially, any reasonable value paid for this land based on market prices will have a speculative component, while citrus, sod, and vegetable land can be valued strictly on their income producing capability. The question is – how much is the cattle land worth for speculation?

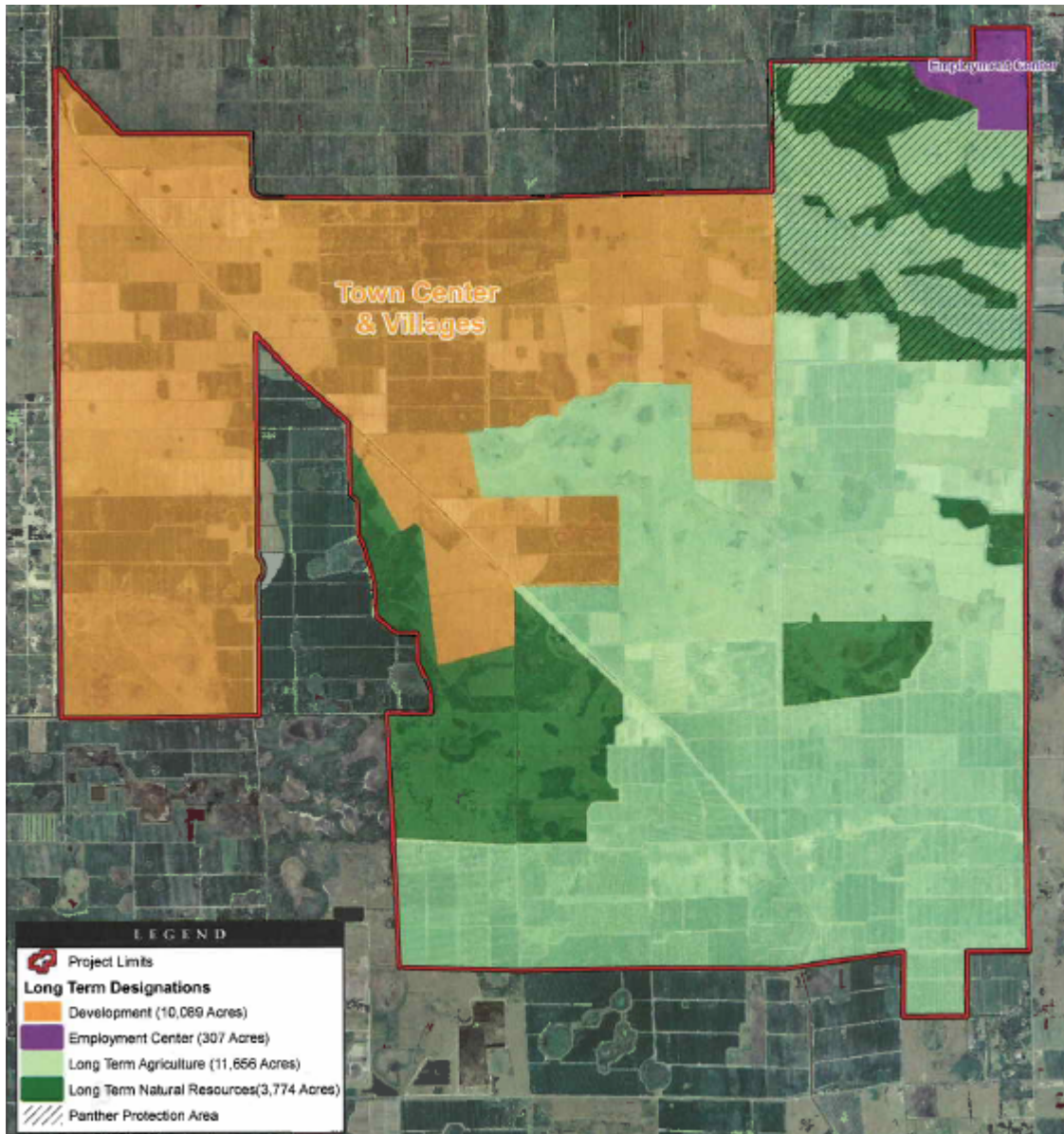
Development Potential – The Rodina Overlay

Duda has apparently obtained a land planning overlay for the Labelle farm. Judging from the maps, the development would be called “Rodina”. I have not looked into the particulars, but based on experience, it probably works something like this.

Planning overlays are used where the local government doesn’t want to undergo a Comprehensive Land Use amendment to change the designated land use of property. In this case, the underlying land use designation is probably “agriculture”, which typically allows development of large-lot home sites, generally called “ranchettes”. A planning overlay leaves the underlying land use designation alone, but layers over the top a new development plan. This also requires a comprehensive land use plan amendment, but does not trigger instability in the underlying land use designations contained in the plan, so the overlay has become a popular approach on large properties or areas.

According to the Rodina overlay map, the property has been designated for four uses – Employment Center (just the juice plant land), Development (where homes would be built), Long Term Agriculture (limited or no development rights remaining), and Long Term Natural Resources (essentially preserved land, which precludes development or intensive agriculture). A portion of the property in the northeast corner made up of a

matrix of Long Term Agriculture and Long Term Natural Resources is also designated as a Florida Panther Protection Area, which carries additional restrictions.



The Rodina Conceptual Planning Overlay Plan

The Development Area is designated as “Town Center and Villages”. Under this designation, residential lots would probably be clustered around one or more retail/commercial centers. Residential units attached to the preserve and long term agriculture areas would be transferred into this area to increase density around the centers, creating walkable or short-drive urban forms.

The land designated for this use is primarily the citrus, sod, and cattle areas in the west and north central portions of the property. This borders Lehigh Acres, just the west of the

farm. Lehigh Acres is a huge small-lot sprawling development typical of those that popped up around the state in a previous land boom during the 50's and 60's.

Currently, there is a large overhang of residential homes and lots around the state, and rights have been granted for many more – sufficient to supply market demand for many years. Therefore, there is a question whether there would be a market for more lots if the development plan is pursued.

Development Design to Create Rural Lifestyle: The Duda farm represents an opportunity that exists in only a few situations around the state. The concept would be to create relatively small communities that are situated within the larger agricultural landscape to achieve a rural lifestyle in an urban setting. The Towns or Villages would be dense and highly urbanized to minimize the environmental footprint and promote more healthy lifestyles. They would be surrounded by and integrated with rural lands consisting of preserved areas and working agriculture.

There are numerous opportunities to integrate the open space – ag and environmental lands – into the lifestyles of the urban residents. They revolve around the idea that people would be able to have experiences outside of the urban areas. Along with creating lifestyle opportunities, this approach can significantly enhance ag-based revenues, which makes preservation more feasible.

Not all of the “Development” land would actually be developed – there would be significant open space within, necessary to further densify the urban footprint to enhance walkability and transportation infrastructure, and to create a rural setting. This leads to the point about the grazing land.

Grazing Land = The Place to Live: Given that the lot supply is limited in the overlay, and the desire would be to create compact communities, the logical place to locate the communities would be on the least profitable agricultural land – which would be the grazing land in this case. It just so happens that, due to the diverse landscape in the grazing areas, this is also the land that would allow design of very interesting urban spaces – much more so than a citrus grove or sod field.

The function of these communities will be totally dependant on design. The intention would be to create spaces that distinguish this kind of settlement from a sprawl-based Lehigh Acres, and then offer the lots for sale at comparable prices. Given the choice, it seems obvious that people would prefer to live in a community that provides a lower-cost, richer lifestyle. This would differentiate this product in the marketplace from the typical sprawl single-family lot, which should lead to more demand.

How Much is the Land Worth? At this point, the supply of that kind of urban lot is nonexistent – there are simply none available. Momentum is building, however. For example, we are nearing completion of a 2-year study in St. Lucie County that will become a new section in the Comprehensive Plan that outlines the approach necessary to attain these goals. The detail contained in this plan will become a template for local governments around the state.

The fact that the Duda farm has the overlay in place is extremely significant. Due to the housing market, local governments are very reluctant to grant new development rights. The “need” isn’t there, and if they do loosen up the comprehensive plans to allow large-scale developments, existing lot owners would howl that their property values would be further undermined. Therefore, having an approved overlay is extremely valuable in this environment. It creates an opportunity to capitalize on the unique nature of this property by integrating urban development with profitable agricultural operations. I am not aware of any other situation in Florida where these two activities are so well aligned.

The Purchase Consideration

Before we ran our analyses, I built a model of what the land values for the various land uses would need to be in order to justify the asking price. For the citrus, sod, and vegetable leases, Phil’s appraisal indicates that these values are supportable by the cash flow that can be expected from the enterprises.

The value assigned to the grazing land, however, cannot be supported by cash flow. Any value designated in excess of that derived from cash flow would be speculative to some extent. The greatest value of the grazing land, however, is as an environment for new urban development. Properly designed, it could be an interesting place, which would enhance property demand and values.

Clearly, this is a long-term consideration, but in my opinion it would not be necessary to wait until the housing market recovers to move forward. Planning of the specific Town and Village Centers, and surrounding urban areas, could continue in order to prepare for the upswing in demand. Time is an ally to some extent because it would allow maximum creativity in the design of the farm as a long-term integrated entity that includes urban development, working agriculture, and natural resource areas. Good design would enhance both lot values and also subsequent agricultural revenues.

Phil Holden assigned a market value to the grazing land of \$2,500 per acre, which is essentially the “residual land value” since the cash flow would not support this price. The question that has to be answered is whether this value is supportable because of the existing land planning overlay and resulting development potential.

If planning efforts continue, the land value of the grazing land could be increased because the time to development would be shortened, thereby affecting the time value of the money, and the development potential would become more sharply defined, reducing uncertainty. Since there are so few places where a development of this type could occur on a piece of land with a single owner, the opportunity for urban development, if properly designed, would be exceptional.

Given that presumption, the asking price could be supported by rational analysis. Any reduction through negotiations, of course, would enhance the feasibility.