

Determination of Fair Value

In determining the fair value of our investments in real estate, we have historically relied on independent, third-party appraisal firms that employ a certified appraiser with local knowledge and expertise who is certified as either an A.R.A. or M.A.I. appraiser or state certified as a Certified General Real Estate Appraiser and who performed their formal appraisals as of December 31 in each calendar year for each property, and then updated such appraisals each quarter thereafter, with properties acquired between the fourth quarter of a calendar year and the December of the following year being held at their respective costs until formally appraised. See “Experts” for a list of our third party appraisers. Our independent auditors have not audited or reviewed these appraisals. Each property in our portfolio was most recently appraised as of June 30, 2015 other than Falcon Farms, the second parcel of Kimberly Vineyard, the second parcel of Golden Eagle Ranch and Kingfisher Ranch, all of which were acquired between the fourth quarter of 2014 and the date of this prospectus and are held at cost.

Each full appraisal was prepared in conformity with the Uniform Standards of Professional Appraisal Practice and utilized at least one of the following three approaches to value:

- (i) the cost approach, which establishes value by estimating the current costs of reproducing the improvements (less loss in value from depreciation) and adding land value to it;
- (ii) the income capitalization approach, which establishes value indicated by the subject property’s net earning power based on the capitalization of income; and/or
- (iii) the comparable sales approach, which establishes value indicated by recent sales of comparable properties in the market place,

with each approach leading to a final opinion of the appraised value of the subject property by the appraiser. The income capitalization approach is very sensitive to the final capitalization rate chosen, with small changes in the capitalization rate resulting in significant changes in market value. Factors considered during the land valuation process utilized for the comparable sales approach, include, among others, prominence of location, size, shape, availability of utilities, zoning, topography, property rights, financing, property improvements, market conditions and land use mix. Though the three approaches are interrelated and one or more of the approaches may be selected by the appraiser depending on applicability, generally in the appraisal of agricultural property, the comparable sales approach is most often utilized. In the case of our development properties, the cost approach tends to be more frequently relied upon due to the lack of (i) income (as the properties are under development and are not bearing crops that generate commercial income) and (ii) comparable sales of cropland farms undergoing development (sales are typically either of raw land or of mature farms), and in the early years of development until the farm is producing a commercially viable crop, despite the potentially significant capital expenditures, development properties are often compared to raw land, which may significantly undervalue the property.

Our portfolio is comprised of 18 farms with approximately 16,136 gross acres with more than 21 crop varieties throughout six states and various USDA regions. Consequently, each appraisal is unique and certain of the factors reviewed and evaluated in each appraisal are particular to the geography, climate, crop type and pricing, market area and market trends associated with the relevant property. However, in performing their analyses, the appraisers generally (i) performed site visits to the properties, (ii) consulted with knowledgeable real estate brokers, property managers, real estate appraisers and general contractors, among others, (iii) performed independent inspections and/or surveys of the market area and neighborhood, (iv) performed a highest and best use analysis, (v) discussed each property with our Agricultural Sub-Adviser and reviewed property-level information, including, but not limited to, existing lease agreements and ownership history, farm acreage, location, soil quality/productivity, availability of utilities, topography, land improvements, zoning trends, access to