GLADSTONE LAND Corp
Form 10-Q
May 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended MARCH 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________
Commission file number: 001-35795
GLADSTONE LAND CORPORATION
(Exact name of registrant as specified in its charter)

MARYLAND	54-1892552
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1521 WESTBRANCH DRIVE, SUITE 100 MCLEAN, VIRGINIA	22102
(Address of principal executive offices)	(Zip Code)

(703) 287-5800
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý.

The number of shares of the registrant's Common Stock, $0.001 par value per share, outstanding as of May 7, 2018, was 15,381,199.

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GLADSTONE LAND CORPORATION
FORM 10-Q FOR THE QUARTER ENDED
MARCH 31, 2018
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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per-share data)
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Investments in real estate, net	$458,915	$449,486
Lease intangibles, net	5,328	5,492
Cash and cash equivalents	2,679	2,938
Crop inventory	2,059	1,528
Other assets, net	3,935	2,834
TOTAL ASSETS	$472,916	$462,278
LIABILITIES AND EQUITY		
LIABILITIES:		
Borrowings under lines of credit	$3,900	$10,000
Mortgage notes and bonds payable, net	289,050	291,002
Series A cumulative term preferred stock, par value $0.001 per share; $25.00 per share liquidation preference; 2,000,000 shares authorized, 1,150,000 shares issued and outstanding as of March 31, 2018, and December 31, 2017, net	27,948	27,890
Accounts payable and accrued expenses	8,575	7,398
Due to related parties, net[1]	950	940
Other liabilities, net	10,525	7,097
Total liabilities	340,948	344,327
Commitments and contingencies[2]		
EQUITY:		
Stockholders' equity:		
Series B cumulative redeemable preferred stock, $0.001 par value; 6,500,000 shares authorized, no shares issued and outstanding as of March 31, 2018; no shares authorized, issued, or outstanding as of December 31, 2017	—	—
Common stock, $0.001 par value; 91,500,000 shares authorized, 15,216,199 shares issued and outstanding as of March 31, 2018; 98,000,000 shares authorized, 13,791,574 shares issued and outstanding as of December 31, 2017	15	14
Additional paid-in capital	145,990	129,705
Distributions in excess of accumulated earnings	(21,950)	(19,802)
Total stockholders' equity	124,055	109,917
Non-controlling interests in Operating Partnership	7,913	8,034
Total equity	131,968	117,951
TOTAL LIABILITIES AND EQUITY	$472,916	$462,278

(1) Refer to Note 6, "Related-Party Transactions," for additional information.
(2) Refer to Note 8, "Commitments and Contingencies," for additional information.
The accompanying notes are an integral part of these condensed consolidated financial statements.

GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per-share data)
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
OPERATING REVENUES:		
Rental revenue	$ 6,688	$ 5,748
Tenant recovery revenue	6	2
Other operating revenues	2,551	—
Total operating revenues	9,245	5,750
OPERATING EXPENSES:		
Depreciation and amortization	2,189	1,472
Property operating expenses	428	284
Acquisition-related expenses	134	9
Management fee(1)	656	394
Incentive fee(1)	—	350
Administration fee(1)	274	227
General and administrative expenses	419	410
Other operating expenses	2,359	—
Total operating expenses	6,459	3,146
OPERATING INCOME	2,786	2,604
OTHER INCOME (EXPENSE):		
Other income	315	184
Interest expense	(2,832)	(2,157)
Distributions attributable to mandatorily-redeemable preferred stock	(458)	(458)
Property and casualty loss	(129)	—
Total other expense	(3,104)	(2,431)
NET (LOSS) INCOME	(318)	173
Net loss (income) attributable to non-controlling interests	21	(21)
NET (LOSS) INCOME ATTRIBUTABLE TO THE COMPANY	$ (297)	$ 152
(LOSS) EARNINGS PER COMMON SHARE:		
Basic and diluted	$ (0.02)	$ 0.01
WEIGHTED-AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic and diluted	13,957,732	10,395,736

(1) Refer to Note 6, “Related-Party Transactions,” for additional information.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interests	Total Equity
	Number of Shares	Par Value					
Balance at December 31, 2016	10,024,875	$ 10	$ 90,082	$ (13,402)	$ 76,690	$ 11,087	$ 87,777
Net income	—	—	—	152	152	21	173
Issuance of common stock, net	1,825,749	2	19,553	—	19,555	—	19,555
Distributions	—	—	—	(1,371)	(1,371)	(187)	(1,558)
Issuance of OP Units as consideration in real estate acquisitions, net	—	—	—	—	—	1	1
Adjustment to non-controlling interests resulting from changes in ownership of the Operating Partnership	—	—	(623)	—	(623)	623	—
Balance at March 31, 2017	11,850,624	$ 12	$ 109,012	$ (14,621)	$ 94,403	$ 11,545	$ 105,948
Balance at December 31, 2017	13,791,574	$ 14	$ 129,705	$ (19,802)	$ 109,917	$ 8,034	$ 117,951
Net loss	—	—	—	(297)	(297)	(21)	(318)
Issuance of common stock, net	1,416,925	1	16,714	—	16,715	—	16,715
Distributions	—	—	—	(1,851)	(1,851)	(129)	(1,980)
Redemption of OP Units	7,700	—	63	—	63	(463)	(400)
Adjustment to non-controlling interests resulting from changes in ownership of the Operating Partnership	—	—	(492)	—	(492)	492	—
Balance at March 31, 2018	15,216,199	$ 15	$ 145,990	$ (21,950)	$ 124,055	$ 7,913	$ 131,968

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$(318)	$173
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,189	1,472
Amortization of debt issuance costs	143	116
Amortization of deferred rent assets and liabilities, net	(90)	(50)
Bad debt expense	1	—
Property and casualty loss	129	—
Changes in operating assets and liabilities:		
Crop inventory and Other assets, net	(1,659)	(150)
Accounts payable and accrued expenses and Due to related parties, net	(1,132)	(187)
Other liabilities, net	3,488	1,372
Net cash provided by operating activities	2,751	2,746
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of new real estate	(5,032)	(53,532)
Capital expenditures on existing real estate	(4,478)	(468)
Change in deposits on real estate acquisitions and investments, net	200	(215)
Net cash used in investing activities	(9,310)	(54,215)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of equity	17,486	20,722
Offering costs	(685)	(1,054)
Payments for redemption of OP Units	(400)	—
Borrowings from mortgage notes and bonds payable	1,260	32,400
Repayments of mortgage notes and bonds payable	(3,118)	(2,231)
Borrowings from lines of credit	7,500	23,000
Repayments of lines of credit	(13,600)	(19,500)
Payments of financing fees	(163)	(274)
Distributions paid on common stock	(1,851)	(1,372)
Distributions paid to non-controlling interests in Operating Partnership	(129)	(187)
Net cash provided by financing activities	6,300	51,504
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(259)	35
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,938	2,438
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$2,679	$2,473
NON-CASH INVESTING AND FINANCING INFORMATION:		
Real estate additions included in Accounts payable and accrued expenses and Due to related parties, net	4,621	199
Real estate additions included in Other liabilities, net	33	—
Stock offering and OP Unit issuance costs included in Accounts payable and accrued expenses and Due to related parties, net	109	171
Financing fees included in Accounts payable and accrued expenses and Due to related parties, net	48	22

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GLADSTONE LAND CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. BUSINESS AND ORGANIZATION

Business and Organization

Gladstone Land Corporation (the “Company”) is an agricultural real estate investment trust (“REIT”) that was re-incorporated in Maryland on March 24, 2011, having been previously re-incorporated in Delaware on May 25, 2004. We are primarily in the business of owning and leasing farmland, and we conduct substantially all of our operations through a subsidiary, Gladstone Land Limited Partnership (the “Operating Partnership”), a Delaware limited partnership. As we currently control the sole general partner of the Operating Partnership and own, directly or indirectly, a majority of the limited partnership interests in the Operating Partnership (“OP Units”), the financial position and results of operations of the Operating Partnership are consolidated within our financial statements. As of March 31, 2018, and December 31, 2017, the Company owned 94.0% and 93.2%, respectively, of the outstanding OP Units (see Note 7, “Equity,” for additional discussion regarding OP Units).

Gladstone Land Advisers, Inc. (“Land Advisers”), a Delaware corporation and a subsidiary of ours, was created to collect any non-qualifying income related to our real estate portfolio and to perform certain small-scale farming business operations. We have elected for Land Advisers to be treated as a taxable REIT subsidiary (“TRS”) of ours. On October 17, 2017 Land Advisers began farming a 169-acre farm located in Ventura County, California, under a short-term lease that will expire on July 31, 2018. Since we currently own 100% of the voting securities of Land Advisers, its financial position and results of operations are consolidated within our financial statements.

Subject to certain restrictions and limitations, and pursuant to contractual agreements, our business is managed by Gladstone Management Corporation (the “Adviser”), a Delaware corporation, and administrative services are provided to us by Gladstone Administration, LLC (the “Administrator”), a Delaware limited liability company. Our Adviser and Administrator are both affiliates of ours (see Note 6, “Related-Party Transactions,” for additional discussion regarding our Adviser and Administrator).

All further references herein to “we,” “us,” “our,” and the “Company” refer, collectively, to Gladstone Land Corporation and its consolidated subsidiaries, except where indicated otherwise.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

Our interim financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of our management, all adjustments (consisting solely of normal recurring accruals) necessary for the fair statement of financial statements for the interim period have been included. The interim financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 20, 2018 (the “Form 10-K”). The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

Impairment of Real Estate Assets

We account for the impairment of our tangible and identifiable intangible real estate assets in accordance with Accounting Standards Codification (“ASC”) 360, “Property, Plant, and Equipment” (“ASC 360”), which requires us to periodically review the carrying value of each property to determine whether indicators of impairment exist. If circumstances support the possibility of impairment, we prepare a projection of the total undiscounted future cash flows of the specific property, including

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proceeds from disposition without interest charges, and compare them to the net book value of the property to determine whether the carrying value of the property is recoverable. If the carrying amount is more than the aggregate undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying value exceeds the estimated fair value of the property.

We evaluate our entire property portfolio each quarter for any impairment indicators and perform an impairment analysis on those select properties that have an indication of impairment. During the three months ended March 31, 2018, a lightning strike damaged certain irrigation infrastructure on one of our properties in Arizona; however, we determined no indicator of impairment existed, and no impairment loss was recorded. See "—Property and Casualty Loss" within Note 3, "Real Estate and Intangible Assets," for additional details on this event.

As of March 31, 2018, we concluded that none of our properties were impaired. There have been no impairments recognized on our real estate assets since our inception.

Crop Inventory and Crop Sales

Crop Inventory

Costs incurred by Land Advisers to grow crops consisted primarily of growing costs (including the costs of land preparation, plants, fertilizers and pesticides, and labor costs), harvesting and selling costs (including labor costs for harvesting, packaging and cooling costs, and sales commissions), and certain overhead costs (including management/oversight costs). These costs are accumulated and deferred until the related crops are harvested and sold and are recorded in Crop inventory on the accompanying Condensed Consolidated Balance Sheets at the lower of cost or market value.

Crop inventory consisted of the following (dollars in thousands, except for footnotes):

	March 31, 2018	December 31, 2017
Growing costs	$ 1,770	$ 1,335
Harvesting and selling costs	160	—
Overhead costs[(1)]	129	193
Total Crop inventory	$ 2,059	$ 1,528

(1) Includes approximately $80,000 and $71,000 of unallocated fees earned by our Adviser from Land Advisers as of March 31, 2018, and December 31, 2017, respectively (see Note 6, "Related-Party Transactions—TRS Fee Arrangements" for further discussion on this fee).

Crop Sales

Revenues from the sale of harvested crops are recognized when the harvested crops have been delivered to the facility and title has transferred and are recorded using the market price on the date of delivery. Accumulated costs are charged to cost of products sold (based on percentage of gross revenues from sales) as the related crops are harvested and sold.

Revenues from the sale of harvested crops and accumulated costs allocated to the crops sold are shown in the following table (dollars in thousands, except for footnotes):

	For the Three Months Ended March 31, 2018
Sales revenues[(1)]	$2,546
Cost of sales[(2)(3)(4)]	(2,359)

(1) Included within Other operating revenues on the accompanying Condensed Consolidated Statement of Operations.

(2) Included within Other operating expenses on the accompanying Condensed Consolidated Statement of Operations.

(3) Excludes rent expense owed to the Company and interest expense owed on a loan from the Company to Land Advisers, both of which expenses were eliminated in consolidation.

(4) Excludes the allocation of a fee earned by our Adviser from Land Advisers of approximately $66,000, which is included within Management Fee on the accompanying Condensed Consolidated Statement of Operations (see Note 6, "Related-Party Transactions—TRS Fee Arrangements—TRS Expense Sharing Agreement" for further discussion on this fee).

There was minimal harvesting and sales activity on the farm operated by Land Advisers prior to January 1, 2018.

Income Taxes

We have operated and intend to continue to operate in a manner that will allow us to qualify as a REIT under the Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we generally are not subject to federal corporate income taxes on amounts that we distribute to our stockholders (except income from any foreclosure property), provided that, on an annual basis, we distribute at least 90% of our REIT taxable income (excluding net capital gains) to our

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stockholders and meet certain other conditions. As such, in general, as long as we qualify as a REIT, no provision for federal income taxes will be necessary, except for taxes on undistributed REIT taxable income and taxes on the income generated by a TRS (such as Land Advisers), if any.

Should we have a taxable income or loss in the future, we will account for any income taxes in accordance with the provisions of ASC 740, "Income Taxes," using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases (including for operating loss, capital loss, and tax credit carryforwards) and are calculated using the enacted tax rates and laws expected to be in effect when such amounts are realized or settled. In addition, we will establish valuation allowances for tax benefits when we believe it is more-likely-than-not (defined as a likelihood of more than 50%) that such assets will not be realized.

On October 17, 2017, Land Advisers, our wholly-owned TRS, which is subject to federal and state income taxes, took over the operations on one of our farms in California. There was no taxable income from Land Advisers for the year ended December 31, 2017. As of the three months ended March 31, 2018, we estimated a tax benefit of approximately $34,000 based on the taxable loss recorded at Land Advisers during the three months ended March 31, 2018. However, as the lease with Land Advisers expires on July 31, 2018 (and we do not believe the likelihood of conducting additional farming operations through Land Advisers to be greater than 50%), we do not believe it probable that this loss carryforward will be realized. As such, we established a valuation allowance against the deferred tax asset for the full amount and did not recognize any tax benefit from this taxable loss in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2018.

Reclassifications

Certain line items on the accompanying Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017, have been reclassified to conform to the current period's presentation. On the Condensed Consolidated Statement of Operations, certain property-specific costs have been reclassified from general and administrative expenses to property operating expenses. In addition, on the Condensed Consolidated Statement of Cash Flows, deposits on future acquisitions, deposits applied against real estate investments, and deposits refunded are presented on a net basis as a single line item within the "Cash Flows From Investing Activities" section; and borrowings from and repayments on lines of credit (previously reported on a net basis) have been separated, and each are presented on a gross basis within the "Cash Flows from Financing Activities" section. These reclassifications had no impact on previously-reported net income, equity, or net change in cash and cash equivalents.

Significant Accounting Policies

The preparation of financial statements in accordance with GAAP requires management to make judgments that are subjective in order to make certain estimates and assumptions, and our application of these accounting policies involves the exercise of judgment regarding the use of assumptions as to future uncertainties. A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements included in our Form 10-K. There were no material changes to our significant accounting policies during the three months ended March 31, 2018.

Recently-Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which was amended in each of March, April, May, and December of 2016. ASU 2014-09, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance and establishes a new, control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. ASU 2014-09 was adopted beginning with the three months ended March 31, 2018, using the modified retrospective method (under which the cumulative effect of initially applying the guidance was recognized at the date of initial application). Our adoption of ASU 2014-09 did not (and is not expected to) have a material impact on our results of operations or financial condition, as the primary impact of this update is related to common area maintenance and other material tenant reimbursements, whereas the majority of our revenue is from rental income pursuant to net-lease agreements, with very little being attributed to tenant recoveries. The impact of ASU 2014-09 will not take effect until the new leasing standard (ASU 2016-02, as defined below) becomes effective on January 1, 2019.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842): An Amendment of the FASB Accounting Standards Codification” (“ASU 2016-02”). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee, which classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis, respectively, over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all

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leases with a term of greater than 12 months, regardless of the classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leasing standard, ASC 840, "Leases," and is effective on January 1, 2019, with early adoption permitted. We expect our legal expenses (included in General and administrative expenses on our Condensed Consolidated Statements of Operations) to increase marginally, as the new standard requires us to expense indirect leasing costs that were previously capitalized; however, we do not expect ASU 2016-02 to materially impact our condensed consolidated financial statements, as we currently only have two operating ground lease arrangements with terms greater than one year for which we are the lessee.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which provides guidance on certain cash flow classification issues, with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified on the statement of cash flows. ASU 2016-15 was adopted beginning with the three months ended March 31, 2018, and did not have a material impact on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18"), which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts described as restricted cash or restricted cash equivalents. Under ASU 2016-18, amounts described as restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance became effective beginning with the three months ended March 31, 2018, and did not have a material impact on our condensed consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, "Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets" ("ASU 2017-05"), which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets and in-substance nonfinancial assets in contracts with non-customers (unless other specific guidance applies). ASU 2017-05 requires derecognition once control of a distinct nonfinancial asset or in-substance nonfinancial asset is transferred. Additionally, when a company transfers its controlling interest in a nonfinancial asset but retains a non-controlling ownership interest, any non-controlling interest received is required to be measured at fair value, and the company is required to recognize a full gain or loss on the transaction. As a result of ASU 2017-05, the guidance specific to real estate sales in ASC 360-20 will be eliminated, and partial sales of real estate assets will now be subject to the same derecognition model as all other nonfinancial assets. ASU 2017-05 was adopted beginning with the three months ended March 31, 2018, utilizing the modified retrospective approach, and its adoption did not (and is not expected to) have a material impact on our condensed consolidated financial statements.

NOTE 3. REAL ESTATE AND INTANGIBLE ASSETS

All of our properties are wholly-owned on a fee-simple basis, except where noted. The following table provides certain summary information about our 75 farms as of March 31, 2018 (dollars in thousands, except for footnotes):

Location	No. of Farms	Total Acres	Farm Acres	Net Cost Basis[1]	Encumbrances[2]
California	29	8,241	7,465	$211,816	$ 146,767
Florida	16	11,006	8,846	115,140	73,003
Arizona[3]	6	6,280	5,228	45,126	22,691
Colorado	10	31,450	24,513	42,081	24,538
Oregon	4	2,313	2,003	19,794	11,970
Nebraska	2	2,559	2,101	10,585	6,602
Washington	1	746	417	9,250	5,368
Michigan	5	446	291	5,042	2,790
North Carolina	2	310	295	2,352	1,301
	75	63,351	51,159	$461,186	$ 295,030

(1)

Consists of the initial acquisition price (including the costs allocated to both tangible and intangible assets acquired and liabilities assumed), plus subsequent improvements and other capitalized costs associated with the properties, and adjusted for accumulated depreciation and amortization. Includes Investments in real estate, net (excluding improvements paid for by the tenant) and Lease intangibles, net; plus net above-market lease values and lease incentives included in Other assets, net; and less net below-market lease values and deferred revenue included in Other liabilities, net; each as shown on the accompanying Condensed Consolidated Balance Sheet.

(2) Excludes approximately $2.1 million of debt issuance costs related to mortgage notes and bonds payable, included in Mortgage notes and bonds payable, net on the accompanying Condensed Consolidated Balance Sheet.

(3) Includes two farms in which we own a leasehold interest via ground leases with the State of Arizona that expire in February 2022 and February 2025, respectively. In total, these two farms consist of 1,368 total acres and 1,221 farm acres and had a net cost basis of approximately $3.1 million as of March 31, 2018 (included in Lease intangibles, net on the accompanying Condensed Consolidated Balance Sheet).

Real Estate

The following table sets forth the components of our investments in tangible real estate assets as of March 31, 2018, and December 31, 2017 (dollars in thousands):

	March 31, 2018	December 31, 2017
Real estate:		
Land and land improvements	$360,381	$ 356,316
Irrigation systems	56,234	50,282
Buildings	18,429	18,191
Horticulture	35,837	34,803
Other improvements	6,584	6,551
Real estate, at cost	477,465	466,143
Accumulated depreciation	(18,550)	(16,657)
Real estate, net	$458,915	$ 449,486

Real estate depreciation expense on these tangible assets was approximately $1.9 million and $1.3 million for the three months ended March 31, 2018 and 2017, respectively.

Included in the figures above are amounts related to tenant improvements, which are improvements made on certain of our properties paid for by our tenants but owned by us. As of each of March 31, 2018, and December 31, 2017, we recorded tenant improvements, net of accumulated depreciation, of approximately $2.4 million. We recorded both depreciation expense and additional rental revenue related to these tenant improvements of approximately $76,000 and $37,000 during the three months ended March 31, 2018 and 2017, respectively.

Intangible Assets and Liabilities

The following table summarizes the carrying values of certain lease intangible assets and the related accumulated amortization as of March 31, 2018, and December 31, 2017 (dollars in thousands):

	March 31, 2018	December 31, 2017
Lease intangibles:		
Leasehold interest – land	$ 3,498	$ 3,498
In-place leases	1,404	1,451
Leasing costs	1,523	1,490
Tenant relationships	439	439
Lease intangibles, at cost	6,864	6,878
Accumulated amortization	(1,536)	(1,386)
Lease intangibles, net	$ 5,328	$ 5,492

Total amortization expense related to these lease intangible assets was approximately $293,000 and $139,000 for the three months ended March 31, 2018 and 2017, respectively.

The following table summarizes the carrying values of certain lease intangible assets or liabilities included in Other assets, net and Other liabilities, net, respectively, on the accompanying Condensed Consolidated Balance Sheets and the related accumulated amortization or accretion, respectively, as of March 31, 2018, and December 31, 2017 (dollars in thousands).

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Intangible Asset or Liability	March 31, 2018 Deferred Rent Asset (Liability)	March 31, 2018 Accumulated (Amortization) Accretion	December 31, 2017 Deferred Rent Asset (Liability)	December 31, 2017 Accumulated (Amortization) Accretion
Above-market lease values and lease incentives[1]	$26	$ (7)	$26	$ (5)
Below-market lease values and deferred revenue[2]	(823)	142	(823)	125
	$(797)	$ 135	$(797)	$ 120

(1) Above-market lease values and lease incentives are included as part of Other assets, net on the accompanying Condensed Consolidated Balance Sheets, and the related amortization is recorded as a reduction of rental income.

(2) Below-market lease values and deferred revenue are included as a part of Other liabilities, net on the accompanying Condensed Consolidated Balance Sheets, and the related accretion is recorded as an increase to rental income.

Total amortization related to above-market lease values and lease incentives was approximately $2,000 for each of the three months ended March 31, 2018 and 2017. Total accretion related to below-market lease values and deferred revenue was approximately $17,000 and $15,000 for the three months ended March 31, 2018 and 2017, respectively.

Acquisitions

Upon our adoption of ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” during the three months ended December 31, 2016, most acquisitions, including those with a prior leasing history, are generally treated as an asset acquisition under ASC 360. For acquisitions accounted for as asset acquisitions under ASC 360, all acquisition-related costs are capitalized and included as part of the fair value allocation of the identifiable tangible and intangible assets acquired, other than those costs that directly related to originating new leases we execute upon acquisition, which are capitalized as part of leasing costs. In addition, total consideration for acquisitions may include a combination of cash and equity securities, such as OP Units. When OP Units are issued in connection with acquisitions, we determine the fair value of the OP Units issued based on the number of units issued multiplied by the closing price of the Company’s common stock on the date of acquisition.

2018 Acquisitions

During the three months ended March 31, 2018, we acquired two new farms, which are summarized in the table below (dollars in thousands).

Property Name	Property Location	Acquisition Date	Total Acreage	No. of Farms	Primary Crop(s)	Lease Term	Renewal Options	Total Purchase Price	Acquisition Costs[1]	Annualized Straight-Line Rent[2]	New Long-term Debt
Taft Highway[3]	Kern, CA	1/31/2018	161	1	Potatoes and Melons	N/A	N/A	$2,945	$ 33	$ —	$ — [4]
Cemetery Road	Van Buren, MI	3/13/2018	176	1	Blueberries	9.6 years	N/A	2,100	39	150	1,260
			337	2				$5,045	$ 72	$ 150	$1,260

(1) Unless noted otherwise, acquisitions were accounted for as asset acquisitions under ASC 360.

(2) Annualized straight-line rent is based on the minimum cash rental payments guaranteed under the lease, as required under GAAP.

(3) Farm was purchased with no lease in place at the time of acquisition.

(4) Subsequent to March 31, 2018, we entered into a loan agreement with an existing lender collateralized by this farm (see Note 10, “Subsequent Events” for additional information on the loan).

During the three months ended March 31, 2018, in the aggregate, we recognized operating revenues of approximately $8,000 and a net loss of approximately $5,000 related to the above acquisitions.

2017 Acquisitions

During the three months ended March 31, 2017, we acquired one new farm, which is summarized in the table below (dollars in thousands).

Property Name	Property Location	Acquisition Date	Total Acreage	No. of Farms	Primary Crop(s)	Lease Term	Renewal Options	Total Purchase Price	Acquisition Costs[1]	Annualized Straight-line Rent[2]	Net Long-term Debt
Citrus Boulevard	Martin, FL	1/12/2017	3,748	1	Organic Vegetables	7.0 years	3 (5 years)	$ 54,000	$ 80 [2]	$ 2,926	$ 32,400

(1) Unless noted otherwise, acquisitions were accounted for as asset acquisitions under ASC 360.

(2) Annualized straight-line rent is based on the minimum cash rental payments guaranteed under the lease, as required under GAAP.

During the three months ended March 31, 2017, in the aggregate, we recognized operating revenues of approximately $645,000 and earnings of approximately $380,000 related to the above acquisition.

Purchase Price Allocations

The allocation of the aggregate purchase price for the farms acquired during each of the three months ended March 31, 2018 and 2017 is as follows (dollars in thousands):

Acquisition Period	Land and Land Improvements	Buildings	Irrigation & Drainage Systems	Horticulture	In-place Leases	Leasing Costs	Total Purchase Price
2018 Acquisitions	$ 3,256	$ 123	$ 582	$ 961	76	$ 47	$ 5,045
2017 Acquisitions	52,375	178	1,447	—	—	—	54,000

Acquired Intangibles and Liabilities

The following table shows the weighted-average amortization periods (in years) for the intangible assets acquired and liabilities assumed in connection with new real estate acquired during the three months ended March 31, 2018. There were no intangible assets acquired or liabilities assumed in connection with new real estate acquired during the three months ended March 31, 2017.

Intangible Assets and Liabilities	Weighted-Average Amortization Period (in Years)
In-place leases	9.6
Leasing costs	9.6
All intangible assets and liabilities	9.6

Significant Existing Real Estate Activity

Lease Renewals

During the three months ended March 31, 2018, we terminated the leases on two of our farms in Cochise County, Arizona, early and entered into two new lease agreements with a new tenant. Each of the new leases is for a term of one year and provides for aggregate minimum rents of approximately $480,000, which represents a decrease of approximately $203,000 (approximately 29.7%) from that of the prior leases (before each of their terminations). However, each of the new leases also contains a variable rent component based on the total gross revenues earned by the tenants on the respective farms, whereas the prior leases were both fixed-rent leases. In addition, both of the new leases are pure, triple-net lease agreements, whereas one of the prior leases was a partial-net lease (with us responsible for the property taxes on the farm). In connection with one of the early lease terminations, on the termination date, the lease had a deferred rent liability balance of approximately $84,000. In accordance with ASC 360-10, we recognized this balance as additional rental income during the three months ended March 31, 2018 (on the lease termination date). In connection with the other early lease termination, a full allowance of the respective lease's deferred rent asset balance (which was approximately $50,000) was recorded to bad debt expense during the three months ended December 31, 2017. No downtime was incurred as a result of the early terminations and re-leasing of these farms, nor were any leasing commissions or tenant improvements incurred in connection with the new leases.

Project Completion

In connection with a lease amendment executed on one of our Florida properties in June 2017, we committed to providing additional capital to expand and upgrade the existing cooler on the property. These improvements were completed during the three months ended March 31, 2018, at a total cost of approximately $748,000. As a result of these improvements (and pursuant to the lease amendment), we expect to receive approximately $302,000 of additional rental income throughout the term of the lease, which expires on June 30, 2022.

Property and Casualty Loss

In January 2018, a lightning strike damaged the power plant that supplies power to one of our Arizona properties, causing damage to certain irrigation improvements on our property. We estimated the carrying value of the improvements damaged by the lightning strike to be approximately $129,000. During the three months ended March 31, 2018, we wrote down the carrying values of the damaged improvements by approximately $129,000, and, in accordance with ASC 610-30, "Revenue Recognition—Other Income—Gains and Losses on Involuntary Conversions," recorded a corresponding property and casualty loss on the accompanying Condensed Consolidated Statement of

Operations.
Repairs were completed on the damaged irrigation improvements during the three months ended March 31, 2018. During the three months ended March 31, 2018, we incurred approximately $81,000 to repair the damaged improvements, of which

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approximately $34,000 was capitalized as real estate additions and $47,000 was recorded as repairs and maintenance expense, which is included within Property operating expenses on the accompanying Condensed Consolidated Statements of Operations.

All of the improvements damaged on this property were insured, either by us or the tenant, at the time of the lightning strike, and we believe at least partial recovery of the damage-related costs incurred is probable. However, we are still in the process of assessing the amount expected to be recovered, as well as the collectability of such amounts; thus, no offset to the loss has been recorded as of March 31, 2018.

Portfolio Diversification and Concentrations

Diversification

The following table summarizes the geographic locations, by state, of our farms with leases with third-party tenants in place as of March 31, 2018 and 2017 (dollars in thousands):

	As of and For the Three Months Ended March 31, 2018					As of and For the Three Months Ended March 31, 2017				
State	Number of Farms	Total Acres	% of Total Acres	Rental Revenue	% of Total Rental Revenue	Number of Farms	Total Acres	% of Total Acres	Rental Revenue	% of Total Rental Revenue
California	29	8,241	13.0%	$ 3,028	45.3%	22	6,713	12.4%	$ 2,857	49.7%
Florida	16	11,006	17.4%	1,754	26.2%	16	9,315	17.1%	1,531	26.6%
Colorado	10	31,450	49.6%	686	10.3%	9	30,170	55.5%	673	11.7%
Arizona	6	6,280	9.9%	528	7.9%	2	3,000	5.5%	186	3.2%
Oregon	4	2,313	3.7%	307	4.6%	4	2,313	4.3%	294	5.1%
Nebraska	2	2,559	4.0%	145	2.2%	2	2,559	4.7%	145	2.6%
Washington	1	746	1.2%	121	1.8%	—	—	—%	—	—%
Michigan	5	446	0.7%	70	1.0%	4	270	0.5%	62	1.1%
North Carolina	2	310	0.5%	49	0.7%	—	—	—%	—	—%
TOTALS	75	63,351	100.0%	$ 6,688	100.0%	59	54,340	100.0%	$ 5,748	100.0%

Concentrations

Credit Risk

As of March 31, 2018, our farms were leased to 52 different, third-party tenants (plus one related-party tenant), with certain tenants leasing more than one farm. One unrelated tenant ("Tenant A") leases five of our farms, and aggregate rental revenue attributable to Tenant A accounted for approximately $1.1 million, or 16.6%, of the rental revenue recorded during the three months ended March 31, 2018. If Tenant A fails to make rental payments, elects to terminate its leases prior to their expirations, or does not renew its leases (and we cannot re-lease the farms on satisfactory terms), there could be a material adverse effect on our financial performance and ability to continue operations. No other individual tenant represented greater than 10.0% of the total rental revenue recorded during the three months ended March 31, 2018.

Geographic Risk

As of March 31, 2018, 29 of the 75 farms we owned were located in California, 16 farms were located in Florida, and 10 farms were located in Colorado. Further, our California, Florida, and Colorado farms accounted for approximately $3.0 million (45.3%), $1.8 million (26.2%), and $0.7 million (10.3%), respectively, of the rental revenue recorded during the three months ended March 31, 2018. Our 29 California farms are spread across four of the many different growing regions within the state. Though we seek to continue to further diversify geographically, as may be desirable or feasible, should an unexpected natural disaster occur where our properties are located, there could be a material adverse effect on our financial performance and ability to continue operations. None of our farms in California or Florida were materially impacted by the recent wildfires or hurricanes in those respective areas. No other single state accounted for more than 10.0% of the total rental revenue recorded during the three months ended March 31, 2018.

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NOTE 4. BORROWINGS

Our borrowings as of March 31, 2018, and December 31, 2017 are summarized below (dollars in thousands):

	Carrying Value as of		As of March 31, 2018	
	March 31, 2018	December 31, 2017	Stated Interest Rates[1] (Range; Wtd Avg)	Maturity Dates (Range; Wtd Avg)
Mortgage notes and bonds payable:				
Fixed-rate mortgage notes payable	$205,579	$208,469	3.16%–4.70%; 3.62%	6/1/2020–11/1/2041; May 2029
Fixed-rate bonds payable	85,551	84,519	2.38%–4.47%; 3.15%	7/30/2018–3/13/2028; August 2021
Total mortgage notes and bonds payable	291,130	292,988		
Debt issuance costs – mortgage notes and bonds payable	(2,080)	(1,986)	N/A	N/A
Mortgage notes and bonds payable, net	$289,050	$291,002		
Variable-rate revolving lines of credit	$3,900	$10,000	3.95%	4/5/2024
Total borrowings, net	$292,950	$301,002		

(1) Where applicable, stated interest rates are before interest patronage (as described below).

The weighted-average interest rate charged on the above borrowings, excluding the impact of debt issuance costs and before any interest patronage, or refunded interest, was 3.52% for the three months ended March 31, 2018, as compared to 3.25% for the prior-year period. In addition, 2017 interest patronage from our Farm Credit Notes Payable (as defined below), which we received prior to the filing of this Form 10-Q and recorded during the three months ended March 31, 2018, resulted in a 18.0% reduction (approximately 71 basis points) to the stated interest rates on such borrowings. We are unable to estimate the amount of interest patronage to be received, if any, related to interest accrued during 2018 on our Farm Credit Notes Payable.

MetLife Borrowings

MetLife Facility

On May 9, 2014, we closed on a credit facility (the "MetLife Facility") with Metropolitan Life Insurance Company ("MetLife"). As a result of subsequent amendments, the MetLife Facility currently consists of an aggregate of $200.0 million of term notes (the "MetLife Term Notes") and $75.0 million of revolving equity lines of credit (the "MetLife Lines of Credit"). The following table summarizes the pertinent terms of the MetLife Facility as of March 31, 2018 (dollars in thousands, except for footnotes):

Issuance	Aggregate Commitment	Maturity Dates	Principal Outstanding	Interest Rate Terms	Undrawn Commitment
MetLife Term Notes	$ 200,000 [1]	1/5/2029	$ 128,914	3.30%, fixed through 1/4/2027 [2]	$ 63,530 [3][4]
MetLife Lines of Credit	75,000	4/5/2024	3,900	3-month LIBOR + 2.25% [5]	71,100 [3]
Total principal outstanding			$ 132,814		

(1) If the aggregate commitment under the MetLife Facility is not fully utilized by December 31, 2019, MetLife has the option to be relieved of its obligation to disburse the additional funds under the MetLife Term Notes.

(2) Represents the blended interest rate as of March 31, 2018. Interest rates for subsequent disbursements will be based on then-prevailing market rates. The interest rate on all then-outstanding disbursements will be subject to adjustment on January 5, 2027. Through December 31, 2019, the MetLife Term Notes are also subject to an unused fee from 0.10% to 0.20% on undrawn amounts (based on the balance drawn under the MetLife Term Notes).

(3) Based on the properties that were pledged as collateral under the MetLife Facility, as of March 31, 2018, the maximum additional amount we could draw under the facility was approximately $16.5 million.

(4) Net of amortizing principal payments of approximately $7.6 million.

(5) The interest rate on the MetLife Lines of Credit is subject to a minimum annualized rate of 2.50%, plus an unused fee from 0.10%