

Farmland Barometer



For year 2016 - - prime Illinois farmland values slid to the \$10,500 per acre mark (down approximately 7%). These prices extend a 4 year downtrend that began at Christmas 2012 at \$12,750 per acre. Our chart of Prime Farmland Values reveals that correction!

At Heartland Ag Group Ltd. - - we are very active in the management, appraisal, sale, and acquisition of farmland throughout Illinois. It is from this widespread experience that we offer some observations on the current farmland market:

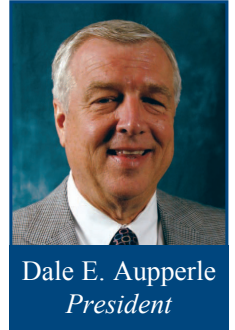
▼ **Net Farm Income** – Farmland is what it earns! Our 2016 profit levels eroded slightly (helped by ARC County payments from USDA). Crop insurance and government payments provide an important safety net. In general - - the 2017 earnings outlook is a diminishing one. Let's be careful of this net farm income.

▼ **Interest Rates** – The Federal Reserve Bank has started to raise interest rates and suggests three more rate increases in 2017. Rising rates are a negative. Long term mortgage rates are above 5% so they are no longer inconsequential. Only runaway inflation will support rapidly rising interest rates. Conventional wisdom says - - our federal government can't pay the interest on the \$20 trillion indebtedness of our country - - so they won't let the rates rise.

▼ **Alternate Investments** – With a rising stock market and increasing interest rates - - the competition from other financial assets (compared to agriculture) is enhanced. A rising dollar also contributes to that. Farmland returns at 2.5% are no longer the king of the mountain - - hopefully money doesn't start to leave agriculture.

▼ **Volume of Real Estate Sales** – Throughout 2016 - - the supply of farmland on the market for sale has remained reasonable and constant. There's no panic by landowners to dump their holdings. The reverse is true - - there appear to be significant investment dollars getting ready to re-enter the market and purchase land.

▼ **Auction Sales** – Perhaps 25% of the Central Illinois farms were sold at auction - - it's a process of price discovery. Those results are positive in rising land price situations. With the reverse being true - - we've seen a number of auctions produce significantly lower results than anticipated. Those failed lower price auctions have not permanently influenced the sales which followed them - - but give cause for concern.



▼ **Types of Land Buyers** – Approximately 60% of the farmland sold in 2016 was purchased by the farming community (farmers or their families or friends). In many transactions there were only one or two buyers available to purchase land. Yes - - it's a thin market. Investors are waiting on the sideline for signs that the downtrend is over.

▼ **What are Farms Selling For?** – Each year we put a year-end dot on our Prime Farmland Values chart - - this year it is at \$10,500 per acre. Here is what has happened in the last eight years:

2016 -	\$10,500 per acre (-7%)
2015 -	\$11,250 per acre (-8%)
2014 -	\$12,250 per acre (-2%)
2013 -	\$12,500 per acre (-2%)
2012 -	\$12,750 per acre (+21%)
2011 -	\$10,500 per acre (+31%)
2010 -	\$8,000 per acre (+14%)
2009 -	\$7,000 per acre (unchanged)

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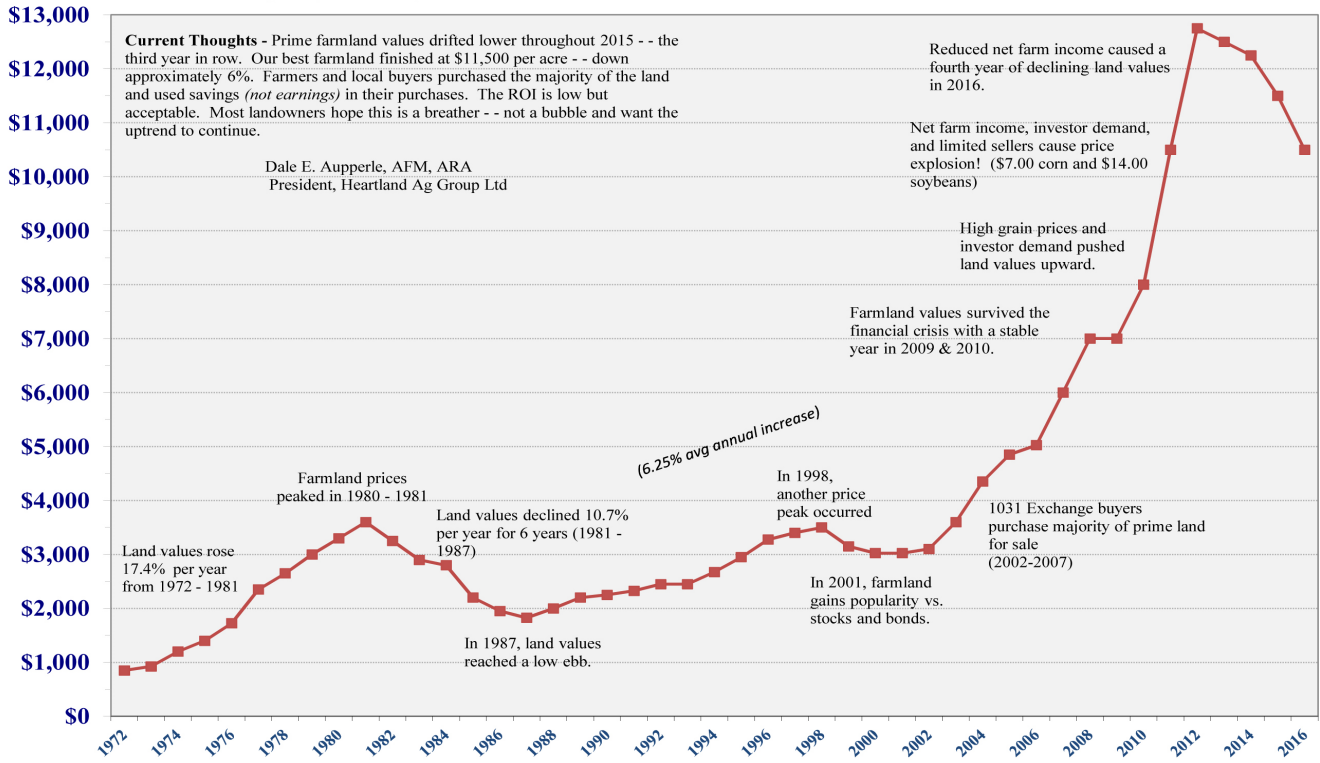


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PRIME FARMLAND VALUES

Central Illinois - December 2015

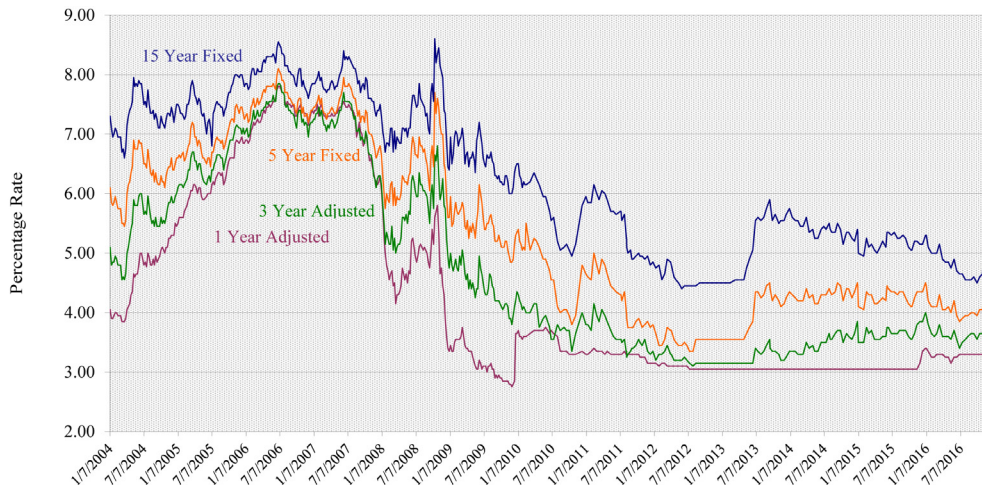
At Heartland Ag Group Ltd., we maintain an extensive database of farm real estate transactions throughout Central Illinois. Each sale is an important part of the dynamic farmland market. This chart reflects the historical trends on our best quality farmland each year (since 1972).



Farm Credit Services MORTGAGE INTEREST RATES As of December 30, 2016

Interest rates are a major component of the factors affecting farmland values and operating profits. At Heartland Ag Group Ltd., we track a variety of short and long-term mortgage interest rates. Thanks to Farm Credit Services (*a nationwide agricultural lender*) who provides these local rate quotes for us. Our chart tracks the 1-year adjustable rate, 3-year adjustable rate, 5-year fixed rate, and 15-year fixed rate interest quotes. There are a lot of products available in the market - - these are just four of them.

Mortgage interest rates were at relatively high levels from 2004 through 2009 (*when a general decline began*). Interest rates bottomed out in 2013 and have been basically sideways to slightly downward trending until recent months. Obviously the trend in interest rates will be higher in our future - - the question is how quickly will they rise and affect us. This chart of interest rates allows us to detect changes in trends immediately. Let's watch it together!



At Heartland Ag Group Ltd., we maintain an active database on all sales of land that occurred in nearly fifty counties across Central Illinois. That information clearly reveals farmland values across a wide spectrum of transactions. Here is a breakdown of some of the sales from our database -- enjoy:

▼ PRIME FARMLAND SALES

<u>County</u>	<u>Sale Date</u>	<u>Total Acres</u>	<u>% Tillable</u>	<u>Productivity Index</u>	<u>\$/Acre</u>
Sangamon	Dec. 2016	160.00	98.4%	140.8	\$13,400
Champaign	Nov. 2016	80.00	99.1%	143.8	\$12,100
Logan	Dec. 2016	57.00	99.1%	141.1	\$10,900
Christian	Oct. 2016	83.39	99.9%	132.2	\$10,553
Macon	Oct. 2016	120.26	97.5%	141.0	\$10,278
Piatt	Sept. 2016	40.53	100.0%	139.4	\$10,400
Macon	Nov. 2016	162.14	97.3%	139.2	\$10,000
DeWitt	Oct. 2016	62.96	98.0%	138.7	\$10,000
Douglas	Nov. 2016	80.00	99.1%	138.9	\$9,950
Shelby	Dec. 2016	60.00	99.3%	144.0	\$9,900
Shelby	Sept. 2016	244.00	96.7%	144.0	\$8,100

Note: The above sales demonstrate a 7% drop in prime farmland values to approximately \$10,500 per acre. These tracts of land averaged approximately 80.00 acres in size -- were nearly all tillable -- and had a productivity index above 138.5. That's why we call it prime farmland.

▼ CRP SALES

<u>County</u>	<u>Sale Date</u>	<u>Total Acres</u>	<u>CRP Acres</u>	<u>\$/Acre</u>
Logan	Dec. 2016	35.12	33.20	\$5,097
Menard	Oct. 2016	195.79	166.71	\$4,488
Logan	May. 2016	193.52	164.60	\$3,876

Note: The conservation reserve program pays a guaranteed rate of earnings on land that is taken out of production for its difficulty in farming. Investors love that guaranteed return. CRP land is selling between \$3,000 and \$5,000 per acre.

▼ POORLY DRAINED AND BOTTOM FARMS

<u>County</u>	<u>Sale Date</u>	<u>Total Acres</u>	<u>% Tillable</u>	<u>Productivity Index</u>	<u>\$/Acre</u>
Logan	Sept. 2016	80.00	100.0%	134.9	\$9,000
Logan	May 2016	80.00	94.5%	140.0	\$9,000
Logan	Feb. 2016	38.88	98.7%	140.0	\$8,900
Logan	Nov. 2016	265.26	94.3%	138.0	\$7,163

Note: In today's land market -- blemishes are noticeable and the number of buyers willing to engage in that type of farmland drops. The above sales are in many cases much better when drainage problems are fixed.

Heartland Outlook

Agriculture is at an interesting intersection -- will we return to the super-cycle of the past 10 years that drove us to extreme levels -- or is there an extremely negative period in our future of depressed profits and downtrending land values. No one knows for sure -- but here are some observations from us at Heartland Ag Group Ltd.:

▼ **Net Farm Income** – Our profits have been under extreme pressure the last two years from low commodity prices. “The best cure for low prices is low prices!” Newly stimulated demand should pull commodity prices to higher levels in the next couple of years.

▼ **Crop Yields** – During the past 4 years we’ve enjoyed some amazing results from our agricultural technologies and Mother Nature’s weather generosity. If any part of our global production system has a problem -- worldwide surpluses will vanish quickly causing a rising commodity crises environment for all of us.

▼ **Global/National Economics** – Our rough and tumble and changed political landscape may bring about some structural changes in economic conditions here in the United States and abroad. We think those should be positive and have a positive impact on agriculture.

▼ **Interest Rates** – This area is problematic as interest rates are an expense item in our equation. We do not see interest rates becoming a problem unless hyper-inflation shows up. And interest rates are used to curb inflation. Inflation is good for agriculture.

At Heartland Ag Group Ltd. -- we think the 20% downward correction in farmland values has been a breather in a farmland market that rose too rapidly during the past 10 years. Year 2017 should be a turnaround - transition year. Get ready for farmland values to resume a slow uptrend in our future.



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**Heartland Ag
 Group Ltd.**

At Heartland Ag Group Ltd., each member of our team plays an important role in meeting your farm management, real estate, and consulting needs. Working together, they use their invaluable experience to help you get the most out of your farmland investment. It's that sense of teamwork that has made **Heartland Ag Group Ltd.** the premier source of information for farmland owners, operators, and investors.

YOUR HEARTLAND AG TEAM



Dale E. Aupperle, AFM, ARA
PRESIDENT

Dale, our Chief Executive, founded Heartland Ag Group Ltd. in July 1993 to serve a wide range of clients who seek agricultural expertise. He and Dyann have two children, Ryan and Jenny, and three neat grandchildren.



Ryan E. Aupperle, AFM
FARM MANAGER

Ryan handles the day-to-day operations of our company and is responsible for all of our farm management services. He joined the company in June 1998. He and Rachel have two children, Kate and John.



Jeremy L. Crouch
RURAL APPRAISER

Jeremy is responsible for our appraisal division and also actively manages a portfolio of farmland. He joined our team in May 2003. He and Cassie have three daughters, Taylor, Morgan and Delaney.



Tammy Roberts
OFFICE MANAGER

Tammy provides wide-ranging support for our real estate, farm management, and appraisal services. Tammy joined the company in July 2000. She and David have four children: Amanda, Dustin, Matthew, Cole and two grandsons: Jake and Brody.



Jan Adcock
DATABASE MANAGER

Jan supports our entire team through development of databases and computer systems that deliver our expertise. Jan joined the company in December 1993. She and Jim have four children: Tamar, Taryn, and twins Del and Dean. They live in Assumption.



Rhonda Hutchens
FINANCIAL ACCOUNTING/SECRETARY

Rhonda handles the financial accounting for our company and our clients and provides secretarial support for farm management and appraisal services. Rhonda joined the team in August 2003. She and Gary have two children, Laramie and Shelby, and two grandchildren: Poppy and Gus.



Nicole Garrett
ADMINISTRATIVE ASST.

Nicole provides support for our appraisal services. Nicole joined the company in September 2012. She and Zach have one child: Rachel.



Kara Morey
ADMINISTRATIVE ASST.

Kara provides support for appraisal services, real estate and farm management company segments. Kara joined the company in April 2014. She and Brian have two children: Cassidy and Eliza.