

THE FARMLAND Barometer



TIMELY INFORMATION AND INSIGHT ON CENTRAL ILLINOIS FARMLAND

January 2010

A look at the

Future



by **Dale E. Aupperle**
PRESIDENT

FOR THE FIRST TIME since 1986 the value of Central Illinois farmland leveled off, capping a remarkable 22 year uptrend! Our Heartland Ag Group Ltd. chart of Prime Farmland Values notes our best farmland is selling at \$7,000 per acre at year-end 2009—the same as last year. Our Farmland Price Volatility chart reflects the year-to-year changes in farmland values, unchanged for the past 12 months. And our Total Return to Illinois Farmland records the unchanged value and 4% earnings for year 2009.

General Observations

Farmland values weathered the U.S. financial tsunami in superb fashion. During 2008, when the darkest days were upon us, farmland values fell back 10% from super heated prices but still closed the year up 15%. This year our review of most prime farmland transactions saw stable values. Once again, we demonstrated to the world that “hard assets” are something to depend upon during uncertainty.

Milt Holcomb was my professor of agriculture finance at the University of Illinois and always pointed out that there is a return on your money and a return of your money! Historic farmland returns of 3% to 5% are outstanding considering bonds, CDs, and money market instruments in the 1% or so range. Long-term appreciation of 6% (with low

volatility) is a safe haven compared to the stock market performance of recent years. So farmland shines in a very dark time in the overall financial industry.

Agriculture Needs Outside Capital

Farmers need investors to purchase land so they can rent it. And non-farm investors are agreeing by bringing their money to invest in farmland. In general, they want top-quality farms with stable earnings. That is what the Midwest is all about. These investors purchasing land will push the farm real estate market higher in the near future. Recreational land and poor quality soils are not as fortunate, as that seems to be discretionary money, which disappeared with the stock market and housing crash. These types of farms are experiencing a drop in value.

Heartland Outlook for 2010

Year-end is a great vantage point to look over the mountaintop at next year. Here are some of our thoughts on five key areas of what to expect regarding farmland investments.

Farmland Is What It Earns

We believe that a longer term bull market is starting in commodities and will influence us significantly in the next five years. With its roots in deficit spending and inflation (combined with a continued decline in the value of the dollar), we expect farm earnings (profits) to rise. Don't forget that it is also about bushels per acre, and our corn and soybean yields are rising significantly, helping the bottom line to move higher. Earnings and land values will rise.

World Population Trends

Rod Wells from Growmark reported on updated growth rates that indicate the world population will grow from today's 6.8 billion people to 8.2 billion people by 2030.

By 2040 agriculture will need to double our grain production! In the next 50 years, we will need to produce more than we have grown in the past 10,000 years! Wow! That is an awesome responsibility. If Mother Nature does not fully cooperate, look out. Remember your old supply and demand lessons from college! We have had a seven-year period of nearly uninterrupted perfect growing conditions and are barely keeping up. With difficulties, we could see dramatic price fluctuations driving up the profitability from farming and investing in farmland.

Inflation and Interest Rates

Short-term interest rates are at historic lows (near zero) making long-term interest rates very attractive for agricultural mortgages. This makes financing land investments positive and also provides outside investors a real rate of return when compared to low earning assets such as CDs, bonds, and money market instruments. Interest rates are controlled by the Federal Reserve, so watch their actions carefully. They can create inflation or kill the economy, depending on how they handle interest rate decisions.

Inflation is in our future because doubling the money supply and deficit spending are problems that do not go away. Politicians always choose inflation (paying back deficits with inflated dollars) as opposed to putting the economy

through a recession or depression, which causes too much pain at the voting booth. And here we go again. The weakened dollar will likely get much worse as policy makers try to deal with the federal deficit. All in all farmland is a steady earning hard asset that is forded in value in this type of environment.

Hard Assets Versus Soft Assets

Major cross winds forced all of us to think about what we are doing with our underlying net worth. Investing in real estate that produces food and fiber (needed every day) seems to be a smart bet (accented during these unstable financial times). The trend toward hard assets is picking up steam once again.

There is another factor lurking around the corner—terrorism! Thankfully, we have been able to avoid those attacks that can cause Americans to turn inward (and not travel, spend, or progress) for safety reasons. But the attacks are escalating and we are fearful that terrorism will be a negative part of our near future. Once again the concerns related to national security, energy, and food security cause farmland to jump to the top of the list.

The Other Side of the Coin

Yes, we are eternal optimists at Heartland Ag Group Ltd. America is a wonderful place to be a part of. However, we want to be accurate and realistic about always giving you the best advice out there.

Here are some things to watch over your shoulder as we move through the next 12 months.

- Watch the overall economy—a double dip recession could cause bad things to happen and agriculture could be drawn into that.
- Watch out for massive tax increases that can be a wet blanket on all of our investments. The federal government simply has to have more money.
- Be careful of legislation like cap and trade that can be a game changer. Likewise, ethanol is a part of our agricultural fabric and approval of higher blends would be supportive.

All of these are on the landscape but hopefully we can avoid them.

In Summary

Agriculture is well positioned to prosper in the upcoming 12 months and on into the extended future. As you can quickly see, there are a lot of things influencing us as we move forward. When you add up the balance sheet, there are more positives than negatives. Look for Midwest farmland values to work higher in the coming months.

2009 Prime Farmland Sales

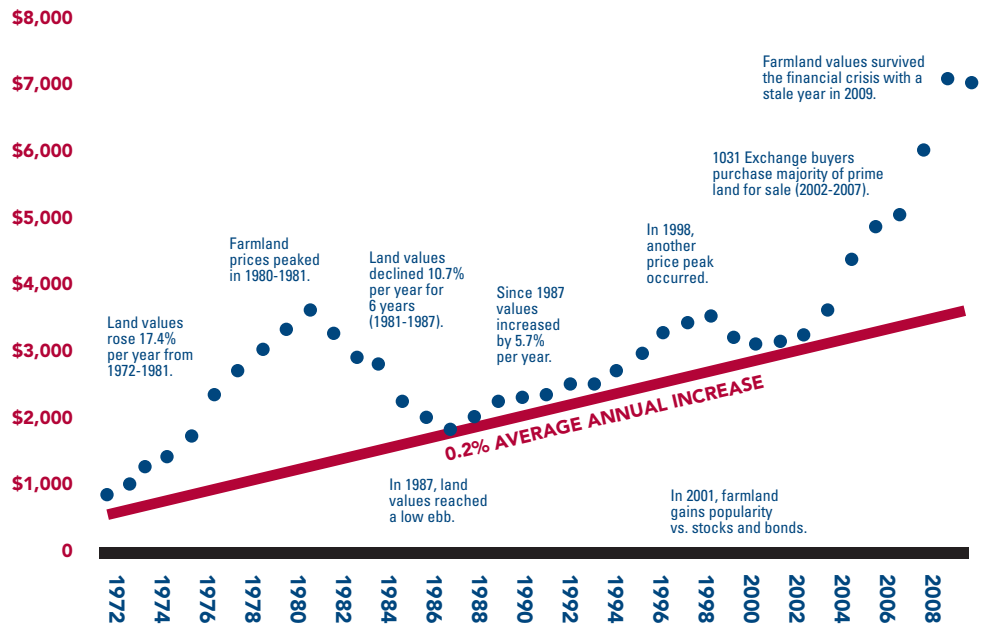
The following examples represent prime farmland transactions across Central Illinois during the past 12 months:

Date	County	Township	Acres	\$/Acre	Buyer	Seller
02-09	Christian	Johnson	388.00	\$7,655	H. Buffett	Vollintine Trust
10-09	DeWitt	Nixon	239.40	\$6,672	D. Richter	Southern Pilgrim LLC
06-09	Logan	Broadwell	491.87	\$6,500	L. King	J. McClure Estate
01-09	Logan	Chester	238.00	\$7,358	J. Schlict	L. Goodwin
03-09	Macon	Mt. Zion	144.26	\$6,910	D. Kraft	J. Horn
03-09	Macon	So. Wheatland	238.94	\$7,600	Sequoia Holdings	Greanias Farms
06/09	Moultrie	Marrowbone	84.37	\$7,084	M. Homerding	G. Sharp
04-09	Piatt	Bement	81.30	\$6,593	Schweitzer Trust	J. Mertz Trust
12-08	Piatt	Blue Ridge	200.00	\$7,200	Hendren LLC	T. Roth
07-09	Shelby	Rural	400.00	\$6,712	Two Roads Farm LLC	Wilber Farm LLC

Prime Farmland Values

Central Illinois—December 2009

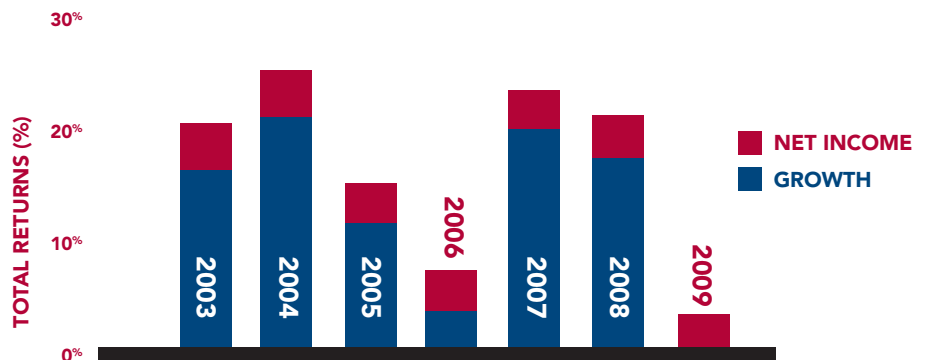
At Heartland Ag Group Ltd., we maintain a detailed database of farm real estate transactions throughout Central Illinois. Each sale is an important part of the dynamic farmland market we operate in. Note the historical changes (since 1972) and trends shown. The long-term uptrend line since the 1970s is intact! Note — Farmland has averaged a 6.2% annual increase over 37 years.



Total Returns to Illinois Farmland

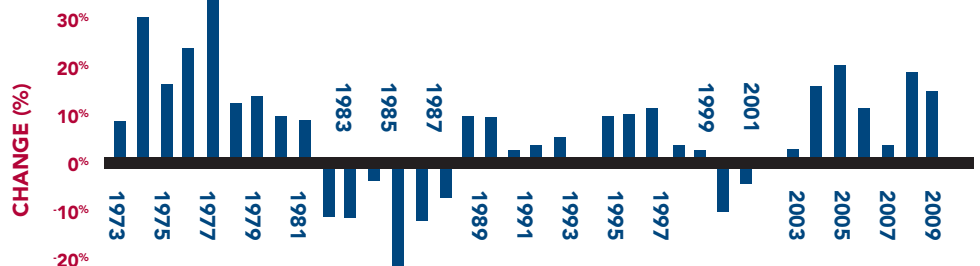
Farmland Is a Growth Stock

Farmland is a growth stock — with a very stable earnings component over time. Our chart shows the returns to prime central Illinois farmland since 2003 — averaging a combined 16% return for the 7 year period.



Central Illinois Farmland Price Volatility

This chart reflects 36 years of annual changes in farmland values (80% are positive). Farmland price volatility is low.



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Your Heartland Ag Team

At Heartland Ag Group, 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 the premier source of information for farmland owners, operators, and investors.



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 a daughter, Taylor.



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 live in Decatur with their four children: Amanda, Dustin, Matthew, and Cole.



Rhonda Hutchens
SECRETARY

Rhonda handles the financial transactions for our company and our clients. She also provides secretarial support for both farm management and appraisal services. Rhonda joined the team in August 2003. She and Gary have two children, Laramie and Shelby, and live in Decatur.



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.



Jean Davison
**GRAPHIC DESIGN/
SECRETARY**

Jean provides support for our real estate, farm management, and appraisal services and designs the company media materials. Jean joined the company in September 2009. She and Dennis have five children: Nicole, Candice, Derrick, Joshua, and Jeffrey. They live in Decatur.