



Heartland Ag Group Ltd.
What's Driving Illinois Farmland Values
As of Midyear 2007

The Illinois farmland market has been active and exciting throughout year 2006 and into midyear 2007. Values are generally rising in the central part of the state. The volume of land on the market is normal - - with buyers and sellers evenly matched. It doesn't take long to sell a prime farm in this market. Tax-free exchanges by out of our area investors have diminished. Local farmer interest is coming back. Inflation is still on our radar screen.

- ? **Land Values Are Stable** - Central Illinois prime farmland values are in the \$5,000 to \$5,500 per acre range. We have traded in this general price range for the past six to twelve months.
- ? **Supply and Demand** - Throughout year 2006 and into 2007 - - the amount of acreage on the market steadily increased. The volume of people desiring to do an exchange has diminished as interest rates have driven down the price of residential housing and subsequent land development needs. There is a renewed amount of local interest, farmer interest and general investment interest.
- ? **Tax-Free Exchanges** - Section 1031 of the Internal Revenue Code allows exchange of like kind income producing real estate. There is a *somewhat-decreasing volume* of people desiring to exchange into farmland from outside sources. This includes developers, landowners in active residential and commercial areas, and other farmland sellers.
- ? **Absentee Ownership** - 55% of the land in the United States is owned by people who do not farm it. Agriculture needs outside capital and welcomes these investors. Central Illinois has a much higher percentage - - approaching 75% absentee ownership.
- ? **Inflation** - The CRB Index of all commodities surpassed the all-time high set in 1980 - - suggesting that we may have some more inflation in our future. Watch grain prices this season!
- ? **Farmland Returns** - Farm income levels will increase sharply with \$4 corn and \$7 soybean price prospects! Returns to farmland could jump 30-40%. Remember farmland is what it earns - - so upward pressures on land values is coming.
- ? **Interest Rates** - Agriculture truly enjoyed the long period of low interest rates of the last several years. The rising rates have now become expensive and are having a slight dampening affect on farmland values.

- ? **Size and Quality** - Our Illinois farmland market reflects a significant premium for larger tracts of high quality farmland which are available to purchase. Premiums can range upward of 10%.
- ? **USDA Farm Programs** - The 2002 Farm Bill is an excellent safety net and is recognized as that. The stable income allows buyers to safely purchase farmland and expect a reasonable income stream. Current farm bill talks suggest an extension of current agricultural policy which is a comfort to farmland buyers.
- ? **Alternate Investments** - Rising interest rates are starting to challenge the earnings on farmland as an investment. Stocks and bonds and other equities continue to be in a similar position to farmland as an investment. Now we have competition!
- ? **Farmland is a Growth Stock** - Take a look at the chart provided on Central Illinois farmland values for the last thirty years. The underlying uptrend is approximately 6% a year.
- ? **Farmland is What it Earns** - The ultimate true value of farmland is the earning stream. Commodity prices are moving higher and that earning stream provides the bases for higher land value.
- ? **A Paradigm Shift** - People bringing in money to Central Illinois are willing to accept a lesser return because their alternative investments are producing substandard returns. We are enjoying those money flows into Illinois farmland.

In summary - Illinois farmland is an excellent investment for the long term. For more information feel free to contact us as follows:

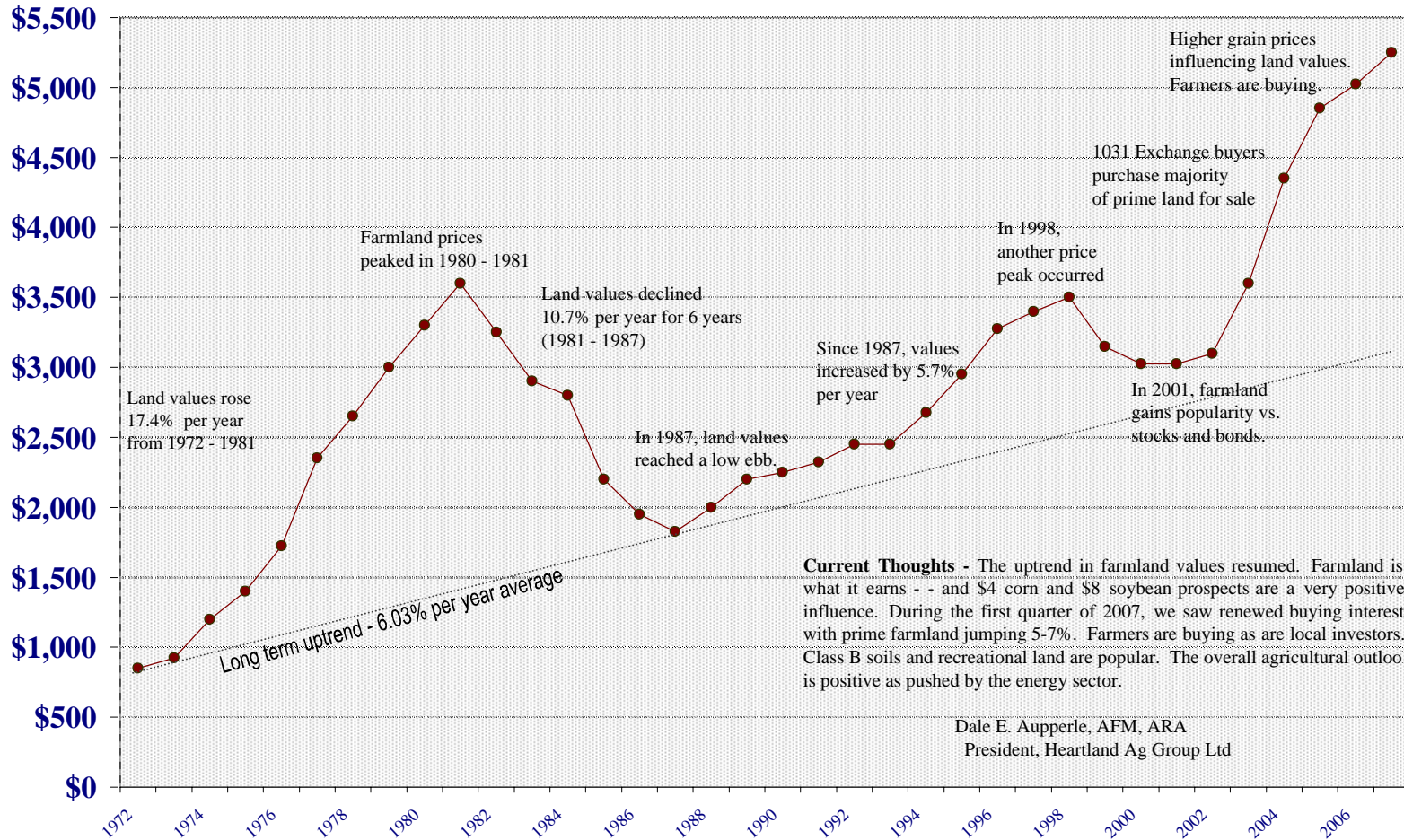
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Prime Farmland Values in Central Illinois *As of June 2007*

Heartland Ag Group Ltd. maintains 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 below. The long term uptrend line since the 1970's is intact! Remember -- this chart addresses prime farmland across Central Illinois!



2007 Farmland Value Details

Decatur is at the center of Central Illinois with excellent soils, a large agribusiness support network, and a high level of interest from non-agricultural sectors. Here are some observations on the year we just completed.

- ? *Land Value Uptrend Resumes* - Our chart on the reverse of this page shows that land values have taken off during the first six months - - up 5-7%. That follows a 4% increase in 2006 and a continuation of a 20-year uptrend.
- ? *Development Activity* - The general Decatur and surrounding area are not in a major growth pattern. Very little residential, commercial or industrial development activity occurred in 2006. As a result, there was not local pressure on the farmland market.
- ? *Type of Buyers* - A majority of the money purchasing farmland comes from outside our area. Many of these investors are completing 1031 Tax-free Exchanges as well as simply investing in farmland as an alternative investment. Farmers and local investors are spending their new found profits and are now the major buyers of area farmland. Note that approximately 72% of the land in Macon County is absentee owned (*non-farmer*) - - one of the highest in the state.
- ? *Returns to Farmland* - The 2006 net farm income from farming was excellent. The escalating commodity prices have enhanced the profitability for 2007 and those returns are pushing farmland prices higher. Purchasers are getting a 3½% return which is competitive with alternate investments.
- ? *Type of Sales* - With the majority of potential land buyers needing flexibility to complete trades - - the local sellers recognize that need and negotiated privately versus scheduling public auctions. The auction sales that occurred during February and March of 2007, showed land values jumping 5-7% in all areas across Central Illinois.
- ? *Volume of Sales* - As prime farmland prices have exceeded \$5,000 per acre, the volume of land offered for sale has declined. It is somewhat difficult to find what you are looking for. That is in contrast to the slightly larger volume of land for sale throughout 2006 as aggressive buyers caused some landowners to look ahead and agree to sell their farming operations.
- ? *Market Timing* - During February and March - - farms began disappearing off the market quickly - - especially after auction prices showed higher land value levels. Prime farmland will not stay on the market very long in 2007. We are watching to see if the higher land prices draw more sellers to the market.
- ? *Size of Tracts* - 1031 exchange buyers are typically looking for larger blocks of land over \$1 million in value and higher. There has been a continuation of increased size of tracts of land being offered for sale. The local community is more interested in the typical tracts which are 80 to 120 acres.



Central Illinois Recent Farmland Sales

As of April 1, 2007

At Heartland Ag Group Ltd. we closely monitor the farmland market across our Central Illinois territory. We thought you might like an update on the recent activity - - note the following land sales that have occurred in an eight county area:

<u>County</u>	<u>Sale Date</u>	<u>Acres</u>	<u>Price Per Acre</u>	<u>Seller</u>	<u>Buyer</u>
Macon	03/06	367.00	\$5,400	Frederick Alexander Ttee	DLB II Ltd Ptnshp
	03/07	80.00	\$5,300	Roger Workman	Randy & Vicki Meyer
	02/07	113.51	\$5,229	Morr Heirs	Midway Inv. Holdings
	01/06	161.40	\$5,000	David Batchelder	Dennis Sagez
	12/06	160.00	\$4,900	Weidenbacher Estate	Stade Farm Tr. #11-05
	11/06	160.00	\$4,825	Carl Weillepp Trust	Thomas & Cheryl Halat
Piatt	11/06	396.33	\$5,708	Harlan Moore Heart Fnd	Glen & Georgette Pauling
	04/06	225.00	\$5,634	Amos & Marg. Weedman	North Star Trust Co.
	12/06	80.00	\$5,300	William Redman, et al.	Clarendon Richert, Ttee
	02/07	80.00	\$5,125	Chapman Properties	Williamsville Bk. Tr. #9002
	01/07	155.76	\$5,100	Dwight Huffstutler	Glen & Georgette Pauling
	03/07	80.01	\$4,899	Robert Rutherford, et al.	Midwest Inv. Holdings
	01/07	349.33	\$4,650	William Abbott	David McClure
Moultrie	07/06	120.00	\$6,042	William & Janis Brown	State Bk. Arthur Tr. 492
	01/06	90.81	\$5,335	Wilbur Fitzjarrald Tr.	Jesse Williams
	05/06	82.12	\$5,300	Charlotte Scott Trust	Willard Lenschow Tr. #1
	11/06	389.79	\$5,181	Beall Family LP	David & Debra Geils
	06/06	142.10	\$5,100	Steven Koomar	Nshe Auburndale, LLC
	12/06	147.94	\$4,900	Robert Weber, et al.	David Melvin, et al.
DeWitt	04/06	80.00	\$5,634	Amos & Marg. Weedman	North Star Tr. #06-9451
	12/06	480.00	\$5,315	Mark Jorstad	Bernard Bols, et al.
	01/07	121.44	\$5,200	Eugene & Marg. Hoffman	David McClure
	06/06	197.50	\$5,073	DMJJ Farms, Inc.	John Greek
	08/06	120.00	\$5,000	Sylvia Vessiny, et al.	James Walden
	02/07	158.00	\$5,000	Kathryn Miller	Glen Keller
	02/06	160.00	\$4,838	Charles Pearl	Kathryn Augsburg Tr.
	04/06	112.99	\$4,500	Garst Seed Company	Law Title Def. Exch.

<u>County</u>	<u>Sale Date</u>	<u>Acres</u>	<u>Price Per Acre</u>	<u>Seller</u>	<u>Buyer</u>
Logan	06/06	158.44	\$5,150	Alan Investments, Inc.	McLean Co. Land Tr. HF-20
	03/06	203.92	\$5,000	Rita A. Miller, et al.	Manlove, Inc.
	05/06	286.80	\$4,999	Lynn Landes Tr., et al.	Bullard Tr. #70
	06/06	479.80	\$4,913	Country View Inc.	Foster Family 1998 LP
	01/07	189.00	\$4,800	Thomas Hill, Ttee	Bradley & Laurie Ingram
	04/06	160.00	\$4,700	John & Lisa Dowson	BLP Logan Co. Prop. LLC
Christian	02/06	75.00	\$6,000	CAM-Illinois LLC	Wilard Kearns Estate
	12/06	400.00	\$5,691	Stuart Brown Farms LP	Bar-S Inc.
	04/06	80.00	\$5,357	Brad & Dana Damery	Hughart Farms LLC
	01/06	38.00	\$5,139	John Gaither	Marvin Straub Rev. Tr.
	03/07	77.50	\$5,100	William Bruner, et al.	Circle A Land & Livestock
	01/07	320.00	\$5,000	Bar-S Inc.	Luster-Deal Inc.
	03/07	160.00	\$4,900	Kuhle Farms, Inc.	James & Doris McLeod
	10/06	463.54	\$4,893	Jan Branham Trust	John & Darla Holmes
Shelby	05/06	121.39	\$5,642	Glenn & Naomi Kunkel	Robert & Dianne Howie
	02/06	480.21	\$5,100	Finks Farms Inc.	Bernhard Farms Inc.
	06/06	80.00	\$4,830	James & Cathy Barick	Vivian Wendling
	02/07	80.00	\$4,825	Kim & Pamela Schlicht	Thomas & Joye Welsch
	02/07	309.95	\$4,700	Jack Getz	Midwest Farms
	12/06	115.00	\$4,500	Dwight Pogue, et al.	Robert & Emma Primmer
	01/07	50.00	\$4,500	Keith & Marjorie Hazen	Uphoff Farms, Inc.
	12/06	103.00	\$4,500	Benjamin Lovins, et al.	Timothy Bennett, et al.
Coles	01/06	100.98	\$5,500	1 st Mid IL Tr #44-0005-90	Gary Melvin & Bruce Speer
	04/06	380.32	\$4,742	Wayne Temples Estate	Midland States Bk Tr. 1779

In summary - The farmland market in Central Illinois is very active (*and up trending*). At Heartland Ag Group Ltd., we maintain an extensive database of all farmland sales in our area. Call us if you want an update.

Dale E. Aupperle, AFM, ARA
President
Heartland Ag Group Ltd.



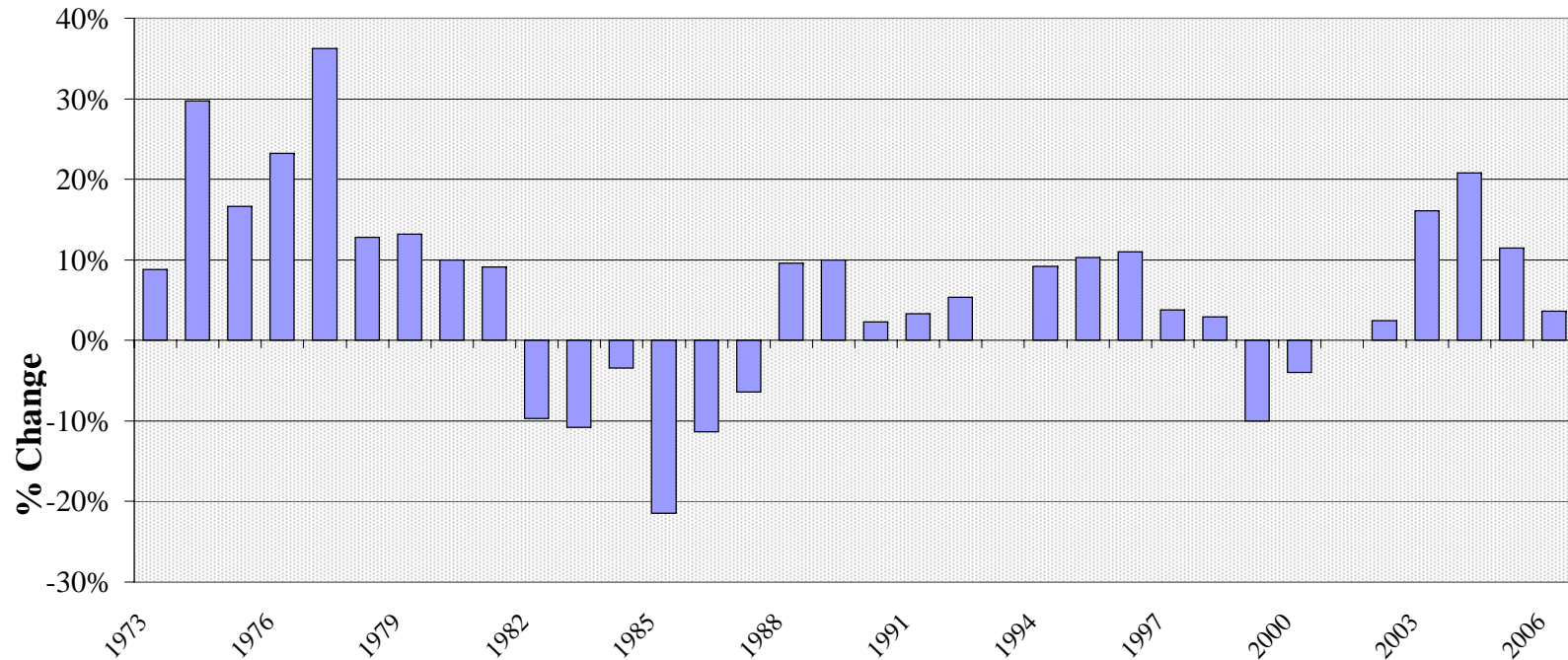
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Central Illinois

Farmland Price Volatility

Thru Year End 2006



Our graph of farmland price volatility shows the relatively stable movement of farmland values (*generally upward*) over the last 30 years. Prime farmland in Central Illinois rose 21% in 2004 -- the largest percentage change since the early 1980s. In 2005, a 10% increase occurred. The wider swings in volatility came during the inflation days of the 1970s and the sharp deflation of the mid 1980s. In the past 32 years we have only had 8 years (25%) that showed a decrease in land values. Yes -- farmland is on the upswing due to low interest rates, rising global demand for corn and soybeans, farmland as an alternate to other investments, and interest from non-farm investors such as tax-free exchange buyers. Agricultural investors like stability -- a safe, generally upward trend in the value of their investment. Most do not like sharp swings in prices up or down.

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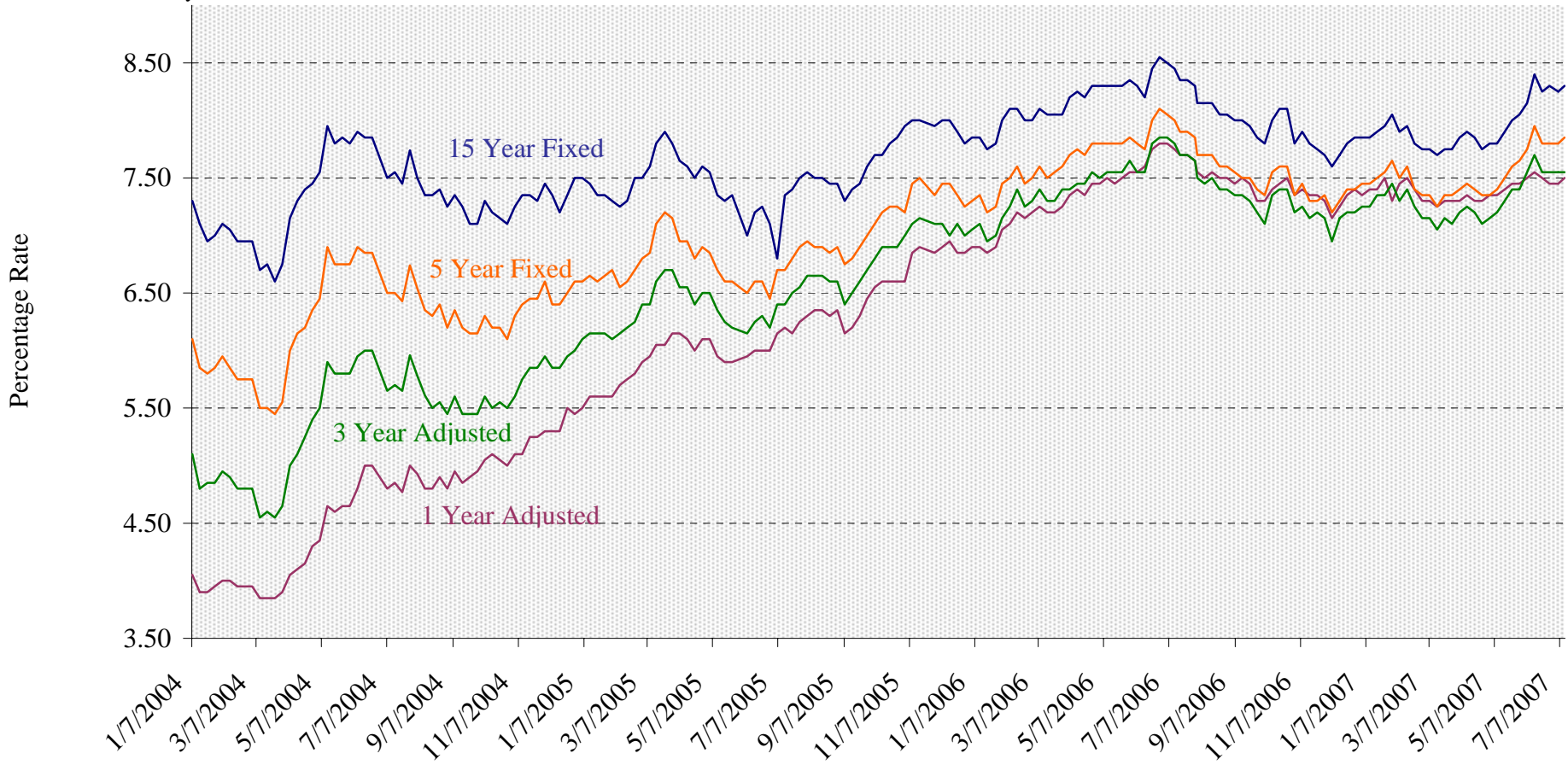


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Farm Credit Services Mortgage Interest Rates *As of July 2007*

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. This chart begins in January 2004, and continues through the present date. Thanks to Farm Credit Services (*a nationwide agricultural lender*) who provides these rate quotes for us.

Take a look at the declining interest rates until April 2004 (*which reached the lowest level since Dwight Eisenhower was President almost fifty years ago*). That trend was good if you pay interest and was bad if you were trying to earn interest on your investments. The trend turned higher for the next 2 years with a noticeable increase in the 1 and 3 year rates. Rates have declined from mid 2006 - - and the yield curve has nearly inverted, with long term rate nearly the same as short term rates!





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Central Illinois Precipitation

update: April 2007

The 2006 growing season across Central Illinois continues the trend of below normal precipitation that began in January 2005. We have only had four surplus months in the last eighteen months. Rain makes grain -- all of us would like to see this return to a more normal pattern.

