

THE FARMLAND Barometer



TIMELY INFORMATION AND INSIGHT ON CENTRAL ILLINOIS FARMLAND

January 2011

A look
at the

FUTURE



by **Dale E. Aupperle**
PRESIDENT

Prime Farmland Values across Central Illinois rose 14% in 2010. Most of the increase showed up after Thanksgiving (*as commodity prices sky rocketed*). Our chart of prime farmland values notes year ending values of \$8,000 per acre! Hang on tight - - here we go!

History is our teacher in these uncertain times! Bruce J. Sherrick, PhD. at the University of Illinois highlights the 10.45% combined returns to farmland from 1970 through 2009 (*which is well above all alternative investments over the last 40 years*). Yes - - Agriculture is a bright spot on the world stage!

Rapid price improvements always bring on talk of a bubble - - and anything is possible. *However - - farmland is what it earns - - and higher yields are combining with excellent grain prices to provide the profits that are propelled all types of farmland values higher.* There is no bubble in farmland - - it is solid as a rock. Let's watch farmland earnings from here forward for any change.

The Outlook for 2011

The upcoming year has some special bright spots in it for all.

Lets take a quick look:

Grain Prices - With \$5.00 to \$6.00 corn and \$12.00 to \$14.00 soybeans your net farm income prospects are exciting. Project a 200 bushel per acre corn yield - - and income goes over \$1,000 per acre!

Weather - A dry fall allowed deep tillage to remove compaction problems. Late season rain fall and early winter snows (*poor man's fertilizer*) and freezing temperatures are recharging the ground for an excellent chance at above average yields.

Ethanol - The extension of the blenders tax credit in the year-end congressional tax package gives ethanol a boost - - we will use 35% of the corn crop for ethanol. And it's competitive with world oil prices.

U.S. Dollar - Our currency continues to be weak world-wide which supports agricultural exports and drives our Agricultural sector higher.

Livestock - With \$80.00 hogs and \$110.00 cattle - - livestock continues to be profitable. They consume a lot of our grain.

Conservation Reserve Acres - Be careful - - there are nearly 40 million acres in the Conservation Reserve Program. If food price inflation threatens - - the government could allow lots of CRP acres to be planted to crops.

Rationing - Worldwide demand is so intense that commodity prices will have to get high enough to ration demand (*not enough crop to go around*). It takes \$7.00 corn to ration ethanol! We should enjoy some exceptionally high prices this year.

Continued on Page 2

What's Driving Farmland Values?

Let's take a quick look at the positive forces that are pushing the prime farmland value trend upward: It is a complex world & lots of factors are involved.

Farm Income - Is the primary driver as both farmers and investors have money to invest. A 4% cash return is very attractive!

Energy - Higher gasoline prices are related to the overall price of crude oil. Ethanol and agriculture will follow along.

Value of the Dollar - Our declining dollar supports commodities and therefore farmland values. The dollar decline is expected to continue.

Interest Rates - Long term mortgage money is relatively cheap. Interest is a cost, so low interest rates are beneficial to land prices. It's a good time to borrow!

Alternate investments - Farmland produces an excellent cash flow and appreciates in value (*approximately 6.2% per year*). No other investment compares.

Inflation Threat - Our sovereign debt crisis and deficient spending all point toward severe inflation. Farmland is an excellent hedge against inflation.

Estate and Capital Gains Taxes - All of us dodged a bullet when Congress extended the Bush era tax cuts in December. Federal capital gains taxes are preserved for two years at the current rate of 15%.

And, the estate tax exemptions allow a family to pass \$5 million per spouse (*up from \$3.5 million in 2009*). Both of these events are positive for land-owners and Agriculture's future.

In Summary

At Heartland Ag Group Ltd., we are bullish on farmland values! Our farm products are needed as food, feed, fuel, and fiber across an ever-expanding demand base. World grain stocks are at a low ebb - - and commodity prices should remain strong for several more years. Crop yields are responding positively to technology and good farming practices. Our profit picture looks remarkable!

Look for prime farmland to push higher from the pressures of increased profits as well as intense interest from investors and farmers around the globe. Higher prices for farmland will continue in 2011.

Comparing Farmland to other Financial Assets

Here is a quick comparison of how farmland compares in its overall return over the past 40 years - - it's the best!

<u>Asset/Index</u>	<u>1970 - 2009 Average Annual Return</u>	<u>1990 - 2009 Average Annual Return</u>
Farmland	10.25%	10.40%
Mtg./REITS	9.00%	10.43%
Aaa (Bonds)	8.32%	6.85%
10 yr. Treasury	7.30%	5.56%
Dow Jones	6.42%	6.66%
S & P 500	6.24%	5.75%
CPI	4.36%	3.69%
PPI	3.98%	2.27%
CRB Spot Index	3.25%	2.40%

Note: From Bruce J. Sherrick, PhD at the University of Illinois.

2010 Prime Farmland Sales

Prime Farmland values shot up 14% across Central Illinois in 2010. Our data shows the jump from early 2010 sales and year ending 2010 farmland values. Farmland went from \$7,000 to \$8,000 per Acre!

Early 2010

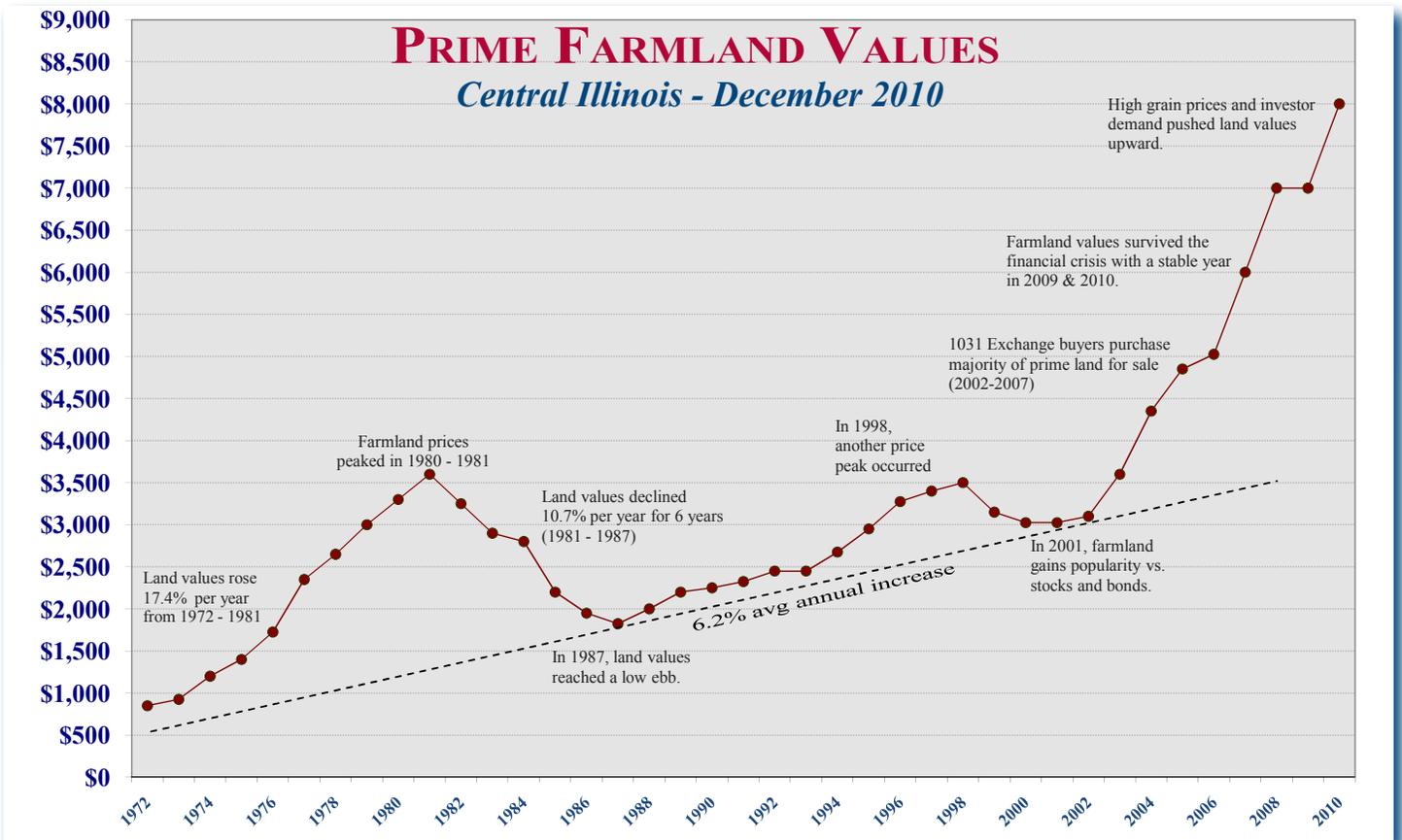
<u>Sale Date</u>	<u>County</u>	<u>Acres</u>	<u>\$/Acre</u>
Dec. 2009	Logan	80.00	\$6,875
Feb. 2010	Macon	124.71	\$7,050
Feb. 2010	Piatt	47.24	\$7,100
Jan. 2010	Christian	120.00	\$7,000
Jan. 2010	DeWitt	81.28	\$7,200

Average price land \$7,000

Year End 2010

<u>Sale Date</u>	<u>County</u>	<u>Acres</u>	<u>\$/Acres</u>
Dec. 2010	Macon	53.32	\$8,300
Dec. 2010	DeWitt	115.69	\$7,950
Sept. 2010	Shelby	80.00	\$7,600
Dec. 2010	Christian	120.00	\$8,100
July 2010	Moultrie	40.00	\$8,025

Average price land \$8,000



Current Thoughts - Year-end 2010 brought rapidly increasing farmland values that surpassed the \$8,000 mark. For the year land increased 14.0% (up from \$7,000 per acre a year ago). \$6.00 corn and \$14.00 beans fueled the price spurt. Farmers are optimistic and buying. Outside investors (both large and small) are looking to purchase land. There is less farmland than normal being offered for sale. Also, lots of concerns about excessive deficit government spending and higher inflation coming.

TILE DRAINAGE

The old saying goes “You pay for tile whether you write a check or not!” With today’s rising farmland values - - those extra bushels per acre are magic! Farmers, landowners, investors alike are seeing an opportunity to enhance their net profits by installing drainage tile that systematically drains problem wet areas and create higher corn and soybean yields. The return on their investment is great - - and the Internal Revenue Service lets you deduct the tile expenses quickly verses the old long term depreciation schedules. Lots of activity in the countryside.



Tile drainage projects are widespread in Illinois.

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Your Heartland Ag Team

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.



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 two daughters, Taylor and Morgan.



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 one grandson: Jake.



Rhonda Hutchens
**FINANCIAL ACCOUNTING/
SECRETARY**

Rhonda handles the financial accounting 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.