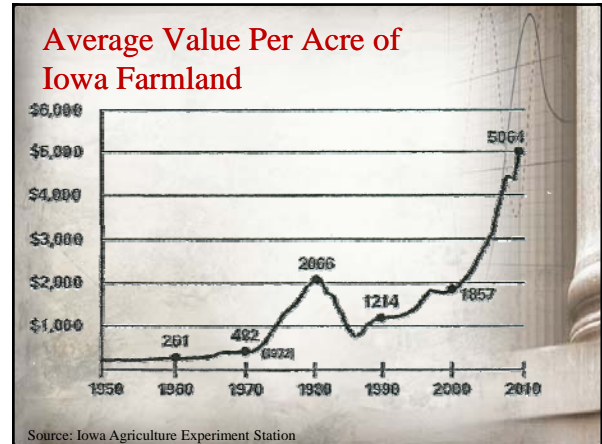
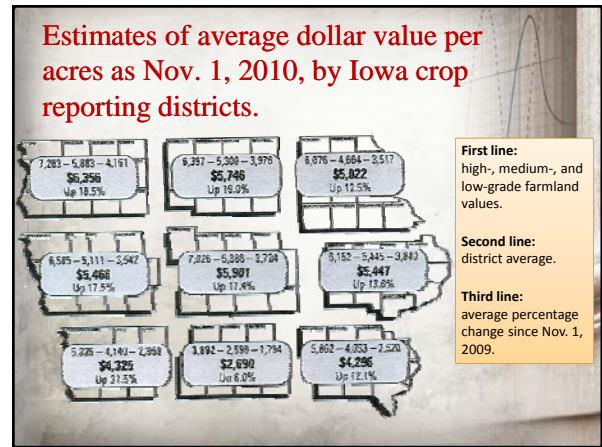


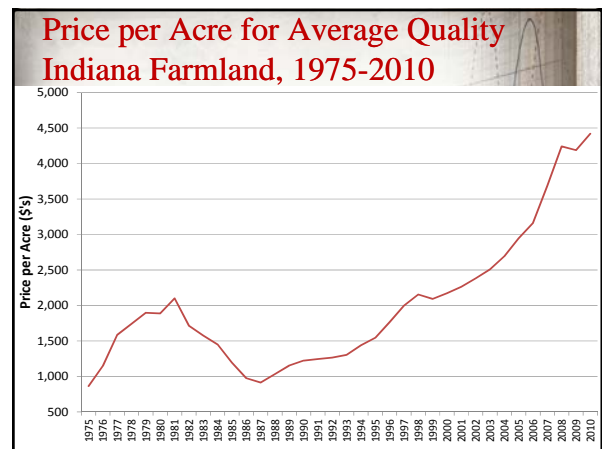
The Farmland Market: Buy, Sell, Hold

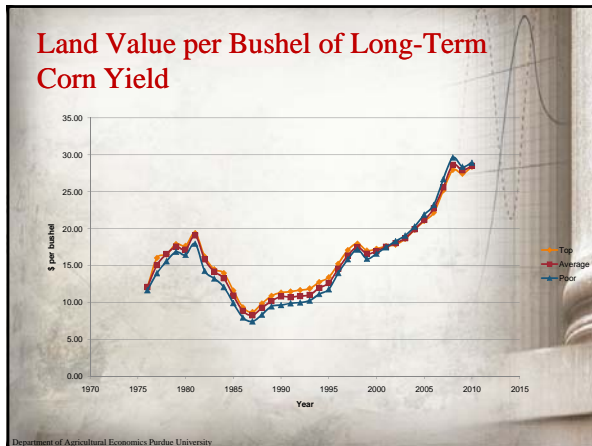


- ### The Market
- Two Iowa Sales – Sioux County
 - Parcel 1 – 80 acres, 70+ GSR - \$3,260
 - Parcel 2 – 80 acres, 70+ GSR - \$13,950
 - Chicago Fed Survey – October 2010
 - Indiana – 11%
 - Illinois – 8%
 - Michigan – 10%



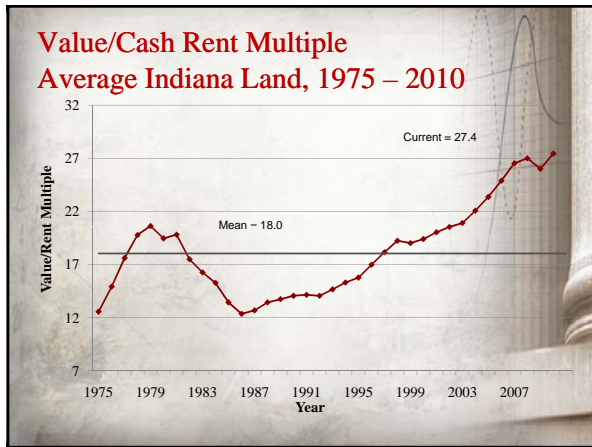
- ### The Market
- Iowa Realtors Survey – November, 2010
 - State average – 16% increase
 - 11 North Central Counties – 20% increase
 - Indiana – 270% increase since 1985 – 5.4% per year





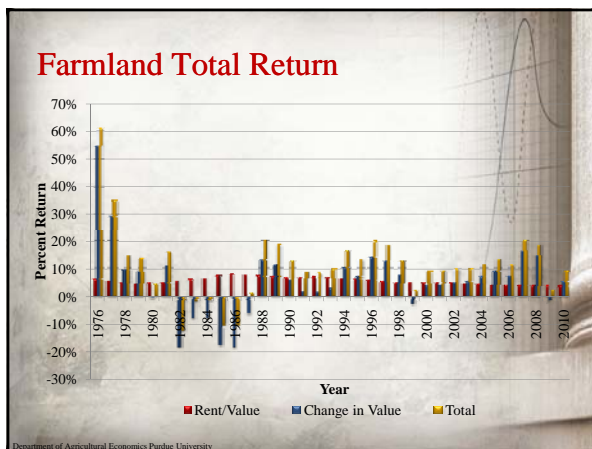
Land Demand and Supply

- Supply Issues
 - Market offerings
 - Normal turnover – 3-5% per year
 - Current turnover – 1.5% per year
 - Dominance of gift/bequest transfers
 - Rental opportunities/returns for recipients
 - Return potential for proceeds



Land Demand and Supply

- Supply Issues
 - Competitive returns and portfolio motivations of owners/investors
 - Forced sales/liquidators
 - Tax considerations – future expected increased capital gains tax rates increase supply today



Land Demand and Supply

- Demand Issues
 - Development/non ag production potential
 - Competitive returns and portfolio motivations of owners/investors
 - Inflation hedge potential of real assets

Land Demand and Supply

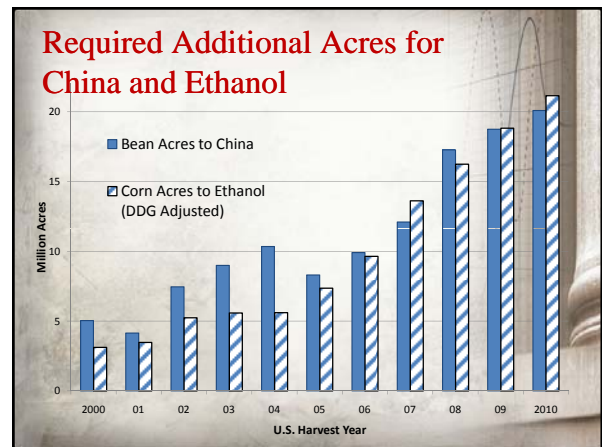
- Demand Issues
 - Tax considerations – lower capital gains tax increase demand
 - Expected incomes – prices, costs, productivity
 - Expected interest/discount rates
 - Expected growth in income

Income/Earnings

- Cash rents
- Residual Returns to Land

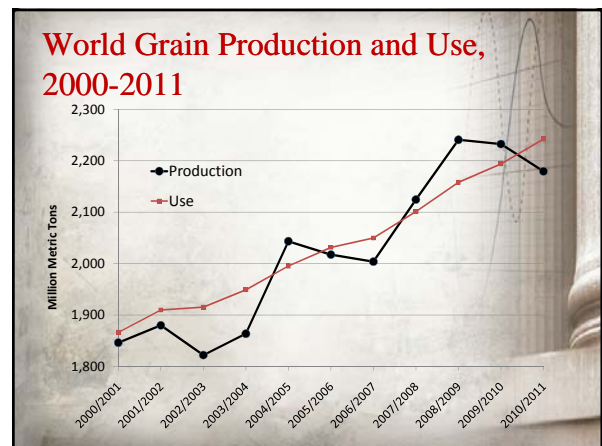
Valuation Fundamentals

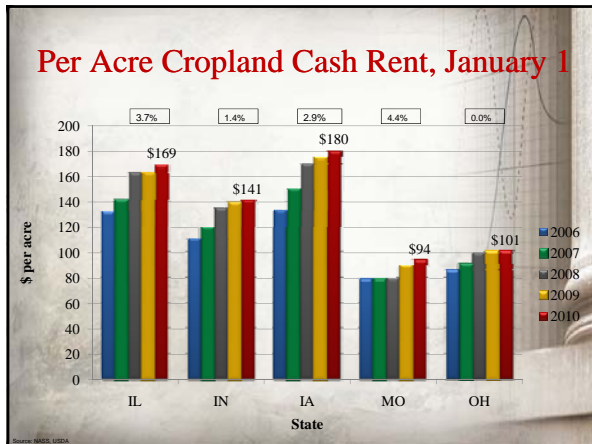
- Fundamental drivers
 - Incomes/earnings
 - The discount rate
 - The growth rate for income/earnings
 - The residual/terminal value



The Capitalization Concept

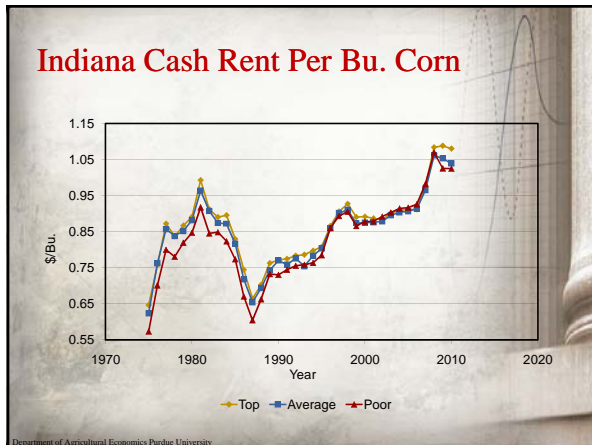
(for an infinite life asset)

$$\text{Value} = \frac{\text{income or earnings}}{\text{discount rate} - \text{growth rate}}$$




The Discount Rate

- Pure time preference for money – 2-4%
- Inflation premium
 - Results in the riskless rate
 - Proxy is U.S. treasury interest rates
- Risk premium



Residual Returns to Land – Indiana (high quality)

- 1975-1990 -- \$111/acre
- 1991-2000 -- \$123/acre
- 2001-2010 -- \$188/acre
- 2007-2010 -- \$310/acre

Average Rate on 10-Year U.S. Treasury Bonds, 1970-2009^a

Period	Average Interest Rate (%)
1970 to 1979	7.5
1980 to 1989	10.6
1990 to 1999	6.7
2000 to 2009	4.5
Entire period 1970 to 2009	7.3

^a Calculated as the average of the annual average rate on 10-Year Constant Maturity U.S. Treasury Bond, reported by the Board of Governors of the U.S. Federal Reserve System.

Risk Premium

- Low for cash rents – a “real” bond – 1-2%
- Higher for farm operators – 2-4%

Capitalization Rates 1990's

Risk Free Rates	Risk Premium	Growth Rate	Capitalization Rate
6	2	0	8
		3	5
	3	0	9
		3	6

The Growth Rate

- Cash rents – 3%
- Residual returns – 2-3%

Capitalization Rates 2000's

Risk Free Rates	Risk Premium	Growth Rate	Capitalization Rate
4	2	0	6
		3	3
	3	0	7
		3	4

Capitalization Rates 1970-1980's

Risk Free Rates	Risk Premium	Growth Rate	Capitalization Rate
8	2	0	10
		3	7
	3	0	11
		3	8

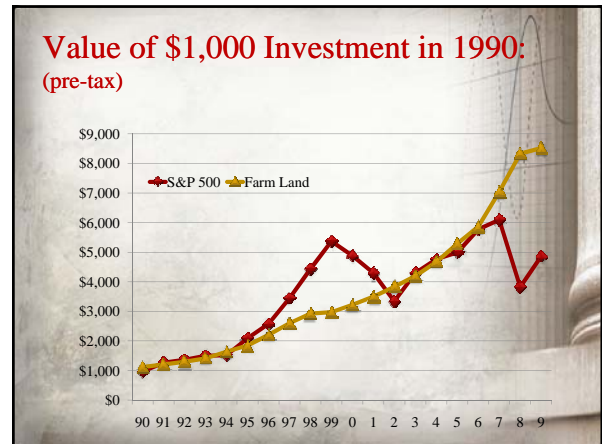
Sensitivity

Value is influenced by:

- Income** (Price, Cost, Productivity)
- Capitalization Rate** (Interest Rate, Risk, Growth)

Scenario Analysis

Time Period	'75-'90	'91-'00	'00-'10	'07-'10	2010
Residual Returns	\$111	\$123	\$188	\$310	\$280
Capitalization Rate (%)					
3	\$3,667	\$4,100	\$6,267	\$10,333	\$9,333
4	\$2,750	\$3,075	\$4,700	\$7,750	\$7,000
5	\$2,200	\$2,460	\$3,760	\$6,200	\$5,600
6	\$1,850	\$2,050	\$3,133	\$5,167	\$4,667
Last Year of Period	\$1,589	\$2,715	\$5,310	\$5,310	\$5,310



What If?

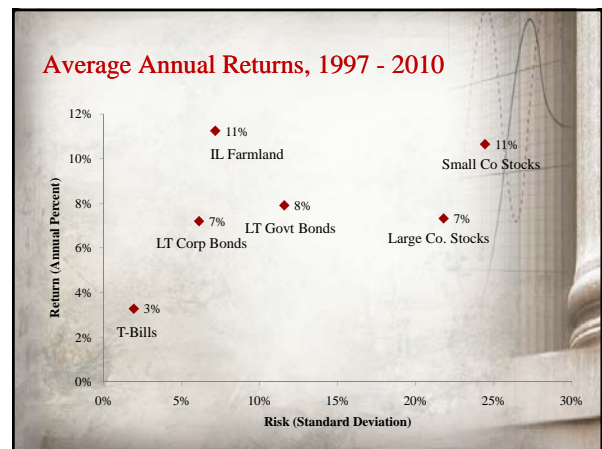
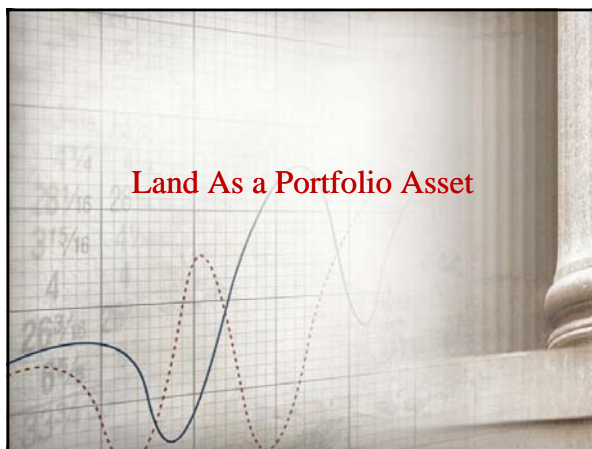
	Value	Income	Implied Cap Rate
2010	\$5,310	\$280	5.27%

- Decline in come by 10% to \$252
 - Value = \$4,781 (-\$528)
- Increase in cap rate by 1%
 - Value = \$465 (-\$844)
- Both
 - Value = \$4,019 (-\$1291)

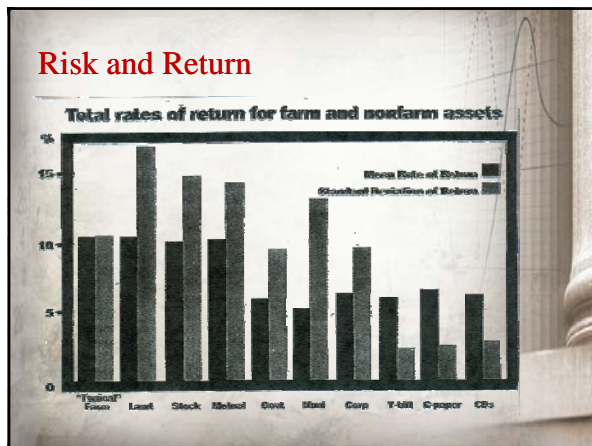
Risk and Return

Average annual returns 1960-88

Investment	Total	From Income	From Capital Gains
----- (Percent) -----			
Farm:			
Farmland	10.6	5.4	5.2
"Typical" farm	10.7	8.2	2.5
Nonfarm:			
Stocks	10.4	3.9	6.5
Mutual funds	10.5	--	--
Gov't bonds	6.1	7.3	-1.2
Municipal bonds	5.4	6.2	-0.8
Corporate bonds	6.6	8.2	-1.6
Treasury bills	6.5	6.5	--
Commercial paper	7.1	7.1	--
Certificate of deposit	6.8	6.8	--



Risk and Return



Closing Thoughts

- Ag is a good place to be – NOW
 - Recession Resilient
 - Strong Earnings Future
 - Real Assets/Good Inflation Mitigation Strategy
- BUT...the risk has increased
 - Margin risk
 - Interest rate risk
 - Don't ignore the weather
 - Strategic risk

Correlation and Beta (1992-2008)

- Farmland Correlations
 - S&P 500 - .153
 - Ag Products - .218
 - CRB Index - (.087)
 - Fertilizer and Ag chain - .318
 - Packaged Foods & Meats - .135

Closing Thoughts

- Earnings Pressures will Increase
 - Rebuilding of Supply Stocks
 - Cost Increases
 - Current Margins are not Sustainable
 - Capital Costs will Rise
- And Safety is Relative
 - Economic turbulence

Correlation and Beta (1992-2008)

- Beta's
 - Farmland – .098
 - Packaged Foods & Meats - .585
 - Fertilizer & Ag Chem - .909
 - Ag Products – .744
 - CRB Index - .151

So What Should You Do?

- Don't Drink the Kool-Aid – 9 billion people by 2050
 - They need money
 - A lot can happen in 40 years
- Managing/Assessing the Risk is the Key
 - The differentiator between Success and Survival
- Uncertainty Provides Opportunity
 - Assess According to the Criteria
 - Be more Selective/Discriminating

So What Should You Do?

- Manage operating/financial Risk in your current business so you can capture new ventures
- Increase your hurdle rate for new ventures – risk is higher, you need a higher return
- Lock in interest rates and deleverage – maybe it's time to take some money off the table

Thanks!!