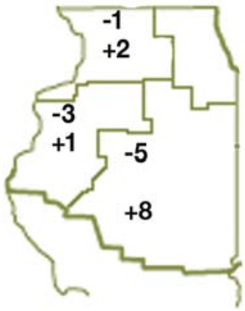
Farmland Seasons

Summer 2009

MGW MARTIN, GOODRICH & WADDELL, INC.
REAL ESTATE SERVICES

We help you power your investment portfolio with land



Chicago Fed report: *Despite first-quarter 2009 dip, farmland is up vs. April 1, 2008. A survey of 227 bankers in the 7th Federal Reserve District showed that values of good farmland declined in first-quarter 2009 compared with fourth-quarter 2008. The top numbers in the map above are quarterly changes. The bottom number is the change from April 1, 2008 to April 1, 2009. In our feature, Josh Waddell describes the "pause" occurring earlier this year.*

Renewed slump in stocks and commodities? *That's the prospect seen by Gann Global Financial analysts. Grains and stocks have rallied since March, but we're wary that it'll take more liquidation to wring out excess private debt. When stocks decline, that'll drag down commodities too. Fortunately, many farmers have already hedged good prices for 2009 production.*

In late June, *crops in Illinois and much of the Midwest were more stressed than last year, indicate "green index" satellite images from NOAA. Illinois' late start at planting is a major factor in this. You can monitor these reports; use the web link below.*

http://www.star.nesdis.noaa.gov/smcd/emb/vci/VH/vh_currentImage.php

A visit with Appraiser Mark Akers

Market uncertainties make a farmland appraisal more valuable now

Amid the current financial turbulence around the world, it's difficult to know what a particular farm or real estate value is at a given time.

Most stocks have lost about half of their peak value, and stocks could decline again if the current rally breaks down.

Meanwhile, the market value of good Illinois farmland has shown an amazing resilience in a very tough financial climate.

Here are a few ways we make sure you can have a reliable estimate of a sale price within a marketing framework.

1. Our appraisers stay in touch with market-makers.

Our real estate sales and property management staff provide an excellent resource for trends in the marketplace.

Since MGW provides real estate sales, appraisals and management on one team, we have a very current and well-grounded sense of the market.

This gives our appraisers a distinct advantage over fee appraisers who don't work for a "full service" firm.

2. We keep current on land sales. We monitor all actual sales from our region, which includes Northern and Central Illinois.

When we've confirmed the details of a sale, we include them in our database. The only sales we use as comparables for appraisals are arms-length, "open market" transactions.

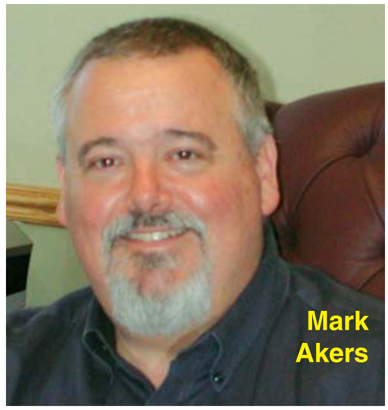
3. We watch for repeat sales of the same farm.

We maintain a special database in which a specific farm has sold more than one time.

These sales reduce the variables involved and provide a sound measure of change over time. They are like "same-store" sales data as a gauge of growth or decline in retail sales.

4. You gain a broad market overview. Our appraisal, real estate and farm management teams stay in close touch with colleagues around the Midwest.

We participate in the data that goes into the detailed update farmland value survey which is published annually by



the Illinois Society of Farm Managers and Rural Appraisers.

5. Our appraisals are based on precise appraisal techniques.

We study a number of factors when determining market value.

We adjust for soil quality, location, time of sale and other differences in characteristics of comparable farm sales.

Although each farm has very individual traits, it's possible to account for all of the farm's advantages and disadvantages in a single, very realistic estimate of value.

Farm groups react with alarm to new federal assault on land rights

Senate Bill 787, introduced April 2, 2009, would expand federal jurisdiction to every creek, farm pond, slough and prairie pothole in America.

The original Federal Water Pollution Control Act and its 1972 amendments limited federal agency control to "navigable" waters, which the Corps of Engineers defined in 1995:

"Navigable waters of the United States are those waters that are subject to the ebb and flow of the tide and/or are presently used, or have been used in the past, or may be susceptible for use to transport interstate or foreign commerce."

Litigation by federal regulators has broadened the reach of that definition over the years.

Now, S.787 would assert control over all "waters of the United States," including all streams, intermittent streams, wet meadows, natural and man-made ponds, playa lakes, mudflats, sandflats and wetlands.

In effect, federal agencies would have jurisdiction over virtually any land that gets wet.

The American Farm Bureau Federation is opposing S.787, saying it would give the federal government inordinate control over private property and "open the door for activists to sue any landowners whose activities they don't like."

S.787 asserts that federal jurisdiction extends "to the fullest extent that these waters, *or activities affecting these waters*, are subject to the legislative power of Congress under the Constitution."

Nothing in the Constitution grants federal regulatory agencies over virtually all land and surface waters, regardless of the faintest connection with interstate commerce.

In fact, the U.S. Constitution *reserves to the states* all powers not specifically granted the federal government.

Investors and farmers are buying land for good returns and protection from inflation

Demand for land is surging as buyers re-enter the market. This new farmland demand is coming from several sources, replacing exchange sales which dominated our region from 1996 through 2006. Prices per acre in northern and central Illinois are the same, or very near, the levels they were last fall.

By Josh Waddell, MGW Real Estate Associate

Our farmland sales activity has picked up briskly in the second quarter of 2009.

Following the implosion of the world financial system last summer and fall, we were not surprised to see buyers and sellers take a deep breath and wait while they processed what was unfolding before them.

As fear and uncertainty spread in banking and on Wall Street, farmland investors stayed fairly inactive from November until February.

But after this pause in farm real estate sales last winter, a mix of traditional and first-time land buyers have begun purchasing farmland in earnest. Much of the demand is coming from new sources, replacing a decade of exchange-dominated sales activity which faded in 2006.

The first new source is the seasoned investor who in many cases has a mixed portfolio of investments covering many kinds of asset classes.

As the financial sector began to regain some strength, investors were able to recapture a good deal of the capital they had lost last fall and winter.

We saw the S&P 500 index charge from 667 in early March to around 943 in a fairly short time.

Fearing continued volatility, as well as pending inflation, these traders sought to secure their new profits by investing in tangibles like land and commodities.

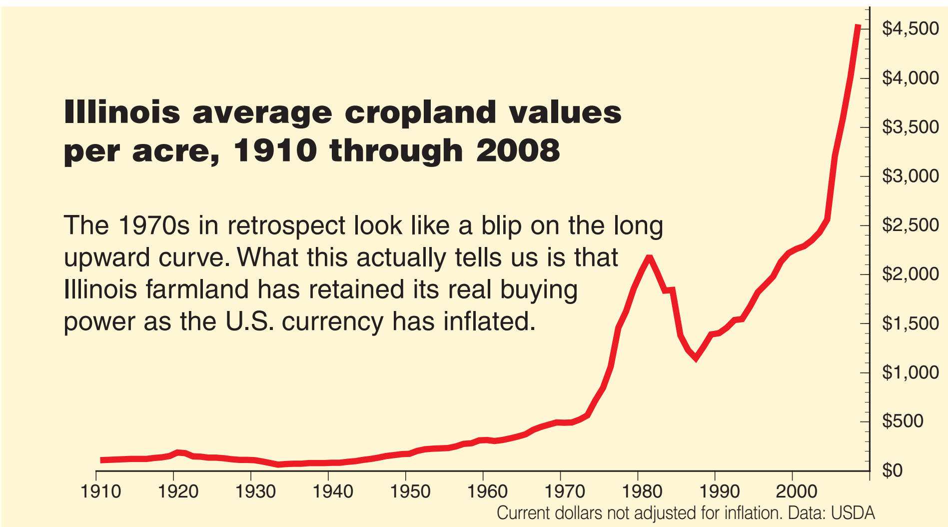
Coupling this with the underlying global pressure of food shortages, this "new" investor sees farmland and grains as very strong investments going forward.

A second type of buyer who has entered the market more earnestly in recent months is the farmer.

Despite strong volatility, early 2009 saw grain prices holding at historically high levels. This presented an opportunity for many Midwestern grain farmers to add to their land holdings.

As we reported in an earlier issue, farmers who keep records with the Illinois Farm Bureau Farm Management Program had an average net income per farm of $211,890 before living expenses in 2008.

It was only a few short years ago in 2005 when the same net figure was $62,940. In an effort to preserve these gains, many farmers have added more farmland to their operations.



The third type of buyer driving the market today is the absentee landowner who has accumulated land over the past 10 to 20 years — possibly longer.

In some cases this buyer is a retired farmer. In other cases it's someone who has inherited farmland, or an investor who began accumulating Illinois land decades ago.

These landlords have seen rents as much as double in recent years.

This unexpected increase in cash flow enables them to add substantially to their land holdings now.

Much like the "new" investors and

farmers mentioned above, these types of buyers see no better place to get an excellent rate of return, a solid hedge against inflation, and avoid the volatility of this stock market.

As buyers look across the state at what farmland investment has to offer, there are two unique trends that exist today.

For the long-term agricultural land investor who is looking for the highest possible return on his or her investment, we are often able to find the best deals available in Western and Central Illinois.

Featuring some of the best farmland on the planet, these areas command top cash rent. You can expect to pay 10% to 15% less per acre for this land than you would for land around the collar counties of Chicago, and it often rents for 10% to 15% more per acre than in the collar counties. The Central Illinois river markets provide a slight premium to operators which Northern Illinois operators can't access.

With Class A land selling for $6,500 to $7,500 per acre, land investments in Central Illinois can beat the yields of 10-year Treasuries.

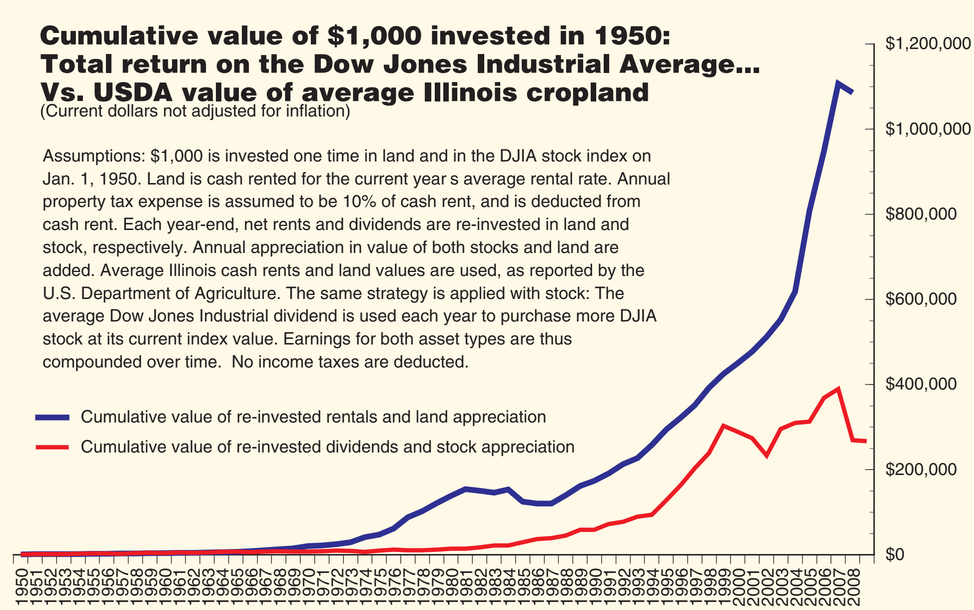
Even after real estate taxes and management fees, many investors are seeing 4.5% to 5.5% returns.

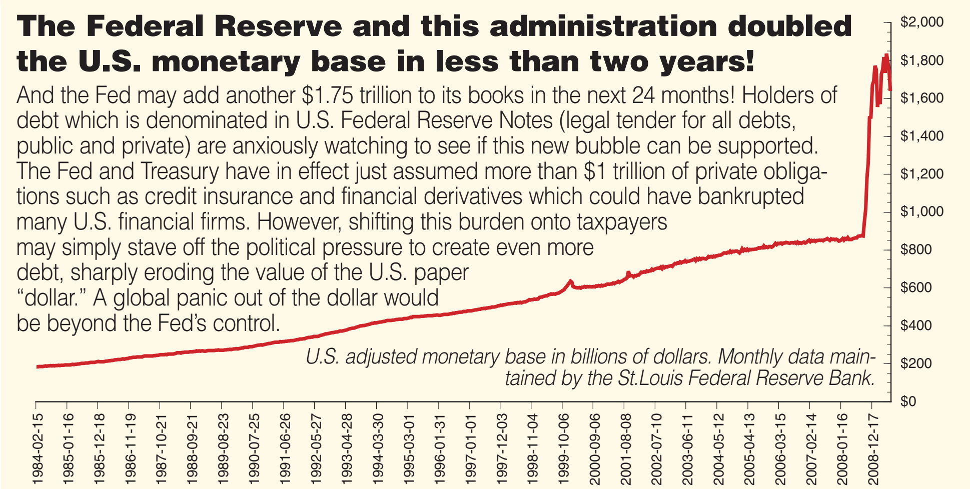
A second unique opportunity in investing comes in the counties that surround the suburbs of Chicago that I mentioned above.

For an investor willing to take a 2.5% to 3.5% return for a few years, as opposed to the higher returns in Central Illinois, there are opportunities for land investment near developing areas in Northern Illinois.

This type of investment is focused more on a 5 to 10 year strategy of buying land in the path of progress today that will increase in value once housing and commercial real estate regain steam.

Generally speaking, an investor can expect to spend $8,000 to $9,500 per acre for land in this corridor. Although the cash rent is slightly less in Northern Illinois, the rental amount one can expect will be in line





with the yields on 10-year Treasuries of around 3.7% per year. Also, the upside appreciation potential for a medium to long term investor in land far outstrips the prospective capital gain potential of Treasuries.

And, if the current deflationary forces reverse into a global run on the dollar, farmland will prove a more bouyant "wealth preserver" than dollar-denominated debt of any kind.

Perhaps the most telling aspect of the strength behind the land market is the unprecedented financial strength of individuals who own it. As we've reported in the past, for every $1 of farmland owned in the State of Illinois, there is only $.09 of debt against it.

With very little debt existing on these investments, there is virtually no pressure for owners to "panic-sell." Thus there's very little chance that we'll see a crash in farmland values similar to that of the 1980s.

I think the global push of non-farm capital into this formerly untapped asset class is in its infancy.

With no clear signs of relief in global uncertainty on the horizon, investors are coming from all sectors of the financial world into farmland.

This tangible, permanent, high-yielding investment speaks for itself.

You can simultaneously hedge against a faltering dollar, attain a historically high return on investment, and be placed front and center in the global push for relieving international dependence on oil.

We work with investors from over 15 countries and dozens of states nationwide. At MGW we are looking forward to expanding this base, and we welcome the chance to speak with anyone interested in finding out more about investing in land.

How our fast-growing farm management service can earn you the most from your land

By Steve Diedrich, MGW Farm Manager

In just two years, the Farm Management division of Martin, Goodrich & Waddell has doubled the number of acres we manage for clients.

And we anticipate similar strong growth to continue. We plan to invest major resources into expanding our farm management services.

There are three main reasons for our recent successful growth.

First, we can show landowners that we can help them earn higher net returns. Competition for cash-rented land is growing more intense, and we are able to negotiate a rental amount for each farm at the going market rate.

Second, we've earned the confidence of hundreds of farmland buyers over the years. Many of our new management clients are clients who have worked with us in selling or purchasing farms in the past. They are now coming to us as a direct result of their confidence in what our firm has done for them in land transactions.

Third, the fast-paced change in our economy and ag technology make professional farm management more valuable to landowners.

Most farmland owners and investors simply don't have the time to keep up with today's mind-boggling pace of change in commodity markets, ag technology, input costs and land rents.

Scott Pitstick and I are dedicated to managing farms for our clients.

For example, with volatile commodity markets we've seen cash rents change dramatically over the last couple years.

Capturing opportunities like that, using good farm management oversight, more than pays the cost of management services.

Landowners face a tough time negotiating cash rents amid such volatility.

Annual rental surveys typically lag the market, meaning that a landowner who relies on published rental averages will usually learn about trends too late to adjust a lease to the real going rate available in a locality.

The recent implosion of so many financial firms is a reminder that *management ability* is the hardest-to-find resource in any industry.

In addition, MGW offers another competitive advantage to landowners looking for management services.

Unlike many other firms where the same staff members sell farms part-time and manage farms part-time, our farm management staff focuses 100% on serving our management clients.

That means all our time and energy is devoted to the oversight of your farms.

Scott and I can schedule regular reports and keep financial accounts current without the unpredictable interruptions which simply come with the territory in real estate sales.

When we added Scott to our farm management team last year, he brought us excellent communication abilities, a firm grasp of ag technology, knowledge of wildlife and

hunting leases, and abundant energy.

Also, our office personnel keep our farm management administrative details current and help us schedule time efficiently.

Our services complement the sales side of MGW, just as real estate sales generate a source of management clients.

Our real estate sales force — Jeff and Josh Waddell, Porter Martin, Bob Olson and Donald Brummel — can assure prospective buyers that MGW is able to follow up with top-quality farm management services after the sale. That creates another assurance for a buyer to make the purchase.

After the closing, the buyer is acquainted with our firm, and it is logical to stick with a company he or she trusts.

As we grow, our division will continue to strengthen services to each owner.

We intend to grow by serving owners who have farms of all sizes and types across the Midwest. Our clients' farm holdings range in size from 57 acres to several thousand acres, but our *relationship* with each owner is equally important, regardless of farm size.

Computer technology and the Internet enhance our ability to stay in touch with tenants and clients. Much of our communication is via e-mail and phone. We use the Internet to keep up with commodity markets and new production technology.

However, we still believe the adage that the "best fertilizer on a farm is the footprints of the owner." We make those footprints, visiting each farm regularly on the owner's behalf.

Owners typically tell us that a solid, consistent cash return on their land investment is their main priority.

They want that cash flow, plus assurance that the productivity and appearance of their land is well-maintained and improved.

Our role in providing that competitive rate of return includes finding tenants with a strong sense of soil stewardship as well as solid financial

strength. We're part of the Illinois farm operating community, and we know individuals who are excellent farm operators.

A good farm operator will be solid financially, have good communication skills and has proven production ability while taking care of the farm as if it was their own.

And this is basic: we assure that landowners get paid.

Traditionally in Illinois, most cash rent leases called for half of the rent to be paid by March 1, with the balance due after harvest — usually by December 1.

However, we've learned to avoid that second-half "account receivable."

Even before so many uncertainties arose in the banking industry, we had shifted most of our cash leases to 100% payment *before* the farming season begins, usually by March 1.

That's a peace-of-mind factor for farmland owners. Today, it's not always easy to predict whether the same loan officers or other bank managers who are in charge on March 1 will still be in charge on December 1.

Another trend we're seeing is that landowners are accumulating multiple properties, each with unique assets like a rental home, grain storage or a hunting lease. We evaluate all the farms assets and seek to gain maximum value from each of them. We also provide the financial accounting for clients like this. In fact, we handle accounting details for about a third of our clients.

One more change in the farm rental market underscores the need for professional oversight: Timing of leasing arrangements, and thus termination or renewals, is becoming more important.

In a commodity market uptrend, extending the lease offer period a few weeks can intensify the competition.

For example, a 30¢ gain in corn prices can stimulate a $30 per acre jump in cash rental bids.

We constantly watch and evaluate the rental market to determine the best time to negotiate and lock in our leases.

With a wider array of lease beginning and ending dates, it's important to administer termination notices in a timely way, which reopens lease negotiations for the following season.

If you are considering hiring a professional farm manager, or if you have any questions regarding your specific circumstances, please feel free to give us a call.

Martin, Goodrich & Waddell land listings for sale in Illinois

Boone County

80 acres. Manchester Farm. Located 7 mi. N of Poplar Grove and approx. 60 mi. NW of Chicago. $7,950/acre.

84.51 acres. Denny Farm. Located 3 1/2 mi. E of Interstate 90 and 17 mi. W of Highway 23. Approx. 73 miles NW of Chicago. $6,900/acre.

Bureau County

25 acres. Perkins Grove Farm. Located 5 mi. W of Mendota and 16 mi. NE of Princeton. $5,600/acre.

95.33 acres. Spring Valley North Farm. Excellent development property, continguous to the town of Spring Valley, 12 mi. E of Princeton. $21,000/acre.

48.82 Acres. Van Orin Farm. Includes a 2 story, 1,492 sq. ft. farmhouse, machine shed, barn, lean-to (x2), and milk parlor. Located 3-1/4 mi. W of LaMoille and approx. 85 mi. SW of Chicago. $317,330 for house, farmland, and pasture.

DeKalb County

200 acres. Brummel Farm. Included is a brick home and machine shed. Located 1 mi. NW of Shabbona and approx. 55 mi. W of Chicago. $10,500/acre. SALE PENDING

246 acres. Taylor Marshall Farm. Includes a home with outbuildings. Located 1/4 mi E of Sycamore and approx. 60 mi. W of Chicago. $19,000/acre.

157.71 acres. Kaalaas Farm. Located 12 mi. NW of DeKalb and approx. 70 mi. NW of Chicago. $8,475/acre.

WHP House on 2.1 acres. Property is contiguous to City of Sycamore and is located approx. 60 mi. W of Chicago. $275,000.

40 acres. Kasper Farm. Located 4 mi. SE of DeKalb and approx. 65 mi. SW of Chicago. $8,300/acre.

190 acres. Donnelley Farm. Located 2 mi. SW of DeKalb and approx. 48 mi. SW of Chicago. $10,250/acre.

154 acres. Klemm Farm. Located 2-1/2 mi. S of DeKalb and approx. 55 mi. SW of Chicago. SOLD

71 acres. Novotny Farm. Located 2-1/2 mi. north of Federal Highway 30 and 15-1/2 mi. east of Highway 47; 45 mi. southwest of Chicago. $9,900/acre.

Knox County

458 acres. Big Water Farm. Exceptional recreational property located 28 mi. W of Peoria. $2,950/acre.

LaSalle County

75.4 acres. Rex Farm. Includes a barn with electric service. Excellent location just E of Mendota and the I-39 interchange $12,900/acre.

30.47 acres. Graham/Allen Farm. Located 1/8 mi. W of Sheridan and 70 mi. SW of Chicago. $9,400/acre.

43.759 acres. LaSalle County Development Farm. Sewer and water available to the property. Located contiguous to Streator on State Highway 18, and approx 120 mi. SW of Chicago. $12,500/acre.

177.019 acres. Wackerlin Farm. Located 1/2 mi. S of Federal Highway 34, 12 1/2 mi. east of Interstate 39, 14 mi. N of Interstate 80. $9,000/acre.

Lee County

17 acres. Auchstetter Farm. Located 1-3/4 mi. E. of Sublette and approx. 90 mi. SW of Chicago. $4,800/acre.

64 acres. Barber Farm. Located on S. Paw Paw, 1 mi. outside of Paw Paw. $5,450/acre.

208.13 acres. Borell Family Farm West. Excellent deer and turkey hunting, located 12 mi. N of Mendota and 1 mi. S of Route 30. $6,250/acre.

209 acres. Scully Farm. Located 5-1/2 mi. S of I-88 and 5-1/4 mi. S of State Highway 30. Approx. 90 mi. SW of Chicago. $4,450/acre.

McHenry County

237 acres. Correnti Zoeb Farm. Located 7 mi. W of State Highway 23 and 5 mi. S of State Highway 173. Approx. 40 mi. NW of Chicago. $6,650/acre.

Ogle County

95.83 acres. Thomas Farm. Contiguous to the City of Oregon on State Highway 64. Located 80 mi. W of Chicago $6,500/acre.

87 acres. Thompson Farm. Located 1 mi. N of State Rte 72 and 1/4 mi. W of I-39. Approx. 80 mi. W of Chicago. $8,250/acre.

136.71 acres. Hickerson Farm. Excellent development potential. Contiguous to Rochelle and Hillcrest. $24,900/acre. SALE PENDING

110.61 acres. Sanderson Farm. Located on the South side of Creston, just E of Rochelle, 60 mi. W of Chicago. $25,000/acre.

40 acres. Pine Rock Timber North Farm. Located 10 mi. NW of Rochelle and approx. 90 mi. W of Chicago. $5,475/acre.

40 acres. Pine Rock Timber South Farm. Located 10 mi. NW of Rochelle and approx. 90 mi. W of Chicago. $5,475/acre.

62 acres. Furman Farm. Located 2 mi. NW of Rochelle and approx. 64 mi. W of Chicago. $7,350/acre.

135.66 acres. Cave Farm. Located 7 mi. South of Federal Highway 72 and 8 mi. west of Interstate 88. Approx. 80 mi. NW of Chicago. $6,500/acre.

Will County

78.5 acres. Smith Road Farm. Located just E of Manhattan and SE of New Lenox. Approx. 37 mi. S of Chicago. $29,500/acre.

Winnebago County

179.28 acres. McKnight Farm. Located 1/4 mi. S. of Cherry Valley. 60 mi. NW of Chicago. $7,900/acres.

104.60 acres. Holverson Trust Farm. Located 10 mi. NW of Rockford and approx. 90 mi. NW of Chicago. $6,475/acre.

For details on these properties,
call Jeff or Josh Waddell at
815-756-3606
or visit our website at
www.mgw.us.com

Jeff Waddell

Josh Waddell

Hundreds of globe-trotting farmland buyers *convened at the World Agri Invest Congress June 30-July 2 to learn how they can deploy billions of investment dollars in farmland around the world. MGW president Porter Martin is among the speakers. Big-name pension funds and investors are focusing a rising share of their portfolios into natural resources, including farmland. Specialists are emerging to help money managers navigate the farm real estate market.*

When will sunspots return, *starting a new rise in the 11-year cycle? These huge storms on the sun's surface all but vanished in the past two years, but a new cycle has yet to emerge as predicted. If activity remains quiet into 2010, warn some solar physicists, we may see another cold epoch like the "Maunder Minimum" which led to the Little Ice Age 400 years ago. For now, the U.S. Weather Service predicts a "cool summer."*

More than $2 billion *has been raised by mid-2009 for worldwide investment fund purchases of farmland, reports a June FORTUNE feature article. Another $500 million is being raised, says the report. You can see the entire article by following the Internet link below.*

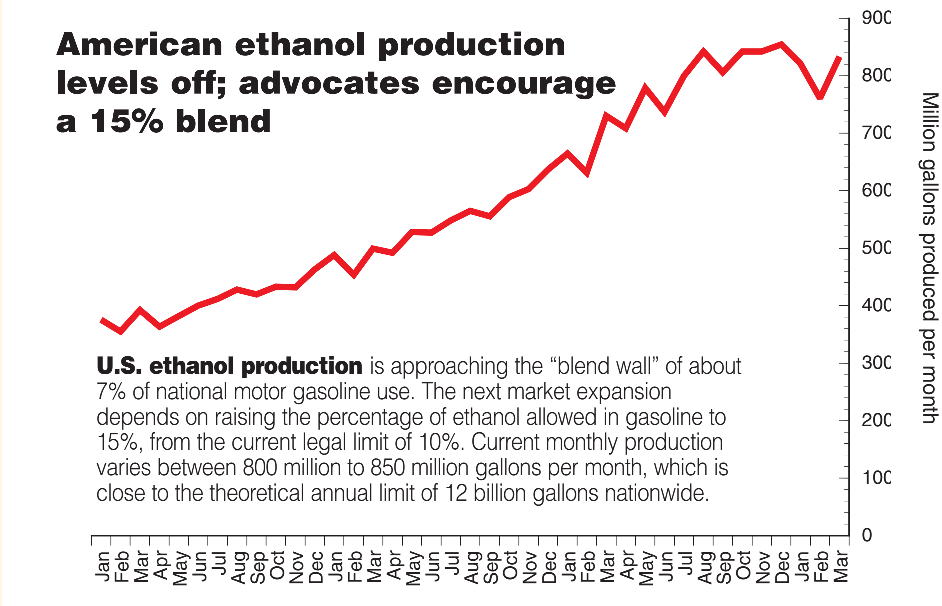
http://money.cnn.com/2009/06/08/retirement/betting_the_farm.fortune/

A visit with Porter Martin, President, Martin, Goodrich & Waddell Inc.

Isn't it about time for common-sense support of the U.S. ethanol industry?

"If the idea of using alcohol motor fuels in this country has any merit, the only way to prove it is to put the plan to a test on a wide front.

"Everyone knows that someday — probably a rather distant day — we shall run out of petroleum, yet we quarrel over the widely varying estimates and guesses as to how long the supply will last. All this is begging the question. Sometime we shall have to develop a new source of motor fuel."



The quote above sounds like a farm magazine article which could have been written yesterday. Actually, it's from an editorial by Philip Rose in the July, 1936, *Country Gentleman* — written 73 years ago!

Today, ethanol's opponents are still trying to block "the plan." The latest plan is to encourage the Environmental Protection Administration to expand the legal blend of ethanol in gasoline to 15%, from the current 10% limit. Ron Litterer, National Corn Growers Association chairman, says he's "optimistic in the long term" for incremental expansion of the blend limit. EPA is reviewing research about the waiver request now, but could approve a 12% to 13% blend while completing its review.

U.S. auto manufacturers have proven less than encouraging. (Two of them are bankrupt; that should tell us something). Meanwhile, 70% of the new autos in Brazil can run on either 100% ethanol or a 25% blend.

It was Brazil, not the U.S., which "put the plan to a test on a wide front" and persisted. Renewable sources such as hydroelectricity and ethanol provide almost half of Brazil's total energy.

In the U.S. last year, ethanol came under bitter and misleading attacks by food industry groups for driving up food costs. Objective data has debunked those claims.

Other opponents argue that the rash of recent losses and bankruptcies among ethanol ventures prove it's an over-subsidized industry that will end in taxpayer tears. Isn't it reassuring, then, to see monthly ethanol production humming along at 7% of America's motor gasoline needs — while the ethanol industry starts to build high-tech factories to make fuel from biomass waste?

Some ethanol opponents ignore the fact that ethanol plants refine a third of corn's nutritional value into high-protein meal. Newer facilities also recover much of the corn oil.

As ethanol output has grown, America has also built stocks of corn. The current stocks-to-use ratio is 8.75% vs. 5.38% a year ago.

And despite a late start in many parts of the eastern Corn Belt, corn production prospects look good on just over 83 million planted acres. We can be glad ethanol plants are pumping out fuel to help offset rising crude oil costs, as well as taking up some of the slack in corn exports, which are only 71% of last year due to a severe slowdown in the global economy.

What's needed now is political courage to deliver on the "energy independence" promises we've heard for decades. America is already a hostage to overseas creditors who hold trillions of dollars in claims against this country. That includes long-accumulated trade deficits, plus government borrowing to cover budget deficits — which have just exploded to historic new highs.

We need at least some "energy insurance" against multiple threats:

✓ If the current rebellion of youthful Iranians interrupts Iran's oil exports of about 3.8 million barrels per day (4.5% of world supply), crude prices would react upward despite abundant world stocks.

✓ If the dollar's value against other currencies resumes its downward slide, imported energy costs will climb even faster than they have recently.

✓ If the new energy bill now before Congress actually passes, you can expect "necessarily soaring" costs of fuel and electricity.

Creating at least a fraction of our fuel from this year's sunshine on our cornfields makes sense now, just as it did to *Country Gentleman* in 1936.

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