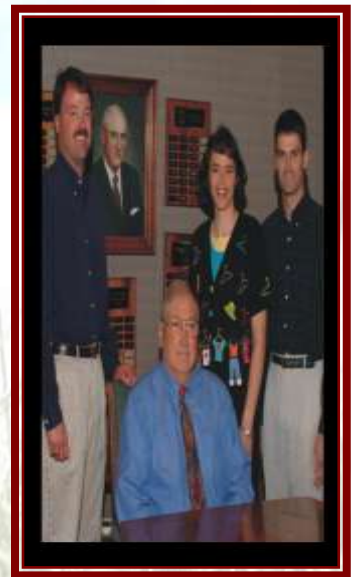
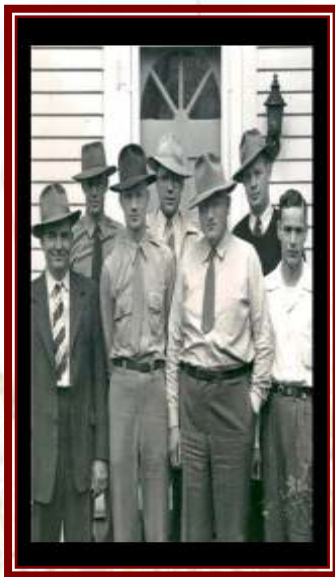


Farmland Real Estate Trends 2013

- **Farmland Values & Leasing Trends**
- **October 17, 2013**
- **F. Howard Halderman AFM**
- **Halderman Farm Management Service/**
- **Halderman Real Estate Services**



Who is Halderman?



Halderman Can Help!

Since 1930, people have been turning to Halderman Farm Management Service, Inc. and Halderman Real Estate Services, Inc. for their farm management and farm real estate needs. All kinds of people – farm owners, investors, tenants, bankers, lenders, trust officers, wealth advisors, attorneys, accountants...in fact, anyone involved with a farm in any way. We've provided services, from an occasional consultation to complete farm management and real estate brokerage, to thousands of clients throughout the U.S.

If you have a farm-related problem or want to explore the investment opportunities in farmland, Halderman Can Help!

We've been doing it for three generations.



Halderman Companies' Scope of Business

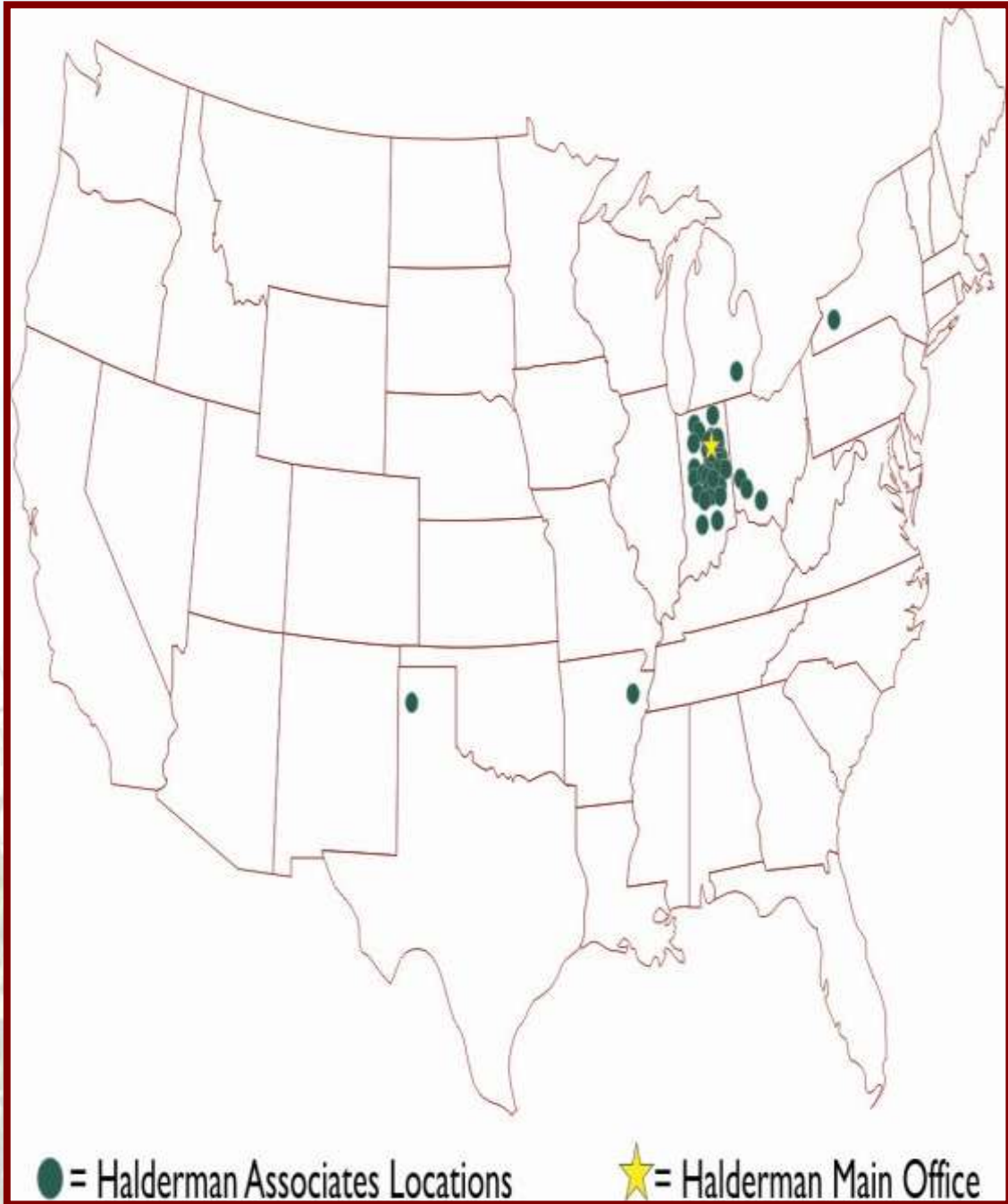
- **Farm Management**
 - **675 farms;**
250,000 acres in
19 states
 - **Consult on**
600,000 acres -
Argentina, Uruguay
& Brazil

- **Real Estate**
 - **Sales &**
Acquisitions
 - **175 farms;**
15,000 acres;
\$110 million in
sales annually
 - **Farm Appraisals**

- **600 appraisals**
annually



Halderman Offices



History and Staff

- **Founded in 1930**
- **Third Generation Ownership**
- **3 corporate managers**
- **22 Area Representatives**
- **13 Real Estate Associates**
- **Indiana, Ohio, Michigan, Louisiana, Arkansas, Texas, New York & California**
- **10 Support Staff**
- **Average tenure of staff >20 years**



HFMS NATIONAL COVERAGE AREA

36 Professionals Providing Services Across 19 U.S. Farmland
Regions



Farm Land

**It remains the best investment
in your portfolio!**

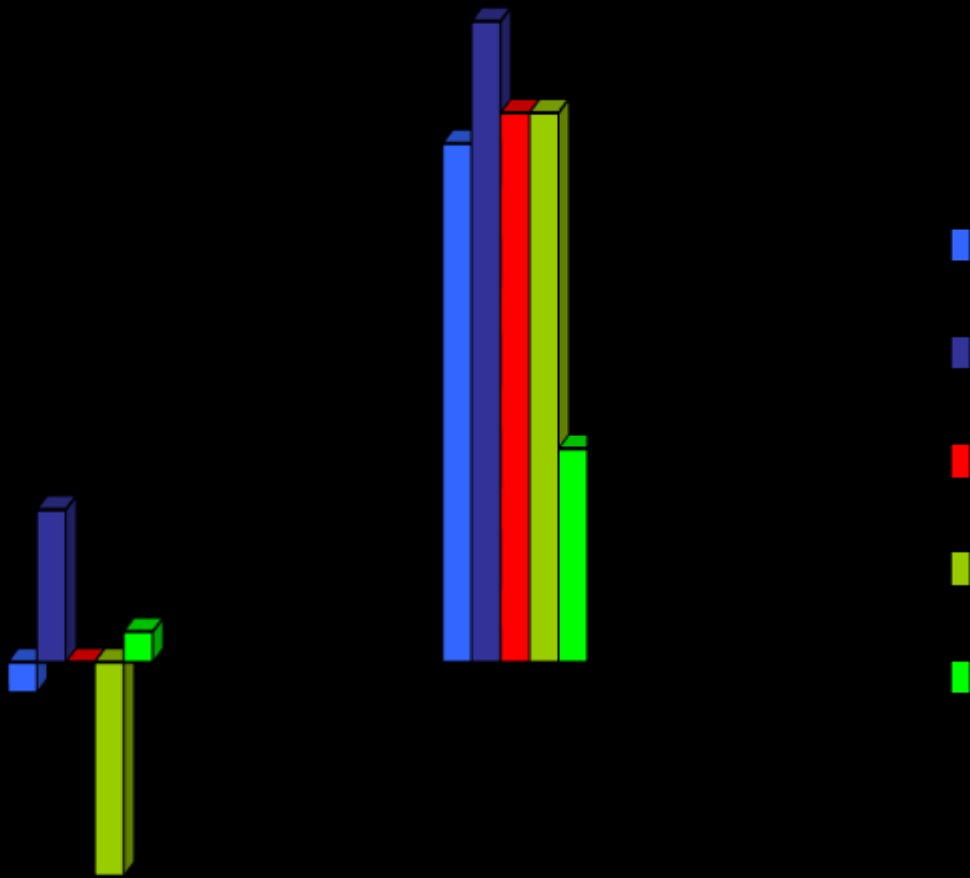


Farmland Real Estate Market

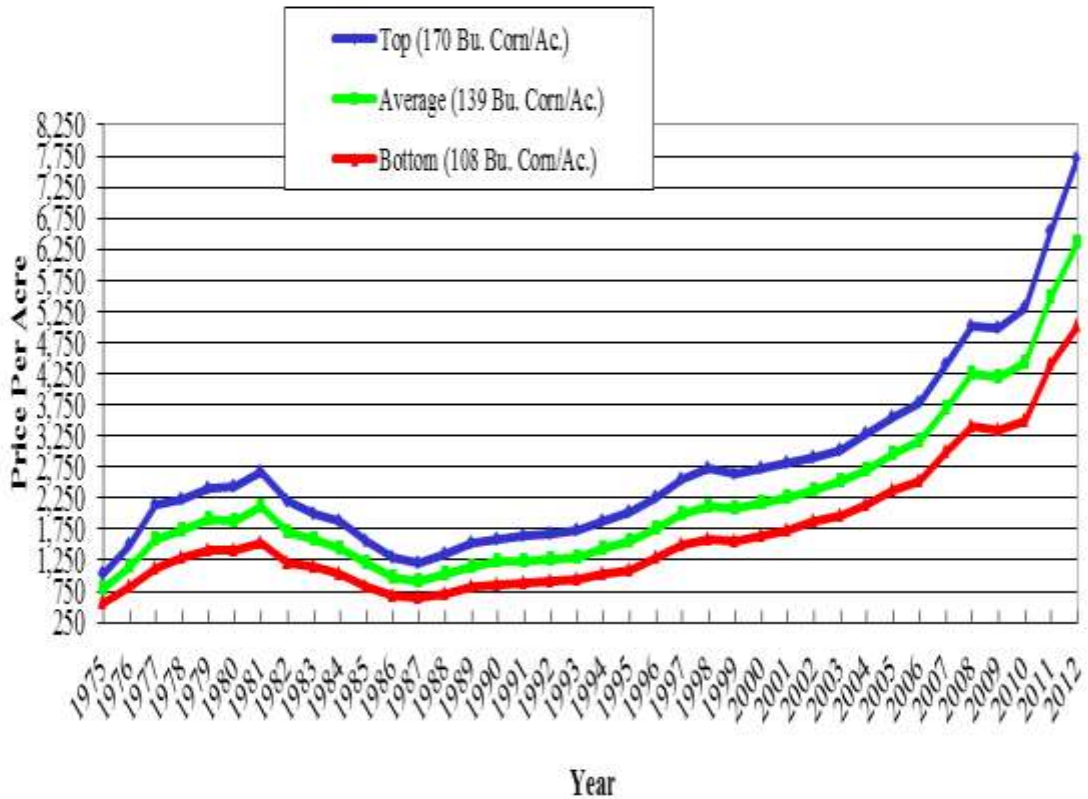
- **During Fall 2012 capital gains tax increase fears once again drive large number of sales!**
- **Lower recreational, timber, and residential values due to the “2008 financial crisis” continue, but some signs of improvement.**
- **Cropland values remain sky high!**



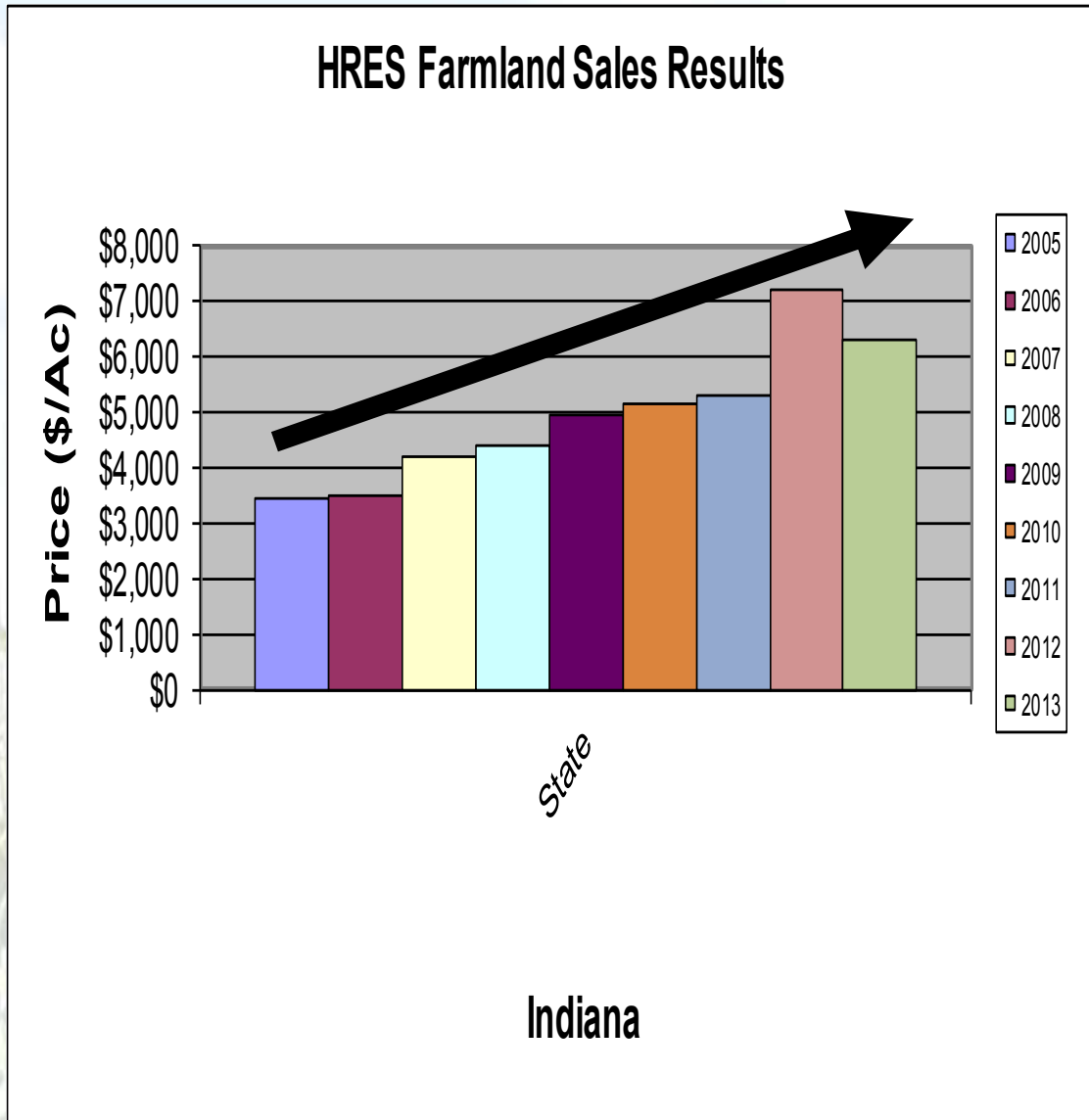
Federal Reserve Bank of Chicago – 7th District



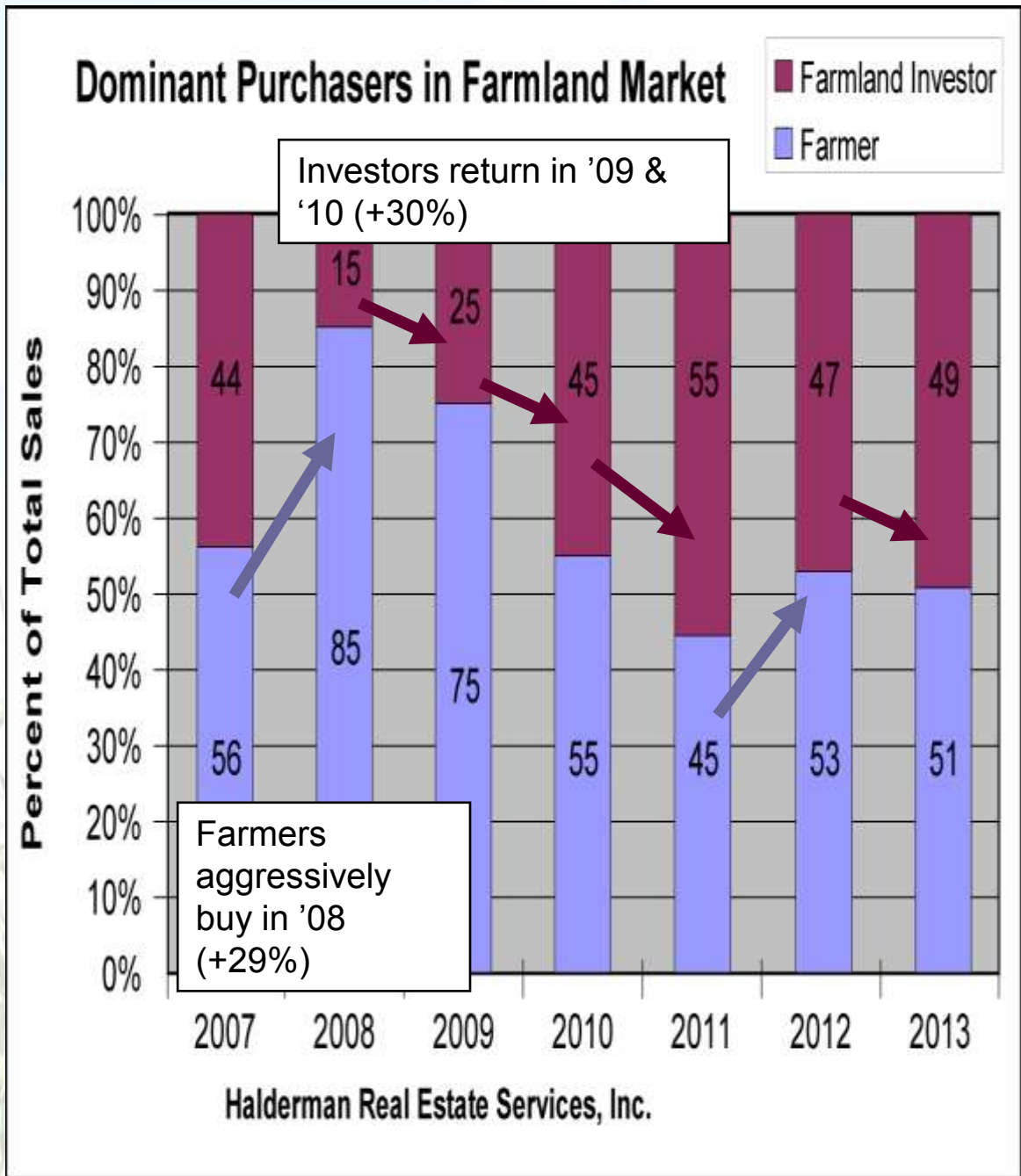
Purdue Survey, Indiana Farmland Values, 1975- 2013



Halderman Farmland Sales, by Indiana Region, 2005-2013



Who's Buying?



Farmland Real Estate Sales

**Sept. – Miami/Wabash Co. – 277 ac. for
\$1,812,000**

\$6,500/acre \$47.56/WAPI

Sept. – Miami Co. – 47 ac. for \$440,000

\$9,285/acre \$65.20/WAPI

**Sept. – Whitley Co. – 98 ac. for
\$790,000**

\$8,061/acre \$52.99/WAPI

**Sept. – Carroll Co. – 72 ac. for
\$810,000**

\$11,227/acre \$71.55/WAPI

**October – Elkhart Co. – 271 ac. for
\$3,100,000**

\$11,415/acre \$117.43/WAPI

**October – Coshocton Co. – 1,625 ac. for
\$4,669,000**

**\$2,873/acre (Pasture and
woods)**

**October – Allen Co. – 234 ac. for
\$2,650,000 \$11,315/acre**

\$77.39/WAPI



Farmland Real Estate

Sales

Nov. – Cass Co. – 51 ac. for \$455,000
\$8,992/acre \$53.33/WAPI

Nov. – LaSalle Co., IL – 148 ac. for \$1,665,000
\$11,000/acre \$64.32/WAPI

Nov. – Owen Co. – 44 ac. for \$170,000
\$3,864/acre \$25.74/WAPI

Nov. – Union Co. – 307 ac. for \$2,106,000
\$6,850/acre \$45.00/WAPI

Nov. – Clinton Co. – 123 ac. for \$1,075,000
\$8,740/acre \$51.87/WAPI

Nov. – Benton Co. IN/Iroquois Co. IL – 180 ac.
for \$1,955,000
\$10,861/acre \$64.76/WAPI

Nov. – Cass Co. – 110 ac. for \$1,160,000
\$10,545/acre \$69.28/WAPI



Farmland Real Estate Sales

**Nov. – Clinton Co. – 350 ac. for
\$2,605,000**

\$7,442/acre \$47.08/WAPI

**Nov. – Miami Co. – 50.1 ac. for
\$440,000**

\$8,782/acre \$60.27/WAPI

**Dec. – Wabash Co. – 47 ac. for
\$355,000**

\$7,550/acre \$51.04/WAPI

**Dec. – Fulton Co. – 120 ac. for
\$915,000**

\$7,571/acre \$49.41/WAPI

**Jan. – Fulton Co. IN – 31 ac. for
\$345,000 \$11,201/acre**

\$95.00/WAPI

**Jan. – Miami/Howard Co. – 82 ac. for
\$985,000**

\$11,903/acre \$71.57/WAPI



Farmland Real Estate Sales

Feb. – Cass Co. – 76 ac. for \$605,000
\$7,929/acre \$56.27/WAPI

Feb. – Shelby Co. – 71.4 ac. for 500,000
\$7,002/acre \$63.19/WAPI

March – Tippecanoe Co. – 292 ac. for
\$2,630,000
\$9,006/acre \$63.33/WAPI

March – Jennings Co. – 40 ac. for
\$260,000
\$6,500/acre

March – Jennings Co. – 60 ac. for
\$400,000
\$6,669/acre \$50.86/WAPI

April – Starke Co. – 70 ac. for \$250,000
\$3,571/acre \$34.87/WAPI



Farmland Real Estate

Sales

**April – Bolivar Co., MS – 3,627 ac. for
\$17.2 MM \$4,742/acre
(+\$5,200/crop acre)**

**April – St. Joseph Co. – 79 ac. for
\$580,000 \$7,272/acre \$61.36/WAPI**

**April – Miami Co. – 105 ac. for
\$1,080,000 \$10,281/acre \$68.54/WAPI**

**April – Sullivan Co. – 315 ac. for
\$2,860,000 \$9,079/acre \$62.87/WAPI**

**May – Tippecanoe Co. – 166 ac. for
\$1,178,000 \$7,096/acre \$45.81/WAPI**

**May – Jackson Co. – 107 ac. for
\$1,700,000 \$15,887/acre \$87.71/WAPI**

**June – Benton Co. – 119 ac. for
\$1,350,000 \$11,258/acre \$67.94/WAPI**



Farmland Real Estate Sales

**June – Edgar Co., IL – 80 ac. for
\$680,000 \$8,500/acre
\$47.45/WAPI**

**June – Kosciusko Co. – 39 ac. for
\$150,000
\$3,846/acre Recreational**

**July – Kosciusko Co. – 25 ac. CRP for
\$115,000
\$4,675/acre \$37.16/WAPI**

Two no sales in June due to small cropland parcels and/or recreational land.

**August – Clinton Co. – 32 ac. for
\$450,000
\$13,804/acre \$82.65/WAPI**

**August – Madison Co. – 49 ac. for
\$393,000
\$8,039/acre \$56.81/WAPI**

**August – Kosciusko Co. – 57 ac. for
\$460,000
\$5,916/acre \$42.13/WAPI**

(partial woods)



Farmland Real Estate Sales

**August – Grant Co. – 80 ac. for
\$800,000 \$10,000/acre
\$67.52/WAPI**

**August – Scott Co. – 150 ac. for
\$860,000
\$5,714/acre \$42.45/WAPI**

**August – Allen Co. – 667 ac. for
\$5,450,000
\$8,170/acre \$56.35/WAPI**

**Sept. – Jasper Co. – 290 ac. for
\$1,770,000
\$6,103/acre \$53.97/WAPI**

**Sept. – Carroll Co. – 40 ac. for
\$540,000
\$13,500/acre \$81.37/WAPI**

**Sept. – Shelby Co. – 228 ac. for
\$1,015,000
\$4,451/acre \$41.30/WAPI**

**Sept. – Clinton Co. OH – 164 ac. for
\$1,412,326
\$8,600/acre \$57.06/WAPI**



WHY FARMLAND?

**Farmland Investment
Characteristics -
Remain the same!**



Farmers buy because...

- **Available cash from '06-'13 operations**
- **Low interest rates – still low, but for how long??**
- **Control of acres & “chance of a lifetime”**
- **What better alternatives?**
 - **Invest in what you know...and control**
- **Retain the returns to land otherwise paid as rents.**



Investors buy because...

- **Solid Returns**
 - Farmland viewed as a “blue-chip” stock
 - Strong capital value growth (5% CAGR in US)
 - Steady dividend (cash) income (3-4% ROI)
 - Nearly zero vacancy rate
- **Inflation hedge**
 - Farmland returns positively correlated to inflation
- **Good portfolio diversification**
 - Farmland returns negatively correlated to many financial investments.



U.S. Farmland History of Attractive Returns

Since 1992, returns averaged 12%+ per annum:



ps.



Permanent crops: multi-year crops.

Row Crops:

Period	Total Return
1 year	29.06%
3 years	26.26%
5 years	23.45%
7 years	18.63%
10 years	15.15%
15 years	13.79%

Period	Total Return
1 year	21.3%
3 years	38.2%
5 years	32.3%
7 years	23.0%
10 years	17.1%
15 years	13.8%

(NCREIF) and

Notes:

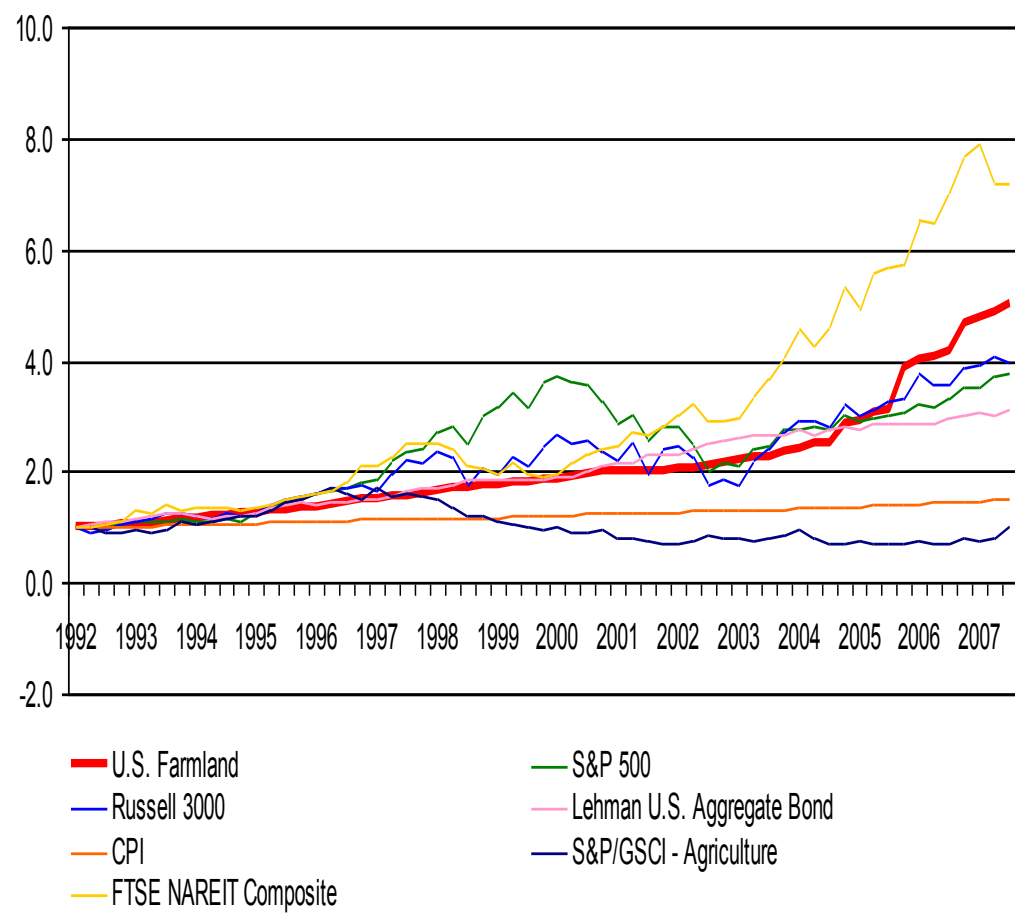
1. The NCREIF Farmland Index is published by the National Council of Real Estate Investment Fiduciaries and tracks the \$1.2 billion tax exempt investor farmland investment market.
2. Data through September 2008.
3. 40% Leverage, 6% Borrowing Rate

Attractive Relative Returns

Farmland outperformed other asset classes in the past 15 years, generating annual returns of over 11%

Index: Farmland Return vs. Stocks, Bonds, Agriculture, I

Asset Class	CAGR (%)	
	10 Yrs	5 Yrs
U.S. Farmland	12.3	11.2
S&P 500	4.9	9.0
Russell 3000	5.9	10.0
Lehman U.S. Agg Bond	6.7	7.2
CPI	2.6	2.6
S&P/GSCI - Agriculture	4.7	0.7
FTSE NAREIT Composite	13.5	13.5
Average - Ex Farmland	4.4	7.2

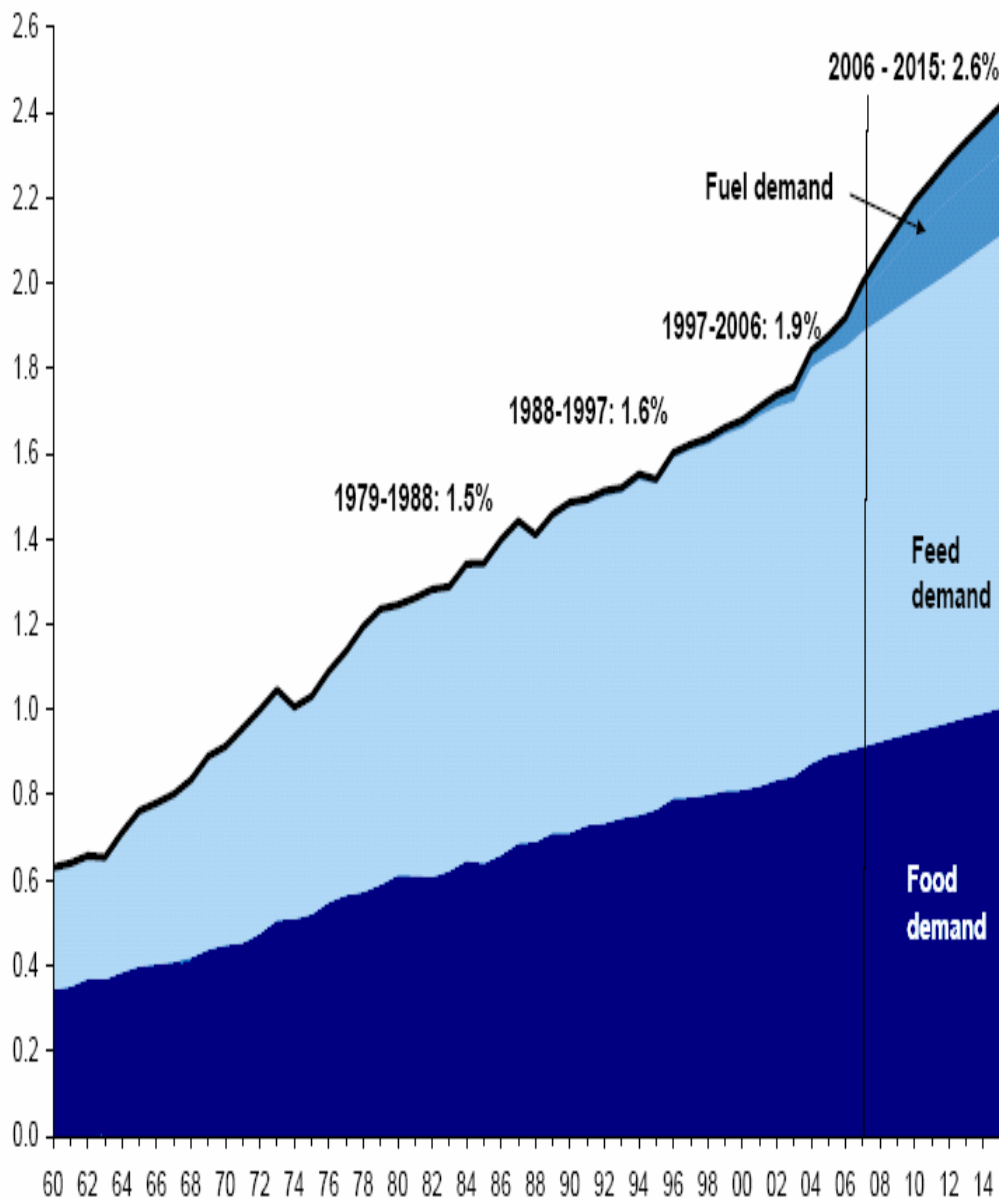


Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), U.S. Department of Labor, S&P and Bloomberg.

Rising Demand for Agricultural Commodities

Sustained higher demand for grains: food, feed and fuel.

Billion metric tons



Sources:

FAO, USDA, Goldman Sachs Commodities research.

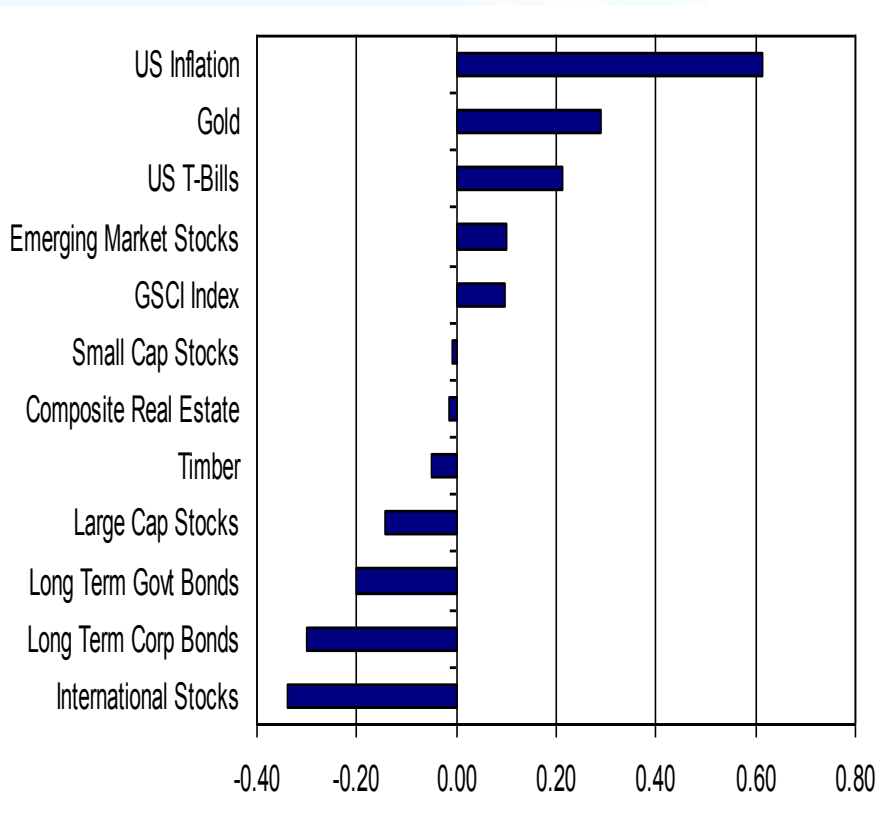
October 2013

MACC Credit Conference 2013



Attractive Correlation Characteristics

Correlation between Farmland Return and Returns of Other Assets



Sources:

US Farmland 1910 to 2006 USDA, Large Cap Stocks 1910 to 2006 Ibbotson, Small Cap Stocks 1925 to 2006 Ibbotson, International Stocks 1969 to 2006 MSCI EAFE, Emerging Market Stocks 1987 to 2006 MSCI Emerging Markets, Long Term Corp Bonds 1925 to 2006 Ibbotson, Long Term Govt Bonds 1925 to 2006 Ibbotson, US T Bills 1925 to 2006 Ibbotson, General Real Estate 1972 to 2006 NAREIT Composite, GSCI Index 1969 to 2006 GSCI Total Return, S&P/GSCI Gold Total Return Index 1978 to 2006, NCREIF Timber Index 1987 to 2006, US Inflation 1925 to 2006, CPI Ibbotson.

Note:

Standard Deviation and Correlations are based on December ending annual returns.



Farm Land

Where do values go from here?



October 2013

MACC Credit Conference 2013



Where are land prices going?

- **Depends on**
 - » **Farm Incomes**
 - » **Interest Rates**
 - » **Supply**
- **Farm Income records '07, '08 & '11**
 - **(2012 slightly lower) (2013 good?)**
- **Interest Rates historically low**
- **Farms for sale 1/2 of typical 3%**



Farm Land Leases

Farmland is worth what it earns!



October 2013

MACC Credit Conference 2013



Farm Leases

- **Competition for leasing land remains high!**
 - More looking at diversification.
- **Input costs increased in '07, '08, '09, & '11.**
 - Flatter in 2012 and 2013 – steady to lower in 2014??
- **Output Opportunities Remain!**
 - Bio Fuels/Ethanol/Bio Diesel, Feed, Specialty Crops
- **Cash Rents in 2013 - Central IL from \$320 - \$447/acre for Class A**

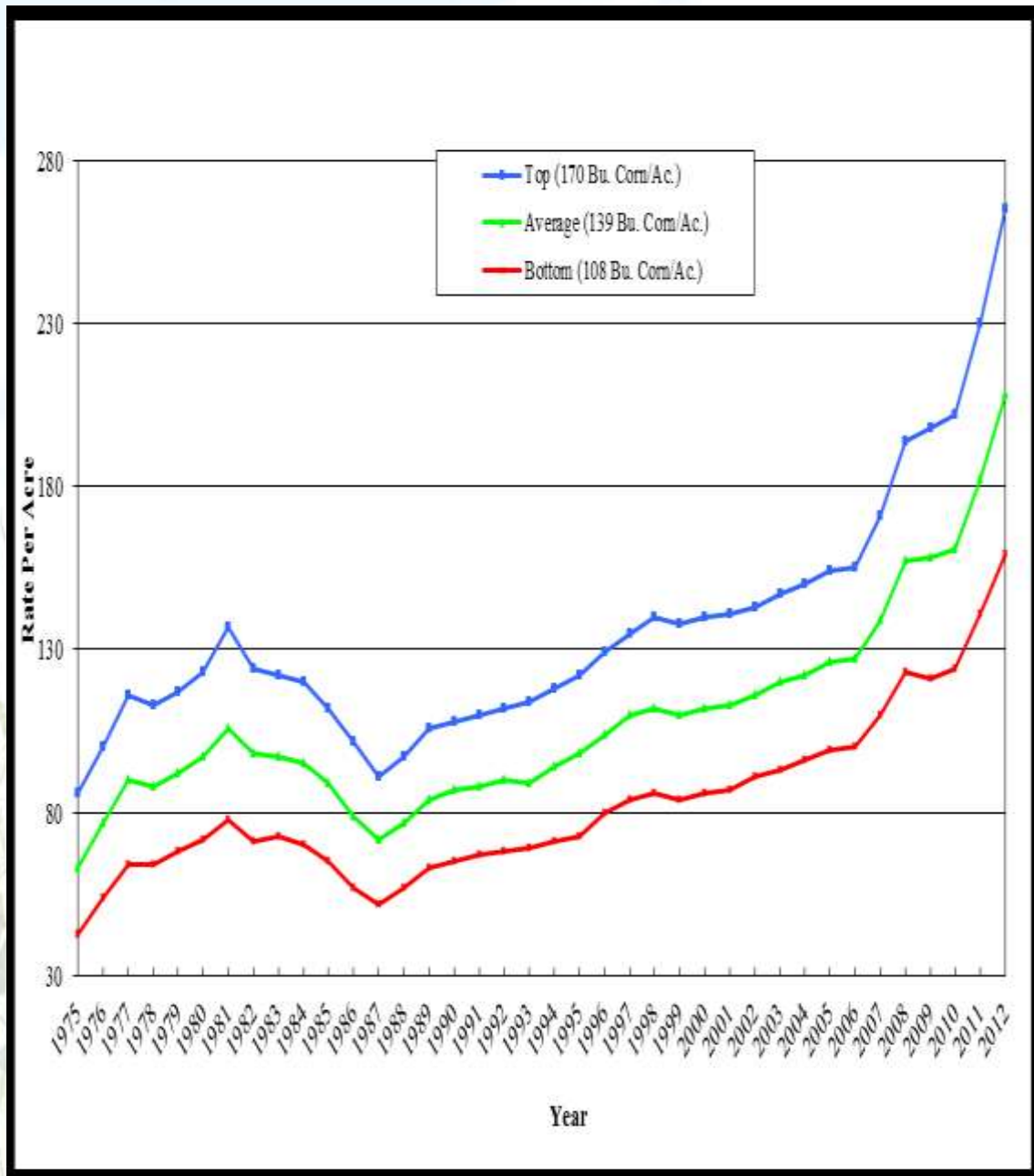


Drought 2012

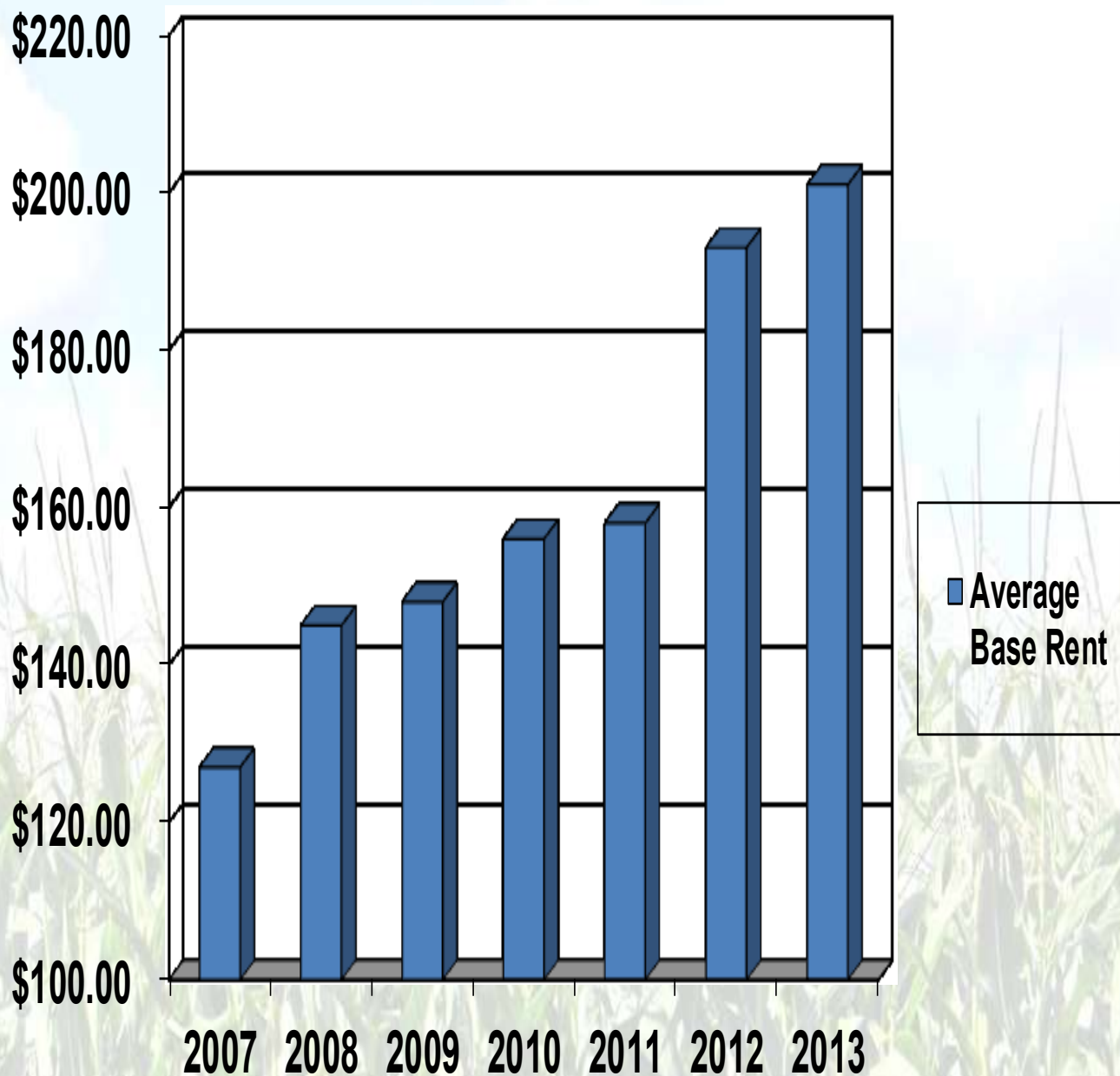
- **Yields were a disaster in many areas**
 - **Genetics provide more protection than ever**
- **Commodity prices moved to all time highs**
- **Prices for 2013 grain at profitable levels**
- **74% of IN row crop farmers buy insurance**
 - **Crop insurance costs taxpayers \$.02/meal.**
- **Long term demand destruction a concern**
- **FYI – today US agriculture uses 15% less water and increased production > 60%.**



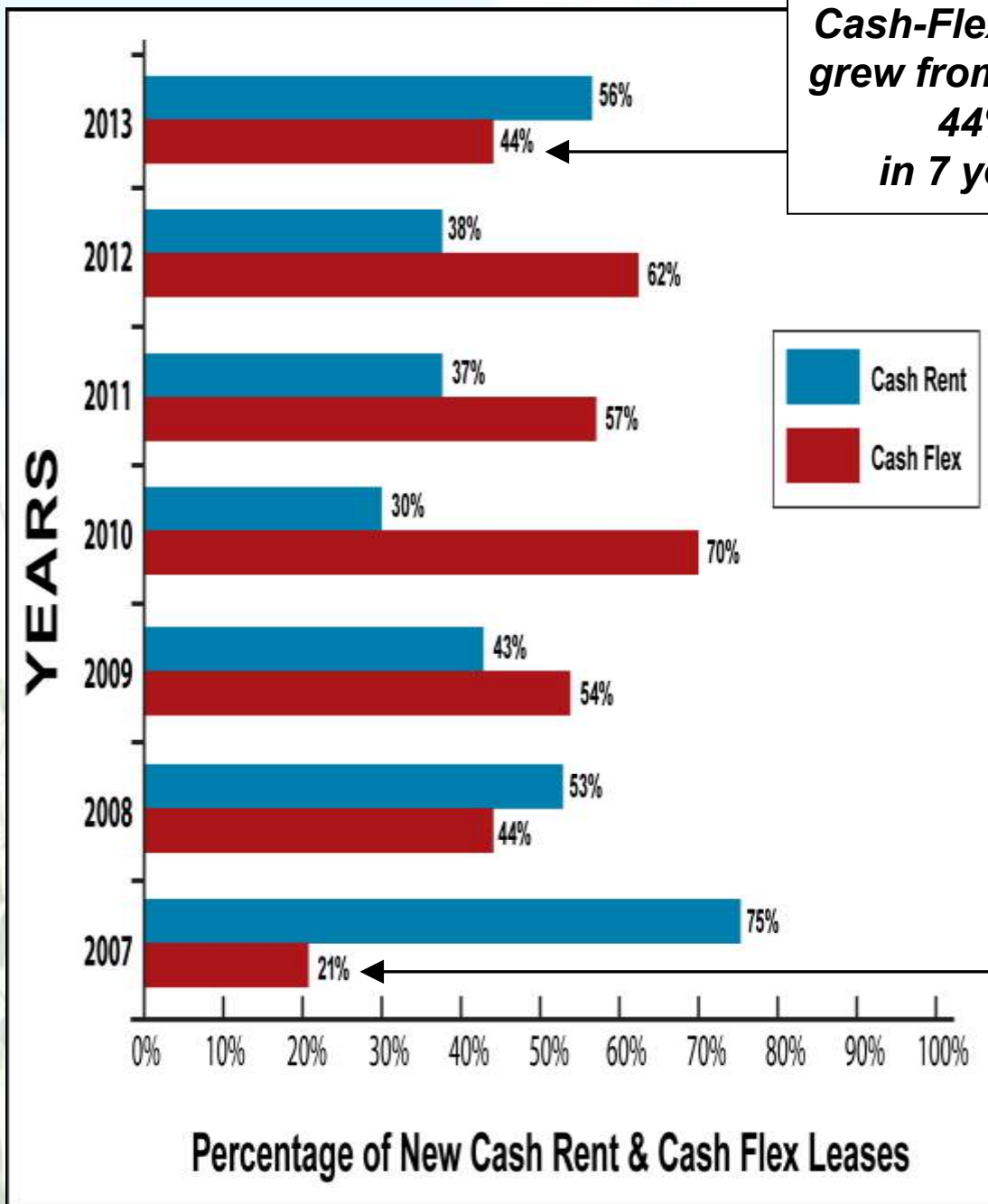
Purdue Survey, Indiana Farmland Cash Rents, 1975-2013



Halderman Lease Results, 2007-2013



Lease Types are Shifting (Halderman New Leases, 2007-2013)



Farmland Real Estate in 2013?

- **Long-term world demand fundamentals remain bullish for agriculture and therefore land prices.**
 - UN FAO report shows we need 100% more food by 2050!
- **Farm incomes strong in '12 despite drought – outlook for '13 positive**
- **Interest rates still favorable**
- **Supply of farms for sale remains low**



Farmland Real Estate in 2013?

- **Maintain all time high values for prime farmland!**
- **Foresee continued price weakness...**
 - **Timber (# of sales up, # of bids up, prices improved but still behind high in 2004)**
 - **Recreational (spotty results)**
 - **Rural residential**
 - **Average to below farmland/hassle farms are still less desirable.**



What have we learned??

- **The cropland market is still strong!**
- **Auctions = best method to max price**
- **Recent sales indicate strength in spite of declining commodity prices**
- **Buyers – investors are 10%**
- **Residential and Recreational = continued weakness. BUT feeling a**





Halderman Real Estate Services

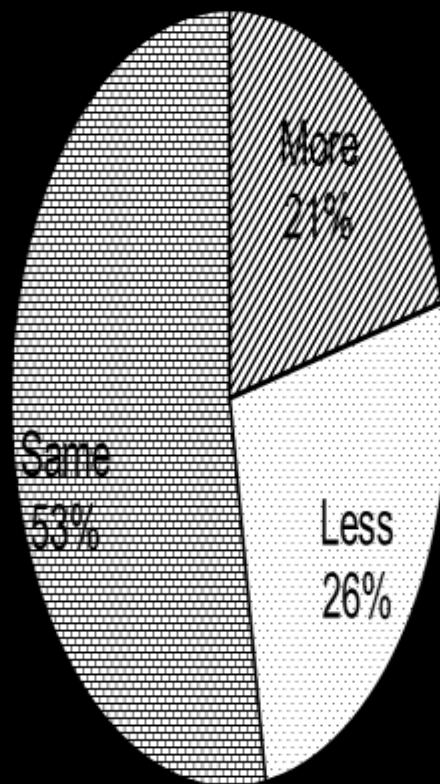
Real Estate Market Survey

October 1, 2013

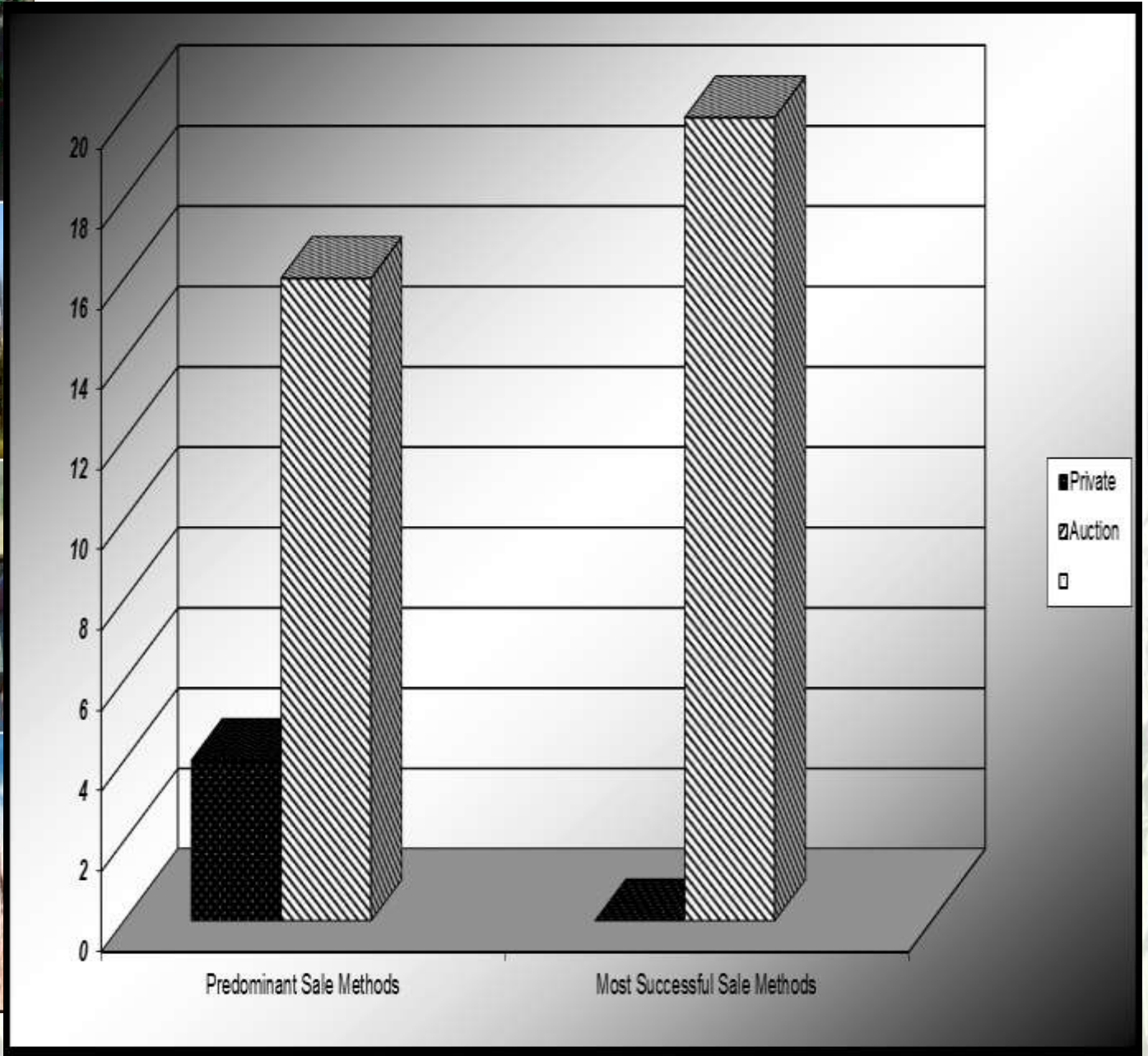
Respondents: 20

Geography: IN, Southern MI, & Western OH

Number of Real Estate Sales Compared To Previous Years

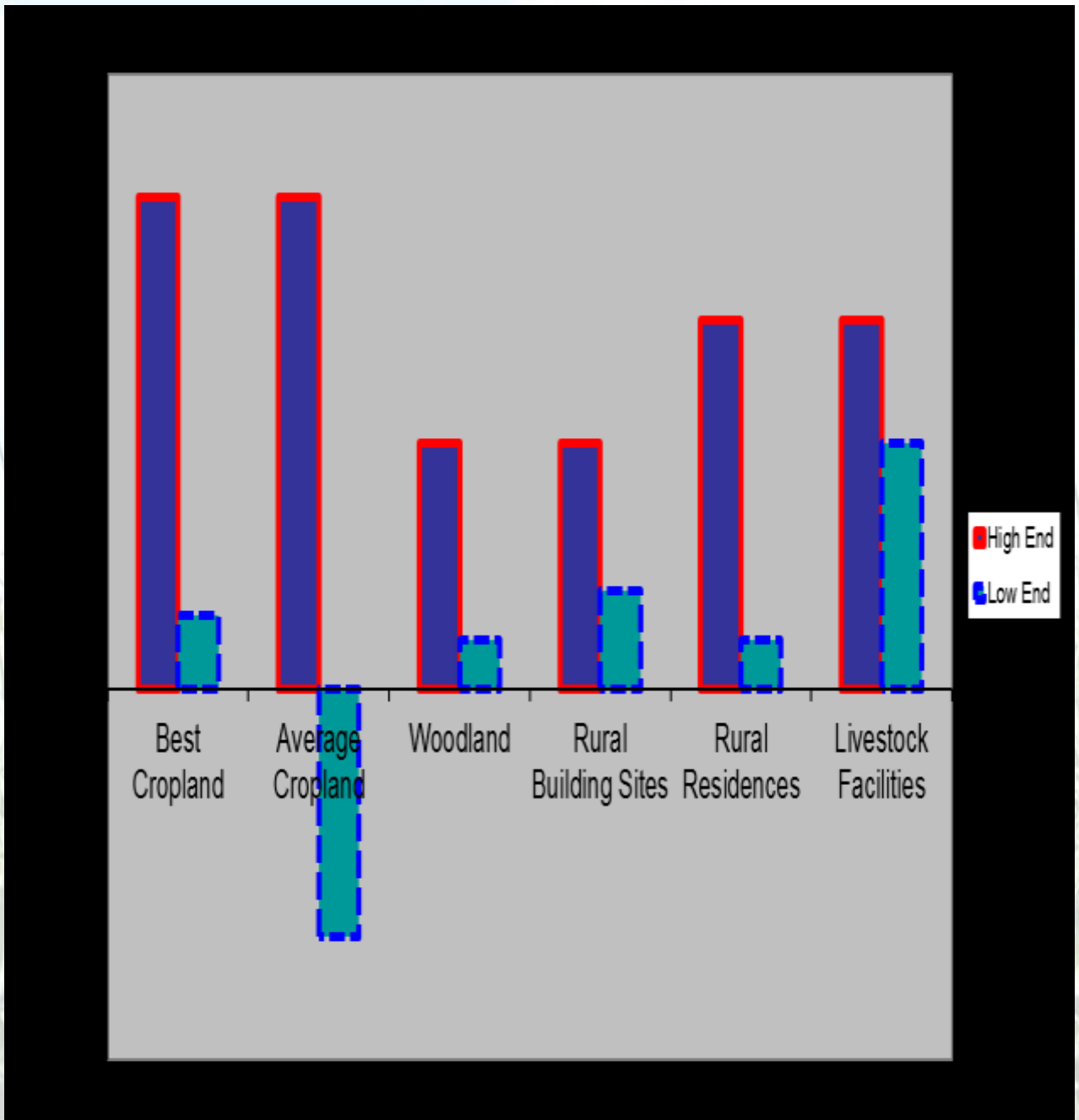


Farm Sale Methods Used

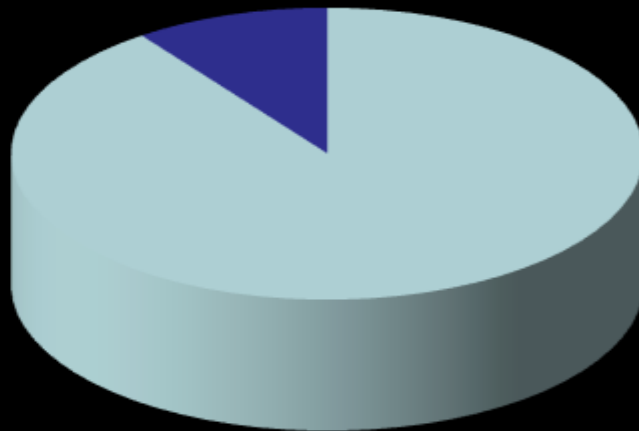


Percent Change In Farmland Values

October 1, 2012 – October 1, 2013



Dominant Purchasers in the Land Market



Expectations For Land

Values

October 1, 2013 – May 1, 2014

- **Farmland**
 - Higher: 6 (0% to 10%)
 - Lower: 3 (0% to 10%)
 - Same: 11
- **Rural Residential Land**
 - Higher: 5 (3% to 10%)
 - Lower: 1 (0% to 10%)
 - Same: 13
- **Recreational Land**
 - Higher: 4 (5% to 10%)
 - Lower: 1 (0% to 10%)
 - Same: 14



Farmland Real Estate in 2013: A Bubble?

- **Land Value Bulls Say . . .**
 - **Low amount of debt in agriculture**
 - **$\frac{3}{4}$'s D/A \leq 50% and 75% fixed**
 - **Low interest rates (QE 3 – how long?)**
 - **Inflection Point in 2nd Quarter??**
 - **World population growth**
 - **Bio Fuels – demand remains steady?**
 - **Potential for Inflation**
 - **Water resources & competition**
 - **Low supply of farms for sale**



What Could Make this a Bubble? (Fall 2013)

- **Land Value Bears say . . .**
What if?
 - **Value of dollar strengthening continues & demand destruction = lower exports = lower commodity prices**
 - **Worldwide economic woes worsen = lower demand (Chinese GDP below 7% & EU concerns)**
 - **Change in biofuels mandates in primary row crops**
 - **Demand destruction from high prices**



What Could Make this a Bubble? (Fall 2013)

- **Interest rates increase due to *hyper*-inflation**
- **Other asset classes' returns improve!**
- **Residential Bubble Similarities Develop**
 - **Speculative purchases of land for capital appreciation gains**
 - **Purchases with significant debt financing on the belief that land value increases will cover collateral needs**



What Could Make this a Bubble? (Fall 2013)

- **What if???**
 - **Commodity prices erode due to demand destruction from high prices (\$4/bu. corn for 2 seasons)**
 - **Interest rates increase 100-300 basis pts.**
 - **Worldwide Economy remains weak**
 - **Global production continues to grow**
 - **Farm incomes decline**



Why Invest in US Agriculture?

- **1928**
 - **Population: 1.2 B**
 - **US was 10%**
 - **US provided 10% of world's output**
- **1968**
 - **Population: 3.5 B**
 - **US was 6%**
 - **US provided 20% of world's output**



Why Invest in US Agriculture?

- **2012**
 - **Population: 7 B+**
 - **US is 3%**
 - **US provides 30% of world's output**
 - **Today the US producer and US technology can produce enough food and fiber to feed the world!**



Your Questions?

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President**

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