FarmlandInvestorLetter®

Market Intelligence for Superior Returns

Sector Overview September 2008

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Market Barometer	12-Month Total Return[1] (%)
Dow Jones Wilshire 5000 Index (Entire stock market)	-21.3
S&P 500 Index (Large-cap stocks)	-22.0
Dow Jones Wilshire REIT Index	-12.5
NCREIF Farmland Index[3]	18.7
Lehman Aggregate Bond Index (Broad taxable market)	3.7
Lehman U.S. Treasury 7-10 Yr. Index	10.4
Inflation[2]	5.4

[1]Through 9/30/08; [2]Consumer Price Index for all urban consumers, unadjusted 12-month rate through 8/31/08; [3]NCREIF Farmland Index total return before management fees for 12 months through 6/30/08. Sources: Bureau of Labor Statistics, Barclays Capital, National Council of Real Estate Investment Fiduciaries, Standard & Poor's, Wilshire Associates

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Month in Review

● **Will Farmland Dodge the Spiraling Financial Crisis?** After inflating 73% in the four years through December 2007, the darkening global financial outlook has many farm real estate participants wondering if the agriculture sector can still manage to zig while the rest of the economy zags. *Page 2*

● **2007 U.S. Land Market Review.** Cropland values rose an average 10% in 2007, ranging from 20% in South Dakota and Nebraska to declines of 2% in Utah and nearly 1% in Florida. *Page 3*

● **2009 Rent Outlook: Rising Costs & Lower Crop Prices.** Despite rising crop input costs and declines in the price forecast for next year's crop, most landowners still have room to negotiate increases in 2009 lease rates. *Page 4*

● **2008 Cash Rent Market Review.** Cash rental rates for cropland rose an average 13% this year. While cash rents rose faster than land values, the gap between crop farming profits and cash rent rates remains historically wide. Rents in the major corn and soybean producing states rose 13% to 18%, averaging $160/acre in Illinois, $135/acre in Indiana, and $165/acre in Iowa. *Page 5*

● **Timber & Wind Energy Investors Drive Foreign Investment in U.S. Ag Land.** After holding relatively unchanged from 1996 through 2006, foreign individuals and entities increased their holding of U.S. agricultural land by 34% or 5.3 million acres. *Page 6*

● **Institutional Watch:** Goldman Sachs' global ag play includes U.S. farmland; New Mexico pension fund to add farmland; Alaska now biggest pension fund investor in U.S. farmland; Brazil Iowa Farms more than doubles Bahia farming base—mulls IPO; Farmland fundraising roundup. *Page 8*

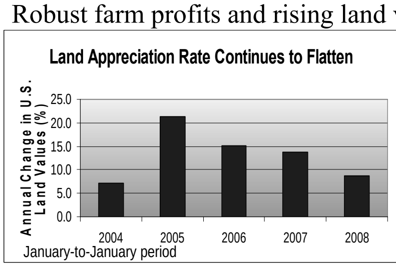
Credit Crisis Stings Farmer Mac. Five Farm Credit System banks and Zions Bancorporation of Salt Lake City injected $65 million via non-voting senior preferred stock into the ailing Federal Agricultural Mortgage Corp. (Farmer Mac) on October 1. Farmer Mac—a smaller relative of Fannie Mae and Freddie Mac—buys farm mortgages and other loans, repackages and sells them as asset backed securities. The company was in danger of falling under minimum capital requirements after suffering heavy losses on $112.5 million invested in failed investment bank Lehman Brothers and Fannie Mae—which was seized by the government in early September. The capital rescue coincided with the resignations of Farmer Mac's chief executive and chief financial officers. Chairman Fred Dudley resigned on Sept. 15. Michael Gerber, CEO of Farm Credit of Western New York, is serving as Farmer Mac's acting president and CEO. Washington, D.C.-based Farmer Mac provides funding for about 8.5% of U.S. farm real estate debt. ■

Navigating a Global Slowdown

Will Farmland Dodge the Spiraling Financial Crisis?

Is the party coming to an end? After inflating 73% in the four years through December 2007, the darkening global financial outlook has many farm real estate participants wondering if the agriculture sector can still manage to zig while the rest of the economy zags.

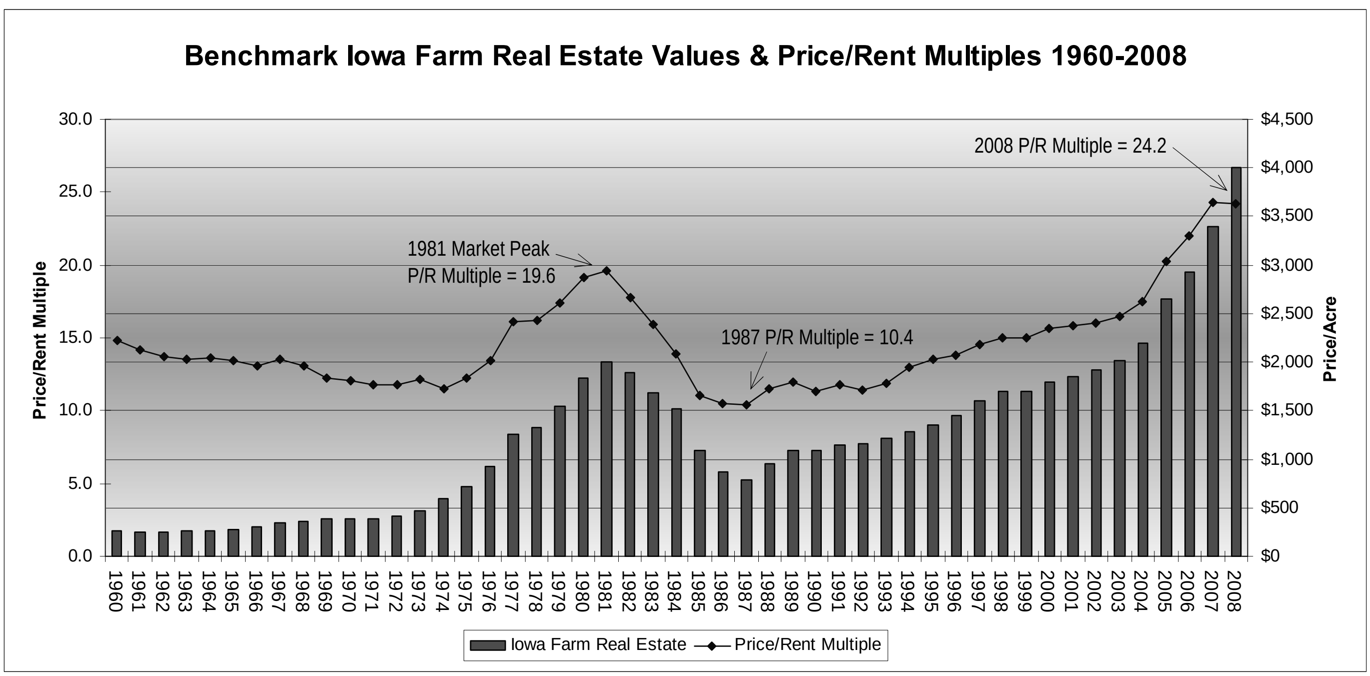
At this juncture, the U.S. farm sector remains healthy. Robust farm profits and rising land values have enabled farmers to trim their debt-to-asset ratio to a record low of 9%. USDA is still projecting record high farm income for 2008. The agency will update its 2008 forecast on November 25. Credit remains generally available to farmers. "We don't anticipate any impact on the availability of Farm Credit System funding to ag producers," reports Gary Hansen, chief risk manager at AgriBank FCB, which provides funding to Farm Credit Services associations in 15 states across the country's mid-section. Still, the financial crisis has begun to spill into the agriculture sector: Farm mortgage reseller Farmer Mac required a $65 million capital infusion from soured investments in Fannie Mae and Lehman Brothers (See Page 1)



The cost of capital is also rising. At the Farm Credit System—which funds 35% of all farm business debt—loan funding costs have risen 50 basis points as the financial crisis has unfolded. "Right now, nobody wants to lend longer than a year," says Daniel Bienz of the Federal Farm Credit Banks Funding Corporation. "It's not impossible, but it is more difficult and more costly," he adds. Most of this increase and any further increases are expected to be passed on to farm borrowers.

There are also cracks emerging in agriculture's rosy global growth thesis. The financial wreck on Wall Street and deteriorating economic data suggest the U.S. is sliding into a recession. Economists are now trying to access the likely

(Continued on page 4)



Cash rent represents the earnings potential of a farm. Thus, the ratio of farmland prices to cash rent is akin to the price/earnings multiple used by stock investors to gauge the relative valuation of individual stocks vs. the market and over past time periods. Benchmark Iowa farmland is trading at 24.2 times rent—just under last year's record 24.3 multiple, thanks to a near 18% jump in cropland rents, as the rent market begins to catch up with crop farming's steep profit rise. Still, Iowa land values are trading well ahead of the previous 1981 market peak of 19.6 times rent. Since 1960, Iowa farmland has traded at an average 14.6 times rent, and fell to as low as 10.4 rent in 1987.

2008 Land Values Summary

Region/State	Farmland[1]				Cropland				Pasture			
	2008 Value $/Acre	1-Year Change (%)	3-Year Change (%)	5-Year Change (%)	2008 Value $/Acre	1-Year Change (%)	3-Year Change (%)	5-Year Change (%)	2008 Value $/Acre	1-Year Change (%)	3-Year Change (%)	5-Year Change (%)
Northeast:	**5,080**	**1.6**	**23.6**	**58.8**	**5,900**	**8.3**	**34.4**	**73.5**	**3,650**	**5.8**	**31.8**	**66.7**
Connecticut[5]	11,500	-1.7	6.5	21.1								
Delaware[5]	9,900	-4.8	17.9	147.5	9,400	-5.1	17.5	144.2				
Maine[5]	2,100	-2.3	7.7	20.0								
Maryland[5]	9,100	-1.6	15.2	119.3	8,900	-2.2	17.1	122.5				
Massachusetts[5]	12,200	3.4	16.2	31.2								
New Hampshire[5]	3,900	-2.5	13.0	25.8								
New Jersey	11,300	0.0	7.6	24.2	11,700	-1.7	11.4	25.8	12,500	3.3	10.6	25.0
New York	2,400	8.1	25.0	41.2	2,200	14.6	43.8	58.3	1,200	17.6	45.5	66.7
Pennsylvania	5,800	2.3	37.4	68.1	7,100	18.3	65.9	102.9	3,700	12.1	68.2	100.0
Rhode Island[5]	12,000	-4.0	7.1	29.0								
Vermont[5]	2,850	5.6	23.9	39.0								
Other States[4]					7,410	2.1	12.1	25.2	6,490	1.7	44.9	67.3
Lake States:	**3,580**	**8.5**	**42.1**	**78.1**	**3,250**	**10.2**	**43.2**	**74.7**	**1,940**	**7.8**	**50.4**	**103.6**
Michigan	4,150	5.1	31.7	54.9	3,700	7.2	34.5	57.4	2,800	8.9	43.6	75.0
Minnesota	3,100	11.5	47.6	93.8	2,820	12.8	44.6	85.5	1,550	12.3	64.9	148.0
Wisconsin	4,070	7.1	42.8	77.0	3,810	8.2	46.5	73.2	2,250	7.1	52.0	104.5
Corn Belt:	**3,910**	**13.3**	**43.8**	**83.6**	**4,260**	**14.8**	**47.9**	**87.7**	**2,220**	**10.4**	**54.2**	**98.2**
Illinois	5,000	15.5	50.2	105.8	5,320	19.3	57.9	112.8	2,800	12.0	62.8	164.2
Indiana	4,450	11.3	41.7	73.2	4,550	12.3	44.4	78.4	2,800	12.0	45.1	68.7
Iowa	4,000	17.6	50.9	99.0	4,310	18.7	55.6	103.3	2,100	16.7	96.3	162.5
Missouri	2,450	7.5	36.9	66.7	2,660	8.6	40.7	68.4	1,920	5.5	43.3	82.9
Ohio	4,150	9.2	30.5	51.5	4,250	8.4	31.6	54.5	3,400	20.6	51.8	74.4
Northern Plains:	**1,110**	**15.5**	**51.0**	**86.9**	**1,390**	**18.8**	**51.7**	**88.6**	**565**	**19.7**	**64.7**	**119.0**
Kansas	1,170	7.3	37.6	70.8	1,180	15.7	39.0	72.5	860	16.2	62.3	109.8
Nebraska	1,460	18.7	55.3	88.4	2,270	20.1	54.4	87.6	530	23.3	65.6	107.8
North Dakota	765	17.7	51.5	80.0	800	19.4	46.5	73.9	350	16.7	59.1	105.9
South Dakota	990	20.7	63.6	115.2	1,500	20.0	65.4	120.3	500	19.0	61.3	127.3
Appalachian:	**4,020**	**5.2**	**29.3**	**69.6**	**4,060**	**6.0**	**33.6**	**63.1**	**4,200**	**7.7**	**44.3**	**110.0**
Kentucky	3,000	5.3	20.0	57.9	3,260	6.9	30.4	55.2	2,700	3.8	36.4	84.9
North Carolina	4,800	4.3	21.8	54.8	4,140	4.8	20.0	40.3	5,250	2.9	31.3	74.4
Tennessee	3,650	7.4	28.1	52.1	3,600	7.5	35.8	53.2	4,100	6.5	27.3	74.5
Virginia	5,900	3.5	45.7	118.5	6,300	5.0	53.7	125.0	5,700	3.6	48.1	153.3
West Virginia	2,700	8.0	38.5	92.9	4,100	5.1	24.2	100.0	2,100	0.0	26.5	75.0
Southeast:	**4,960**	**2.9**	**40.5**	**118.5**	**5,420**	**5.2**	**48.1**	**130.6**	**6,400**	**-1.5**	**52.4**	**218.4**
Alabama	3,500	12.9	45.8	98.9	3,900	14.7	59.2	129.4	2,700	10.2	38.5	100.0
Florida	7,600	0.4	40.7	162.1	9,410	-0.7	30.3	155.0	8,000	-4.2	55.3	281.0
Georgia	4,500	0.0	40.6	104.5	4,770	7.4	73.5	121.9	7,800	-4.3	39.3	183.6
South Carolina	3,050	5.2	27.1	48.8	2,700	8.0	31.7	54.3	3,100	3.3	34.8	63.2
Delta States:	**2,360**	**8.3**	**31.8**	**61.6**	**1,910**	**7.3**	**30.8**	**57.9**	**2,300**	**6.0**	**42.0**	**87.0**
Arkansas	2,500	8.7	33.7	68.9	1,820	5.8	24.7	49.2	2,270	6.6	42.8	87.6
Louisiana	2,300	8.5	29.9	53.3	2,030	10.3	34.4	63.7	2,290	6.0	37.1	74.8
Mississippi	2,230	7.2	32.0	59.3	1,940	7.2	37.6	67.2	2,360	5.8	46.6	96.7
Southern Plains:	**1,550**	**10.7**	**55.0**	**96.7**	**1,490**	**12.0**	**47.5**	**72.7**	**1,510**	**17.1**	**81.9**	**155.9**
Oklahoma	1,150	6.5	27.8	63.1	1,110	13.4	31.2	66.2	1,000	11.1	56.3	122.2
Texas	1,690	14.2	64.1	108.6	1,640	11.6	53.3	75.0	1,610	17.5	85.3	159.7
Mountain:	**1,210**	**8.0**	**73.4**	**131.4**	**1,940**	**4.3**	**36.6**	**65.8**	**733**	**6.4**	**85.6**	**157.2**
Arizona[2]	3,500	2.9	50.2	133.3	11,500	6.5	27.8	91.7	950	5.6	46.2	102.1
Colorado	1,300	4.0	38.3	78.1	1,470	5.0	25.6	40.0	800	0.0	29.0	86.0
Idaho	2,950	4.2	68.6	130.5	3,300	4.8	58.7	96.4	1,900	2.7	100.0	171.4
Montana	1,100	14.6	115.7	182.1	945	1.6	44.9	81.7	910	7.1	145.9	237.0
Nevada[2]	1,150	4.5	76.9	139.6	3,150	1.6	37.0	65.8	760	5.6	117.1	198.0
New Mexico[2]	630	3.3	75.0	142.3	1,980	8.2	29.4	34.7	370	5.7	48.0	131.3
Utah[2]	2,750	7.8	88.4	150.0	3,990	-2.2	30.4	34.8	1,350	0.0	95.7	170.0
Wyoming	670	19.6	81.1	123.3	1,410	6.0	31.8	47.3	570	18.8	103.6	159.1
Pacific:	**3,990**	**8.7**	**27.9**	**69.8**	**5,600**	**2.8**	**21.2**	**60.0**	**1,900**	**9.8**	**59.7**	**99.6**
California	6,500	8.3	27.7	80.6	9,960	1.8	21.0	68.2	3,050	8.2	59.7	103.3
Oregon	1,800	9.1	33.3	50.0	2,260	3.7	25.6	35.3	700	11.1	37.3	55.6
Washington	2,090	10.0	26.7	41.2	1,890	8.0	17.4	28.6	800	14.3	36.8	53.8
National Average[3]	**2,350**	**8.8**	**42.4**	**85.0**	**2,970**	**10.4**	**40.8**	**78.9**	**1,230**	**6.0**	**50.0**	**103.3**

Data is based on the National Agricultural Statistics Service June Area Survey, conducted during the first two of June. Land value estimates are as of January 1st for each calendar year. [1]Farmland includes the value of all land and buildings on farms. [2]Excludes American Indian Reservation Land. [3]Excludes Alaska and Hawaii. [4]Cropland values include Conn., Maine, Mass., N.H., R.I., Vt.; Pasture values include Conn., Del., Maine, Mass., N.H., R.I., Vt. [5]Cropland and/or pasture value no longer published due to insufficient reports. Source: *Farmland Investor Letter* analysis of USDA data.

(FINANCIAL CRISIS Continued from page 2)

length and severity of the recession, since this will determine the prospects for the agricultural sector. A recession "would result in a significant fall back in the demand for agricultural products," noted Purdue University economist Michael Boehlje during an Oct. 6th panel discussion on the financial crisis. Demand for farm goods is already easing: On Sept. 30, USDA reported bigger inventories of corn and soybeans than expected for Sept. 1. This translates into bigger beginning grain inventories for the 2008/09 crop year, and larger ending inventories in Sept. '09, notes Citigroup analyst David Driscoll in a research note. Corn prices dropped under $5/bu. for the first time since January; soybeans fell under $11/bu. for the first time since December.

Part of the drop in grain prices is also tied to the retreat of investment funds that had surged into commodities and helped push grain prices to record highs earlier this year. These investors are now exiting the sector as they sell grain contracts to raise cash and de-lever their portfolios.

What do lower grain prices mean for landowners? "We see real concern about how quickly margins that have been very good, could be very significantly compressed and turn negative fairly rapidly," warned Prof. Boehlje at the Purdue forum.

Much of the bullish investment thesis for agriculture is predicated on a sustained growing global demand for grains and animal protein fueled by fast-growing nations like China and India. But that view may be upended. Foreign demand for U.S. ag products is expected to weaken as the world's major economies also flirt with recession and China and India lose momentum. The International Monetary Fund has dialed down its expectations for the global economy this year and into 2009. The IMF slashed its 2009 growth forecast from 3.9% to 3%—the weakest level since 2002 and near the threshold it considers a global recession.

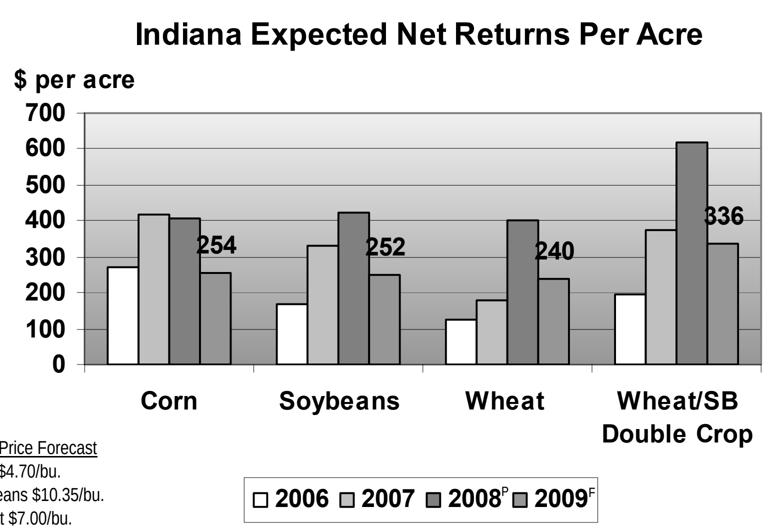
There is broad agreement that the housing market still has further to fall, regardless of the federal financial system bailout. This suggests further weakness in the transitional land market around urban regions and on recreational and marginal properties marketed as weekend getaways and hunting preserves. The sale inventory of recreational property is expanding. Peabody Energy has put 4,666 acres of recreational land in Illinois up for sale; more listings of large tracts are expected.

Through September, it appeared that investors still considered farmland attractive, and price momentum was still moving up. A Sept. 23d auction of two tracts of bare land in Moultrie County, Ill. fetched $9,000/acre (160 acres) and $8,325/acre (190 acres), respectively. The farms' three-year

2009 Rent Outlook: Rising Costs & Lower Crop Prices

Rising prices for fertilizer, fuel and other crop inputs and sharp declines over the last month in crop futures and cash prices are upending profit forecasts for the 2009 crop.

Crop input costs are expected to trim next year's crop profits. Purdue University figures that 2009 total variable costs for corn in rotation will rise 29% to $489/acre, verses $380/acre in 2008. Still, most landowners have grounds to negotiate increases in 2009 lease rates. Using Indiana as a proxy for the Midwest, we analyzed Indiana farmers' expected net returns using Purdue's crop production budgets, Indiana crop yield and price data from USDA for past crop years, Purdue's August estimate for 2009 crop costs, and USDA's Oct. 10 crop price forecast for 2009. Our analysis shows that net returns for Indiana corn farmers are forecast to drop 37% or $151/acre compared to 2008. Still, farmers growing corn as a rotational crop on average quality land are forecast to clear $254/acre after variable costs, for lease payments and operator profit. Subtract a generous $50/acre operator profit, and that leaves $204/acre for lease payments, verses the $157/acre rent (Purdue Land Value Survey) Indiana farmers paid landowners for average quality land in 2008.



2009 Price Forecast
Corn $4.70/bu.
Soybeans $10.35/bu.
Wheat $7.00/bu.

P Preliminary F Forecast Sources: Purdue Univ., USDA, *Farmland Investor Letter* analysis

Soybean profits are forecast to fall 41% to $252/acre; wheat profits off 40% to $240/acre. South of Indianapolis, where farmers can double crop soybeans after wheat, profits on the combined crops may fall 45% to $336/acre.

While these are double digit margin cuts, farmers began harvesting windfall profits in 2007 as rent increases failed to keep pace with crop farming's sharply improving economics due to zooming grain prices.

Crop input costs are a grossly moving target—and bear monitoring. Still, at this juncture, landowners are justified in negotiating increases in 2009 rents. ■

grain yield history is typical for the region: 184 bu./acre for corn and 53 bu./acre for soybeans. Area farmers bought the tracts on behalf of investors, according to Robert Lamendola, who ran the auction. However, comparable land in the vicinity of these auctioned tracts is listed for sale at $7,500/acre - $8,000/acre. Mr. Lamendola is uncertain what fueled the price run up. "I think a lot of it is that people would rather put their money in ground now than in the stock market," he muses.

Despite such anecdotes of unbridled optimism, the growth rate in farmland prices is continuing to moderate. Creighton University's Farmland-Price Index declined from 65.6 in August to 63.3 in September. The index—in which a reading of 50 is growth neutral—polls community bank presidents and CEOs in agriculturally-dependent portions of 11 Midwest, Plains and Mountain states.

In the Midwest, farmland values appreciated at an average 15% for the 12 months through June across Illinois, Indiana, Iowa, Michigan and Wisconsin. Buyer demand appeared strongest in Illinois where the value of good farmland inflated at a 17% annual rate, according to a Federal Reserve Bank of Chicago survey. At mid-year, Illinois land values ranged from $7,350/acre for excellent quality land to $4,230/acre for fair quality land, according to a state survey of farm managers and rural appraisers.

In Iowa, cropland values rose an estimated 17.6% for the 12 months through August, according to the Iowa Farm and Land Chapter of the Realtors' Land Institute. The value of high quality cropland averaged $5,619/acre, ranging from $4,242 in South Central Iowa to $6,193/acre in West Central Iowa, according to the broker group.

In Missouri, the value of good quality cropland rose 13.5% to $2,952/acre for the year to July period, according a University of Missouri opinion survey. Most respondents were skeptical that farmland values will maintain their upward pace—forecasting a modest 3% increase in cropland values from July 2008 to July 2009. ■

2008 Rent Summary

Region/State	Cropland 2008 Rent ($/Acre)	Cropland 1-Year Change (%)	Cropland Rent/Value Yield (%)	Pasture 2008 Rent ($/Acre)	Pasture 1-Year Change (%)	Pasture Rent/Value Yield (%)
Northeast:	**51.00**	**6.3**	**0.9**	**31.50**	**1.6**	**0.9**
Delaware	75.00	15.4	0.8			
Maryland	65.00	4.8	0.7			
New Jersey	50.00	4.2	0.4			
New York	44.00	12.8	2.0			
Pennsylvania	55.00	14.6	0.8			
Lake States:	**98.00**	**15.3**	**3.0**	**33.00**	**10.0**	**1.7**
Michigan	80.00	9.6	2.2			
Minnesota	109.00	16.0	3.9	21.00	10.5	1.4
Wisconsin	85.00	18.1	2.2	43.00	7.5	1.9
Corn Belt:	**140.00**	**11.1**	**3.3**	**36.00**	**14.3**	**1.6**
Illinois	160.00	13.5	3.0	40.00	14.3	1.4
Indiana	135.00	12.5	3.0			
Iowa	165.00	17.9	3.8	42.00	7.7	2.0
Missouri Non-Irrigated	85.00	7.6	3.2	29.00	11.5	1.5
Ohio	103.00	13.2	2.4			
Northern Plains:	**64.00**	**10.3**	**4.6**	**14.00**	**0.0**	**2.5**
Kansas - All Land	52.00	8.3	4.4	15.50	6.9	1.8
Kansas Irrigated	88.00	7.3	5.3			
Kansas Non-Irrigated	45.00	9.8	4.0			
Nebraska - All Land	123.00	16.0	5.4	14.20	1.4	2.7
Nebraska Irrigated	155.00	11.5	5.3			
Nebraska Non-Irrigated	95.00	20.3	4.9			
North Dakota - All Land	45.00	9.8	5.6	13.40	7.2	3.8
South Dakota Non-Irrigated	65.00	15.0	4.4	15.90	15.2	3.2
Appalachian:	**58.00**	**0.0**	**1.4**	**23.00**	**3.1**	**0.5**
Kentucky	82.00	0.0	2.5			
North Carolina	55.00	4.8	1.3	29.00	7.4	0.6
Tennessee	65.00	-4.4	1.8	22.00	10.0	0.5
Virginia	45.00	0.0	0.7	22.00	4.8	0.4
West Virginia	31.00	3.3	0.8			
Southeast:	**57.00**	**14.0**	**1.1**	**22.00**	**-1.3**	**0.3**
Alabama	41.00	0.0	1.1	19.00	-2.6	0.7
Florida Non-Irrigated	40.00	0.0	0.5	25.00	4.2	0.3
Georgia - All Land	65.00	8.3	1.4	30.00	20.0	0.4
Georgia Irrigated	125.00	7.8	3.3			
Georgia Non-Irrigated	48.00	9.1	1.0			
South Carolina	32.50	10.2	1.2			
Delta States:	**88.00**	**21.4**	**4.6**	**28.00**	**43.6**	**1.2**
Arkansas - All Land	85.00	6.3	4.7			
Arkansas Irrigated	94.00	4.4	4.7			
Arkansas Non-Irrigated	61.00	8.9	3.6			
Louisiana - All Land	77.00	8.5	3.8	28.00	21.7	1.2
Louisiana Irrigated	97.00	18.3	5.6			
Louisiana Non-Irrigated	67.00	1.5	3.2			
Mississippi - All Land	87.00	19.2	4.5	19.50	8.3	0.8
Mississippi Irrigated	103.00	12.0	4.9			
Mississippi Non-Irrigated	77.00	18.5	4.1			
Southern Plains:	**34.00**	**15.3**	**2.3**	**9.10**	**3.4**	**0.6**
Oklahoma Non-Irrigated	29.00	7.4	2.6	10.00	5.3	1.0
Texas - All Land	32.00	6.7	2.0	8.70	4.8	0.5
Texas Irrigated	55.00	3.8	3.0			
Texas Non-Irrigated	25.00	8.7	1.5			
Mountain:	**86.00**	**10.3**	**4.4**	**6.50**	**4.8**	**0.9**
Arizona Irrigated	180.00	5.9	1.6			
Colorado - All Land	62.00	5.1	4.2	5.00	-9.1	0.6
Colorado Irrigated	115.00	15.0	3.3			
Colorado Non-Irrigated	24.00	9.1	2.4			
Idaho - All Land	130.00	19.3	3.9			
Idaho Irrigated	150.00	15.4	2.8			
Idaho Non-Irrigated	55.00	-5.2	3.4			
Montana - All Land	29.00	1.8	3.1	7.50	15.4	0.8
Montana Non-Irrigated	21.10	8.2	3.1			
New Mexico - All Land				3.00	50.0	0.8
Utah - All Land				14.00	16.7	1.0
Utah Irrigated	65.00	4.8	0.8			
Wyoming - All Land				7.00	55.6	1.2
Pacific:	**230.00**	**9.5**	**4.1**	**18.00**	**4.0**	**0.9**
California - All Land				15.00	7.1	0.5
California Irrigated	360.00	5.9	2.9			
Oregon - All Land	110.00	10.0	4.9			
Oregon Irrigated	145.00	7.4	4.1			
Oregon Non-Irrigated	75.00	4.2	4.2			
Washington Irrigated	230.00	9.5	5.3			
National Average[1]	**96.00**	**12.9**	**3.2**	**13.00**	**8.3**	**1.1**

Data compiled from National Agricultural Statistics Service June Area Survey, conducted during the first two weeks of June. Unless otherwise specified, data are for all cropland. [1]Excludes Alaska and Hawaii. Source: *Farmland Investor Letter* analysis of USDA Data.

Foreign Holdings Surge 34%

Timber and Wind Energy Investors Drive Foreign Investment in U.S. Land

After holding relatively unchanged from 1996 through 2006, foreign individuals and entities increased their holdings of U.S. ag land by 34% or 5.3 million acres for the 12 months through February 2007, according to the most recently available government data. Most of the increase is due to million-acre-plus purchases of timberland in the Delta States, Southeast, and Lake States regions by Canadian and Netherlands companies and long-term land leases for wind energy projects backed by European utilities. One if the biggest deals involved Stichting Bedrijfstakpensioenfonds Voor De Metalektro (PME)—a Dutch pension fund for the mechanical and engineering industries—which bought 3.3 million acres of timber in 10 states.

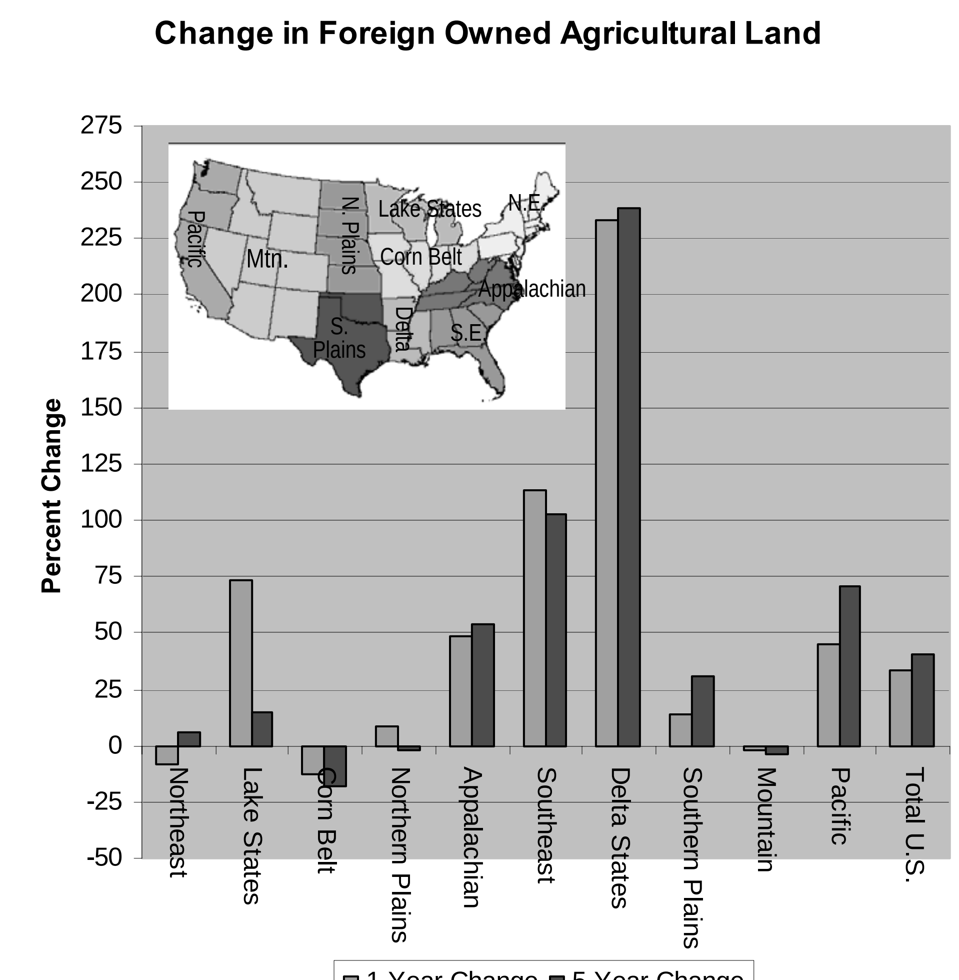
All told, foreign landowners held 21 million acres of U.S. agricultural land, representing 1.6% of all privately held farmland in the U.S. Foreign holdings in U.S. cropland increased 44,166 acres or nearly 2% for the 12 months through February 2007. Foreign purchases of crop and pasture land showed the biggest year-over-year percentage gains in the Lake States, Northern Plains and Pacific regions. Dairy farmers from Holland and Ireland have been selling their high-priced local farms and buying free-stall parlor dairy farms in Wisconsin.

Foreigners were net sellers of pasture, trimming their U.S. holdings 102,533 acres or 2.3% during the 12-month period. Foreign-based buyers of pasture were most active in the Northern Plains and Lake States regions, where they boosted pasture holdings 15.2% and 1.3%, respectively. Foreign holdings in Kansas pasture jumped 5,582 acres or 33%, fueled by wind farm developments.

Europeans Drive Wind Projects

Increasingly financed by big European utilities, wind farm developers have mounted a land grab, scrambling to tie up vast parcels of land in areas with good wind. The Smoky Hills Wind Project, which involves more than 110 Kansas landowners and 26,000 acres across Lincoln and Ellsworth counties, is being developed by Lenexa, Kan.-based TradeWind Energy, LLC—partially owned by Enel, S.p.A., Italy's biggest power utility. Other European utilities investing in U.S. wind power developments include Germany's E.On, Energias de Portugal of Portugal, and Spanish utility Iberdrola SA.

TradeWind is developing wind farms in 12 states, including two 30,000-acre projects in Atchison, Adair and Sullivan Counties in Missouri, a 15,000 acre project in Elk County, Kan., and two wind farms in DeWitt County, Ill. Wind tower



Source:
Farmland Investor Letter analysis of USDA data.

leases typically include an initial 20- to 30-year term.

Two issues of contention for Kansas landowners are the ability to sever wind rights from surface rights when selling land, and pooling agreements for "buffer zone" landowners who sign a lease for a wind project, but don't end up receiving energy royalty payments because their land is situated in a no-turbine buffer zone along the edge of a project. California has upheld severing wind rights, while South Dakota prohibits it. Pool payments go to all landowners within the defined outline of a wind project, regardless of whether a tower is built on an owner's land. For example, the developer of a Logan County, S.D. project is estimating a $10,000 annual pool payment for each landowner.

Foreigners were most active sellers of pasture in the Corn Belt and Northeast, where they trimmed their holdings 28% and 25%, respectively, during the year through February 2007 period. Much of this decline is tied to pasture land owned by Pittsburgh-based CONSOL Energy Inc., which owns some 430,000 surface acres of land in the U.S. and Canada. CONSOL—acquired by German power company RWE Group in the 1990s—went public in 1998. RWE's equity interest in CONSOL is now under the 10% foreign ownership reporting threshold.

Likewise, corporate mergers and acquisitions can magnify changes in foreign holdings. John Hancock Financial Services became subject to the foreign reporting law after it was acquired by Canadian insurer Manulife Financial Corp. in 2004. Hancock was the biggest foreign buyer of cropland for the year through February 2007 period, purchasing more than 37,000 acres in eight states. (See Chart)

Other leading land acquirers were Gents Cattle Co., an entity partly owned by Mexican nationals, which bought 62,789 acres of pasture in New Mexico, and Rabo Agrifinance Inc. (a unit of Netherlands-based Rabobank Group) which acquired 12,749 acres of cropland in five states as a byproduct of its lending activities. Rabo currently owns 7,096 acres of farmland.

Offshore investors in U.S. cropland have historically been attracted by secure property rights laws, low political risk and American farmers' rapid adoption of advanced seed genetics and production technology. Agriworld GmbH, a Hamburg, Germany manager, is buying cropland in the Mid-South for its FarmInvest 1 LP. The fund, which has attracted more than $10 million from European investors, is shopping in Arkansas, Louisiana and Mississippi.

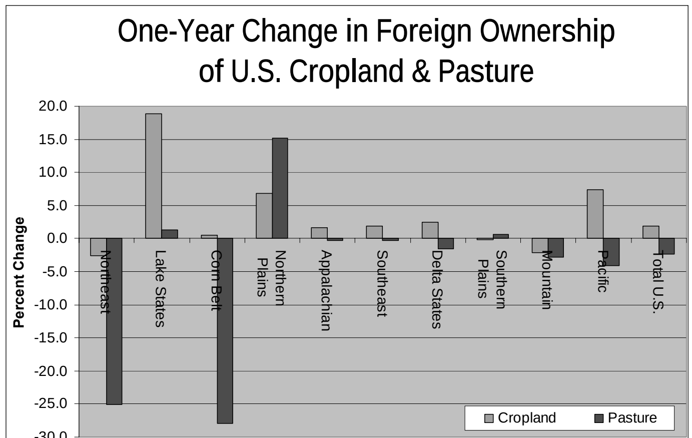
Globally, market participants say most offshore money now going into farmland is flowing to Eastern European countries like Ukraine, Hungary, and Brazil in South America, where lower land prices offer the prospect of higher returns. The declining value of the dollar against the Euro has helped boost interest in U.S. ag real estate among European investors, notes Phil Christensen of Agriglobe Inc., Fresno, Calif., which manages 5,000 acres of California ag land for clients in western Europe and Japan, and is affiliated with Agriworld.

"Politically, the U.S. is a safer place to invest, but returns don't match up compared to elsewhere," he adds. ■

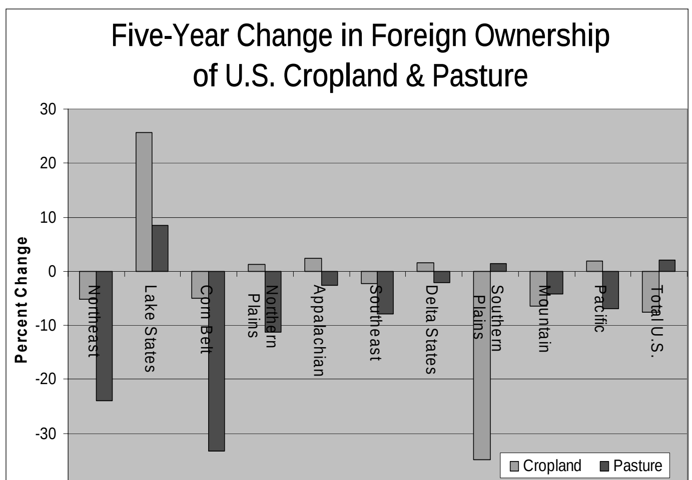
Top Three Foreign Acquirers of U.S. Cropland & Pasture

Owner	Acres	Location
Cropland		
John Hancock Life Insurance Co. (Manulife Financial Corp.)	37,139	AR, CA, IL, IN, OH, TN, WA, WI
Smoky Hills Wind Farm, LLC¹	13,228	KS
Rabo Agrifinance Inc.(Rabobank Group)	12,749	AL, ID, MN, NE, SD
Pasture		
Smoky Hills Wind Farm, LLC¹	76,985	KS
Gents Cattle Company, Inc.	62,798	NM
Inoes USA LLC¹ (BP plc)	7,048	TX

Ranking through most recent reporting period 2/28/07 ¹Long-term lease. Source: USDA



For the year ended February 2007, foreigners were net buyers of cropland in the Lake States of Wisconsin and Michigan, up 46% and 11%, respectively; and crop and pasture land in Kansas, up 32%-33%. Foreigners have been net sellers of pasture land in Pennsylvania, Ohio and Illinois.



For the five years through February 2007, foreigners cut their cropland holdings nearly 8% and increased their pasture holdings 2%. Purchases have been focused in the Lake States, with cropland purchases in Wisconsin and Michigan up 37% and 34%, respectively. Pasture purchases in Michigan are up 46%.

Institutional Watch

Goldman Sachs' Global Ag Play Includes U.S. Farmland

Before the Wall Street meltdown pushed investment banking giant Goldman Sachs Group to morph into a commercial bank, the New York firm had been an active investor in the global food and agri-energy sector. The bank's investments span major equity stakes in Chinese meat packers, processors and livestock farms to financing Brazilian sugarcane/ethanol ventures. Less visible are the bank's discreet investments in U.S. farmland via **Agricultural Company of America Holdings LLC**, a joint venture with Duquesne Partners. Launched in June 2007, the venture's holdings include a 221-acre farm in McDonough County, Ill., purchased in January for $6,252/acre or $1,379,941, and 1,480 acres in Hamilton and Merrick Counties in central Nebraska, purchased in late March and April for an average $2,126/acre or $3,147,340. ■

New Mexico Pension Fund to Add Farmland

Citing a need for further diversification and protection against inflation, the **New Mexico Education Retirement Board** plans to invest $55 million in farmland as part of an expansion into natural resource assets. The board, which oversees an $8.6 billion retirement fund for public employees, expects to fund land purchases with up to 25% debt and is targeting a gross 6% compounded annual return, after inflation. New Mexico has retained consultancy ORG Real Property in Portland to evaluate potential fund investments. ■

Alaska Closes AT&T Deal; Now Biggest Pension Fund Investor in U.S. Farmland

With its recent purchase of a 70,000-acre portfolio from AT&T for approximately $230 million, the Alaska Retirement Management Board now stands as the biggest pension fund investor in U.S. farmland. The agency—which oversees $15.1 billion in public employee retirement funds—had $450.7 million invested in some 144,000 acres of farmland through August, and has increased its target allocation to $549.5 million. ■

Brazil Iowa Farms More Than Doubles Bahia Farming Base; Mulls IPO

Brazil Iowa Farms, a six-year-old Brazilian farming venture controlled by hedge fund managers Millennium Asset Management of London and Whitebox Advisors LLC in Minneapolis, is more than doubling its existing 22,500 acre cropland base by purchasing more than 34,500 acres in the Bahia state of Brazil. BIF is paying $56.8 million or about $1,634/acre for the land, using mostly cash from Millennium and Whitebox who acquired control of the venture in December 2007. In a June shareholder note, a BIF executive described the land as equal to or exceeding the quality of the venture's best existing land. BIF is "aggressively seeking much, much larger properties" whose purchase would be funded by an initial public stock offerinng or other capital raise, according to the note. BIF was founded by a Royal, Iowa commodity broker. ■

Farmland Fundraising Roundup . . .

Chess Ag Full Harvest Partners is expected to attract $35 million for its inaugural **Full Harvest Agricultural Opportunities Fund**. Organizers Shonda Warner of Clarksdale, Miss. and John Fletcher of Marshall, Mo. had originally sought $300 million. Warner is founder of Chess Capital Partners, a London boutique that sells funds that invest in other hedge funds. Fletcher is an executive with a Central Missouri feed, crop input supplier and grain merchandiser.

Start-up Heartland Farms LLC, South Bend, Ind., continues to add parcels to its fledgling $7.5 million **Ceres Farms LLC**, an open-end land fund focused on the Eastern Corn Belt. In September, the fund paid $5.3 million or $4,796/acre for 1,108 acres in a Frankfort, Ind. auction. The fund owns another 4,953 acres in Illinois, Indiana and Tennessee.

Palmer Capital Investments and Bidwells Agribusiness plan to launch a €300 million ($432 million) Pan-European farmland fund in November. The 10-year **Palmer European Farmland Fund** will invest 70%-90% in farmland, with up to 15% allocations in timber, and supporting infrastructure. Land investments will target Germany, France, the UK, the Czech Republic, Hungary, Poland, and Romania.

London-based Agrifirma Services Ltd. has landed a $32 million commitment from RIT Capital Partners for its **Agrifirma Brazil Ltd.**, a closed-end fund focused on buying and developing raw and partially developed Brazilian savannah into productive cropland. Julio Bestani, former CFO of South American farming giant Adeco Agropecuária (controlled by New York-based Soros Fund Management), is consulting on the project.

Brookfield Asset Management, Toronto, Canada, is shopping **Brookfield Brazil Agriland Fund**, a farming venture to produce sugarcane for ethanol production. Brookfield owns 350,000 acres of ag land in the states of São Paulo, Mato Grosso, Mato Grosso do Sul and Minas Gerais. Brookfield's strategy is to acquire large land tracts for initial use in cattle and soybean production, convert the land to sugarcane production, locate ethanol refinery facilities nearby, and negotiate cane supply agreements or long-term land leases. ■