

UBS AgriVest Farmland Fund, Inc. Quarterly report

For the quarter ended December 31, 2011



UBS AgriVest Farmland Fund, Inc. Quarterly report

**For the quarter ended December 31, 2011
(including annual audited financial statements)**

Prepared by:
UBS AgriVest LLC

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Forward looking information

This communication is not an offer or the solicitation of an offer to buy any security.

All information furnished in this report is confidential and proprietary information of UBS AgriVest LLC and the clients of the fund. This report should not be given to third parties without the prior written permission of UBS AgriVest LLC.

Sections of this report relating to future prospects that are "forward-looking statements" are based upon certain assumptions, the result of which may differ materially from the actual results. Variances may include, but are not necessarily limited to, forecast versus actual of revenue and expense, lease renewals, capital expenses, pricing of market rents, discounts and capitalizations rates. The material content of this report is based upon information obtained by UBS AgriVest LLC through the date shown on the report. Any updates to the information will be made in the next quarterly report.

Article sourced as "Is This Farm Boom Different" is from the Federal Reserve Bank of Kansas City website and is in the public domain.

For further information, please contact James McCandless at 860-616 9203.

Photo: AFF #41, Parkdale Ranch, Hood River County, OR

UBS AgriVest Farmland Fund, Inc.

Executive summary

The UBS AgriVest Farmland Fund, Inc. together with its subsidiaries (collectively "the Fund") is an open-end, infinite life, private REIT permitting quarterly contributions and redemptions. The Fund is targeting total annualized returns (returns before advisors fees) that exceed the Core Farmland Index over three- to five-year periods. The Fund acquired its first properties on June 30, 2006. The Fund now holds 45 properties valued at approximately USD 263.4 million. The properties are reasonably diversified with some concentration in the Delta and Pacific West regions of the country.

Fund-level return summary (%)

Period ended December 31, 2011	Quarter ending 12/31/11	One year	Three years	Five years	*Since inception
Net investment income, before management fee	1.09	4.21	4.24	4.06	4.03
Net realized/unrealized gain	3.79	9.27	3.40	6.28	7.08
Total, before management fee	4.88	13.77	7.75	10.54	11.33
Total, net of management fee	4.62	12.64	6.67	9.46	10.25
Core Farmland Index (CFI)	6.71	14.93	9.92	11.99	12.92

Source: UBS Global Asset Management, Global Real Estate – Farmland. Rates of return are time-weighted fund level calculations that include cash and reinvestment of income. Returns for periods in excess of one year are presented as annualized returns. Past performance is not indicative of future results.

*for period 6/29/06-12/31/11

Performance attribution

Net realized and unrealized gain on investments was approximately USD 9.1 million for the quarter ended December 31, 2011. These gains are attributable to recent comparable sales transactions for row crop properties at higher values in all regions, but especially in the Delta (Arkansas, Mississippi, Louisiana), the Mountain States (Colorado, Idaho) and the Corn Belt (Illinois).

Acquisitions

There were three acquisitions during the quarter.

- Three Circles Farm in Moore County, Texas was acquired on October 6, 2011 for approximately USD 1.9 million plus closing costs. This is an irrigated farm producing cotton and corn. This acquisition was funded from capital contributions received on October 3, 2011.

- Snyder Ranch in Yuma County, Arizona was acquired on October 28, 2011 for approximately USD 15.1 million plus closing costs. This is an irrigated farm producing cotton, wheat, alfalfa and vegetables. This acquisition was partially funded by a draw on the line of credit which has been paid in full from capital contributions received on January 2, 2012.
- Washington Farm in Washington County, Georgia was acquired on November 3, 2011 for approximately USD 6.5 million plus closing costs. This is an irrigated farm producing cotton, corn, and peanuts. This acquisition was funded by a draw on the line of credit which has been paid in full from capital contributions received on January 3, 2012.

There are no pending acquisitions under contract at quarter end.

Farmland markets are very thin with very few properties being offered for sale that meet the investment standards of the Fund. This is attributed to the strong farm economy in 2011, and the favorable outlook for 2012. As a result, farm owners have no motivation to sell their farmland holdings. While the Fund's advisor continues to seek out suitable farm properties, the lack of acceptable opportunities has significantly slowed down the pace of new acquisition activity.

Dispositions

There were two partial sale closings during the quarter. The first closing was a partial sale of 121 acres for a sale price of approximately the cost of the tract. The acreage sold is non-farmed land associated with a property in the Delta. The second closing was the partial sale of 0.69 acres, including an abandoned farm home, for a sale price of approximately the cost of the tract. The acreage was sold to the farm tenant who will remodel the home for farm labor housing and includes non-farmed land associated with a property in the Delta.

Dividends

Stockholders may participate in the Company's dividend reinvestment plan, which allows for common stock dividends to be reinvested in additional common shares. A dividend of USD 25 per share was declared in December 2011 and paid on January 4, 2012.

Factual summary

Net assets (USD mm)	247.6
Number of investments	45
Number of clients	30
Total paid-in capital (USD mm)	208.3

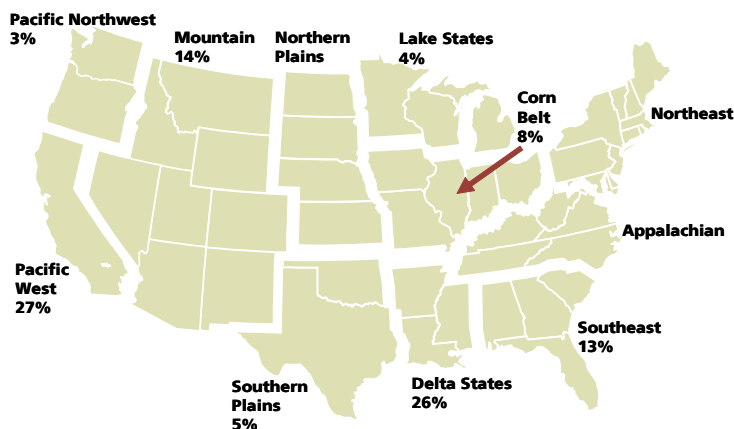
Source: UBS Global Asset Management, Global Real Estate – Farmland as of December 31, 2011

Financial highlights

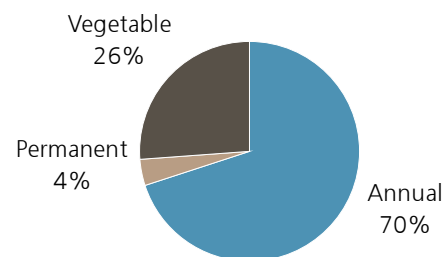
Values in USD	3/31/11	6/30/11	9/30/11	12/31/11
Farm investment properties, at fair value	217,064,300	220,103,000	230,816,304	263,428,620
Farm investment properties, at cost	190,221,660	190,305,661	198,979,937	222,396,808
Cash and cash equivalents	3,897,949	4,210,615	1,193,978	3,877,307
Total assets	222,098,819	225,669,681	234,502,286	267,682,258
Total liabilities	5,185,182	4,992,047	9,726,206	20,036,683
Total stockholders' equity	216,913,637	220,677,634	224,776,080	247,645,575

	Year ended 12/31/11	Quarter ended 12/31/11
Net investment income, before management fee	9,243,970	2,625,698
Investment management fee	2,297,771	637,459
Net investment income	6,946,199	1,988,238
Net realized and unrealized gain (loss)	20,275,033	9,125,842
Issuance of common stock	17,030,000	16,010,000
Dividends reinvested	2,489,721	0

Source: UBS Global Asset Management, Global Real Estate – Farmland

Portfolio distribution as of December 31, 2011
By geographic region


Source: UBS Global Asset Management, Global Real Estate – Farmland

By property type


Source: UBS Global Asset Management, Global Real Estate – Farmland

Portfolio strategy and activity

The Fund began operations on June 30, 2006. It owns an actively managed, core portfolio of equity farmland investments. Its focus is to acquire and manage a diversified portfolio of row, vegetable and permanent crop farmland in select major agricultural states. Investments are structured as wholly owned properties and all are leased to commercial farm operators.

Strategy

The investment objective of the Fund is to provide competitive, risk-adjusted total returns from diversified exposure to US farmland. UBS AgriVest LLC, the advisor, will select investments in which it believes there is the opportunity for favorable current income and long-term capital appreciation. The Fund will follow a disciplined asset allocation strategy to seek reasonable portfolio diversification and enhanced risk-adjusted returns, and will target sectors of the farmland market based on a pricing framework that focuses on the relative risk and appreciation potential to determine the investment attractiveness of the sectors.

Geographic and crop diversification

The table shown below shows a detailed breakdown of the geographic and crop type diversification of the 45 properties. These farms fit our strategy to build a well-diversified core portfolio of row, vegetable and permanent crop properties. Acquisition activities going forward will continue to fill in additional regions and crops in line with the long-term strategy.

UBS AgriVest Farmland Fund, Inc. portfolio diversification matrix as of December 31, 2011

(percent by market value)

Crops	Pacific				Corn Belt	Southern Plains	Lake States	Pacific Northwest	Total
	West	Delta	Mountain	Southeast					
Vegetables	19.85		3.93			0.42	1.83		26.03
Corn		6.54	0.83	4.39	3.87	1.63	0.78		18.04
Cotton	1.79	7.79	0.59	4.38		1.80			16.36
Soybeans		7.53			3.59				11.12
Peanuts				4.36					4.36
Rice		4.15							4.15
Wheat			3.86	0.26					4.12
Permanent							0.91	3.03	3.94
Berries	3.93								3.93
Range & hay	0.47		3.05						3.53
Sugar crops	0.26		1.55						1.81
Feed grain			0.22			1.42			1.64
Other	0.55		0.43						0.97
Total	26.84	26.02	14.46	13.39	7.45	5.28	3.53	3.03	100.00

Source: UBS Global Asset Management, Global Real Estate – Farmland

*Rounding errors may occur

Comparative returns

Exhibit A of this report summarizes property level return calculations. Each property is listed by region showing the market value basis returns for the quarter. The quarterly returns are calculated utilizing the NCREIF Farmland Index formula for comparative purposes (excluding cash and making NCREIF period adjustments). The portfolio's property level annual total returns are summarized and compared to the NCREIF Farmland Index (NFI) and the Core Farmland Index (CFI) for the period ending December 31, 2011 below. The CFI is composed of all annual and permanent cropland investments in the NFI that are leased.

The NFI has become increasingly weighted to permanent cropland and owner-operated property over time and no longer reflects core, diversified exposure to US farmland. To create the Core Farmland Index (CFI), UBS AgriVest excluded the investments that are owner-operated and re-weighted NCREIF Farmland Index returns to 80% annual cropland and 20% permanent cropland. We consider this to be market-neutral and therefore more appropriate as a benchmark for broadly diversified exposure to core US farmland.

Property-level returns (%)					
Period ended December 31, 2011	Quarter ending 12/31/11	One year	Three years	Five years	*Since inception
Total property returns	4.92	14.17	8.24	11.79	12.70
CFI total returns	6.71	14.93	9.92	11.99	12.92
NFI total returns	8.70	15.16	10.03	12.33	13.78

Source: UBS Global Asset Management, Global Real Estate – Farmland. Returns for periods in excess of one year are presented as annualized returns. Past performance is not an indication of future results.

*for period 7/1/06-12/31/11

A breakdown of the portfolio's annual total returns by region compared to NCREIF Farmland Index returns reveals that the portfolio returns exceed the NCREIF returns in five out of eight regions and in three cases by a rather significant margin. The overall portfolio return was negatively impacted by the significant negative difference in the Corn Belt. The Advisor has not been acquiring properties in that region due to excessively high farmland prices relative to current income returns.

Regional returns (%)
Farmland Fund vs.NCREIF
2011 Total returns
Property level

Region	Farmland	NCREIF	Difference
Pacific Northwest	9.69 ⁽¹⁾	0.45 ⁽¹⁾	9.24
Southern Plains	15.07	8.67	6.40
Delta	22.76	17.02	5.74
Pacific West	10.92	7.97	2.95
Mountain	17.34	14.65	2.69
Lake States	3.53 ⁽²⁾	4.74 ⁽²⁾	-1.21
Southeast	4.83	6.07	-1.24
Corn Belt	13.90	24.87	-10.87
All	14.17 ⁽²⁾	14.93 ⁽³⁾	-0.76

⁽¹⁾ Only permanent crops

⁽²⁾ All annual and permanent crops

⁽³⁾ CFI total returns

Source: UBS Global Asset Management, Global Real Estate – Farmland

Agricultural economy

A recent report published by the Federal Reserve Bank of Kansas City is attached as Exhibit B.



Financial statements



KPMG LLP
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Hartford, CT 06103

Independent Auditors' Report

The Board of Directors and Stockholders of the
UBS AgriVest Farmland Fund, Inc.:

We have audited the accompanying consolidated balance sheets of UBS AgriVest Farmland Fund, Inc. and subsidiaries (the Fund) as of December 31, 2011 and 2010, and the related consolidated statements of operation, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UBS AgriVest Farmland Fund, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 22, 2012

UBS AgriVest Farmland Fund, Inc.
Consolidated Balance Sheets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Farm investment properties at fair value (cost \$222,396,808; \$190,061,068)	\$ 263,428,620	\$ 210,637,000
Cash and cash equivalents	3,877,307	4,234,791
Rent and other receivables	319,907	455,583
Prepaid expenses and other assets	<u>56,424</u>	<u>52,557</u>
Total assets	<u><u>\$ 267,682,258</u></u>	<u><u>\$ 215,379,931</u></u>
Liabilities and stockholders' equity:		
Liabilities:		
Line of credit at fair value	\$ 13,000,000	\$ 1,000,000
Unearned rent	1,265,668	1,306,474
Accrued expenses and other liabilities	479,896	374,025
Deferred state tax liability	399,074	236,243
Accrued investment management fee	637,459	539,219
Dividends payable	<u>4,254,586</u>	<u>3,594,043</u>
Total liabilities	<u>20,036,683</u>	<u>7,050,004</u>
Stockholders' equity:		
Preferred stock, \$.01 par value; 500 shares authorized, 159 shares issued and outstanding	2	2
Common stock, \$.01 par value; 100,000,000 shares authorized, 170,183 and 156,263 shares issued and outstanding, respectively	1,702	1,563
Additional paid-in capital	208,274,461	188,754,879
Retained earnings	<u>39,369,410</u>	<u>19,573,483</u>
Total stockholders' equity/net assets	<u>247,645,575</u>	<u>208,329,927</u>
Total liabilities and stockholders' equity	<u><u>\$ 267,682,258</u></u>	<u><u>\$ 215,379,931</u></u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Consolidated Statements of Operations
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Investment income:		
Rental revenue	\$ 11,263,657	\$ 10,450,791
Interest on cash and cash equivalents	5,484	3,546
Other income	17,585	162,176
	<u>11,286,726</u>	<u>10,616,513</u>
Expenses:		
Property management fees	340,981	301,230
Real estate taxes	633,906	587,116
Other operating expense	509,940	454,535
General and administrative	459,969	463,298
Interest expense	52,567	178,684
State income tax provision	45,393	97,397
	<u>2,042,756</u>	<u>2,082,260</u>
Net investment income, before management fee	9,243,970	8,534,253
Investment management fee	<u>2,297,771</u>	<u>2,064,888</u>
Net investment income	<u>6,946,199</u>	<u>6,469,365</u>
Net realized and unrealized gain (loss):		
Net proceeds from sale of investments	184,496	-
Less cost of investments sold	193,890	-
	<u>(9,394)</u>	<u>-</u>
Less realization of previously recorded unrealized gain on investments sold	<u>35,740</u>	<u>-</u>
Net realized loss from investments sold	<u>(45,134)</u>	<u>-</u>
Change in net unrealized gain on investments	20,491,620	864,352
(Increase) decrease in deferred state tax expense on net unrealized gain on investments	<u>(171,453)</u>	<u>17,930</u>
Net change in unrealized gain	<u>20,320,167</u>	<u>882,282</u>
Net realized and unrealized gain on investments	<u>20,275,033</u>	<u>882,282</u>
Increase in stockholders' equity resulting from operations	<u>\$ 27,221,232</u>	<u>\$ 7,351,647</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Consolidated Statements of Changes in Stockholders' Equity
For years ended December 31, 2011 and 2010

	Number of preferred shares	Preferred shares, par value	Number of common shares	Common shares, par value	Additional paid-in capital	Retained earnings	Stockholders' equity
Balance - January 1, 2010	159	\$2	136,737	\$1,367	\$162,985,143	\$18,622,302	\$181,608,814
Issuance of common shares	-	-	21,142	212	27,884,788	-	27,885,000
Shares issued on reinvestment of dividends	-	-	1,424	14	1,884,918	-	1,884,932
Redemptions of common shares	-	-	(3,040)	(30)	(3,999,970)	-	(4,000,000)
Net investment income	-	-	-	-	-	6,469,365	6,469,365
Net realized and unrealized gain on investments	-	-	-	-	-	882,282	882,282
Dividends	-	-	-	-	-	(6,400,466)	(6,400,466)
Balance - December 31, 2010	159	2	156,263	1,563	188,754,879	19,573,483	208,329,927
Issuance of common shares	-	-	12,084	121	17,029,879	-	17,030,000
Shares issued on reinvestment of dividends	-	-	1,836	18	2,489,703	-	2,489,721
Redemptions of common shares	-	-	-	-	-	-	-
Net investment income	-	-	-	-	-	6,946,199	6,946,199
Net realized and unrealized gain on investments	-	-	-	-	-	20,275,033	20,275,033
Dividends	-	-	-	-	-	(7,425,305)	(7,425,305)
Balance - December 31, 2011	<u>159</u>	<u>\$2</u>	<u>170,183</u>	<u>\$1,702</u>	<u>\$208,274,461</u>	<u>\$39,369,410</u>	<u>\$247,645,575</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net investment income	\$ 6,946,199	\$ 6,469,365
Adjustments to reconcile net investment income to net cash provided by operating activities:		
Increase (decrease) in cash arising from changes in operating assets and liabilities:		
Rent and other receivables	135,676	(132,304)
Prepaid expenses and other assets	(3,867)	(10,302)
Unearned rent	(40,806)	83,341
Accrued expenses and other liabilities	197,547	(349,837)
Deferred state tax liability	(8,622)	36,806
Accrued investment management fee	98,240	63,749
Net adjustments	<u>378,168</u>	<u>(308,547)</u>
Net cash provided by operating activities	<u>7,324,367</u>	<u>6,160,818</u>
Cash flows from investing activities:		
Purchases of farm investment properties	(32,009,729)	(16,346,770)
Additions to farm investment properties	(611,577)	(729,523)
Proceeds from farm investments sold	184,496	-
Net cash used in investing activities	<u>(32,436,810)</u>	<u>(17,076,293)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	17,030,000	27,885,000
Redemptions of common stock	-	(4,000,000)
Dividends paid to common stockholders	(4,268,681)	(5,017,241)
Dividends paid to preferred stockholders	(6,360)	(6,360)
Proceeds from line of credit	20,000,000	10,825,000
Repayment of line of credit	(8,000,000)	(19,075,000)
Net cash provided by financing activities	<u>24,754,959</u>	<u>10,611,399</u>
Net decrease in cash and cash equivalents	(357,484)	(304,076)
Cash and cash equivalents - beginning of year	4,234,791	4,538,867
Cash and cash equivalents - end of year	<u>\$ 3,877,307</u>	<u>\$ 4,234,791</u>

See accompanying notes to consolidated financial statements.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

1. Organization

UBS AgriVest Farmland Fund, Inc. (the "Company") is a Maryland corporation formed in 2006 for the purpose of investing in a diversified portfolio of row, vegetable and permanent crop farmland in select major agricultural states in the United States. The Company has elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes. The Company holds its investments through UBS AgriVest Farmland Fund L.P. (the "Operating Partnership") and other subsidiaries (together the "Fund"). The Company is the sole member of the general partner and the limited partner of the Operating Partnership in which it holds a majority interest. UBS AgriVest LLC (the "Advisor") provides investment advisory services to the Fund pursuant to an investment advisory agreement (the "Advisory Agreement").

The Fund evaluated subsequent events for recognition or disclosure through February 22, 2012, the date on which the consolidated financial statements were available to be issued.

2. Significant accounting policies

Basis of presentation

The accompanying consolidated financial statements are stated in U.S. dollars and presented on the fair value basis of reporting in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements of the Fund include the accounts of the Company, the Operating Partnership and the Operating Partnership's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Farm investment valuations

The farm investment properties of the Fund are stated at estimated fair value. Fair value means the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of farm investments generally do not reflect transaction costs which may be incurred upon disposition of the farm investments. The Fund's farm investment values do not necessarily represent the prices at which the investments would be sold or repaid, since market prices of farm investments can only be determined by negotiation between a willing buyer and seller. Amounts ultimately realized from each investment may vary materially from the fair values reflected in the consolidated financial statements.

The valuations of the farm investment properties are determined on a quarterly basis by independent appraisers. An independent appraisal of the underlying farm investment property, which includes a complete property inspection, market analysis and review of available comparable property sales transactions, is obtained at the time of acquisition and thereafter performed annually. The appraisal is updated quarterly by the independent appraiser to reflect new comparable property sales transactions, changes in market conditions and other relevant data related to the investment. All appraisals comply with the Uniform Standards of Professional Appraisal Practice ("USPAP"), as promulgated by the Appraisal Foundation.

The generally accepted methods used in the valuation of real estate are the income capitalization, cost, and sales comparison approaches of estimating property value. The income capitalization approach is designed to transform future cash flow expectations for a property into a present value estimate through application of capitalization and/or yield rates derived from recent market transactions and other industry data for similar properties. Under the cost approach, a value is indicated by estimating the current replacement cost of the improvements less depreciation from all sources (physical, functional and/or external), and adding the estimated land value. The sales comparison approach utilizes available sales of comparable properties, adjusted for differences, to indicate a value for the property. When multiple approaches to value are used

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

2. Significant accounting policies (continued)

in an appraisal, the appraiser's final value opinion either corresponds to one of the approaches to value or is a reconciliation of the most applicable approaches.

The fair values of the farm investment properties are determined as described above (see Note 3 for further discussion of fair value measurements). Although these fair values represent subjective estimates, the Advisor believes that the estimated fair values reflect reasonable approximations of potential market prices for the Fund's farm investment properties.

Investments in farm properties

Farm investment properties are initially recorded at purchase price plus closing costs and adjusted to appraised value as described above. Expenditures, which extend the useful life or represent additional capital investments benefiting future periods, are capitalized as a component of cost. Ordinary repairs and maintenance are charged to expense as incurred.

Revenue recognition

Base rent is determined based upon contractual lease agreements. The leases are accounted for as operating leases and are non-cancelable. Base rental payments are received as stipulated in the respective lease agreements. Under certain lease agreements, additional rental payments, which are based upon gross farm income and received by the Fund subsequent to the sale of the crop, are recognized when earned. Base revenues are recognized on the accrual basis of accounting. Unearned rent represents prepaid farm rents, which will be earned in subsequent periods. Expenses are recorded as incurred.

Realized gains and losses

Realized gains and losses on investment transactions are determined using the cost of the investments sold. The unrealized gain (loss) previously recorded for these investments is then reversed and reported as realization of unrealized gain (loss) on investments sold in the accompanying Consolidated Statements of Operations.

Cash and cash equivalents

The Fund considers money market accounts and all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The Fund is potentially subject to a concentration of credit risk principally from cash in excess of a financial institution's insurance limits.

Organizational expenses and offering costs

Certain organizational and initial offering costs of the Fund were paid by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement, the Company was obligated to reimburse the Advisor for such costs, up to 1% of the Fund's initial capital commitments. The Advisor had incurred on behalf of the Company aggregate organizational expenses and third party offering costs of \$360,036, consisting primarily of legal fees. These costs were fully reimbursed to the Advisor in equal quarterly increments over a five year period ending in 2011. Annual reimbursements of approximately \$36,000 and \$71,000 were paid to the Advisor and expensed in the accompanying Consolidated Statements of Operations for 2011 and 2010, respectively.

Income taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") beginning with the tax year ended December 31, 2006. In general, a company which elects REIT status, distributes at least 90% of its REIT taxable income to its stockholders in any taxable year, and complies with certain other requirements is not subject to federal income taxation to the extent of the income which it distributes. If it fails to qualify as a REIT in any taxable

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

2. Significant accounting policies (continued)

year, it will be subject to federal income tax at regular corporate rates on its taxable income. Even if it qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income. The Company believes that it is organized and operates in such a manner as to qualify for treatment as a REIT and intends to operate in the foreseeable future in such a manner so that it will remain qualified as a REIT for federal income tax purposes. Accordingly, no provision for U.S. federal income or excise taxes has been made in the accompanying consolidated financial statements.

The Fund has evaluated the uncertainties of tax positions taken or expected to be taken based on the probability of whether it is more likely than not the positions will be sustained upon audit based on technical merit for open tax years. The Fund concluded that it does not have any unrecognized tax benefits or any additional tax liabilities for any uncertain tax positions. The Fund files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved. Tax years since 2008 are open and remain subject to federal, state and local examinations.

Deferred tax assets and liabilities are recognized primarily for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are reflected in the accompanying Consolidated Balance Sheets. These assets and liabilities are measured using enacted tax laws and rates for which the temporary differences are expected to be recovered or settled. The effects of any change in deferred tax assets and liabilities are recognized in net investment income or unrealized gain (loss) on investments in the period enacted. The major component of temporary differences and related deferred tax liabilities are carrying basis differences related to farm investment properties under certain state tax regimes.

The Fund is subject to certain state and local income, franchise and excise taxes. For the years ended December 31, 2011 and 2010, a provision related to these taxes is reflected in the accompanying Consolidated Statements of Operations.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income, expenses and unrealized gains (losses) during the reporting period. Estimates particularly susceptible to change relate to the fair value of farm investment properties. Actual results could differ from those estimates.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

3. Fair value measurements

In determining fair value, the Fund uses the valuation approaches described in Note 2. The authoritative accounting guidance for fair value measurements emphasizes that a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable in the marketplace. Observable inputs are inputs that the market participants would use in pricing an asset or liability, developed based on market data obtained from independent sources. Unobservable inputs reflect market assumptions based on the best information available in the circumstances.

As defined by the accounting guidance, Level 1 valuations use quoted prices in active markets for identical assets or liabilities; Level 2 valuations are determined using significant observable inputs that other market participants would use in pricing an asset or liability. These fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities; and Level 3 valuations are derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 valuations are derived from other valuation methodologies including pricing models, discounted cash flow models and similar techniques. Level 3 valuations incorporate subjective judgments and consider assumptions including comparable sales and other factors that are not observable in the market. The Fund's valuations of farm investments use significant unobservable inputs and are generally classified within Level 3 of the fair value hierarchy.

The following are reconciliations of the beginning and ending balances of the Fund's farm investment properties and line of credit measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<u>Farm investment properties</u>		
Balance at beginning of year	\$ 210,637,000	\$ 192,903,500
Net realized/unrealized gains (losses) included in operations (or changes in stockholders' equity)	20,446,486	864,352
Acquisitions/additions	32,529,630	16,869,148
Dispositions	(184,496)	-
Balance at end of year	<u>\$ 263,428,620</u>	<u>\$ 210,637,000</u>
Change in unrealized gains (losses) relating to assets held at the reporting date	<u>\$ 20,491,620</u>	<u>\$ 864,352</u>
<u>Line of credit</u>		
Balance at beginning of year	\$ 1,000,000	\$ 9,250,000
Net realized/unrealized gains (losses) included in operations (or changes in stockholders' equity)	-	-
Acquisitions/additions	20,000,000	10,825,000
Dispositions/settlements	(8,000,000)	(19,075,000)
Balance at end of year	<u>\$ 13,000,000</u>	<u>\$ 1,000,000</u>
Change in unrealized gains (losses) relating to liabilities held at the reporting date	<u>\$ -</u>	<u>\$ -</u>

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

4. Farm investment properties

The Fund held title to 45 agricultural properties at December 31, 2011 and 41 agricultural properties at December 31, 2010. The Fund's properties are held by title holding companies that are wholly owned by the Operating Partnership. The properties, located throughout the United States, are leased to farmers who grow a diverse selection of crops including vegetables, corn, cotton, soybeans, strawberries, rice and apples.

5. Line of credit

The Fund has in place a \$25 million revolving Line of Credit ("Line of Credit") with an unaffiliated lender, secured by certain farm investment properties ("Collateral"). Borrowings outstanding were \$13,000,000 at December 31, 2011 and \$1,000,000 at December 31, 2010. The Line of Credit is stated at estimated fair value, which approximates cost based on the terms of the obligation. The Line of Credit has a draw down period which was automatically renewed January 1, 2012 for an additional five year term, and may be extended for another five year term, but not beyond January 1, 2022 ("Draw Period"). At the end of the Draw Period, the Line of Credit may convert to another lender financing product, on terms and conditions to be agreed upon. The Line of Credit requires quarterly interest only payments on outstanding amounts during the Draw Period at an interest rate at Prime less 1.25% or Optional Interest Rates for Interest Periods as defined in the agreement. The interest rate at December 31, 2011 was 2.0%.

A standby fee is payable annually in arrears if the Fund does not maintain an average daily outstanding loan balance of \$1,250,000. The standby fee is the greater of \$4,000 or .01% of the average value of the Collateral up to \$100 million, measured quarterly. The Collateral includes the majority of the farm investments owned as of December 31, 2011, and may be released or added in accordance with the agreement. For the years ended December 31, 2011 and 2010, no standby fees were paid by the Fund. The Line of Credit agreement stipulates that the Fund must comply with certain covenants. At December 31, 2011, Management believes the Fund was in compliance with such covenants.

6. Dividends

The Fund intends to make distributions in such amounts as the Advisor determines in its discretion. Stockholders may participate in the Fund's dividend reinvestment plan which allows for common stock dividends to be automatically reinvested in additional common shares at the most recent net asset value per share. Stockholders electing not to participate in the distribution reinvestment plan receive distributions as and when made by the Fund. The following are the common distributions declared in 2011 and 2010 (\$ in thousands):

<u>Quarter ended</u>	<u>Dividends payable</u>	<u>Reinvested</u>	<u>Paid</u>	<u>Paid or reinvested date</u>
December 31, 2011	\$ 4,255	\$ 1,537	\$ 2,718	January 2012
June 30, 2011	\$ 1,584	\$ 591	\$ 993	July 2011
March 31, 2011	\$ 1,580	\$ 587	\$ 993	April 2011
December 31, 2010	\$ 3,594	\$ 1,311	\$ 2,283	January 2011
June 30, 2010	\$ 1,409	\$ 394	\$ 1,015	July 2010
March 31, 2010	\$ 1,391	\$ 390	\$ 1,001	April 2010

7. Redemptions

Investors may request redemption of all or a portion of their shares as of the end of a calendar quarter by delivering written notice to the Fund at least 60 days prior to the end of the quarter. The Fund will endeavor to honor redemption requests promptly after the end of the quarter subject to certain restrictions and

UBS AgriVest Farmland Fund, Inc.
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

7. Redemptions (continued)

subject to the availability of cash arising from (i) any undistributed cash from operations in excess of the amount declared to be dividends, or determined to be necessary for reserves (ii) any proceeds from sales and financings of properties determined to be available for redemption and (iii) any cash from capital contributions received by the Fund during a quarter. Should redemption requests exceed such available cash, the Fund will pro-rate available cash among withdrawing investors according to the ratio of the requesting investor's shares to the total shares of all investors then requesting redemptions. Any redemption request that is not fully honored in any given quarter will be deemed effective in following quarters until completed. The Fund is not obligated to sell assets, borrow funds, alter investment or capital improvement plans or reduce reserves in order to honor redemption requests. At December 31, 2011, the Fund had one eligible redemption request of approximately \$10.1 million which was paid in January 2012.

8. Share values and shares outstanding

The following summarizes the Fund's common shares outstanding and net asset value per share as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Shares outstanding	<u>170,183</u>	<u>156,263</u>
Net asset value per share	<u>\$1,454.70</u>	<u>\$1,332.69</u>

9. Financial highlights

The following are certain financial highlights of the Fund for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Total return, before investment management fee (a)	13.77%	4.78%
Ratios to average net assets (b):		
Net investment income, before fee	4.21%	4.48%
Investment management fee	1.05%	1.09%

(a) Total return, before investment management fee, is calculated by linking quarterly returns to derive the annualized annual return. Returns are based on a time-weighted rate of return methodology.

(b) Based on weighted average net assets.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

10. Lease agreements

The approximate future minimum base rentals to be received by the farm investment properties under all non-cancelable operating leases in effect as of December 31, 2011 are as follows (\$ in thousands):

<u>Year ending December 31,</u>	
2012	\$11,220
2013	3,427
2014	686
2015	307
2016	-
Total	<u>\$15,640</u>

Lease terms range from approximately 1 to 5 years. Generally, the Fund is responsible for real estate taxes and property and general liability insurance. The lessee is responsible for crop production and related expenses. In the event of non-payment of rent, all leases grant the Fund a security interest in the crops planted, growing, grown or harvested on the premises during the term of the lease. The security interest will only be released upon payment of the entire amount of the rent due on the lease or by providing an irrevocable letter of credit from a banking institution to guarantee the payment of the rent due on the lease. Included in rental revenue in the accompanying Consolidated Statements of Operations are contingent rentals (percentage rent) totaling approximately \$776,000 and \$510,000 for the years ended December 31, 2011 and 2010, respectively.

11. Property management fees

Property management fees are paid to farm managers, who have been contracted by the Fund to perform property or farm management services as independent contractors for the benefit of the Fund. These services are performed in accordance with the provisions of the property management agreements, which have terms of one year and upon expiration are renewable at the option of the Fund.

Property management fees are based upon a percentage of gross farm rental income collected from the farm leases. In accordance with the property management agreements, such fees will be paid when the gross rental income is collected, and is contingent upon farm managers' compliance with the terms and conditions of the property management agreements relating to services to be provided.

12. Related party transactions

Investment management fee

The Advisor is entitled to receive compensation for its services under the Advisory Agreement. The Advisor charges an annual real estate management fee, payable quarterly in arrears, of 20 basis points on the average cash and cash equivalents portion of the Fund's net assets plus 100 basis points on the average Gross Asset Value, as defined in the Advisory Agreement, excluding cash and cash equivalents.

Capital

As of December 31, 2011 and 2010, the Board of Directors of the Company and current and former employees of the Advisor and its affiliates had equity in the net assets of the Company of approximately \$2.7 million and \$2.4 million, respectively.

UBS AgriVest Farmland Fund, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

12. Related party transactions (continued)

Preferred stock

The Company has issued 159 shares of non-voting redeemable preferred stock to current or former employees of the Advisor and its affiliate to ensure compliance with the Code requirement that entities electing REIT status have at least 100 shareholders. At a price of \$500 per share, there are \$79,500 of preferred shares outstanding. This preferred stock is entitled to receive a cumulative dividend equal to an annualized 8% rate. Any activity related to the preferred stock is included in the accompanying consolidated financial statements.

13. Concentration risk of farm investments

The Fund owns properties located in thirteen key agricultural states that are a part of eight defined agricultural regions in the United States. Based on estimated farm investment fair values at December 31, 2011, the Fund's investments were located in the following regions, as defined by the National Council of Real Estate Investment Fiduciaries (\$ in thousands):

<u>Region</u>	<u>Fair value</u>	<u>Region %</u>
Pacific West	\$ 70,715	27
Delta	68,536	26
Mountain	38,081	15
Southeast	35,286	13
Corn Belt	19,633	7
Southern Plains	13,900	5
Lake States	9,300	4
Pacific Northwest	7,978	3
Total	<u>\$263,429</u>	<u>100%</u>

Based on the estimated farm investment fair values at December 31, 2011, the Fund owned one investment in the Pacific West region that accounted for approximately 18% of the total fair value of the Fund, and the tenant at that property accounted for approximately 20% of the Fund's total rental revenue. At December 31, 2011, the Fund's total farm investment fair value consisted of approximately 26% vegetable, 18% corn, 16% cotton and 11% soybean crop types. No single tenant leased more than 10% of the total acreage of the Fund.

14. Supplemental cash flow information

The following is supplemental cash flow information for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash paid during the year for:		
Interest	\$ 52,567	\$ 186,140
Income taxes	\$ 54,316	\$ 56,784
Non-cash investing and financing activities:		
Dividends reinvested	\$ 2,489,721	\$ 1,884,932
Increase (decrease) in dividends payable	\$ 660,543	\$ (508,067)
Decrease in capital expenditures included in accrued expenses and other liabilities	\$ (91,676)	\$ (207,145)

UBS AgriVest Farmland Fund, Inc.
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

15. Subsequent events

In January 2012, the Company received proceeds of approximately \$25.0 million from the issuance of shares of common stock.

In January 2012, the Fund paid the \$13.0 million outstanding on its Line of Credit.



Exhibits

Exhibit A

Property-by-property returns

The following is a listing of Property-By-Property income, appreciation, and total returns for the quarter. Returns are on an accrual basis calculated using the NCREIF Farmland Index methodology described below:

The NCREIF Farmland Index

Methodology

Calculations are based on quarterly returns of individual properties before the deduction of fund or portfolio-level asset or investment management fees. Each property's return is weighted by its market value. Income and capital changes are also calculated subject to NCREIF's first and last quarter period adjustments.

Rates of return

- **Total return:** includes appreciation (or depreciation), realized capital gain (or loss) and income. It is computed by adding the Income return and capital appreciation return on a quarterly basis.
- **Income return:** measures the portion of total return attributable to each property's net operating income or NOI. It is computed by dividing NOI by the average quarterly investment for the quarter.

NOI

Beginning market value + 1/2 (capital improvements - partial sales + partial purchases - NOI)

- **Capital appreciation return:** measures the change in market value adjusted for any capital improvements or partial sales for the quarter.

$$\frac{(\text{Ending market value} - \text{beginning market value}) + \text{partial sales} - \text{capital improvements} - \text{partial purchases}}{\text{Beginning market value} + 1/2 (\text{capital improvements} - \text{partial sales} + \text{partial purchases} - \text{NOI})}$$

- **Annual and annualized returns:** are computed by chain linking quarterly rates of return to calculate time-weighted rates of return for the annual and annualized periods under study. For periods over one year, returns are expressed on a return per year basis.

Exhibit A

UBS AgriVest Farmland Fund property level return calculation NCREIF Farmland Index formula

Period 10/01/11 through 12/31/11

#	Property name	State	Acres	Cost	Net operating income for the period	Beginning appraised value	Ending appraised value	Capital changes for the period			Quarter Return		
								Net proceeds of partial sales	Cost of partial purchases	Capital improvements	Income component	Capital component	Total
Region: Corn Belt													
32	Kewanee Farm	IL	239.40	1,706,640.00	10,463.37	2,137,000.00	2,292,000.00	0.00	0.00	0.00	0.49%	7.27%	7.76%
36	Keithsburg Farm	IL	3,785.30	14,457,625.24	164,588.66	16,557,000.00	17,341,000.00	0.00	0.00	0.00	1.00%	4.76%	5.76%
Corn Belt total			4,024.70	16,164,265.24	175,052.03	18,694,000.00	19,633,000.00	0.00	0.00	0.00	0.94%	5.05%	5.99%
Region: Lake States													
21	Barron 53	WI	1,117.29	2,946,693.29	33,294.99	3,100,000.00	3,100,000.00	0.00	0.00	0.00	1.08%	0.00%	1.08%
25	Portage Golden Sands	WI	160.00	2,128,409.43	30,966.50	2,500,000.00	2,400,000.00	0.00	0.00	0.00	1.25%	-4.02%	-2.78%
27	Portage BB	WI	1,195.57	3,588,881.62	48,897.34	3,800,000.00	3,800,000.00	0.00	0.00	0.00	1.30%	0.00%	1.30%
Lake States total			2,472.86	8,663,984.34	113,158.83	9,400,000.00	9,300,000.00	0.00	0.00	0.00	1.21%	-1.07%	0.14%
Region: Southeast													
26	Mitchell 97	GA	435.38	1,557,450.56	16,692.22	1,639,000.00	1,639,000.00	0.00	0.00	0.00	1.02%	0.00%	1.02%
28	Miller Babcock	GA	622.80	2,010,690.93	25,634.64	2,240,000.00	2,429,000.00	0.00	0.00	0.00	1.15%	8.49%	9.64%
38	Camilla Farm	GA	1,719.97	6,935,741.82	77,786.96	6,880,000.00	6,880,000.00	0.00	0.00	0.00	1.14%	0.00%	1.14%
40	Seminole Farm	GA	2,322.55	9,356,181.15	98,038.90	9,290,000.00	9,290,000.00	0.00	0.00	0.00	1.06%	0.00%	1.06%
42	Dooly Farms	GA	2,528.63	8,533,588.20	100,079.64	8,569,304.00	8,568,520.00	0.00	0.00	0.00	1.17%	-0.01%	1.17%
43	Washington Farm	GA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA	NA	NA
Southeast total			7,629.32	28,393,652.66	318,232.36	28,618,304.00	28,806,520.00	0.00	0.00	0.00	1.12%	0.66%	1.78%
Region: Delta States													
1	Bellewood Farm	MS	2,017.10	4,216,274.77	54,156.35	6,100,000.00	6,700,000.00	0.00	0.00	0.00	0.89%	9.88%	10.77%
3	Merigold Plantation	MS	1,624.20	2,906,437.75	38,870.20	5,200,000.00	5,200,000.00	0.00	0.00	0.00	0.75%	0.00%	0.75%
5	Yazoo River Farm	MS	6,700.61	11,989,599.16	172,242.07	18,200,000.00	18,500,000.00	0.00	0.00	15,500.00	0.95%	1.57%	2.52%
11	Steamboat Plantation	MS	734.70	2,069,713.60	17,703.08	2,500,000.00	2,900,000.00	0.00	0.00	0.00	0.71%	16.06%	16.77%
14	Union Church Farms	AR	814.92	1,781,213.22	25,112.62	2,850,000.00	2,934,000.00	0.00	0.00	0.00	0.89%	2.96%	3.85%
19	Scotland Plantation	MS	1,661.00	4,319,956.13	53,187.83	5,400,000.00	6,062,000.00	0.00	0.00	0.00	0.99%	12.32%	13.31%
20	Sunflower Plantation	MS	1,483.83	3,124,523.25	35,740.00	4,100,000.00	4,700,000.00	3,750.00	0.00	0.00	0.88%	14.80%	15.67%
23	Madison 65	LA	1,577.91	2,929,617.59	40,268.41	4,100,000.00	4,300,000.00	0.00	0.00	0.00	0.99%	4.90%	5.89%
24	Sunflower 3	MS	828.91	1,918,605.94	21,147.82	2,275,000.00	2,600,000.00	0.00	0.00	0.00	0.93%	14.35%	15.29%
13	Gibson Brake	MS	1,939.36	4,041,955.65	46,443.33	6,081,000.00	6,300,000.00	115,966.40	0.00	55,900.00	0.77%	4.63%	5.40%
29	Arcola Plantation	LA	1,028.00	3,027,844.07	30,823.76	3,200,000.00	3,300,000.00	0.00	0.00	0.00	0.97%	3.14%	4.11%
34	Tensas Bayou Farm	LA	1,105.00	2,860,772.69	29,921.24	3,350,000.00	3,640,000.00	0.00	0.00	0.00	0.90%	8.70%	9.59%
37	Final Money Farm	LA	480.25	1,163,053.50	13,479.36	1,325,000.00	1,400,000.00	0.00	0.00	0.00	1.02%	5.69%	6.71%
Delta States total			21,995.79	46,349,567.32	579,096.07	64,681,000.00	68,536,000.00	119,716.40	0.00	71,400.00	0.90%	6.06%	6.96%

Exhibit A

UBS AgriVest Farmland Fund property level return calculation NCREIF Farmland Index formula

Period 10/01/11 through 12/31/11

#	Property name	State	Acres	Cost	Net operating income for the period	Beginning appraised value	Ending appraised value	Capital changes for the period			Quarter Return		
								Net proceeds of partial sales	Cost of partial purchases	Capital improvements	Income component	Capital component	Total
Region: Mountain													
6	Arrowhead Farms	CO	605.00	1,041,256.51	8,128.49	1,530,000.00	1,786,300.00	0.00	0.00	0.00	0.53%	16.80%	17.33%
7	Declo Farms	ID	878.16	1,661,245.09	33,868.49	2,985,000.00	2,985,000.00	0.00	0.00	0.00	1.14%	0.00%	1.14%
12	Springfield Farm	ID	896.43	2,125,933.99	34,575.92	2,260,000.00	2,500,000.00	0.00	0.00	0.00	1.54%	10.70%	12.24%
15	Claiborn Farms	ID	1,001.85	3,144,458.74	46,104.45	4,610,000.00	5,010,000.00	0.00	0.00	0.00	1.01%	8.72%	9.73%
17	Aberdeen Farm	ID	906.58	2,893,542.75	42,449.34	4,110,000.00	4,640,000.00	0.00	0.00	0.00	1.04%	12.96%	14.00%
35	American Falls Farm	ID	299.90	1,590,179.41	21,315.26	1,860,000.00	1,860,000.00	0.00	0.00	0.00	1.15%	0.00%	1.15%
39	Slick Ranch	ID	907.50	3,785,970.40	52,332.73	3,800,000.00	3,800,000.00	0.00	0.00	0.00	1.39%	0.00%	1.39%
45	Snyder Ranch	AZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA	NA	NA
Mountain total			5,495.42	16,242,586.89	238,774.68	21,155,000.00	22,581,300.00	0.00	0.00	0.00	1.14%	6.78%	7.92%
Region: Pacific Northwest													
8	Prosser Orchard	WA	137.80	2,263,259.08	143,369.20	2,350,000.00	2,350,000.00	0.00	0.00	0.00	6.29%	0.00%	6.29%
16	Mattawa Orchard	WA	81.80	1,016,254.02	85.40	834,000.00	834,000.00	0.00	0.00	53,441.00	0.01%	-6.21%	-6.20%
22	Yakima Outlook	WA	89.85	1,169,134.04	155,345.73	1,061,000.00	1,061,000.00	0.00	0.00	0.00	15.80%	0.00%	15.80%
30	Columbia Sun Orchards	WA	78.50	1,164,478.71	1,285.58	900,000.00	975,000.00	0.00	0.00	0.00	0.14%	8.34%	8.48%
41	Parkdale Ranch	OR	167.13	2,811,281.37	37,152.73	2,758,000.00	2,758,000.00	0.00	0.00	0.00	1.36%	0.00%	1.36%
Pacific Northwest total			555.08	8,424,407.22	337,238.64	7,903,000.00	7,978,000.00	0.00	0.00	53,441.00	4.35%	0.28%	4.62%
Region: Pacific West													
2	Giffen Ranch	CA	870.57	3,949,995.40	45,214.03	6,550,000.00	6,840,000.00	0.00	0.00	0.00	0.69%	4.44%	5.14%
4	Petit Ranch	CA	460.88	12,336,458.90	131,999.74	10,500,000.00	10,500,000.00	0.00	0.00	0.00	1.27%	0.00%	1.27%
18	Firebaugh Ranch	CA	400.31	2,340,495.64	22,575.57	3,040,000.00	3,100,000.00	0.00	0.00	0.00	0.75%	1.98%	2.73%
31	Las Posas Ranch	CA	40.24	2,626,261.96	28,119.71	2,875,000.00	2,875,000.00	0.00	0.00	0.00	0.98%	0.00%	0.98%
33	Molera Ranch	CA	1,104.10	45,339,698.14	563,200.75	45,500,000.00	47,400,000.00	0.00	0.00	0.00	1.25%	4.20%	5.45%
Pacific West total			2,876.10	66,592,910.04	791,109.80	68,465,000.00	70,715,000.00	0.00	0.00	0.00	1.16%	3.31%	4.47%
Region: Southern Plains													
9	Four Circles Farm	TX	2,080.00	3,168,295.35	53,261.94	4,400,000.00	4,400,000.00	0.00	0.00	0.00	1.22%	0.00%	1.22%
10	Sebastian Farm	TX	3,411.93	4,920,998.00	59,969.23	7,500,000.00	7,500,000.00	0.00	0.00	0.00	0.80%	0.00%	0.80%
44	Three Circles Farm	TX	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA	NA	NA
Southern Plains total			5,491.93	8,089,293.35	113,231.17	11,900,000.00	11,900,000.00	0.00	0.00	0.00	0.96%	0.00%	0.96%
Region: All													
Property total			50,541.20	198,920,667.06	2,665,893.58	230,816,304.00	239,449,820.00	119,716.40	0.00	124,841.00	1.16%	3.76%	4.92%



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Is This Farm Boom Different?

by Jason Henderson, Vice President, Omaha Branch Executive

U.S. agriculture is notorious for its “golden eras.” During the 1910s, sparked by rising export demand during World War I, U.S. farmers enjoyed surging incomes that quickly translated into rapid farmland price appreciation. During the 1970s, surging export activity triggered another spike in U.S. farm incomes and farmland values. These golden eras, however, were soon tarnished as economic and financial market conditions changed.

Today, U.S. agriculture appears to be in the midst of another golden era. Robust export activity, strong bio-fuels demand and low interest rates have spurred another farm income and farmland value boom. Despite the vast similarities to past booms, subtle differences suggest

that this time could be different.

This article will explore the foundations of the current and past farm booms. In all cases, strong global demand outstripped agricultural supplies to boost farm incomes, and low interest rates quickly capitalized rising incomes into record farmland prices. Yet, the current period of prosperity is different as farmers have

“History has shown that golden eras fade and that farm corrections devolve into farm busts in highly leveraged environments.”

not used debt to expand their capital expenditures at the pace of past farm booms. The avoidance of excessive capital investment and leverage may be one of the lessons learned from previous golden eras. The question remains, however, whether this will be

enough to alter agriculture’s boom and bust cycle.

Agriculture’s Golden Eras

In the 20th century, U.S. agriculture enjoyed two golden eras. In the 1910s and the 1970s, strong global demand and rising exports boosted agricultural commodity prices and farm incomes. With low interest rates, rising farm incomes sparked

stronger capital investments in land and machinery. These periods of prosperity, however, were

not sustained as both decades were followed by severe contractions in farm income and farmland values.

World War I ushered in U.S. agriculture’s first golden era of farm prosperity in the 20th century (Paarlberg and Paarlberg). In the



second half of the 1910s, U.S. exports rose sharply to meet war-time demand for food, and agricultural commodity prices doubled. With strong agricultural prices, after adjusting for inflation, the real returns to operators jumped 60 percent in 1917 and remained high through 1919.¹ Simultaneously, low interest rates helped farmers accelerate their capital investments and quickly capitalize surging incomes into farmland values. Between 1900 and 1919, real farmland values in the U.S. rose more than 70 percent, especially in the nation's Corn Belt (Chart 1).

The century's second golden era emerged in the 1970s, when farmland prices soared again. During the 1970s, President Nixon's trade missions to Russia and China prompted a surge in agricultural exports. After two decades of relatively stable prices, the real value of U.S. exports doubled and agricultural crop prices and farm profits spiked between 1971 and 1973. Plummeting demand during the 1975-76 recession erased the gains in farm profits. Yet, with stronger global economic growth and a rebound in agricultural trade, farm profits recovered to reach near record highs by the end of the decade. Simultaneously, real interest rates turned negative, which kept debt service costs low and triggered a surge in equipment spending and

a farmland price boom. During the 1970s, real U.S. farmland values soared almost 80 percent, reaching record highs in 1981.

The Golden Eras Fade

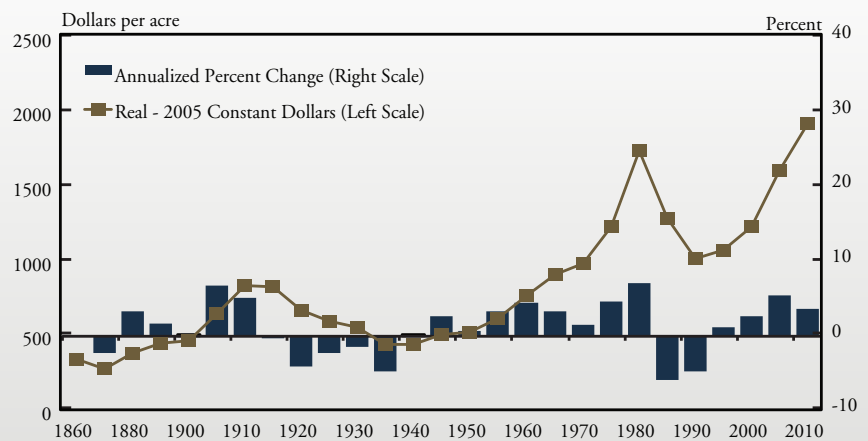
In both cases, the booming prosperity of the farm economy soon faded. Once promising export demand began to wane, and agricultural supplies soared as previous capital investments expanded agricultural production capacity. In addition, interest rates rose sharply, limiting the capitalization of lower incomes into farmland prices.

After World War I, U.S. agricultural profits fell sharply as global demand dwindled amid larger supplies. Agricultural exports retreated at the conclusion of the war, and war-related food demand disappeared with

rebounding global food production. At the same time, capital investments during the previous decade expanded agricultural production capabilities. For example, the adoption of the tractor increased the land available for human food production, as less feed was needed for draft animals. The combination of weaker demand and burgeoning supplies cut U.S. crop prices, and returns to operators plummeted by more than 60 percent between 1919 and 1921 (Chart 2).

At the same time, real interest rates rose, which limited the capitalization of income into farmland prices. The Federal Reserve increased interest rates starting in 1920 to control inflationary pressures that were building during the war (Chart 3). A U.S. recession ensued, which

Chart 1
U.S. Farm Real Estate Values



Source: USDA

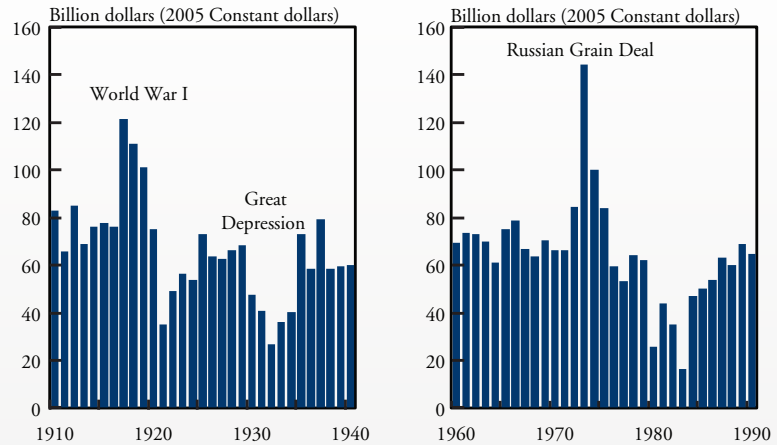


curtailed agricultural demand even further. Weaker profits and higher real interest rates in the 1920s cut the average farmland value almost 30 percent between 1916 and the mid-1920s. By the end of the Great Depression in the 1930s, the value of U.S. farmland had dropped 66 percent from its record highs, retreating to the level at the beginning of the century.

A similar story emerged in the 1980s (Peoples et. al). After peaking in 1981, trade disruptions, such as an embargo on Russian grain exports, and a strengthening in the value of the dollar cut agricultural exports by 60 percent within 5 years. In addition, agricultural production increased as farmers planted “fence row-to-fence row,” and research and development investments in farm equipment and genetics in the 1970s led to increased yields and bigger production. By 1983, returns to operators were only 25 percent of the 1970s high as profits were squeezed by shrinking cash receipts and higher production costs from oil price shocks.

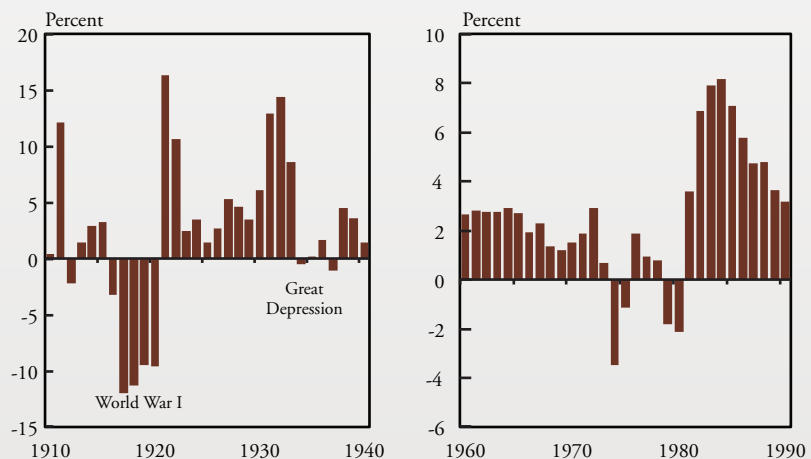
In the 1980s, real interest rates rose sharply as the Federal Reserve sought to control the inflationary pressures that had developed during the previous decade. With shrinking profits and higher real interest rates, capital investments in agriculture plummeted and farm bankruptcies

Chart 2 Returns to Farm Operators

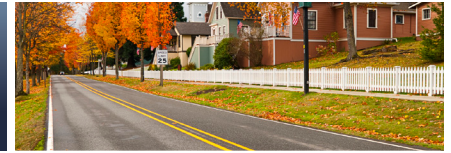


Calculations based on USDA data

Chart 3 Real Interest Rates on U.S. Treasuries



Calculations based on Department of Treasury and Bureau of Labor Statistics data
Real interest rate equals the nominal interest rate on a 10 year treasury minus the 12 month percent change on the CPI index.



soared. After peaking in 1981, the average value of farmland dropped more than 40 percent by 1987, returning to 1960s levels.

Is Today's Boom Different?

In many respects, today's farm boom is quite similar to past eras of farm prosperity. Global demand for agricultural products is strong. Agricultural supplies are tight. Low interest rates are supporting the capitalization of rising incomes into farmland values. Still, farmers have yet to use debt to pay for investments in land, equipment, and machinery on the scale of past farm booms.

Market and financial conditions have underpinned wide swings in U.S. agricultural profits throughout the past decade. In four of the past 10 years, real net farm income jumped more than 25 percent, while in three of those years, income plummeted more than 20 percent.² Despite the volatility in income, many farmers have enjoyed stronger profitability in recent years. For the second consecutive year, U.S. real net farm income in 2011 surged almost 30 percent, with stronger profits for many crop and livestock producers.

Similar to past farm booms, robust global demand that strained current production levels has been one cornerstone of the current level of prosperity. Spurred by rising incomes in developing countries, such as China, U.S. agricultural

exports could reach a record high in 2011, topping \$130 billion, double 2005 levels. Heading into the fourth quarter of 2011, crop and livestock exports jumped more than 35 and 25 percent above previous year levels, respectively.³ Projections of additional gains in both population and income in developing nations underpin bullish expectations for agricultural commodities into the future.

In addition, ethanol production has underpinned the recent boom in farmland markets. While the ethanol industry struggled to fulfill the 2007 renewable fuel mandates in its initial years, surging ethanol prices and profits enticed a major expansion of the industry. By 2011, ethanol production capacity stretched above mandated levels and used roughly 40 percent of the U.S. corn crop.⁴ Recent studies suggest the mandate contributes as much as \$2 per bushel to the price of corn when crude oil prices fall below \$100 per barrel (Babcock). During the past year, record high sugar prices raised the production costs of Brazilian ethanol and allowed U.S. corn based ethanol to compete in global markets. In fact, the U.S. emerged as a net exporter of ethanol in 2010.

Strong global food and fuel demand strained existing inventories of agricultural products, which sent

agricultural prices soaring. Over the past year, extreme weather conditions, ranging from drought in Russia and the southern U.S. to flooding in the U.S. Corn Belt, have limited crop and livestock production. Combined with robust demand, world grain supplies have fallen to historical lows with U.S. corn supplies at less than 10 percent of its annual use. In the livestock sector, global meat production has struggled to keep up with world demand, and prices for cattle, hogs, and milk have soared to record highs. For U.S. producers, the prices received from crop and livestock products have risen more than 35 and 17 percent, respectively, over the past year.⁵

At the same time, low interest rates have fostered the capitalization of these bumper profits into record high farmland values. Accommodative policies by the Federal Reserve have pushed short- and longer-term interest rates to historical lows. The capitalization of incomes into farmland values has accelerated with land value gains outpacing the rise in cash rents. In fact, the average farmland value to cash rent multiple, which is similar to a price-to-earnings ratio on a stock, surged to a record high of almost 30 in various Corn Belt states (Gloy et. al).⁶

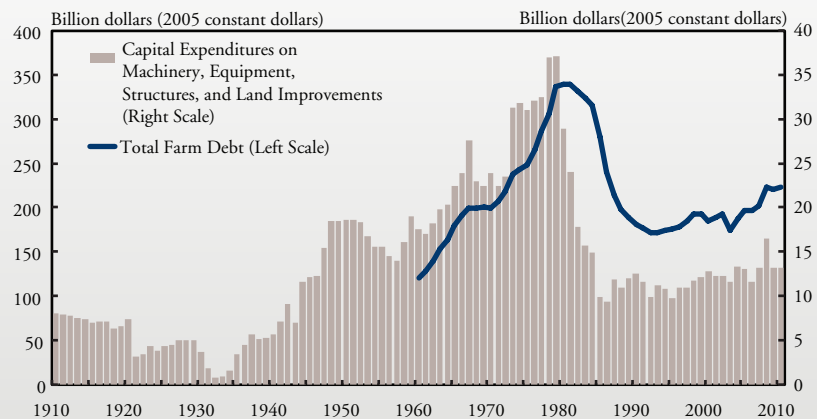
Despite the similarities in broader

market and financial conditions, *farm capital investments* are a striking difference between current and past farm booms. In contrast to past farm booms, non-real-estate investments in agriculture have not soared to the highs of previous farm booms. In addition, farmers have not used debt to fuel their capital investments.

With rising profits, farmers often expand their capital investments. During past farm booms, farmers invested heavily into equipment, machinery, structures (grain bins and machine sheds) land improvements (irrigation systems and tile lines) and other types of capital expenditures. During the 1970s, annual farm capital expenditures surged 71 percent, as farmers tripled their capital spending on tractors, farm buildings, and land improvements (Chart 4). Even in 1919, U.S. farmer more than tripled their spending on tractors and farm buildings when compared to pre-World War I highs.

The 1970s surge in farm capital spending outstripped farm income gains and farmers used debt to pay for the investment boom. Historically farm capital expenditures average roughly 30 percent of net farm income. By 1977, capital expenditures on equipment, machinery, structures, and land improvements jumped to almost 80 percent of net farm income. With sluggish income growth and negative

Chart 4 U.S. Farm Capital Expenditures and Farm Debt



Source: USDA

real interest rates slashing debt service costs, farmers leveraged their businesses to pay for investments in land, equipment and machinery. During the decade, U.S. real farm debt rose 70 percent, with larger gains emerging in non-real-estate debt. The biggest gains emerged between 1975 and 1980 when farm capital expenditures rose faster than net farm incomes.

The debt accumulation of the 1970s contributed to the economic calamity of the 1980s when interest rates surged. By 1982, when interest rates spiked as the Federal Reserve tightened monetary policy to combat inflation, farmers had more debt than they had capacity to service with their existing cash flows. The result was a farm financial crisis, a rise in farm

bankruptcies and the 1980s farm bust.

Unlike the 1970s, farmers today have been more restrained in their capital investments. To be sure, capital expenditures have risen sharply, but they have increased at roughly the same rate as farm profits. In 2010, four-wheel drive tractor sales jumped almost 30 percent, on par with the gains in real net farm income. Yet, in 2011, despite a 28 percent rise in U.S. net farm income, tractor and combine sales have held steady. As a result, the ratios of farm capital expenditures to net income remained stable over the past two years, as it has, over the past decade.

In addition, U.S. farm debt has not soared as it did during the 1970s. The primary lenders to U.S. agriculture, commercial banks and



Farm Credit Associations, report limited expansions in farm lending. According to Call Report data, farm debt outstanding at commercial banks has held steady since 2009 (Henderson and Akers). The Federal Farm Credit Banks Funding Corporation indicates that lending on real estate mortgages, production and other intermediate loans by Farm Credit System institutions have risen a modest 3.0 percent during the past year.

A lingering concern, however, is whether farmers will limit their capital expenditures and debt in future years. Agricultural advocates often tout that rising populations and a burgeoning middle class in developing nations will drive additional demand and profits for agriculture into the indefinite future (Penn). These expectations combined with historically low interest rates could ultimately entice farmers to expand their capital investments to seize emerging opportunities.

Yet, capital investments also depend on new technological innovations. In the 1910s, the tractor was a relatively new

invention, and soaring agricultural profits accelerated its adoption into American agriculture. In the 1970s, technologies, such as four-wheel drive capabilities and increased horsepower, increased the capital investment in equipment and machinery. If farmers undertake another tidal wave of farm capital investments, a new path-breaking technology will need to revolutionize agriculture.

Conclusion

U.S. agriculture appears to be in the midst of another golden era. Strong global food demand and robust bio-fuels markets have strained current production capabilities of global agriculture. The prospects of tight global supplies well into the future have spurred booming farm incomes. Historically low interest rates have quickly capitalized these burgeoning incomes into record high farmland values.

Past golden eras quickly faded. The promises of sustained global demand shifted with economic conditions, and the capital

investments in agriculture led to increased agricultural supplies that trimmed farm prices and incomes. At the same time, leaner farm incomes were unable to support the record-high farmland values, especially at higher interest rates. As a result, many farmers that worked to seize the emerging opportunities were left empty-handed as market and financial conditions changed.

While current conditions appear to be following the rhythms of the past, there is at least one distinct difference—capital investments. With rising incomes and low interest rates, farmers are making significant capital expenditures on equipment, machinery, structures and land improvements. Yet, many farmers have not used excessively high levels of debt to finance capital investments. History has shown that golden eras fade and that farm corrections devolve into farm busts in highly leveraged environments. Will checking farm debt and capital spending be enough to keep any correction in agricultural profits from spiraling into a farm bust?

**ENDNOTES**

- ¹In this article, all nominal prices, income and farmland values were deflated to 2005 constant dollars.
- ²Calculations based on U.S. Department of Agriculture data on real net farm incomes www.ers.usda.gov/Data/FarmIncome/Finfidmu.htm
- ³U.S. agricultural trade data through August 2011 obtained from the Foreign Agricultural Service (FAS), USDA.
- ⁴Ethanol's corn usage of 40 percent excludes adjustments associated with the use of distilled grains in animal feed
- ⁵Calculations are based on the year-to-date prices received by farmers through October reported by the National Agricultural Statistical Service (NASS), USDA.
- ⁶Conversely, a multiple of 30 indicates that rent-to-value ratios on Corn Belt farmland have fallen to less than 4 percent.

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