

Fall 2006 Farmland Values Report

This report covers the period from January 1 to June 30, 2006.

Welcome to Farm Credit Canada's fall 2006 Farmland Values Report.

Introduction

Farm Credit Canada (FCC) serves Canadian agriculture as the leading provider of financing to the industry. FCC understands the value of solid market knowledge when making management decisions. That's why twice a year FCC compiles and releases the Farmland Values Report. It highlights changes in land values in each province and nationally. Each year a report is released in the spring. It describes changes from July 1 until December 31. A second report is released in the fall and identifies changes from January 1 until June 30. Each report contains 10 years of trend information within an attached graph.

Methodology

In 1985, FCC established a system of 245 benchmark farm properties to monitor variations in bareland values across Canada. Since 1990, benchmark properties have been appraised semi-annually in January and July. These selected parcels represent the most prevalent classes of agricultural soil in each census district. The benchmark properties are zoned for agriculture and represent current land use. Weighting is assigned to each property and to each province, based on the improved farmland area recorded by the 1996 Census of Agriculture.

FCC appraisers estimate market value using recent comparable sales. These sales must be arm's-length transactions. Once sales are selected, they are reviewed, analyzed and adjusted to benchmark properties. Individual values are reconciled before accredited appraisers review the appraisal reports.

National trend

The average value of Canadian farmland increased 2.1 per cent during the first six months of 2006. This is higher than the 1.5 per cent increase in the last six months of 2005.

Many provinces continue to see growth in farmland values. Increases are on par with an upward trend since January 2000.

The largest increase is in British Columbia where values grew by 10.3 per cent. Alberta shows the second largest increase at 3.9 per cent.

Manitoba, along with Newfoundland and Labrador, follow with increases at 2.8 and 2.9 per cent respectively.

Ontario and Nova Scotia increased similarly by 2.1 and 2.0 per cent respectively.

New Brunswick, Saskatchewan and Quebec increased slightly by 1.1, 0.8 and 0.6 per cent respectively.

Values remain steady in Prince Edward Island.

Canada

Semi-annual increase in farmland values

July 2003 - Jan. 2004	1.5%
Jan. 2004 - July 2004	2.3%
July 2004 - Jan. 2005	2.2%
Jan. 2005 - July 2005	1.6%
July 2005 - Jan. 2006	1.5%
Jan. 2006 - July 2006	2.1%

British Columbia

The B.C. agricultural land market remains strong with an increase of 10.3 per cent in the last six months. This follows a similar 10 per cent increase in the previous period. This strong market increase is in keeping with a buoyant provincial economy.

In southern B.C., the Fraser and Okanagan valleys have a limited supply of arable land resulting in strong competition and increasing land values.

Values in the Abbotsford and Surrey areas are increasing again due to strong demand from the berry sector.

Land values on Vancouver Island have generally stabilized after last year's increase.

The northern regions, such as the Peace River area, continue to have a strong resource sector, creating upward demand for rural acreage and investment in agriculture.

Less populated areas of the Interior involving woodlot, forestry and livestock production are showing less optimism with smaller price increases.

Alberta

Alberta farmland values continue to rise with a 3.9 per cent increase during this period. This is slightly higher than the previous increase of 2.8 per cent. A 10-year trend shows larger increases typically occur in Alberta during the first six months of the year.

Land continues to be in demand, with increasing prices in the corridor area between Lethbridge and Edmonton. Values in areas outside the corridor remain stable.

The high employment levels in the oil and gas industry, the strong general economy based mainly on oil and gas exploration, and construction of infrastructure for this industry continues to impact the demand for land.

Farmers close to urban centers are selling and moving farther away to obtain a larger land base. This relocation trend continues to increase the area of urban influence on farmland values.

Irrigated land prices increased in southern Alberta due to demand from potato and feedlot industries.

Saskatchewan

Saskatchewan farmland values continue to increase modestly, showing a 0.8 per cent increase in the last six months. This is similar to the previous increase of 0.5 per cent. Increases are consistently below 1.0 per cent for each six-month period in the province. This trend ranks Saskatchewan farmland values as one of the lowest in Canada.

Grain and oilseed prices are a significant factor driving farmland values and these commodities have been weak during most of the period.

In general, farmland is still considered a good long-term investment. This is evidenced by current owners holding land and investors buying land with the expectation of future capital gain.

Spin-off activity is occurring in oilfield areas resulting in stronger values. To a lesser extent, this trend is similar to the trend in Alberta.

Manitoba

Manitoba farmland values increased 2.8 per cent during the first half of 2006. This is a significant increase from the previous period when values increased by only 0.2 per cent.

Past values appear to have been held back by poor crops and weak commodity prices. Previous increases tended to be driven by sale of land suitable for specialty crops such as potatoes. The current increase is more general and less focused on specialty cropland.

There appears to be an expectation that crops and income levels will improve and farmland will join the buoyant real estate market.

Consolidation of farming enterprises continues to be driven by technology and low margins, which, in turn, increases the competition for land.

Ontario

Changes in Ontario land values moderated somewhat from the previous pace of increase. Values increased by 2.1 per cent across the province — less than the 3.8 per cent recorded for the last half of 2005.

The number of sales transactions decreased overall, making market forces more difficult to assess.

Land prices strengthened in areas beyond the provincial greenbelt as speculative bidding pushed up prices, particularly in the Niagara region, Haldimand County, Simcoe County and immediately east of the Greater Toronto Area in Durham region and Victoria County.

Traditional cash crop sectors saw little or no change in land values with several exceptions. Vegetable land continues to be in demand for field tomato production and, conversely, heavier and marginal soils showed a drop in price due to continued low grain and oilseed prices. These are the first noted decreases in some time.

Northern and most of eastern Ontario saw no significant changes.

Overall, urban buyers relocating to rural areas continue to have a significant impact on land values in most areas.

Quebec

Quebec values increased by 0.6 per cent, higher than the previous period with no increase.

Pork and grain producers are still experiencing challenges. Grain and pork prices remain low, reducing cash flow and, consequently, the amount of cash available for investment purposes.

The market for land for expansion remained active. While there was demand from farmers who need land to comply with environmental standards, the trend of purchasing land for manure-spreading has since eased. In high land value areas, producers adopted a new manure management solution instead of purchasing land.

Overall, there was no upward pressure on land value in any Quebec region.

New Brunswick

Farmland values in New Brunswick increased by 1.1 per cent in the first six months of 2006, higher than the previous period with no increase.

Values increased slightly in the potato belt, but remain unchanged in regions with dairy and beef operations. Uncertainty in the beef industry prevailed as farmers recovered from the BSE crisis that paralyzed the industry in recent years. Average potato prices combined with a higher-quality crop prompted some potato producers to buy more land. This created a higher demand for bare land, resulting in a slightly higher unit price.

In the Woodstock area, some potato producers purchased land parcels in close proximity to their home sites to enhance their operations. Continued improved potato prices over the winter months and into the spring had a positive impact following the difficulties of previous years.

Most bareland sales occurred in the Grand Falls region. Higher land values may also be attributed to the improving potato prices.

Land clearing operations are still ongoing, with high cost for clearing before production can begin.

Prince Edward Island

Prince Edward Island's farmland values showed no change in the first half of 2006, consistent with the previous period.

The potato and livestock sectors have negatively affected the amount of residual farm income available for reinvestment in land for the past few years. Positive developments over the past six months within the major agricultural industries are providing optimism, however, this has not yet translated into increased farmland transaction values.

In Prince County, cropland values remain constant. Potato producers limited their land purchases to parcels located close to their home sites.

Farmland in Queens and Kings Counties remain in demand by both farm and non-farm purchasers. With an adequate supply of farmland available for sale, the overall effect on price was neutral.

Nova Scotia

Farmland values in Nova Scotia enjoyed a 2.0 per cent increase during the first six months of 2006. This is an increase over the previous period when values did not change.

A limited number of farmland sales occurred and typically, smaller parcels were purchased.

In the Antigonish area, good quality farmland for forage purposes is in demand. Limited availability kept the number of sales relatively low, commanding higher land values.

Values in the Truro and Shubenacadie area did not change. This area, with a high number of dairy producers, continues to sell at strong prices.

In the Annapolis Valley, demand for farmland continues to be strong, outstripping the supply. A small increase in values was noted from January to July 2006.

Newfoundland and Labrador

Farmland values increased by 2.9 per cent in Newfoundland and Labrador in the first half of 2006, similar to the previous period increase of 3.0 per cent.

The increase is a result of the rising price of farmland in the western half of the province. Livestock operations seeking forage land are increasing demand. Some retiring farmers sold smaller parcels of land, which purchasers added to their larger existing landbase. A very limited number of land transactions occurred over this time period.

Land values remain flat in the eastern section of the province. A minimum number of farmland sales occurred, with no resulting impact on values. Additionally, the cost to clear woodland and bring it into production remains very high. As a result, farmers tended to purchase established farmland.

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