

## **Farmland Values Report – Spring 2008**

### **Introduction**

Farm Credit Canada (FCC) is Canada's largest provider of business and financial services to farms and agribusiness. Operating out of 100 offices located primarily in rural Canada, FCC employees are passionate about the business of agriculture. A healthy portfolio of more than \$13 billion and 14 consecutive years of portfolio growth are a reflection of our customers' success.

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, which highlights changes in land values in each province and nationally.

Each year, a report is released in the spring, describing changes from July 1 until December 31. A second report, released in the fall, identifies changes from January 1 until June 30. Each report also contains 10 years of trend information.

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### **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 a senior appraiser reviews the appraisal reports.

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### **National trend**

The average value of Canadian farmland increased 7.7 per cent during the last six months of 2007, Canada's highest increase since 2002. This is higher than the 3.6 per cent increase in the first six months of 2007.

Most provinces continue to see growth in farmland values, with British Columbia experiencing a huge 14.5 per cent increase. Overall increases are consistent with an upward trend in land values since January 2000.

With the largest increase in B.C. at 14.5 per cent, Alberta shows the second largest increase at 10.3 per cent. Saskatchewan follows closely behind with an average 7.8 per cent increase and Manitoba is experiencing a similar per cent increase of 7.3 per cent.

Quebec shows an increase of 3.6 per cent, while Ontario's farmland values increased slightly at 1.2 per cent during the last six months of 2007.

Atlantic Canada land values varied, with Nova Scotia showing a 3.1 per cent increase, while Prince Edward Island and New Brunswick indicating decreases of 1.4 per cent and 3.3 per cent, respectively. Newfoundland and Labrador land values remained the same in the second half of 2007.

### **British Columbia**

British Columbia has seen a significant 14.5 per cent land value increase between July and December 2007. This compares with a moderate increase of 3.7 per cent during the first six months of 2007.

Much of this increase can be attributed to a very strong demand for land suitable for grape production in the Southern Interior, including the Creston and Okanagan areas of B.C.

Demand for land in the B.C. Peace region remains stable with slightly higher prices, thanks to a strong economy and optimism resulting from a rise in grain prices. Land sales in the north and central interior area are stable in spite of the challenges faced by the cattle industry. The full impact of the downturn in the forestry sector was somewhat delayed due to substantial harvest of cheap beetle wood. This wood is quickly being harvested before it becomes unusable.

The Southern Interior and Okanagan areas continue to see increasing land values. Much of this increase can be attributed to a very strong demand for land suitable for grape production. There is a noticed increase in demand for small wineries as well as wineries consolidating to achieve economies of scale and secure their own production base.

The Lower Mainland of B.C. is experiencing continued high demand and increasing prices partly due to the ongoing expansion of the blueberry industry. Continued consolidation in agriculture and the strong local economy both contribute to the demand level as well. In addition, out-of-province investors are purchasing more real estate which is driving up the price of land in the Southern Interior and the Lower Mainland areas.

Land values on Vancouver Island have been relatively stable during the last six months of 2007 as limited farmland sales activity has taken place. Agriculture on the Island continues to be dominated by small to mid-size farms which continue to operate on a status quo basis.

Low and relatively stable interest rates and credit availability has also positively impacted the overall demand for British Columbia real estate.

## **Alberta**

Alberta land values continue to rise dramatically, with a 10.3 per cent average increase occurring during the last half of 2007. This rise in values follows a 6.4 per cent increase during the first half of 2007.

Values continue to increase throughout central and northern Alberta. With grain and oilseed market prices reaching record highs, so have the demand for grain growing land. Demand for specialty crops such as potatoes are also key factors in increased prices of irrigated land. A growing interest in using plants for alternative fuels such as ethanol and bio-diesel adds strength to the demand for land.

Due to urban and industrial pressure for more land, many Alberta farms are being sold at high prices. Producers who are being bought out are relocating to other areas within the province, which is further increasing the demand for land in outlying areas.

Several expansion projects by large producers is also playing a role in elevating land values.

In the urban fringe and the urban corridor from Lethbridge to Grande Prairie, demand for land remains strong as more commercial and industrial activity takes place.

## **Saskatchewan**

The Saskatchewan farmland market is very buoyant showing a 7.8 per cent increase in the last six months of 2007.

The increasing prices we have witnessed during several of the past reporting periods is an indication of the strong demand for land in Saskatchewan. The July to December 2007 increase is higher than most other years. This is reminiscent of the increases in Saskatchewan farmland in the late 1970s.

Grain prices have increased rapidly to the highest level in years. Concern about supply and feedstock required for the bio-fuels industry has further pushed commodity prices.

Adding to this strength is the recognition that Saskatchewan farmland is attractively priced relative to farmland in other provinces. The demand for land is coming from the combined effect of investors, out-of-province buyers, and local farmers. Much of the out-of-province interest is coming from Alberta, which has experienced significant land value increases over the last 10 years.

## **Manitoba**

Over the past six months, average land values in Manitoba increased by 7.3 per cent. This compares to a 1.7 per cent increase in the previous six month period.

Land values and land sales increased during the summer to winter period in 2007. The increase in cash crop prices has contributed to the optimism in the marketplace and a higher demand for land in many areas of the province.

Most land value increases were seen in the predominant cash crop and specialty crop areas of the province, where highly productive soils are prevalent. Some of these areas include the Red River Valley south and west of Winnipeg, the southwest portion of Manitoba from Manitou to Killarney, and the western area around Portage la Prairie.

Pasture land and land of lower productivity showed little increase during this period. It is believed that the current economics of the red meat industry have impacted demand for these properties.

## **Ontario**

Ontario farmland values increased 1.2 per cent between July and December 2007, down from a 2.7 per cent increase in the first half of 2007.

The slight rise in values is again partly influenced by general demand and higher commodity prices starting in 2006 and continuing into 2007. The sales trends to the end of 2007 do not match the rapid rise in commodity prices over the last quarter of the year.

The optimism felt by cash crop operators in early 2007 diminished somewhat due to inconsistent rainfall during the prime growing months. This resulted in lower than normal yields of corn, wheat and soybeans in several southwestern Ontario counties.

The effects of the current hog and beef situation have contributed to a more moderate increase to land values over the reporting period..

Land rents appear to be increasing as landlords want a share of the cash crop revenue increases.

Urban buyers relocating to rural areas continue to significantly affect land values, especially outside the provincial greenbelt and around Toronto. Land prices increased in Simcoe, Hastings, Victoria and Durham Counties.

Values were again steady in the counties of Oxford, Middlesex, Perth, Lambton, Kent and Elgin.

The last half of 2007 saw some limited pressure on land values in Eastern Ontario, including Russell, Dundas and Prescott, with general demand being the indicated driver.

Northern Ontario again experienced little change in terms of price and demand.

## **Quebec**

Quebec's farmland values rose moderately in the last half of 2007, recording an average increase of 3.6 per cent, compared with 1.2 per cent during the previous six month period. Although this increase is less than the National average, it is the most significant in the province since 2002.

Land values increases were varied, depending on the area within the province.

The highest increases occurred in regions with greater grain crop potential, which is clearly related to the sharp hike in grain prices over the last 15 months.

Higher grain prices, which have led to higher feed costs, have created problems in the pork sector. This has resulted in fewer land purchases in concentrated hog production areas. The land value increases were also lower in areas with high numbers of hog producers, since the producers cannot take aggressive action in the market.

The solid performance of the residential real estate market in urban centres is continuing to put pressure on nearby farming areas.

## **Prince Edward Island**

Prince Edward Island's average farmland values decreased by 1.4 per cent in the last half of 2007, compared to no changes during the previous six-month period.

Land values in the Summerside area remain unchanged over the past six months despite major challenges faced by agricultural producers. The number of land transactions was low, although very strong prices are still being paid for high quality farmland. To offset this strength, however, were the low sale prices for land of lower quality and in less competitive areas.

Farmland values in the Charlottetown area have generally decreased over the past six months. Challenges in the hog, beef, and potato sectors have resulted in more agricultural land going on the market. Fewer buyers than in previous periods and more land available, as renting has become a common alternative, have impacted the values.

Competition for land from urban buyers has helped offset some of these factors.

## **Nova Scotia**

Nova Scotia's average land values have increased by a moderate 3.1 per cent during the last six months of 2007, compared to a period of no change during the first six months of last year.

The number of farm land transfers in the Antigonish area was low between July and December 2007. The factors that have helped to drive land prices up include continued demand for land by dairy farmers, stable incomes and efficiencies realized by larger cow herds. This has provided some incentive for operations to purchase good quality forage land as it becomes available. Strong returns in the blueberry industry have also kept upward pressure on land suitable for those crops.

Demand for good quality forage land in the Truro and Shubenacadie area have driven prices up during the past six months. Purchasers are buying land parcels closer to their homes, wherever possible, to reduce

travel costs. Given the minimal amount of land offered for sale, vendors are getting good prices for their property.

A limited number of farmland sales in the Kentville area have led to an increase in land values. Demand for land is coming from both established farm operations and people retiring or moving to the area, as well as those setting up hobby farms.

### **New Brunswick**

Provincial land values in New Brunswick declined by an average of 3.3 per cent during the last six months of 2007. This follows a 2.0 per cent increase in land values during the first half of 2007.

Farmland values in New Brunswick have decreased in both of the province's traditional potato belt regions, while the dairy and beef regions have enjoyed a small increase in value over the past six-month period. Uncertainty in the potato industry, as table-stock and seed-stock producers have not rebounded from the average prices and low demand for their crops over the last year, has negatively affected land values. Most land sales involved potato growers who were retiring, and sales have involved production units which deal mainly with the processing industry.

Dairy producers in the Sussex region are seeing an increase in investments in land, where a positive cash flow, due to additional milk revenues, is allowing for additional investments in the land base.

In the Woodstock area, the number of potato producers is in decline. Because of the economics of potato farming, operations need to grow to remain viable. The price for potato land has remained low because there are fewer producers competing for available land and those still in the industry are purchasing lower priced land that is located farther from their home sites. This is where most of the land sales have occurred during the past six-month period. Continued depressed potato prices and low demand for table-stock and seed-stock potatoes contributed to lower land prices.

The bare land sales that occurred in the Grand Falls region from July to December were mostly from producers who were retiring from the sector. Decreased land values may also be a direct result of the continued depressed market for potatoes in this area.

Land clearing operations, which are costly, are ongoing. Clearing must take place before the land can be put into production.

### **Newfoundland and Labrador**

Land values in Newfoundland and Labrador remain the same compared to the first half of 2007, which saw values increase by 3.3 per cent.

Few land sales occurred between July and December.

There is no longer a value differentiation between Eastern and Western Newfoundland and Labrador.

Newfoundland and Labrador has reached a point where producers who want more land are buying land that needs to be cleared, which comes at a greater cost than simply acquiring additional land. The cost of developing and clearing land ranges from \$4,000 to \$5,000 per acre.