Fall 2008 Farmland Values Report

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 $15 billion and 15 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 the 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 5.8 per cent during the first six months of 2008. This is the second highest percentage increase since 2000, although it is lower than the 7.7 per cent increase in the last six months of 2007.

Most provinces continued to see increases in farmland values, with Alberta experiencing the highest at 6.7 per cent. Manitoba follows closely with an average 6.2 per cent increase.

Three provinces experienced a similar percentage increase: Saskatchewan (5.6), Quebec (5.5) and Nova Scotia (5.2).

Ontario values went up 4.6 per cent, while British Columbia's farmland values increased 3.0 per cent during the first six months of 2008.

Newfoundland and Labrador farmland values remained the same.

New Brunswick showed a decrease of 0.3 per cent and Prince Edward Island land values decreased 2.4 per cent.

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Graph: Canada Semi-annual % change in farmland values (Brand)

Canada
Semi-annual increase in farmland values
July 2004 - Jan. 2005 2.2%
Jan. 2005 - July 2005 1.6%
July 2005 - Jan. 2006 1.5%
Jan. 2006 - July 2006 2.1%
July 2006 - Jan. 2007 2.5%
Jan. 2007 - July 2007 3.6%
July 2007 - Jan. 2008 7.7%
Jan. 2008 – July 2008 5.8%

Graph provincial comparison of farmland values (Brand)
Semi-annual % change in farmland values
January 1, 2008 to June 30, 2008

Graph % Change in farmland values (Brand)

Alberta

Alberta land values continued to rise, with a 6.7 per cent average increase during the first half of 2008. This rise in values follows a 10.3 per cent increase during the last half of 2007.

Land values continued to increase throughout the majority of central and northern Alberta. The grain and oilseed markets were the main contributing factors. Many of the sales in the first half of 2008 were negotiated when grain and oilseed prices were high. Spring land auction sales were very successful, experiencing above average values.

With a moderation in cash crop prices and below average moisture conditions over the reporting period, future values may be affected. However, only future market sales will confirm whether these factors impact values.

Land values maintained their increasing trend throughout the majority of central and south central Alberta, particularly along the Highway #2 corridor. There is still significant commercial development along this corridor, resulting in increased demand for rural land.

There has been speculative land buying around the main urban centers and these areas experienced farmland value increases at higher rates than rural land in east central and southern Alberta.

Land values were either steady or increasing in the irrigated parts of the province. Demand for specialty crops was still the driving force and large producers continued to purchase smaller operations in irrigated areas.

There was less interest in forage land, as the livestock sector experienced challenging economic times. Higher input costs on fuel and fertilizer also created lower demand for this type of land.

View graph of provincial farmland values trends for the past 10 years.

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British Columbia

Over the last six months, average land values in B.C. increased 3.0 per cent, compared to a 14.5 per cent increase during the previous six-month period. Several factors may be behind the lower percentage increase.

Northern B.C. land value increases were the result of land sales negotiated when grain and oilseed prices were high. Future farmland value increases in this area will depend on the outcome of cropping this year. There was also more land for sale in northern B.C., which appears to be driven by higher fuel costs. Fuel is a significant input cost to a farm operation. As the price increases, profit margins are reduced and some land owners are choosing to sell.

The Kootenays and Okanagan farmland prices continued to be influenced by out-of-province buyers, although purchasers are more discerning. This trend was demonstrated through the increased number of listings and greater exposure time to realize a sale.

Values in the northern part of Vancouver Island were stable. Increased market activity was driven by retirees moving into the area who are attracted to the acreage market. To date, no change in price was evident. The mid-Vancouver Island market experienced an increase in values on sales negotiated before recent lumber mill closures and fuel price increases. The impact of both these events has not yet been fully realized in the area.

Lower mainland prices have stabilized for a number of reasons. Optimism for further expansion in the blueberry industry is waning as recent plantings are maturing and increasing supply. In addition, the residential market in urban areas was slowing and this spilled into the acreage market. Higher fuel prices have impacted commuting costs, so there was greater caution in the acreage’s buying market. The number of listings has increased.

In the Vanderhoof area of central B.C., land values were generally stable to moderately increasing. Market activity included out-of-province buyers looking at large tracts of relatively inexpensive farmland. Some buyers are acquiring farmland to grow trees for carbon tax credits.

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Manitoba

Over the first six months of 2008, average land values in the province increased by 6.2 per cent compared to the 7.3 per cent increase during the last six months of 2007.

The majority of land value increases continued to be evident in the predominantly cash and specialty crop areas of the province. This was largely due to optimism fuelled by higher commodity prices. This has been tempered slightly in some crop areas because of higher input costs, especially fertilizer and fuel.

There was a noticed moderation of land market activity in the potato sector. However, this was countered by more interest in land for corn and bean production. As a result, overall land values remained relatively strong.

In the mixed farming regions of the province, land values were stable or changed modestly. In contrast, the concentrated dairy areas of the province experienced a strong demand for land, which has resulted in rising land values.

Pasture land showed little change in value as demand remained low. This sector of the market was still being influenced by the economic circumstances of the red meat industry.

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New Brunswick

Farmland values in New Brunswick declined by an average of 0.3 per cent during the first six months of 2008. This follows a 3.3 per cent decrease during the last half of 2007.

Farmland values in New Brunswick declined in the Grand Falls region, while values in the Woodstock region remained steady.

Uncertainty in the potato industry continued to be a major influence during this reporting period. Table-stock and seed-stock producers were still being impacted by price and low demand experienced over the last four years. Potato prices spiked near the end of the shipping season. However, providing a good marketable product late in the season is challenging because long storage of potatoes impacts their quality. In all potato producing areas, most land sales involved producers who were exiting the industry. Purchasers were largely from production units that deal primarily with the processing industry rather than seed growers.

Land values in the dairy and beef regions of the province remained steady during this reporting period.

Higher production costs for dairy producers likely contributed to the low demand for land in the Sussex region. There was no market evidence of land value changes in the area.

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Newfoundland and Labrador

Land values in Newfoundland and Labrador remained unchanged for the first half of 2008, due to an insufficient number of land sales during this reporting period,

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Nova Scotia

Nova Scotia's average land values increased 5.2 per cent during the first six months of 2008, compared to a 3.1 per cent increase during the last six months of 2007.

The value of farmland in the Antigonish area has increased over the previous reporting period. However, more farmland transfers were reported in Pictou County over the past six months than in Antigonish County. Demand for farmland in both counties was driven by dairy producers, lifestyle farmers and rural residential construction. As land is purchased by these groups, the demand and resulting price for the remaining available farmland is pushed higher.

Farmland values also rose in the Truro and Shubenacadie area as dairy producers bought farmland to help offset high feed costs. Demand came from lifestyle farmers establishing or expanding in the Truro to Halifax corridor. Rural residential housing development continued as well, which increased land prices. The result was increased competition for quality parcels of farmland.

Strong demand for good quality farmland in the Kentville area contributed to the increase in local values. Demand was primarily from expanding farm operations. Limited availability of good quality land continues to increase values.

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Ontario

Ontario farmland values increased 4.6 per cent between January and July 2008, up from a 1.2 per cent increase in the last half of 2007. This is the second largest six-month increase in the last 10 years.

The upward trend appears to be consistent across the province, with increases noted in eastern and northern Ontario.

The large increase in land values was mostly influenced by commodity prices which increased substantially in the fall of 2007 and continued to rise into 2008. World demand for basic agricultural grains and strong growth in the biofuels sector has contributed to the surge in grain prices. This was offset by higher energy and input costs. However, optimism of cash crop operators was the strongest it has been for several years.

Urban buyers relocating to rural areas and strong general demand still continue to influence land values.

The effects of the current hog and beef situation and higher feed prices do not appear to have had much effect on land values over the reporting period.

Land rents have also gone up as landlords want a share of the cash crop revenue increases.

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Prince Edward Island

Average farmland values in Prince Edward Island decreased by 2.4 per cent in the first half of 2008, compared to a 1.4 per cent decline during the previous six-month period.

Farmland values in the Summerside area declined over the past six months, reflecting challenges in the potato, hog and beef sectors. Tight margins in the potato industry, along with low prices in the red meat industry, resulted in a surplus of farmland for sale. For purchasers, the decision to buy and how much to pay was driven more by financial returns than by competition between buyers.

Farmland values in the Charlottetown area were unchanged over the past six months. Financial pressures on potato, hog and beef producers reduced the demand for land and increased supply. On the other hand, demand for land from other farm commodity sectors helped maintain prices at their previous level. Interest in farmland from non-agricultural buyers also offset some of the declining buying power of the traditional crop and livestock producers.

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Quebec

Quebec experienced an overall increase in farmland values in the last six months, recording an average increase of 5.5 per cent compared to the 3.6 per cent increase from the previous period. The effects of this increase, however, were different in each region of Quebec.

A direct correlation can be made between the variation in land values and the type of crop that can be grown in the soil and climate. The sharpest increases were in areas with land suitable for grain production and where field crop production was more prominent. Producers were optimistic and confident in the future given the increase in grain prices and the anticipated medium-term stability of these prices. In contrast, areas with more beef and pork production reported less significant increases, as these two sectors were going through a challenging period.

In regions where dairy production is strong, values rose but to a lesser extent. We continued to see upward pressure on the value of property located near urban centres.

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Saskatchewan

The upward trend in Saskatchewan farmland values continued with a 5.6 per cent increase in the six months ending July 2008. This is the third consecutive semi-annual increase and follows increases of 7.8 per cent and 3.0 per cent in the previous two reporting periods. On average, Saskatchewan farmland values have increased at approximately 1.0 per cent per month over the last 18 months.

Commodity prices for cash crops remained at relatively high levels and farmland values have increased as a result. This has been tempered by increased input costs, particularly fuel, fertilizer and chemicals.

The predominant cash crop areas of the province experienced the strongest increases in land values. In mixed farming areas land values showed a more modest change.

Demand for land continued to be driven by local expansion as well as out of province buyers and investors.

The Saskatchewan economy is buoyant due to positive gains in agriculture, the oil and gas industry, service industries and housing starts, which is creating an optimistic environment.

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