

Spring 2009 Farmland Values Report

Introduction

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 to December 31. A second report, released in the fall, identifies changes from January 1 to June 30.

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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 5.6 per cent during the last six months of 2008. This is the third-highest percentage increase since 1997 and is similar to the 5.8 per cent increase in the fall 2008 report.

Farmland values increased in every province except Prince Edward Island, which remained the same. Saskatchewan experienced the highest increase at 8.8 per cent, followed by New Brunswick with an increase of 6.3 per cent and Quebec with a 5.9 per cent increase.

Three provinces experienced similar percentage increases: Nova Scotia (4.3) Newfoundland and Labrador (4.0) and Manitoba (4.2).

The two western provinces showed similar increases. British Columbia's farmland values went up 2.3 per cent, while Alberta's values increased 2.2 per cent during the last six months of 2008. Ontario farmland values continued to rise with a 1.9 per cent average increase.

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

Graph provincial comparison of farmland values (Brand)

Semi-annual % change in farmland values

July 1, 2008 to December 31, 2008

Graph % Change in farmland values (Brand)

Alberta

Alberta farmland values continued to rise, with a 2.2 per cent average increase during the second half of 2008. This is the third consecutive semi-annual increase and follows increases of 6.7 and 10.3 per cent in the previous two reporting periods. On average, Alberta farmland values increased approximately one per cent per month over the 18-month period. Only three other provinces (British Columbia, Manitoba and Saskatchewan) experienced this trend.

The 2.2 per cent increase, which is smaller than in previous reports, was due mainly to purchaser reaction to a change in commodity prices. Prices moderated during the reporting period. There has also been a notable decrease in activities that can contribute to upward pressure on land prices such as land speculation, farm expansion and urban sprawl.

During the reporting period, demand for speculative land near urban centres and along the Highway 2 corridor has decreased. Demand for land located in livestock producing areas has also decreased due to the industry's response to lower than expected prices.

Irrigation land in southern Alberta saw an increase in value due to ongoing demand for specialty crop land.

The global economic situation contributed to the lower speculative and urban development demand for land. Lower oil prices have caused a large number of oil-based companies to reduce spending and salary costs, resulting in fewer lifestyle purchasers in the market and less demand for agricultural land.

British Columbia

The upward trend in British Columbia farmland values continued with an average 2.3 per cent increase in the last reporting period. This is the third consecutive semi-annual increase and follows increases of 3.0 and 14.5 per cent in the previous two reporting periods. On average, British Columbia farmland values increased approximately one per cent per month over the 18-month period. Only three other provinces (Alberta, Manitoba and Saskatchewan) experienced this trend.

The only land value increases in the province occurred in the Peace region. This was largely due to the previous period's strong influence of the oil and gas sectors in the area.

Values were down across the south and unchanged in Caribou, Vanderhoof and Vancouver Island.

Real estate sales slowed significantly in the second half of 2008, primarily due to the economic situation. A secondary cause of the slowdown is typical of a cyclical trend. Land values have increased dramatically over the past few years and a slowdown has been expected.

The areas most influenced by the cyclical trend have been the Okanagan and Kootenays. The Kootenays area has been particularly influenced by less investment from Alberta. The Okanagan area has been impacted by the slowing urban sector.

The Cariboo and Vanderhoof areas have endured economic malaise due to the decline in resource sector activity. Vancouver Island has also been impacted by a slowing forestry sector.

In general, the three main factors that impacted B.C. farmland values in the second half of 2008 were lower overall demand, fewer out-of-province purchasers and less urban sprawl. Commodity prices, which were relatively high at the beginning of the period but dropped significantly at the end, also impacted values.

Manitoba

Manitoba farmland values increased 4.2 per cent during the last six months of 2008. This is the third consecutive semi-annual increase and follows an increase of 6.2 per cent during the previous reporting period and 7.3 per cent prior to that. On average, Manitoba farmland values have increased at approximately one per cent per month over the 18-month period. Only three other provinces (Alberta, British Columbia and Saskatchewan) experienced this trend.

Overall, buyers responded to higher-than-average commodity prices.

Pasture land in some areas of the province experienced a large increase in value due to localized high demand. Also, there is evidence in the livestock industry that producers are being faced with a choice of expanding or exiting due to age or economics. In areas where expansion is occurring, there is a higher demand for pasture land.

During the reporting period, specialty crops such as dry beans, corn and soybeans were in competition for land which typically produces potatoes. This resulted in upward pressure on land values where specialty crops are grown.

New Brunswick

New Brunswick farmland values rose an average of 6.3 per cent during the second half of 2008. This was the largest increase since 1999, when farmland values increased 11.6 per cent.

The last two reports showed farmland value decreases in New Brunswick of 0.3 and 3.3 per cent.

The reason for the large increase was due mainly to higher prices for potatoes last season. A continent-wide reduction in potato acreage resulted in a lower supply of spuds for both frozen and fresh markets. Because demand has been relatively constant from year to year, the lower supply drove up prices.

However, increased input costs for the 2008 crop did create challenges for producers.

The largest increase in land values was noted in the northern part of the province. The south-eastern region also showed a large increase.

In the Madawaska County area, there was additional demand for land that was not already contracted to producers supplying the french fry and fresh potato markets. Higher prices for the 2008 potato crop caused producers to look for additional productive potato lands for expansion. To satisfy this increased demand, many parcels were sold by producers who were exiting the potato business.

There was no increase in land values in the Carleton County region, due mainly to major wet weather systems that created washouts and fungal problems in the potato crop. This severe weather also affected storage quality and field yields.

In the Sussex region, the potash industry expanded mining activity. This put additional pressure on surrounding farm lands and created competition for available land.

Newfoundland and Labrador

Newfoundland and Labrador farmland values rose an average of 4.0 per cent during the second half of 2008. This is the largest increase since FCC started analyzing farmland data in the province in 1998.

Land values in Newfoundland and Labrador were unchanged in the last two reports.

The increase was uniform across the province. A low supply of cleared lands, along with demand for this type of property, drove up land values.

Another factor helping prices rise was the scarcity of available and existing farmland. While new land is available, clearing new fields is expensive and not attractive to investors.

Demand for forage-production and manure-spreading land also contributed to the rise in values.

Nova Scotia

Nova Scotia farmland values increased 4.3 per cent in the last six months of 2008. This is the third consecutive semi-annual increase and follows an increase of 5.2 per cent during the previous reporting period and 3.1 per cent prior to that.

In eastern Nova Scotia, values remained stable while central and western values increased at a steady rate.

The Antigonish area saw no change in values due to challenging conditions in the beef sector. The demand for land from dairy producers weakened, as producers focused on tighter operating margins due to high energy and fertilizer costs.

Farmland values in the Truro area increased due to continued pressure from hobby farmers, horse operators, dairy producers and residential expansion in the Truro-Halifax corridor. Most sales involved smaller parcels selling at strong prices.

The Kentville area saw an increase in land values over the last six months of 2008. Demand for farmland came from supply-managed sectors, crop producers and small hobby farmers.

The price of good quality parcels continued to climb steadily. Expansion in the apple industry also drove prices higher with the planting of new, higher-value varieties.

Ontario

Ontario farmland values increased 1.9 per cent during the last half of 2008, down from a 4.6 per cent increase in the first half of the year. This was the third consecutive semi-annual increase and followed increases of 4.6 and 1.2 per cent in the previous two reporting periods.

A stable to upward trend appeared to be consistent across the province with small increases noted in both eastern and northern Ontario.

Factors contributing to the changes in land values were varied.

Cash crops continued to show profitability due to increased demand for corn to supply local ethanol plants, increased global demand for basic agricultural grains and strong growth in the biofuels sector.

Large, intensive livestock enterprises continued to have strong demand for land to satisfy nutrient management program requirements.

In a new development, some of the land value increases in the area bordering Lake Huron were due largely to wind turbine contracts. These contracts contributed to the premiums paid for land parcels, given the annual income generated by the contracts.

The downturn in financial markets also affected land values in some areas. For example, the eastern part of the province saw land prices increase only very slightly during the reporting period due to the economic situation and high fuel costs.

Workable land was still in high demand by local livestock farmers and international buyers.

Land demand was influenced by strong land rental rates, and also by urban buyers (non-farmers) who were relocating to rural areas. The effects of the current hog and beef situation did 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.

Prince Edward Island

Prince Edward Island farmland values remained stable over the last six months of 2008.

A contract settlement between potato producers and potato processors provided some stability to the provincial agricultural industry despite challenges in the hog industry.

In the Summerside area, the main driver of farmland values is the potato industry. Following several years of tight margins, potato producers experienced varied results with 2008 crop. Some areas experienced heavy rains in August, then late blight developed and finally, a wet fall caused a late harvest. For those in badly affected areas, crop yield was significantly lower from previous years. Meanwhile, a good crop was harvested in other locations.

The Charlottetown area saw similar results with some heavy crop losses in Queens County. Good potato prices in the fall helped offset some of the losses. There was also a significant amount of potato land for sale in the area, which contributed to lower prices.

Quebec

The upward trend in Quebec farmland values continued with a 5.9 per cent increase in the last half of 2008. This is the third consecutive semi-annual increase and follows increases of 5.5 and 3.6 per cent in the previous two reporting periods.

There were increases in all parts of the province with the most significant gains in central and southwestern Quebec.

A direct correlation can be made between the value increases and areas with land suitable for grain production. This is mainly due to the soil type and the strong increase in grain prices over the last year, which drove up demand for this type of land.

In fact, demand was greater than the offers being made, which created pressure on the market.

Many producers were also expanding their operations moving away from a mix of smaller agriculture activities towards larger, more specialized operations.

Strong demand was still experienced for land in areas located near urban centres. The demand for smaller parcels of land was especially strong in these areas and exerted upward pressure on the market.

The number of land sales was high during the first nine months of 2008, but decreased in the latter part of the year.

Saskatchewan

The upward trend in Saskatchewan farmland values continued with an 8.8 per cent increase in the last half of 2008, the highest average increase across Canada. Since the first publication of the FCC Farmland Values report in 1984, this was the largest increase ever seen in Saskatchewan.

This was the third consecutive semi-annual increase over five per cent and followed increases of 5.6 and 7.8 per cent in the previous two reporting periods.

On average, Saskatchewan farmland values have increased approximately one per cent per month over the 18-month period. Only three other provinces (Alberta, British Columbia and Manitoba) experienced this trend.

Three main factors impacted Saskatchewan farmland values. Grain and oilseed prices were relatively high at the beginning of the period, but slumped significantly at the end. The other factors included producers expanding their operations and an influx of out-of-province buyers and investors. All these factors increased demand and drove prices upward.

In the southwestern and northwestern areas of the province, farmland values enjoyed the added influence of oil and gas activity. Also, better quality land suitable for specialty crops attracted land investment groups and out-of-province buyers. In the southwestern area there were also better crops in the last few years with producers expanding their land base.

In the northeastern area of the province, a smaller than average increase occurred due to weather challenges and challenges in the cattle industry. In the southeastern region, very strong increases in land values were due to the strong oil and gas sector and good productive land, which attracted land investment groups and out-of-province buyers.

The 2008 crop year was above average. Early in the growing season, crop development was one or two weeks behind. This caused concern regarding the risk of an early frost. As it turned out, an extended fall averted any significant frost damage and many areas had record yields.

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