

## **Fall 2009 Farmland Values Report**

### **Introduction**

FCC is a leading provider of business and financial services to farms and agribusiness in Canada. 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 \$17 billion and 16 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. 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 2.9 per cent during the first six months of 2009, following increases of 5.6 and 5.8 per cent in the previous two reporting periods.

Farmland values increased in most provinces. New Brunswick experienced the highest increase at 5.6 per cent, followed by Manitoba, with an increase of 5.5 per cent.

Two provinces experienced similar percentage increases, Quebec (4.3) and Nova Scotia (4.2).

Saskatchewan farmland values continued to rise with a 3.4 per cent increase, followed by Ontario and Newfoundland and Labrador which each experienced an increase of 2.8 per cent.

Alberta had the smallest increase at 1.0 per cent while British Columbia and Prince Edward Island farmland values decreased by 0.7 and 1.4 per cent respectively.

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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

January 1, 2009 to June 30, 2009

***Graph % Change in farmland values (Brand)***

## **Alberta**

Alberta farmland values rose an average of 1.0 per cent during the first half of 2009. This was the third consecutive semi-annual increase, following increases of 2.2 and 6.7 per cent in the two previous reporting periods.

The 12 months from June 2008 to June 2009 saw large fluctuations in prices for agriculture commodities, oil and gas. This created uncertainty in the marketplace and in the agriculture sector.

There has also been a slowdown in the urban sprawl of larger cities, resulting in lower demand for neighbouring farmland. As a result, land value decreases have been noted in these areas.

Another contributing factor has been the poor spring growing conditions, which may impact market activity in the months to come.

## **British Columbia**

British Columbia experienced a 0.7 per cent decrease in farmland values for the first half of 2009. In the two previous semi-annual reporting periods, British Columbia experienced increases of 2.3 and 3.0 per cent. The last farmland value decrease was seen in 1999.

The length of time farm properties were listed for sale was greater than in previous reporting periods. Vendors were not willing to decrease asking prices and purchasers were taking the wait and see approach.

The northern part of the province saw fewer farm land sales, except for purchases by oil and gas sector workers investing in hobby farms and rural acreages. Inclement spring weather resulting in poor crops may contribute to lower demand for the remainder of the year.

In the Vanderhoof area, foreign investors bought cattle or pasture land and planted trees. Land values held due to the carbon credits received from planting the trees.

The Kootenays and southern Okanagan have slowed due to a decrease in investment from Alberta and the US.

The Cariboo area is traditionally market-driven by the forest and cattle industry. Both of these sectors are under pressure and land transactions continue to be few.

North Vancouver Island saw downward pressure due to the declining forestry industry, while the southern island is stabilized by the offsetting influence of urban pressure.

The Fraser Valley market slowed, as demand for blueberry land has evaporated pending the expected market correction in crop prices. Simultaneously, the residential market has been affected by employment uncertainty, reducing demand for acreages from which prices have traditionally cascaded.

Across the province, a cold winter with the late arrival of spring combined with a low snowpack has created uncertainty for the remainder of 2009. As the global economic situation continues so too, does the investment decision of prospective buyers.

## **Manitoba**

Manitoba farmland values continued to rise with a 5.5 per cent average increase during the first six months of 2009. This follows semi-annual increases, of 4.2, and 6.2 per cent in the two previous reporting periods. On average, Manitoba farmland values increased almost 1.0 per cent per month over the 18-month period. Manitoba is the only province that experienced this trend.

The most recent increase was due in part to continuing favourable interest rates, which resulted in ownership cost being similar to or lower than renting. In addition, pent-up demand, good commodity prices in fall 2008 and winter 2009, a drop in production costs and purchases of farmland by foreign buyers contributed to the increase.

The areas where there was limited to no increase in farmland values were in the very wet Interlake area, the very dry southwest and areas where beef production is predominant.

Land used for grain and specialty crops led the way in price increases, while prices paid for bean and potato crop land continued to maintain high values for Manitoba farmland. Land used for beef production experienced the smallest price increase.

Hog depopulations affected the increases previously experienced in the southeast region, where demand for manure spreading land competed with beef farms.

In the dairy area around Steinbach, land prices continued to rise in value due to demand created for the spreading of manure and forage production.

## **New Brunswick**

The upward trend in New Brunswick farmland values continued with a 5.6 per cent increase in the first half of 2009, the highest average increase across Canada. This was the second largest increase since 1999, when farmland values increased 11.6 per cent. The last report showed an increase of 6.3 per cent, while the two previous reports showed farmland value decreases in New Brunswick of 0.3 and 3.3 per cent.

In Madawaska and Victoria counties, higher prices for the 2008-09 potato crop encouraged some producers to look for additional productive land to expand their operations. They were able to acquire farm parcels from producers exiting the potato industry. Farmland listed for sale was typically sold within a week.

Prices were high due to a continent-wide reduction in potato acreage, which resulted in a lower supply of potatoes for both the frozen and fresh markets.

## **Newfoundland and Labrador**

Newfoundland and Labrador farmland values increased 2.8 per cent during the first six months of 2009. The last report showed an increase of 4.0 per cent, which was the largest increase since FCC started analyzing farmland data in the province in 1998. In the two previous reports, the values remained unchanged.

The increase was uniform across the province, with minimal farmland sale activity. Only a few sales were recorded since the last analysis. This decreased market activity supports the notion of greater farmland value stability.

## **Nova Scotia**

Nova Scotia farmland values increased an average of 4.2 per cent during the first six months of 2009. This was the third consecutive semi-annual rise and follows increases of 4.3 and 5.2 per cent in the two previous reporting periods.

Land in central and western areas of the province saw the largest increases in 2009, while values in eastern areas remained stable.

The Truro area experienced a higher increase than the previous reporting period. Quality land brought in the highest prices. Demand was steady from hobby farmers and horse operators.

In the Kentville area, vegetable producers, apple growers and supply-managed industries were the main drivers of farmland value. New grape vineyards and hobby farms also kept land demand up.

The Antigonish area saw few land transactions during the first half of 2009. High fuel and fertilizer costs have reduced profit margins in this area.

## **Ontario**

Ontario farmland values increased 2.8 per cent during the first six months of 2009, up from a 1.9 percent increase in the second half of 2008. This was the third consecutive semi-annual increase and followed increases of 1.9 and 4.6 per cent in the two previous 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 from local ethanol plants for corn, increased global demand for basic 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.

Some land value increases in the area bordering Lake Huron occurred because of wind turbine contracts. Premium prices were paid for farmland parcels because of income generated by the contracts.

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

Other factors contributing to farmland purchases were the high land rental rates and urban dwellers relocating to the country to purchase or develop hobby farms.

### **Prince Edward Island**

Farmland values in Prince Edward Island decreased 1.4 per cent during the first six months of 2009. In the previous reporting period, the values remained unchanged and subsequently, there was a decrease of 2.4 per cent.

Variable weather and high input costs were two challenges faced by potato growers across the province. Producers saw a wide variety of results from the 2008 crop, with high prices offsetting crop losses in some cases. Reports indicate that some potato producers did not plant in 2009, adding to the decrease in demand for land.

In the Summerside area, the potato industry remains the main driver of farmland values. A new potato contract signed between growers and the two main processing companies in the spring of 2009 has stabilized potato land values in this area. Land outside the prime potato growing areas is increasingly difficult to sell. As a result, no change in potato land value has occurred.

A prolonged downturn in the hog and beef sectors has negatively impacted land values. Livestock producers in the Charlottetown area have been dealing with low or negative margins. A reduced demand for feed is a leading factor in the drop in value of farmland near Charlottetown.

### **Quebec**

The upward trend in Quebec farmland values continued with a 4.3 per cent increase in the first half of 2009. This was the third consecutive semi-annual increase and follows increases of 5.9 and 5.5 per cent in the two previous reporting periods.

In general, values remained relatively stable but in some areas, high demand exerted upward pressure on the market.

The most significant gains were in central and western Quebec where grain production is more prevalent.

In regions with greater concentrations of intensive livestock production, farmland values stabilized and more balance was established in the marketplace.

The pressure from urban buyers on surrounding rural markets has decreased.

### **Saskatchewan**

Saskatchewan farmland values continued to rise, with an average 3.4 per cent average in the first half of 2009. However, this is smaller than increases noted in the two previous reporting periods: 8.8 and 5.6 per cent.

The smaller increase is due in part to recent fluctuations in commodity prices that have slowed the demand for agriculture properties.

Northwest Saskatchewan enjoyed the largest land value increase during the reporting period, due primarily to good crops and the sale of better-quality land.

Southwest and southeast areas saw an average increase due to good crops and land base expansion. Oil and gas activity also influenced prices in these areas.

The northeast area of the province experienced little change in farmland values during the reporting period due to the predominance of cattle operations in this area. Weather challenges also played a role in moderating land prices.

Saskatchewan farmland remains attractive to investor groups and out-of-province buyers who view prices as reasonable when compared to other provinces. As well, local producers continue to expand their land bases.

Cold weather and frost early in the growing season caused crop damage and left many producers with no option but to reseed. Pasture and forage land also was slow to establish.

Late spring brought drought to the west central and southwest parts of the province, which could affect land prices and demand later this year.

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