

Spring 2011 Farmland Values Report

Welcome to Farm Credit Canada's Spring 2011 Farmland Values Report.

This report covers the period from July 1 to December 31, 2010.

Introduction

As Canada's leading agriculture lender, FCC is advancing the business of agriculture. With a healthy portfolio of more than \$20 billion and 17 consecutive years of portfolio growth, FCC is strong and stable – committed to serving the industry through all cycles. FCC provides financing, insurance, software, learning programs and other business services to producers, agribusinesses and agri-food operations. FCC employees are passionate about agriculture and committed to the success of customers and the industry.

FCC understands the value of having access to solid market value information when making management decisions. That's why twice a year, FCC compiles and releases the Farmland Values Report, which highlights average changes in farmland 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.

Methodology

In 1985, FCC established a system of 245 benchmark farm properties to monitor variations in bare land 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 agriculture soil in each census district. Changes in value are weighted based on cultivated farmland per area.

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.

Land prices vary significantly between regions and provinces. That's one of the reasons why this report doesn't provide a provincial average farmland value in terms of dollars per acre. For example, in one province, similar land with the same productive capacity can be much more expensive in one region compared with another. Each region is unique; the soil type, the soil quality, impacts of weather and the proximity of the land to urban zones are other factors that can contribute to the extremes we see in the market.

National trend

The average value of Canadian farmland increased 2.1 per cent during the last six months of 2010, following increases of 3.0 and 3.6 per cent in the previous two reporting periods. When combined, the increase in the average value of farmland across Canada rose by 5.1 per cent in 2010.

Farmland values remained stable or increased in all provinces. Prince Edward Island experienced the highest average increase at 3.2 per cent, followed by Saskatchewan at 2.7 per cent.

New Brunswick and Ontario each saw 2.4 per cent growth, followed by Alberta at 1.5 per cent and Manitoba at 1.3 per cent.

Quebec (0.9 per cent), Nova Scotia (0.6 per cent) and British Columbia (0.4 per cent) rounded out the list of provinces that experienced a rise in farmland values.

Values were unchanged in Newfoundland and Labrador.

Canadian farmland values have risen steadily during the last decade. The highest average national increase was in 2008 at 7.7 per cent. The last time the average value decreased was in 2000 at -0.6 per cent.

Cash crop producers lead buyer activity. Strong demand with limited supply made farmland a hot commodity due to its historic performance as a stable investment and its current income generating potential.

Low interest rates also encouraged buyers to seize opportunities and influenced farmland values upward. Although it seems that more people are interested in purchasing farmland, the supply is limited. This continues to fuel competition in the farmland market.

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

Graph provincial comparison of farmland values (Brand)

Semi-annual % change in farmland values

July 1, 2010 to December 31, 2010

Graph % Change in farmland values (Brand)

Alberta

Alberta farmland values increased an average of 1.5 per cent during the second half of 2010, following gains of 2.9 and 3.8 per cent in the two previous reporting periods.

Values increased by an average of 0.4 per cent per month in 2010, which mirrored the average monthly increase during 2009. Farmland values in Alberta have been rising since 1993.

Market activity was generally stable in northern Alberta as the region recovered from the 2009 drought. The dry conditions pushed land values down slightly in beef producing areas. Values also declined in the Willingdon area, despite a good harvest. In the Fairview area, local development pushed values higher.

Land values remained steady along the Highway 2 corridor between Calgary and Edmonton. Weather issues, which contributed to better than average crop yields but decreased quality, also contributed to minimal movement in land prices.

Irrigated land for specialty crops continued to be the major factor driving land values higher in southern Alberta. Strong demand continued to keep this land at premium prices, while other cultivated land in the region saw marginal increases. Good moisture in traditional dry land areas created bumper crops, particularly in the Foremost area. In other areas, cold weather and high levels of disease decreased some specialty crop yields and delayed harvest for many producers.

British Columbia

British Columbia farmland values increased an average of 0.4 per cent during the second half of 2010. Values decreased 0.9 per cent during the first half of 2010 and were unchanged in the second half of 2009. The last time British Columbia saw an increase in its farmland values was during the second half of 2008.

Overall, the British Columbia land market was relatively flat during the last six months of 2010. However, the Peace River region saw a more active market. Land located close to the urban areas of Dawson Creek and Fort St. John slightly increased in value mainly due to a strong natural resource economy. This helped fuel incremental farm expansion by operators who also work off-farm.

The land market was slow and uncertain in the rest of the province. The sales transactions that did close showed a wide range of values with an overall average indicating no change. This is a reflection of continued slow economic conditions, the high Canadian dollar and low to average commodity prices (particularly for blueberries), which all contributed to a lower demand for land and less expansion of existing operations.

Manitoba

Manitoba farmland values increased an average of 1.3 per cent during the second half of 2010, following gains of 3.4 and 5.9 per cent in the two previous reporting periods. Values increased by an average of 0.7 per cent per month during the past two years, which is the highest monthly average increase across the country. Farmland values in Manitoba have been rising since 2001.

The increase in values was observed mainly in the grain and special crop areas of the province. Higher commodity prices, low interest rates and land seen as a safe investment fuelled land prices during the reporting period. Pent-up demand and producers trying to maximize economies of scale on their operations also contributed to strong land prices.

The Interlake (northeast) and beef-producing areas (north central, southeast and southwest) saw limited or no increase in farmland values. Limited land market activity was due mainly to wet spring and summer conditions. A warm, dry fall helped fields to dry and allowed most producers to complete harvest before freeze up. Continued commodity price increases since summer had some producers interested in expansion.

Acres of unused pasture were available in the Interlake region. Open and well-fenced farmland parcels commanded premium prices, as this land can be used for cash cropping, forages or improved pasture.

In the southeast, the continued depopulation of the hog industry could have affected land sales but demand remained steady as dairy farmers sought more land for nutrient management purposes.

New Brunswick

New Brunswick farmland values increased an average of 2.4 per cent during the second half of 2010. Values were unchanged in the first half of 2010 and increased 2.5 per cent during the previous reporting period. Values increased by an average of 0.4 per cent per month during the past two years. Farmland values have increased or remained stable since reaching a peak increase of 6.3 per cent in the last half of 2008.

Stronger potato prices, competition for available uncommitted potato lots, and a shortage of land available for sale created a favorable selling environment in the Madawaska and Victoria Counties regions. The upward pressure on land values was tempered by a decrease in potato processing contract volumes of between 15 and 25 per cent from the previous year. Farmers exiting the industry accounted for the limited number of farmland sales during the reporting period.

In Kings County, non-typical purchasers were attracted to the area because of the potash mine, and acquired local farmland for lifestyle reasons.

The more typical purchasers from the dairy industry were less active purchasing land but were able to rent land at a reasonable price from former beef enterprises and part-time farmers.

This combined activity and demand for land contributed to the overall increase.

Some sales occurred in the Carleton area but the value of farmland remained the same.

Newfoundland and Labrador

Newfoundland and Labrador farmland values were unchanged during the second half of 2010. This followed a 0.7 per cent increase in the first half of 2010 and no change in the last half of 2009. Farmland values have increased or remained static since 1993.

Dairy and poultry operations continued to be the main drivers of farmland demand in eastern regions. The trend to larger dairy herds fuelled a need for more forage land. The availability of land was limited.

There was less competition for agriculture land in the western part of the province. Dairy farms are the main agriculture industry in this area and most of them had adequate land holdings to support their activities. This resulted in little market activity.

Nova Scotia

Nova Scotia farmland values increased an average of 0.6 per cent during the second half of 2010, following gains of 3.1 and 1.4 per cent in the two previous reporting periods. Values increased by an average of 0.4 per cent per month during the past two years. Since 2001, farmland values in Nova Scotia have remained stable or have risen.

There were a few land sales recorded in the Antigonish area in 2010 and a limited number of bare land sales. Although activity has been more quiet than usual in this region, a slight increase was noted.

Field crops, fruit, and livestock production were steady in the Kentville area of the Annapolis Valley. The low amount of dairy quota available for purchase limited the expansion of dairy farms, reducing pressure on land prices. The value of farmland in the Kentville area was unchanged.

Dairy operations continued to be the main source of farmland demand in the Colchester and East Hants areas. The trend to larger herds increased the demand for the limited supply of forage land. The limited number of sales that occurred did not support a change in values in this region.

Ontario

Ontario farmland values increased an average of 2.4 per cent during the second half of 2010 following gains of 4.3 and 3.3 per cent in the two previous reporting periods. This translates to an average monthly increase of 0.6 per cent in 2010, the highest across Canada. Farmland values in Ontario have been rising since 1993.

Stable to upward trends were noted across the province. Southwestern and Eastern Ontario saw the most significant increases.

The strong demand for land in the southwest was fuelled by dairy farmers. With restrictions on the purchase of dairy quota, producers began purchasing land to grow cash crops. Large intensive livestock operations continued to seek land for expansion and to satisfy nutrient management program requirements. These activities contributed to increased prices.

Cash crop operations continued to contribute to strong demand for workable land. Land rental rates remained high, as landlords capitalized on the potential of cash crop revenues. Higher commodity prices, crop yields and low interest rates fuelled land demand during the reporting period.

The remainder of Ontario experienced minimal changes in land values: a combination of nominal increases/decreases in some areas and no change reported in other areas.

Prince Edward Island

Prince Edward Island farmland values increased an average of 3.2 per cent during the second half of 2010, the highest average increase across Canada. Values remained unchanged in the two previous reporting periods. In fact, values have either shown no change or decreased in Prince Edward Island during every semi-annual reporting period since the last half of 2003.

Favorable weather conditions in 2010 paved the way for an abundant potato harvest. Higher potato prices in 2010 helped producers move forward after a poor crop year in 2009. Shipments to offshore markets such as Russia helped keep the PEI potato supply moving. Higher prices and low storage stress also contributed to improved returns.

These factors contributed to a demand for quality farmland, although buyers were selective. More desirable parcels commanded a strong price during the reporting period. This was particularly evident in the Summerside area. Some farmers found it difficult to sell land that did not meet the quality standards sought by purchasers.

Quebec

Quebec farmland values increased an average of 0.9 per cent during the second half of 2010, following gains of 2.3 and 1.3 per cent in the two previous reporting periods. Values increased by an average of 0.4 per cent per month during the past two years. Farmland values in Quebec have remained stable or risen since FCC began reporting farmland values in 1984. Since then, Quebec is the only province that has not experienced a decrease in its average farmland values.

The Quebec farmland market continued to be relatively stable, with the largest increase in the southwestern and southeastern parts of the province.

Values showed increases mainly in areas where cash crops dominate the market, where land is of superior quality and where there are a sufficient number of large crop producers who could compete for the purchase of land.

Factors that influenced the values in these areas are: land quality, demand, good price outlook for grain and cereals and relatively low interest rates. Very little land was for sale during the reporting period and the demand was generally very strong.

In other areas, buyers included crop, dairy, pork and poultry producers, although pork producers were least active in the market due to industry challenges.

Saskatchewan

Saskatchewan farmland values increased an average of 2.7 per cent during the second half of 2010, following gains of 2.9 and 3.4 per cent in the two previous reporting periods. Values increased by an average of 0.5 per cent per month during 2010. Farmland values in Saskatchewan have been rising since 2002.

This increase was driven by higher land prices in a couple of rural municipalities in the southern half of the province that experienced considerable sales activity. The balance of the province remained relatively stable during the reporting period.

Strong demand was evident for good quality land, especially in lentil producing areas. The favourable rate of return that many land owners are now receiving from cash rent resulted in land being pulled off the market. While there were

fewer sellers in the market overall, active bidding occurred on any land that was listed for sale.

Continued low interest rates, increasing commodity prices and rebounding cattle prices also contributed to strong land demand. Saskatchewan also saw purchasers from other countries relocating to farm in the province.

While seeding and harvest in a large portion of the province was challenging due to excessive moisture, the crop that was harvested was variable in terms of quality and quantity.

Factors that contributed to minimal land sales in some areas of the province included unseeded acres due to spring flooding.

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