Fall 2011 Farmland Values Report

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

This report covers the period from January 1 to June 30, 2011.

To view the FCC Farmland Values Report video, visit www.fcc.ca/farmlandvaluesvideo.

Introduction

As Canada's leading agriculture lender, FCC is advancing the business of agriculture. With a healthy portfolio of more than $21 billion and 18 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. For more information, visit www.fcc.ca.

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.

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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 why FCC measures provincial land value trends on a percentage basis. Reporting on the percentage change in value versus the average price per acre provides a more consistent national approach.

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National trend

The average value of Canadian farmland increased 7.4% during the first six months of 2011, following average increases of 2.1 and 3.0% in the previous two reporting periods.

Farmland values remained stable or increased in all provinces. Saskatchewan experienced the highest average increase at 11.6%, followed by Ontario at 6.6%.

Quebec and Alberta experienced a 4.4 and 4.0% average increase respectively, followed by Nova Scotia at 2.9% and Manitoba at 2.4%.

Farmland values were unchanged in British Columbia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island.

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

Graph: Canada Semi-annual % change in farmland values (Brand)
Graph: provincial comparison of farmland values (Brand)
Chart: % Change in Farmland values

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Alberta

Alberta farmland values showed an average increase of 4.0% during the first half of 2011, which followed increases of 1.5 and 2.9% during the two previous reporting periods.

Values increased by an average of 0.7% per month between January 1 and June 30, 2011. Farmland values in Alberta have been rising since 1993.

Strong demand for good cultivated farmland was observed in southern Alberta. Large producers were competing for land, which pushed demand upward. Irrigated land suitable for specialty crops continued to be in high demand, with associated significant increases in value. Marginal land suitable for hay and cattle production also saw an increase in demand. Farmland was generally considered to be a sound investment.

Producers were optimistic about the growing season, given the above-average moisture levels. However, in many areas, excess moisture during planting delayed seeding.

Strong demand for good cultivated land continued in central Alberta. Increases in cattle prices improved the demand for pasture land. Above-average moisture levels and the cool spring delayed crops, which reduced producers' disposable income, and weakened demand for land. A softening of the provincial economy over the past couple of years levelled off previously fast-paced increases in land values around the Highway 2 corridor from Edmonton to Calgary. Land values in most areas of central Alberta plateaued or increased slightly this reporting period.

A portion of the Peace region of northern Alberta experienced severe drought in 2008 and 2009. In certain areas, drought continued in 2010. This affected income levels and reduced demand for land. The spring of 2011 brought good moisture levels back to the region. Most areas saw modest increases in land prices throughout the past six months, perhaps due to renewed optimism driven by better growing conditions after several years of drought.

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British Columbia

British Columbia farmland values remained unchanged during the first half of 2011. The last report showed an average increase of 0.4%, while the previous report showed a farmland values decrease of 0.9%.

The land market in the Peace River area was generally stable during the first six months of 2011. However, there was an increase in the value of the best quality land in the Dawson Creek area, primarily due to strong demand from producers hoping to expand with top quality land. In addition, income from the natural resource sector continued to drive demand for land closer to urban areas, which acted as competition for producers looking to expand.

The Cariboo area saw low sale volumes and a slight decline in values. The Bulkley Valley region, including the Vanderhoof area, had low sale volumes. The southern half of the province and Vancouver Island saw an uncertain market in the last six months, with no changes in land values.

The economic situation was relatively stable for the agriculture sector over the last six months. No change in farmland values were observed in fruit and wine country (Okanagan region) during the period.

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Manitoba

Manitoba farmland values increased an average of 2.4% during the first half of 2011, which followed increases of 1.3 and 3.4% during the two previous reporting periods.

Values increased by an average of 0.4% per month between January 1 and June 30, 2011. Farmland values in Manitoba have been rising since 2001.

The increase was mainly observed in the grain and special crop areas of the province, whereas Interlake (northeast) and beef-producing operations (north central, southeast and southwest) showed limited to no increase in farmland values.

The most significant increases were observed in areas where grain farming is the main enterprise. High commodity prices, low interest rates and viewing land as a safer investment all fuelled land prices, even with the late spring, wet conditions and cold summer in 2010.

Excessively wet conditions occurred in the Interlake region for the past three years. In the fall of 2010, this also occurred in the southwest part of the province. Despite these conditions, land values remained unchanged in this area.

Acres of unused pasture land in the Interlake region, with open and well-fenced parcels, commanded premium prices as this land can be used for cash cropping, forages or improved pasture. In the Steinbach area, supply-managed producers (dairy, poultry) bought available land for spreading manure.

In recent months, land – along the Assiniboine and Souris Rivers in Western Manitoba, and the region around Lake Manitoba – was affected by flooding. As limited market information on properties affected by flooding was available at the time of reporting, the value impact on flooded lands was unknown.

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New Brunswick

New Brunswick farmland values were unchanged during the first half of 2011. This followed a 2.4% increase in the second half of 2010, and no change in the first half of 2010. Values have increased or remained static in New Brunswick since reaching a peak increase of 6.3% in the last half of 2008.

In Madawaska and Victoria counties, land sales were for average to above-average quality potato production lands, sold by growers exiting the industry. There was strong competition between the area's contract growers, especially where land sales were tied to a processing contract volume. However, there was no change in value because the impact of strong competition was offset by reduced disposable income related to challenging input costs.

Despite lower-than-expected potato product prices, farmland values in the Carleton County remained unchanged for the period. Stable commodity prices and fewer processing contracts affected demand for land, as well as purchases for potato growing. Rising operating costs limited disposable income that could be used to purchase land.

In the Sussex area, many large acreage properties or former farms were purchased, mostly by non-typical buyers for rural residential or part-time farming purposes. Since rural residents are likely to be employed by the local potash mine, demand for vacant agricultural land in this region was affected by expanding mining activities. Despite these conditions, land values have remained unchanged in this region~~province~~.

Lack of available quota and high quota prices limited dairy farm expansions and indirectly slowed down land sales.

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Newfoundland and Labrador

Newfoundland and Labrador farmland values remained unchanged during the first half of 2011. Values showed no change in the second half of 2010 and an increase of 0.7% in the first half of 2010. Farmland values have increased or remained static since 1993.

Dairy farms are the main agriculture industry in this area and most had adequate land holdings to support their activities. This resulted in little market activity.

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Nova Scotia

Nova Scotia farmland values increased by an average of 2.9% during the first half of 2011. This followed increases of 0.6% and 3.1% during the two previous reporting periods.

Values increased by an average of 0.5% per month between January 1 and June 30, 2011. Since 2001, farmland values in Nova Scotia have remained stable or have risen.

Land in the East Hants and Colchester counties experienced upward pressure, mainly from successful dairy farms and commuters in the Metro Halifax area competing for land. Some high prices were paid for good quality agricultural land and demand was steady from part-time farmers and horse operators.

Dominated by dairy operations, a few sales were recorded in the Antigonish area at existing or slightly higher prices for small parcels. Milk quota was unavailable for purchase, which indirectly slowed down land sales.

In the Kentville area, rising prices were observed due to competition within and among various sectors. Supply-managed sectors were confident, particularly the broiler industry. Vineyards continued to expand and the winery industry became a vibrant fixture in Nova Scotia.

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Ontario

Ontario farmland values increased by an average of 6.6% during the first half of 2011. Farmland values continued to trend upward, following gains of 2.4% and 4.3% in the two previous reporting periods.

Values increased by an average of 1.1% per month between January 1 and June 30, 2011. Farmland values in Ontario have been rising since 1993, and reached a peak increase of 8.2% in the last half of 1996.

The most significant increases were observed in southwestern and northern Ontario. Modest changes were recorded across other areas of the province, with limited or no change in farmland values.

Strong demand for land was fuelled by dairy farmers as they continued to purchase additional land instead of dairy quota, which has restrictions placed on it.

Profitability of specialty crops, such as ginseng and vegetables, continued to drive up the price of land in southern Ontario. Dairy operations and cash crop operations increased demand and prices for land in northern Ontario. Large intensive livestock operations continued to seek land for expansion and to satisfy nutrient management program requirements.

Cash crop operations continued to contribute to strong demand for workable land, which far outweighed the available supply in several areas. ~~High land rental rates are another indicator of strong demand.~~ Stability and increases in commodity prices and crop yields continued to fuel land demand during the reporting period.

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Rural residential demand increased in select areas throughout southwestern Ontario and on the outskirts of the Greater Toronto Area. As a result, smaller farms are sometimes purchased by non-traditional buyers. This contributes to increased competition for farmland.

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Prince Edward Island

Prince Edward Island farmland values were unchanged during the first half of 2011. This followed a 3.2% increase in the second half of 2010, and no change in the first half of 2010.

Values have been steady or increased on Prince Edward Island during every semi-annual reporting period since the last half of 2009.

The Summerside area – which is dominated by potato operations, but also has dairy, poultry, beef and cash crop farms – saw several land sales at steady prices since January 1, 2011. Competition for land was primarily between contract potato growers. Contract potato growers invested in land and buildings for better product storage and refrigeration. Input costs remained a concern and potato growers continued to focus on improving margins through management practices.

The Charlottetown area (which includes a mix of potato, dairy, beef, vegetable, cash crops, and part-time farms) showed a limited number of bare land sales during the first half of 2011. Competition for land was between various types of farm operations. Farmland values varied greatly depending on its location, with prices levelling off during the past six-month period. High feed costs encouraged producers to grow large crops of grains and soybeans.

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Quebec

Quebec farmland values increased an average of 4.4% during the first half of 2011, following gains of 0.9% and 2.3% in the two previous reporting periods. Values increased by an average of 0.7% per month between January 1 and June 30, 2011.

Farmland values in Quebec have remained stable or increased since FCC began reporting farmland values in 1984. Quebec is the only province that has not experienced a decrease in its average farmland values in that timeframe.

The western part of the province, Lanaudière and Centre-du-Québec, showed a significant increase. Demand exceeded supply, attracting a wide variety of buyers. The farmland market in sectors located east of the Centre-du-Québec region remained stable, despite challenges facing the pork industry. The number of potential buyers was limited, due to a declining number of producers in areas where pork is the main industry.

In recent months, the Montérégie region was affected by flooding. As limited market information on properties affected by flooding was available at the time of reporting, the value impact on flooded lands was unknown.

Demand remained strong among cash crop producers. Land values in this dynamic sector increased, as confirmed by transactions for land parcels of all sizes and based on various indicators. Grain prices, strong demand and interest rates factored into the observed increases.

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Saskatchewan

Saskatchewan farmland values increased an average of 11.6% during the first half of 2011, the highest average increase across Canada. This followed gains of 2.7% and 2.9% in the two previous reporting periods. The Saskatchewan results appear to mirror the U.S. situation, where double-digit increases in farmland values have been reported in several corn and soybean states.

Values increased by an average of 1.9% per month between January 1 and June 30, 2011. Farmland values in Saskatchewan have been rising since 2002.

Strong commodity and cattle prices were the primary reasons for the increase. It is becoming more common for owners to accept rental agreements on their land instead of selling. Demand significantly exceeded supply, as land in Saskatchewan is considered a safe investment and is currently providing a solid return. Interest rates also remained attractive.

The largest increases occurred in the northwest and southeast areas of the province, which experienced good crops and strong commodity prices in the fall of 2010. Factors impacting this increase included out-of-province farmers relocating to Saskatchewan to purchase competitively priced farmland, larger local producers expanding their land base, oil and gas influence (especially in the Bakken oilfield), and continued demand for heavy clay soils.

Rural municipalities in the southwest and northeast areas of the province were hit hardest with flooding in 2010, which caused potential land purchasers to be more cautious. Consequently, land values did not increase as much during this period and there has not been as much sales activity as in other areas of the province.

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