Spring 2012 Farmland Values Report

Welcome to the FCC Spring 2012 Farmland Values Report.

This report covers the period from July 1 to December 31, 2011.

Introduction

As Canada's leading agriculture lender, FCC is advancing the business of agriculture. With a healthy portfolio of more than $22 billion and 19 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 with 245 benchmark farm properties to monitor variations in bareland values across Canada.

Since 1990, the benchmark properties have been appraised semi-annually in January and July. These selected parcels represent the most prevalent classes of agriculture soil in each part of the country. 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 6.9% during the second half of 2011, following average increases of 7.4% and 2.1% in the previous two reporting periods.

Farmland values remained stable or increased in all provinces. Saskatchewan, which has 40% of Canada's arable land, experienced the highest average increase at 10.1%, followed by Ontario at 7.2%.

Alberta and Quebec experienced 4.5% and 4.3% average increases respectively, followed by Nova Scotia at 3.2% and Manitoba at 1.9%.

Prince Edward Island saw values rise by 1.5% and New Brunswick saw an increase of 1.3%, followed by British Columbia with a 0.2% increase. Farmland values were unchanged in Newfoundland and Labrador.

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

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

Farmland values in Alberta increased an average of 4.5% during the second half of 2011, following gains of 4.0% and 1.5% in the previous two reporting periods. The province has seen values continue to rise since 1993.

Strong agricultural commodity prices, along with increased oilfield activity, appeared to spur confidence in the economy, with land prices either holding their value or increasing.

Farmland values in some areas of the Peace region and central Alberta have increased and were comparable to values observed in 2007 and 2008, before the 2009 drought.

In southern Alberta, land was generally considered to be a sound investment. Large producers competed for good cultivated farmland, fuelling demand and pushing prices upward.

Irrigated land suitable for specialty crops continued to be in high demand, while marginal land suitable for hay and cattle production also saw increases.

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British Columbia

Farmland values in British Columbia increased an average of 0.2% during the second half of 2011. Values were unchanged in the first half of 2011, following an increase of 0.4% during the previous reporting period.

The land market in the Peace River area saw a limited number of transactions, with prices remaining generally stable. However, there was a slight increase in values for the highest quality farmland in the Dawson Creek area, reflecting producer competition for the limited number of properties that came on the market.

The Cariboo area and the Bulkley Valley region, including the Vanderhoof area, had low sales volumes with no change in land values.

The south Okanagan remained stable with good demand from fruit producers and part-time farmers. This reporting period also saw an increase in cross-sector land sales, including orchards and unplanted land acreages.

Reduced demand led to limited sales in the southeast part of the province, including the Creston area. Vancouver Island also saw a quiet market with land values remaining unchanged.

In the lower mainland of southwestern British Columbia, there was demand for rural acreages from non-producers, and new entrants to farming and existing producers looking to expand their land base. High prices for blueberry crops contributed to good demand and stable prices for land in this area.

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Manitoba

Farmland values in Manitoba increased an average of 1.9% during the second half of 2011, following an increase of 2.4% in the first half of the year. The previous reporting period had an increase of 1.3%, continuing the trend of rising farmland values that began in 2001.

This increase in value occurred despite excessively wet spring conditions that prevented the seeding of 2.9 million acres, or 30%, of the province’s arable land, according to the Manitoba Agricultural Services Corporation report. However, the hot, dry summer helped create good harvest conditions in the fall, producing average yields.

The most significant increases were observed in grain farming areas. High commodity prices, low interest rates, continued consolidation and the perception of land as a safe investment likely fuelled higher land prices.

Southeast Manitoba saw the most significant increase in value as a result of the demand for land between the supply-management sector and the grain industry. Demand was also strong in the south central, southwest and northwest regions with high prices for cereal and oil seed producing areas leading the way.

The Interlake region saw little to no increase in the reporting period, as grain-producing areas had modest increases and beef-producing areas saw no change.

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New Brunswick

New Brunswick farmland values increased an average of 1.3% during the second half of 2011. Values were unchanged in the first half of 2011, following an increase of 2.4% during the previous reporting period.

Farmland values have increased or remained static in New Brunswick since reaching a peak increase of 6.3% in the last half of 2008.

The Carleton area saw decreased demand, but steady values as producers faced higher input costs, leaving them with less disposable income to purchase land. Consolidation of smaller farming units appears to be an ongoing trend as producers seek to increase their land base.

In the Madawaska-Victoria area, potato production commanded the majority of sales, with no change in land values. In the sales that occurred, dairy and potato producers were the main buyers.

In the Sussex area, many large acreages were purchased for rural residential purposes and hobby farming, creating demand for land in addition to active farming units. Rural residents are likely to be employed by the local potash mine and contributed to the increasing demand for vacant agriculture land in this region.

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Newfoundland and Labrador

Newfoundland and Labrador farmland values remained unchanged during the second half of 2011. Values showed no change in the previous two reporting periods. Farmland values have remained stable or increased since 1993.

Due to the lack of available sales, no change was observed during this reporting period.

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Nova Scotia

Nova Scotia farmland values increased an average of 3.2% in the second half of 2011. Values increased by 2.9% and 0.6% during the previous two reporting periods. Since 2001, farmland values in Nova Scotia have remained stable or have increased.

A limited quantity of farmland was available for purchase throughout the province. The increase likely reflected the demand for farmland from agriculture and non-agriculture buyers.

Farmland in the Antigonish area commanded generally high prices, as rough highland terrain limits the quantity of workable farmland. A strong dairy industry and lifestyle farming helped maintain land values.

In the Kentville area, farmland prices continued to rise, spurred by demand and competition among cash crop farmers, vineyards, dairy producers, poultry producers and small fruit growers for good quality land parcels. The strong feather industry helped keep land values high.

Land values were also strong in the Colchester/East Hants area, with steady demand from hobby farmers and horse operations. Land coming on the market sold relatively quickly, influenced by Halifax commuters purchasing agriculture land.

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Ontario

Farmland values in Ontario increased 7.2% in the second half of 2011, following gains of 6.6% and 2.4% in the previous two reporting periods.

The average monthly increase was 1.2% in 2011, which is double the average monthly increase the province witnessed in 2010. Farmland values in Ontario have been rising since 1993 and reached a peak increase of 8.2% in the last half of 1996.

Southwestern and eastern Ontario posted the most notable gains in land values, while regions in the rest of the province saw more modest changes. In several areas, demand for farmland significantly outweighed the supply as intensive livestock, crop and vegetable producers all wanted land.

Restrictions limited the ability for dairy producers to expand their quota holdings, fuelling a demand for land instead. Similarly, large intensive livestock enterprises were seeking land to satisfy nutrient management program requirements and to expand their operations.

Strong commodity prices and crop yields continued to stimulate demand by cash crop operations for workable farmland. In southern Ontario, competition for prime vegetable land spurred farmers planning to exit the business to sell their land instead of renting it out to other producers.

Commuters continued to purchase small farms north of the Greater Toronto Area (GTA) for rural residential purposes, as the GO Transit system recently expanded to those areas. This has created greater demand for farmland in this region.

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Prince Edward Island

Prince Edward Island farmland values increased an average of 1.5% in the second half of 2011. Values were unchanged in the first half of 2011, following an increase of 3.2% in the previous reporting period.

Farmland values have remained stable or increased in Prince Edward Island during every reporting period since the last half of 2009.

Sales throughout the province showed a general increase in both demand and price for good quality farmland. This may reflect a general optimism by potato farmers who experienced a second consecutive year of good harvest, coupled with higher crop prices.

Potato growers in the Summerside area shored up land holdings in anticipation of upcoming contract negotiations with potato processing companies. Land values remained stable but strong, especially for good quality land in desirable locations.

In the Charlottetown area, prices appeared to be on the rise over the past six months as demand for land increased, largely within the potato sector. However, dairy farmers were also seeking land as they looked to mitigate risk by growing crops to feed their own livestock.

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Quebec

Quebec farmland values increased an average of 4.3% in the second half of 2011, following gains of 4.4% and 0.9% in the previous two reporting periods.

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

During this reporting period, demand for farmland remained strong and increases were observed across the province. In previous reports, the increases were concentrated in the southwest part of the province.

Land value increases were observed in the cash crop sector, as confirmed by transactions for land parcels of all sizes. Land transactions were also noted among dairy and poultry producers during this reporting period. Grain prices, strong demand and low interest rates factored into the increases.

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Saskatchewan

In the second half of 2011, farmland values in Saskatchewan increased an average of 10.1%, the highest average increase across Canada. This followed gains of 11.6% and 2.7% in the previous two reporting periods, continuing the decade-long trend of price increases that began in 2002.

In Saskatchewan, farmland values increased by an average of 1.8% per month in 2011. The results in Saskatchewan, which has 40% of Canada's arable land, appear to mirror what's occurring in the United States, where double-digit increases in farmland values have been reported in several corn and soybean states. The ongoing strength of commodity prices combined with a land market that had historically increased at a slower rate than in other areas of the country are two contributing factors to the current value increase.

The rising values are also attributed to good seeding and harvest conditions in most areas of the province, coupled with low interest rates. Areas that had been flooded out or experienced minimal sales in 2010 saw resurgence in sales activity in the latter part of 2011. However, areas that experienced flooding in the spring of 2011 had limited sales in this reporting period.

Most areas of the province saw strong demand from local farmers wanting to expand their farms or purchase the land they were renting. New entrants from other provinces and countries were also bidding on land. Areas with good quality farmland had fewer market listings because renters were approaching landlords directly to prevent other parties from bidding and to maintain control of the land.

Areas with oil and gas revenue have seen limited sales but strong demand, as landlords choose to keep land that is providing them with both rent and revenue from oil and gas.

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