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Spring 2006 Farmland Values

(This report covers the period from July 1 to December 31, 2005.)

Welcome to Farm Credit Canada's spring 2006 Farmland Values Report.

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Introduction

Farm Credit Canada (FCC) serves Canadian agriculture as the leading provider of financing to the industry. 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. It highlights changes in land values in each province and nationally. Each year a report is released in the spring. It describes changes from July 1 until December 31. A second report is released in the fall and identifies changes from January 1 until June 30. Each report contains 10 years of trend information within an attached graph.

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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 benchmark properties. Individual values are reconciled before accredited appraisers review the appraisal reports.

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National Trend

The average value of Canadian farmland increased 1.5 per cent during the last six months of 2005. This is slightly lower than the 1.6 per cent increase in the first six months of 2005.

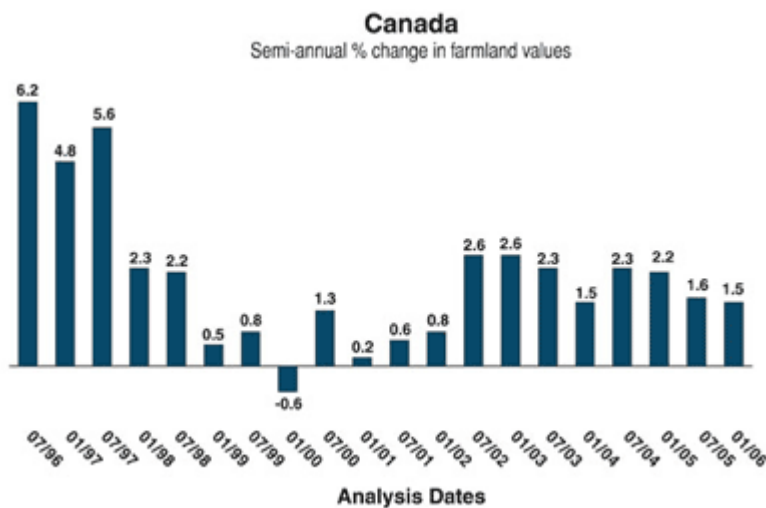
Many provinces continue to see growth in farmland values. Increases are on par with an upward trend since January 2000.

The largest increase is in British Columbia where values grew by 10 per cent. Ontario shows the second largest increase at 3.8 per cent.

Newfoundland and Alberta follow with increases at 3.0 and 2.8 per cent respectively.

Saskatchewan and Manitoba increased slightly by 0.5 and 0.2 per cent respectively.

Values remain the same in Prince Edward Island, Nova Scotia, New Brunswick and Quebec.

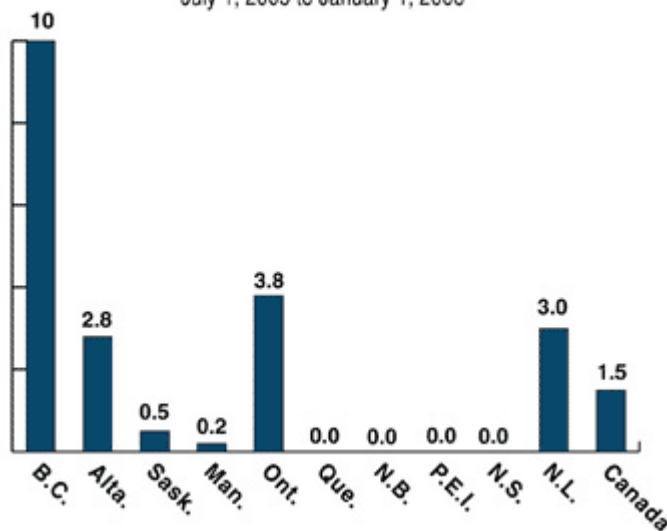


Canada Semi-annual increase in farmland values	
Jan. 2003 - July 2003	2.3%
July 2003 - Jan. 2004	1.5%
Jan. 2004 - July 2004	2.3%
July 2004 - Jan. 2005	2.2%
Jan. 2005 - July 2005	1.6%
July 2005 - Jan. 2006	1.5%

Provincial comparison of farmland values

Semi-annual % change in farmland values

July 1, 2005 to January 1, 2006



% Change in Farmland Values		
Provinces	First half of 2005	Second half of 2005
B.C.	6.5%	10%
Alta.	3.2%	2.8%
Sask.	0.8%	0.5%
Man.	1.6%	0.2%
Ont.	1.8%	3.8%
Que.	0.4%	0.0%
N.B.	(0.3)%	0.0%
P.E.I.	No change	No change
N.S.	0.4%	0.0%
N.L.	No change	3.0%
Canada	1.6%	1.5%

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British Columbia

B.C. has the hottest agricultural land market in Canada, showing an increase of about 10 per cent in the last six months. This follows a 6.5 per cent increase in the last period, for a total of 16.5 per cent in 2005. This strong market reflects a buoyant and vibrant B.C. economy.

The Fraser Valley leads the way, followed closely by the Okanagan Valley. Both have a limited supply of arable land and strong competition. In addition, increasing populations are impacting land value in these areas. Increasing demand for smaller parcels is pushing the value of larger parcels upward.

Similar factors are influencing the agricultural land market on Vancouver Island. Residential development and related services are driving up the cost of land suitable for agricultural purposes.

The northern regions, such as the Peace River area, continue to have a strong resource sector, creating upward demand for rural acreage and investment in agriculture.

Less populated areas of the B.C. interior, involving woodlot, forestry and livestock production are showing less optimism with generally stable prices.

[View graph](#) of provincial Farmland Values trends for the past 10 years.

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Alberta

Farmland values are generally stable or modestly increasing throughout most of Alberta, with a 2.8 per cent increase overall this period. The increase in the first half of 2005 was 3.2 per cent.

Grains and oilseeds were good to excellent from a yield aspect, however, the quality was lower due to a late harvest hampered by wet conditions.

Land continues to be in demand, with increasing prices in the urban corridor area between Lethbridge and Edmonton.

The high employment levels in the oil and gas industry, the strong general economy based mainly on oil and gas exploration, and construction of infrastructure for this industry continues to impact the demand for land.

Farmers close to urban centres are selling and moving farther away to obtain a larger land base. This relocation trend continues to increase the area of urban influence on farmland values.

Irrigated land, suitable for potatoes and specialty crops in southern Alberta, has been in strong demand, with competition from foreign investors and established potato producers.

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Saskatchewan

Similar to the previous three years, Saskatchewan farmland values showed a very modest increase of 0.5 per cent for this period. An increase of 0.8 per cent during the previous period makes a combined increase of 1.3 per cent in 2005. Although this represents an actual numerical increase, these numbers are either equal to or below the rate of inflation.

For grain farmers, this period started with optimism and anticipation of a bumper crop. Expectations were deflated by a wet fall, difficulty getting the crop off and poor quality grain. Lower commodity prices and increasing costs have resulted in difficulty showing positive returns.

Despite this financial situation, farmland values are holding up well. Producers are competing for land to enlarge their operations and spread fixed costs over more acres.

Land values in Saskatchewan are some of the lowest in Canada and sellers seem reluctant to reduce prices. There is some organized buying by groups interested in holding land with the anticipation of long-term gains.

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Manitoba

Manitoba farmland values increased 0.2 per cent in the second half of 2005. This is one of the smaller increases in recent years. Most areas remain steady, with a few areas showing a modest increase.

Excessive rainfall during the 2005 growing season as well as fall rains resulted in a small, low-quality harvest in some areas. Wet conditions severely affected production for the second year. These conditions held back farmland sales and prices. As in the other prairie provinces, weak grain prices and increasing costs put added pressure on returns, leaving few funds available for expansion.

Mixed farming areas are showing more optimism with increased beef prices. No specific data is available for native pastureland values since this report only covers cultivated land.

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Ontario

Over the last six months of 2005, land value changes continue to be mixed in Ontario. Some areas remain unchanged and other areas increased. Overall, land values increased by 3.8 per cent, compared to an increase of 1.8 per cent during the first half of the year.

Northern Ontario saw stronger demand, particularly in the Timiskaming and Cochrane regions, as the beef industry recovers from BSE.

Land values in the commuter shadow around major urban areas, particularly north and east of the Greater Toronto Area and into the Niagara peninsula, also showed slight increases. As commuting zones increase in size around urban areas, lifestyle farmers buying farm units for housing are pushing land values higher. Typically, this land is available for rent for farming purposes.

Continued low grain and oilseed prices are restricting expansion in the cash crop sector, primarily in southwestern Ontario.

No market area showed a decrease in value.

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Quebec

Farmland values in Quebec remained quite stable in the second half of 2005, with no change from the previous period.

A few factors limited cash flow and caused land value increases to taper off. The price of grain remained low and the amount of inventory stored in silos

remained high. In addition, the price of pork fell during the second quarter and circovirus also affected producers' income.

On the positive side, there is demand from farmers who need land to comply with environmental standards.

Historically, land values in the central area of the province have experienced greater increases than outlying areas. For this period, there is no major difference.

In all areas with a strong agricultural base, values remain steady.

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New Brunswick

Farmland values in New Brunswick remain unchanged for the past six months. Uncertainty in the agriculture industry prevailed over this time period as farmers emerged from low potato prices in recent years and the beef sector recovers.

Dairy producers in the Sussex area made minimal investments in land due to the high cost of other farm inputs, such as quota, petroleum and fertilizer.

In the Woodstock area, some potato producers purchased land parcels in close proximity to their home sites to enhance their operations. Improved potato prices in the fall had a positive impact following the difficulties of previous years.

The land base of most farms in the Grand Falls region saw limited expansion from July to January. A poor quality crop and low prices in 2004 restricted the amount of residual income available for investing in land.

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Prince Edward Island

Prince Edward Island's farmland values showed no change in the last half of 2005. The past few years in the potato and livestock sectors have negatively affected the amount of residual farm income available for reinvestment in land. Positive developments over the past six months are providing optimism, however, this has not yet increased farmland transactions.

In Prince County, land values remain constant. Potato producers limited land purchases to parcels close to their home sites. Farmland in Queens and Kings Counties remains in demand by farm and non-farm purchasers. With an adequate supply of farmland for sale, the overall effect on price was neutral.

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Nova Scotia

Farmland values in Nova Scotia showed no change in the last six months of 2005. The number of farmland transactions was limited, and typically smaller parcels were purchased.

In the Antigonish area, good quality farmland for forage purposes is in demand. Limited availability kept the number of sales relatively low. Land values remain stable. Farmland in the Truro and Shubenacadie area, with a high number of dairy producers, continues to sell at strong prices. In the Annapolis Valley, demand for farmland continues. This area, mostly cropland, has not increased or decreased in value.

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Newfoundland and Labrador

A 3.0 per cent increase in farmland values is reported for the past six months in Newfoundland and Labrador. Livestock operations seeking forage land are the main cause. Some retiring farmers sold smaller parcels of land for addition to larger, existing ones.

In the eastern section of Newfoundland, land values remain flat. A small number of farmland sales occurred, with no resulting impact on land values. The western section saw higher prices for good quality land from July to January. This resulted in an increase in farmland values. The cost to clear woodland and bring it into production remains very high.

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If you have questions about trends in your area, we would be pleased to talk with you.

In Atlantic Canada, call Patrick Doohan (bilingual) at (902) 432-6523.

In Quebec, call Michel Rousseau (bilingual) at (418) 648-7613.

In Ontario, call Tom Nolan (bilingual) at (519) 826-2033.

In Western Canada, call Roy Hjelte (English) at (306) 780-3489 or Mireille Bilodeau VongPhit (bilingual) at (306) 780-8630.

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