

# Trends in Farmland Values

■ COURTESY OF THE FARM CREDIT CORPORATION, OTTAWA, CANADA

## National Trends

The decline in Canadian farmland values that began in 1983 slowed in 1988. Research carried out by the Farm Credit Corporation (FCC) indicates that farmland values declined nationally a further 7.7 per cent between July 1, 1987 and July 1, 1988 compared with the 10.2 per cent decline in 1987 (Table 1). However, there were major regional differences with stable or improved land values in central and eastern Canada and a further decline in land values in western Canada.

The continuing financial stress in the agricultural sector, the large inventory of farm properties held for sale by farm lenders, as well as price uncertainty and the prospect of a drought at the time of the farmland value survey placed downward pressure on the land market. High real interest rates and the cautious investment attitude of many farm buyers undoubtedly impacted negatively on the demand for and price of farmland.

Previous FCC reports indicated that, after reaching a high in 1982, bare land values declined nationally with the largest annual decline of 10.2 per cent occurring between 1986 and 1987. Major declines have occurred in western Canada with values declining almost 40 per cent in Saskatchewan since 1984. In 1988, farmland values in central and eastern Canada remained relatively stable except for an 11.4 per cent increase in bare land values in Ontario.

## Sources of Variation

Farmland values are affected by a number of variables including the quality of land, proximity to urban centres, commodity prices, income expectations, govern-

ment programs, amount of farmland on the market, alternative land uses, past inflation and future inflationary expectations, credit availability and interest rates.

Productive land is normally more marketable because of its ability to generate farm income. Furthermore, most urban centres are located in areas of good quality soil creating increased competition for farmland.

Proximity to urban centres also affects farmland values as has been clearly demonstrated in central Canada. Access by farmers to off-farm jobs as a result of this proximity contributes to improved farmland values.

Commodity prices and income expectations directly impact on farmland values. Depressed grain and oilseed prices in 1987 and early 1988 decreased returns to farmland causing continued declines in land values as evidenced in western Canada. Reduced farm incomes as a result of the drought also reduced returns to farmland, forcing further declines in farmland values.

Government program payments help to compensate for such income loss but the extent of their impact on farmland values is difficult to measure.

The market availability of farmland also influences its value. Currently, farm lenders hold nearly 1,000,000 acres of farmland which is slowly being moved onto the market. This, combined with farmers marketing properties in order to restructure their balance sheets, will continue to moderate farmland values.

The level of interest rates also impacts on the demand for farmland. Because agriculture is capital intensive, cost of credit is a major influence on the investment decision. Current high real rates of interest and low returns in the sector are dampening farmland values.

## Provincial Trends

National averages often mask regional trends in farmland values. The rate of change in farmland values varied considerably between provinces and within provinces. The average annual variation in values of cultivated bare land for the past two years and the cumulative changes for the period 1984 to 1988 are indicated on the map (Figure 1). The changes reflected this year vary slightly from changes reported previously because input data on the distribution of improved acres reflects 1986 Census information.

In British Columbia in 1988, the cash crop area in the Peace River country and specialty crop areas of the BC interior experienced further declines in farmland values while farmland increased 11 per cent in the Fraser Valley. In the Prairie provinces, values declined between three and 21 per cent with the province of Saskatchewan experiencing the largest decline in farmland

Table 1 - Per cent variations in farmland values

Province	1984-85	1985-86	1986-87	1987-88	1984-88
British Columbia	-13.7%	-6.6%	-11.3%	-1.3%	-29.4%
Alberta	-8.3%	-8.2%	-8.4%	-8.2%	-28.8%
Saskatchewan	-10.3%	-8.3%	-15.3%	-11.7%	-38.4%
Manitoba	-7.3%	-4.9%	6.8%	-11.3%	-24.8%
Ontario	-9.4%	-4.8%	-3.9%	11.4%	-9.1%
Quebec	-1.0%	1.4%	-0.2%	1.0%	0.9%
New Brunswick	1.0%	-2.1%	0.6%	-0.1%	-0.6%
Nova Scotia	-4.3%	1.7%	2.1%	2.6%	1.5%
Prince Edward Island	-11.4%	-7.9%	-7.5%	0.0%	-23.4%
Newfoundland	N/A	N/A	N/A	N/A	N/A
Canada	-8.8%	-6.9%	-10.2%	-7.7%	-29.2%

values. While farmland values increased 11.4 per cent in Ontario, values in Quebec and the Maritime provinces remained stable.

During the four-year period 1984 to 1988, farmland values decreased 20 to 41 per cent in the grain and oilseed growing areas of the Prairie provinces and British Columbia. Bare land values in the province of Alberta declined 20 to 35 per cent. The greatest drop in bare land values occurred in Saskatchewan with decreases ranging from 35 to 41 per cent. Manitoba experienced a decline of about 25 per cent in the same four-year period. These sharp drops in values can undoubtedly be attributed to financial difficulties in the farm sector, more farmland available for sale by lenders and farmers restructuring their operations, depressed commodity prices and the prospect of a drought.

Of all regions, the province of Ontario experienced the most pronounced increase in farmland values in 1988 after three years of declines. Much of this increase can be attributed to profits in the livestock and supply-managed sectors and to the diversity

of agriculture. These factors combined with the demand for real estate created by the buoyant provincial economy undoubtedly contributed to higher farmland values in Ontario.

For the past four years, farmland value in Quebec have changed very little. This reflects the overall stability of farm income, much of which comes from the dairy sector, income expectations, government programs and the diversity of agriculture in Quebec.

In the Maritime provinces, farmland values have also been relatively stable except for the province of Prince Edward Island where farmland values follow returns in the potato sector. Farmland values in PEI stabilized in 1988 after declining since 1984.

In addition to the information collected by FCC, Statistics Canada compiles information on the value of farmland and buildings. This information (Table 2) differs from FCC data as it includes building values when estimating changes in real estate values whereas FCC data reflects only changes in bare land values. In western Canada, where buildings are minor contrib-

utors to the average value per acre, FCC and Statistics Canada data tend to be comparable. Such is not the case in much of eastern Canada where buildings contribute significantly to total farm real estate value.

## Future Expectations

As a result of improved grain and oilseed prices in 1988 and forecast favourable returns to 1990, farmland values in Canada should stabilize or increase slightly. Demand for farmland generated by higher incomes is not expected to be significant. Reduced farm returns created by the drought may prevent some farmers, who would otherwise have been active participants in the farmland market, from purchasing farmland in 1989. Extreme caution by farmers expanding their operations, as well as high real interest rates will prevent significant increases in farmland values in most areas.

Unlike the United States, where outstanding debt declined from over \$200 billion in 1982 to nearly \$150 billion in 1988, Canadian agriculture increased its debt

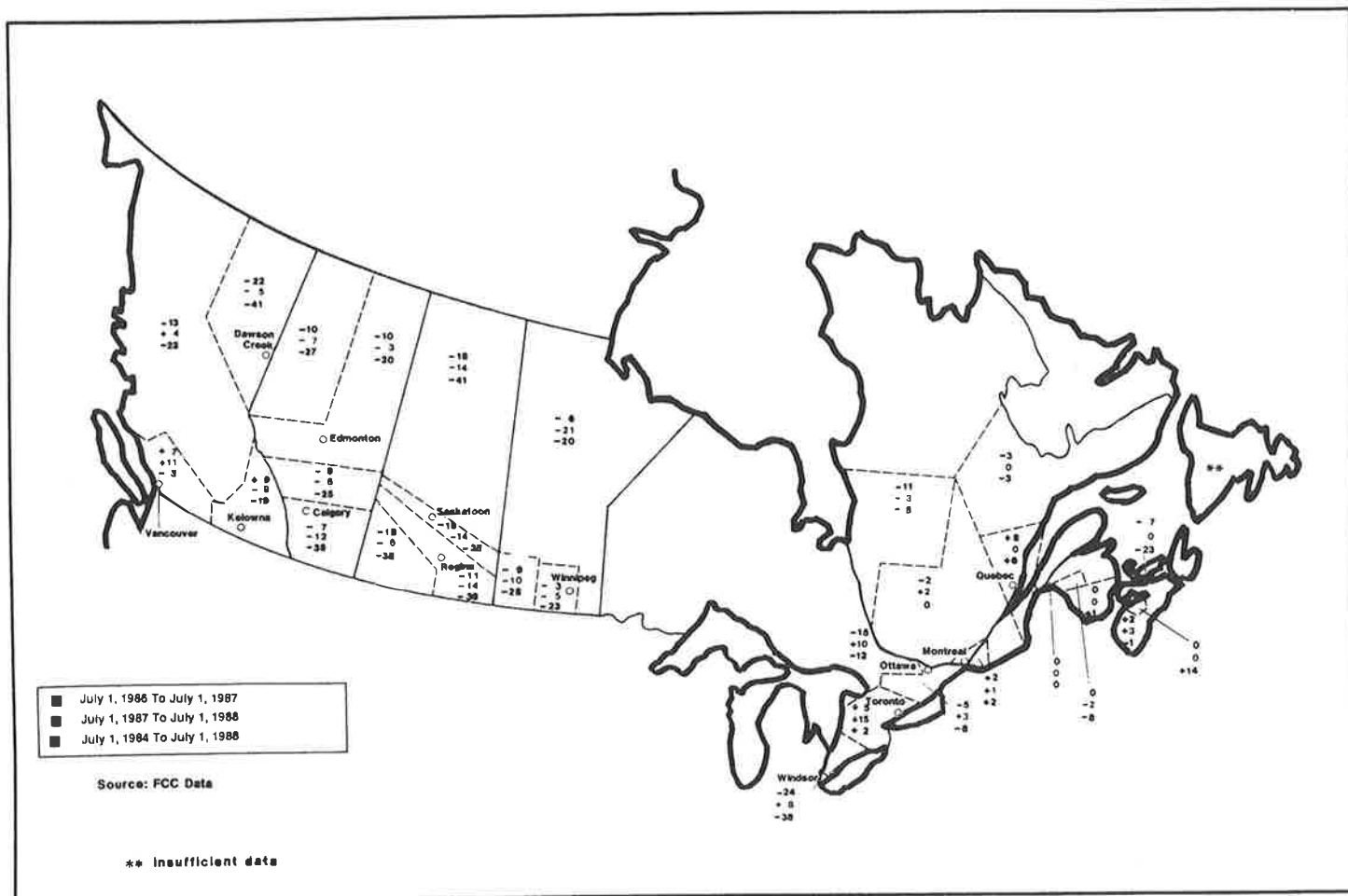


Figure 1. Farmland values percent variations in Canada (bare land values).

Table 2 - Index of values of farmland and buildings

Province	1977	1981 <sup>1</sup>	1982	1983	1984	1985	1986	1987	Annual Compound Rate of variation	
									1977-87	1981-87
British Columbia	47.9	100.0	90.9	91.6	86.9	80.7	74.2	66.0	+3.3	-6.7
Alberta	41.8	100.0	98.7	90.5	82.2	75.5	67.8	64.5	+4.4	-7.0
Saskatchewan	42.4	100.0	108.1	106.0	102.9	93.5	86.9	73.8	+5.7	-4.9
Manitoba	48.5	100.0	92.7	82.7	89.5	87.6	83.9	78.0	+4.9	-4.1
Ontario	58.7	100.0	97.9	91.0	89.0	82.7	76.0	73.0	+2.2	-5.1
Quebec	52.1	100.0	103.6	106.2	103.6	98.9	99.4	101.4	+6.9	+0.2
New Brunswick	53.1	100.0	100.7	106.9	112.3	119.2	118.9	118.9	+8.4	+2.9
Nova Scotia	50.7	100.0	100.4	106.2	107.6	111.6	115.8	118.0	+8.8	+2.8
Prince Edward Island	47.7	100.0	95.6	101.5	102.5	108.8	106.1	106.1	+8.3	+1.0
Newfoundland	63.5	100.0	90.6	88.1	82.8	80.4	76.6	76.6	+1.9	-4.4
Canada	48.1	100.0	99.8	95.3	90.7	84.1	77.7	71.9	+4.1	-5.4

<sup>1</sup> 1981 = 100

Source: Statistics Canada

The index of values per acre of farmland and buildings measures the percentage change through time in the value of land and buildings. The base year is 1981 with the index equal to 100.

during this period and still faces a large amount of farm debt that must be balanced with the long-term income potential of the sector. Reducing the outstanding debt of Canadian farmers will improve the profitability of the sector and, therefore, its purchasing power.

Government and commercial lenders have nearly 1,000,000 acres of farmland. Combined with continued financial difficulties in the farm sector, this will prevent farmland values from increasing substantially. Although substantial regional variations in farmland values are expected, national farmland values should increase slightly in 1989 due to higher prices of many farm commodities.

## Comparison with U.S. Trends

Although farmland values continued to decline in Canada this year, farmland values in the US increased in 1987 and again in 1988 after declining since 1982. Nation-

ally, values in 1988 are expected to increase by four to six per cent. However, like Canada, changes in farmland values in the US are regional. For example, although the state of Iowa experienced a severe drought this summer, year over year farmland values increased nearly 20 per cent.

US farm real estate market reports indicate that good quality farmland continues to sell very well as positive returns are expected under current economic conditions in the farm sector. These returns have also rekindled the interest of off-farm investors in farm real estate, contributing further to higher farmland values.

Based on present conditions and the assumption of a normal production year, US farmland values are forecast to again increase by four to six per cent in 1989.

## Methodology

In 1985, FCC established a system of benchmarks to monitor variation in bare land values across the country. Represent-

ative parcels of bare land were selected according to the most prevalent agricultural classes of soil in each census district. The appraisals completed as of July 1, 1984 have been updated yearly using the most recent comparable farmland sales. A weighting factor was assigned to each benchmark appraisal to estimate changes in value. This year, the weighting factors were based on the areas of improved farmland compiled from the 1986 Census. The land capability information for agriculture and the 1986 Census land use information were provided by the Land Use Policy and Research Branch of Environment Canada.

(IRMA)

*Note: This report is available in both English and French languages. Correspondence should be addressed to: Research and Planning, Farm Credit Corporation, Box 2314 Postal Station D, Ottawa, Ontario K1P 6J9 Telephone (613) 996-6606.*

*This article appeared in The Canadian Appraiser, Book 1, Spring 1989, a quarterly publication of the Appraisal Institute of Canada, and is reprinted with permission.*