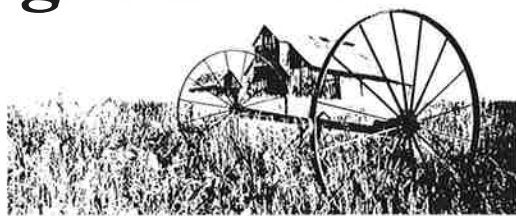


How to Appraise Agricultural Land in a Declining Market

Donald Hoover



Factors to consider when appraising agricultural land values in the current and foreseeable markets.

Agricultural land values across Canada have fluctuated over the past 70 years in response to numerous economic and non-economic forces. A general trend of increasing values was experienced in most years up to 1981, with a reversal of that movement since then. The topic of "appraising agricultural land in a declining market" is timely, especially when considering:

- the values are continuing to slide
- there are few recent sales
- the comparables you do have are over a large geographic area, over a long period, and are often financially forced sales, and
- the future holds little short-run prospects for improvement.

Recently, there have been a few presentations on this very topic as it is of concern to many. It is probably fair to say we have now been appraising under this "new situation" long enough to feel some comfort in what we are doing.

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ciety of Farm Managers and Rural Appraisers.

Historic Information on Agricultural Land Values

To provide background to current values, it is relevant to consider what has

happened to values in the past. Tables 1 and 2 illustrate the movement of agricultural land values in Canada since 1915.

The land values in Canada, when considered in constant 1985 dollars, did not move dramatically up or down until after 1970. In fact, the 1915 value of \$361 per acre was not exceeded until after 1970, some 55 years later. Values have been on an upward trend since the early 1940's, with the increase from 1960-1965 being significant at 34%. Significant increases of 33 and 65% were also experienced in the two 5-year intervals between 1970 and 1980. Since 1980, the values have declined overall by 30%, but they still exceed the values prior to 1970.

Price Changes by Province

There seem to be artificial barriers in the minds of purchasers, somewhat similar to the stock market. To illustrate, note the \$100 per acre, the \$200 per acre, and the \$300 per acre values. In each case, Ontario's values far exceeded other provinces, but the peak in value occurred at the same time, independent of where the land was located (Table 3).

Ontario values were, on average, over \$1,500 per acre when they peaked in 1981, as compared to peaks in Nova Scotia, Manitoba, and Alberta at approximately \$500 per acre.

Table 1. Agricultural Land Values: Canada 1915-1985

	Nominal Dollars		Constant 1985 Dollars	
	\$/Acre	% Change	\$/Acre	% Change
1915	35	—	361	—
1920	48	+37	267	-26
1925	38	-21	262	-2
1930	32	-16	221	-16
1935	24	-25	207	-6
1940	24	—	189	-9
1945	30	+25	207	+10
1950	43	+43	217	+5
1955	52	+21	232	+7
1960	62	+19	251	+8
1965	90	+45	337	+34
1970	115	+28	357	+6
1975	218	+90	474	+33
1980	547	+151	783	+65
1985	545	-0.4	545	-30

Table 2. Agricultural Land Values: Average Growth Rates by Time Interval

	Nominal Dollars		Constant Dollars	
	Total % Change	Average % Change	Total % Change	Average % Change
1915-1930	-9	-1	-39	-3
1931-1950	+54	+2	+1	+0.25
1951-1970	+145	+5	+66	+3
1971-1985	+374	+12	+58	+3

Agricultural Land Values - Canada

Constant & Nominal Dollars

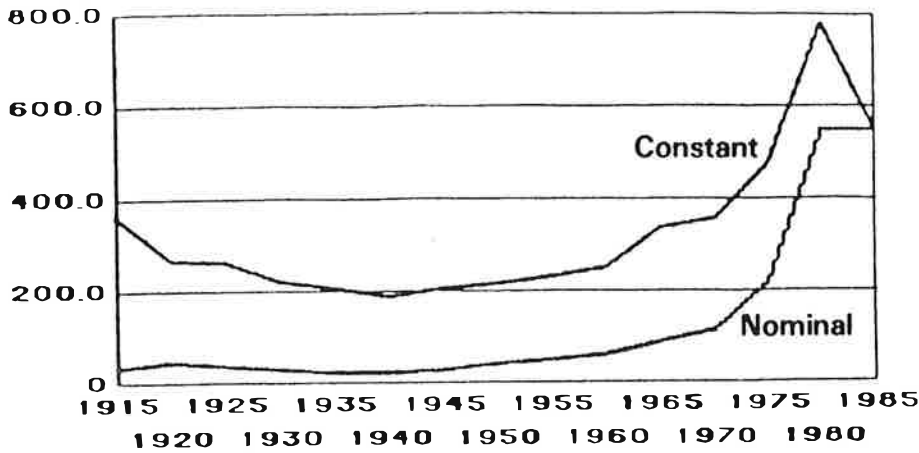


Table 3. Breaking the Barriers

	\$100/Acre	\$200/Acre	\$300/Acre
Nova Scotia	1969	1975	1978
Ontario	1954	1967	1969
Manitoba	1974	1978	1980
Alberta	1968	1976	1979

Up to 1975, the productivity index exceeded the land value index. Then, for 5 years, land value increases far exceeded the productivity increases. Since 1980, the relationship has been working back toward a "normal" situation.

The graph below illustrates the difficulty in attempting to use a "capitalization of income" approach to value. It is possible, but the appraiser must know the present position in the market/productivity cycle. Currently, we are heading toward a market value closer to the productivity value—if you use a 3–5 year average for farm productivity. If current incomes are used, the spread between market and productivity is as wide now as ever! It is easy to note the "good times" and the "bad times" for those attempting to pay for their land from the productivity of the land.

Current Values 1976–1985

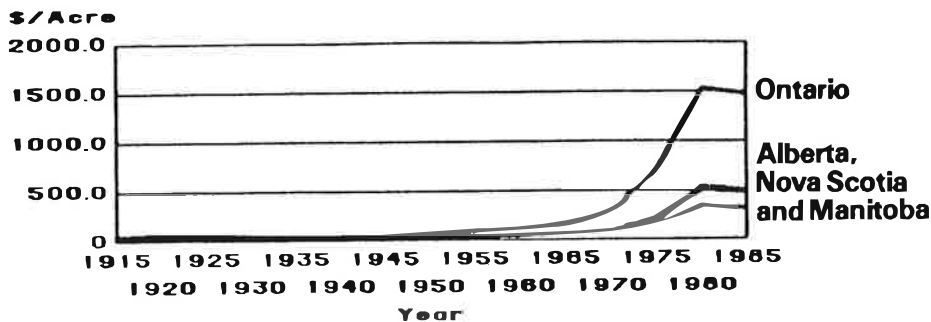
To appreciate the current circumstances, the past 10-year period requires a detailed review.

Land values in this time have fluctuated more than in any other period since records were kept! The reasons are numerous:

- food shortage to surplus
- oil shortage to surplus
- government programs in the E.E.C. and the U.S.
- and of course, local factors such as subsidized credit, support prices on some products, supply management on others, direct subsidies on inputs and product prices, etc.

Table 4 illustrates land values by region in Alberta:

Agricultural Land Values Peaks and Declines



During the period 1915–1981, there were only 11 years of decline, and in some of those years the decline totaled a mere \$1 per acre. Since 1941, there has been an upward trend in land values, except for the 4 years of 1945, 1954, 1970, and 1971.

The values have been basically steady for the first 30 years, when considering the dramatic increase in the 10-year period ending in 1981. Since 1981, agricultural land values across Canada have been declining and doing so at a fairly rapid rate.

Market Productivity Relationships

Before analyzing the current situation, or entering into a discussion of the topic at hand, namely how to appraise in a declining market, let us review historic market value to productivity value relationships.

Agricultural Productivity and Land Value Indices

Constant Dollars

: 1984 = 100

