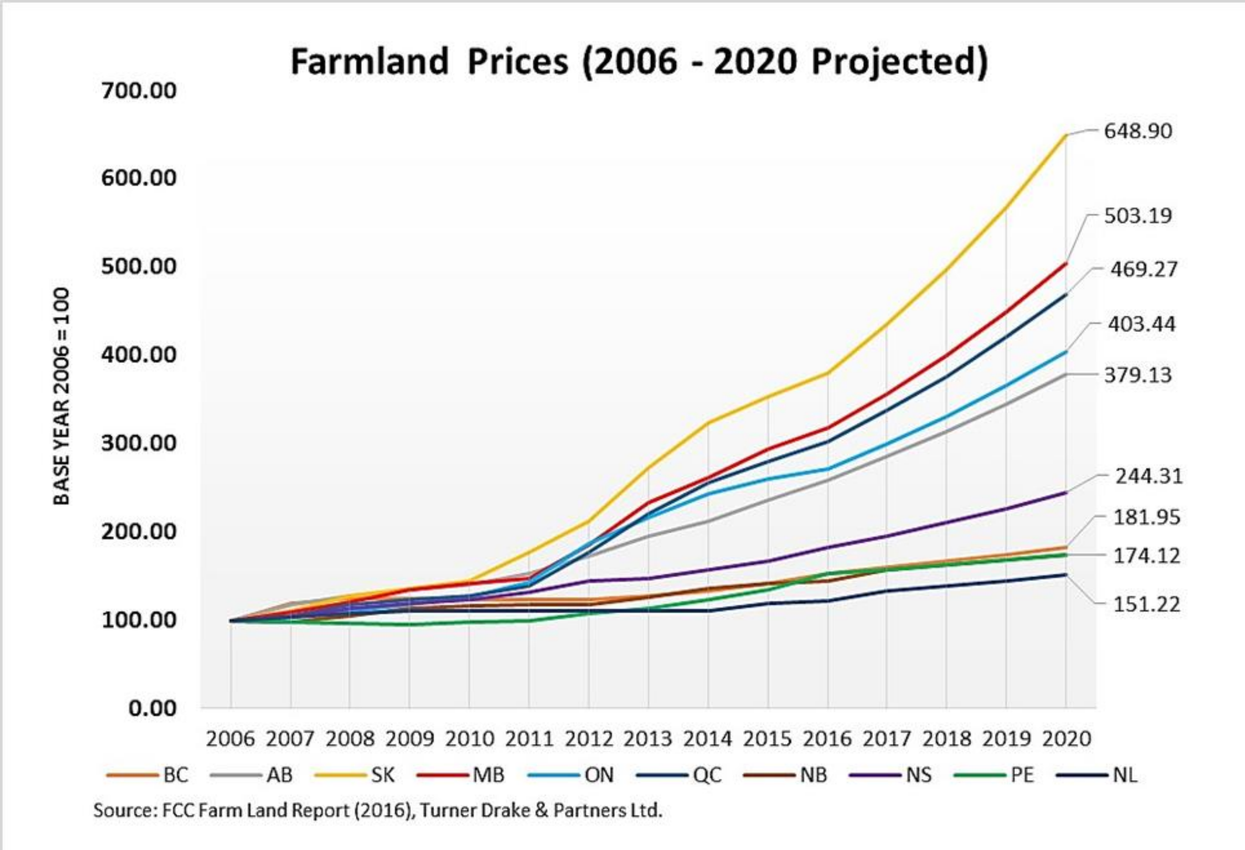
Canadian Farmland Values



Farmland prices in Canada have increased by an average of 218% over the past 10 years according to the latest data published by Farm Credit Canada (FCC). British Columbia and the four Atlantic Provinces were the laggards, skewing the data downwards. There is now plenty of anecdotal data indicating that farmers are moving to the Atlantic Region from other parts of Canada because high land prices are curtailing their expansion opportunities in the province in which they currently farm. Migration from Ontario to Prince Edward Island appears to be the most pronounced trend. We are also aware of purchasers acquiring farms for investment: the properties are then leased on a fixed rental and/or crop share basis to tenant farmers. Can we expect farmland values in this Region to mirror the increases in the other provinces as a result of this increased demand? We decided to find out. First though, a caveat. FCC's estimates of farmland prices are based on their *appraised* values of benchmark properties, rather than an analysis of raw sales data. The appraisals themselves are based on the sales of comparable properties and thus are a surrogate for market value. The methodology provides consistency which would otherwise be lacking in the absence of repeat sales of similar properties year over year. This is particularly germane to the Atlantic Region because sales data is difficult, expensive or impossible to obtain from the Provincial governments, often the sole source of the information. Prince Edward Island in particular is the hermit kingdom when it comes to government control of information. The main advocate for its refusal to share information with its citizens appears to be the provincial Assessment Department, a.k.a. the Department of Finance: presumably they are terrified that taxpayers will launch a flood of appeals if they are given access to the sales data on which their property assessments are based. (Service New Brunswick had a similar policy until it was taken to task by the provincial ombudsman who pointed out that its behaviour ran counter to accepted democratic norms). In 2016 [Newsletter Vol. 2 No. 104] we were able to compare FCC's figures with hard sales data and determined that they accurately reflected the trend in price increases, albeit with something of a lag. They may therefore understate the trend slightly across the country.

In order to determine if the rise in farmland values in provinces outside the Atlantic Region would result in an increase here, we employed stepwise Multiple Regression Analysis (MRA) to determine the strength of the relationship. For example: does a price increase in Ontario portend an increase in farmland values in Prince Edward Island; how much of the latter is due to the former; how much will prices increase in PEI as a result of an increase in Ontario prices? MRA does not definitively establish *cause* but it does allow us to measure the *relationship*. (MRA was the technique used by Service New Brunswick to such disastrous effect with their 2017 re-assessment [Newsletter Vol. 2 No. 109] but that is another story). We found that the relationship was strong but the provinces differ in terms of their "influence" on farmland values in the Atlantic Region. For example: an increase in farmland values in Alberta "explains" 98% of the change in Nova Scotia values, while the changes in farmland values in Saskatchewan, Manitoba and Quebec "explain" 97% of the change in New Brunswick prices. 96% of the changing PEI values are influenced by British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec whilst Newfoundland has British Columbia, Alberta and Ontario to thank for 95% of its good fortune. So it does look as though increases in farmland values outside this region are influencing their rise in Atlantic Canada, either because farmers are moving here and/or investors are adding to market demand. So how much of the increase is due to owner occupier farmers versus investors or non-farmers? Cognizant that this question is keeping you awake at night we deployed resources to find out.

We compared farm incomes (excluding depreciation) as reported by Statistics Canada with the increases in farmland value in every province. 80% or more of the change in farmland values can be explained by changes in farm income in Alberta, Ontario, Saskatchewan and New Brunswick. There was little or no relationship between farm income and land values in the remaining provinces. This suggests that the increase in farmland values in New Brunswick is being influenced by farm income, as well as from demand pressure from outside the region. Not so in Prince Edward Island, Nova Scotia and Newfoundland; there is no relationship between increases in farm income and farmland values in those provinces. Prices increases are being driven by farmers new to the region with income expectations coloured by their experience elsewhere…or by investors. Anecdotally that sounds like a credible explanation for Prince Edward Island and Nova Scotia: but probably not for Newfoundland. We also regressed the farmland values against provincial GDP to measure how much demand pressure may be occurring from non-farmers located in each province. The data shows that they do not significantly influence farmland values in New Brunswick or Newfoundland but may be a source of demand in Nova Scotia and Prince Edward Island.

So what does it add up to? The increase in farmland values in New Brunswick is being driven by existing farmers in the province and demand from farmers and or investors from outside the region. Non-farmers in the province have no measurable impact on value increases. Increases in Prince Edward Island and Nova Scotia farmland values are driven by demand from farmers and or investors from outside the region and non-farmers in the province. Demand from farmers in the province, whilst important, has no measurable impact on value increases. Newfoundland is something of a mystery: increases in farmland values are not being driven by farmers, or non-farmers, already located in the province but are strongly correlated with price movements in British Columbia, Alberta and Ontario.

Fools rush in where angels fear to tread! We have used the regression equations, and the assumption that farmland in the *non-Atlantic* provinces will increase at the same average compound rate as the past ten years, to project the 2017-2020 farmland prices shown in the graph. The indicated percentage price increase to 2020, over 2016, is as follows: New Brunswick 20%, Nova Scotia 34%, Prince Edward Island 14%, Newfoundland 24%. We suspect that these projected price increases will prove to be too low for Prince Edward Island, farmland prices there are already a bargain.

Our Valuation Division has established a specialised Farm Valuation Unit. It has compiled a database of farm sales, developed farm specific valuation software, sourced soil survey, forest inventory and Canada Land Inventory map layers and integrated them with high resolution satellite and three dimensional aerial photography to offer farmers in the Atlantic Region access to appraisal services for succession planning, estate freezes, sale, purchase, financing …a 15% discount on valuation services is available to members of the Nova Scotia Federation of Agriculture in Nova Scotia & Prince Edward Island and the Agricultural Alliance of New Brunswick. For more information call James Stevens at 1-800-567-3033 Ext. 346 or email him at jstevens@turnerdrake.com.