

Record prices reported for Ontario farmland as demand and commodities surge, says RE/MAX

Serious inventory shortage characterizes the market

Rising agricultural commodity values and tight inventory levels have seriously contributed to a significant upswing in the price of Ontario farmland in 2011, according to a report released by RE/MAX Ontario-Atlantic Canada.

The *RE/MAX Market Trends Report – Farm Edition 2011* found that shortages exist in the vast majority of centres studied, with pent-up demand fuelling unprecedented momentum virtually across the province. Upward pressure on acreage values has been consistent as a result. Of the 12 major agricultural communities examined, 11 (92 per cent) reported tight inventory levels, while nine (75 per cent) noted an increase in price per acre. Despite the current volatility in commodity prices, the long-term prospects for the agricultural industry continue to be bolstered by global realities, including population growth, an international grain shortage and decreased availability of quality farmland from a worldwide perspective.

Farming operations are increasing in size as today's farmers seek to boost production through the accumulation of acreage. On a national scale, the average farm has tripled in size over the past 50 years. Much of the current expansion is attributed to the booming cash crop business. The shortage of quality farmland has sparked serious competition and exerted upward pressure on prices – a trend that is expected to continue. With commodities on the upswing and greater export opportunities to supply emerging markets, Ontario farmers are now strategically positioning themselves to compete on a world stage.

Farmers have invested heavily in capital expenditures in recent years, spending millions on farm equipment to maximize efficiencies. As commodity prices have risen, so too have the price per acre of workable farmland. The most expensive farmland in the province is found in the Holland Marsh/Bradford area, where prices can climb as high as \$20,000 per acre. New Liskeard boasts the greatest affordability, where the price per acre of tilled farmland can run from \$1,300 to \$2,500.

Expansion, while serving to bolster demand, has also caused a shift in the composition of Ontario farmland. There has been a marked decline in the number of smaller farms, while larger operations continue to increase in size. This was evident in all Ontario markets, especially as smaller acreages are harder to come by due to amalgamation and restrictions on severances. The trend—which has been ongoing for years—is supported by the most recent Census data, which shows that the number of overall farms in Ontario shrank from 85,015 in 2001 to 82,410 in 2006. Farmers are acquiring land by either purchasing—their first preference—or renting from adjacent farmers. Because of the severe shortage of farmland listings, the demand for leased land has surged—a fact that has also driven rental rates to new highs within the province. Given this, retiring farmers are increasingly opting to hold on to their land and lease it to neighbours. The strategy—while exacerbating the supply problem—has proven profitable in recent years and less volatile than other forms of investment such as the stock market.

There are a number of clear signs that the market is quite heated at present. In addition to supply and demand, the trend toward door-knocking and private sales has increased. Another factor is the presence of investors—a small, but growing segment of buyers. Until recently, investment activity—common in Western Canadian farmland markets—was a rare phenomenon in Ontario. The trend is a promising one, indicating growing confidence in the future of Ontario's agricultural real estate.

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While investors represent a small percentage of farmland holdings, it's estimated that end users account for 95 per cent of Ontario farm ownership—a fact that bodes well for the ongoing health and stability of the market. Not surprisingly, investors have been most active in areas where considerable urban sprawl is underway, including Barrie, Innisfil and Bradford, where progress has driven prime development land prices upwards of \$20,000 to as much as \$100,000 an acre in some pockets. Pending construction—which in some cases can be years down the road—developers are renting the parcels to local farmers in a bid to preserve farm status and a lower tax rate.

Diversification also continues to prop-up demand as farmers seek to maximize the potential of their operations. Far from traditional mom and pop businesses, many of today's farms are complex, multi-faceted enterprises. Some supply-managed farmers are choosing to acquire additional land to branch out into cash cropping, while others seek to capitalize on energy and environmental trends. A growing number of farmers are entering into contracts to host wind or solar power projects, while others opt to permit the extraction of gas and natural resources, as seen in markets like Chatham-Kent and Windsor and Essex County. These arrangements have provided an alternate source of income and underscored the budding possibilities that exist for land owners.

The farmland segment comprises a small portion of real estate sales in Canada. *Yet, the land supports an industry (primary farming) that accounted for 1.7 per cent of total GDP. Overall the agriculture and related agri-food system accounted of 8.2 per cent of total GDP or \$98 billion dollars in 2009 and supported one in eight (two million) Canadian jobs. Ontario and Quebec account for the largest share of employment (70 per cent) in agriculture and food processing. Canada is the fourth-largest food exporter globally, with exports valued at \$35.2 billion. In 2009, Canadian grain and grain products were exported to over 110 countries worldwide.

*Source: *An Overview of the Canadian Agriculture and Agri-Food System (2011)*, Agriculture and Agri-Food Canada

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RE/MAX MARKET TRENDS: FARM EDITION 2011		
Ontario Farmland - Price Per Acre (PPA) by Market - 2010 vs. 2011		
Market	2010 Price Per Acre	2011 Price Per Acre
Barrie/Tottenham/Innisfil	\$8,000 - \$10,000	\$8,000 - \$10,000
Bruce County/Huron County		
-South Huron & Mid-Perth	\$7,000 - \$11,000	\$10,000 - \$14,000
-Mid-Huron	\$6,000 - \$8,000	\$8,000 - \$10,000
-North Huron & Bruce County	\$3,000 - \$5,000	\$4,500 - \$7,000
Chatham-Kent	\$4,000 - \$12,000	\$5,000 - \$15,000
Grey County	\$2,500 - \$3,000	\$3,000 - \$4,000
Holland Marsh	\$15,000 - \$18,000	\$15,000 - \$18,000
- Bradford	\$20,000	\$20,000
Kitchener-Waterloo	\$9,000 - \$9,500	\$10,000 - \$11,000
London-St. Thomas		
-Middlesex East	\$8,000	\$9,000
-Middlesex West	\$5,000	\$6,000
-Elgin County East	\$6,000	\$7,000
-Elgin County West	\$4,500	\$5,000
- Lambton North	\$6,000	\$8,000
-Lambton South	\$4,000	\$4,400
New Liskeard	\$1,300 - \$1,900	\$1,300 - \$2,500
Ottawa & Area	\$3,900 - \$4,800	\$4,000 - \$5,000
Tillsonburg		
-Oxford Township	\$9,500 - \$11,500	\$10,000 - \$12,500
-Bayham Township & Norfolk Township	\$5,200 - \$7,500	\$5,500 - \$8,000
Windsor/Essex County	\$5,000 - \$6,500	\$5,000 - \$6,500
-Leamington	\$7,000 - \$7,800	\$7,000 - \$7,800
-Lower Essex County	\$4,800 - \$5,200	\$4,800 - \$5,200
Woodstock/Stratford	\$8,400 - \$8,600	\$9,000

Source: RE/MAX