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Land Value Trends

April, 2012 | **First Quarter 2012**

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We have now prepared the sale information to complete our general market analysis for the First Quarter of 2012 (January - March). The following map illustrates the locations where data has been obtained. The Q1, 2012 sales are summarized individually in the tables on the following page. Our Regional Analysis and Cultivation Comparison are also included on the following pages. We have also included an article looking at factors to consider when using the Income Approach in the valuation of farmland.

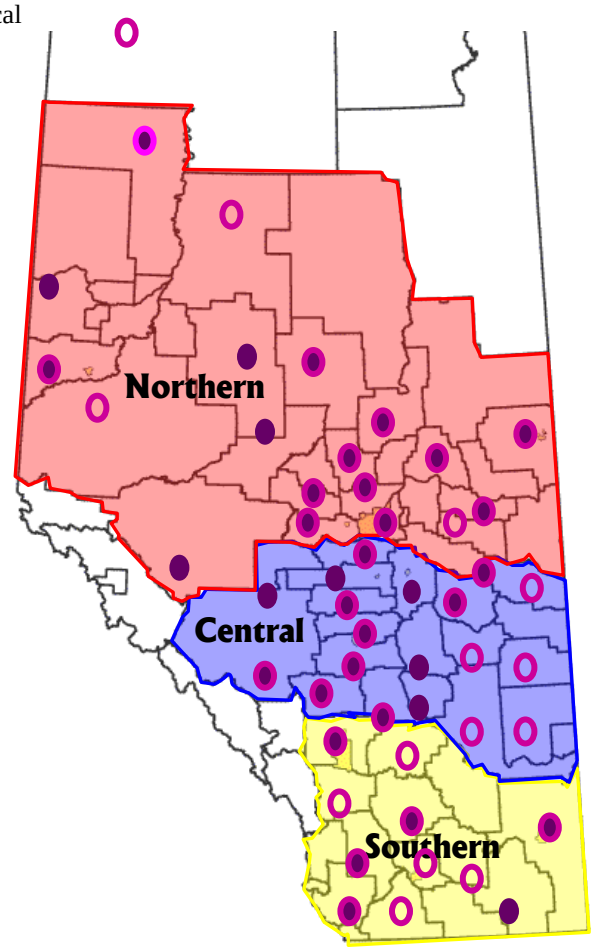
In Q1, 2012 the average value for land in Northern Alberta was higher than other recent quarters. Central Alberta continued a relatively gradual increase in average land values from previous quarters (Graph 2). In Southern Alberta, the average value again showed significant volatility, affected by several sales influenced by non agricultural use (Graph 3). Graph 4 shows the average for each area together. It is noted that in all three regions there were individual sales above other previous high sale prices.

In Q1, 2012 the provincial average land value and provinical average cultivated land value showed a progressive increase, with a slighlty lower average for non cultivated land (Graph 5). The difference between cultivated and uncultivated land appeared to remain consistent around a difference of approximately 30% (Graph 6). The averages for Central Alberta showed a general increase in values for both cultivated and non-cultivated land (Graph 8).

This quarter had a higher number of total sales than Q4, 2011, but the sale : list ratios were relatively similar to previous quarters, with a lower ratio in Southern Alberta (Graph 9).

Regional Analysis

Map of Area Divisions



O Indicates municipalities in which appraisal work was completed during Q1, 2012.

● Indicates municipalities in which we have obtained information on at least one sale that occurred during Q1, 2012.

Sale Summary

First Quarter (January - March) 2012

Bareland Sales

Northern Alberta – Q1

Municipality	Sale Price	Acres	$/acre	Primary Land Use
Athabasca	$112,000	116.76	$959	Pasture, Bush
Athabasca	$135,000	154.77	$872	Bush, Pasture
Athabasca	$140,000	154.00	$909	Bush, Pasture
Barrhead	$115,000	240.00	$479	Cultivated, Pasture
Barrhead	$135,000	151.00	$894	Pasture, Bush
Barrhead	$215,000	160.00	$1,344	Bush
Big Lakes	$200,000	313.06	$639	Hay, Bush
Big Lakes	$55,000	160.00	$344	Pasture, Bush
Bonnyville	$190,000	148.26	$1,282	Pasture, Bush
Grande Prairie	$150,000	80.00	$1,875	Bush, CR Zoning
Grande Prairie	$615,000	437.79	$1,405	Cultivated
Lac Ste. Anne	$190,476	156.90	$1,214	Bush
Lac Ste. Anne	$215,000	160.00	$1,344	Bush, Pasture
Lac Ste. Anne	$300,000	74.38	$4,033	Bush, Pasture
Lac Ste. Anne	$565,000	472.31	$1,196	Cultivated
Lamont	$150,000	154.26	$972	Cultivated
Lamont	$172,500	160.00	$1,078	Cultivated, Pasture
Lamont	$189,900	71.80	$2,645	Hay
Lamont	$240,000	155.00	$1,548	Cultivated
Lamont	$215,000	160.00	$1,344	Bush, Pasture, Cultivated
Lamont	$1,200,000	400.00	$3,000	Cultivated
Northern Lights	$400,000	800.00	$500	Cultivated, Bush
Northern Lights	$275,000	800.00	$344	Bush
Parkland	$87,000	160.00	$544	Bush, Pasture
Parkland	$770,000	153.89	$5,004	Cultivated
Parkland	$140,000	130.00	$1,077	Bush
Parkland	$210,000	160.00	$1,313	Cultivated
Parkland	$408,000	161.00	$2,534	Pasture, Hay
Saddle Hills	$75,000	156.00	$481	Bush, Pasture
Smoky Lake	$225,000	240.00	$938	Hay, Pasture
St. Paul	$115,000	80.28	$1,432	Pasture
St. Paul	$157,500	161.00	$978	Hay, Bush
St. Paul	$330,000	316.47	$1,043	Hay, Pasture
Strathcona	$499,800	101.21	$4,938	Bush
Strathcona	$525,000	144.94	$3,622	Cultivated
Sturgeon	$543,350	155.00	$3,505	Cultivated
Sturgeon	$2,100,000	155.99	$13,462	Urban Influence
Two Hills	$90,000	79.44	$1,133	Pasture, Bush
Two Hills	$150,000	131.00	$1,145	Cultivated, Bush
Westlock	$370,000	137.00	$2,701	Cultivated
Woodlands	$130,000	159.00	$818	Bush
Woodlands	$441,000	439.01	$1,005	Cultivated, Bush

Central Alberta – Q1

Municipality	Sale Price	Acres	$/acre	Primary Land Use
Brazeau	$195,000	160.00	$1,219	Bush, Pasture
Brazeau	$190,000	138.00	$1,377	Hay
Camrose	$420,000	155.60	$2,699	Cultivated
Clearwater	$450,000	164.00	$2,744	Bush
Clearwater	$177,500	88.59	$2,004	Pasture
Clearwater	$289,000	154.47	$1,871	Pasture
Clearwater	$369,000	149.00	$2,477	Cultivated
Flagstaff	$450,000	320.00	$1,406	Cultivated
Kneehill	$325,000	148.00	$2,196	Cultivated
Lacombe	$1,950,000	145.20	$13,430	Industrial Potential
Leduc	$167,500	77.34	$2,166	Pasture, Bush
Leduc	$300,000	145.00	$2,069	Cultivated
Leduc	$320,000	80.00	$4,000	Cultivated
Leduc	$305,000	80.00	$3,813	Cultivated
Leduc	$370,000	155.40	$2,381	Hay, Cultivated
Leduc	$500,000	154.00	$3,247	Cultivated
Leduc	$550,000	153.10	$3,592	Cultivated
Mountain View	$260,000	140.00	$1,857	Cultivated
Mountain View	$395,000	160.00	$2,469	Bush, Pasture, Cultivated
Mountain View	$420,000	160.00	$2,625	Pasture
Mountain View	$630,000	161.00	$3,913	Bush, Cultivated
Mountain View	$350,000	160.00	$2,188	Pasture
Mountain View	$445,000	157.92	$2,818	Pasture, Bush
Mountain View	$315,000	139.00	$2,266	Hay, Pasture
Ponoka	$182,500	79.82	$2,286	Bush, Hay
Red Deer	$296,000	157.97	$1,874	Cultivated
Red Deer	$260,000	106.31	$2,446	Hay, Pasture, Bush
Red Deer	$362,000	154.60	$2,342	Pasture
Red Deer	$625,000	155.00	$4,032	Cultivated
Red Deer	$660,000	131.81	$5,007	Cultivated
Red Deer	$1,073,000	153.00	$7,013	Urban Influence
Starland	$255,000	146.75	$1,738	Cultivated, Pasture
Starland	$220,000	149.27	$1,474	Cultivated
Stettler	$310,000	480.00	$646	Hay, Pasture
Wetaskiwin	$190,000	80.00	$2,375	Cultivated

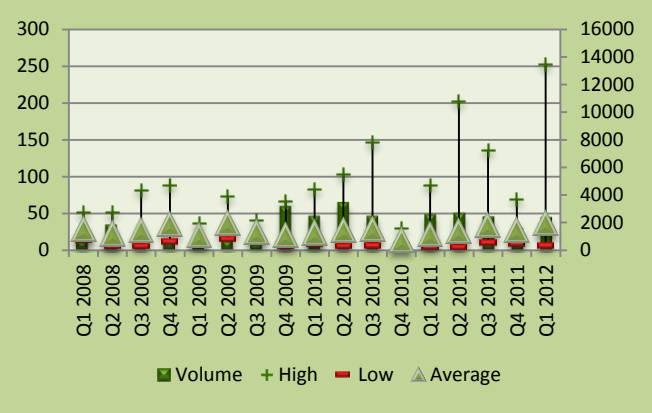
Southern Alberta – Q1

Municipality	Sale Price	Acres	$/acre	Primary Land Use
Bighorn	$435,000	79.54	$5,469	Bush
Cypress	$190,000	190.00	$1,000	Pasture
Forty Mile	$80,000	160.00	$500	Pasture
Forty Mile	$90,000	161.00	$559	Pasture, Hay
Pincher Creek	$325,000	148.00	$2,196	Pasture
Rocky View	$450,000	101.24	$4,445	Hay, Pasture
Rocky View	$1,600,000	129.53	$12,352	Urban Influence
Rocky View	$2,500,000	95.88	$26,074	Urban Influence
Rocky View	$641,250	156.97	$4,085	Cultivated
Rocky View	$585,000	155.00	$3,774	Cultivated
Rocky View	$2,815,000	320.00	$8,797	Urban Influence
Rocky View	$1,010,000	320.00	$3,156	Cultivated
Vulcan	$612,000	320.00	$1,913	Cultivated
Wheatland	$750,000	211.99	$3,538	Cultivated
Willow Creek	$238,500	155.00	$1,539	Hay

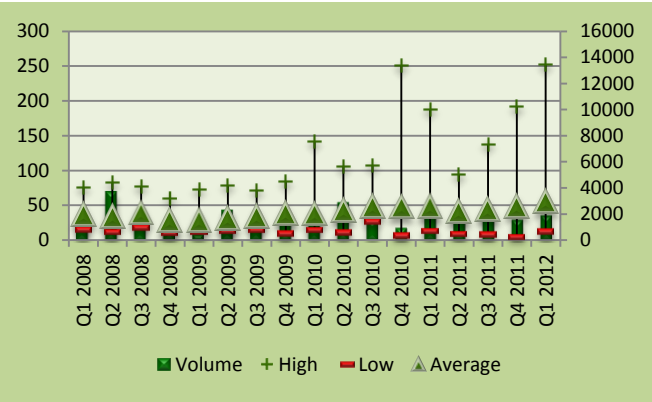
Regional Analysis

In the following graphs we have excluded sales that we believe are expected to have significant urban influence.

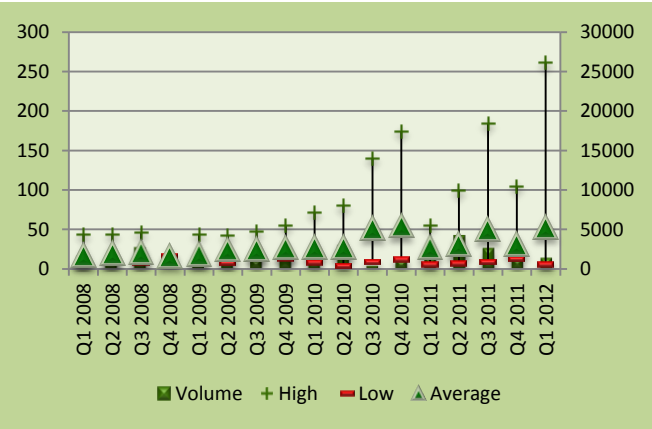
Graph 1: Northern Alberta



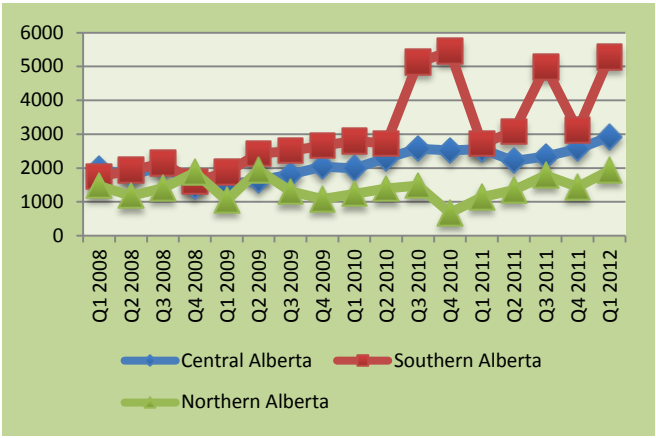
Graph 2: Central Alberta



Graph 3: Southern Alberta



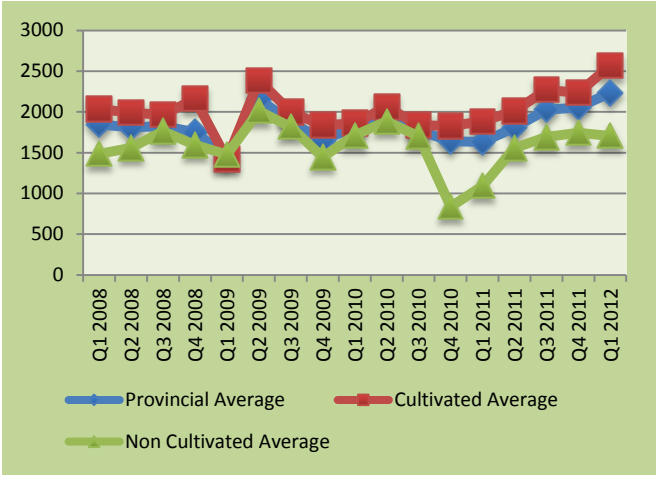
Graph 4: Average Value of Each Region



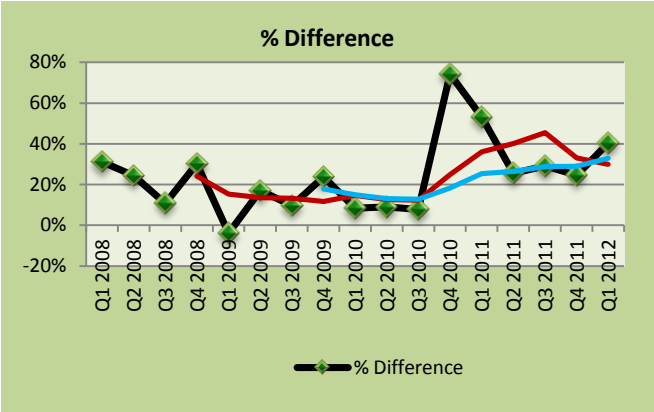
Within each of the above regions, there are areas with different agricultural productivity. There is also variation with respect to regional population, urban development, or demand for country residential properties. Therefore, there is frequently a wide difference between the range of high and low values per acre.

Cultivated vs Uncultivated Comparison

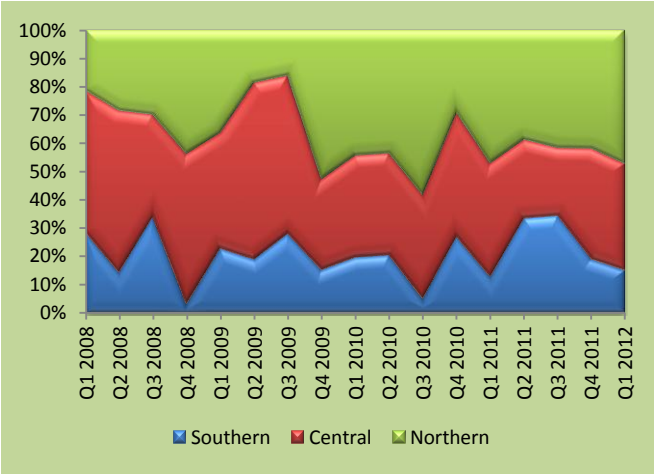
Graph 5: Provincial Cultivated vs Uncultivated



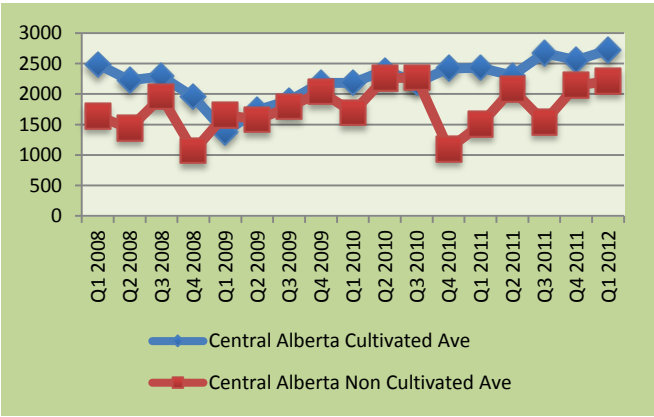
Graph 6: Percent Difference Cultivated vs Uncultivated Land



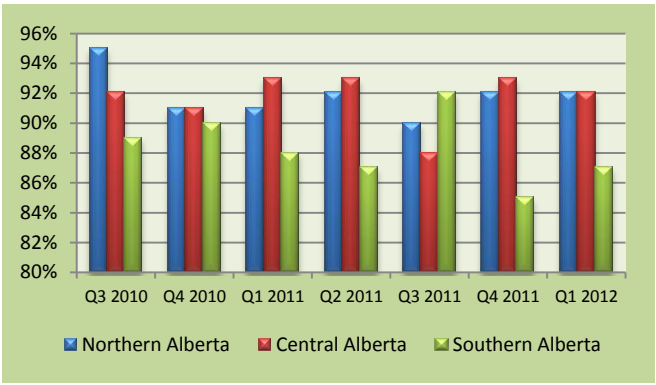
Graph 7: Proportion of Sales by Region



Graph 8: Central Alberta - Cultivated vs Uncultivated



Graph 9: Sale Price : List Price



Given the limited arm's-length sales data and variable information available in the rural real estate market, it is often difficult to determine trends and quantify time adjustments in the market for agricultural properties. Therefore, the information contained in this newsletter should not be relied upon solely for purchasing or financing decisions. It is prepared with the intent of providing a general indication of the activity in the rural real estate market. If an estimate of value is required for specific properties, it is recommended that an appraisal be obtained. Benchmark studies can also be completed if approximate land values are required for a specific area.

Can The Income Approach Be Used For Farmland?

In our previous newsletter the article included an income analysis from farmers in two different areas. The analysis also included discussion related to the application of the Income Approach. Although the Income Approach is frequently used in the appraisal of commercial properties, including retail, office, and industrial properties, it is not frequently used in appraisals of farmland.

Farmland is an income producing property and is purchased with the expectation of generating an operating profit. However, the Direct Comparison Approach has become the normal standard when estimating the value of bare farmland, as it more accurately reflects the actions of market participants. Although there can be benefits to using the Income Approach for specific purposes and analyses, the following discussion identifies some of the reasons why the Income Approach is not frequently used in the appraisal of farmland.

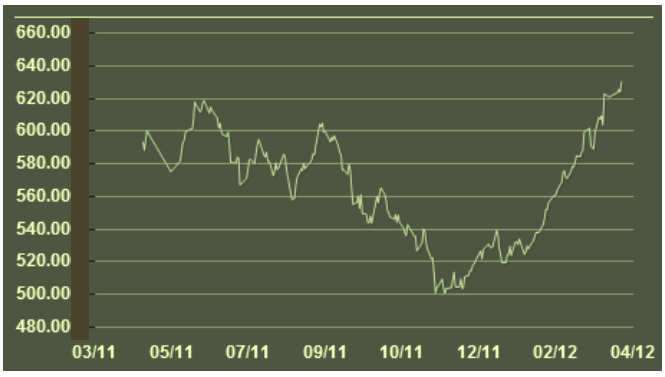
In some areas the value for farmland is not a reflection of its income earning potential. This may be because the real estate market is motivated by factors that are not income related, including aesthetic features, or locational attributes (urban proximity). However, in many areas there is a strong correlation between land and soil quality relative to market value. Although this would indicate that the Income Approach could be used to estimate value in many areas, there are still limitations to using the Income Approach to estimate the market value of farmland.

In the previous newsletter article we discussed some of the theory used when applying the Income Approach to estimate market value, and a partial crop budget was prepared to estimate the Gross Income Multiplier (GIM) and Capitalization Rate (CAP). The following is a summary of the partial crop budgets used in the previous article.

	Farmer Green	Farmer Brown
Average Gross Income	$502	$295
Total Operating Expenses	$287	$187
Net Operating Income (NOI)	$215	$108
Land Purchase Price	$2,000	$1,000
CAP (NOI /Purchase Price)	10.75%	10.80%

Variance of the Crop Budget

The above crop budgets are based on specific values for crop prices, yields, and input costs. However, there can be significant variation for each of the factors. The following graph shows the futures price for May, 2012 canola and for the previous year.



The above graph varies between approximately $500/MT to $630/MT. This indicates variance of more than ±10% from the midpoint, or more than 25% over the course of the year. Not only can crop prices fluctuate within a year, but long term trends can have much greater variance as well.

However, crop prices are not the only factor that can fluctuate. Weather, crop diseases, and other pests can easily cause yields to vary more than ±20% from year to year.

In a closed market, economic theory of supply and demand would suggest that if production is reduced, prices should increase and therefore, gross revenue should remain relatively stable. However, the pricing of most commodities is based on a world market where local supply may have limited impact on price. Therefore, it is possible that in any given year both prices and yields could be either high or low. As a result, gross revenue could reasonably fluctuate upwards of 50% per year. Although a long term average yield may be relatively predictable, estimating a long term average price can be more difficult, because of the array of unforeseen factors that can shift supply or demand.

It is also noted that any of the possible input costs may also fluctuate, causing further variance in the estimated crop budget.

Impact on the Estimate of Capitalization Rate (CAP)

The above discussion considered the possibility for variation in several factors that contribute to the income received from agricultural land. For the purpose of this article we will do a sensitivity analysis that looks at the affect that a ±10% variance in gross revenue can have on the CAP used to estimate value. For this analysis we will assume all costs remain constant.

The following table shows how the CAP can vary if gross revenue is changed by ±10%.

Comparable 1: Farmer Green's Land Purchase at $2,000 per Acre

		Gross Revenue Variance		
		-10%	0%	+10%
A	Average Gross Income	$452	$502	$552
H	Total Operating Expenses)	$287	$287	$287
I	NOI	$165	$215	$265
J	CAP (I/$2,000)	8.25%	10.75%	13.25%

Comparable 2: Farmer Brown's Land Purchase at $1,000 per Acre

		Gross Revenue Variance		
		-10%	0%	+10%
A	Average Gross Income	$266	$295	$325
H	Total Operating Expenses)	$187	$187	$187
I	NOI	$79	$108	$138
J	CAP (I/$1,000)	7.9%	10.8%	13.5%

The tables above show that a relatively small change in the estimate of gross income can have a relatively large influence on the expected CAP rate. With a ±10% variance in gross revenue, the CAP varied by approximately ±25% (7.9%/10.8%).

Impact on Estimate of Value

As an extension of the above analysis, the purchase of land by Farmer Brown and Farmer Green could be used as comparable sales in an appraisal using the Income Approach. For the purpose of this analysis, we will assume an appraiser has been asked to estimate the value of another parcel of land for Farmer Grey (subject property) with the following estimated crop budget.

Subject Property: Farmer Grey

Average Gross Income	$400
Total Operating Expenses	$235
NOI	$165

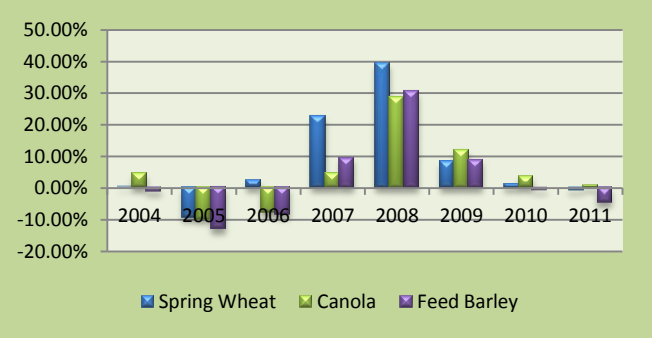
The following analyses consider how a ±10% variance in the estimate of gross revenue for either the subject or comparable properties could influence an estimate of value for Farmer Grey.

Analysis 1: Subject Property Gross Revenue Varied ±10%

The following table shows the range of possible values if the gross revenue for a subject property was varied by ±10% with a consistent CAP rate of 11.0%. This assumes the Operating Expenses remain constant

	Gross Revenue Variance		
	-10%	0%	+10%
Estimated NOI	$125	$165	$205
CAP	11.0%	11.0%	11.0%
Estimated Value	$1,136	$1,500	$1,864

Therefore, depending on commodity prices on the effective date, it could be possible for the estimate of value to vary quite significantly. Even average prices can still show dramatic variation year to year. The following graph, based on AFSC prices, shows the percent difference in the three year moving average cash price from the previous three year average.



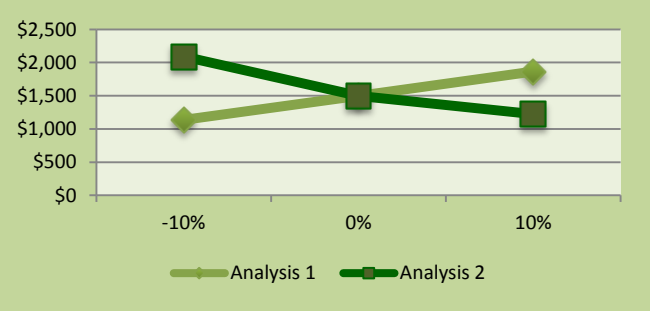
Analysis 2: CAP Rate Varied Based on Gross Revenue Variance of +10% for Comparable Properties

Although the above range of values is quite large, it is also possible that an appraiser could have used any of the CAP rates indicated in the previous analysis (7.9% - 13.5%), depending on the estimate of gross revenue for the comparable properties.

Using the range of possible CAP rates calculated above, the following table shows the possible variance in the estimate of value for a property with an expected consistent net operating income of $165 per acre.

Estimated NOI	$165	$165	$165
CAP	7.9%	11.0%	13.5%
Estimated Value	$2,089	$1,500	$1,222

The following graph shows the range of variation in the estimates of value for each of the previous three analyses.



The range of values above is based on variation of the CAP or gross revenue for the subject or comparable properties. However, the range of potential values could be larger if both values were varied.

Summary

While it may be unlikely that estimates of value for individual appraisals would vary to the extent shown above, the analyses highlight that with a relatively minor variation in one factor, the estimate of value under the Income Approach can vary significantly. Although the Income Approach can still be considered as a possible way to estimate the value of some properties, if it is to be applied, an appraiser needs to carefully analyze the earning potential of both the subject and comparable properties, and needs to be aware of how small variances can change the estimate of value. Therefore, given the volatility of yields, prices, and input costs in agriculture, and the role of the appraiser to estimate market value based on the actions of the market, the Direct Comparison Approach is often considered a more reliable indication of market value.