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Specialists in the business of agriculture

Land Value Trends

First Half | 2014

Welcome to our newsletter summarizing land values for the first half of 2014. Some of the results for our regional analysis of average values appear variable and even erratic between the last two periods, without any clear reason.

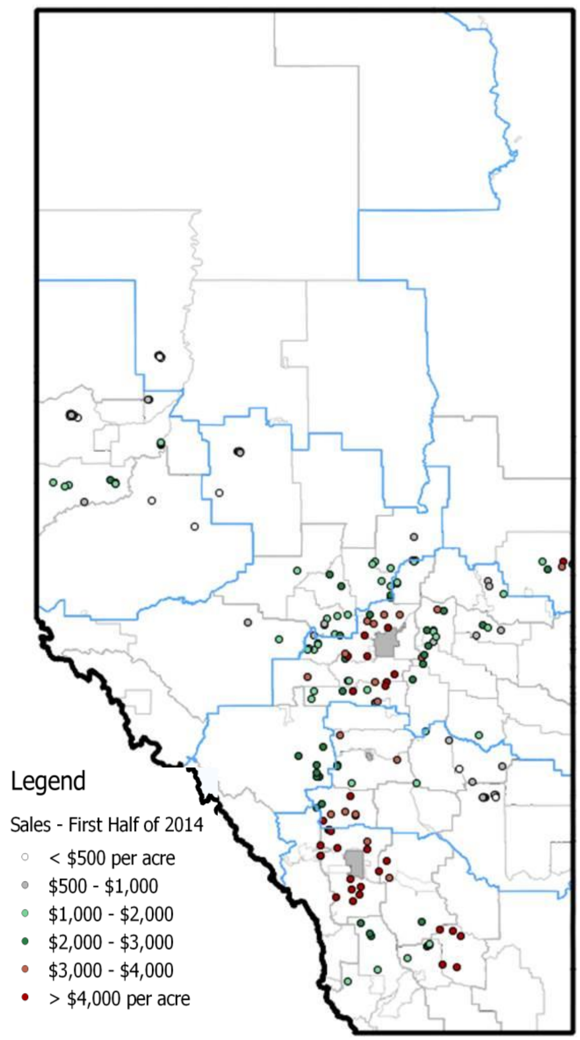
However, in order to present data that is useful and informative, included in this newsletter is a description of the distribution of the sales and sale prices.

Due to the variation, we have also researched re-sales of agriculture properties across Alberta as an alternate method to gauge the changes in land values that are occurring across the province. These results are also presented within this newsletter.

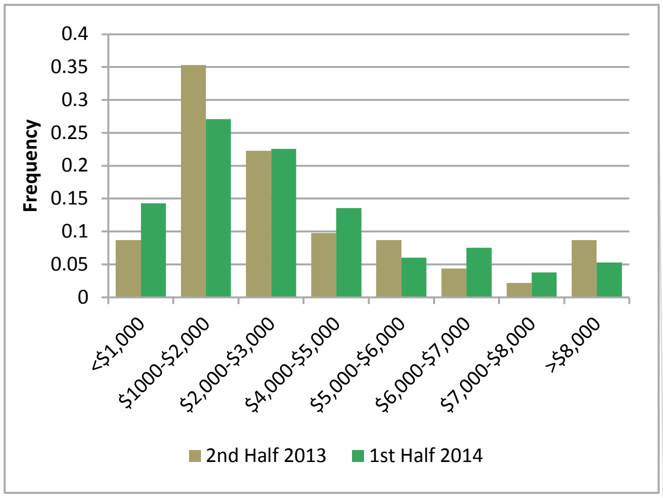
In this issue…

Sale Distribution

Using the sale data available from the first half of 2014 the following map shows how the values are distributed across the province.



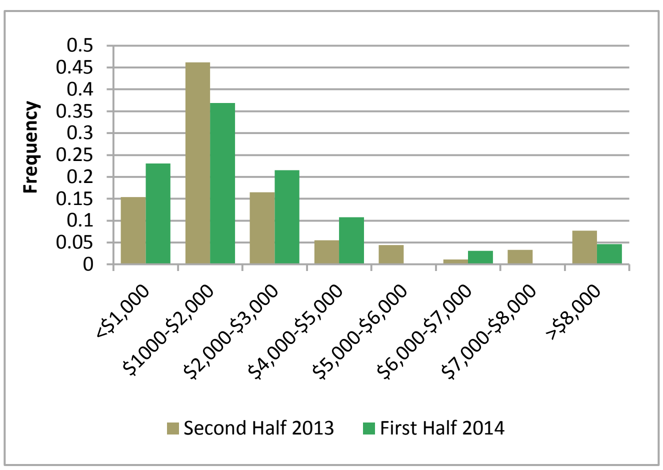
Using these sales the following graph shows the provincial distribution of sales according to $/acre.



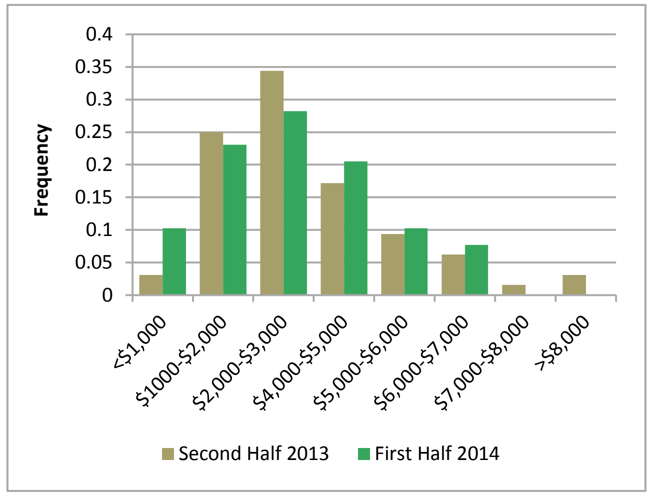
The graph above shows that for both periods the greatest concentration of sales occurred in the $1,000 - $2,000 range. However, in 2014 the sale distribution is generally less concentrated with more sales occuring above and below this value range.

From a regional perspective both Northern and Central Alberta follow a similar pattern. However, it is evident that for both these regions there were more outliers at the extreme upper end of the range of values during the second half of 2013.

Northern Alberta

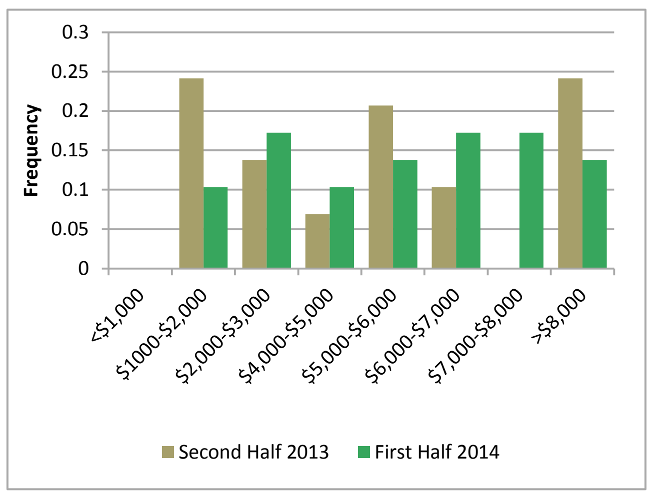


Central Alberta



However, in the following graph of Southern Alberta sales, the distribution shows much less of a bell curve with a relatively flat distribution of sales across a larger range of values.

Southern Alberta



The wider distribution of sales may be attributed to a greater variety of land uses in southern Alberta including semi-arid pasture to irrigated land for specialty crops.

Given these results, we will continue to look for reasons, including seasonal patterns, that may explain the distribution of sales data.

Re-sale Highlights

Serecon has conducted provincial wide research to identify parcels of land without improvements that were involved in two or more sales over the past three years. These re-sales provide a strong indication of the changing economic conditions which affect the value of a given property. Our search was confined to only include parcels where at least one of the sales occurred in the first six months of 2014. This was done to provide up to date and pertinent information for the readers of this newsletter. Our research provided a number of valid re-sales in the province wherein dry cultivated land was sold and resold which set a new market price for the parcel of land. These supply activities must be supported by demand for land in an area and therefore indicate the overall changing perception of value in a municipality for dry cultivated parcels of land.

1. **MacKenzie County:** This resale has a CLI soil rating of primarily Class 4D. During the 12 months between May 2013 and 2014, a 159 acre parcel increased in value by a total of 1.2%.
2. **County of Barrhead:** The next resale, in the County of Barrhead, indicated an appreciation of 2.6% over 16 months. The 158 acre dry cultivated parcel of land has a CLI soil rating of Class 2C. The parcel was first bought in January of 2013 and then subsequently sold in May of 2014.
3. **Leduc County:** This resale occurred in Leduc County where a 155 acre parcel of land was purchased in December 2012 and then sold in April 2014. During the 16 month holding period, the bareland parcel increased in value by 12.5% in total or an average of 0.8% per month. The parcel has mostly CLI rated Class 2C soil with some areas of Class 3D throughout.
4. **Kneehill County:** Another resale occurred in Kneehill County. The 144 acre parcel has a mix of CLI rated Class 3T and Class 4T soils. Over the holding period of 15 months, between February 2013 and May 2014, the parcel appreciated in value by a total of 14.1% or 0.9% per month.

Alberta Farmland Values: Bubble or Bargain?

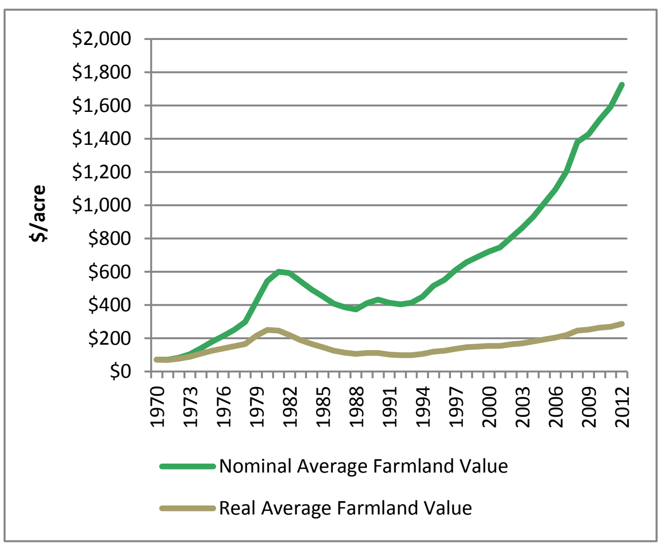
With the strong increases in farmland values over recent years there has been much speculation as to whether farmland values are experiencing a bubble effect at risk of bursting. Therefore, for this newsletter article we have attempted to develop a regression model that simulates historic price changes with the intent of identifying if the current prices are overly inflated relative to historic levels .

However, to develop the model and form an opinion as to whether there is a real risk of agriculture land prices collapsing, it is necessary to consider what are the fundamental factors influencing farmland values.

Inflation

One factor that affects not only farmland prices, but the price of everything in a market economy is inflation. Therefore, to really understand those factors that affect farmland prices, the analysis must be based on the real value for farmland and the real value for those factors driving farmland prices. The following graph shows the distinct difference in real versus nominal farmland prices indexed back to 1970.

Real versus Nominal Farmland Values ($/acre)

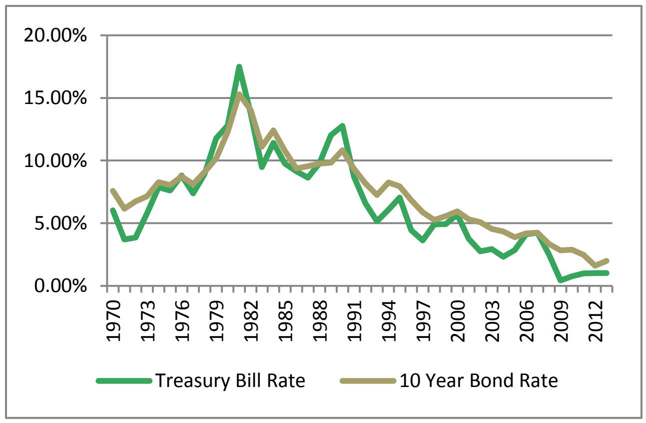


The graph above shows that the real value for farmland is similar to the price level that existed prior to the collapse in values that occurred during the 1980s.

Interest Rates

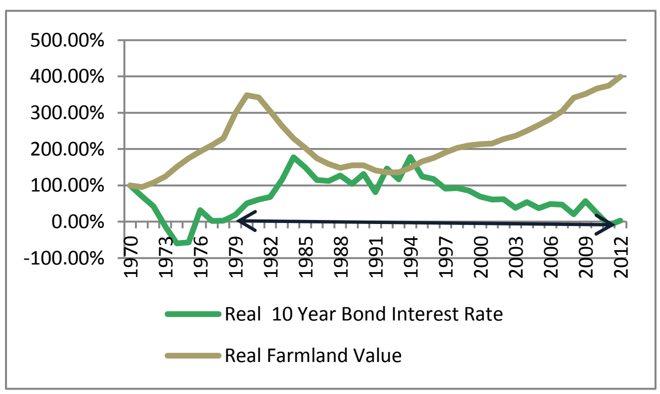
However, one notable difference between the 1980s and recent years is that interest rates were much higher during the collapse that occurred during the 1980s. This is shown in the following graph.

Historic Nominal Interest Rates



When the real interest rate is plotted relative to the real farmland price, it is seen that the current real interest rate is not a lot different than the real interest rate that existed in the years leading up to the collapse during the 1980s.

Farmland Values Relative to Interest Rates (Index: 1970 = 100%)

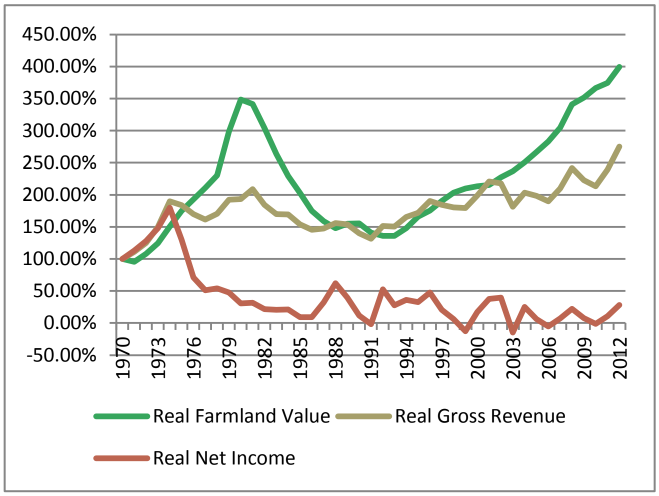


Although this may raise speculation that land prices may fall when interest rates rise, interest rates are not the only factor that influences land prices.

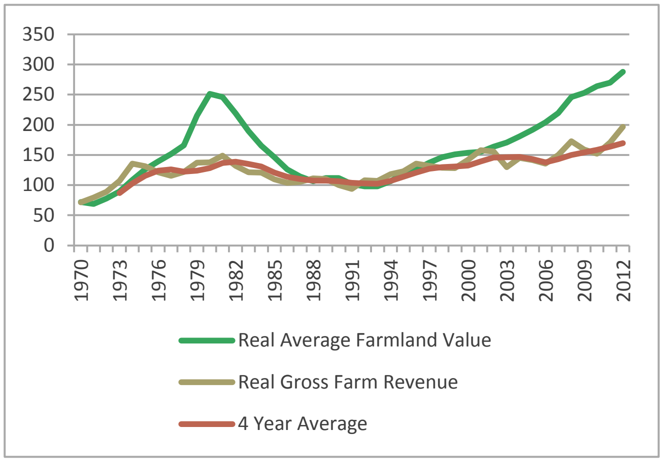
Farm Revenue

Farm revenue is another obvious factor that would be expected to influence land prices. However, as shown in the following graph, it is gross revenue rather than net revenue that appears to be more correlated with land prices.

Farm Revenue Relative to Farmland Values (Index: 1970 = 100%)



Despite the appearance that land prices seem to follow a general trend in gross farm revenue, there is much higher year to year variability with farm revenue. Therefore, it is further considered that land prices are not driven by a one year change in farm revenue. Rather the graph below shows how using a multi-year moving average smooths the year to year variability of farm revenue to more simulate the trend in farmland values.

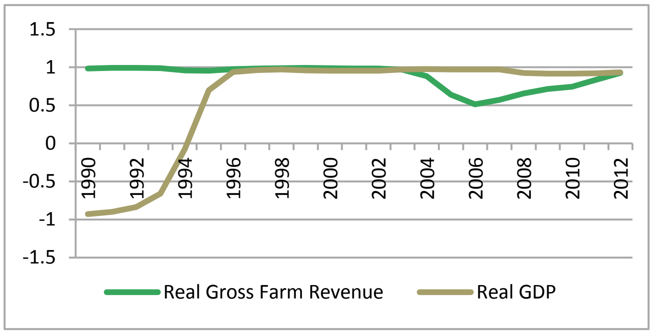


Therefore, using a moving average value for gross farm revenue is considered to more likely reflect the influence on changes to farmland prices.

Gross Domestic Product

A large and growing proportion of Alberta and Canadian farmland is not actually farmed by the landowner. According to information from Statistics Canada, in 2011 approximately 45% of farmland in Alberta was rented.

Therefore, given the level of investment by individuals and institutions not actively farming, several literature sources emphasize the influence of macroeconomic performance on farmland values. Using a 10 year moving average, the following graph shows how over recent years the correlation coefficient of farmland with GDP has been higher than the correlation with farm revenue.

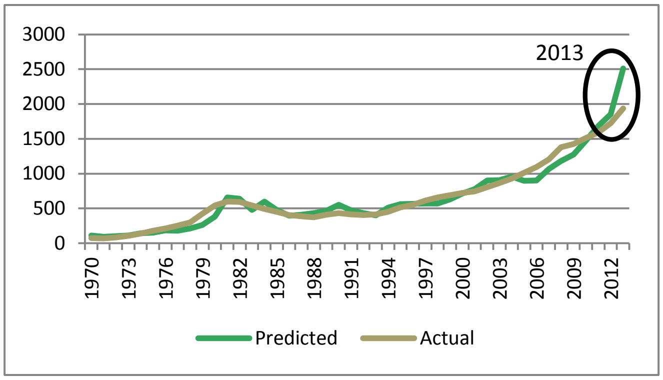


Summary

Using the factors described above, we developed a regression model that simulates farmland values since 1970. Specifically, the factors considered in the model include:

- Inflation
- Interest Rate
- Gross Farm Revenue (multi-year moving average)
- GDP

By applying these factors in a multiple regression, the following graph shows the predicted farmland value versus actual reported average farmland value since 1970.



The regression output does identify some aspects of colinearity between some of the variables. However, the graph above highlights that the predicted values using our regression model very closely simulates the actual trend in farmland values.

Based on this model, the predicted value for farmland in 2013, as indicated in the graph above, was higher than the actual reported average value. Therefore, the current average price of land may actually be undervalued relative to the values of the fundamental factors that have historically driven farmland prices.

This estimate does not necessarily mean that land prices will not decrease in the future, especially if the underlying values of the factors influencing farmland prices change. However, it does appear to indicate that current farm land prices do not appear to be overly inflated with extreme risk of bursting.

Sale Summary

Southern Alberta				
Municipality/ County	Sale Price	Acres	Land Use	$/acre
Bighorn	$475,000	160	Treed	$2,969
Bighorn	$950,000	157.94	Pasture/cultivated	$6,015
Bighorn	$850,000	155.58	Treed	$5,463
Foothills	$1,000,000	154.5	Cultivated	$6,472
Foothills	$760,000	154.3	Cultivated	$4,925
Foothills	$6,247,375	132	Urban Influence	$47,329
Foothills	$520,000	80	Hay	$6,500
Foothills	$1,555,000	299	Treed	$5,201
Foothills	$1,200,000	145.08	Cultivated/pasture	$8,271
Lethbridge	$178,000	159.03	Pasture	$1,119
Pincher Creek	$300,000	159.75	Pasture	$1,878
Rocky View	$1,100,000	153.01	Cultivated	$7,189
Rocky View	$500,000	108.97	Cultivated	$4,588
Rocky View	$350,000	80	Treed	$4,375
Rocky View	$590,000	160	Cultivated	$3,688
Rocky View	$630,000	160	Cultivated	$3,938
Rocky View	$1,500,000	73.11	Urban Influence	$20,517
Rocky View	$1,200,000	154	Pasture	$7,792
Taber	$4,000,000	634.17	Irrigated	$6,307
Taber	$3,000,000	510.7	Irrigated	$5,874
Taber	$1,600,000	313.44	Irrigated	$5,105
Taber	$1,000,000	157.98	Irrigated	$6,330
Taber	$1,100,000	148	Irrigated	$7,432
Vulcan	$1,101,614	401.12	Cultivated	$2,746
Wheatland	$380,000	125.15	Hay/pasture	$3,036
Wheatland	$720,000	129.44	Hay/pasture	$5,562
Wheatland	$675,000	157	Hay	$4,299
Willow Creek	$650,000	324.02	Pasture	$2,006
Willow Creek	$350,000	149.75	Hay	$2,337
Willow Creek	$270,000	160	Pasture	$1,688
Willow Creek	$200,000	79.07	Pasture	$2,529

Central Alberta				
Municipality/ County	Sale Price	Acres	Land Use	$/acre
Brazeau	$500,000	143.8	Bush, River Frontage	$3,477
Camrose	$210,000	78	Cultivated	$2,692
Clearwater	$225,000	107.95	Hay	$2,084
Clearwater	$267,000	122.71	Cultivated/bush	$2,176
Clearwater	$334,000	154	Hay/cultivated	$2,169
Clearwater	$355,000	151.85	Hay	$2,338
Clearwater	$245,000	87.97	Pasture/treed/fenced	$2,785
Clearwater	$350,000	160	Cultivated	$2,188
Clearwater	$405,000	154	Cultivated	$2,630
Flagstaff	$825,000	567.8	Pasture	$1,453
Kneehill	$210,000	149	Pasture	$1,409
Lacombe	$270,000	89.2	Hay	$3,027
Leduc	$417,000	75.19	Hay	$5,546
Leduc	$206,500	156.7	Pasture	$1,318
Leduc	$206,500	160	Pasture	$1,291
Leduc	$277,500	76.84	Hay/pasture	$3,611
Mountain View	$630,000	145	Cultivated	$4,345
Mountain View	$538,000	155	Cultivated	$3,471
Mountain View	$518,000	152	Treed	$3,408
Mountain View	$450,000	160	Cultivated	$2,813
Mountain View	$420,000	71.94	Cultivated	$5,838
Mountain View	$640,000	158.97	Bush	$4,026
Mountain View	$620,000	159.4	Cultivated	$3,890
Paintearth	$129,000	160	Cultivated	$806
Paintearth	$145,000	351	Pasture	$413
Paintearth	$120,000	157.5	Tame grass	$762
Red Deer	$249,675	76.07	Cultivated	$3,282
Red Deer	$275,000	152.86	Pasture	$1,799
Stettler	$155,000	159	Native Pasture	$975
Stettler	$235,000	157	Cultivated/pasture	$1,497
Wetaskiwin	$675,000	150	Treed/pasture	$4,500
Wetaskiwin	$292,500	141.13	Treed	$2,073
Wetaskiwin	$225,000	90	Treed/cultivated	$2,500
Wetaskiwin	$215,000	152.47	Pasture/treed	$1,410
Wetaskiwin	$349,900	80	Cultivated	$4,374
Wetaskiwin	$412,450	80	Cultivated	$5,156
Wetaskiwin	$525,000	138.52	Cultivated	$3,790
Wetaskiwin	$275,000	160	Hay/pasture/cultivated	$1,719
Wetaskiwin	$176,000	159	Bush	$1,107

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Northern Alberta				
Municipality / County	Sale Price	Acres	Land Use	$/acre
Athabasca	$60,000	73.7	Pasture	$814
Athabasca	$275,000	155.54	Cultivated	$1,768
Barrhead	$650,000	319	Cultivated/bush	$2,038
Barrhead	$800,000	299	Cultivated/pasture	$2,676
Beaver	$179,000	80	Cultivated	$2,238
Beaver	$285,000	80.5	Partly treed	$3,540
Beaver	$335,000	160	Treed	$2,094
Beaver	$420,000	148	Cultivated/hay	$2,838
Big Lakes	$34,000	159	Treed	$214
Bonnyville	$375,000	151.23	Hay	$2,480
Bonnyville	$160,000	90.2	Hay	$1,774
Bonnyville	$315,000	154	Pasture	$2,045
Bonnyville	$530,000	149.96	Treed/pasture	$3,534
Bonnyville	$1,650,000	116.68	Urban Influence	$14,141
Lac Ste. Anne	$205,000	160	Hay/treed	$1,281
Lac Ste. Anne	$118,500	120	Pasture/fenced	$988
Lac Ste. Anne	$113,000	75	Treed	$1,507
Lac Ste. Anne	$123,000	160	Pasture/fenced	$769
Lac Ste. Anne	$200,000	79.57	Pasture/treed	$2,514
Lac Ste. Anne	$295,000	157.64	Pasture	$1,871
Lamont	$180,000	80	Cultivated	$2,250
Lamont	$76,000	74.95	Pasture	$1,014
Lamont	$117,000	79.5	Cultivated/bush	$1,472
Lamont	$125,000	160	Pasture	$781
Lamont	$180,000	80	Recreational	$2,250
Lamont	$278,000	139.08	Cultivated/bush	$1,999
Lamont	$600,000	160	Cultivated	$3,750
Parkland	$165,000	158.96	Rolling/treed	$1,038
Parkland	$940,000	160	Rolling/treed/pasture	$5,875
Parkland	$229,900	160	Pasture	$1,437
Parkland	$425,000	75	Treed	$5,667
Parkland	$140,000	154.2	Treed	$908
Parkland	$190,000	160	Cultivated/treed	$1,188
Parkland	$148,000	80	Treed	$1,850
Parkland	$640,900	273.9	Cultivated	$2,340
Parkland	$164,000	159	Pasture	$1,031
Parkland	$295,000	75	Treed	$3,933
Peace	$126,000	166	Hay	$759
Peace	$110,000	154	Cultivated	$714
St. Paul	$135,000	141.3	Treed	$955
St. Paul	$63,000	70	Treed	$900
St. Paul	$135,000	70	Pasture	$1,929
Sturgeon	$275,000	77.81	Treed/pasture	$3,534
Sturgeon	$480,000	160	Cultivated/treed	$3,000
Sturgeon	$260,000	72.59	Cultivated	$3,582
Sturgeon	$1,200,000	160	Bush/pasture	$7,500
Sturgeon	$525,000	160	Pasture	$3,281
Sturgeon	$601,000	76.78	Cultivated	$7,828
Thorhild	$470,000	473.56	Cultivated	$992
Thorhild	$255,000	232	Hay/pasture	$1,099
Thorhild	$231,000	149.03	Hay land	$1,550
Thorhild	$258,000	312.71	Bush/pasture	$825
Thorhild	$246,000	160	Cultivated	$1,538
Two Hills	$130,000	135.37	Bush/pasture	$960
Two Hills	$94,000	158.97	Cultivated/pasture	$591
Two Hills	$180,000	80	Cultivated	$2,250
Two Hills	$122,500	74.63	Pasture	$1,641
Westlock	$225,000	147	Pasture/treed	$1,531
Westlock	$175,000	161	Treed	$1,087
Westlock	$232,000	160	Pasture/bush	$1,450
Westlock	$325,000	322	Pasture/bush	$1,009
Westlock	$395,000	160	Pasture/bush	$2,469
Woodlands	$150,000	149.07	Pasture/bush	$1,006
Yellowhead	$158,000	160	Treed	$988
Yellowhead	$155,000	146.06	Treed	$1,061

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