Thank you for the opportunity to share my thoughts and research regarding Canadian farmland. This is a timely topic as we have just surveyed more than 2,000 farmers and I will be able to bring some of the insights of that survey to my discussion.\(^1\) I will now briefly overview some of the key macro forces that influence farmland prices. When drawing on my own research I will often refer to Ontario but these points are generally applicable throughout Canada. I will also discuss farmer concerns about non-farmer ownership of farmland. Finally, I will briefly overview the suite of policies that influence who can own farmland. I look forward to providing additional details in the question and answer portion of this discussion.

**Factors Driving Farmland Prices**

Farmland prices have been increasing at high rates. The Municipal Property Assessment Corporation estimates that between 2012 and 2016 the per-year average increase of overall values in Ontario was 16%.

One major factor driving farmland prices over the last ten to twelve years has been the low interest rate environment. This is a widespread phenomenon and has influenced asset values in both Canada and the United States. Even a conservative estimate of a 2 percentage point drop in the interest rate since 2005 (which is consistent with mortgage lending rates in Canada\(^2\)) would be expected to have a large positive effect on the price of farmland.\(^3\)

\(^1\) For reasons we can discuss, the survey provides responses from those farmers who decided to respond. Hence, because it is not randomized, it is not necessarily representative of the region.


\(^3\) One, albeit over-simplified way, to see the effect of a low interest rate is through a capitalization formula that links the capitalized value of an asset (say the present value of farmland) to its future stream of income (say the cash rent rate). Holding cash rent
The rise in farmland values also depends on the return to farming and this depends on both the price of outputs and inputs. Emphasizing the former, in 2012, corn prices soared to close to double their current price per bushel. From then to now, our surveys from Ontario suggest that rental rates also appreciated. The combination of higher rental rates (which is a proxy for the net-return to farmland) and the low interest rate environment is consistent with our experience with land appreciation.

I think it is important to keep in mind that the variation with the provinces in terms of both cash rents and farmland prices are substantial. To illustrate this point concretely, I’d like to draw from a very recent survey that was conducted with farmers in Ontario. The median reported rental rate was $300 in Perth County but $150 in Wellington County. The price per-tillable acre, according to our survey of farmers, in Perth was $18,500 while it was $11,500 in Wellington. These differences likely reflect differences in the productive character of the farmland.

Let me add that “location, location, location” appears to matter for farmland as well as residential properties. In southern Ontario, near the GTA cities, farmland prices are likely to reflect future non-farm development uses. A great deal of research suggests that proximity to urban areas places upward pressure on farmland values.

Finally, though I do this with some caution, we can use our recent survey results of Ontario farmers as a bit of a ‘crystal’ ball. In our recent survey the majority of farmers, (57%) thought farmland prices would remain the same over this year. Thirty-five percent thought it would rise. Only 8% of farmers thought farmland values would fall.

**Farmer Concerns**

I want to briefly address farmer concerns associated with “farmland acquisition.”

At the outset I should note that there are two sides to an exchange. Hence, buyers and sellers are differentially affected by farmland price appreciation. Whereas farmers and farmland owners selling land benefit by price appreciation; farmers seeking to purchase farmland, are discouraged by higher farmland prices.

The issue of who owns farmland and non-farmer acquisition of farmland is important to many farmers and farm groups. The National Farmers Union, for example, emphasized the need for farmers and local farm families to own farmland. I have heard similar statements from farmers when giving presentations throughout Ontario.

constant at $200 per tillable acre and using a 6% discount rate (which was roughly the prevailing mortgage rate in Jan. 2005) would generate a value of 3,333 per acre. Using a 4% discount rate (approximately the prevailing mortgage rate in Jan 2017) would generate a value of 5,000. Hence, in this stylized example, the 50% increase in farmland is explained by a decrease in the interest rate of 2 percent.

4 These percentages refer to 1,043 respondents.
In this regard, let me raise a couple of issues that might be helpful. First, this is a historic concern; in documenting the early history of agricultural economics in the United States, Paul Barkley\(^5\) writes of an early efforts to address “…the rapid increase of the system of land renting, [and] the absorption of small holdings by wealthy land holders…” (pg.7). The time of this session is remarkable: 1897.

Second, and related to this point, the farmland rental market is well established in Canada; presently a bit north of 30% of the farmland is in the rental market and our research suggests that the majority of this rented land is not owned by “active farmers”. The long established exchange between landlords and tenants suggest benefits to farmers and non-farmers alike. Farmer’s benefits from renting-in land; renting allows them to get up to scale without putting all of their investment in land. Non-farmers, engaged in the rental market, appear to be interested in holding farmland as an investment that has a return in the form of both rents and land appreciation.

Importantly, our research suggests that the majority of these non-farmer landlord renters are Canadians. In a 2013 survey of 207 farmers in southern Ontario only 1% of the farmers identified their landlords as “foreign.” Hence, investment in farmland and speculation on farmland values appears to be of far more interest to Canadians than foreigners.

This low figure parallels data from the United States. Specifically, the U.S. Department of Agriculture, identifies less than 2% of U.S. forest and farmland, as being owned by foreign investors.\(^6\) It may be of interest to note that the country of origin with the highest ownership interest in U.S. farm and forestland is Canada.

Some Policy

In Ontario, for example, there are no restrictions on ownership of farmland. However, there are tax implications, foreign owners of farmland are not eligible for the significant tax breaks on farmland that are afforded to Canadian citizens.

Other provinces, for example, Quebec, have more restrictive policies that generally seek to limit or control “who” can own farmland: i.e., often foreign ownership of farmland is limited. These efforts may place downward pressure on farmland prices to the extent that

they diminish demand. However, the extent to which these policies significantly offset the fundamental drivers we discussed earlier is unclear to me. According to FCC data, for the year 2015, Quebec farmland increased by nearly 10% while Ontario farmland appreciated by nearly 7%.

I am prepared to discuss a range of additional policy issues including zoning, greenbelts, and data collection needs.