

THE FARMYARD

Farmland Insights and Trends

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With this issue, the team at AGinvest Properties Canada is striving to provide timely and thought-provoking insights on the fundamental trends, influences, and developments shaping the outlook for Ontario farmland. We hope you will find it of value.

One Less Buyer

Canada Pension Plan Investment Board has decided to stop acquiring farmland because “the business is not sufficiently scalable.” CPPIB is now open to selling its existing portfolio of 235,000 acres in the U.S. and Canada.

Our Activity

The team at AGinvest has identified a Class 1 farmland property in Southwestern Ontario. The elderly landowner will sell his land portfolio privately to AGinvest at a 29 percent discount to a cash bid he received recently, provided we lease the property to a designated farm operator for seven years.

DEPARTMENT OF AGRICULTURE



"A flower bed isn't enough — You have to own a farm before we can pay you for not growing things."

Trump's Threat to Canada's Dairy Farmers Appears *not* to be a Harbinger of Change

On April 18, President Trump was in Wisconsin, the state where vehicle license plates read, “America’s Dairyland.” While there, he lashed out at Canadian dairy farmers. He accused them of having done “*some very unfair things*” to U.S. dairy farmers. He did not detail his concerns, leaving everyone guessing what he meant.

What we know is that Wisconsin’s dairy farmers have been vocal, alleging that their Canadian counterparts have unfairly dropped the price of ultra-filtered milk, an ingredient used in cheese-making. U.S. farmers had been exporting ultra-filtered milk to Canada without being subject to tariffs. In April 2016, Ontario’s dairy farmers responded. On sales to Canadian processors, they matched the ultra-filtered milk prices offered by international competitors. Dairy farmers in other provinces followed suit.



Boosting a Farm's Productivity with a Sub-surface Drainage System (Field Tiles)

Throughout the Province of Ontario, the combination of soil type, natural drainage pattern, and abundant rainfall make the installation of a sub-surface drainage system economic. (In farming parlance, these drainage systems are known as "field tiles.") After installing them, a field will typically produce 10 to 25 percent more crop. The return on this capital expenditure can be high; up to 125 percent.

An aerial survey we conducted revealed that at least half of Class 1 & 2 farmland in Southwestern Ontario is *not* optimally equipped with field tiles.

This lack of proper drainage creates the opportunity to add value to a farmland property by taking the following steps: (i) identify a farm whose fields lack proper drainage; (ii) purchase the property at a heavily discounted price; and (iii) install field tiles.

The result is that the farming property is worth more; by our math, up to 15 percent.

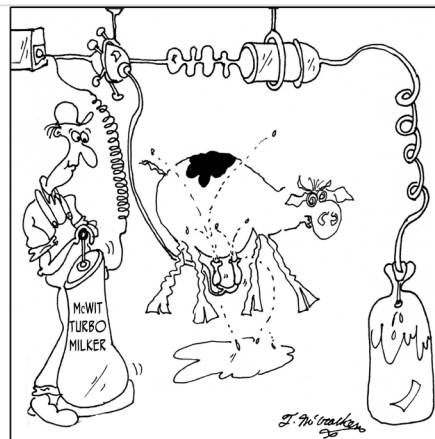
Plenty of Bark but (Likely) No Bite

The media interpreted Trump's cryptic language as a veiled threat against Canada's supply management system with its quotas, price controls, and tariffs. It may well have been a threat but one that appears hollow. In point of fact, the U.S. government heavily subsidizes its dairy farmers, so any in-depth discussion is bound to revolve around how each government protects its dairy farmers: the U.S. through cash subsidies and its Milk Marketing Federal Order system, and Canada through its supply management system for dairy, chicken, turkey, and eggs.

What's more, the U.S. currently has a \$400-million a year dairy product surplus with Canada. We imagine U.S. trade officials will want to protect this advantageous trade flow rather than harm it.

Impact on Farmland Values

Buyers and sellers of Ontario farmland will undoubtedly be watching the U.S. administration's actions surrounding this issue but the *immediate* impact is likely to be limited to dairy farmers holding back on further land purchases. Longer term, should Canada's supply management system be dismantled, farmland values would be at risk of an adverse correction in counties with high concentrations of supply-managed farms. That being said, this is an outcome we do *not* recommend betting on. We highlight that the most affected area is the land surrounding London, Ontario, where most of Ontario's dairy farmers operate.



Betsy's not too happy with Ralph's new turbo milker.