MUNICIPAL PROPERTY ASSESSMENT CORPORATION

MarketSnapshot

Assessment Update Farm Edition

Farm assessed values in Ontario | *November 2012*

WELCOME

Welcome to a special edition of Market Snapshot focused on the assessed values of farm properties in Ontario.

Over the past four years, farmland values across Ontario have increased more than any type of residential property, including waterfront property.

These increases have been reported by the Farm Credit Corporation, real estate brokers, the Ontario Federation of Agriculture and local media, and have been confirmed in our 2012 province-wide Assessment Update which is now underway.

This edition of Market Snapshot shows where some of the most significant increases in values have occurred and examines the factors underlying these increases.

We looked at sales of 1,700 Ontario farms, 20 acres or more in size, over the past five years. Only farmer-to-farmer sales, that is land that will continue to be in agricultural production, were used in determining our values.

A detailed explanation of how farmland is assessed and taxed can also be found in this report.

This report reflects our ongoing commitment to property assessment excellence, outstanding service and trust. As always, I welcome your comments and suggestions for improvement.

Larry Hummel,
MPAC's Chief Assessor

2012 Assessment Update

Four-year cycle and phase-in program

This fall, all property owners in Ontario will receive a Property Assessment Notice with the assessed market value of their property as of January 1, 2012. To help provide an additional level of property tax stability and predictability, the Ontario Government has established a phase-in program where market increases in assessed value between January 1, 2008 and January 1, 2012 will be phased in over four years (2013-2016). Decreases in assessment are applied immediately.

Notices are being mailed from September to November. To find out when Notices will be mailed across the province, visit www.mpac.ca. Property owners can also learn more at www.aboutmyproperty.ca.

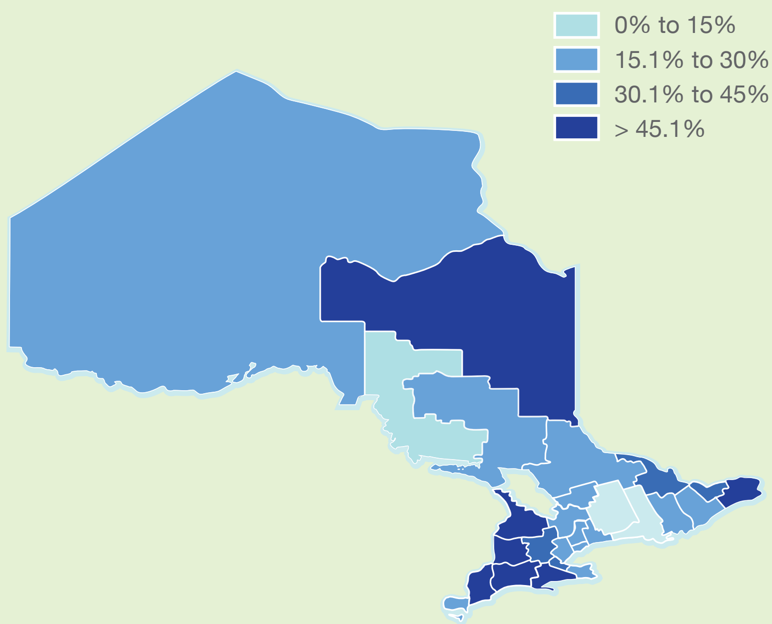
CHANGES IN FARM ASSESSED VALUES IN ONTARIO (2008-2012)

The value of farm properties in Ontario has increased by an average of 34 per cent between January 1, 2008 and January 1, 2012, according to the 2012 Assessment Update prepared by MPAC.

When farm homes and the one acre of land on which they sit, both of which are assessed as residential property, are factored out, the average increase in value for **farmland alone over the past four years is 46 per cent.**

With the phase-in program, assessment increases are phased in over four years (2013-2016).

For more information about property taxes and the Farm Property Tax Class in general, see page 4.



HIGHLIGHTS

The average value for Ontario farm properties increased by approximately 34 per cent between January 1, 2008 and January 1, 2012. When farm homes and the one acre of land on which they sit, both of which are assessed as residential property, are factored out, the average increase in value for farmland alone over the past four years is 46 per cent.

Values increased in every region of the province and for all six classes of agricultural land, with the most significant increases seen in the top three classes, which is most suitable for production of cash crops such as corn. Prices for grazing land rose somewhat less in value, as high prices for commodities like corn make livestock production less profitable.

The average price per acre of class 1 farmland in Ontario rose from $4,051 per acre in 2008 to $7,323 in 2012, while the average price for class 6 farmland, the poorest quality farmland, rose from $421 to $1,008.

However, significant regional variations were seen. The most significant increases in value were seen in eastern and southwestern Ontario where average farmland values increased 55 and 52 per cent respectively over the past four years. Farmland values in the central north increased 17 per cent, less than any other area of the province.

Some of the most significant farm increases were seen in the following areas.

	2008-2012 increase	Sale Price per acre in 2008	Sale Price per acre in 2012
Stormont, Dundas and Glengarry/ Prescott and Russell	105%	$1,745	$3,570
Huron-Bruce	47%	$3,070	$4,500
Oxford County	68%	$5,020	$8,450
Perth County	65%	$5,125	$8,465

By comparison, farmland prices in the Greenbelt surrounding the Greater Toronto Area increased by an average of 41 per cent, still significant but less than the provincial average of 46 per cent. Average values in the Niagara Region have also not increased as much as farmland in other areas of the province, primarily because of a surplus of grapes for winemaking. As well, average values in Essex County have not risen as much as other areas of the province, in part because of the predominance of greenhouses which are factored into the average and have not increased as much as raw land prices.

The increases are being driven by a number of factors within and outside the province. These include:

√ Historically low interest rates.

√ Increased prices for agricultural commodities driven by factors including:
  - the use of corn for ethanol production in both the United States and Canada. Some estimates put the amount of the corn crop diverted from food to ethanol production at as high as 40 per cent;
  - ongoing drought across large sections of the American Midwest decreasing corn and other cash crop production; and
  - increasing food consumption as a result of rising incomes in China, India and other rapidly developing countries.

√ Large machinery, which allows farmers to increase productivity but requires large amounts of land to justify the high cost.

√ The need for large livestock operations to acquire land to expand and meet nutrient management program requirements.

√ An increasingly limited supply of farmland as more agricultural land in Ontario and other jurisdictions in North America is taken out of production for urban development.

As well, upward pressure on farmland values in Ontario is created by city residents who purchase farms for retirement or second properties and keep them in agricultural production by renting them out to farmers. These sales are not included in our analysis as they do not represent farmer-to-farmer sales although the land remains in production. However, these purchases reduce the supply of farmland available to be purchased by bona fide farmers which in turn results in increased prices. Many of the factors detailed above are expected to have a continuing impact on farmland prices and resulting values.

ASSESSING FARM PROPERTIES

HOW ARE FARM VALUES ESTABLISHED?

MPAC establishes farm values through extensive analysis, using only farmer-to-farmer sales. Farm values are based on the land's productive capability and other factors such as climate and location. It's important to note that the assessment of a farm is not based on the land's potential use (e.g., development).

Properties that are farmed by the owner and/or tenant are valued using rates based on bona fide farmer-to-farmer sales. The primary components that will make up a farm's assessment are:

- **Farmland** - Farmland is assessed according to its productivity value, that is, the ability of the land to produce crops and/or maintain livestock. Productivity rates are established by considering such factors as soil texture, topography, drainage and depth to bedrock.
- **Residence** - The value of the residential structure is determined by establishing a replacement cost of the improvement(s) less any depreciation.
- **Residence Site** - If a farm residence is occupied by the person(s) farming the property, a one-acre parcel of land is valued at the farmland rate. The farm residence and one-acre parcel is classified in the residential tax class. If the residence is occupied by someone other than the person(s) farming the property, it is considered a non-farm residence and any land, or portion of the land, not being farmed is valued at residential land values.
- **Farm Outbuildings** - A farm outbuilding is any improvement, other than a residence, that is used for farming operations (e.g., barn, silo, grain bin). Outbuildings are valued based on their design, quality of construction and size.
- **Other Buildings** - All other buildings (e.g., retail store) not used in the farm operation are valued based on their design, quality of construction and size.

Each farm property in Ontario is assigned to a farm neighbourhood for the purpose of establishing a value.

Your Property. Our Assessment.
Know more about it. www.aboutmyproperty.ca

Learn how and why your property was assessed the way it was with AboutMyProperty™. Plus, you can compare your property assessment with others in your neighbourhood and community. Registration information is included with every Property Assessment Notice mailed.

Farm neighbourhoods capture differences in location and attempt to address commonalities such as:

- climatic regions;
- soil type and suitability; and
- similar properties selling for similar prices per acre.

Within each farm neighbourhood, adjustments are determined for each soil classification. Soil classifications quantify the factors that contribute to the agricultural capability of the soil. There are usually six classes of farmland. On this scale, class 1 is the most productive and class 6 is the least productive.

This sales analysis determines a rate per acre for each soil class within each farm neighbourhood in Ontario.

The results are then tested against sales using assessment-to-sale ratios to ensure the values produced are accurate, consistent and fair.

WHAT IS THE RELATIONSHIP BETWEEN PROPERTY ASSESSMENT AND PROPERTY TAXES?

All property in Ontario is assessed once every four years by MPAC. To establish your property's assessed value, MPAC's assessment professionals analyze property sales in your area. These sales provide the basis for assessed values. Our experts work in our 33 offices located across the province and they understand local real estate markets.

We continually collect and update detailed information for every property in Ontario to ensure that similar property types are valued consistently within the market area.

Municipalities use the assessments to calculate property taxes. In their annual budgets, each municipality determines the amount of money it needs to pay for police, fire and other services it delivers to its residents.

HOW DOES THE FARM PROPERTY TAX CLASS AFFECT MY PROPERTY TAXES?

Under the *Assessment Act* regulation that came into effect in January 1998, eligible farmlands can be classed in the Farm Property Tax Class and taxed at up to 25 per cent of the municipal residential rate.

The Farm Property Tax Class includes farmland and farm outbuildings. Although MPAC may assess a property as a farm, it is taxed at the residential rate unless placed in the Farm Property Tax Class by the Ontario Ministry of Agriculture, Food and Rural Affairs.

Additional information about the Farm Property Tax Class is available on the Internet at www.omafra.gov.on.ca or by contacting the **Ontario Ministry of Agriculture, Food and Rural Affairs** at 1 800 469-2285.

If you feel that the tax classification for your property is not accurate you may file a Request for Reconsideration directly with the Ontario Ministry of Agriculture, Food and Rural Affairs.

Who is MPAC? MPAC is a not-for-profit, public-sector corporation who proudly serves Ontario property taxpayers. It is our role to accurately value all properties in the province of Ontario. We are responsible for administering a uniform assessment system based on Current Value Assessment.

For more information about MPAC and property assessment, visit www.mpac.ca.

Contact Information: Cathy Ranieri Sweenie – *MPAC* | 905 837-6152