

**AN EMPIRICAL EXAMINATION OF LANDOWNER CHARACTERISTICS, SOCIAL CAPITAL AND FARMLAND RENTAL RATES IN SOUTHERN**

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# An Empirical Examination of Landowner Characteristics, Social Capital, and Farmland Rental Rates in Southern Ontario

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## Abstract

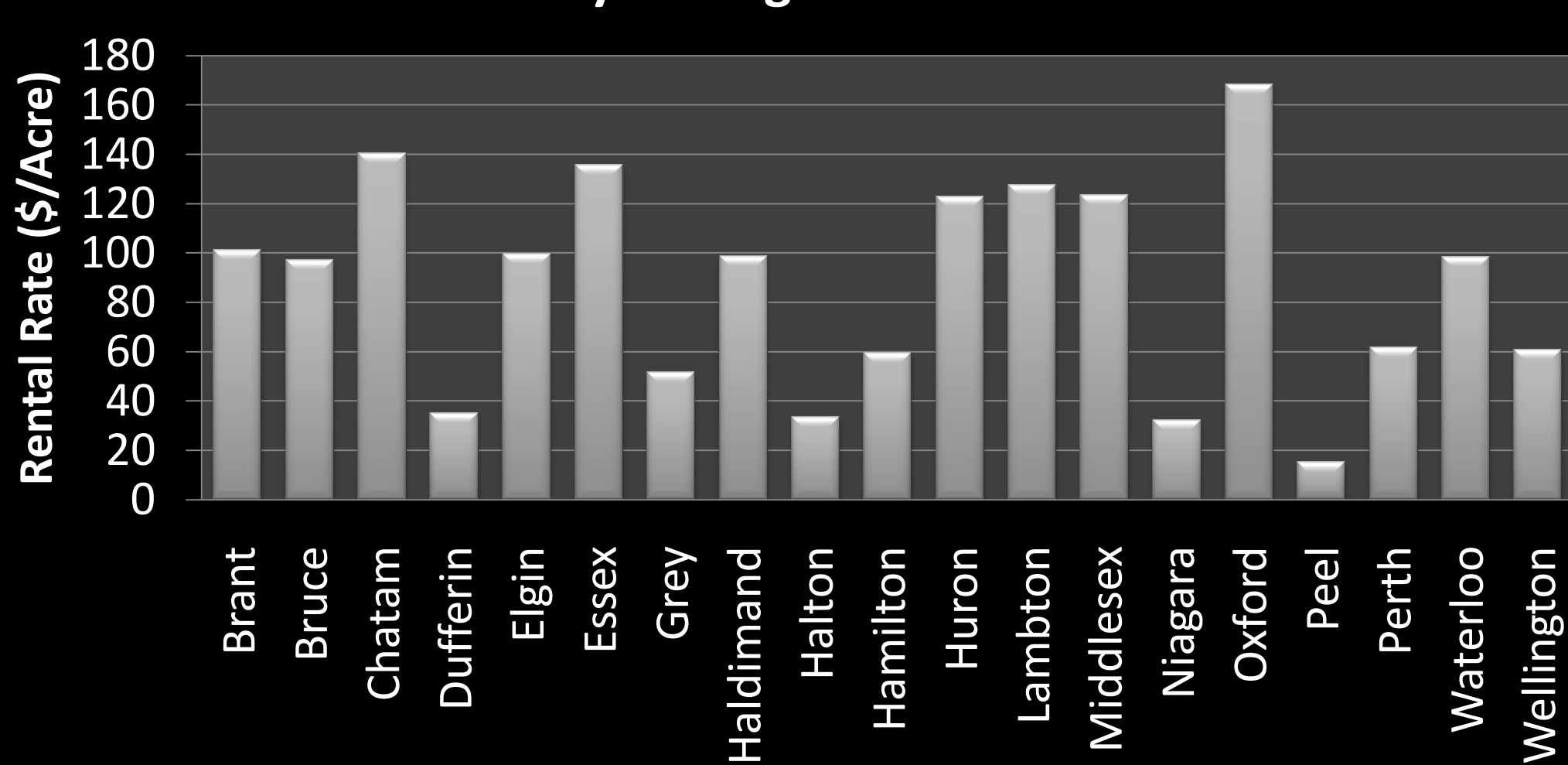
Thirty-three percent of farmland in Ontario is rented. Conventionally rental rates are expected to vary across parcels depending on a host of factors – e.g., land quality, location, crop prices – that contribute to expected net-revenue associated with a parcel's use. Recent literature suggests that variation in rental rates do not fully conform to the conventional economic approach. For this reason we set out to empirically examine two additional factors that may explain variation in rental rates: i.e., land owner category and the social relationship (social capital) between the landowner and the tenant. A survey of 240 farmers in southern and western Ontario was conducted during the months of June to September 2010. Our poster summarizes the data from this survey: e.g., rental rates, character of rental contracts, etc. In addition, we summarize variation in farmland ownership by landowner categories. Landowner categories include: active farmers, widow(er)s, retired farmers, individuals or families who use the land as a place of residence, private owner investors, investment companies, and governments (federal, provincial or municipal). The relationship (social capital) between farmland owners and renters is also examined as survey respondents provided information regarding their relationship to the farmland owner – e.g., family, close friends, friends and acquaintances. We provide additional results that assess the extent that rental rates differ across landowner categories and social capital.

## Background

Standard economic assumptions indicate that contract terms are based on the characteristics of the good in question, and the supply and demand of that good. It is also assumed that the contracting parties are both price takers, that is, no one party influences the price. Recent literature suggests that farmland rental may not be explained by these assumptions (Kirwan 2009, Patton, et al. 2008). One potential explanation for this is the impact of relationships on land rental rates. Here we examine the influence of relationships (social capital) on the terms of contracts through an examination of the farmland rental market in South-Western Ontario. Also examined are the influence of landlord characteristics on the land rental rate.

Recently, concerns over farmland ownership have been rising. Some believe that foreign ownership of farmland may cause problems within the agricultural industry. Here we examine who owns farmland in Ontario and if ownership positions impact the rental rate.

County Average Rental Rates



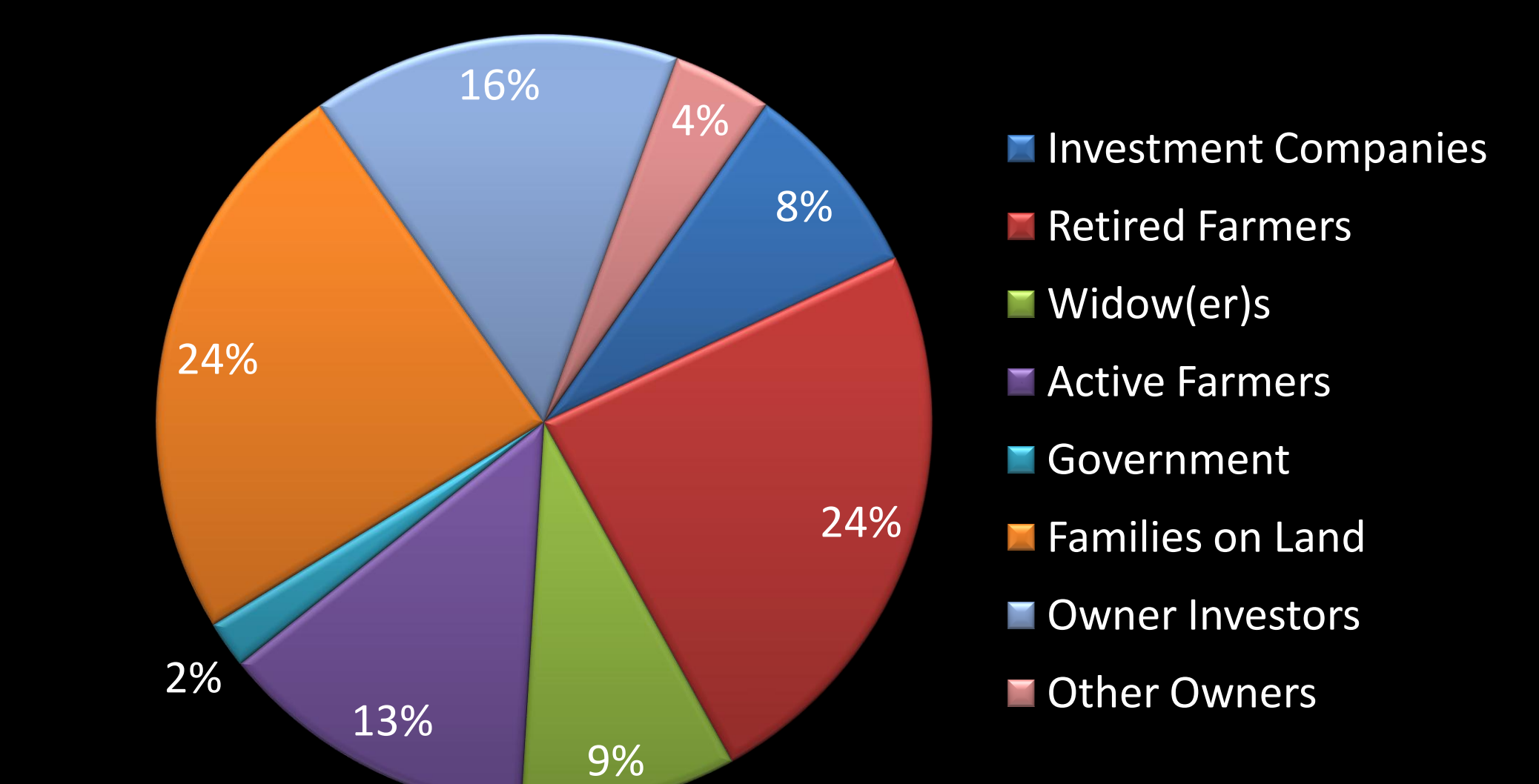
## Methodology

- Telephone and online survey used to collect data
- 240 respondents, totalling 509 rental properties
- Conducted in the South and Western Ontario Census Regions from June 25<sup>th</sup> to September 6<sup>th</sup> 2010
- Data examined using STATA/IC
- Survey instrument designed to collect information in several major areas
  - Farmer respondents and their farm operations.
  - Landlord information, location & categorization
  - Relationship between the tenant and landlord
  - Rental properties in question, including land quality, location and rental rates

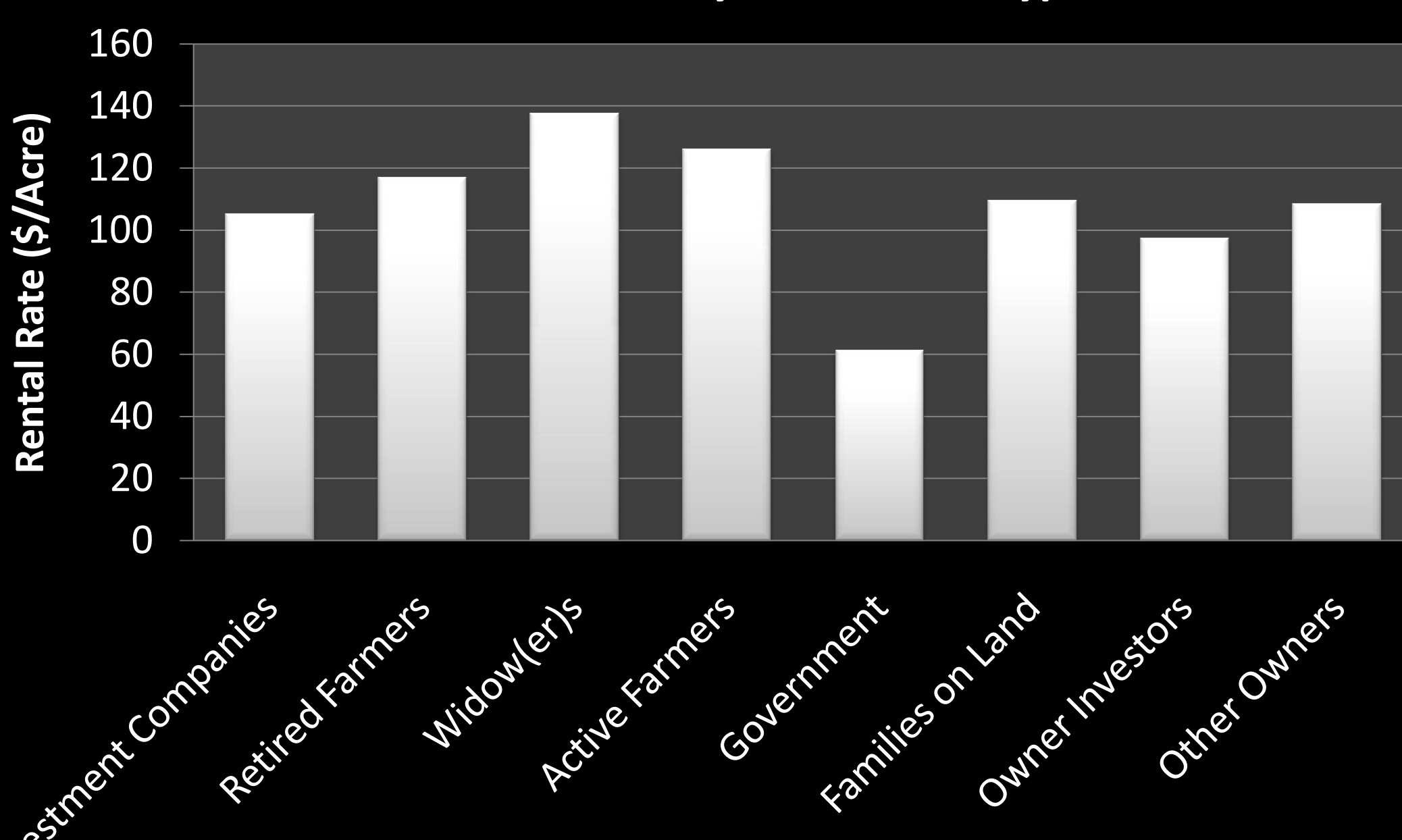
## Who Owns Farmland in Ontario?

- Farmers own 65% of farmland operated in the sample
- Who owns the remaining 35%?

Agricultural Rental Land Ownership In South-Western Ontario



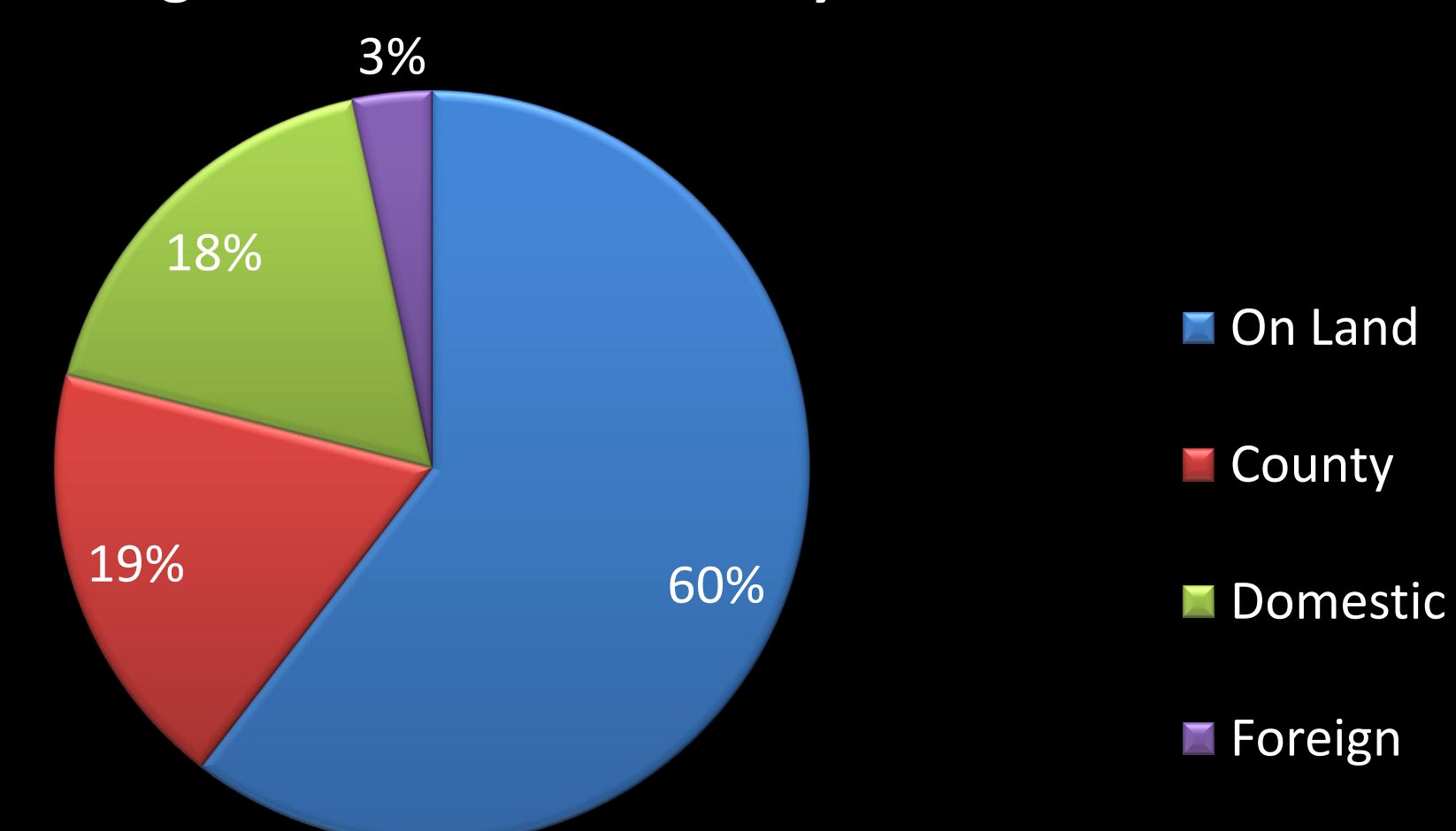
Cash Rental Rate By Landowner Type



- Rental lands are controlled largely by two groups
  - Retired farmers (24%)
  - Families who live on the land but are not involved in farming (24%)
- Highest rental rates are charged by widow(er)s (\$138/acre)
- Lowest mean rental rates charged by government (\$61/acre)
- Only rental from government sources seems to be impacted by ownership position

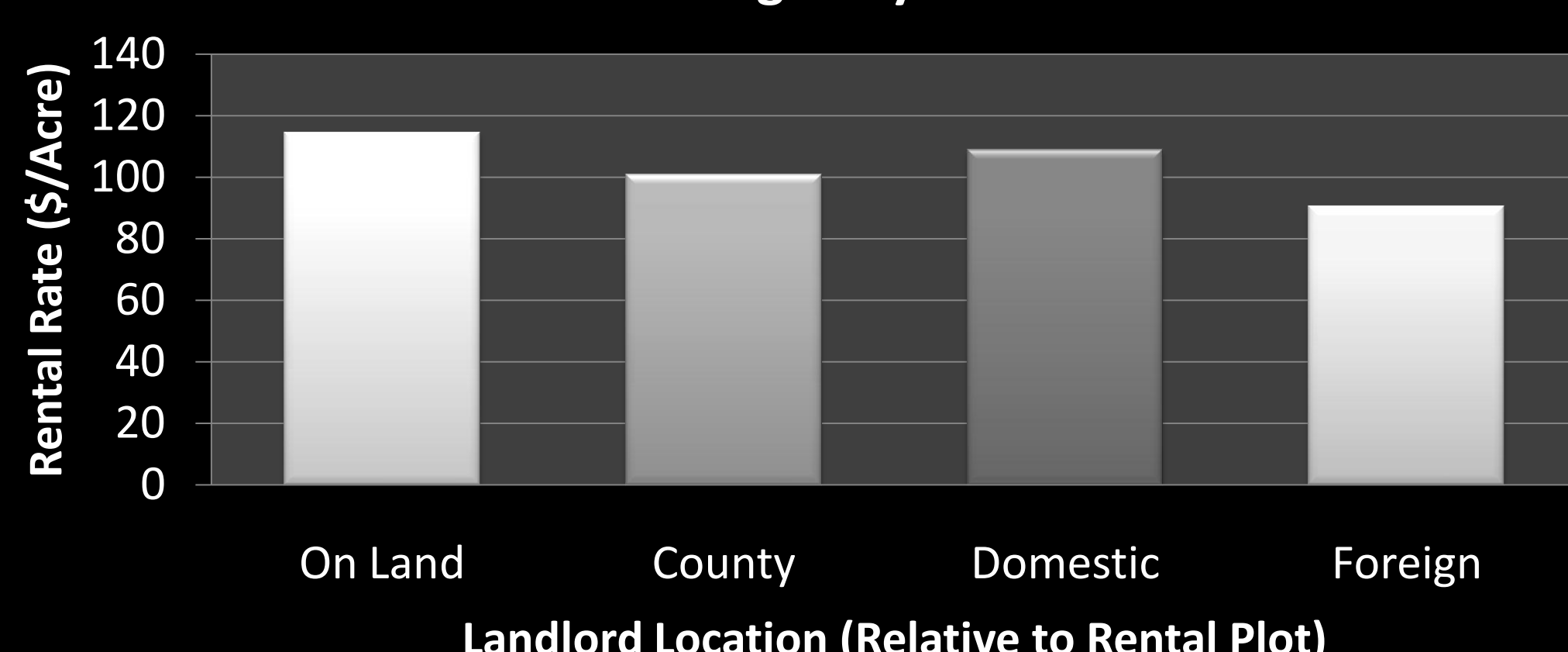
## What about Foreign Ownership?

Percentage of Land Controlled by Landlord Location



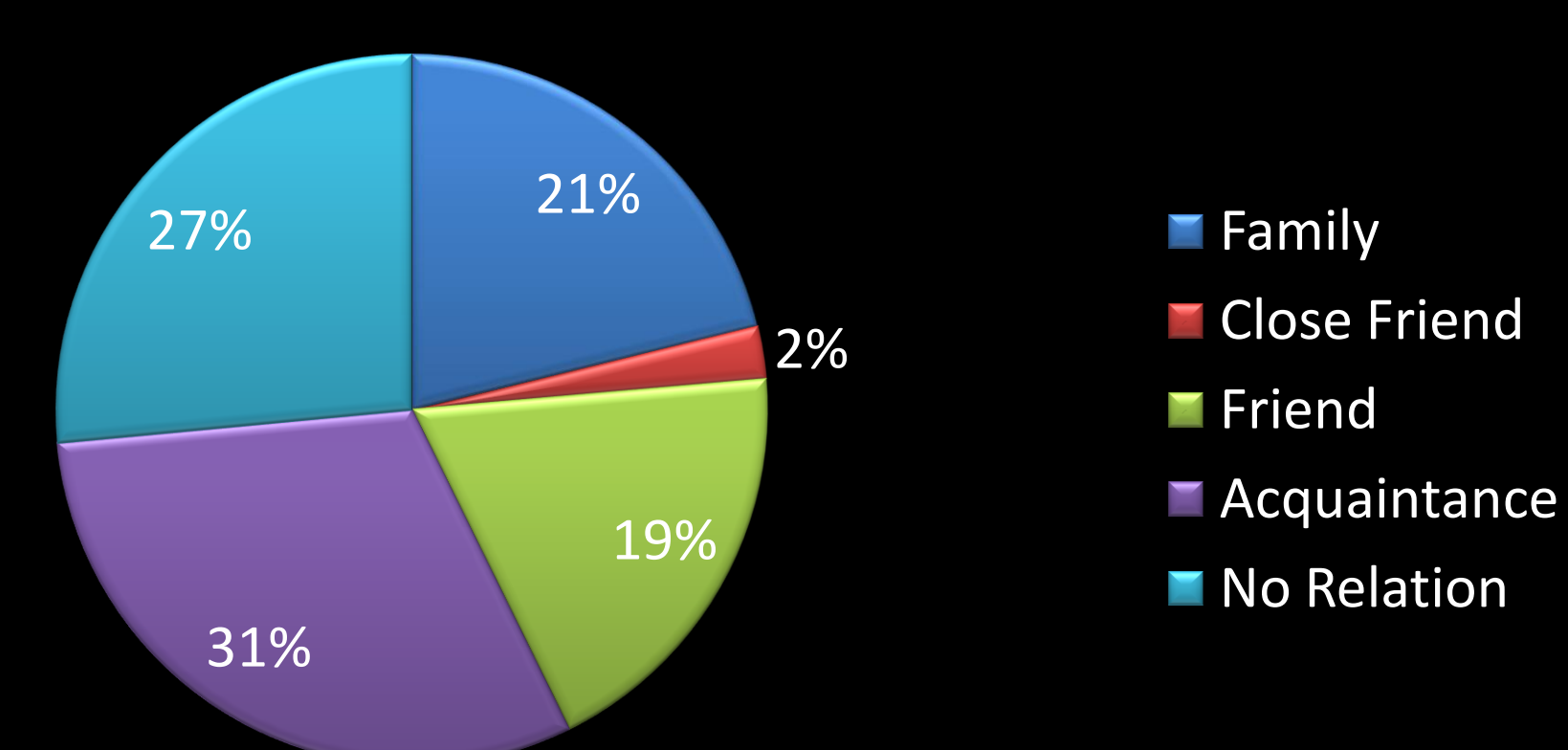
Foreign ownership of agricultural land has implications for where the funds generated from agricultural land rental are spent. It appears that foreign owners charge a slightly lower cash rental rates. Due to the small amount of foreign ownership the impacts on rental are modest.

Cash Rental Rate Charged By Landlord Location



## Social Capital

Land Rented by Relationship Type



- 21% of agricultural lands are rented from family members
- 21% from other non-arms length relationships
- Remaining 60% of relationships in agricultural land leasing are arms-length
- Does relationship strength impact the rental rate? Or does the reciprocal nature of relationships cause there to be no net effect on the land rental rate?

Cash Rental Rate Across Relationship Type

