

Feature Article

What factors affect a cranberry operation's value and attractiveness?

Several factors can impact a cranberry operation's value and attractiveness. If you're looking to optimize the value of a particular site, there are two things to consider: production area and yield.

Production area, a major issue

As a rule, larger sites are more attractive because they're sought after by bigger players. In addition to the developed area, the site's expansion potential also affects its appeal. Of course, increasing the cultivated area requires a significant investment. The cost to establish a cranberry bed is generally between \$30,000 and \$50,000 per acre. The cost depends on the type of land, i.e., whether it is wooded or already cultivated. The variety of cuttings also influences the cost. Moreover, it's not always possible to increase the area of cranberry cultivation, because a certificate of authorization may be required and they're becoming increasingly difficult to obtain in some regions, such as Centre-du-Québec. You also need to have the space available on-site to develop larger areas.

In British Columbia, urban development impacts the availability of land and farmers are thereby restricted to lands only within the protected Agricultural Land Reserve. Expanding the growing areas is challenging and rising land values contribute to those challenges.

Redevelopment can pay off

Another option to consider is the redevelopment of existing beds where the yield can be improved. Techniques have changed a great deal since the early days of cranberry farming, and not just in terms of irrigation and drainage. An average-yield bed with an older drainage system can be improved through redevelopment, sometimes up to double the yield. Availability of water and dike construction are also major factors that affect the value. Sites developed according to the latest standards with access to abundant water will generally be higher in value. Sites that require updating will generally be cheaper because buyers will factor in the cost of redevelopment when negotiating the purchase price.

If you're considering redevelopment, it's a good idea to think about which cranberry variety to plant. Some varieties have proven successful in terms of weather resistance, yield and fruit quality. However, there are new varieties on the market today that promise superior yields. Purchasing such varieties involves paying royalties of varying amounts for a certain period, possibly up to 10 years. The market has shown that sites producing these new varieties can be more attractive once the royalties have been paid. The cost of redevelopment increases significantly (up to 20% to 30% more) if you chose to plant a cranberry variety involving royalty payments. However, the anticipated yield is much higher, while the production cost is pretty much the same.

Importance of supply and demand

Keep in mind that a site's value is above all a function of supply and demand. When we look at recent years, the supply of cranberry sites in Quebec and British Columbia has been relatively limited. On the other hand, demand varies with market conditions, but since market conditions have been fairly positive for the past few years, there is a certain amount of upward pressure on cranberry farm prices.

In British Columbia the demand for land in general by investors and other farmers can supersede cranberry bog improvements and infrastructure. Those bogs already in production benefit from an income stream and business model which is supported by a valuable land asset base.

Another factor influencing the site's value is its location, which is also tied to supply and demand. A site located near a concentration of other cranberry producers is more likely to benefit from the competition effect, which creates upward pressure on values. This is definitely the case in British Columbia.

If you're planning to buy or sell a cranberry operation in the near future, contact your financial advisor to help guide you through this major process.

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