

Bonnefield Quarterly Newsletter Q2 2023

How do We Strike the Balance Between Farmland and Housing?

Farming and agribusiness are essential parts of Canada's economy. Canada's agricultural and agri-food sector is a major economic driver for the country that generates over \$100 billion of gross domestic product (GDP) and employs over 2 million people¹. However, while Canada is one of the largest countries in the world with a total land mass of approximately 2.5 billion acres², in 2021 only 154 million acres (or 6%) of the country's land was used for farming³.

As the global population continues to grow there is a natural stress created in balancing the need for agricultural land to support sustainable food production, and increased urbanization to support housing and industry growth. Over recent months, events in the province of Ontario have offered a glimpse into the competing demands on land and highlighted the importance of well developed, long-term and sustainably minded policies and practices with respect to land use.

Ontario - Home to Many and Continuing to Grow

Though only the fifth largest of Canada's provinces and territories by land area (representing approximately 10% of the country's land mass), Ontario is the nation's most populous province and is home to nearly 40% of the country's total population⁴. As such, the province is a major contributor to Canada's economy, including Canada's agricultural sector. In 2021, Ontario had the largest number of farms and farm operators of any province, was the second-largest contributor to Canada's farm revenues and led other provinces in farming key crops such as soybeans and corn⁵. The Ontario Federation of Agriculture (OFA) estimates that agriculture contributes \$47 billion annually to the province's GDP while generating nearly 750,000 jobs⁶. Additionally, more than half of the highest-quality farmland in Canada is located within Ontario⁷.

Despite already being the nation's most populous province, Ontario continues to grow. The province's population grew by 24% from 11.4 million in 2001 to 14.2 million in 2021⁸. Current projections indicate that Ontario's population will grow by more than 35% to surpass 20 million within the next 25 years, with the Greater Toronto Area expected to grow the fastest at a rate of over 40% over that same period⁹.

However, Ontario's population growth in recent years has not been met by a commensurate increase in the supply of housing that is both suitable and affordable; it has been reported that home prices and rents in many Ontario cities are now among the highest

in the country, and rental vacancy rates have fallen to near pre-pandemic levels¹⁰. Further, the average price of a house in Ontario reportedly increased by 180% over the course of a decade, whereas incomes grew at just 38%¹¹.

In December 2021, the Ontario government appointed a new Housing Affordability Task Force to help develop a set of recommendations on measures to address housing supply and affordability¹² and, in February 2022, the Task Force released its summary report detailing more than 50 recommendations to the province¹². The measures outlined in the report centered on creating more housing supply and proposed that Ontario adopt a goal of building 1.5 million new homes over the next decade¹².

Policymakers have been presented with the challenge of balancing the needs of a growing population and protecting valuable natural resources – including some of the richest, most productive farmland in the country. It is clear that more homes, particularly affordable housing options, will be needed to house Ontarians, but it is also true that more food will be needed in order to feed a growing population.

Farmland: A Valuable, but Finite, Resource

Though advancements in technology and practices have improved the efficiency of Canadian farms, thus reducing the total acres required to generate strong crop yields, the continued decline of farmland acreage across the country raises the question of where crops will be grown in the future. According to Statistics Canada's Census of Agriculture data, the total area of Canadian farms declined by over 13 million acres between 2001 and 2021¹³, which is roughly equivalent to losing an average of seven small farms per day over the past two decades¹⁴.

Despite the major role that agriculture plays locally within Ontario, farmland loss has been a notable long-term trend in the province. Total agricultural acreage in Ontario has fallen by nearly 20% over the past 35 years¹⁵, and the OFA estimates that the province's farmland acreage shrank at a rate of 319 acres per day in 2021 – which is a sharp increase of 80% compared to the 175 acres lost per day just five years prior to that in 2016¹⁶. Even more striking, if the current pace of farmland loss continues, 25% of the farmland that exists today in Ontario could disappear within the next 25 years¹⁷.

Beyond its economic impact, Ontario's agriculture industry has demonstrated significant progress and leadership in terms of sustainably minded farming practices. The number of Ontario farms reporting renewable energy production (such as through the use of solar panels or wind turbines) increased by more than 60% between 2016 and 2021, and the province had the highest proportion of farms

planting winter cover crops – which are beneficial for long-term soil health – as compared to other provinces across Canada⁵. Put simply: agriculture is essential to Canada, and Ontario is essential to Canadian agriculture.

Policy Responses Continue to Shift

Starting in 2005, the Ontario government established a series of policies, including the Provincial Policy Statement, the Greenbelt Plan, and the Growth Plan, designed to regulate urban sprawl and protect the province's sensitive environmental and ecological features, such as wetlands and farmland¹⁸. Though these measures may have slowed the rate of residential and commercial land development that would otherwise have occurred were they not in place, it is still clear that Ontario's farmland base has diminished significantly in recent decades.

Following the Housing Affordability Task Force's Summary Report in 2022, Ontario's provincial government has tabled several bills with the aim of seeing 1.5 million new homes built by 2031. Among these pieces of legislation have been Bill 109: More Homes for Everyone Act, 2022 which was passed in April 2022¹⁹; Bill 23: More Homes Built Faster Act, passed in November 2022²⁰; and, most recently, Bill 97: Helping Homebuyers, Protecting Tenants Act, 2023 was passed in June 2023²¹.

These pieces of legislation collectively introduced major changes to the policy framework that governs where, how, when, and how quickly land can be re-developed for residential use, and have been met with mixed feedback from municipalities, environmental groups, and other stakeholders, including several of Ontario's farming industry organizations.

Bill 97 & Demand for Ontario Farmland

The most recent example of housing-focused provincial legislation in Ontario is Bill 97. The policy changes encompassed under Bill 97 are wide-ranging and will make it easier for developers to build on agricultural land. Once such policy change will enable municipalities to expand their boundaries outwards and rezone agricultural land for development, without requiring evidence of need, or further environmental studies²². Bill 97 would also strengthen the use of "Minister's Zoning Orders" (MZOs), which allow the provincial government to override local municipalities' existing land zoning rules and planning processes to directly change how specific pieces of land can be used – for example, turning land that is zoned for agriculture into residential or commercial developments²².

Though Minister's Zoning Orders have historically been issued by the provincial government in limited, extraordinary circumstances, they have been used more frequently in recent years to expedite residential and industrial development projects across Ontario²³. MZOs are seen by some local governments as a valuable tool when used responsibly and consistently to help support communities' needs (e.g., to accelerate housing projects that include affordable units), however, it is also worth noting that MZOs do not require public consultation and cannot be appealed²³. In 2021, the Ontario Auditor General found that no formal process exists for interested parties to request MZOs, nor are there established criteria for approval²⁴. The Auditor General's 2021 report on Ontario's land-use planning tools and practices noted that "lack of transparency in issuing MZOs opens the process to criticisms of conflict of interest and unfairness", and that MZOs are disruptive to land-use planning processes that would otherwise normally require years of

consultation and preparation²⁴.

Bill 97 also initially included a clause that would allow municipalities to divide large farms into smaller land lots, with a view to making it easier to build homes²⁵. More than a dozen farming organizations including the Ontario Federation of Agriculture issued a joint letter to the Ontario government objecting to the proposed changes relating to farm severances, noting that granting municipalities the ability to split farms could hamper the growth of agricultural businesses such as livestock farming, fragment the agricultural land base, and risk inflating farmland prices due to new demand for land in traditionally farming-centric regions²⁶. Ultimately, the Ontario government decided not to proceed with the proposed lot severance regulation change but left the rest of Bill 97, including the MZO and municipal expansion proposals, intact.

Balancing Growth and Conservation – a Global Issue

Recent events in Ontario serve as an example of the delicate balance that must be achieved when considering both the protection of valuable natural resources and how municipalities will accommodate growth. However, this is not an issue unique to Ontario.

In June 2023, the State of Arizona implemented restrictions on home-building in the Phoenix area, currently one of the fastest-expanding municipal areas in the United States, in light of concerns over water supply based on groundwater projections over the next 100 years²⁷. The new restrictions will not affect projects that received permits prior to announcement of the policy but will prevent the construction of new homes that rely on groundwater supply, particularly in suburban areas²⁸. In a news conference, Arizona Governor Katie Hobbs stated that "this pause will not affect growth within any of our major cities"²⁹.

Maricopa County, which includes Phoenix and surrounding suburbs, draws more than half of its water supply from groundwater; given it can take thousands of years to replenish groundwater it is effectively a finite resource²⁸. On the subject of the role that water availability plays in future development, Director of the University of Arizona's Water Resources Research Center Sharon Megdal noted that "we need to have water supplies in order to grow"²⁷.

Though it is not clear how Ontario's growth story will ultimately evolve, increased housing supply and a stable food supply chain – including locally-produced food – will both play critical roles in supporting population growth for the long term. It is also true that, as a major contributor to Canada's agricultural exports, Ontario's farming sector will likely become increasingly important in the context of global food supply as the world's population grows and climatic factors shift where crops can be grown around the globe. As a partner to Canadian farmers and agri-business operators for over a decade, Bonnefield has observed that Ontario's farmers, along with their counterparts across the country, are resilient, adaptable, and growth minded. Ontario's agriculture industry will play a major role in supporting the province's growth, and access to farmland will remain an essential part of ensuring the sector's success for years to come.

Bonnefield's Perspective

Bonnefield is a proud, longstanding and supportive partner to Canadian farmers and agri-business operators. We prioritize "farmland for farming" and would like to see future generations

of Canadian farmers have access to high quality, productive farmland. Farmland, and premium farmland in particular, is a valuable resource on which our future food production depends. For over a decade, Bonnefield's farmland sale-leaseback offering has provided farm operators across the country with an alternative source of capital that ensures long-term access to the high-quality farmland that is essential for their operations, while also maintaining and enhancing the land that we invest in through agronomic best practices and strategic property improvements.

We also recognize that farmland represents the largest financial asset for many farm families and that selling land – whether to other farmers, long-term investors, or developers – allows operators to realize some of the long-term value appreciation of their land assets. This in turn provides farm operators with capital to help achieve important goals, such as transitioning toward retirement, or investing in other aspects of their businesses (e.g., equipment, technology, alternative parcels of land that improve operational efficiency).

It is our view that farmers should be able to manage and operate their businesses in a way that allows them to achieve their objectives, and that includes retaining the optionality to maximize the value of their lands by selling to the highest and best users of that land. With that in mind, the recent policy changes related to land-use planning in Ontario may make such decisions more complex for farmers by potentially expanding the competitive universe of parties looking to acquire prime farmland for a variety of uses, which will result in greater competition for farmland. Though this may be a positive for those already considering exiting the farming industry, it will also make it more difficult for young farmers

to enter into the industry and for existing farmers to expand, and thus potentially increase the profitability of their businesses.

It is clear that Canada will require a significant increase in housing stock to meet current and future demands for housing. However, a balance must ultimately be achieved between the need for new housing and the need to preserve farmland – a scarce and valuable resource – for future generations. We acknowledge that this will be a significant challenge for policymakers over the years to come but believe that consideration should be given to:

- Pursuing new housing through densification in existing urban areas across the country, and
- Protecting our most valuable and productive farmland through rigorous and effective long-term zoning regulations.

The Ontario Housing Affordability Task Force's 2022 report highlighted a need to make better use of land, noting that undeveloped land should be part of the solution "but isn't nearly enough on its own", and that "most of the solution must come from densification"¹¹. Additionally, the Task Force's report stated that "environmentally sensitive areas must be protected, and farms provide food and food security. Relying too heavily on undeveloped land would whittle away too much of the already small share of land devoted to agriculture"¹². As a leading partner in Canadian agriculture, Bonnefield is aligned with this sentiment; it is our sincere hope that effective collaboration between policymakers and industry stakeholders will help to preserve as much as possible of one of Canada's most valuable resources – the land that feeds us.



About Bonnefield Financial

Bonnefield is a leading Canadian farmland and agriculture investment manager, providing financing to progressive farmers and agricultural operators through land-lease and non-controlling equity solutions. Bonnefield is dedicated to preserving farmland for farming, and the firm partners with growth-oriented operators to help them grow, reduce debt, and finance retirement and succession. The firm's investors are individuals and institutional investors who are committed to the long-term future of Canadian agriculture. www.bonnefield.com

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