THE 1973 FARMLAND MARKET

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This study analyzed the sharply rising value of farmland in 1973, and the article includes a report on the characteristics of both farmland buyers and sellers.

Calendar year, 1973, ended in the midst of strong forces acting in the North Dakota farmland market. World climatic shifts, continued population growth, and substantial devaluation of the American dollar led several nations to purchase large quantities of American wheat, resulting in much higher grain prices. The basic unit of measure, the dollar, has rapidly shrunk so that the real value of land has not risen nearly as much as indicated by the current money value of land. At least in the early part of 1974, there is a lot of uncertainty as to land values, which reflects rapidly changing prices. This article presents farmland values for the calendar year, 1973.

In calendar year, 1973, North Dakota farmland values rose on the average by an estimated 39 per cent, or $41, to an average value of $145 per acre. Figure 1 shows the estimates of average values of farmland in the last five years by State Economic Areas (SEA's). Table 1 presents the estimates for 1972 and 1973, with dollar and percentage changes. They show only small increases reported for the three years of 1969 through 1971, with a 9 per cent increase for the state in 1972. The land value increases from 1972 were greatest in SEA's 2A and 2B.

North Dakota reporters estimated that pastureland had risen 36 per cent on the average in 1973, with the larger increases in SEA's 1, 2A, 3B and 3C. Cropland values increased about the same percentage as all land, with above average increases reported for 3A and 3B.

The 1973 estimates continue the upward trend established in 1972, after three years of slow change. The future is uncertain, and the reporters are being influenced by many factors in making their estimates. Some variations in values reflect how reporters themselves felt when they filled out the reporting forms.

The 1973 report is based on 127 estimates of the 1973 farmland market and detailed information on 179 farm sales. The number of estimates obtained in areas 2A and 3C is low, and few sales were reported in areas 3B and 3C.

Reporters in this annual survey are asked to provide two types of information: (1) general **estimates** of their local farmland market situation, and (2) actual **farm sales data.** Sales data obtained on tracts sold in each reporter's locality include sales prices; sources of financing; and characteristics of the sales tracts, buyers and sellers. The sales data are valuable in studying what has happened, while the estimates contain the current view of the market.

Estimates of farmland value are felt to be more reliable for analyzing trends over time, because size and quality of the sale tracts and motives of buyers and sellers can vary greatly from year to year. Reporters are asked to provide estimates of their local farmland markets in which they deal regularly. They show the current average market value for all farmland for typical non-irrigated farms in their service areas. Reporters also provide estimates of values for pasture or grazing land and cropland. The estimates are averaged by counties and weighted by the amount of land in farms in each county to create area average land value estimates.

Little Change in Number of Farm Transfers

March 1 estimates of the U. S. Department of Agriculture showed little change in the number

Table 1. 1973 Estimated Land Values and Changes, Per Acre

SEA	1973 Value	1972 Value	Dollar Change	Percentage Change
1	$101	$ 77	$24	31%
2A	140	89	51	57
2B	115	74	41	55
3A	155	112	43	38
3B	145	110	35	32
3C	175	129	46	36
4	245	195	50	26
State	145	104	41	39

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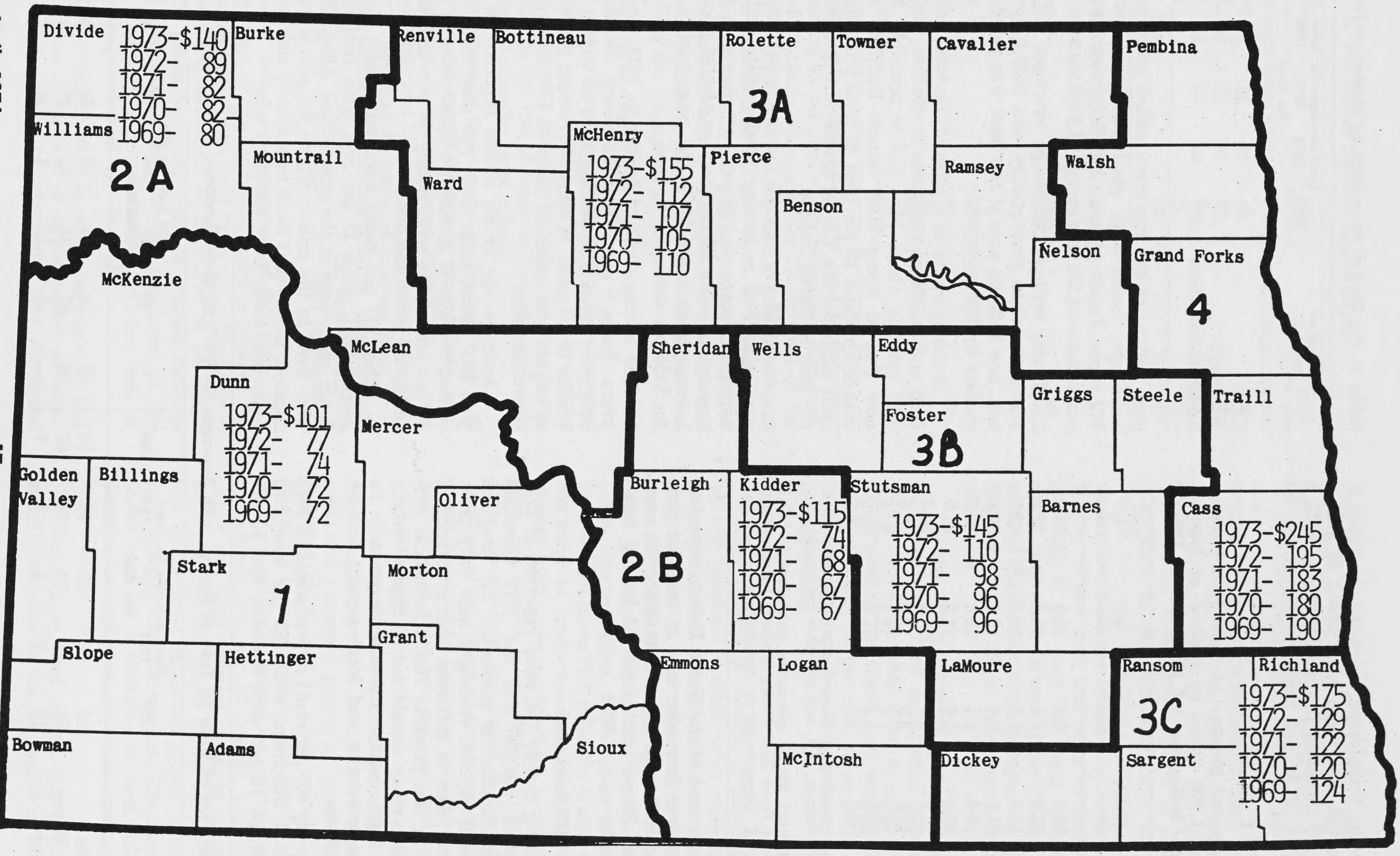

Figure 1. Estimated Average Value of Farmland Per Acre. State: 1973 - $145, 1972 - $104, 1971 - $95.50, 1970 - $94, 1969 - $94.

of farms being transferred, as shown in Table 2. They estimated that there were about 26 voluntary sales per thousand farms in the state with a total transfer of 37 per thousand farms for all reasons.

Table 2. Estimated Number of Farm Title Transfers Per 1,000 Farms by Method of Transfer, Year Ending March 1, North Dakota, 1964-73

Year	Voluntary Sales	Forced Sales[1]	All Other[2]	Total All Classes
1973	26.3	0.3	10.3	36.9
1972	23.6	1.6	12.1	37.3
1971	17.6	1.2	14.1	32.9
1970	21.1	0.4	13.3	34.8
1969	19.4	1.4	13.0	33.8
1968	25.2	0.6	11.2	37.0
1967	22.9	0.3	11.2	34.7
1966	19.5	2.5	12.6	34.6
1965	18.2	1.4	12.3	31.9
1964	20.6	0.7	11.2	32.5

[1]*Forced sales include foreclosures, tax sales, etc.*
[2]*Includes inheritance, gift, and all other transfers.*

SOURCE: *Annual March estimates, published in "Current Farm Real Estate Market Development," U. S. Department of Agriculture.*

Forty per cent of the North Dakota reporters had listed fewer farms for sale in calendar year 1973 than in 1972, with 38 per cent listing the same number and 23 per cent reported having listed more farms for sale in 1973.

Analysis of 1973 Farm Sales

Examining closely the sales reported in 1973 provides some insight into the 1973 farmland market. Information is presented for previous years, as well as 1973. Averages may vary from year to year due to different characteristics of the tracts in the market. The information presented in this study should not be applied to any individual farm, because its value depends on its unique characteristics and local supply and demand conditions.

A majority (60 per cent) of tracts sold in 1973 were without buildings, while 12 per cent had good buildings, 16 per cent average, and 12 per cent had what the reporters called poor quality buildings. Tracts with good buildings averaged 972 acres. Tracts without buildings averaged 273 acres and sold for an average of $188 an acre.

Table 3. Per Cent of Farm Sales by Method of Finance

Method of Finance	State Averages for Sales of: 1973	1972	1971	1970	1969
	Per Cent				
Cash	30	32	31	39	19
Mortgage	20	20	25	19	35
Contract for Deed	50	48	44	42	46

Tracts without buildings averaged $247 an acre if they had good quality land, $157 if average soil, and $125 an acre if the land was rated poor quality by the reporters.

Building value as a ratio of the total value of land and buildings continues to decline. The current ratio is about 14:5, and is probably lower now due to rising land values. Building value makes up about 19 per cent of total building and land value for the United States, but just over 14 per cent in North Dakota.

About 39 per cent of the tracts sold in 1973 were classified as having good quality soils, 48 per cent average, and 13 per cent poor soils. Good quality soils sold for an average of $199 per acre, average quality for $144, and poor quality land for $135 per acre.

The average age of buyers in 1973 was 40.4 years. Table 5 presents a frequency distribution of buyers' ages. The average ages of buyers were similar in all areas. A somewhat larger percentage of buyers was under 30 years in 1973 than in the previous study.

Average age of all sellers reported in 1973 was 58.6 years, with their age distribution presented in Table 6. About two-thirds were 55 years of age and older, with nearly 40 per cent of the sellers 65 years and over.

Most (57 per cent) tract purchasers already owned land, while 29 per cent were renters and 3 per cent were in the professions. About 78 per cent lived in the county where the sale tract was located, 13 per cent lived in a nearby county, and 4 per cent came from another state.

Table 4. Per Cent of Sales by Type of Buyers, with Averages for 1973 by State Economic Areas (SEA's)

Type of Buyer	State Averages by Years: 1973	1972	1971	1970	1969	1973 Sales by SEA's: 1	2A	2B	3A	3B	3C	4
	Per Cent					Per Cent						
Single Farm	14	10	22	18	24	24	0	14	10	61	0	5
Expansion Buyer	76	81	70	74	69	76	87	73	83	28	83	82
Other Buyer	10	9	8	8	7	—	13	13	7	11	17	13

Table 5. Per Cent of Sales by Age of Buyers

Age Groups Years	1973 Per Cent	1972 Per Cent
Under 25	3	3
25-34	23	23
35-44	40	34
45-54	21	30
55 & over	13	13

Table 6. Per Cent of Sales by Age of Sellers

Age Groups Years	1973 Per Cent	1972 Per Cent
Under 35	3	5
35-44	11	10
45-54	21	17
55-64	26	20
65-74	29	40
75 & over	10	8

Active farmers sold 30 per cent of the tracts containing 47 per cent of the acreage transferred. Retired farmers accounted for 19 per cent of the sales. Absentee owners reportedly sold 25 per cent of the tracts, with 21 per cent of the acreage. Estates provided 18 per cent of the sales. The leading reasons given for the sales were health and retirement, settle estate, financial pressure, and profits or the good price offered.

Reasons for Purchases and Sales

Farm expansion continues as the strongest motive of buyers, with more than three-fourths of all sale tracts going to buyers already farming. Looking at the use of tracts before and after sale shows the changes most clearly.

Before sale, 40 per cent of the tracts with 57 per cent of the land reported sold had been used as separate, individual farms. About 52 per cent of the tracts and 38 per cent of the acreage were in units operated as parts of another farm unit. Tracts operated as individual farms averaged 589 acres before sale, compared to an average size of 301 acres for tracts which had been operated as parts of another farm unit.

After sale, only 14 per cent of the tracts, with 24 per cent of the land sold, were purchased for use as separate, individual farm units. Their average size was 699 acres, as compared to 383 acres for the tracts becoming parts of another existing farm. Expansion-minded buyers purchased 76 per cent of the sale tracts containing 72 per cent of the acreage reported sold in 1973.

The dramatic shift in who uses the land and the decline in number of opportunities to begin farming is shown by comparing the situations existing before and after the tracts have been transferred. Three-fourths of the tracts to be operated as separate farm units after sale had been in that use before sale. Only six per cent of the tracts previously operated as part of another farm became separate, independent farm units. However, the shift of what had been separate farms absorbed into existing farms was much greater. Of all sales that became parts of another farm after sale, 61 per cent had been in that group before sale and one-third had been used as separate farms. Of the land being added to existing farms, 48 per cent had been in that use before sale and 48 per cent had been operated as separate, individual farms. Of the 73 sale tracts that entered the market place as separate, independent farm units, only 26 per cent were in that category after sale.

Before sale, two-thirds of the tracts with good buildings were used as separate farms and after sale all but 23 per cent went to other users. About 60 per cent of the tracts sold were without buildings, of which 68 per cent were parts of another farm before sale, while 82 per cent were in that use after sale.

What's Ahead

More change is certain. It continues to be a seller's farmland market, with price being what a buyer is willing to pay. Sellers hold unless the price offered at least meets their demands, and even then they often refuse the offer. Important is what the buyers and sellers believe about grain prices two and three years ahead. If distant high price expectations fall, inflation is still a force; but the surge in land values may ease by summer. If distant high price expectations receive some support, the rise in land values will continue, with price uncertainty prevailing in the market. Regardless of the future, current farmland values are much higher than last year and this is an important fact we must take into account in our planning and thinking.

The reporters felt that the major factors influencing prospective land buyers were the current and expected prices of farm commodities, followed by a need to enlarge their farm units, financing being available, and the availability of land. Factors influencing landowners to sell were retirement and age of owner, high commodity prices and high interest rates. In summary, they reported that the better prices for farm commodities is the most important single factor affecting the current farmland market. The second market factor was the availability of land, followed at a distance by high costs of operations and farm enlargement demands.

The rise in land values has yielded a substantial increase in the net worth of many opera-

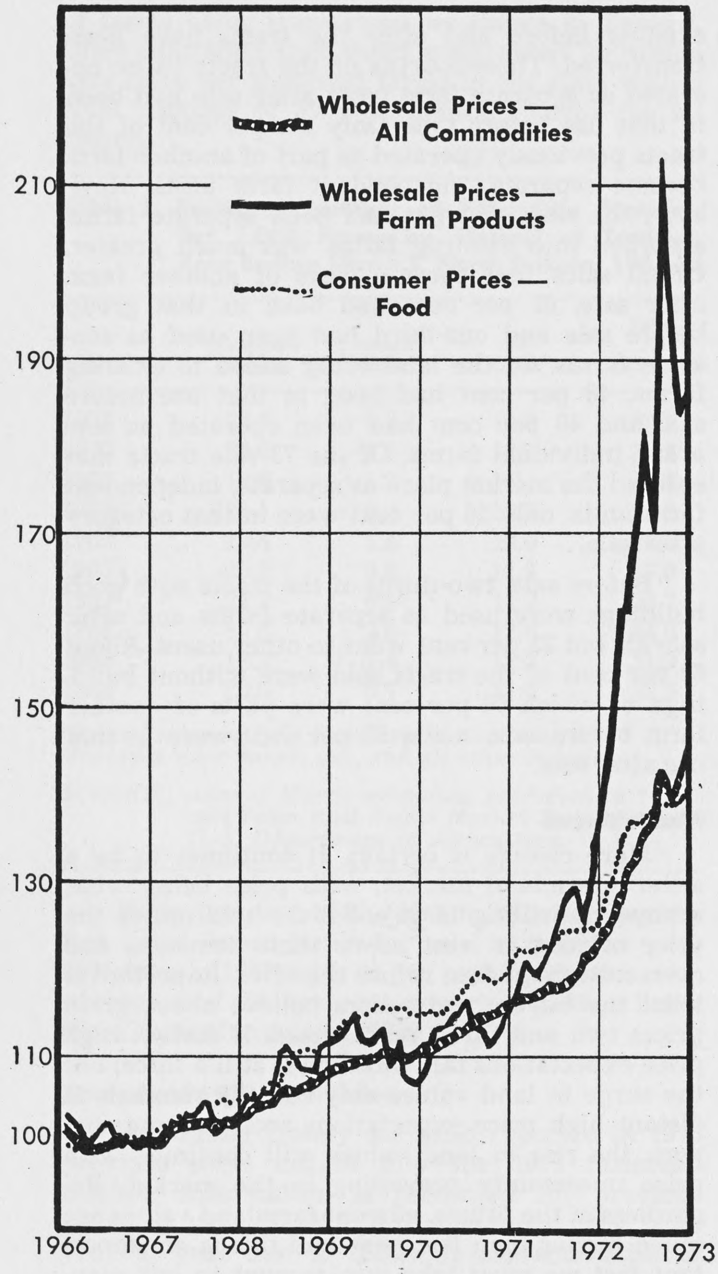

Figure 2. Three Indices of the Changing Purchasing Power of the Dollar (1967 = 100).

tors and increased their equity position so that more credit becomes available. Many farmers have greatly reduced their loans, and many credit agencies have funds available for loans. At some time a new cost/price squeeze is expected; but until costs of operations (or low commodity prices) again become a critical force, buyers' expectations and confidence of receiving the current high prices of farm commodities continue as the major dynamic force in the North Dakota farmland market.

Looking Back, 1967-73

A brief look at changes in North Dakota farmland values since 1967 may be useful. Recent land price estimates from this survey are shown in Figure 1, while index numbers (1967 = 100) for the current dollar values of North Dakota farmland from the U. S. Department of Agriculture are listed.

Year	March	November
1973	142	168
1972	127	134
1971	122	125
1970	120	121
1969	117	121
1968	108	113
1967	100	105

What portion of these changes are due to land values going up due to productivity and the demand for land, and what portion is due to the shrinking purchasing power of the American dollar?

The American dollar has been shrinking rapidly, as shown in Figure 2. The consumer dollar shrink is reflected in the Consumer Price Index for All Commodities. Farmland is sought for its ability to produce income (soils, location, buildings, size) and as an access to a career, and somewhat for its consumer use of homesites, and as an investment hedge. Measuring changes in the "real" value of farmland takes into account changes in the measuring tool, but using the Wholesale Price Index (WPI) instead of the CPI. Both the WPI for All Commodities and Farm Products are given in Figure 2.

Both the USDA land value estimates and the WPI are presented as indexes, based on 1967 = 100. If the measuring stick does not change in value, "real" farmland values equal their current dollar estimates, and if the measuring stick shrinks, it takes more current dollars to buy the same land in 1974 as in 1967. To adjust for the reduced purchasing power of the dollar, we must divide the current dollar farmland value estimate by the Wholesale Price Index. The WPI-All was 141.8 in November, 1973, or 70 per cent of its value in 1967.

The "real" value of North Dakota farmland has not risen as much as the current dollar estimates indicate because the measuring tool has been shrinking. The USDA, November, 1973, farmland value estimate of 168 divided by the WPI-All of 141.8 indicates that the "real" value of North Dakota farmland is up only 18 per cent since 1967. Using the CPI-All Items (for November, 1973 = 168 ÷ 137.6) shows only a 22 per cent rise in "real" farmland values since 1967, with much of the change resulting from the decline in the purchasing power of the dollar. The effects of the dollar shrinkage and higher crop prices are still operating to raise land values.