

DOWNWARD PATTERN IN 1982 FARMLAND VALUES

Jerome E. Johnson

The downturn in North Dakota farmland values observed in the fall of 1981 continued through 1982. A combination of low farm earnings and high interest rates have lowered the demand for land, so land values have declined. The declines in values of farmland in North Dakota have been less than in nearby Midwestern states, because local land values had not risen as much in recent years as in other areas.

Estimated values of average quality farmland in North Dakota and its eight farming areas as of November 1 are shown in Figure 1. A survey of farmland brokers, agricultural representatives, and county supervisors of the Farmers Home Administration was conducted between the last half of October and the first half of December. Estimated values are based on 124 reports for the service areas covered by the reporters.

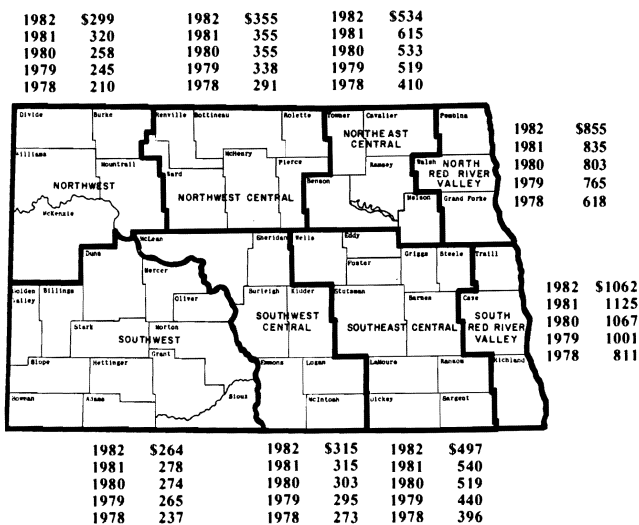


Figure 1. Estimated Average Farmland Values Per Acre in North Dakota, State: 1982-\$435, 1981-\$454, 1980-\$433, 1979-\$415, 1978-\$365.

Changes in estimated values of average quality land varied among the eight farming areas in 1982 (see Table 1).

Table 1. Estimated Average Farmland Values in 1982 and 1981 and Changes in Values Per Acre for Eight Farming Areas

Farming Areas	Estimated Value in: 1982	1981	Dollar Change	Percentage Change
Northwest	299	320	-21	-6.6
Southwest	264	278	-14	-5.0
Northwest Central	355	355	0	0
Southwest Central	315	315	0	0
Northeast Central	534	615	-81	-13.2
Southeast Central	497	540	-43	-8.0
North Red River Valley	855	835	+20	+2.4
South Red River Valley	1062	1125	-63	-5.6
STATE	435	454	-19	-4.2

The only farming area for which an increase in average value of farmland in 1982 was reported is the North Red River Valley. Two farming areas, the Northwest Central and Southwest Central, showed no change in estimated value of farmland from 1981 to 1982. The remaining areas experienced moderate declines in average farmland values. The largest decline was reported for the Northeast Central farming area, where some drought has been experienced in recent years.

The estimated separate values of crop and pastureland for the eight farming areas in 1980-1982 are presented in Table 2.

Higher estimated average value of farmland in the North Red River Valley farming area occurred despite a small decline in the estimated value of cropland. The parentheses around estimates of pastureland values are used to note that both the North and South Red River Valley farming areas do not have enough pastureland to obtain a reasonable estimate of these values for this study.

The Southwest Central farming area had an \$8 an acre increase in the estimated value of cropland. All other farming areas showed declines in the value of cropland, with the larger declines reported in the Northeast Central and South Red River Valley areas. Lesser declines were calculated for the Northwest Central, Southeast Central, and the Northwest farming areas. Both the 6 percent decline in cropland across the state as

Johnson is professor, Department of Agricultural Economics.

Table 2. Estimated Average Value of Crop and Pastureland Per Acre, 1980-1982

Farming AreasCropland.....		Pastureland.....		
	1982	1981	1980	1982	1981	1980
	dollars per acre			dollars per acre		
Northwest	362	390	334	164	170	134
Southwest	309	322	328	157	175	179
Northwest Central	429	465	435	188	189	192
Southwest Central	371	363	353	205	204	201
Northeast Central	582	705	642	251	244	290
Southeast Central	577	610	570	233	270	254
North Red River Valley	1019	1050	985	(212)	(242)	(298)
South Red River Valley	1116	1245	1100	(400)	(400)	(485)
STATE	498	533	503	208	217	228

a whole and the 4 percent drop in the estimated value of all pastureland concur with the lower value of average quality farmland in the state in 1982.

The calculated average value of pastureland for the farming areas showed increases in two farming areas: \$7 per acre in the Northeast Central and \$1 per acre in the Southwest Central farming areas. Larger declines in average values of pastureland were reported for the Southeast Central area at \$37 an acre and \$18 per acre in the Southwest farming area.

Reporters are asked for two types of information: (1) their estimates of farmland values for average quality crop and pastureland in their counties or service areas and (2) specific details on farm sales in 1982. The sales data are examined to remove duplicate sales, and a weighting process is used to compute area average values. County average values are weighted by acres of land in farms in each county to obtain the farming area values for average quality crop and pastureland.

Since the number of estimates and sales reports varies from year to year, as well as their geographical distribution, the procedure of weighting estimated values serves to reduce abnormalities in the calculated averages. The weighting procedure is used for the estimates of farmland value, but not for computing the statistics on farm sales. None of the individual reports are ever revealed.

Estimates of farmland values are considered better indicators of trends in farmland values over time than actual farm sales. Analysis of farm sales data helps one understand what has happened in the land market. The reader is cautioned that averages computed from detailed sales data often vary widely from year to year and area to area. Sales differ greatly in size, quality of soil or buildings, methods of finance, and motives of buyers and sellers.

1982 WAS A SLOW MARKET

The number of farms listed for sale with farm real estate brokers and number of sale tracts actually sold are measures of the rate of activity in the farmland market. Previously the United States Department of Agriculture provided an estimate of the rate of farm transfers per thousand farms, but that series was discontinued in March 1982.

Number of farms or tracts listed for sale with farm brokers changed little from 1981 to 1982. Only one-fourth of the reporters with real estate licenses reported having more farms listed for sale in 1982 than in 1981. Nearly half of the reporters said that they had about the same number of listings in 1982 as they had in 1981, while about 29 percent reported fewer farms listed for sale in 1982 compared to 1981.

Another measure of activity in the farmland market is the actual number of farms sold in 1982 and in 1981. The group of reporters who sell real estate reported an average of 2.2 farms sold in 1982, down from the average of 2.6 sold per reporter in 1981. Just over half reported selling one farm in 1982, one-fourth had sold two farms, and about 12 percent indicated selling three or more farms in 1982.

CHARACTERISTICS OF FARM SALE TRACTS SOLD IN 1982

Characteristics of the 329 farm sale tracts reported sold in 1982 are discussed in this section. Averages were calculated for each characteristic of the sale tracts. These averages vary considerably among years and localities due to differences in the number and geographical location of sales, quality of land and buildings, methods and sources of finance, and motives attributed to buyers and sellers. Information in this section supports the discussion of trends in value previously presented by offering a generalized explanation of tracts sold in the 1982 farmland market.

Basic sales survey information on number of sales reported, calculated average sizes, and average sales prices for the eight farming areas are presented in Table 4.

Table 4. Average Tract Size and Sales Prices for Actual Farm Sales in 1982 for Eight Farming Areas

Farming Areas	Number of Sales	Average Size	Average Sales Price/Acre
	number	acres	dollars
Northwest	21	259	287
Southwest	53	507	281
Northwest Central	39	261	430
Southwest Central	21	508	298
Northeast Central	49	234	583
Southeast Central	64	277	550
North Red River Valley	45	163	801
South Red River Valley	37	228	1157
STATE	329	298	497

Average size of farm tracts sold in the state in 1982 was 298 acres. This average varies by farming area and by years. However, such area averages highlight why they are called "sale tracts" since the average size of farm operated in North Dakota is about 1100 acres. Many tracts which were sold in 1982 had been parts of larger farms which were sold as operators reduced their farm operations due to financial needs, changes in family labor supply, or retirement goals.

The average price of sales in 1982 of \$497 was down \$9 from the average for farm sales in 1981 of \$506 an acre. This direction of movement supports the estimates presented above.

A classification of tracts sold by size shows that about the same proportion, all tracts was about 160 acres (30 percent in 1982 and 32 percent in 1981). The percentage of tracts less than 160 acres was 21 percent in 1982 and 18 percent in 1981. There was a shift indicating that the percentage of tracts of half section or larger made up one-third of all sales in 1982 and 38 percent in the 1981 market.

The quarter-section size constituted 21 percent of all tracts sold in 1982 but its importance varied among the farming areas. It made up 38 percent of all tracts sold in the Northwest and Northwest Central farming areas, 34 percent in the Southeast Central and Northeast Central areas, 23 percent of sales in the Southwest, and only 19 percent of sales in the Southwest Central farming area. It included 25 percent of all sales in the North Red River Valley and 30 percent of sales in the South Red River Valley farming areas.

The majority of tracts sold in 1982 were without buildings. For the state that percentage was 76 percent in 1982, up from 67 percent in the 1981 market. The average bare tract sold had 225 acres and went for an average of \$549 an acre; improved tracts averaged 538 acres in size and \$428 per acre. For the state only 55 tracts were reported to have buildings. Reporters rated buildings as follows: 18 percent good, 38 percent fair, and 44 percent poor.

Reporters are asked to give a rating of the quality of land in each tract sold. About 40 percent of the tracts sold in 1982 had "good" quality soil, 52 percent had average quality soil, and only 9 percent were rated as having "poor" quality soil. Comparable 1981 market figures were 38 percent good, 50 percent average, and 11 percent poor.

The method and sources of finance were obtained for most sale tracts. The mortgage instrument continues as

the most common method of financing, followed by the contract for deed. Figures for the 1981 and 1982 markets are very similar (see Table 5). Mortgages accounted for 52 percent of the transactions and nearly one-half of the acreage transferred in 1982. The contract for deed was used in 43 percent of the sales, and these tracts contained nearly 47 percent of the acreage sold in 1982. Cash transactions continued as a small share of the market, a considerable decline from its importance prior to 1980.

The mortgage was particularly dominant in the Northwest farming area where it accounted for 80 percent of the sales which had 76 percent of the acreage transferred. It also was the leading credit instrument in the North Red River Valley, Northeast Central, and Northwest Central farming areas. The contract for deed showed strength in the Southwest Central farming area where it was used in 81 percent of the purchases which contained 88 percent of the acreage bought, and in the South Red River Valley where it accounted for 62 percent of sales with 58 percent of the land purchased.

The seller was reported as the source of finance in 26 percent of the sales with 27 percent of the acreage transferred in 1982. Other individuals financed nearly 8 percent of the tracts with just over 5 percent of the land sold. The leading source of finance was the Federal Land Bank Association, either alone or in combination with the Bank of North Dakota and other financial institutions. The FLBAs were the primary source of financing in about 28 percent of the transactions involving about 29 percent of the land. The Farmers Home Administration and savings and loan associations were each listed in about 12 percent of the exchanges and each accounted for financing just over 13.5 percent of the acreage transferred in 1982.

Some Seller Characteristics

The leading source of farm tracts in the 1982 farmland market continued to be active farmers, who provided 36 percent of the tracts containing nearly 40 percent of land transferred. Their tracts averaged 338 acres and sold for an average of \$463 an acre. Retired farmers sold one-fifth of the tracts, with just over 21 percent of the acreage, averaging 327 acres and \$438 per acre. Estate settlements accounted for 21 percent of the sale units, with 19 percent of the acreage, averaging 276 acres and \$514 an acre. Sellers classified as absentee owners provided just over 18 percent of the sale tracts containing 17 percent of the acreage for an average size of 279 acres and selling for an average of \$491 an acre. Large-sized tracts were sold by active and retired

Table 5. Percent of Farm Sales in 1978-1982 by Method of Finance

Method of Finance	State Average for Sales in:				
	1982	1981	1980	1979	1978
	percent of sales				
Cash	5	5	23	16	37
Mortgage	52	52	35	45	29
Contract for Deed	43	43	42	39	34

farmers. Estate settlements reported the higher average price per acre.

Reasons for sale listed for each tract offer a new picture from previous studies. The reasons ranked in order were: (1) foreclosure or debt reduction involving 24 percent of the tracts sold with 28 percent of the acreage, averaging 382 acres in size and \$426 per acre; (2) estate settlements provided 26 percent of the sales with 20 percent of the acreage, averaging 343 acres in size and \$526 per acre; (3) health and retirement accounted for 19 percent of the sales with 20 percent of the acreage, averaging 343 acres and \$475 per acre; and (4) reducing size of operation was given for 10 percent of the sale tracts with nearly 5 percent of the acreage, averaging only 153 acres in size and selling for the high average of \$622 an acre.

The average age of sellers reported in 1982 was 53.4 years, with the frequency distribution reported in Table 6.

Table 6. Percent of Sale Tracts in 1978-1982 by Age of Sellers

Age Groups	1982	1981	1980	1979	1978
years	percent of sales				
Under 35	8	6	5	5	2
35-44	19	12	17	10	16
45-54	18	21	22	15	15
55-64	31	27	32	33	23
65-74	17	31	21	32	34
74 and over	7	3	3	5	10

The youngest average ages of sellers were calculated as 48.7 years in the South Red River Valley farming area, followed by 49.4 years in the Northeast Central and 51.5 years in the Northwest Central farming areas. The older average ages of sellers were given as 56.8 years in the North Red River Valley and 55.1 years in the Northwest farming areas.

The frequency distribution of seller ages for 1982 shows more sellers under age 44 and fewer 65 years and older than in the 1981 farmland market.

CHARACTERISTICS OF BUYERS

The average age of all buyers was 36.3 years in 1982. The frequency distribution is presented in Table 7.

The frequency distribution of buyers by their age in 1982 is very similar to that of 1981, both of which are a change from those of the previous three years. The

trend is toward an increasing number of younger buyers and fewer buyers over 45 years of age.

The calculated ages of buyers by farming areas give an age of 32.8 years in the Southeast Central, 33.7 years in the Northwest, 34.2 years in the Southwest Central, and 34.6 years in the Northeast Central farming areas. Relatively higher averages of buyer ages were calculated as 41.1 years in the North Red River Valley, 40.1 years in the South Red River Valley, 37.0 years in the Northwest Central, and 36.8 years in the Southwest farming areas. Buyers ranged in age from 18 to 65 years.

Only 9.7 percent of the buyers were related to the land sellers in the 1982 farmland market. They purchased 1.8 percent of the acreage transferred, for an above-average size of 365 acres and an average price of \$369 an acre. In contrast, the tracts of buyers not related to the sellers averaged 293 acres in size and were purchased for an average price of \$513 per acre. In 1982 figures show that when buyers were related to sellers, tracts were larger and sold at substantially lower average prices per acre.

Examining information on occupations of buyers in 1982 showed that the largest group consisted of part owners, followed by renters and landowners. All three of these groups could have owned other farmland of which the reporters were unaware. Part owners own some land and rent more land that they operate. This group purchased 44 percent of the tracts with 36 percent of the acreage transferred in 1982. Renters bought 21.6 percent of the tracts with 21.3 percent of the land, which averaged 299 acres and \$479 per acre. Buyers already owning land took 20.3 percent of the tracts with 20.4 percent of the land, which had an average size of 304 acres and an average price of \$516 an acre. Individuals classified as farm laborers purchased 3.6 percent of the sale tracts containing 4.7 percent of the land sold in 1982.

Reporters gave the residency of the buyers to indicate relative distance to tracts purchased. Buyers of about 90 percent of the tracts containing 91 percent of the acreage lived in the same county as the land they purchased. About 7.7 percent of the buyers lived in a nearby county, and they purchased 5.5 percent of the land. About 1.3 percent of the tracts with just under 1 percent of the acreage was purchased by buyers living in a distant North Dakota county. These tracts averaged 200 acres and sold for an average price of \$561 an acre. Only four of the 313 buyers for which residency was given came from another state, and their tracts had the largest

Table 7. Percent of Sale Tracts in 1978-1982 by Age of Buyers

Age Groups	1982	1981	1980	1979	1978
years	percent of sales				
Under 25	14	15	11	9	7
25-34	33	32	26	28	20
35-44	23	22	31	24	33
45-54	22	25	19	28	30
55 and over	8	6	13	11	10

average size of 560 acres and an average price of \$330 an acre.

LAND USES BEFORE AND AFTER SALE

Insights into the 1982 farmland market appear as two simple scenes involving uses of the sale tracts before and after sale. Here are detailed data to examine shifts in uses of farmland and the number of farming opportunities available to beginning farmers. Beginning farmers can rent units or purchase tracts to operate as separate, independent farms. Transfer of tracts can be viewed as a flow of land resources shifting in uses over time, moving from some farm owners to others. A final scene shows what happened to the tracts during the marketing process. This final view offers an understanding of what went on in the farmland market in 1982 in terms of land transfers.

The scene opens showing how all the tracts were used before sale. About 18.4 percent of all tracts, with 32.2 percent of the acreage reported transferred in 1982, had been operated as separate, independent farms. They averaged 525 acres in size. The largest group of tracts, 79 percent of the tracts with 66 percent of the land exchanged, had been parts of another farm. These "parts of another farm" tracts averaged 250 acres in size. Another 2.5 percent of the tracts with 1.9 percent of the acreage had been used as part-time farms, rural homes, and other uses before being sold in 1982.

The second scene, land use after sale, is pictured in Table 8 and shows large shifts in how tracts will be used in the future. The largest group, tracts sold as "parts of another farm," has grown to 91 percent of all tracts reported sold in 1982. They contain about 80 percent of the land sold, so they have a smaller average size of 261 acres, but sold at the above average price of \$539 an acre. The second group, tracts destined to be operated as independent farms, has declined to only 7.4 percent of all tracts sold. They included 19 percent of the land sold, so their average size was 768 acres, and they sold for an average of \$330 per acre. Part-time farms and other uses declined to 1.6 percent of all tracts with only 1.4 percent of the land reported sold in 1982.

Table 8. Percent of Sale Tracts in 1978-1982 by Type of Buyers

Type of Buyer	State Averages for:				
	1982	1981	1980	1979	1978
	percent of sales				
Single Farms	7	12	13	14	13
Expansion Farms	91	83	83	80	80
Other Buyers	2	5	4	6	7

The final scene, involving the process of change from the before to the after sale picture, offers details on land use shifts. After sale, only 24 tracts had been purchased for operation as separate farms. One-half, or 12 tracts, had entered the market as separate farms and 12 had been "parts of another farm." The 12 that had entered as separate farms had an average size of 1090 acres, while the 12 previously add-on units averaged only 466 acres in size. Previous add-on tracts cost about \$490 an

acre compared to \$265 per acre for those tracts entering and exiting the market as separate farms.

The big change was in the expansion or add-on portion of the market. These expansion-oriented buyers used the market to obtain 291 tracts or 91 percent of all tracts reported sold in 1982. About 82 percent of these tracts (averaging 241 acres in size) were exchanged from expansion operators to farmers now expanding their farm sizes. About 16 percent of the tracts, with an average size of 386 acres, entered the market as separate farms but were purchased by expansion-minded buyers. These tracts went for an average of \$523 an acre. Another seven tracts had been used as part-time farms and other uses on entry to the marketplace but exited as add-on units. They averaged 201 acres in size and sold for an average of \$725 per acre to farm operators seeking to expand their farm units.

WHAT'S AHEAD?

The major forces evident in the farmland market in recent years are still strong. But land values are currently based more heavily on the earning power of the land instead of being leveraged from the landowner's equity position. High interest rates have raised both production and land purchase costs. Observers wondered at how some buyers could purchase land when its annual interest costs exceeded its net output per acre. These recent land buyers are highly leveraged, with high built-in interest costs as a burden against the future earnings of the recently acquired farmlands.

Farm operators have experienced reduced incomes and a loss in net worth from reduced prices of stored commodities. This reduces their demand for farmland and immediate future land prices. But these operators are not facing the severe financial pressure of some land buyers of about the last five or so years.

Nearly one-half of the reporters expect land values to decline 5 percent or more in 1983. About 43 percent felt that land values in their service areas would be about the same next year as they are now. Only 8 percent felt that land values would be up 5 percent or more in 1983.

Reporters listed major factors that influenced individual buyers and sellers and the market as a whole. Major factors that influenced buyers were high interest rates, low commodity prices, problems with credit and financing, farm expansion, investment or hedging in land, and the high price of land. Some reporters also listed the poor economy or poor return on investment in land, costs of operation or cash flow problems, and concern for keeping the farm in the family.

Major factors influencing land sellers were debt, overbuying, or need for money; poor return on investment; retirement or health; high costs of operating the farm and machinery; tax management problems; estate settlement; and the high price of land.