

Farmland Values in 1987

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Average value of North Dakota farm and ranch lands was an estimated \$262 per acre at the end of 1987, down \$14 per acre or about 5 percent from a year earlier. Table 1 reports average North Dakota farmland values. The time period includes the huge increase in farmland values in the 1970s and the recent declines to a current average value less than the 1975 figure.

Large increases in values from 1974 to 1975 and other increases up through 1979 have been more than offset by large declines in value during 1985 and 1986. The nominal value in 1986 of \$276 per acre was already less than the 1975 estimate. The 1987 value is still ahead of the 1974 estimate of \$205 per acre.

The recent survey of North Dakota farmland brokers and FmHA county supervisors reports that 1987 farmland values, as summarized in Figure 1, had the smallest decline since values peaked in 1981. Figure 1 also presents annual dollar changes. Total changes since the 1981 estimate are shown in Table 2. Data in Figure 1 and Table 2 suggest that farmland values may have bottomed out or firmed up. The rate of decline has fallen sharply in 1987.

Total decline in state farmland values since the 1981 peak of \$454 an acre was \$192 per acre, or 42 percent (Table 2). The decline, measured in both dollars and percentage numbers, accelerated from 1983 to 1986, while the 1987 average marks a sharp reduction in the slide of farmland

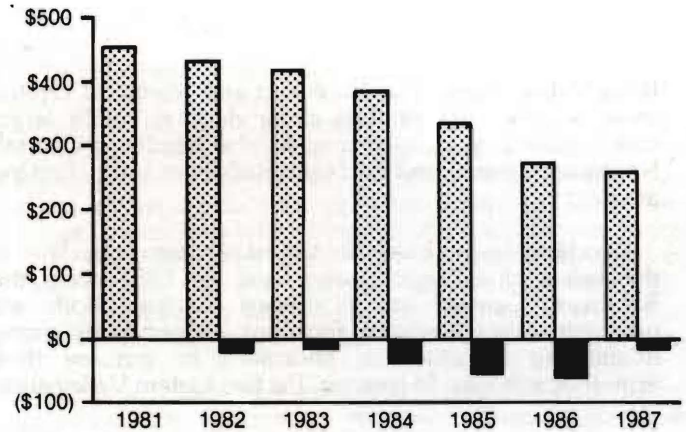


Figure 1. Average Annual Farmland Values Per Acre and Annual Dollar Declines from Estimate of the Previous Year, North Dakota, 1981-1987.

Table 2. Annual and Cumulative Changes in Estimated Average Quality Farmland Values Per Acre, North Dakota, 1981-1987

Year	Estimated Value		Annual Change in Value Measured in:		Total Change from 1981 in:	
	— dollars per acre —		percent		dollars	percent
1981	\$454					
1982	\$435	(\$19)	- 4.2%		(\$19)	- 4.2%
1983	\$420	(\$15)	- 3.4%		(\$34)	- 7.5%
1984	\$385	(\$35)	- 8.3%		(\$69)	- 15.2%
1985	\$334	(\$51)	- 13.2%		(\$120)	-26.4%
1986	\$276	(\$58)	- 17.4%		(\$178)	-39.2%
1987	\$262	(\$14)	- 5.1%		(\$192)	-44.1%

Table 1. Change in Estimated Average Value of Farm and Ranchland Per Acre in North Dakota, 1975-1987

Year	Average Value		Annual Change	
	— dollars per acre —		percent	
1987	262	- 14	- 5.1	
1986	276	- 58	- 17.4	
1985	334	- 51	- 13.2	
1984	385	- 35	- 8.3	
1983	420	- 15	- 3.4	
1982	435	- 19	- 4.2	
1981	454	21	4.8	
1980	433	18	4.3	
1979	415	50	13.7	
1978	365	35	10.6	
1977	330	5	1.5	
1976	325	40	14.0	
1975	285	80	39.0	

values. The many published hints and hopes may be true. But the ending of the slide probably reflects, and depends upon, continued federal farm subsidies plus the sugar import restriction program.

Changes in estimated average farmland values across the state are reported in Table 3 for eight areas representing the principal agricultural production regions of the state. Figure 2 presents estimated values for the eight farming areas for the last five years.

The state average decline of \$14 an acre in 1987 was about matched in the Southwest Central and South Red

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Table 3. Estimated Average Farm and Ranchland Values and Changes in Values Per Acre from 1986 to 1987 by Eight Farming Areas

Eight Farming Areas	Estimated Value:		1986 to 1987 Changes in Values	
	1986	1987	dollars	percent
Northwest	179	153	- 26	- 14.5
Southwest	182	179	- 3	- 1.6
Northwest Central	249	224	- 25	- 10.0
Southwest Central	213	200	- 13	- 6.1
Northeast Central	307	298	- 9	- 2.9
Southeast Central	280	246	- 34	- 12.1
North Red River Valley	555	532	- 23	- 4.1
South Red River Valley	645	631	- 14	- 2.2
North Dakota	276	262	- 14	- 5.1

River Valley areas. The Southwest and Northeast Central areas reported the smallest dollar declines, while larger dollar declines were calculated for the Southeast Central, Northwest Central, and the North Red River Valley farming areas.

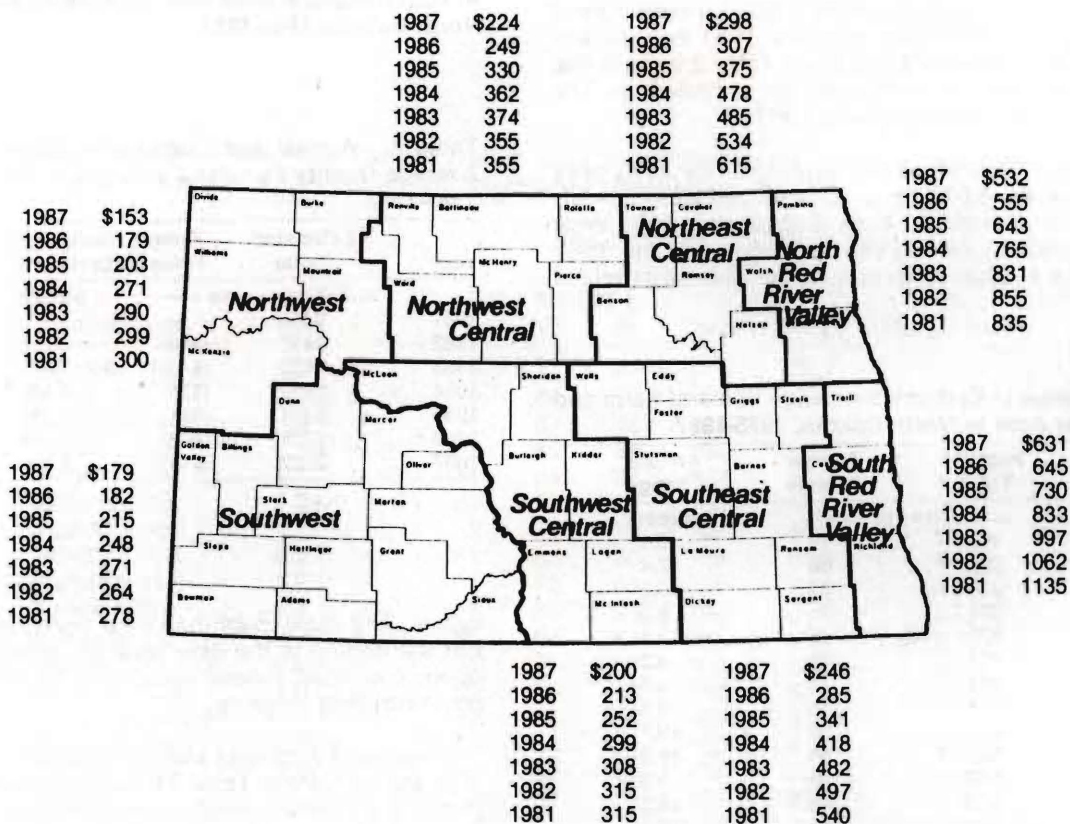
Two farming areas with the largest percentage declines in the value of average quality land in 1987 were the Southeast Central and Northwest Central. Both are predominantly agricultural areas but without many strong nonfarming industries or attractions to increase their economic activities. In contrast, the two eastern Valley areas

have better rainfall, a wider range of cash crops, more specialty crops, a financially strong sugar industry supported by federal legislation, and several colleges helping growth.

Reporters in the Northwest farming area felt that their average farm and ranchland values had already declined to about \$150 per acre at the start of the year and held firm or actually increased a bit during 1987. The survey has too few reporters in the Northwest area, but received a few more responses and a better geographical distribution in this 1987 survey. Weak demand for lignite and low oil prices have lessened the mineral income to landowners and the local economy, leaving them heavily dependent upon the farming sector.

The small percentage decline in the value of average quality land in the Southwest farming area reflects the substantial recovery of prices for the livestock industry. The small percentage declines in the South and North Red River Valley areas probably show the influence of the sugar subsidy program and increased sugarbeet acreages in 1987. The Northeast Central farming area reported declines in recent years, but land values may be plateauing.

Figure 2 presents estimated average quality land values for the past six years by farming areas and for the state from the peak value years of 1981 or 1982 to date. The peak year varies by farming areas. Average quality farm and ranchland values peaked in 1981 in the Northwest and Southwest farming areas. Reporters felt that land values in the Northwest area may have even risen a bit in 1987, after declining nearly 50 percent from the 1981 peak. The small



State: 1987: \$262, 1986: \$276, 1985: \$334, 1984: \$385, 1983: \$420, 1982: \$435, 1981: \$454.

Figure 2. Estimated Average Values Per Acre of North Dakota Farmland, 1981-1987

decline estimated for 1987 in the Southwest area indicates that these farm and ranchland values may have plateaued. Land values in both areas reflect livestock and crop prices and government payments to the agricultural sector.

The northwest-southeast slice of counties in the Northwest Central and Southwest Central shows similar land price declines of 36 percent since 1981-1982 highs. The Northeast Central and Southeast Central grouping of counties just west of the Valley had values peaking in 1981 and falling about 52 percent since then. Land values peaked in the two eastern farming areas in 1982 and have fallen by 41 percent in the South and by 36 percent in the North Red River Valley farming areas.

Cropland Values A study of estimated values of crop and pastureland by the eight farming areas for the last four years is offered in Table 4. Estimated cropland values for the state declined by only 4 percent in 1987, after large declines in the two previous years.

The Northwest average cropland values rose by nearly 4 percent in 1987, while cropland values were estimated to have risen by 9 percent in the Northeast Central farming area. Declines in value of 3 to 4 percent were reported in the Southwest and North Red River Valley, while a larger decline of 13 percent was experienced in the Southeast Central area.

Pastureland Values The estimated average value of pastureland for the state was \$109 an acre, down \$9 per acre or nearly 8 percent. Reporters indicated that pastureland values had risen about 6 percent in the Southwest Central area. Little change was reported for the Northwest area, and just over 2 percent decline was measured in the Northwest Central farming area. The two Valley areas have so little pastureland that these estimates have little meaning.

Pastureland values peaked in five of the eight farming areas and for the state in 1980, a year ahead of cropland values. Measured from their peak values, pastureland values are down 52 percent at the state level, just over 60 percent in the Northeast Central and Southeast Central areas, and about 45 percent in the Northwest and Southwest farming areas.

DATA AND DATA SOURCES

The 1987 survey received 112 estimates from farm real estate brokers, Farmers Home Administration county super-

visors, and other knowledgeable reporters. Total number of responses was close to those received in recent years. Respondents provided estimates of value for average quality cropland and pastureland tracts that will continue in agricultural use in their service areas. A second form asked for detailed information on actual farm sales that they were familiar with.

The geographical distribution and number of responses obtained each year vary. A weighting process is used to reduce fluctuations in the calculated averages by farming areas due to response variations from year to year. Individual responses are held to be confidential, with only the calculated figures released.

Averages reported in this study should not be applied to individual farm tracts, but rather reflect current trends in farmland values. Various areas of the state experience changing variations in values and in characteristics of sales during the year, which respondents observe and report on.

MORE ACTIVITY IN 1987

Farmland was readily available for purchase in 1987, and agricultural credit suppliers offered much of what was sold. It was apparent that buyers were carefully pencil-pushing, figuring, and sometimes asking others for opinions. A convenient location of the tract to the buyer's farmstead was important. Machinery complements, labor availability, and timeliness were studied; uncertainties about future government farm programs, in spite of assurances to stay-the-course for another year, were carefully weighed. It was a market of opportunity and great challenge.

The 1987 farmland market was uniquely influenced by farm credit agencies in transferring land to reduce their inventories. The number of tracts and the creative financing offered in those sales dominated the farmland market in many areas. The creative or innovative credit terms put forth, including the guaranteed buy-back at the end of three, four, or five years, influenced overall farmland values by varying amounts, much depending upon all the other factors influencing value in those markets. Many markets would have been very thin in 1987, so for this active group of sellers, selling at the values they established and their financing conditions made the market in areas. Many farmers and nonfarmers showed interest in these offers and purchased land under these unique terms.

Queried about the number of farms listed for sale, one-third of those reporting sales indicated that they had more

Table 4. Estimated Average Values of Crop and Pastureland Per Acre by Eight Farming Areas, 1984-1987

Eight Farming Areas	Cropland				Pastureland			
	1987	1986	1985	1984	1987	1986	1985	1984
	dollars per acre							
Northwest	243	234	261	312	94	95	120	132
Southwest	224	231	263	282	96	111	124	142
Northwest Central	290	312	368	430	116	119	129	178
Southwest Central	242	258	289	327	101	95	130	168
Northeast Central	340	311	416	495	105	125	148	230
Southeast Central	279	318	393	481	103	105	152	182
North Red River Valley	586	613	686	909				
South Red River Valley	661	721	806	951				
North Dakota	310	322	382	441	109	118	152	180

farms listed for sale this year compared to one-fifth so indicating for the 1986 market. Most respondents felt that they had about the same number listed for sale in both surveys. Only 20 percent in 1987, compared to 25 percent in 1986, had fewer farms listed in each survey.

Asking brokers about the number of farms sold each year revealed that the average number sold in 1987 about doubled from the number sold in 1986; the average number of sales per broker rose from 1.57 to 3.0 farms during that period. The distribution among those reporting farm sales was 21 percent sold one farm in 1987; 17 percent had two sales; 5 percent sold three farms; and just over 1 percent each reported six, seven, or eight sales. A strong 6 percent reported selling nine or more farms in 1987, in contrast to less than 2 percent so reporting in 1986.

CHARACTERISTICS OF TRACTS SOLD IN 1987

Respondents provided detailed information on 389 sales in 1987, up from 335 in 1986 and 325 sales in 1985 (Table 5). They listed data on the characteristics of the tracts, financing, the buyers, and the sellers. The data were processed into averages and frequency distributions for each item for presentation by farming areas.

The larger number of 1987 sales reported for the Northwest farming area permits a better analysis compared to the two previous surveys. The two large sales in 1986 in the Southwest area still stand out as unusual. Few high-priced headquarter transfers were reported in the 1987 survey, and were excluded under the minimum of a 40-acre per tract rule followed in this study.

Average sales price per acre for the 389 tracts reported to this survey was \$252 per acre, up from the 1986 survey average, and close to the \$262 estimated value per acre of North Dakota farmland in 1987. Both the estimated value and the average sales price per acre for 1987 were the same for the South Red River Valley area. These averages are similar in the Northwest area and fairly close in the Southwest, Northeast Central, and Southeast Central farming areas. Average sales prices provided in Table 4 show why sales prices do not indicate trends in land values very well over the years. Sale tracts vary so much in price due to location to buyer and characteristics of the tracts, as discussed below.

Most tracts sold (75 percent) were unimproved or without buildings, containing two-thirds of the farmland sold in 1987, for an average size of 252 acres and a price of \$267 an acre. One-third of the land was in improved tracts, with a larger average size of 420 acres, and sold for a much lower average price of \$207 per acre. The 1987 market contained nearly twice the percentage of improved tracts as in previous years.

Reporters marked the quality of buildings included on sales tracts as good, average, or poor. About 26 percent of all tracts with buildings were rated as in good quality, and 38 percent each had average or poor quality buildings. Tracts with good quality buildings averaged 389 acres in size and a price of \$202 per acre. Tracts with buildings rated average quality sold for an average of \$189 an acre with the larger average size of 479 acres. Tracts with only poor quality buildings averaged 381 acres and \$233 per acre.

The quality of land in each tract was rated by the reporters. About 28 percent of all tracts had land rated as good in quality, with 22 percent of the land transferred, sold for an average of \$422 per acre, and had the smaller average size of 224 acres. Most sales (54 percent) were rated as having average quality land. These tracts averaged 292 acres in size and \$227 per acre. Tracts with poorer quality soils comprised 17 percent of the sales transferring 24 percent of the acreage. They had the larger average size of 402 acres and sold for the lowest average price of \$131 an acre.

Cash purchases rose in importance in the 1987 market (Table 6) to 39 percent of all purchases; this compares to 35 percent in 1986 and 36 percent in 1985. Surveys in earlier years had only 5 to 9 percent of all transfers purchased with cash. Cash-purchased tracts averaged the smaller size of 224 acres but sold for the higher price of \$312 an acre. Cash purchases were most common in the two Red River Valley farming areas, involving just over one-half of the sale tracts with half of the land transferred in those areas.

Credit financing included mortgages, contracts for deeds, and various other instruments and combinations of financing instruments. Mortgage financing continued to be a smaller part of the financing scene, down from 59 percent in 1984 to a low of 34 percent in 1987. These tracts transferred 35 percent of the land sold in 1987, and averaged 309 acres in size and \$245 per acre.

Table 5. Number of Sales and Averages Calculated for Actual Farm Sales Reported in the Fall 1985-1987 Surveys

Eight Farming Areas	Number of Sales			Average Size			Average Price		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
	-----number-----			-----acres-----			-----dollars/acre-----		
Northwest	6	5	23	365	238	386	275	196	152
Southwest	41	68	95	526	*4719	300	190	167	185
Northwest Central	36	30	46	493	190	335	236	285	176
Southwest Central	59	62	60	282	322	369	216	196	168
Northeast Central	21	35	33	175	246	245	395	285	309
Southeast Central	69	64	55	245	256	273	416	285	237
North Red River Valley	44	48	32	184	187	162	704	645	624
South Red River Valley	46	23	45	169	184	211	981	810	631
North Dakota	325	335	389	293	*1139	290	366	196	252

Note: Excluding two large sales yields, an average size of 867 acres in the Southwest and 366 acres for the state in the 1986 survey.

Table 6. Percent of Farm Sales by Method of Finance, 1981-1987

Method of Finance	State Averages for Sales:						
	1987	1986	1985	1984	1983	1982	1981
	----- percent of sales -----						
Cash	39	35	36	15	9	5	5
Mortgage	34	35	38	59	58	52	52
Contract for deed	27	30	26	26	33	43	43

Contract for deed purchases (most often being the seller financing the sale) included just over a fourth of the tracts involving 31 percent of the acreage sold in 1987. These tracts averaged the larger size of 342 acres and sold for the lower price of \$208 an acre.

Individuals, both sellers and others, were the primary source of credit in 36 percent of the sales, involving 38 percent of the land and averaging 308 acres in size for an average price of \$227 an acre. Farm Credit Services provided financing for 31 percent of the tracts with 27 percent of the land, averaging 258 acres in size and \$264 per acre. Commercial banks were listed in 24 percent of the sales with 22 percent of the acreage sold, averaging 264 acres and \$303 per acre. The Farmers Home Administration was involved in many transfers, alone or with Farm Credit Services or the seller.

SELLER CHARACTERISTICS

Active farmers were in the largest group selling tracts in 1987. Other sellers included retired farmers, people settling estates, widows selling out, absentee owners, and government and financial services reducing inventories.

Active farmers provided 30 percent of the tracts with 28 percent of the acreage, averaging 282 acres in size and \$264 an acre in sales price. Widows parted with 21 percent of the farms involving 19 percent of the land, averaging 275 acres each and at a price of \$245 an acre. Retired farmers sold 16 percent of the units with 18 percent of the land, averaging 320 acres and \$226 per acre. Estate settlers sold 11 percent of the tracts with 9 percent of the land, averaging 257 acres and \$197 an acre in price.

Absentee landowners provided 11 percent of the tracts involving 9 percent of the acreage, for an average size of 240 acres and sales price of \$376 per acre. Government and financial services were attributed as the source of 10 percent of the tracts with almost 16 percent of the acreage, averaging 455 acres in size and \$150 per acre in price.

Financial pressure, forced sale, reduce debt, cashflow, and similar words accounted for one-half of the reasons for sale. To reduce inventory, bank sale, and similar words appeared in 15 percent of the reasons. Estate settlements were listed for 10 percent and health and retirement for 9 percent of the reasons. Good price, trade up to a larger farm, father-to-son transfer, change investments, and other explanations accounted for less than 4 percent of the reasons for sale.

Average age of seller, listed for only 31 percent of the sales, was 58.7 years (Table 7). This is up considerably from

Table 7. Percent of Sales Tracts Sold by Age of Sellers, 1981-1987

Age Groups	State Averages for Sales:						
	1987	1986	1985	1984	1983	1982	1981
	----- percent of sales -----						
Under 35	4	6	3	9	5	8	6
35-44	12	19	15	24	16	19	12
45-54	15	19	26	24	23	18	21
55-64	29	34	29	24	35	31	27
65-74	28	17	24	15	18	17	31
75 and over	12	5	3	4	3	7	3

the 50.1 year average reported in 1986. About 30 percent of the sellers in 1987 were 65 years of age and older. Nearly 60 percent of the sellers were 55 years and older.

BUYER CHARACTERISTICS

Most tracts were sold to nonrelatives. Only 3.5 percent of the sales with 4.5 percent of the acreage transferred to relatives. Their units averaged 284 acres compared to 365 acres for those sold to nonrelatives. Average sales price to relatives was \$222 compared to \$251 an acre to nonrelatives.

The average age of buyers was 43.1 years in 1987, up from 42.2 years in 1986 and 43.6 years in the 1985 survey. The age distribution of the buyers in recent surveys is shown in Table 8.

The buyer age distribution shows fewer younger buyers in recent years. A clear change occurred in 1982-83 when about 40 percent of all buyers had been under 35 years; now it is in the range of 23-28 percent. Buyers 45 years and older have become a larger portion of all buyers, with the largest growth in the 55 and over age group. The latter group increased from 6 to 8 percent of purchases to 20 to 24 percent in recent years. Older buyers may be obtaining well-located nearby units long desired, or expanding to include sons into the farming operation, or to start sons farming as renters or part-time farmers.

Expansion-oriented buyers continued their clear dominance of the farmland market in 1987 (Table 9). Relatively few tracts emerged from the marketplace to become single or separate farms or to become part-time farms or rural residences.

Most buyers lived in the same county where the acquired tract was located. About 89 percent of the buyers who

Table 8. Percent of Sales Tracts Bought by Age of Buyers, 1981-1987

Age Groups	State Averages for Sales:						
	1987	1986	1985	1984	1983	1982	1981
	----- percent of purchases -----						
Under 25	3	5	3	8	11	14	15
25-34	22	23	20	27	29	33	32
35-44	26	25	27	21	25	23	22
45-54	29	24	26	28	24	22	25
55 and over	20	23	24	16	11	8	6

Table 9. Percent of Sale Tracts Bought by Type of Buyers, 1981-1987

Type of Buyers	State Averages for Sales:						
	1987	1986	1985	1984	1983	1982	1981
	----- percent of purchases -----						
Single farms	8	6	7	13	9	7	12
Expansion farms	87	88	89	80	86	91	83
Other buyers	5	6	4	7	5	2	5

bought 88 percent of the land transferred lived in the same county. Tracts of this dominant group were typical for their areas, and averaged 295 acres in size at a mean price of \$235 per acre. Seven percent of the buyers lived in a nearby county, acquiring just over 6 percent of the land and obtaining typical tracts averaging 269 acres at \$227 per acre.

Only 5 percent of the buyers lived in a distant county or in another state. The distant county buyers purchased tracts averaging 464 acres at an average price of \$213 per acre. Buyers from another state acquired units with the smaller average size of 272 acres for the highest mean sales price of \$523 an acre.

Landowners again purchased most of the tracts in 1987. Part-owners (own some and rent more) bought 40 percent of the tracts containing 43 percent of the acreage. Full owners acquired nearly one-third of the tracts with 29 percent of the land transferred. Renters obtained nearly 13 percent of the tracts with 16 percent of the acreage in the market. Renter-acquired tracts had a larger mean size of 368 acres at a lower average price of \$183 per acre.

TRACT USE BEFORE AND AFTER SALE

There is a concern with the number of farming opportunities measured as the number of farms emerging from the marketplace to be operated as separate or independent farming units. Sales data were cross-classified by use before and after sale to observe changes within the market. The two snapshots show that most tracts enter the market as owners sell off tracts which are a part of their farms, and most of those tracts are purchased by individuals already owning land so the tracts become part of another farm again. Some tracts shift among uses within the market, and only a few emerge from the marketplace to be operated as separate farms.

The largest group entering the market consisted of parts of another farm, making up 76 percent of all tracts with 69

percent of the land. These tracts averaged 263 acres in size and sold for \$277 an acre. Tracts previously operated as separate farms made up 20 percent of all tracts with 27 percent of the acreage, for averages of 388 acres at \$190 per acre. A small group of tracts used as part-time farms or rural residences completed the entry scene.

The largest group exiting the marketplace again consisted of parts of another farm being merged into existing farms. The parts of another group grew from 259 tracts entering to 301 tracts emerging from the market. The average size of tracts for this large group was 278 acres and had an average sales price of \$264 an acre. They had grown from 69 percent of the land entering the market to 82 percent exiting the marketplace.

A group of tracts operated as separate farms entered with 69 tracts and emerged with 20 of those plus six shifting uses. The group entered with 20 percent of the tracts and left the marketplace with only 7.6 percent, a sharp reduction in number of farming units. The exiting tracts in this group averaged 512 acres and cost \$168 per acre. They had fewer but larger tracts, likely to be more competitive or able to survive in the future if not over-leveraged.

LOOKING AHEAD

Major factors that influenced the 1987 farmland market were dominated by the state of the farm economy and poor prices. Other factors enumerated were availability of credit, lender inventories, and government programs. Sellers were felt to be influenced by their cashflow problems and financial conditions; their ages, health, and eminent retirement; the need to restructure debts; and the generally poor farm economy. Buyers were concerned with future of farm programs, poor product prices and incomes, credit terms and availability of financing, and location of land available to purchase.

Respondents have seen many changes over the last two decades and are intimately involved in the many local farmland markets. They have observed great transitions during the longer speculative land price boom and the sharp decline. The possible plateau in falling land prices in 1987 is an effect of good livestock prices plus the Washington-based federal price-income support efforts involving large taxpayer subsidies plus the sugar program.

Cooperators in this survey are asked for their predictions on changes in farmland values at the end of 1988 and nearly all avail themselves of this opportunity. The majority (60 percent) felt that land values will be pretty much the same at the end of 1988 as of now. Two groups, of 20 percent each, feel that land prices in 1988 will rise more or decline some from the ending 1987 values.