North Dakota Farmland Values Rose in 1988

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The estimated average value of typical North Dakota farmland rose just over 4 percent to a statewide average of $273 an acre in November 1988, compared to $262 per acre average reported for 1987. Table 1 presents state average values starting with the large increase experienced in 1974 through the declines to a small upturn measured in 1988. This turnaround from a declining farmland market of the last seven years is emphasized in Figure 1.

Farmland values in North Dakota peaked in late 1981, declined slowly at first, slid faster in 1985 and 1986, then slowed in 1987. Some respondents to the annual land market survey started noting a turnaround in late 1987 when government farm subsidy programs and Farm Credit Services' sales incentives to reduce land inventories influenced values.

Farmland values tend to lag most market influencing factors by a year or more, so the strongly supportive government farm programs of 1986 and 1987 are most evident now. For example, the 1987 government farm deficiency payments programs brought about $616 million into North Dakota. Land buyers and sellers have been influenced by higher small grain and oilseed prices in 1988 and good livestock prices and sugar returns. In addition, the 1987 commitments to the Conservation Reserve Program opened an annual flow of over $21 million for the next 10 years. However, the severe drought of 1988 has had some effect on incomes and expectations, and respondents expect it to moderate 1989 farmland values.

The 1987 market reflected the power of government farm support programs and the write-downs of loans, with a decline of only $13 an acre for the state. The 14-year cycle of rising land values from 1974 to 1981 and falling values from 1982 through 1987 represents a unique period that began with the Russian grain sales and fencerow-to-fencerow plantings, followed by much land speculation, and ended with many government actions to aid farmers and agricultural lenders.

The average values in Table 1 are graphed in Figure 2, which displays three parts to the cycle including the downturn and small rise emphasized in Figure 1. The average value per acre and the annual changes in values detail two phases on the upside (1974-1977, 1978-1981) and the downturn.

Table 1. Changes in Estimated Average Value of Farm and Ranchland Per Acre in North Dakota, 1974-1988

Year	Average Value	Annual Charges	
	dollars per acre	dollars	percent
1988	273	11	4.2
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
1974	205	56	37.6

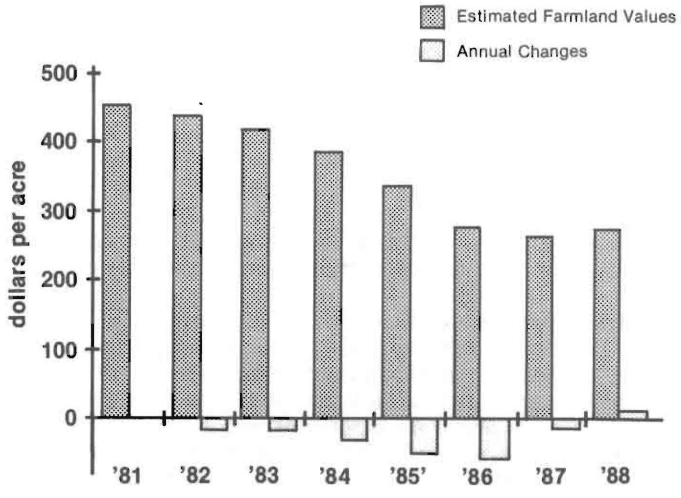

Figure 1. Annual Changes in and Estimated Farmland Values Per Acre, From the High in 1981 through 1988, North Dakota.

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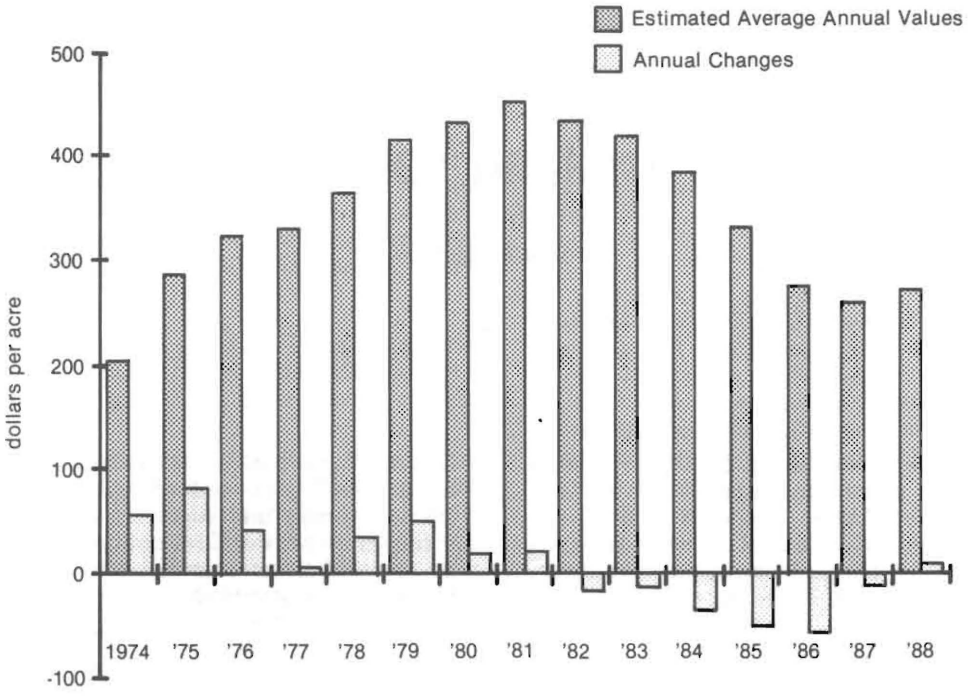

Figure 2. Estimated Average Annual Values and Annual Changes in Values Per Acre, North Dakota, 1974-1988.

Estimated average farmland values are presented for the eight farming areas in Figure 3. Farming areas most nearly represent groupings of counties with similar land uses for crops and livestock.

Both large dollar and percentage increases in estimated values of average quality farmland were measured in the Red River Valley farming areas in 1988 (Table 2). The percentage rise was just over 8 percent in the South Red River Valley and nearly 8 percent in the North Red River Valley area. Both areas have experienced strong specialty crop prices and returns, with more acres in sugarbeets grown in recent years.

The Northeast Central area recorded a 3 percent increase in the value of average quality farmland in 1988, after substantial downward adjustments in 1985 and 1986 and little change in 1987. The Southwest Central, Northwest Central, and Northwest areas reported rising values in 1988 after declines in recent years. The Southeast Central area experienced a slight increase from 1987. Only the large Southwest area reported a fall in average quality farmland values in 1988. The 1987 market had only a small decrease, but the drought of 1988 impacted average quality lands in an area where so much land is used for grazing.

The present state value of $273 an acre is $181 less than the 1981 peak value of $454 per acre, reflecting a 40 percent decline measured in current dollars. Or, the present state average land value is about 60 percent of its 1981 peak. Also at about 60 percent of peaks are present values in the Northwest and the North and South Red River Valley areas. Estimated average values in the Northwest Central, Southwest Central, and North Red River Valley areas are near 70 percent of peak values. Present values in the Northeast Central and Southeast Central farming areas are half of top average values.

Estimated average values of both cropland and pastureland for the eight farming areas are presented in Table 3.

Cropland values did not rebound as much in 1988 as did average quality farmland in North Dakota. The state cropland average value is up only about 1 percent from 1987, with a large increase of 11 percent in the Southeast Central area and over 9 percent in the South Red River Valley area. Continued declines were reported for the Southwest and Southwest Central farming areas, averaging about 7 percent. Cropland values in the Northwest area were reported up over 3 percent in both 1987 and 1988.

Table 2. Estimated Average Farm and Ranchland Values and Changes in Values per Acre from 1987 to 1988 by Eight Farming Areas.

Eight Farming Areas	Estimated Values in: 1987	1988	1987 to 1988 Change in Value: dollars	percent
	dollars per acre			
Northwest	172	180	8	4.7
Southwest	179	167	-12	-6.7
Northwest Central	235	248	13	5.5
Southwest Central	200	214	14	7.0
Northeast Central	305	313	8	2.6
Southeast Central	262	263	1	0.4
North Red River Valley	532	573	41	7.7
South Red River Valley	631	684	53	8.4
North Dakota	262	273	11	4.2

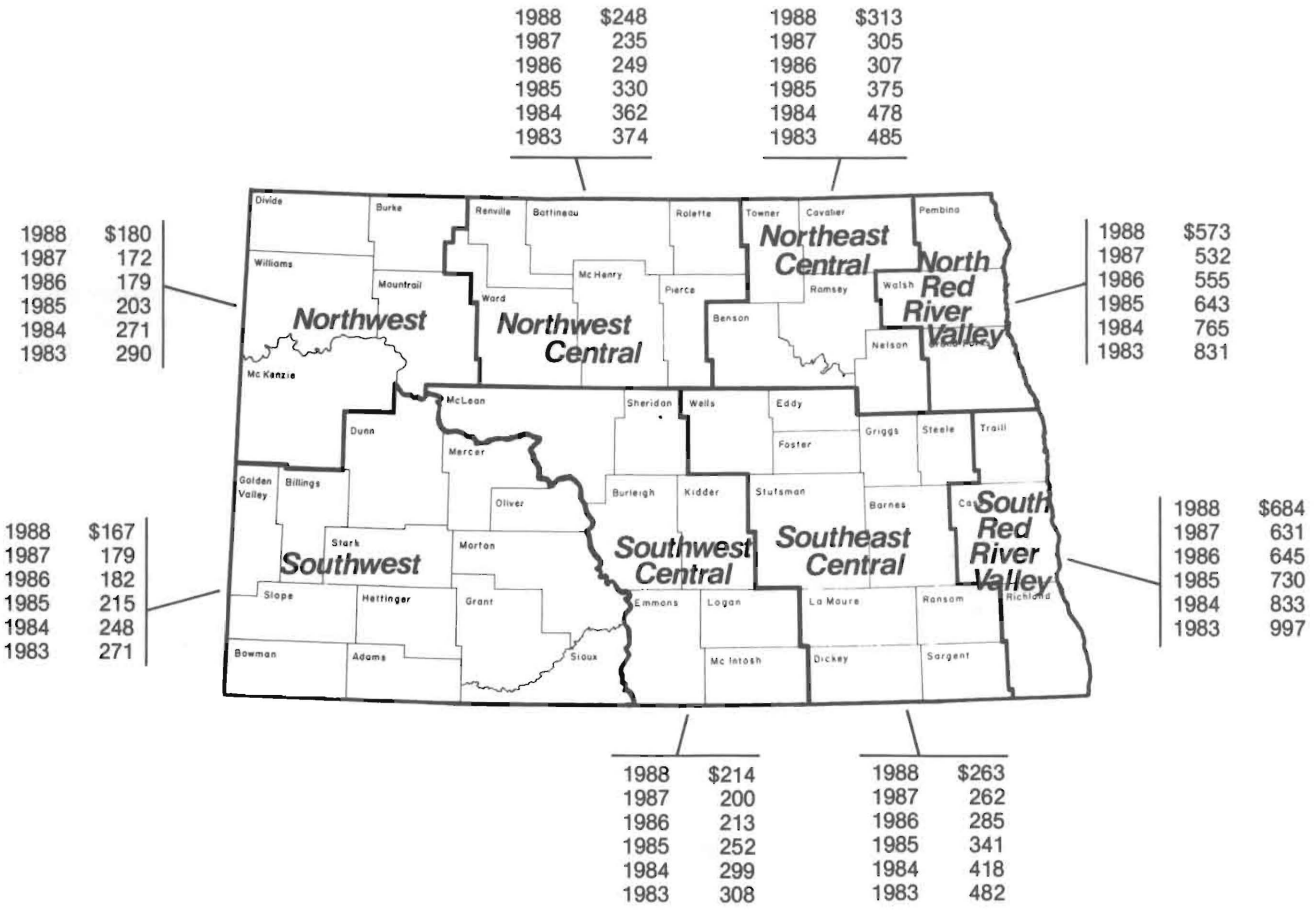

Figure 3. Estimated Average Values Per Acre of North Dakota Farmland. State: 1988: $273, 1987: $262, 1986: $276, 1985: $334, 1984: $385, 1983: $420.

Table 3. Estimated Average Values of Cropland and Pastureland Per Acre by Eight Farming Areas, 1985-88

Eight Farming Areas	Cropland				Pastureland			
	1988	1987	1986	1985	1988	1987	1986	1985
	dollars per acre				dollars per acre			
Northwest	251	243	234	261	87	94	95	120
Southwest	207	224	231	263	104	96	111	124
Northwest Central	305	290	312	368	109	116	119	129
Southwest Central	225	242	258	289	99	101	95	130
Northeast Central	341	340	311	416	120	105	125	148
Southeast Central	311	279	318	393	99	103	105	152
North Red River Valley	605	586	613	686				
South Red River Valley	724	661	721	806				
North Dakota	313	310	322	382	106	109	118	152

Note: The two Red River Valley areas contain few acres of pastureland.

The largest dollar increase in cropland values was in the South Red River Valley at $63 an acre, followed by increases of $32 in the Southeast Central area, $19 in the North Red River Valley, and $15 an acre in the Northwest Central area. These changes probably reflect the strength of government programs and specialty crop prices. Both the Southwest and Southwest Central farming areas reported declines of $17 per acre in 1988.

Estimated average pastureland values per acre in 1988 continued down in all farming areas except for the Northeast Central and Southwest areas. Estimated pastureland values have fluctuated in the Northeast Central area over the past 12 years, probably reflecting a changing group of respondents.

DATA AND DATA SOURCES

The 1988 land value survey received 102 useful responses, compared to 112 in the 1987 survey and 114 in 1986. However, both the geographic distribution among the eight farming areas and the mixture of reports from real estate brokers and county supervisors of the Farmers Home Administration were considerably better than in recent studies. For example, over 70 percent of the FmHA county supervisors provided estimates and information on their counties in 1988, an increase of 50 percent over previous years. Real estate brokers, attorneys, and other reporters knowledgeable of land values provided a valuable base of information for most counties across the state except for the western half of the Southwest farming area.

Individual estimates of value are averaged for each county for each of the three types of land and weighted by land in farms in creating averages for the farming areas and the state. Individual responses are kept confidential, and only the calculated averages and percentage distributions are released. The study includes a way to revise a previous area average when there is a large enough shift in the geographic distribution of responses to overstate its actual change in 1988 as measured by the returns.

The trends, as measured by averages in this study, should not be applied to valuing individual farm tracts. These studies provide trends in farmland values and characterize farmland markets by farming areas. Most farmland and rental markets are small and quite local, often only a portion of a county, so the process of combining individual reports and weighting county reports to create area averages may have averaged-out or masked over significant local changes.

MUCH ACTIVITY IN 1988

Farmland continued to be available for purchase, and like 1987, much of it was offered at attractive rates to reduce land inventories of agricultural lenders. Reporters identified debt, threat of foreclosue, and reduction of inventories as involved in over a third of the transfers in 1988. The need to reduce inventories, using attractive rates and creative financing, continued as the dominant factor in many local markets.

The exchange of tracts between farm operators expanding and reducing sizes of farm units operated by buying and selling tracts continued as the strongest underlying force in the market. The human life cycle becomes the life cycle of the farm business, creating a regular flow of tracts between operators of larger farms. Comments about businessmen and investors both selling and buying tracts appeared more often than seen in recent surveys. Some farmers decided that a low had been reached in land prices, and with the means at hand, chose to buy in order to expand existing holdings or for their children.

Among real estate brokers and those dealing in land sales, two-thirds in 1988 and about 53 percent the year before reported having no sales. Nearly 30 percent in 1988 and 41 percent in 1987 had one to five sales during the year. Some brokers have contracts with lenders to help sell inventories and, therefore, had a large number of sales. Three respondents in 1988 and four in 1987 reported 30 or more sales for the year.

Asked about the number of tracts listed for sale in 1988 compared to 1987, 8 percent had more listed in 1988, 44 percent had fewer, and 48 percent had about the same number listed for sale. The percentage having fewer listings was up from 14 percent from 1987.

CHARACTERISTICS OF TRACTS SOLD IN 1988

The number of tracts sold, average size, and average sales price per acre for the last three years are given in Table 4. The number of tracts included in the 1988 analysis is between the numbers in the 1986 and 1987 surveys, and about 40+ sales were removed as duplicates. There was a substantial improvement in 1988 in both the number and distribution of sales among the five counties of the Northwest farming area. However, there was a great weakening in the number and distribution of sales in the Northeast Central and South Red River Valley areas.

The average size and sales price of farm tracts sold varies from year to year, with the most variation in size appearing in the Southwest area. Frequency distributions of tract sizes in acres are created by farming areas and for the state. They indicate that the quarter-section is the most common size of tract sold. It made up over 35 percent of all transfers in 1988, 14 percent were in the 320-acre size, 7.5 percent in the 80-acre size group, and only 2.5 percent were a full-section in size. The Southwest area had more of the larger tracts sold with 28-percent at 640 acres or more, while the North Red River Valley had nearly one-third of its tracts in the 40-80 acre grouping.

The fluctuating average sales price per acre partially indicates why sales prices are not used in measuring trends in farmland values. Sales prices per acre vary with soil productivity, topography and usefulness for machinery, hail frequency, buildings and their quality, location, and other tract characteristics, plus characteristics of buyers and sellers such as age, financial pressures and incentives, how well its size fits in with a buyer's existing operating unit, and sometimes even keeping someone else from getting it.

Comparing numbers in Table 4 to Figure 2 shows fluctuating average sales prices compared to the (usually) relatively smooth changes in estimated land values by farming areas. The Southwest area sales price averages have moved up and down while estimated values continue to decline. Both the average sales prices and estimates in the North Red

Table 4. Number of Sales and Averages Calculated for Farm Sales Reported in the Annual Fall Surveys of 1986-88 by Eight Farming Areas.

Eight Farming Areas	Number of Sales			Average Size			Average Price *		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
	number			acres			dollars per acre		
Northwest	5	23	47	238	386	358	196	152	244
Southwest	68	95	39	*4719	300	669	167	185	129
Northwest Central	30	46	46	190	335	290	285	176	249
Southwest Central	62	60	74	322	369	375	196	168	165
Northeast Central	35	33	16	246	245	269	285	309	373
Southeast Central	64	55	54	256	273	252	285	237	255
North Red River Valley	48	32	68	187	162	142	645	624	734
South Red River Valley	23	45	20	184	211	230	810	631	715
North Dakota	335	389	364	*1139	290	319	196	252	265

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.

River Valley declined through 1987 and then rose in 1988, a pattern observed in several other farming areas.

Most tracts (83 percent) sold in North Dakota are without buildings (bare or unimproved tracts), with an average price of $320 an acre compared to tracts improved with buildings of several qualities that averaged $156 per acre. Bare tracts averaged 254 acres and improved tracts averaged 642 acres. Improved tracts are often farm operating units sold as a unit sought by new farmers, while most established farmers tend to add smaller parcels without buildings.

Only 17 percent of all tracts were improved with buildings rated as good, average, or poor in quality in 1988. Improved tracts tended to be bigger but sold for less per acre. Parcels with buildings rated as good quality made up only 3 percent of all sales but transferred nearly 5 percent of the land sold. They averaged $205 per acre in price and 509 acres in size. Tracts rated as having average quality buildings averaged 932 acres, and those of poor quality had 472 acres.

Respondents provided quality of land ratings of good, average, or poor for each tract; average sale prices reflected those ratings with a smaller size for those with the top-rated soil. Top-rated, good quality land averaged $435 an acre and 246 acres in size and made up 29 percent of all tracts but only 22 percent of the land transferred in 1988. Average quality tracts accounted for 56 percent of the transfers with 52 percent of the acreage, averaging 300 acres in size and $261 per acre in price. The lower rated, poor quality land made up 15 percent of all sales and had the larger average size of 524 acres and the lower average price of $123 per acre.

The method of financing real estate purchased shifted again in 1988 (Table 5). The proportion of tracts bought with all cash more than doubled from 1984 to 1985, increased even more in 1987, and then fell sharply in 1988. The 1985-87 markets may have been unique wherein farmers had the means and converted their cash and near liquid assets into real estate and are now using more conventional financing to obtain land. The mortgage as an instrument of financing land purchases declined in the 1985-87 years to about 34 percent of purchases from the lofty position of 59 percent in 1984. The 1988 figures suggest a return to the role it held before 1983. The decline in use of contracts for deed evident from 1982 to date in Table 4 reflects both a change in preferences of the sellers (who tend to favor this instrument) and among other individuals and those agencies that often use it to finance farm purchases.

The Farm Credit Services was the major credit source for financing land purchases with about 35 percent of purchases. Commercial banks with 26 percent, sellers with 16 percent, and other individuals with 9 percent accounted for the rest. FCS-financed tracts averaged 286 acres with an average purchase price of $314 an acre. Commercial bank-financed tracts averaged 297 acres in size and $254 an acre in price. Tracts financed by their sellers averaged 393 acres and $259 per acre. Other individual-financed tracts averaged 288 acres in size and $260 an acre.

SELLER CHARACTERISTICS

Active farmers buy and sell most farm tracts in North Dakota. Active farmers provided 31 percent of all parcels conveying 29 percent of the land in 1988, and those tracts averaged 309 acres in size and sold for an average of $283 an acre. Retired farmers sold 19 percent of all parcels, with an average size of 438 acres and an average price of $237 per acre.

Table 5. Percent of Farm Sales by Method of Finance, 1982-1988

Method of Finance	State Averages for Transfers in:						
	1988	1987	1986	1985	1984	1983	1982
	percent of sales						
Cash	23	39	35	36	15	9	5
Mortgage	53	34	35	38	59	58	52
Contract for deed	24	27	30	26	26	33	43

Estates sold 18 percent of all tracts, with an average size of 246 acres and an average price of $304 an acre. Widows provided 14 percent of the parcels, averaging 338 acres in size and $251 per acre. Absentee owners appeared as a major group in 1988, selling 13 percent of the tracts, averaging 236 acres and $282 an acre.

Reasons for sale included health or retirement; estate settlements; financial pressure, debts, or threat of foreclosure; out-of-state (or absentee) owners; good price offered; exchange tracts owned; and change of occupation. Health and retirement influenced 20 percent of all sales, averaging 392 acres in size and $219 an acre.

Financial pressures, debts, and possible foreclosure influenced 22 percent of all sales, averaging 247 acres in size and $409 in price per acre. These reasons had accounted for one-half of all sales in the 1987 market, so the market has changed. Good price offered, exchanging tracts, changing occupations, and reducing size of unit accounted for 11.1 percent of all sales and included 17.1 percent of the acreage, for averages of 450 acres in size and $180 an acre.

The percentage of tracts sold by age of sellers showed a return to older sellers in the 1988 market (Table 6). Sales by estates and institutions are not given ages in this study. Percentages of sellers under 35 years and under age 65 are near the norm of recent years, while the percentage age 65 years and over increased substantially. Those 65 years and over provided 42 percent of the tracts in 1988, up from 40 percent in 1987 and 23 percent in 1986.

Average age of sellers was 58.2 years in 1988, close to the 58.7 years in the 1987 study. Average ages by farming areas varied from the youngest area average age of 51.6 years in the Southwest, to 56 years in both the Northwest Central and Southwest Central areas, to the highest area average of 63 years in the Southeast Central area.

Table 6. Percent of Farm Tracts Sold by Age of Sellers, 1982-88.

Age Groups	State Averages for Transfers in:						
	1988	1987	1986	1985	1984	1983	1982
years	percent of sales						
Under 35	7	4	6	3	9	5	8
35-44	11	12	19	15	24	16	19
45-54	17	15	19	26	24	23	18
55-64	23	29	34	29	24	35	31
65-74	31	28	17	24	15	18	17
75 and over	11	12	5	3	4	3	7

BUYER CHARACTERISTICS

Sales of land among relatives continue to be a small proportion of total sales. The 1988 study reported 5.6 percent of the sales were between relatives, up from 3.5 percent in 1987. Tracts transferred among relatives averaged 681 acres compared to 302 acres for the much larger group of sales among nonrelatives. Average sales price among relatives was much lower at $119 per acre compared to $284 for nonrelatives.

A rising average age of buyers is evident, being 45.4 years in 1988, up from the 43.1 years in 1987 and 42.2 years in 1986. Younger average ages by farming areas in 1988 were in the Southwest (39.6 years) and Southwest Central (44.8 years) areas. The oldest area average age of 48.8 years for buyers was in the North Red River Valley. The age distribution of buyers in recent surveys is shown for the state in Table 7.

Table 7. Percent of Farm Tracts Bought by Age of Buyers, 1982-1988.

Age Groups	State Averages for Transfers In:						
	1988	1987	1986	1985	1984	1983	1982
years	percent of purchases						
Under 25	1	3	5	3	8	11	14
25-34	21	22	23	20	27	29	33
35-44	22	26	25	27	21	25	23
45-54	28	29	24	26	28	24	22
55 and over	28	20	23	24	16	11	8

A changing age composition of farm tract buyers is shown in Table 7. The younger age groups would include more first time farm buyers and buyers of rural residences. Purchasers seeking to expand their existing farms tend to be older than most beginning farmers. Buyers 45 years and older accounted for a growing but fluctuating share of the market, from 30 percent in the 1982 study, to one-half in 1985, to 56 percent in the 1988 study.

The leading reason for buying tracts continues to be expanding already existing farms (Table 8).

Expanding farm operators who already own and operate farmland have proven farming abilities to more readily qualify for loans, usually have proven repayment abilities and demonstrated capacity, and are in the expansive phase of their life cycles. This group of buyers continues to dominate the North Dakota farmland market and are often the first asked to purchase a tract when the seller first considers selling it. However, the 1988 market also saw additional reasons for purchasing the smaller or lower priced tracts, including more going for rural residences, part-time farms, game reserves, and so forth.

Table 8. Percent of Farm Tracts Bought by Purpose of Purchase, 1982-88.

Purpose of Purchase	State Averages for All Transfers in:						
	1988	1987	1986	1985	1984	1983	1982
	percent of purchases						
Single farms	7	8	6	7	13	9	7
Expansion farms	86	87	88	89	80	86	91
Others	7	5	6	4	7	5	2

Buyers were asked where they lived relative to the tract purchased. Ninety percent of all buyers lived in the same county as the land they bought, 7 percent lived in a nearby county, and only 1 percent lived in a distant county in this state. Just over 2 percent lived in another state at the time of the purchase, and their tracts averaged the larger 413 acres in size and cost the higher average price of $529 per acre.

Respondents usually listed buyers' occupations before the land purchase. The largest group included active farmers expanding their farm units (Table 8). Their units averaged 289 acres in size and they paid an average of $299 an acre for the tracts they added to their existing farms. More professionals and businessmen entered the 1988 market as investors, acquiring about 6 percent of all tracts. Their purchases varied greatly in size and price but averaged 429 acres and $236 an acre. Renters becoming first-time farmland owners rose from nearly 13 percent of the 1987 market to 16 percent in 1988, with purchases that averaged 470 acres and cost the low average price of $169 per acre.

LAND USE BEFORE AND AFTER SALE

The number of farming opportunities for young farmers is a continuing concern, and one measure is the number of farms emerging from the farmland marketplace to be operated as separate or independent farms. Cross-classifying the data by land use before and after sale reveals the actions within the market. It is like two snapshots--one is of all sales entering the market and the other is the scene as they emerge from the marketplace. Most tracts enter the land market from expansion-oriented operators reducing the size of their farms. But they also enter from active and retired farmers selling their separate farms, estates and widows selling separate farms, and tracts in part-time and miscellaneous uses. The exit scene is simplified here to three purposes: expansion, independent or separate farms, and other uses (part-time, rural residence, and miscellaneous).

The majority (86 percent) of all tracts left the marketplace to become parts of already existing farms, i.e., for expansion purposes. And 94 percent of those tracts had been sold by operators reducing their size of farms, so they continued as parts of expansion units. The other expansion-destined units included 68 percent of those tracts that entered as separate farms, and one-third from the other uses group. The large group of expansion-destined units left the market averaging 290 acres and costing an average of $294 an acre.

Tracts operated as separate, independent farms before sale were mostly acquired by expansion-oriented farm operators. But a fourth of those separate farm tracts passed through the market for continued use as separate, independent farms. This group added two tracts that were formerly parts of another farm. The 26 percent of all tracts once operated as separate farms emerged as only 7 percent of all tracts. Those 7 percent now had the large average size of 728 acres and had the low average price of $116 per acre.

The small and unusual group of tracts in other uses gave up some tracts to expansion operators, but also picked up some from both the separate farms and expansion-oriented groups of sellers. The other uses group doubled in size, emerging with 7 percent of all tracts, with an average size of 285 acres and an average sales price of $272 per acre.

Most sellers were active or retired farmers and most buyers were active farmers. The market continues to serve this group well. A small but distinct group included professional, nonprofessional, and business people buying farm tracts for investment purposes in 1988.

WHAT'S AHEAD

The drouth was the single most important factor affecting the 1988 land market, mentioned on one-fourth of the responses. Government farm programs including base acres and the Conservation Reserve appeared in 18 percent of the comments, followed by cashflow problems, good or poor crop prices, high interest rates, lender inventories, and concern for the outlook in 1989.

Drouth and credit availability and rates were tied as the two leading factors influencing recent land buyers. The location and availability of land was the third most important factor listed, followed by government farm programs, commodity prices, equity and the ability to cashflow the purchase, and future moisture conditions.

Sellers were thought to be most influenced by cashflow or financial problems; health, age, and retirement; and the drouth.

Comments on the drouth often led to a later expression of concern over the possible spring 1989 moisture conditions. A comment on commodity prices often was followed by how future prices may influence all those in the market.

When cooperators were asked about future land values, a solid 60 percent (the same percentage as in 1987) were expecting about the same values next November 1, one-fourth expected values to be up 5 percent or more, and only 15 percent anticipated a substantial decline. Respondents in the South Red River Valley area were strongly buoyant, followed by optimism in the North Red River Valley, Northwest, and Northeast Central farming areas. Some reporters in the Southwest Central area were a bit less optimistic than the state averages. The severe drouth of 1988 and moisture conditions in 1989 will affect the 1989 farmland market, but most cooperators also were cognizant of the role of the many federal government farm programs in influencing farmland values.