

FARMLAND VALUES DECLINED MORE IN 1984

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North Dakota farmland values continued to decline in 1984. The trend downward was first observed in the fall of 1981 by reporters to the NDSU annual survey after values peaked earlier in 1981. The 1984 market reflected both a continued decline in demand for farmland and growing financial stress in the farm sector. Land is available for sale. Some potential sellers have a reservation price, with land values being below that price now. Potential buyers are waiting to see if land prices will stabilize or fall even more.

Average quality North Dakota farmland declined from \$420 in November 1983 to an average of \$385 an acre in November 1984. This represents an average decline of \$35 an acre, or 8 percent, in 1984. This rate is nearly double the decline of 4.3 percent reported between 1982 and 1983.

Land values in North Dakota change at different rates geographically and over time. Estimated values for average quality farmland for the last five years are shown in Figure 1 for eight farming areas in the state. Numbers represent November 1 estimates of land market values. A mail survey of farmland brokers, county supervisors of the Farmers Home Administration, and other knowledgeable reporters was conducted from mid-October through December. The 1984 estimated values are based on 125 reports on the service areas covered by these reporters.

The largest dollar and percentage decline for 1984 was reported in the South Red River Valley farming area \$164 an acre or 16 percent (Table 1). This productive farmland continues to be the most highly valued land in the state. The North Red River Valley farming area had an average decline of \$66 an acre. The second largest percentage decline was in the SE Central farming area, just west of the South RRV area.

Little change in average farmland value was reported in the NE Central farming area, which reported substantial declines in the previous two surveys. Small declines were reported in the NW Central and SW Cen-

TABLE 1. ESTIMATED AVERAGE FARMLAND VALUES AND CHANGES IN VALUE PER ACRE FOR EIGHT FARMING AREAS IN 1983 AND 1984

Farming Areas	Estimated Value in:		Dollar Change	Percentage Change
	1984	1983		
-----dollars-----				
Northwest	271	290	- 19	- 7%
Southwest	248	271	- 23	- 8%
Northwest Central	362	374	- 12	- 3%
Southwest Central	299	308	- 9	- 3%
Northeast Central	478	485	- 7	- 1%
Southeast Central	418	472	- 54	-11%
North Red River Valley	765	831	- 66	- 8%
South Red River Valley	833	997	-164	-16%
State	385	420	- 35	- 8%

tral farming areas for average quality farmland. The two western farming areas reported similar reductions in average value (7 percent in the Northwest and 8 percent in the Southwest).

Changes in average values of crop and pastureland for the eight farming areas and the state are presented in Table 2. The fall in cropland values was much larger in 1984 than in 1983. Two farming areas (NW Central and Southwest) reported small increases in cropland values in 1983, but all areas reported fairly large declines in 1984.

TABLE 2. ESTIMATED AVERAGE VALUE OF CROP AND PASTURELAND PER ACRE, 1982-84

Farming Areas	Cropland			Pastureland		
	1984	1983	1982	1984	1983	1982
-----dollars-----						
Northwest	312	337	362	132	142	164
Southwest	282	313	309	142	156	157
Northwest Central	430	467	429	178	190	188
Southwest Central	327	364	371	168	184	205
Northeast Central	495	536	582	230	172	251
Southeast Central	481	559	577	182	214	233
North Red River Valley	909	950	1019	(177)	(243)	(212)
South Red River Valley	951	1100	1116	(409)	(364)	(400)
State	441	489	498	180	191	208

Johnson is professor Department of Agricultural Economics. The assistance of D.J. Casavant, senior and part-time worker in Agricultural Economics, is greatly appreciated in conducting the mailings and in the data encoding and entry.

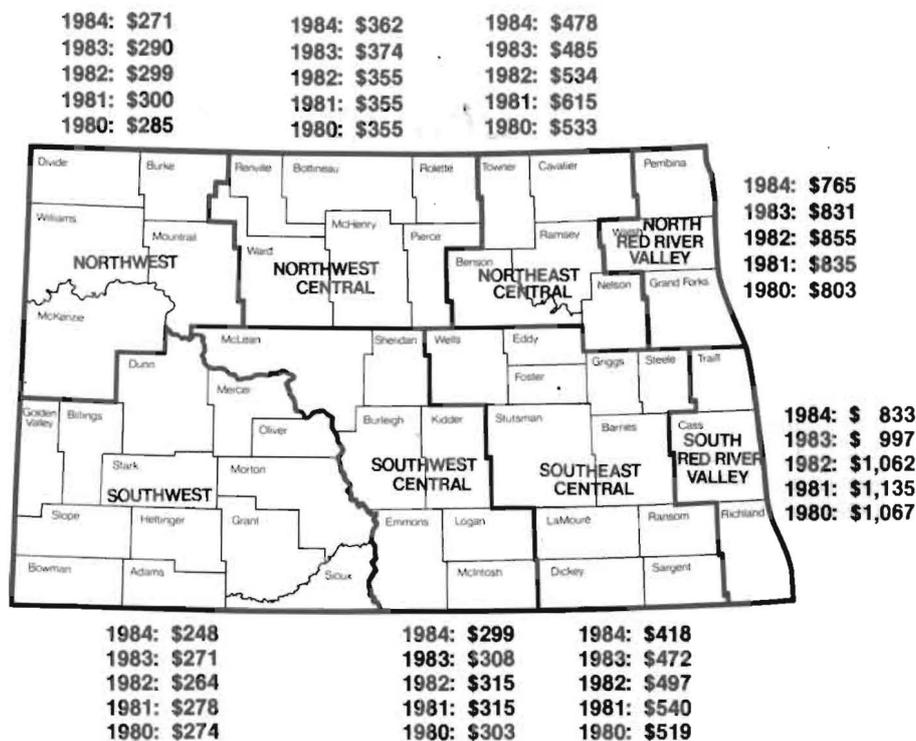


Figure 1. Estimated Average Value Per Acre of North Dakota Farmland State: 1984 - \$385, 1983 - \$420, 1982 - \$435, 1981 - \$454, 1980 - \$433

The average decline in cropland value was \$48 an acre, or 10 percent, for the state in 1984. The SE Central area reported a hefty decline of \$78 an acre. The decline in the South Red River Valley was about \$49 an acre. The NE Central and North Red River Valley areas experienced a decline of about \$41 an acre in cropland values. The remaining farming areas had declines of \$25 to \$41 an acre in 1984.

Average pastureland values per acre have been declining in the state for the last five years. There has been a 21 percent decline since 1981, with a 6 percent reduction in state pastureland values in 1984. The two Valley farming areas have little pastureland, so these estimates carry little weight in the state pastureland figure. The rebound of pastureland values in the NE Central area may reflect an over-reaction in 1983 and possibly a correction this year.

The NDSU survey asks reporters for two kinds of information: (1) their estimates of average farmland values for average quality crop and pastureland in their counties or service areas, and (2) specific details on farm sales for continued agricultural use in 1984. Duplicate sales are removed, and various averages and percentages are developed for each farming area. The estimates are averaged by counties and weighted for each farming area. The number of acres of land in farms by counties is used in the weighting process to obtain the average

estimated value per acre for average quality crop and pastureland by farming areas.

The mail response each year has both a different number of responses and reports from different locations. The weighting process is used to reduce fluctuations in the calculated estimates for each farming area due to differences in response rates and locations. Confidentiality is maintained by not releasing any individual responses.

Estimates of farmland values are considered to be better indicators of trends in values over the years than statistics based on actual sales data. Information obtained from actual farm sales data helps in understanding what happened in the land market. But the actual farm sales data vary substantially from year to year in number of sales by geographical locations, quality of soils, sizes of tracts sold, quality of buildings, method and sources of financing, but especially in the motives of individual buyers and sellers. These and other reasons result in variations in the computed averages from year to year and among the farming areas.

A Slow Market in 1984

Two indicators of farm real estate market activity, or rate of farm transfers, were provided by the reporters. One indicator is the number of farms the broker sold in 1984. The other indicator is the number of farms listed

for sale. Brokers reported an average of 1.24 farms sold in 1984. This average is down 25 percent from the 1983 market. The 1983 figure was down 14 percent from the previous year. The 1984 market had a relatively low rate of turnover in sales, a really slow market year.

The second measure of market activity was the number of farms listed for sale. Reporters were asked if they had more, about the same, or fewer farms listed for sale in 1984 compared to 1983. About 52 percent of the brokers reported that they had about the same number listed for sale in 1984 as in 1983. The group of brokers reporting more farms listed for sale increased from 29 percent in 1983 to about 32 percent in 1984. Brokers reporting fewer farms listed for sale increased from 14 percent in 1983 to 16 percent for 1984.

Characteristics of Sale Tracts Sold in 1984

Reporters were asked to provide detailed information on any farm sales in their service areas. Information is presented on the characteristics of the sale tracts, buyers, and of the sellers. Averages or percentage distributions have been calculated for each characteristic, such as average size, sales price, and quality of buildings sold.

Reporters sent information on over 360 farm sales in 1984. The editing/duplication process reduced the number to 350, which compares to 361 presented in the 1983 report. Number of sales, average size, and sale prices per acre by farming areas are presented in Table 3.

TABLE 3. NUMBER OF AND AVERAGES CALCULATED FOR ACTUAL FARM SALES REPORTED IN THE FALL 1983 AND 1984 SURVEYS

Farming Areas	Sales		Average Size		Average Sale Price/Acre	
	1983	1984	1983	1984	1983	1984
	number		acres		dollars	
Northwest	32	15	303	239	306	259
Southwest	53	46	512	629	274	215
Northwest Central	39	61	245	249	461	377
Southwest Central	51	66	408	401	288	311
Northeast Central	34	39	236	233	594	486
Southeast Central	66	58	233	281	506	446
North Red River Valley	38	43	164	157	972	881
South Red River Valley	48	22	247	207	1122	876
State	361	350	301	317	485	385

Fewer sales were reported in 1984 for the Northwest farming area, so its averages are not as firm as for the other areas. Average tract sizes by farming areas and for the state vary from year to year. State average tract size reported was 341 acres in 1981, 298 acres in 1982, 361 acres in 1983, and 317 acres for 1984. Larger average sizes tend to be reported in the Southwest and SW Central farming areas over the years.

The average sale price paid per acre for the state was \$506 in 1981, \$497 in 1982, \$485 in 1983 and \$385 in 1984. The estimated value per acre for the state was \$454 in 1981, \$435 in 1982, \$420 in 1983, and \$385 per acre in 1984. Sale prices are affected by factors such as different soil qualities, the need for buildings, location and its strong effect, credit availability and credit costs.

While the average size of tract sold was smaller in 1984 than in 1983, the percentage distribution of the sizes was similar. About 8 percent of the tracts in 1984 and 7 percent in 1983 were near 80 acres in size. About 36 percent in both years were quarter-section units. Half-section units accounted for 13 percent of the tracts in 1984 and 11.6 percent in 1983. Four percent of the tracts in 1984 and 5 percent in 1983 were near 480 acres in size.

The reporters were asked to rate the quality of buildings on each sales tract, from good to poor to none. About 82 percent of the tracts, with 64 percent of the land, were without buildings. They averaged 245 acres in size and sold for an average of \$426 an acre. Tracts with good quality buildings made up only 4 percent of the parcels with 7 percent of the land. They had an average size of 490 acres and sold for the highest average price of \$433 an acre. Tracts with average and fair quality buildings each accounted for 7 percent of the parcels with about 14 percent of the acreage. Average building quality tracts contained 709 acres and sold for \$322 per acre. The poor building tracts had 652 acres on the average, with an average sales price of \$245 an acre.

Comparing the sale prices of tracts with and without buildings reveals that unimproved or bare tracts sold for an average of \$426 compared to \$312 an acre for tracts with buildings. Improved tracts had the large average size of 634 acres, and they made up 22 percent of the tracts with 36 percent of the land sold in 1984. The average size of unimproved tracts was 245 acres.

Using the reporters' ratings of the quality of the land, 31 percent of the tracts with 26 percent of the acreage sold in 1984 had good quality soil. These tracts averaged 270 acres in size and sold for the high average sales price of \$607 an acre. The biggest group of tracts was rated to have average quality land, making up 59 percent of the sales with 62 percent of the acreage. They sold for an average of \$331 an acre, with an average size of 331 acres. Parcels rated as having poor quality land made up 10 percent of the sales with 12 percent of the land sold, for an average price of \$191 an acre.

One of the major shifts in the farmland market is evident in the financing of 1984 sales, as presented in Table 4. Cash sales sharply increased from the 1983 figure of 9 percent to 15 percent in 1984. Cash-purchased tracts averaged slightly smaller in size (254 acres) and sold for an average of \$365 an acre. The largest group was mortgage financed sales, accounting for 59 percent of the tracts and 58 percent of the acreage sold. They averaged 311 acres in size and sold for \$413 an acre in 1984. The

TABLE 4. PERCENT OF FARM SALES BY METHOD OF FINANCE IN 1980-84

Method of Finance	State Averages for Sales in:				
	1984	1983	1982	1981	1980
	----- percent of sales -----				
Cash	15	9	5	5	23
Mortgage	59	58	52	52	35
Contract for Deed	26	33	43	43	42

use of the contract for deed was down from 43 percent of sales in 1982 to 33 percent in 1983 and only 26 percent in 1984. These purchases averaged 370 acres and cost an average of \$327 an acre in 1984.

Looking at the sources of funds for the credit purchases, the leading source was the Federal Land Bank, followed by sellers and other individuals, the Farmers Home Administration, and a mixture of sources. The Federal Land Bank often cooperates with the Farmers Home Administration and the Bank of North Dakota in special arrangements, so the importance of these three sources can be easily underestimated.

Seller Characteristics

The major sources of farmland sold in 1984 were active farmers, retired farmers, absentee owners, and estate settlements. Active farmers provided 44 percent of the tracts with 47 percent of the land sold. These tracts averaged 343 acres in size and \$409 per acre. Retired farmers put up 17 percent of the parcels sold with 18 percent of the acreage. These parcels had an average size of 336 acres and sold at \$397 an acre. Absentee owners sold 21 percent of the tracts with 17 percent of the land, an average size of 267 acres and an average sale price of \$405 per acre. Estate settlements accounted for 14 percent of the parcels sold with 15 percent of the acreage transferred. Their average size was 343 acres, with an average price of \$315 per acre.

The seller's reason for sale was reported for each transfer. "Foreclosure or debt reduction" was the major motivation of sellers in the 1984 market. This factor was reported for 43 percent of the sales with 38 percent of the land transferred, and which had an average size of 289 acres and sold for an average of \$437 an acre. Settle estates was the second reason listed. Health and retirement was listed third, making up 14 percent of the sales with 15 percent of the land sold. Reduce size of operation and change occupation each contributed 9 percent of the tracts. Four percent of the transfers were marked "for profit." Exchange of tracts showed up in 4 percent of the transfers.

The average age of the sellers was 50.7 years, with the percentage distribution given in Table 5.

There was some increase in sales by sellers from 35 to 44 years of age and fewer by those 55 to 64 years old. The average age data showed somewhat older sellers in

TABLE 5. PERCENT OF SALE TRACTS SOLD BY AGE OF SELLERS IN 1980-84

Age Groups	State Averages for:				
	1984	1983	1982	1981	1980
	----- percent of sales -----				
Under 35	9	5	8	6	5
35 - 44	24	16	19	12	17
45 - 54	24	23	18	21	22
55 - 64	24	35	31	27	32
65 - 74	15	18	17	31	21
75 and over	4	3	7	3	3

the Southwest, SW Central, and South Red River Valley farming areas.

Characteristics of Buyers in 1984

The average age of all buyers in 1984 was 40.5 years, with the percentage distribution presented in Table 6. The figures show some increase in buyers aged 45 and over and fewer under age 44.

TABLE 6. PERCENT OF SALE TRACTS PURCHASED BY AGE OF BUYERS IN 1980-84

Age Groups	State Averages for:				
	1984	1983	1982	1981	1980
	----- percent of sales -----				
Under 25	8	11	14	15	11
25 - 34	27	29	33	32	26
35 - 44	21	25	23	22	31
45 - 54	28	24	22	25	19
55 and over	16	11	8	6	13

Most buyers were not related to the land sellers. About 93 percent of the buyers who purchased 95 percent of the acreage transferred in 1984 were not related to the sellers. The percentage of buyers related to sellers has fluctuated from 11 percent in 1981, 9.7 in 1982, 4.8 percent in 1983, to nearly 7 percent for the 1984 market.

Reporters were asked for the occupations of the buyers. The largest group of buyers were the part-owners, who are buying more land to expand their units. The expansion-oriented group clearly dominated the 1984 market. The second largest group was renters, buying land to become landowners for the first time. Other occupations mentioned included a small number of professionals, farm laborers, and others.

Reporters provided information on where the buyers lived relative to the land they purchased. The largest group lived in the same county where the land was located. This group bought 90 percent of the tracts containing 83 percent of the land sold in 1984. About 5 percent of the buyers, taking 7 percent of the land, lived in a nearby county. Nearly 4 percent of the tracts with just over 4 percent of the acreage was purchased by buyers living in another state. Buyers living in a distant North

Dakota county took only 1.5 percent of the tracts, but they contained 4.8 percent of the land transferred in 1984.

Land Use Before and After Sale

Land use before sale divides the use of the sale tracts into a simple three-way classification of single or independent farm units, tracts being used as part of another farm, and rural homes or part-time farming and other uses. About 74 percent of the tracts with 64 percent of the land transferred were parts of another farm. The larger tracts, making up 22 percent of the parcels with 33 percent of the acreage, had been operated as separate, independent farms. Four percent of the tracts with 3 percent of the land were in other uses. The average sale price paid was \$405 an acre for tracts formerly parts of another farm, \$350 for separate farms, and \$344 an acre for tracts in other uses.

The after-sale picture (Table 7) indicates that only 13 percent of the tracts containing 24 percent of the land went to separate farms. They averaged 568 acres and sold for an average of \$381 per acre. Parts of another farm took 8 of every 10 tracts leaving the market. They accounted for 71 percent of the acreage. These tracts averaged only 279 acres but sold for an average of \$410 an acre. Other uses represented 7 percent of the parcels, 5 percent of the land, with an average size of 291 acres and average cost of \$249 per acre.

TABLE 7. PERCENT OF SALE TRACTS PURCHASED BY TYPE OF BUYERS IN 1980-84

Type of Buyers	State Averages for:				
	1984	1983	1982	1981	1980
	----- percent of sales -----				
Single Farms	13	9	7	12	13
Expansion Farms	80	86	91	83	83
Other Buyers	7	5	2	5	4

Comparing the before and after use scenes shows that the number of parcels going for separate farms has sharply dwindled. Twenty-one tracts entered and left the market as separate farm units. Another 21 tracts (once part of another farm) moved into the separate farm category. Also, two tracts formerly in other uses were purchased as independent farms. Larger tracts (averaging 621 acres) entered and left the market as

separate farms. Tracts changing from part of another farm to the separate farm group averaged 539 acres.

The dominant group in the 1984 market consisted of expansion-minded buyers, seeking to add to their farms. They bought 41 tracts formerly operated as separate farms. Another 212 tracts entered and left the market to be parts of another farm. They also bought nine tracts formerly in other uses.

The number of tracts passing through the 1984 market to be used as separate independent farms declined. The market serves to reallocate land resources, based on the ability to purchase the land.

Looking Back and Ahead

Reporters were asked to reflect on factors influencing the 1984 farmland market, the sellers, and the buyers. The most frequently mentioned factor affecting the market was high interest rates, closely followed by poor commodity prices. Another group of factors included the poor farm economy, lack of credit, and poor or decreasing returns from farming. Also mentioned was plenty of land available or on the market, high operating costs, and foreclosures.

The most frequently mentioned factors affecting sellers included age, health, retirement, or estate settlements, followed by financial pressures and foreclosures. A third group of factors frequently mentioned included poor returns and the need to reduce the debt load. Also often listed were better return by selling, depressed farm economy, and high interest rates.

High interest rates was the major factor affecting buyers. Next listed were difficulty in obtaining credit, low commodity prices, and location as affecting the expansion buyer. Other reasons included poor cashflow, repayability, lack of financing, low land prices, and the depressed economy.

Reporters also were asked to look at prices expected in the fall of 1985. Only 4 percent expected prices to be 5 percent or more higher in the fall of 1985 compared to 1984. About 51 percent were in the optimistic group in the 1980 survey, only 22 percent in 1981, 8 percent in 1982, and 9 percent in 1983. Nearly 62 percent of the reporters expect prices to be about the same in the fall of 1985, and 38 percent expect more declines. Figures indicate an increase in the group expecting little change in land values and in those reporters expecting further declines in the year ahead.

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must keep pace with world production systems if North Dakota farms are to survive in the decades ahead. A 5 percent increase in wheat yield provides about \$5 per acre in increased cash flow to the producer at current price levels. Research programs have historically produced a 1½ to 2½ percent increase in farm productivity each year.

What has the cost of agricultural research been in North Dakota? Based on fiscal 1983 data, there was about ⅓ of a cent of general fund tax dollars spent on agricultural research for each dollar of gross farm income generated in North Dakota. We ranked 34th in the nation. Contrast this with industry which typically budgets 2 cents of every gross income dollar for research and development expenditures.