

1974: Second Year of Sharp Farmland Value Increases

Jerome E. Johnson

Average North Dakota farmland values rose about 40 per cent in calendar year 1974 or at about the same rate as in 1973. In just two years, average farmland values have just about doubled. The study reports per acre values by areas of the state and examines characteristics of sale tracts, buyers, and sellers.

Reporters to the annual survey of North Dakota farmland values estimated that in calendar year 1974, average farmland values increased from \$145 per acre to \$205, an increase of \$60 per acre or about 41 per cent. Figure 1 and Tables 1 and 2 report their estimates for average quality land, cropland and pastureland on a per-acre basis.

Table 1. Estimated Average Farmland Values in 1974 and 1973 and Changes Per Acre.

| SEA | Estimated Value in | | Dollar Change | Percentage Change |
|------------------|--------------------|-------|---------------|-------------------|
| | 1974 | 1973 | | |
| Dollars Per Acre | | | | |
| 1 | \$151 | \$101 | \$ 50 | 50% |
| 2A | 165 | 140 | 25 | 18 |
| 2B | 135 | 115 | 20 | 17 |
| 3A | 180 | 155 | 25 | 16 |
| 3B | 250 | 145 | 105 | 72 |
| 3C | 305 | 175 | 130 | 74 |
| 4 | 395 | 245 | 150 | 61 |
| State | 205 | 145 | 60 | 41 |

In 1974, the higher product prices first experienced in 1973 continued with some weakenings. However, sharply rising farm input costs reduced profit margins. Several large grain deals were changed or cancelled to reduce the buoyancy or optimism about future grain prices that had emerged in 1973. The basic unit of measure, the dollar, was again seriously eroded by "double digit" inflation of about 12.2 per cent in 1974.

This 1974 report is based on 110 estimates, compared to 127 used in 1973. The number of estimates is not very many in any of the seven State

Economic Areas (SEA's) used to group the estimates and sales data, and are weakest in SEA's 2B and 3C. We appreciate the cooperation of our reporters, who provided the information for this report, and we wish more would respond in November of 1975.

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

Estimates of farmland value are felt to be more reliable for analyzing trends over time, because size and quality of the sale tracts and motives of buyers and sellers can vary greatly from year to year. Reporters are asked to provide estimates of their local farmland markets in which they deal regularly. They report the current aver-

Table 2. Estimated Crop and Pastureland Values Per Acre.

| SEA | Cropland | | Pastureland | |
|------------------|----------|-------|-------------|-------|
| | 1974 | 1973 | 1974 | 1973 |
| Dollars Per Acre | | | | |
| 1 | \$165 | \$110 | \$108 | \$ 75 |
| 2A | 200 | 145 | 110 | 80 |
| 2B | 165 | 120 | 100 | 90 |
| 3A | 240 | 190 | 105 | 92 |
| 3B | 280 | 165 | 145 | 96 |
| 3C | 360 | 180 | 165 | 120 |
| 4 | 500 | 270 | 165 | 120 |
| State | 250 | 165 | 120 | 93 |

Dr. Johnson is associate professor, Department of Agricultural Economics.

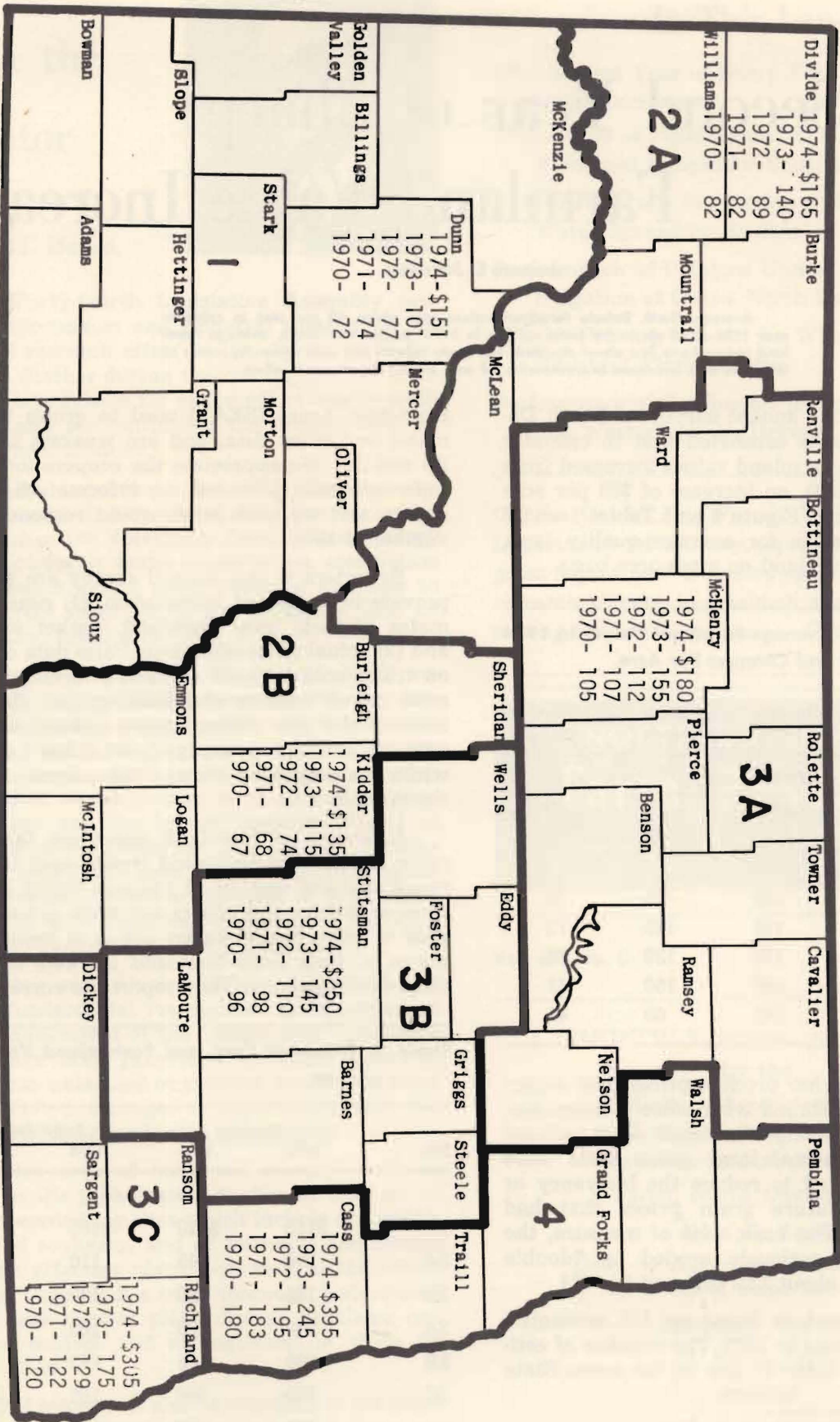


Figure 1. Estimated Average Value of Farmland Per Acre, State: 1974 - \$205, 1973 - \$145, 1972 - \$104, 1971 - \$95.50, 1970 - \$94.

age market value for all farmland for typical non-irrigated farms in their service areas. Reporters also provide estimates of values for pasture or grazing land and cropland. The estimates are averaged by counties and weighted by the amount of land in farms in each county to create area average land value estimates.

Number of Farm Transfers Continues Low

March 1 estimates of the U.S. Department of Agriculture on the rate of farm transfers per year showed a little decline on March 1, 1974, as shown in Table 3. The overall rate of 34.3 farms transferred per 1,000 farms in North Dakota was the lowest rate in the four-state Northern Plains area. South Dakota was reported to have 48.3 transfers per 1,000 farms, Nebraska, 54.8; and Kansas, 52.9. To the west, Montana was reported at 32.7 per 1,000 farms; Wyoming, 59.0 and Colorado, 78.2

Table 3. Estimated Number of Farm Title Transfers Per 1,000 Farms by Method of Transfer, Year Ending March 1, North Dakota, 1965-74.

| Year | Voluntary Sales | Forced Sales ¹ | All Other ² | Total All Classes |
|------|-----------------|---------------------------|------------------------|-------------------|
| 1974 | 24.0 | 0.3 | 10.0 | 34.3 |
| 1973 | 26.3 | 0.3 | 10.3 | 36.9 |
| 1972 | 23.6 | 1.6 | 12.1 | 37.3 |
| 1971 | 17.6 | 1.2 | 14.1 | 32.9 |
| 1970 | 21.1 | 0.4 | 13.3 | 34.8 |
| 1969 | 19.4 | 1.4 | 13.0 | 33.8 |
| 1968 | 25.2 | 0.6 | 11.2 | 37.0 |
| 1967 | 22.9 | 0.3 | 11.2 | 34.7 |
| 1966 | 19.5 | 2.5 | 12.6 | 34.6 |
| 1965 | 18.2 | 1.4 | 12.3 | 31.9 |

¹ Forced sales include foreclosures, tax sales, etc.

² Includes inheritance, gift, and all other transfers.

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

Voluntary sales were low in North Dakota (24/1,000 farms) and Montana (23.9/1,000), compared with Nebraska (31.7/1,000), South Dakota (34/1,000) or Wyoming at 60.9 voluntary sales per 1,000 farms. In our 1974 survey, more than 51 per cent of the reporters had more farms listed for sale compared to 23 per cent so reporting in the 1973 survey. Also, only 13 per cent had fewer farms listed for sale, while 40 per cent so reported in 1973. About the same percentage, 36 per cent in 1974 and 38 per cent in 1973, reported no change in the number of listings for sale.

1974 Sales Analyzed

Data on farm sale tracts can vary from year to year for a number of reasons, such as quality of soils, buildings, size and buyers' motives. The 212 sales reported in the 1974 survey averaged 301 acres in size, with an average value of \$271 per acre. The 1973 survey of 183 sales averaged 410 acres in size for an average value of \$166 per acre. The averages reported in this survey should not be applied to any individual farm, but provide general information about sales for the state as a whole.

A majority of the farm sale tracts (55 per cent) were without buildings, contained 39 per cent of the acreage reported transferred for an average size of 209 acres, and sold for an average of \$311 per acre. Sales having "good" quality buildings averaged 475 acres in size and sold for an average price of \$278 per acre. Tracts with "average" quality buildings averaged 416 acres in size and \$235 per acre. Units having "poor" quality buildings averaged 311 acres in size and \$274 per acre.

For the state as a whole, classifying sale tracts by building quality showed that average sale prices did vary with the quality of land sold. Sales said to have "good" quality buildings averaged \$302 per acre with good quality land, \$266/acre for average quality land, and \$247/acre for poorer quality land. For tracts without buildings, good quality land averaged \$377/acre, average quality land averaged \$297/acre, and poorer quality land averaged \$200/acre.

Cash sales made up 27 per cent of all sales with 21 per cent of the acreage reported sold, for an average size of 228 acres and an average price of \$293 per acre (see Table 4). About one transfer in five was financed by mortgage, with an average size of 305 acres and an average price of \$292 per acre. Contracts for deed continue to be the basic instrument of finance, accounting for one-half the sales with 56 per cent of the acreage, an average size of 336 acres, and an average price of \$262 per acre in 1974.

Table 4. Per Cent of Farm Sales by Method of Finance.

| Method of Finance | State Averages for Sales of | | | | |
|-------------------|-----------------------------|------|------|------|------|
| | 1974 | 1973 | 1972 | 1971 | 1970 |
| | Per Cent of Sales | | | | |
| Cash | 27 | 30 | 32 | 31 | 39 |
| Mortgage | 22 | 20 | 20 | 25 | 19 |
| Contract for Deed | 51 | 50 | 48 | 44 | 42 |

The strength of the contract for deed is in the proportion of seller-financed sales. In the 1974

survey, the seller financed 56 per cent of all sales and Federal Land Bank Associations, 24 per cent. Other leading sources of funds were "other individuals" and the Farmers Home Administration. Among the contract for deed sales, the seller was reported to have financed 90 per cent of them.

For the state as a whole, only 6 per cent of the buyers and sellers were related, which was up from the 2 per cent observed in the 1973 survey.

Three-fourths of the buyers were classified as already being landowners, 21 per cent were renters, and 4 per cent in professional occupations. Most (86 per cent) buyers lived in the county where the sale tract was located, 8 per cent in a nearby county, and 2 per cent came from another state. The average age of the buyer was 43.4 years, with the age distribution shown in Table 5.

Table 5. Per Cent of Sales by Age of Buyers.

| Age Groups | 1974 | 1973 | 1972 |
|-------------|----------|----------|----------|
| Years | Per Cent | Per Cent | Per Cent |
| Under 25 | 2 | 3 | 3 |
| 25-34 | 16 | 23 | 23 |
| 35-44 | 32 | 40 | 34 |
| 45-54 | 37 | 21 | 30 |
| 55 and Over | 13 | 13 | 13 |

Active farmers provided 34 per cent of the tracts reported sold, retired farmers 24 per cent, estates 20 per cent, absentee owners 21 per cent, and professional people 1.5 per cent. The major reasons for selling were retirement or ill health (25 per cent), settle estates (21 per cent), reduce size of operations (19 per cent), financial pressures

Table 6. Per Cent of Sales by Age of Sellers.

| Age Groups | 1974 | 1973 | 1972 |
|-------------|----------|----------|----------|
| Years | Per Cent | Per Cent | Per Cent |
| Under 35 | 4 | 3 | 5 |
| 35-44 | 12 | 11 | 10 |
| 45-54 | 8 | 21 | 17 |
| 55-64 | 21 | 26 | 20 |
| 65-74 | 40 | 29 | 40 |
| 75 and Over | 15 | 10 | 8 |

Table 7. Per Cent of Sales by Type of Buyers, with Averages for 1974 by State Economic Areas (SEA's).

| Type of Buyer | State Averages by Year | | | | | 1974 Sales by SEA's | | | | | | |
|-----------------|------------------------|------|----------|------|------|---------------------|----|----|-------------------|----|----|----|
| | 1974 | 1973 | 1972 | 1971 | 1970 | 1 | 2A | 2B | 3A | 3B | 3C | 4 |
| | | | Per Cent | | | | | | Per Cent of Sales | | | |
| Single Farm | 13 | 14 | 10 | 22 | 18 | 3 | 15 | 12 | 42 | 7 | 12 | 5 |
| Expansion Buyer | 82 | 76 | 81 | 70 | 74 | 90 | 85 | 71 | 58 | 79 | 88 | 91 |
| Other Buyer | 5 | 10 | 9 | 8 | 8 | 7 | — | 17 | — | 14 | — | 4 |

(18 per cent), good land prices (11 per cent), and to change occupation (3 per cent). Average age of the seller was 61.6 years, with the age distribution shown in Table 6.

Reasons for Purchases and Sales

Farmers buying additional land and people getting started in farming were the major buyers of farmland (Table 7). Farm expansion continues as the strongest force behind farmland purchases, with more than four out of five tracts sold going to buyers already owning farmland. Examining the use of tracts before and after sale shows the importance of the expansion buyer.

Before sale, 43 per cent of the tracts, with one-half of the acreage reported sold, had been operated as separate, individual farms. About 49 per cent of the sales, with 40 per cent of the land, had been operated as parts of another farm. Another 8 per cent of the tracts sold, with 11 per cent of the land reported sold, had been used as rural residences, part-time farms and other uses.

After sale, only 13 per cent of the tracts and acreage sold, with an average size of 304 acres, was destined for operation as separate, individual farms. Expansion buyers bought just over 82 per cent of the sales, with 79 per cent of the land reported sold, for an average size of 288 acres. About 5 per cent of the tracts, with 8 per cent of the acreage sold, was for rural residences, part-time farms, and other uses.

Examining the sales further shows the continued decline in farming opportunities. Of the 13 per cent of sales bought for operation as individual farms, more than half had been so used before sale, and most of the rest had been previously a part of another farm. But of the 173 tracts purchased by expansion buyers, 74 units had been used as individual farms before sale and most of the remainder had been a part of another farm. The decline in the number of farming opportunities reflected in the 211 tracts reported in this 1974 survey was a decrease from 91 down to 27 separate, individual farms after transfer.

Expansion buyers purchased 103 of the 112 tracts reported as without buildings. They pur-

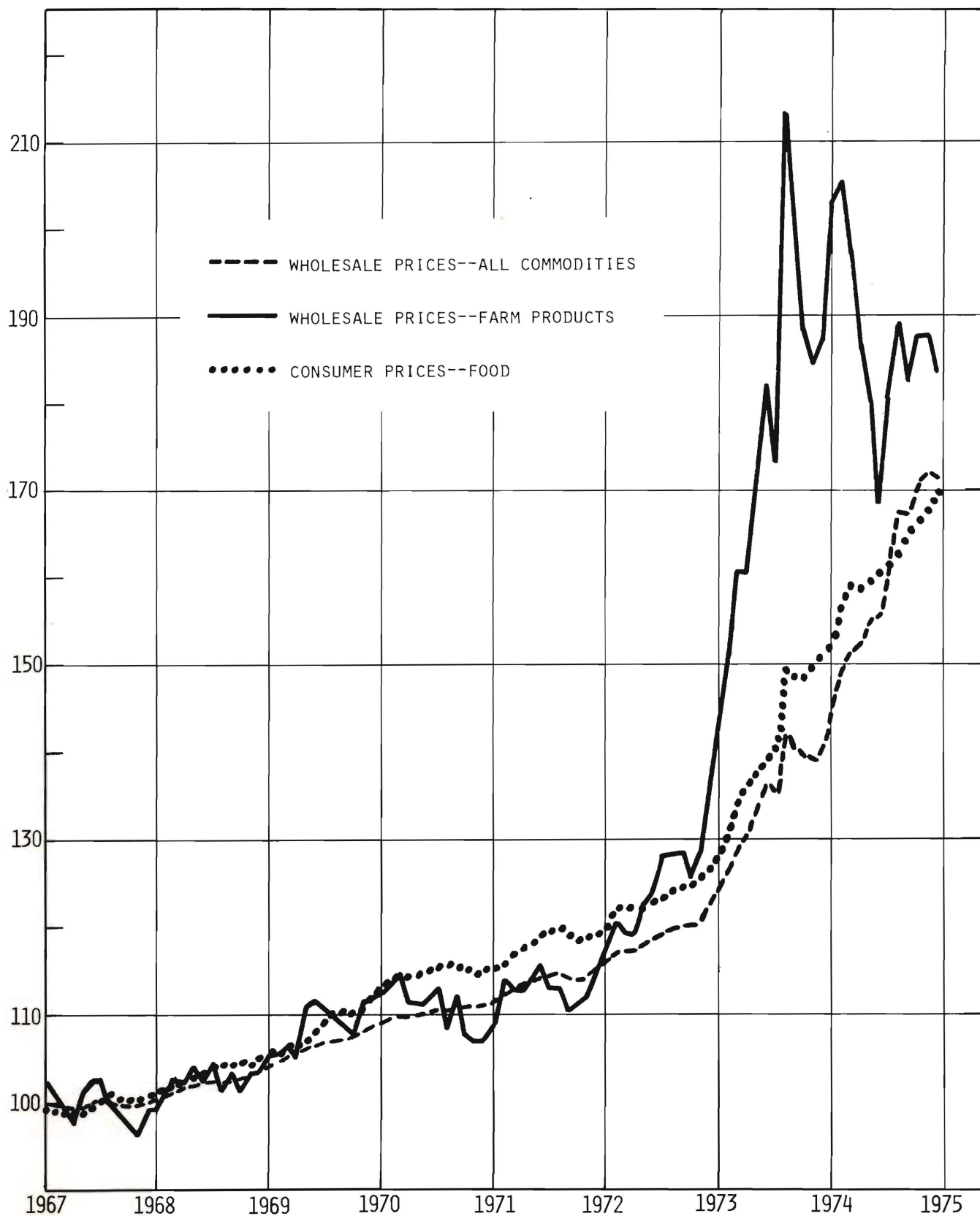


Figure 2. Three Indices of the Changing Purchasing Power of the Dollar (1967 = 100).

chased a majority of the sales reported as having good, average or poor buildings. Two-thirds of the tracts purchased for operation as individual farms had good or average quality buildings and one-third was bare land.

What Is Ahead?

A continuation of the strong past trends is expected, with possibly some soft spots in land prices. Land values in North Dakota have nearly doubled in the last two years, reflecting the change in farm product prices and inflation. However, input costs also have risen sharply, reducing profit margins, which may result in smaller price increases and some declines in land values in some areas in 1975.

A seller's market will continue. The buyer must meet the seller's asking price, and even then he is not assured that the seller will accept his offer. Expansion buyers have experienced substantial increases in asset values, so they have considerable collateral and find it easier to borrow money if they should need additional funds.

Double-digit inflation may continue through 1975; and unless there is a major unexpected event, considerable inflation may continue into 1976-77. Overall, North Dakota farmers have substantial assets they can use as collateral to buy more land if it becomes available. The strong influencing factor then becomes expected prices for farm commodities and resulting profit margins. The vagaries of weather around the world will continue to cause fluctuations in grain exports and North Dakota farm prices. The present ill health of the national economy probably means still less foreign concessional grain sales and grants. New federal farm support programs might have considerable impact on farm prices, especially in years of abundant harvests.

Reporters felt that high grain prices and pressures to expand were the strongest forces acting on the land buyer. High land prices affected the seller, plus retirement and the need to settle estates. The farmland market was reported under the strong influence of better prices for farm commodities, land available only at high prices, crop yields, expansion pressure, price inflation, interest rates and capital availability. One-third expected further land value increases, 40 per cent expected land values in 1975 to be about the same as in 1974, and 29 per cent felt that there may be some decreases in 1975.

Look Back, 1967-1974

A brief look at changes in North Dakota farmland values since 1967 may provide some perspective to recent changes. Recent land value esti-

mates from this survey were reported in Figure 1 and Tables 1 and 2. The USDA index numbers (1967 = 100) for the current dollar values of North Dakota farmland are listed by their March 1 and November 1 reporting dates:

| Year | March 1 | November 1 |
|------|---------|------------|
| 1974 | 193 | 229 |
| 1973 | 142 | 168 |
| 1972 | 127 | 134 |
| 1971 | 122 | 125 |
| 1970 | 120 | 121 |
| 1969 | 117 | 121 |
| 1968 | 108 | 113 |
| 1967 | 100 | 105 |

Both the reporters to this survey and the USDA estimates show years of relatively small increases through 1972 and then two years of dramatic increases. We should ask: "What part of these changes is due to increased productivity prices and changes in demand for land, and what portion is due to the shrinking purchasing power of the American dollar?" The American dollar has been shrinking rapidly, as shown in Figure 2. We can present several ways of looking at the latter question. Three measures of the declining purchasing power are the Wholesale Price Index for All Commodities, the Wholesale Price Index for Farm Products, and the Consumer Price Index.

Farmland is sought for its income-producing ability (soils, location, size, buildings) and as an access to a career, sometimes for its consumptive use as homesites, and as an inflation hedge.

Measuring changes in the "real" value of farmland takes into account changes in the measuring tool by using the Wholesale Price Index (WPI) instead of the Consumer Price Index (CPI). Both the WPI and the USDA farmland value index have a common base, where their 1967 value equals 100. If the measuring tool does not change in value, "real" farmland values equal their current dollar estimates. And if the measuring tool shrinks, it takes more current, cheaper or smaller, dollars to buy the same land in 1974 as it did in 1967.

To determine the present "real" value of farmland, divide the current dollar farmland value by the WPI to adjust for the reduced purchasing power of the dollar. Since the WPI rose from 100 to about 171.5 in December, 1974, it is at only 60 per cent of its value in 1967. The USDA index for North Dakota farmland value at 229 is now higher than the WPI at 171, but about 40 per cent of that increase since 1967 reflects the falling value of the American dollar. The effects of the dollar shrinkage and current crop prices have introduced considerable uncertainty into the 1975 farmland market.