

1975 -

Continued Increases in Farmland Values

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Farmland values continued the rapid rise observed in the last two years. The desire to expand existing farm units continues as the strongest demand factor in the marketplace. Active and retiring farmers provided most of the tracts sold. Reporters expect further increases in values in 1976.

The estimated average value per acre of average quality North Dakota farmland rose to \$285, up from \$205 in 1974. This represents an estimated increase of 39 per cent in value per acre and continues the sharp increases reported for the last two years. Tables 1 and 2 and Figure 1 report the estimates for average quality farmland, crop, and pasturelands for seven economic areas (SEA's) of the state.

Prices and output did not decline as much as some expected, even though crop and livestock prices did not have the buoyancy experienced in 1973 and 1974 and adverse weather was experienced in some areas. In 1975, North Dakota farmers produced the second largest small grain crop recorded. Substantial wealth existing in bank and savings accounts or as stored grains on farms, and the appreciation of land values increasing net worths and borrowing power of landowners continued the strong demand to expand farm operating units. Erosion in the basic unit of measure, the dollar, lessened some in 1975, with an indicated average inflation rate of 7.0 per cent.

Comparisons of estimated average value increases by areas in 1974 and 1975 (Figure 1) indicate some readjustments in value. Areas for which high value increases were reported in 1974 showed smaller increases in 1975. The expected strong influence of coal development on farmland values in SEA 1 was not reflected in the reporters' estimates, although their comments indicate its presence. Continued expansion of cities and the scattering of suburban homes outside of most towns and cities continues to bid up land values in many parts of the state.

Table 1. Estimated average farmland values in 1975 and 1974 and changes per acre

State economic area	Estimated value in		Dollar change	Percentage change
	1975	1974		
	<i>dollars per acre</i>			
1	\$190	\$151	\$ 39	26%
2A	275	165	110	67
2B	200	135	65	48
3A	260	180	80	44
3B	305	250	55	22
3C	395	305	90	30
4	560	395	165	42
State	285	205	80	39

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Table 3. Estimated number of farm title transfers per 1,000 farms by method of transfer, year ending March 1, North Dakota, 1965-75

Year	Voluntary sales	Forced sales ^a	All other ^b	Total all classes
1975	20.8	—	9.7	30.5
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

^aForced sales include foreclosures, tax sales, etc.

^bIncludes inheritance, gift, and all other transfers.

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

1975 Sales Analyzed

Averages based on farm sales information can vary from year to year for a number of reasons, such as the number and location of reporters, the quality of soils and buildings, and buyers' and sellers' motives. The 175 sales reported in the 1975 survey averaged 329 acres in size, with an average value of \$323 per acre. The 1974 survey of 212 sales averaged 301 acres with an average value of \$271 per acre. The averages reported in this survey should not be applied to any individual farm, but offer information about the farmland market in general.

Most sale tracts (60 per cent) sold in 1975 were without buildings, had 48 per cent of the acreage transferred, with an average size of 255 acres and sold for an average of \$365 per acre. One-tenth of the tracts had "good" quality buildings and accounted for 17 per cent of the acreage sold, with an average size of 563 acres and sold for an average of \$454 per acre. Fourteen per cent of the tracts with 18 per cent of the land sold were reported to have "average" quality buildings at an average size of 403 acres and an average price of \$291 an acre. Tracts classified with "poor" quality buildings made up 16 per cent of the sales, 18 per cent of the land transferred, with an average size of 366 acres and an average price of \$283 per acre. Bare tracts dominated the market, but were substantially smaller in size and sold for more an acre than even tracts with good quality buildings.

Reporters estimated the quality of the soil in the tracts sold. About 37 per cent of the sale tracts had "good" quality soils, sold for an average of \$487 per acre with an average size of 280 acres. Forty-five per

cent of the tracts had "average" quality land, averaged 331 acres, and sold for an average of \$309 per acre. Eighteen per cent of the tracts were classified as having "poor" quality soils, averaged 465 acres, and sold for an average of \$161 an acre. The average size of the poorer soil quality tracts was much larger than the others and they sold at a much lower price per acre.

One-fifth of all tracts were without buildings but had good quality soils, with an average size of 190 acres, and sold for an average of \$570 per acre. Just over one-fourth of all sales were without buildings and had "average" quality soils, averaged 313 acres in size, and sold for an average of \$321 per acre. Tracts classified with both "good" quality buildings and soils averaged 570 acres in size and averaged \$458 per acre. Tracts with both average quality buildings and soil had an average size of 411 acres and sold for an average of \$262 per acre. Buyers paid the higher prices for tracts with good quality soils that were either bare or with good quality buildings.

Cash sales increased in importance in the 1975 farmland market, accounting for 37 per cent of all sales (Table 4). This is up from the 27 to 32 per cent of all sales going for cash in recent years. Contract for deed sales also accounted for 37 per cent of the 1975 sales, which is down from the usual one-half of all sales observed in recent years. Sales financed by mortgages included 26 per cent of all sales in 1975, and this method of financing has ranged from 20 to 25 per cent of all sales in recent years.

Table 4. Per cent of farm sales by method of finance

Method of finance	State averages for sales of				
	1975	1974	1973	1972	1971
	<i>per cent of sales</i>				
Cash	37	27	30	32	31
Mortgage	26	22	20	20	25
Contract for deed	37	51	50	48	44

Cash sales averaged 223 acres, mortgage financed sales averaged 290 acres, and the largest average size was the contract for deed sales at 455 acres. Cash sales sold for an average of \$374 per acre, mortgage financed sales averaged \$290 per acre, and the contract for deed tracts sold for an average of \$299 per acre. Because they were larger in size, the contract for deed sales took about 54 per cent of the land reported transferred in this survey although they made up only 37 per cent of all sales. In contrast, the cash sales, also with 37 per cent of the sale tracts, accounted for only one-fourth of the land transferred.

The contract for deed as a financing instrument continues to be supported by the land seller. About

45 per cent of all sales with one-half of the land transferred were financed by the seller. Among the institutional lenders, the Federal Land Bank associations were the leading agency, followed by the Farmers Home Administration, insurance companies, and commercial banks.

The usual situation where the buyer and seller were not related continued in the 1975 farmland market, with only 5 per cent of the tracts with 3 per cent of the land sold from relative to relative.

Most buyers (61 per cent) were already land-owners when they purchased tracts in the 1975 farmland market. Just over one in five buyers were tenants, and 16 per cent of the tracts with 15 per cent of the acreage went to various other buyers. Only 2 per cent of all buyers were in the "professions" and 1 per cent was in the "blue collar" class. Most buyers (84 per cent) lived in the county where the land was sold, 7 per cent in a nearby county, 4 per cent lived at a distance but in the state, and 4 per cent lived in another state. The average age of the buyers was 39.6 years, with their age distribution shown in Table 5.

Table 5. Per cent of sales by age of buyers

Age groups	1975	1974	1973	1972
<i>years</i>		<i>per cent</i>		
Under 25	14	2	3	3
25-34	18	16	23	23
35-44	29	32	40	34
45-54	27	37	21	30
55 and Over	12	13	13	13

Active farmers were the most important group of land sellers, providing 41 per cent of the tracts and one-half of the acreage reported sold. Retired farmers were the second most important source, with 22 per cent of the tracts and 21 per cent of the land sold. Estates being settled provided 16 per cent of the tracts and 11 per cent of the acreage sold, and absentee owners sold 18 per cent of the tracts and 16 per cent of the land transferred. Professional workers and other sellers provided 2.4 per cent of the tracts with 2.1 per cent of the land sold in the 1975 farmland market. Age or health and settling estates were the most frequently reported reasons

for sale, and together provided one-half of the tracts sold. Financial reasons accounted for 12 per cent of the sales, good profits for 16 per cent, and liquidating the farm unit provided 9 per cent of the sale tracts. The average age of the sellers was 59.7 years, with the age distribution shown in Table 6.

Table 6. Per cent of sales by age of sellers

Age groups	1975	1974	1973	1972
<i>years</i>		<i>per cent</i>		
Under 35	6	4	3	5
35-44	5	12	11	10
45-54	22	8	21	17
55-64	21	21	26	20
65-74	35	40	29	40
75 and Over	11	15	10	8

Land Use After Sale

Farmers acquiring additional land and farmers getting started in farming were the major buyers of farmland (Table 7). Other purchases were for rural homes, suburban homes, part-time farming, and miscellaneous uses. Farm expansion clearly continues as the dominant force in the farmland market, accounting for about 87 per cent of all purchases. Examining the uses of tracts before and after sale brings out the importance of the expansion buyer.

Before sale, 45 per cent of the sale tracts, with 61 per cent of the acreage reported transferred, were operated as separate, independent farm units. About 49 per cent of the tracts, with 35 per cent of the land sold, had been operated as part of another ongoing farm. Part-time farms accounted for 2.3 per cent of the tracts with 1.9 per cent of the land, rural homes for 0.6 per cent of the tracts with 0.3 per cent of the land, and miscellaneous uses had 3.5 per cent of the tracts with 1.2 per cent of the acreage sold.

After sale, only 5 per cent of the tracts with 7 per cent of the acreage sold, with an average size of 461 acres, were to be operated as separate, independent farms. Expansion buyers purchased nearly 87 per cent of the tracts with 86.9 per cent of the acreage sold, with an average tract size of 330 acres. Part-time farm buyers bought 1.7 per cent of the tracts with 1.8 per cent of the acreage, for an average unit size of 333 acres. Rural home buyers purchased 0.6 per cent of the tracts with 0.1 per cent of the acreage

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					1975 sales by SEA's						
	1975	1974	1973	1972	1971	1	2A	2B	3A	3B	3C	4
		<i>per cent</i>						<i>per cent of sales</i>				
Single Farm	5	13	14	10	22	40	3	9	4	7	0	0
Expansion Buyer	87	82	76	81	70	50	90	87	87	86	91	90
Other Buyer	8	5	10	9	8	10	7	4	9	7	9	10

with an average size of 40 acres. Other buyers took 6 per cent of the tracts with 4 per cent of the land sold with an average size of 230 acres at an average price of \$416 per acre.

Examining the sale tract information further brings out the continued decline in farming opportunities. Nine units entered and left the market as separate farm units, while 65 tracts which entered the market as separate farms became parts of another farm in the expansion process. Expansion buyers purchased 150 of the tracts reported in this study, of which 53 per cent were operated as part of another farm before sale, 43 per cent had been separate farms, two had been part-time farms, and four had been in other uses. The same number of tracts entered and left the market destined for rural homes, part-time farms, and other uses, so the change in units going to expansion-minded buyers came from the group of tracts operated as separate, individual farms before sale.

A Look Back, 1967-1975

A review of land value changes from 1967 to 1975 provides some perspective on recent changes. The USDA index numbers (1967=100) for the current dollar values of North Dakota farmland and the 48 states are listed by their March 1 and November 1 reporting dates:

Year	North Dakota		48 States	
	March 1	November 1	March 1	November 1
1975	265		214	
1974	193	229	187	205
1973	142	168	150	170
1972	127	134	132	141
1971	122	125	122	127
1970	120	121	117	120
1969	117	121	113	116
1968	108	113	107	111
1967	100	105	100	105

Both the reporters in this survey (Figure 1, Tables 1 and 2) and the USDA estimates indicate relatively small farmland value increases up through 1972, and sharp increases in the last three years. Some of the recent increases reflect a decline in the purchasing power of the dollar, increased suburbanization occurring around many cities in the state, but mostly the expansion-oriented demand for land.

The purchasing power of the dollar is measured by several indices, including the Consumer Price Index (CPI), the Wholesale Price Index for all commodities (WPI), and the Wholesale Price Index for farm commodities. The CPI started the 1975 calendar year at 156.1 and the December figure was 166.3. The January 1975 WPI was 171.8 and in December was at 178.7. The WPI for farm com-

modities was at 179.7 in January and 193.8 in December. All three measures reflect continued decline in the purchasing power of the dollar, but at slower rates than existed in 1974. Adjusting the farmland values for the decline in the value of the dollar indicates a substantial increase in the real wealth of the landowner during 1975.

What is Ahead?

Reporters indicated that the major factors affecting the 1975 farmland market were the prices for agricultural commodities, the limited amount of land available for purchase, the strong demand to expand operating units, inflation, cattle prices, taxes, availability of credit, and outside investors. The major factors influencing buyers, according to the reporters in the survey, were the pressure to expand their farming units, high grain prices, availability of land, availability of credit and financing, land as an investment and inflation hedge, and young people wanting to get into farming.

Major reasons given for selling land were retirement or old age, high land prices, settling estates, increasing operating costs, and this being an opportune time to sell. Numerous reporters commented on the two-pronged problem, (1) the large size of ownership unit and its high price per acre creating a substantial down payment requirement, thus creating a sizable barrier to young people wanting to get started in farming; and (2) the substantial capital gains tax arising from the great appreciation in land values since the lands were originally purchased.

This report indicates that it is still a seller's market. Strong forces acting in the 1975 farmland market will continue influencing farmland values in 1976. The expansion demand to larger farm units continues. Investor buyers and urbanites will continue to bid up farmland values. Most landowners have substantial savings to use if they wish; and with land considered a good inflation hedge, the crux becomes the availability of tracts to buy. Transferring large sized units in which the land values have appreciated substantially presents problems to buyers to obtain adequate financing and tax problems to the sellers.

The reporters in this survey feel that farmland values will continue to rise. Nearly two-thirds of the reporters in 1975 compared to one-third in 1974 feel that there will be a 5 per cent or greater increase in 1976. In 1974, nearly a third of the reporters expected some declines in land values in their localities, but only 3 per cent of the reporters in the 1975 study reflected that feeling. Only one-third of the reporters expect farmland values to remain the same in 1976 as in 1975, and this percentage is down from the previous year indicating a rise in expectations by more reporters.