1972 NORTH DAKOTA FARMLAND PRICES

Jerome E. Johnson

North Dakota farmland values increased sharply in 1972, according to a recently completed study in the Department of Agricultural Economics. Average farmland values in 1972 rose an estimated nine per cent to a new high of $104 per acre by December 1, 1972. Figure 1 presents estimated values per acre by areas of the state.

Major factors felt to influence the dramatic rise include substantial increases in farm commodity prices (reflected in both higher gross and net farm incomes), more loanable funds available, continued strong demand for farm expansion purposes, and not too many farms being offered for sale. Uncertainty about future government price support programs may have encouraged some to sell now. Continued inflation is expected by some buyers and sellers.

Estimates by North Dakota reporters indicate that average farmland values in 1972 rose in all seven areas of the state in varying amounts. The four years of estimates, as shown in Figure 1, indicate uneven changes by years, reflecting fluctuations in reporters' consensuses. Estimates reported are not modified by the Department of Agricultural Economics, so some fluctuations come from how reporters feel when they make out their annual estimates.

The 1972 estimates are different from the annual summaries of the last three years. Uncertainties exist to cause wonder about future value changes. But the 1972 changes in estimated values bring to mind the substantial increases over the recent three decades when land values rose four to six per cent a year (except for 1950, 1954, 1961 and 1968-71).

Smaller rises in estimated values per acre for cropland, pastureland, and on the average were reported for SEA 1. Larger increases were indicated for all three values in the Red River Valley area. Pastureland values also rose substantially in SEA's 3A and 3B. Strong cropland value increases were also reported for SEA's 2A and 3B.

The 1972 report is based on 133 general estimates of the 1972 farmland market and on detailed information reported for 208 farm sales. The number of estimates obtained in areas 2A and 2B is low and few sales were reported for areas 2A and 3B. Reporters in this annual survey are asked for two types of information, (1) general **estimates** of their local farmland market situation, and (2) actual farm **sales data.**

Estimates of their local farmland market conditions show the current average market value for all farmland for typical non-irrigated farms in their locality. Separate values of pasture or grazing land and cropland are asked of the reporters. Estimates are averaged by counties and weighted by the amount of land in farms in each county to obtain area average land values.

Sales data obtained on farms sold in each reporter's locality included sales prices, sources of financing, and characteristics of the sales tracts, buyers and sellers.

Estimates of farmland value are felt to be more reliable for analyzing value trends over time, because the size and quality of sales tracts and the motives of buyers and sellers often vary widely from year to year. The sales data are valuable in providing detailed information on characteristics of recent farm sales.

Number of Farm Transfers Up

The number of farm transfers per thousand farms in North Dakota fluctuates from year to year, as shown in Table 1, and was slightly above the 10-year average in 1972. The North Dakota market is substantially slower than the United States market but is similar to the South Dakota situation. The 12-year average for North Dakota has been about

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

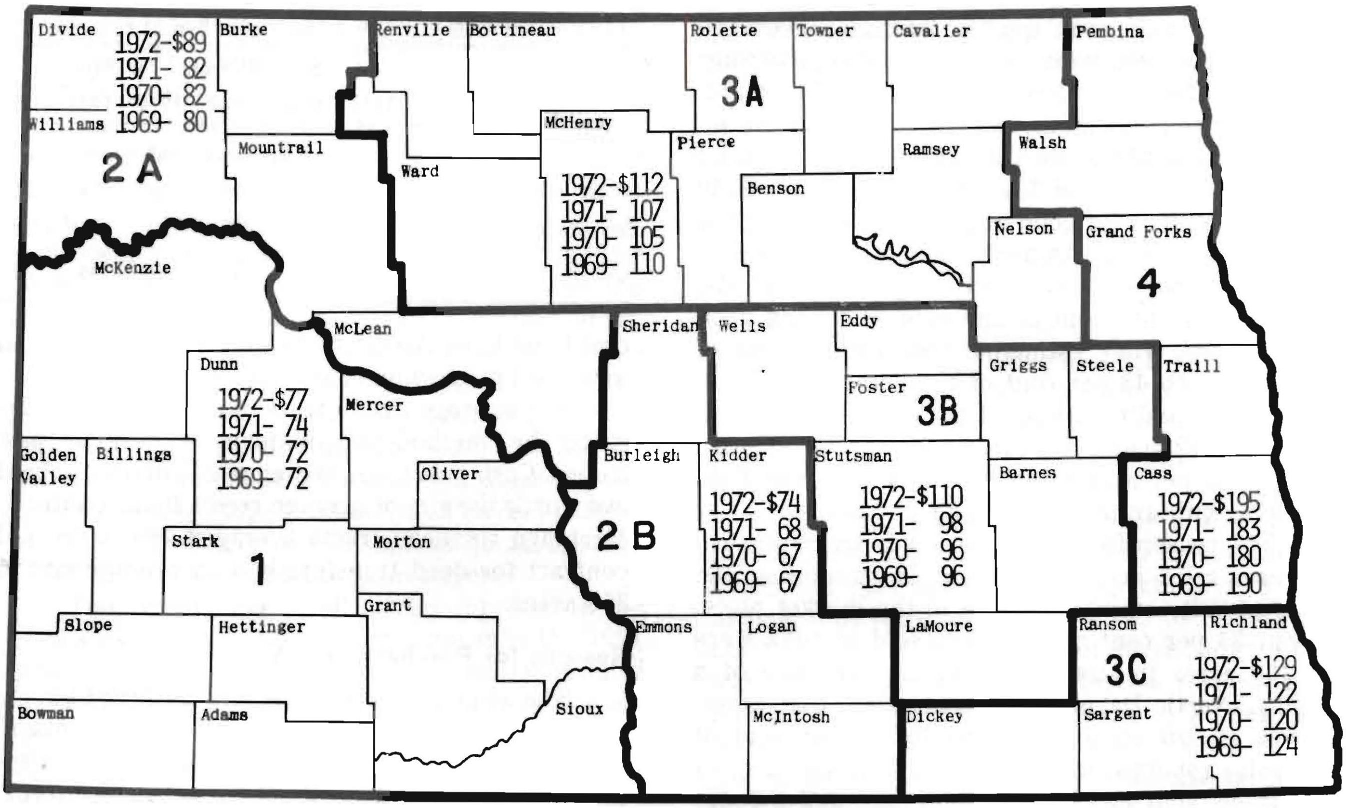

Figure 1. Estimated average value of farmland per acre. State: 1972 - $104, 1971 - $95.50, 1970 - $94, 1969 - $94, per acre.

Table 1. Estimated Number of Farm Title Transfers Per 1,000 Farms by Method of Transfer, Year Ending March 1. North Dakota, 1960-1971

Year	Voluntary Sales	Forced Sales[1]	All Other[2]	Total All Classes
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
1964	20.6	0.7	11.2	32.5
1963	23.5	0.4	12.6	36.5
1962	18.4	2.0	17.3	37.7
1961	20.1	0.5	16.7	37.3

[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.

21 voluntary sales and 35 total transfers per thousand farms.

About 60 per cent of the reporters had about the same numbers of farms listed for sale in 1972 as in the previous year, while 13 per cent had more sales listed. Those reporting fewer farms listed for sale in the current versus the previous year increased from 12 per cent in 1971 to 28 per cent in 1972.

Analysis of 1972 Farm Sales

An analysis of the 1972 sales data presents an insight into the 1972 farmland market, with comparisons to previous years. These averages vary from year to year due to differences in the characteristics of the tracts involved. In addition, they should not be considered applicable to any individual farm whose value is established by local demand and supply conditions.

A majority (56%) of the farm tracts sold in 1972 were without buildings. Tracts with "good" quality buildings made up 14 per cent of all those sold, while 15 per cent were classified as having "average" and 15 per cent "poor" quality buildings. It has been estimated that farm buildings account for about 14.5 per cent of the total value of farmland and buildings in the state. This ratio of the value of farm buildings to total value of farmland and buildings in North Dakota has been slowly declining each year. Although the actual total dollar value of farm buildings continues to rise, the total value of farmland and building value has risen even more.

Tracts with good quality buildings averaged 413 acres, tracts with average quality buildings averaged 534 acres, those with poor quality buildings averaged 459 acres, and tracts without buildings averaged 225 acres. The average reported tract sold in 1972 contained 334 acres and sold for $130 an acre. Tracts with good quality buildings and the bare tracts sold for an average of $141 per acre.

The reporters classified 47 per cent of the sales with 42 per cent of the land as having good quality land. They estimated that 39 per cent of the sales with 43 per cent of the acreage sold was of average quality, while 14 per cent of the tracts sold in 1972 had poor quality land. The average sales price per acre of good quality land was $169 in 1972, with an average size of 297 acres.

The reason for saying farm sale **tracts** instead of farm sales becomes evident in examining the sizes of units offered for sale in the market place. About 35 per cent of the tracts sold in 1972 were of 160 acres in size, while the average size of a typical North Dakota farm exceeds 1,020 acres. Tracts of 320 acres accounted for 14 per cent of the sales reported in 1972. Overall, 90 per cent of the tracts sold had 640 acres or less and 9.6 per cent exceeded the one-section size. Only the southwest area of the state had a substantial proportion (25%) of sales exceeding the one-section size. For the state as a whole, the 9.6 per cent of the tracts over 640 acres in size included 31 per cent of the acreage reported sold in 1972, and had an average size of 1,100 acres.

Credit Financing Continues Strong

Approximately 68 per cent of all farm sales reported in 1972 were credit financed (Table 2). The fluctuations in the proportion of cash purchases may reflect the supply of loanable funds and prevailing interest rates.

The contract for deed continues to be the dominant credit instrument used in North Dakota farm sales. The seller increased in importance in providing credit to the buyer, so that the seller provides the credit in more than half of all sales. The Federal Land Bank Associations were shown to have an increased proportion of sales financed.

Table 2. Per cent of Farm Sales by Method of Finance

Method of Finance	State Averages for Sales 1967	1968	1969	1970	1971	1972
			Per cent			
Cash	28	44	19	39	31	32
Mortgage	31	18	35	19	25	20
Contract for deed	41	38	46	42	44	48

The average size of tract purchased when classified by method of financing continued past trends. Cash purchases averaged 247 acres or about two-thirds the size of average credit financed tracts. Mortgage financed tracts averaged 394 acres and contract for deed transfers had an average size of 358 acres.

Reasons for Purchases and Sales

The strongest force affecting farmland buyers continues to be farm expansion desires. An examination of the use of the tracts before and after sale helps portray the current farm transfer scene.

Before sale, 45 per cent of the tracts, with 58 per cent of the acreage reported being transferred, had been operated as separate, independent farm units. About 43 per cent of the tracts, with 32 per cent of the acreage, were parts of another farm; three per cent of the tracts were in part-time farms; one per cent in rural residences; and seven per cent in other uses. Independent farm tracts before sale averaged 427 acres, while tracts which had been parts of another farm had 248 acres on the average.

The dramatic shift in who uses the land and the small number of opportunities to begin farming are evident in the situation existing after the tracts had been transferred. After sale, only 10 per cent of the tracts, with 19 per cent of the land sold, were purchased for use as separate, independent farms. Their average size was 635 acres, compared to 277 acres for tracts becoming parts of another farm, 578 acres for the part-time farms, and 207 acres for the one per cent of the tracts that became rural

Table 3. Per cent of Sales by Type of Buyer for 1968-1972, with Averages for 1972 by SEA's

Type of Buyer	State Averages by Years 1968	1969	1970	1971	1972	1972 Sales by State Economic Areas 1	2A	2B	3A	3B	3C	4
			Per cent						Per cent			
Single farm	21	24	18	22	10	14	18	16	16	6	3	5
Expansion buyer	71	69	74	70	81	75	73	53	74	94	97	91
Other buyer	8	7	8	8	9	11	9	31	10	—	—	4

residences. Expansion-oriented buyers obtained 81 per cent of the tracts with 67 per cent of the acreage sold in 1972.

Further study of the sales showed that tracts to be operated as separate, independent farms after sale consisted mostly (95 per cent) of tracts which had been independent farms before sale, and a few tracts which had been parts of other farms. The average independent farm after sale cost, on the average, a total of $62,700. About 73 per cent of the tracts which had been separate, independent farms before sale were acquired by expansion-oriented buyers, who also purchased 93 per cent of the tracts which had been parts of another farm plus acquiring most of the part-time farms and those in miscellaneous uses. Expansion-oriented buyers paid an average of $147 per acre compared to an average of $99 an acre for separate farm buyers.

The average age of all buyers reported in the 1972 survey was 42 years—the same as in the 1971 study. Table 4 presents a frequency distribution of age of buyers. About the same number of buyers was reported in the ages of 35, 40, 45 and 50 years. There were slightly more buyers of age 50 than age 30 in this study.

Table 4. Per cent of Sale Tracts by Age of Buyers

Age Groups	Per cent
Under 25	3
25-34	20
35-44	34
45-54	30
55 & Over	13

The average age of all farm tract sellers reported in 1972 was 59 years, with their age distribution given in Table 5. About 30 per cent of the sales are not presented in Table 5 because they were sold by estates, etc. If all tracts were considered, one-third were sold by people 65 years and over.

Only 14 per cent of the buyers in 1972 had been renters, while two-thirds were already owners of farmland. About 79 per cent of the buyers lived in the county of sale, 13 per cent in a nearby county, and nearly five per cent came from another state.

Table 5. Per cent of Sale Tracts by Age of Sellers

Age Groups	Per cent
Under 35	5
35-44	10
45-54	17
55-64	20
65-74	40
75 & Over	8

Active farmers sold 41 per cent of the tracts, 19 per cent came from retired farmers, 22 per cent from absentee owners, and 12 per cent of the tracts were sold by estates. Among the leading reasons for sale were health and retirement, financial pressure, reduce farm size, settle estates, and the good price offered.

What's Ahead

Changing farm income and credit conditions are important. They explain much of the recent sluggishness and recovery in farmland values. The slowdown in land value increases in the late 1960's was related to the high cost of farm mortgage credit.

The 1972 farmland market had a greater supply of farm mortgage funds and lower interest rates. The year opened with expectations of more income that were, in fact, received as record high net farm incomes and bumper marketings. There was a strong demand for farm real estate, an optimistic attitude of the lenders, and a continuing desire to enlarge farm size to obtain economies of size in purchasing, production and marketing activities.

The rise in land values has improved the asset position of farmers, resulting in better debt-carrying capacity. Some farmers refinanced their loans, especially their contracts for deed.

As to the future, what happens to the federal price/income support and assistance programs is important. A recent USDA study by Robert D. Reinsel and Ronald D. Krenz ("Capitalization of Farm Program Benefits into Land Values," USDA-ERS-506, October, 1972) reports that the capitalized value of federal farm commodity crop allotment programs are equal to about 19 per cent of the total farm real value in North Dakota. The authors note that the impact of a reduction in programs would be severest in areas with the fewest alternatives to production of allotment commodities. They suggest that it is in such areas that much of the benefits from the program get bid into land values.

Farm numbers continue to decline and average farm size increases. Rising land values increase the net worth of the farm operator, resulting in a larger equity, and so more credit becomes available. Credit is used to finance most farm sales and is a major part of the purchase price of those sales. Technological developments have increased the productivity of the land and resulted in the expectations of increased income through more technological advances. These factors in combination suggest that the 1973 farmland market has the potential for more dynamic changes.