REPORT NO. 526

JUNE 1964

THE MINNESOTA RURAL REAL ESTATE MARKET in 1963

-----including a special study of the

SMALL TOWN RESIDENTIAL PROPERTY MARKET

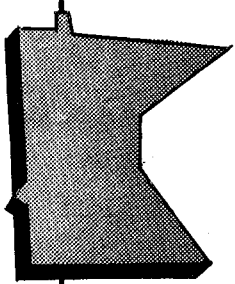

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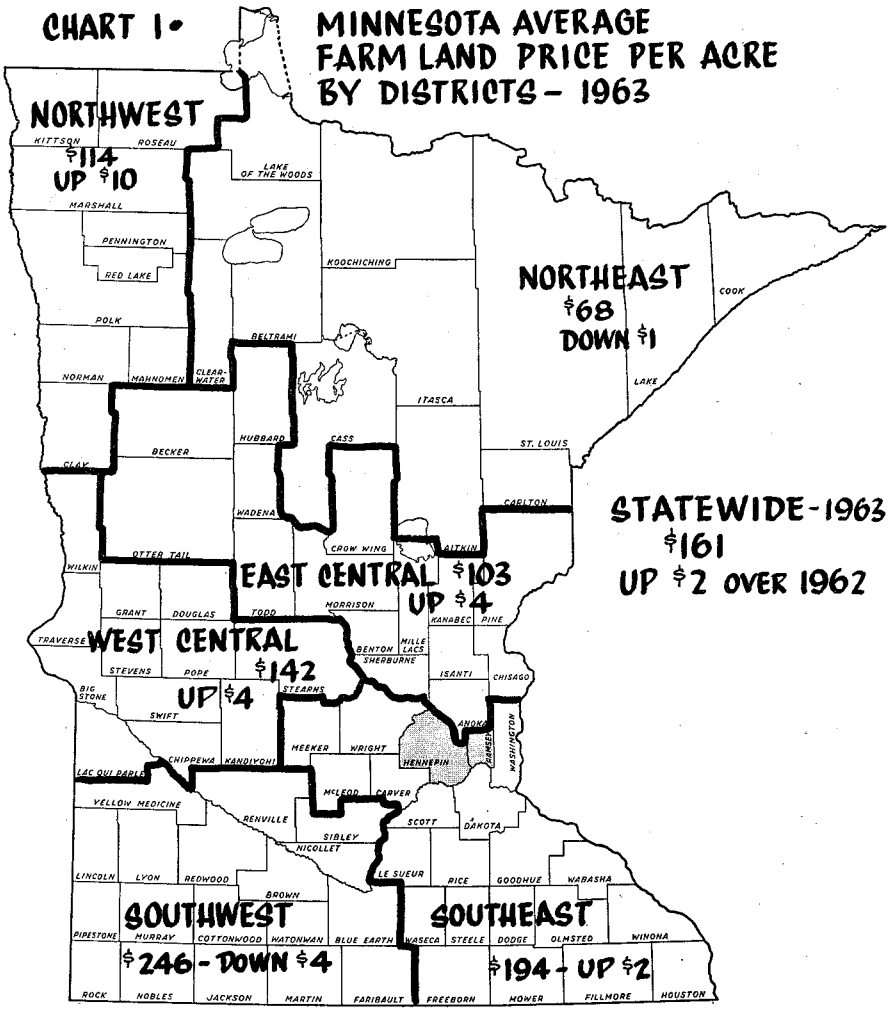
CHART 1.

MINNESOTA AVERAGE FARM LAND PRICE PER ACRE BY DISTRICTS - 1963



STATEWIDE - 1963
$161
UP $2 OVER 1962

The Minnesota Rural Real Estate Market In 1963

BY DALE SOLUM AND PHILIP M. RAUP
JUNE 1964

Contents

Summary

Farm Real Estate Market

Farm land values in Minnesota have stabilized in the 1960's. There has been some adjustment among the districts with increases centered near the Twin Cities and in the Northwest District.

Land turnover is at the lowest rate recorded since 1926.

Farm expansion buyers in 1963 purchased more farms than operating farmers, the first time this has happened since the current series of annual farm land market reports was started in 1954.

Credit financing remains at a high rate. The high value of most farms and the desire to use available money for operating expenses have led to a steady decline in cash sales.

Town Residential Sales (Towns under 5,000 population, only)

The average value of houses (including lots) in most of western Minnesota shows little variation in the different areas. Houses built in 1946-63 averaged around $12,000, while houses built before 1946 ranged between $7,500 and $8,000 in value. The highest residential values are found in towns in the Twin City area and in Southeastern Minnesota.

A decrease in residential values is reported for the Southwest, since 1960.

Introduction

An introductary note will clarify the types of data and terminology used in this bulletin. Some unfamiliar terms are used throughout the report, often preceding the section in which they are defined. It will facilitate the reading of the bulletin to define them here.

Land market data reported in this survey are collected in July of each year by mail questionnaires returned by farm real estate dealers, loan agents, bankers, lawyers and others with specific, first-hand knowledge of their local farm real estate situation. In 1963, questionnaires were returned by 885 respondents located throughout the state; 640 of the returns were complete and form the basis for this report. The period covered is January through June. In computing the statewide averages, data from Hennepin and Ramsey counties (Minneapolis and St. Paul) were excluded.

Reporters in this annual survey of the Minnesota farm land market are asked to supply two types of data:

Estimates, in response to the question "What is the current price per acre of the average size farm of average value in your community?" A second question asks for the estimates subdivided according to "good," "average," and "poor" grades of farm land. These estimates are averaged by counties and weighted by the area of land in farms in each county, in computing district average land prices. These estimates form the basis of the reports of year-to-year changes in land prices. The analysis of land prices and trends in Section A of this report is based on these estimates.

Factual data are obtained on farms sold in the reporters' communities, including sales prices, characteristics of buyers and sellers, and methods of financing for tracts sold for agricultural purposes. These cover actual sales made during the annual survey period of January 1 to June 30. Data on sales are used in Section A only in discussing factors that influence current land market trends, e. g. number of sales. A more detailed analysis of the sales data is presented in Section B of Part I of the report.

The estimates of farm land value are a more reliable basis for comparing year-to-year trends than are the reported prices received in actual sales, for these reasons: There are erratic and occasionally wide variations in the qualities of land and buildings actually sold and in the number of sales that may occur in any given year and locality. Typically, there are 25 to 50 voluntary farm sales per year in a representative Minnesota county. A reported change in average sales prices may reflect

primarily a variation in quality of land or buildings due to one or two unusual sales, or it may actually represent a change in local land prices. It is difficult to correct for variations in land and building quality when interpreting sales prices.

Throughout this report frequent mention is made of three classes of buyers: operating farmers, who bought farms for owner operation, as complete units; farm expansion buyers, either ongoing operating farmers or investors, who added the land purchased to existing operating units; and investor buyers, who bought tracts to be operated as separate units, by a tenant or manager.

In analyzing farm sales in terms of quality of the land and condition of the buildings, reference is made to improved and unimproved farms. Unimproved farms are those without buildings or permanent structures. Improved farms are those which contain buildings, irrespective of condition.

Part II contains an analysis of the residential market in small rural towns and cities with less than 5,000 population. Information for this study was obtained through a separate mail questionnaire included with the farm land market questionnaire. As in the farm land survey, reporters were asked for both estimates of residential real estate values, and data on actual sales, for the same reasons discussed above in connection with the farm land survey. Care should be used in noting headings and subtitles so that the data on estimates and on actual sales are not confused.

The appendix to Part I contains farm land price averages from 1910 to the present. It also contains a statistical analysis of the reported farm sales since 1954, showing the range of variation in sale prices within the districts and for the state as a whole.

Part I: The Minnesota Farm Real Estate Market in 1963

LAND MARKET TRENDS BASED ON REPORTERS' ESTIMATES

Land Price Trends

The outstanding feature of the Minnesota farm real estate market in the 1960's has been the stabilization of land values. The "land boom" of the 1940's and 50's is apparently over, or at least is marking time. Farm real estate prices since 1959 show evidence of a lagged response to the low farm income situation of the past decade. Although farm real estate prices rose continually from the mid-1940's to 1959, in the years since 1947 net farm income has either fallen or shown little tendency to increase. There is evidence to suggest that the continued rise in land values during years of stable or decreasing net farm income after 1947 was a delayed response to the rapid rise in farm income from 1939 to 1947. Recent trends suggest that the stabilization of farm real estate prices in the 1960's has been a similarly delayed reaction to the generally unsatisfactory farm income situation since the Korean War.

Table 1. Estimated Average Prices per Acre of Minnesota Farm land, by Districts, 1954-1963*

District	Average Price Per Acre in:									
	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
	dollars per acre									
Southeast	194	192	189	188	191	179	165	156	150	139
Southwest	246	250	247	248	255	242	230	214	205	187
W. Central	142	138	133	133	134	123	122	107	103	99
E. Central	103	99	95	94	89	84	77	70	68	66
Northwest	114	104	103	99	103	90	86	76	73	72
Northeast	68	69	64	64	58	65	49	42	45	40
Minnesota	161	159	156	155	157	147	138	126	121	113

* Based on mail questionnaires for the period January-June. In 1963, questionnaires were returned by 885 respondents located throughout the state. A total of 640 returns were adequately filled in. Reporters are farm real estate dealers, bankers, farm loan agents, lawyers and others with knowledge of their local farm real estate situation. Hennepin and Ramsey counties (Minneapolis and St. Paul) were excluded in computing statewide averages.

Minnesota farm land values changed very little on average, from July 1, 1962 to July 1, 1963. The annual increase during the last two years has fluctuated between 1 and 2 percent, statewide.

Trends are mixed, however, for different areas of the state. In the Northwest District a 3 percent decrease in 1961-62 was converted into a 9 percent increase in 1962-63. Although weather conditions were probably the most influential reason

for the decrease in 1961-62, the subsequent increase in 1963 more than compensated. While land prices in the more valuable agricultural areas of Minnesota have increased very little over the past three years, values in the Northwest area increased about 14 percent. Only in the West and East Central Districts have land prices approached this rate of increase. In the Northwest district, farm land purchases to add to existing farms accounted for 78 percent of all sales in 1963. This provides a partial explanation for recent increases in value. Given the importance of sugar beets in the area, the current world sugar situation has also undoubtedly had some effect on land values. The high rates of participation in the Soil Bank and related government programs in some Northwestern Counties may also have had a price stabilizing effect on the less valuable lands of the area.

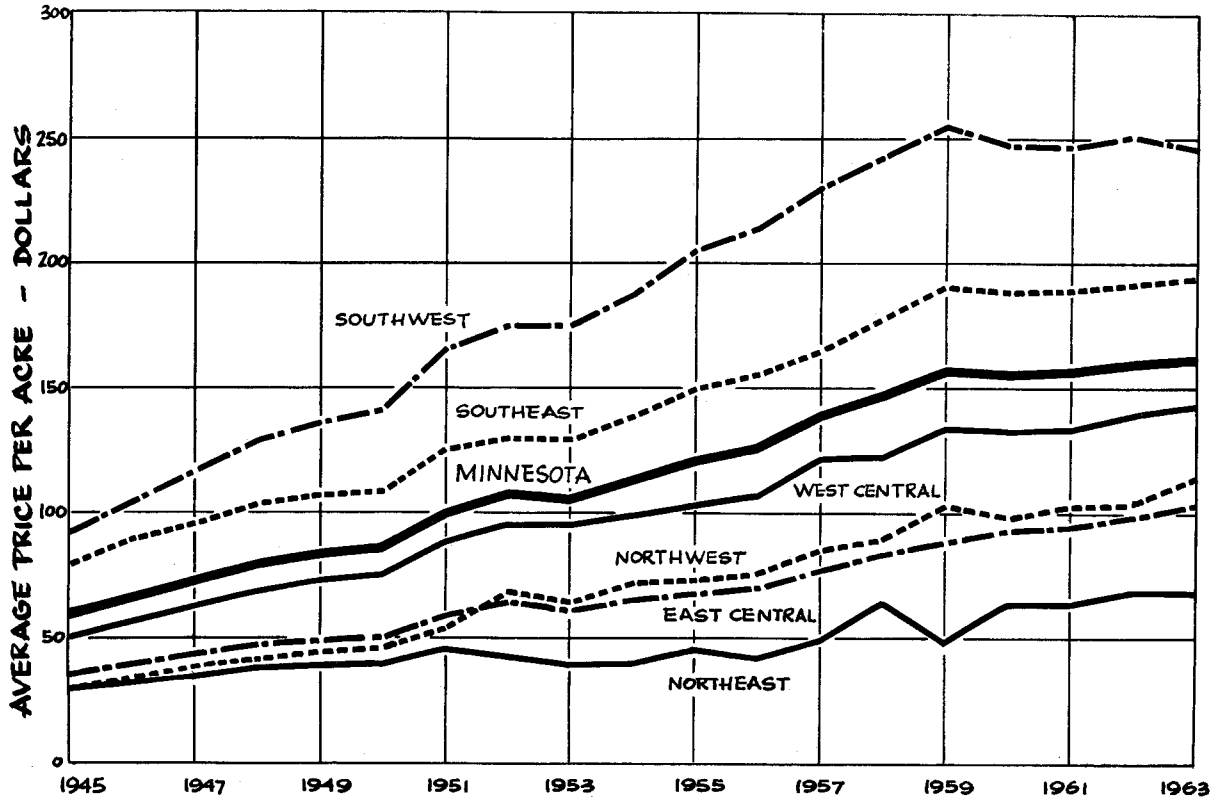
In the Southwestern district, land values decreased approximately 1.5 percent in 1963. The current average of $246 per acre is $9 below the high of $255 in 1959. Reports from real estate dealers in the Southwest are often pessimistic, in contrast to those from the Northwest. Few farms are changing hands. Many "would be" sellers in the Southwest still hold to asking prices that reflect levels of four years ago. The "Iowa buyer," once prominent in this district, is seldom seen. In measuring year-to-year changes, the generally unsatisfactory level of cattle prices in 1963 has undoubtedly had a greater impact in Southwestern counties of the state. From a long-run point of view, the continuing upward trend of property taxes is particularly apparent in areas of high land values. The same high values may deter sellers who are reluctant to incur liability for taxes on capital gains.

Farm land prices in the West Central district are more homogeneous than are prices in other districts of the state. Most of the land is worth between $100 and $180 per acre. The district combines the upper end of the Red River valley with some of the higher priced lands bordering on the Southwest District. The $4 increase in estimated land values in 1963 was also midway between the trends of the Northwest and Southwest Districts, reflecting some of the characteristics of each.

Estimated land values in the Southeastern district rose $2 above 1962 levels, with the gain coming primarily from counties bordering the Mississippi River or the Twin Cities metropolitan area.

Land values in the East Central District have shown a steady growth over the past ten years. (See Chart 2.) The increase of $4 per acre in 1963 was the largest percentage increase reported for any district, except the Northwest. In the Northeast, land values in 1963 remained virtually unchanged from levels of a year earlier.

CHART 2. ESTIMATED AVERAGE PRICES PER ACRE OF MINNESOTA FARM LAND, BY DISTRICTS - 1945-63



Price Change and Land Quality

The preceding section compared 1963 estimated land price trends for the six districts and for the state as a whole. This section reports price trends for different qualities of land. In broad terms, there are easily definable quality differences among the six districts, ranging from the highly valued lands of the South and West to the predominantly non-agricultural lands of the North and East. From the standpoint of a buyer or seller, the more important differences are those reflecting variations within a particular district.

Each year reporters are asked to estimate the value of low, medium, and high grade land in their communities. These estimates permit the comparison of price changes for three land grades for each district.

Table 2. Estimated Land Prices and Changes by Quality Grades, 1963, by Districts

District	High Grade		Medium Grade		Low Grade	
	1963	change since 1959	1963	change since 1959	1963	change since 1959
	(dollars)	%	(dollars)	%	(dollars)	%
Southeast	290	1.5	210	6.3	135	7.1
Southwest	305	-3.4	240	-1.6	175	0.3
W. Central	195	7.1	145	8.5	100	11.9
E. Central	150	19.9	100	17.4	60	37.6
Northwest	160	15.2	110	5.3	65	6.4
Northeast	85	31.9	50	19.2	25	33.0
State	220	4.3	165	4.7	110	7.0

Table 2 shows that in the past four years all three grades of land in the East Central and Northeast districts increased substantially in percentage terms. The better grades of land in the Northwest district have heavily influenced the upward trend in that area. Conversely, it is the best lands in Southwestern Minnesota that have decreased most in value since 1959.

Table 2 also shows the range in average values for the three quality grades among districts. The better grades of land in Northeastern Minnesota average $85 per acre, whereas high grade land in the Southwest averages $305 per acre. This indicates the wide differences in local judgments of land quality among the districts.

It is also instructive to compare Table 2 with Table 1 on page 1. The overall estimate of average prices per acre in the Southeast, at $194 per acre, is only 79 percent of the estimate of $246 per acre for the Southwest. But top grade land in the Southeast is estimated at $290 per acre, or 95 percent of the comparable estimate of $305 for the Southwest. If only the best lands are considered, there is little difference between the Southwestern and Southeastern sections of the state.

Activity in the Land Market

The rate of turnover in the ownership of Minnesota farms has fallen sharply in the past four years. The high point in land market activity since World War II occurred in the years 1947-49. During those years total transfers by all methods (voluntary sale, inheritance, forced sales, administrators and executors sales) fluctuated between 70 and 80 per thousand farms. Voluntary sales alone accounted for 51.0 transfers per thousand farms in 1946 and 59.6 in 1947. At these rates of turnover, about 8 percent of the farms would change hands in any one year, with voluntary sales accounting for almost 6 percent, or three-fourths of all transfers. If activity had persisted at these 1947-49 rates, the average Minnesota farm would have changed hands once every twelve to fourteen years.

The rate of transfer dropped sharply after 1950 to a low of 39 transfers per thousand farms in 1953, of which 28 (or 2.8 percent) were by voluntary sale. After the Korean War there was renewed activity throughout the remainder of the 1950's, reaching a high point in 1958-59, as shown in Table 3.

Table 3. Estimated Number of Farm Title Transfers per Thousand Farms, by Methods of Transfer, Year ending March 15, Minnesota, 1952-63*

Year	Voluntary Sales	Forced Sales (Foreclosures, Tax Sales, etc.)	Inheritance, Gift and All Other Transfers	Total All Classes
	number of transfers per thousand farms			
1963	24.1	1.9	11.0	36.1
1962	29.3	1.9	10.4	41.6
1961	29.0	2.6	7.7	39.3
1960	34.5	2.7	9.9	47.1
1959	39.7	2.6	11.4	53.7
1958	35.6	3.5	14.7	53.8
1957	34.0	2.8	15.6	52.4
1956	31.1	6.4	12.9	50.4
1955	32.5	3.0	9.8	45.3
1954	27.1	1.2	11.5	39.8
1953	28.4	1.6	9.2	39.2
1952	31.4	2.2	10.8	44.4

* Compiled from the annual March estimates, published in "Farm Real Estate Market Developments," U.S. Department of Agriculture.

The decline in land transfers since 1959 has brought activity in land transfers to the lowest level recorded for Minnesota

since collection of these data was first undertaken by the U.S. Department of Agriculture in 1926. Transfers by voluntary sale in 1963 were estimated at 24 per thousand farms, or well below half of the rate of transfer by sale reported for 1947-49. At this rate of turnover, the average Minnesota farm would change hands by voluntary sale only once in forty years.

Associated with this reduced rate of turnover has been the sharp decrease in the total number of farms. The U.S. Census of Agriculture reported the following number of farms in Minnesota, 1945 to 1959:

Number of Farms - Minnesota

1945	188,952
1950	179,101
1954	166,225
1959	145,662

Assuming that the rate of decline has slowed down after 1959, as indicated by Minnesota state census figures, it is probable that there are approximately 135,000 farms in the state today. Given the drop in the rate of transfer reported above, we can conclude that the actual number of transfers by voluntary sale in 1963 was approximately 30 percent of the number of voluntary sales recorded in 1947, and roughly 55 percent of the number of voluntary sales made as recently as 1959.

In more explicit terms, there were in Minnesota an estimated 11,000 farm transfers by voluntary sale in 1947, 6,000 in 1959, and 3,300 in 1963. Total transfers (including inheritance, gift, etc.) in those same years were an estimated 14,700, 8,100, and 4,900 respectively. In terms of the number of voluntary sales of farm land, the Minnesota farm real estate market in 1963 was thus less than one-third as large as it was during the peak of activity reached in 1947-49.

Relation of Farm Land Sales to Net Farm Income

Why have farmland sales declined? There is no simple answer to this question, but one major cause is undoubtedly the worsening relationship between land values and net farm income over the past decade. In the depths of the depression of the 1930's the drastic declines in net farm income led to ratios between annual net income and land values as low as one to fourteen. That is to say, in 1932 it would have taken fourteen years of accumulated net income at the 1932 rate to equal the value of Minnesota's farm land.

This relationship improved slowly in the 1930's and more rapidly during and after the second world war. By 1946-48, Minnesota annual net farm incomes relative to land values stood in a ratio of one to three. In other words, the accumulated net farm income for the three years 1946-48 would have equaled the total value of Minnesota farm land and buildings, at 1948 prices.

Just before the outbreak of war, in 1939-41, the ratio of net income to land values was roughly one to seven. This same ratio was characteristic of the mid-1950's. As Table 4 shows, farm land values in 1954 were 7.15 times net farm income in that year.

Table 4. Relationship Between Total Net Farm Income and Total Value of Farm Land and Buildings, Minnesota, 1954-1963*[a]

Year	Acres of Farmland (000)	Average Price Per Acre Minn. $	Total Land Value Minn. $(000,000)	Net Farm Income $(000,000)	Ratio of Land Value to Income
1954	33,300	113	3763	526.3	7.15
1955	33,300	121	4029	460.2	8.75
1956	33,200	126	4183	515.2	8.12
1957	33,100	138	4568	479.2	9.53
1958	32,800	147	4822	556.3	8.67
1959	32,500	157	5102	412.1	12.38
1960	32,400	155	5022	509.3	9.86
1961	32,400	156	5054	542.5	9.32
1962	32,400	159	5152	469.2	10.98
1963	32,400	161	5216	b	b

a The Farm Income Situation, USDA, FIS-193, February 1964, and earlier years, and "Number of Farms and Land in Farms, United States, 1950-64," USDA, January 17, 1964.

b Not available.

From 1955 on this relationship has grown steadily worse. Over the four years 1959-62 the ratio of net income to land values averaged less than one to ten. At the relationships between net income and land values prevailing in 1962-63, it would have taken the total accumulated net income of eleven years or more to equal the value of the average Minnesota farm. The ratio of net income to farm land value today is approaching the extreme levels reached in the mid-1930's. This cannot fail to have a depressing effect on the demand side of the farm land market, and especially in areas of high-priced land. With these facts in mind, the slow turnover and weak market for the higher priced farm lands of the Southwestern district are readily understandable.

ANALYSIS OF REPORTED FARM LAND SALES

Prices Received in Reported Sales

The state-wide average price received in reported farm sales in 1963 was $168 per acre, or five percent higher than the average estimated value of farm land of $161 per acre. In the Northwest and Southeast districts, prices received in actual sales were higher than in any previous year. In contrast, the actual sales prices shown in Table 5 for the Southwest district were ten percent below the average values estimated by brokers

and dealers, as reported above in Table 1, p. 1. Sales prices in the Southwest were lower than in any year since 1957.

Table 5. Average Price Per Acre, Reported Farm Sales, Minnesota, By Districts, 1957-1963

District	Year 1963	1962	1961	1960	1959	1958	1957
	DOLLARS						
Southeast	214	196	189	189	210	169	175
Southwest	222	229	226	240	243	234	217
W. Central	136	140	130	136	129	115	108
E. Central	86	76	89	69	73	78	65
Northwest	109	74	92	101	85	79	88
Northeast	48	30	38	50	61	52	39
MINNESOTA	168	161	165	161	173	155	144

These differences between sales prices and estimated values reinforce the observation, often reported from the Southwest district, that the better farms change hands infrequently by voluntary sale.

A comparison between sales prices and estimated values, by districts, reveals some consistent differences, as shown in Table 6.

Table 6. Comparison of Actual Sales Prices and Reporters' Estimates of Average Values Per Acre, by Districts, Minnesota, 1961-1963.

District	Average Price Per Acre in: 1963		1962		1961	
	Sales	Estimates	Sales	Estimates	Sales	Estimates
	dollars per acre					
Southeast	214	194	196	192	189	188
Southwest	222	246	229	250	226	247
W. Central	136	142	140	138	130	133
E. Central	86	103	76	99	89	95
Northwest	109	114	74	104	92	103
Northeast	48	68	30	69	38	64
Minnesota	168	161	161	159	165	156

In the Southeast, sales prices in recent years have regularly been above estimated values. One probable explanation is that average sales prices in this district are influenced by the

counties to the west, south, and east of the Twin Cities in which land values are strongly affected by proximity to the Metropolitan area. Many sales are for residential or non-farm purposes, and buyers will often pay prices well above the estimated value of the land in agricultural uses. In the Southwest, sales prices have consistently been below estimated values, a relationship that also prevails in the East Central and Northern districts.

In the Southwest and Northwest, the most probable explanation is that the better lands are frequently passed on by inheritance and intra-family arrangements, rather than by open-market sale. This may also account for the consistently lower sales prices in the East Central district.

The smallest discrepancies between sales prices and estimated values have regularly been reported from the West Central district. With few large towns, and with lands of intermidiate agricultural value, this district appears to be least influenced by urban or non-farm land market forces, or by family desires to avoid sales and to "keep the land in the family."

Price Variations for Land With and Without Buildings

In most sectors of the state, the average farm without buildings sells for approximately 80 percent of the price received for land with buildings. But there are substantial variations in this percentage among districts. For five of the past eight years, land without buildings in the Northwest district has sold for more than land with buildings. These relationships are shown in Table 7. for the years 1960-63.

Table 7. Average Sales Prices per Acre of Improved and Unimproved Farm Land, by Districts, Minnesota, 1960-1963

	Improved Land				Unimproved Land a			
	1963	1962	1961	1960	1963	1962	1961	1960
	dollars per acre				dollars per acre			
Southeast	216	198	194	190	198	156	147	159
Southwest	228	232	231	245	176	203	192	209
W. Central	138	143	134	143	109	117	112	109
E. Central	88	77	90	73	48	68	79	33
Northwest	100	82	83	105	128	55	121	92
Northeast	52	40	39	53	20	18	31	22
MINNESOTA	172	166	169	167	144	128	138	123

a Unimproved land is land without buildings or permanent structures.

Presence or absence of buildings is of greatest significance in the East Central and Northeast districts. In these areas a number of farm sales are for recreational or residential uses, and absence of buildings leads to sharply lower land prices.

For the state as a whole, roughly nine-tenths of all farm sales involve land with buildings. In the Southeast and East Central districts only about five percent of the sales in 1963 involved bare land with no buildings. The contrast is sharp in both Northern districts, where one-fourth or more of all sales involved unimproved tracts with no buildings, as shown in Table 8.

Table 8. Percentage of Sales and Relative Prices of Unimproved and Improved Farm Land, Minnesota, Averages for 1961-1963.

District	Sales of Unimproved Land as Percent of All Reported Sales	Sales Price of Unimproved Land as Percent of Price Received for Improved Land
	%	%
Southeast	6	82
Southwest	12	82
West Central	11	81
East Central	5	77
Northwest	30	114
Northeast	23	54
State	11	81

It is sometimes believed that the sale of unimproved tracts with no buildings is evidence of a parcelization of existing farms. The data from the Northwest district do not support this assumption. The average size of unimproved tracts sold in 1963 was 216 acres or only 18 percent below the average of 263 acres for all tracts sold with buildings.

Some subdivision and parcelization of existing farms does seem to be under way in the Southeast, Southwest, East Central and West Central Districts, where unimproved tracts are typically only 50 to 60 percent as large as the sales tracts that include buildings.

The Increasing Prominence of Sales to Expansion Buyers

One of the most noteworthy features of the farm land market in recent years has been the increasing proportion of sales to buyers who are increasing the size of existing farms. These

expansion buyers accounted for 44 percent of all sales in 1963, bringing this percentage to the highest level it has reached since collection of data on expansion buyers began in 1954.

In 1963, for the first time, expansion buyers bought more farms than were purchased for operation as individual units by owner-operators. Although the percentages for the two classes of buyers are similar (44 and 43 percent), they mark the low point for sales to operating farmers, and the high point for sales to expansion buyers, over the past decade.

Investor buyers have almost disappeared from the market in the Northwest district in recent years, whereas they are most most frequently reported from the Southeast. Statewide, they have accounted for approximately one-eighth of the sales since 1959. The trends are shown in Table 9.

Table 9. Percent of Sales Made to Three Types of Buyers, Minnesota, 1954-1963

	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
Investor Buyer	13	10	13	12	15	17	19	16	14	16
Expansion Buyer	44	41	37	41	32	33	30	30	24	25
Operating Farmer	43	49	50	47	53	50	51	54	62	59

By districts, there are pronounced variations. Over the past five years, the smallest percentage of sales to expansion buyers has been reported from the East Central and Southeast districts. These are the two districts most affected by market trends in counties surrounding the Twin City metropolitan area. It is in these districts that the percentage of sales to operating farmers has been highest.

In the Southwest and West Central districts expansion buyers accounted for half or more of all sales in 1963. In the Northwest almost four out of every five sales were to buyers who were adding the land to existing holdings. These district variations are shown in Table 10, for the three years, 1961-63.

Table10. Percent of Tracts Purchased by Type of Buyer, by Districts, Minnesota, 1961-1963

	Operating Farmer			Farm-Expansion Buyer			Investor Buyer		
	1963	1962	1961	1963	1962	1961	1963	1962	1961
	percent			percent			percent		
Southeast	48	58	58	36	28	26	16	14	16
Southwest	36	41	39	51	50	51	13	9	10
West Central	40	40	45	50	46	41	10	14	14
East Central	65	72	68	22	25	17	13	3	15
Northwest	18	27	39	78	64	57	4	9	4
Northeast	64	42	44	29	42	41	7	16	15
Minnesota	43	49	50	44	41	37	13	10	13

The increasing significance of expansion buyers emerges clearly if a comparison is made between averages for the first three years of the past decade, 1954-56, and the most recent three years, 1961-63. These comparisons are shown in Table 11.

Table 11. Percentage Increase in Expansion Buying, Minnesota, By Districts, 1954-1963.

District	Average Percent of Farms Purchased by Expansion Buyers		Change Between the Two Time Periods
	1954-56	1961-63	
			(percent)
Southeast	20	30	50
Southwest	30	51	70
West Central	25	46	84
East Central	14	21	50
Northwest	56	66	19
Northeast	9	36	300
State	26	41	58

The greatest increase in purchases for farm expansion has taken place in the Southwest and West-Central districts, and in the Northeast. The smallest increase has been in the Northeast. The smallest increase has been in the Northwest, due to the continuing prominent role played in that district by expansion buyers since the beginning of the ten-year period. Even in 1954-56 expansion buyers were the successful bidders in 56 percent of the sales in the Northwest, a higher percentage than is reported from any other district for 1961-63.

Prices Paid by Types of Buyers

The highest land prices are typically paid by expansion buyers or operating farmers. On average, the investor buyer pays the lowest price. Some are buying for resale and are seeking low-priced lands that are underpriced in relation to prospective value trends. Investor buyers may also be purchasing the poorer farms with the intention of making substantial capital investments in them.

Expansion buyers have typically paid much higher prices in Northwest Minnesota than other types of buyers, as shown in Table 12. Most of the expansion buying occurs in the Red River Valley, whereas the lands purchased by operating farmers are typically outside the Valley, in areas of lower valued lands. Because he already owns at least one farm, the expansion buyer can often outbid the operating farmer due to a superior credit position.

Table 12. Average Sales Price Paid Per Acre by Type of Buyer, by Districts, Minnesota, 1962-63.

District	Operating Farmer		Expansion Buyer		Investor Buyer	
	1963	1962	1963	1962	1963	1962
Southeast	221	200	208	193	180	198
Southwest	240	233	221	226	174	216
West Central	139	148	139	139	128	133
East Central	92	73	70	81	88	37
Northwest	71	55	124	93	59	56
Northeast	46	35	32	17	50	18
State	172	162	169	167	149	154

In the Southwest, West Central, and Southeast districts, prices paid by expansion buyers are usually lower than those paid by operating farmers. Expansion buyers purchase more of the unimproved farms than do operating farmers, and are less interested in quality of buildings, if buildings are involved. Operating farmers are more interested in building quality, and virtually all of the farms they buy include buildings. Unimproved lands regularly sell for less than improved farms in Southern Minnesota, and a similar relationship is characteristic of the East Central and Northeast districts. If expansion buyers and operating farmers bid for the same farm the expansion buyer usually wins. They are often the buyers who set the pace in today's farm land market.

Financing

Approximately four-fifths of all farms sold from January 1 to July 1, 1963, were purchased on credit. In view of present land values, this is not surprising. A prospective buyer would need a large amount of cash to buy a farm outright without use of credit, and he would tie up much of his money in land when he could be using it for operating or working capital. The use of credit is widespread in all regions of the state, but is least prominent in the Northwest and Northeast districts. These trends are shown for the years 1957 to 1963 in Table 13.

Table 13. Proportion of Farm Sales Credit Financed, Minnesota, By Districts, 1957-1963

District	Year						
	1963	1962	1961	1960	1959	1958	1957
Southeast	84	81	81	80	81	80	76
Southwest	80	82	80	79	80	78	72
West Central	83	85	78	78	73	78	73
East Central	76	77	73	74	75	72	74
Northwest	76	70	82	65	57	62	72
Northeast	72	84	77	78	67	68	74
MINNESOTA	80	81	79	77	76	76	73

The dominant position of the land contract in Minnesota farm land market financing has continued in 1963. In the mid-1950's, the mortgage was the favored credit instrument, accounting for 38 percent of all sales in contrast to the 30 percent financed with land contracts. Beginning in 1957 and in each subsequent year the mortgage has taken second place. The land contract is particularly prominent in the Southeastern and West Central districts, and only slightly less so in the East Central and Northwest. As Table 14 shows, only in the Southwest and Northeast districts were mortgages used in the majority of credit financed sales in 1963.

Table 14. Classification of Sales Reported, by Method of Financing, by Districts, Minnesota, 1961-1963

Districts	Cash Sales			Mortgage Sales			Contract for Deed		
	1963	1962	1961	1963	1962	1961	1963	1962	1961
	percent			percent			percent		
Southeast	16	19	19	30	34	30	54	47	51
Southwest	20	18	20	45	45	42	35	37	38
West Central	17	15	22	34	39	35	49	46	43
East Central	24	23	27	35	35	22	41	42	51
Northwest	24	30	18	31	34	41	45	36	41
Northeast	28	16	23	50	31	13	22	53	64
MINNESOTA	20	19	21	37	39	33	43	42	46

One reason for the popularity of the land contract may be due to lower rates of interest. The majority of institutional lenders (banks, insurance companies, Federal agencies) are unable to utilize the land contract, since its use requires that the lender be and remain legal owner of the land until the contract is fulfilled. Individuals are thus the primary source of land contract credit, whether sellers of the land, relatives, or local investors. As Table 15 reveals, the rates of interest charged for mortgage credit advanced by individuals in Minnesota in 1961 were substantially below the rates charged by other lenders.

Table 15. Average Interest Rates for Recorded Farm Mortgages, by Lender Groups, Minnesota, January 1 - March 31, 1961.*

Lender Groups	Average Interest Rate
Federal Land Banks	5.52
Insurance Companies	5.80
Banks and Trust Companies	6.07
Individuals	4.56
Miscellaneous	5.80
Average, all lenders	5.62

*Van E. Eitel, "Characteristics of Farm Mortgages Recorded January 1 through March 31, 1961," Washington, USDA-ERS-136, September 1963.

Although current data are not available for interest rates on land contracts, it seems probable that they will lie closer to levels reported for individual mortgage lenders than to levels reported for banks, insurance companies, and Federal land credit agencies.

Reasons For Selling

Of all farm sales reported in 1963, almost two-thirds were made because of death or retirement. Forty-one percent were sold because the owner was retiring, making this the largest single reason for farm sales in 1963. The importance of this figure may be understated because of father-to-son sales or other sales among relatives, which may often be ommitted in land market reports. Death accounted for 23 percent of the sales in 1963, and changes in occupation for 8 percent. In roughly 6 percent of the sales the owner exchanged farms or was reducing operations. The remaining sales were made because of foreclosures, economic reverses, and miscellaneous reasons.

STATISTICAL NOTE TO PART I

One of the problems in interpreting the results of this survey arises from the fact that there is no accurate way to compare the quality of land involved in the sales reported in the several districts of the state, or from year to year. One possibility is that the average price of reported sales in one district or in a given year may be influenced by a few abnormally high or low priced sales. To test this possibility the standard deviations and coefficients of variation of prices per acre, by districts, are given in Table 16 for the actual sales reported.

Although there are marked variations among the several districts of the state, within any one district there is a considerable degree of stability in these measures of dispersion, from year to year. The exceptions are the Northwest and Northeast districts, where the spread between high and low prices per acre is great. As a consequence, the averages for these two districts are to be regarded as less representative than are the averages for the remaining districts of the state.

Table 16. Number of Acres Reported Sold, Average Price per Acre, Standard Deviation and Coefficient of Variation, Minnesota, by Districts, 1955-1963 a

Item	Year	South-east	South-west	West Central	East Central	North-west	North-east	Minne-sota
Number of Acres Sold (acres)	1955	63,890	79,944	34,621	28,139	30,924	5,380	241,898
	1956	51,631	70,471	40,059	28,121	25,149	5,645	221,076
	1957	72,028	75,487	61,264	29,276	41,479	8,659	288,192
	1958	60,859	66,970	33,069	30,877	21,514	6,657	219,946
	1959	66,643	87,302	53,721	36,634	18,456	7,677	270,433
	1960	55,669	54,844	36,858	33,114	27,043	3,349	210,877
	1961	58,027	68,389	34,987	29,020	17,275	6,464	214,162
	1962	46,771	62,787	38,650	34,755	18,611	3,677	205,251
	1963	38,880	54,171	30,251	26,109	21,884	2,517	173,812

Average Prices per Acre (dollars)	1955	166.05	211.30	101.00	65.13	67.48	45.70	144.48
	1956	160.57	207.13	100.48	57.08	76.95	40.34	138.78
	1957	175.48	216.94	110.06	67.33	87.78	39.30	144.27
	1958	167.98	234.17	115.41	77.53	78.73	51.69	155.30
	1959	210.13	243.05	128.81	72.57	85.08	61.16	173.21
	1960	189.07	240.41	136.44	69.26	100.82	49.47	160.87
	1961	189.12	225.76	130.28	89.01	92.02	37.90	165.24
	1962	195.68	228.51	140.49	76.30	73.86	30.29	161.11
	1963	214.09	221.86	136.15	86.18	108.82	47.60	168.07
Standard Deviations (dollars)	1955	67.3	71.5	35.7	31.9	43.0	33.9	84.6
	1956	69.8	69.9	38.6	33.5	43.0	31.5	83.1
	1957	82.7	72.7	42.8	37.0	86.5	36.1	89.9
	1958	78.4	79.7	43.3	38.0	55.2	31.6	91.5
	1959	87.2	77.0	44.5	41.3	62.8	59.5	96.6
	1960	90.4	77.0	47.7	48.6	76.6	42.1	95.8
	1961	83.5	71.9	40.0	47.8	54.1	20.1	86.8
	1962	80.7	68.6	45.1	39.1	57.2	29.7	88.5
	1963	79.4	77.1	50.8	43.7	69.4	26.1	88.6
Coefficients of Variation (percent)	1955	41.4	33.8	35.3	53.7	63.5	74.2	59.1
	1956	43.5	33.7	38.4	58.6	55.8	78.0	59.9
	1957	47.1	33.5	39.7	57.0	98.5	68.5	62.4
	1958	46.7	34.0	37.5	49.0	70.1	63.0	58.8
	1959	41.5	31.6	34.5	56.9	73.8	97.2	55.8
	1960	47.8	32.0	35.0	70.2	76.0	85.1	59.5
	1961	44.2	31.8	30.7	53.7	58.7	53.1	52.6
	1962	41.2	30.0	32.2	51.2	77.3	98.0	54.9
	1963	37.1	34.8	37.3	50.7	63.8	54.8	52.7

a Each acre is treated as a unit in calculating standard deviations and coefficients of variation. The variation in acreages reported sold in recent years is due to changes in the coverage of this survey and is not necessarily due to changes in real estate market activity.

Table 17. Average Price per Acre of Farm Real Estate in Minnesota, by Districts, 1910-11 through 1934-35 by Two-Year Periods, and Annually, 1936 Through 1963

Years	Minn.	DISTRICT					
		S.E.	S.W.	W.C.	E.C.	N.W.	N.E.
		dollars per acre					
1910-11	41	58	57	39	24	24	11
1912-13	49	69	69	46	29	29	13
1914-15	58	82	84	56	34	32	14
1916-17	68	92	100	67	41	37	15
1918-19	82	117	118	78	50	40	18
1920-21	104	141	152	98	68	57	24
1922-23	85	114	119	82	56	44	23
1924-25	78	104	110	74	49	44	22
1926-27	76	106	109	72	49	36	22
1928-29	71	100	102	67	44	33	21
1930-31	60	88	88	51	36	22	18
1932-33	45	64	65	42	27	20	14
1934-35	40	52	58	38	26	22	15
1936	43	58	63	38	29	22	23
1937	44	59	65	38	29	22	24
1938	46	61	68	38	29	22	25
1939	44	59	67	36	27	22	24
1940	43	59	68	36	26	22	24
1941	43	59	68	36	26	22	24
1942	45	63	72	38	27	23	24
1943	50	68	80	42	30	25	26
1944	55	76	88	47	34	28	28
1945	58	79	92	49	35	29	29
1946	65	88	104	56	39	33	32
1947	72	96	116	62	43	37	35
1948	79	104	129	69	47	41	38
1949	83	107	136	73	49	44	39
1950	85	109	141	76	50	46	40
1951	99	125	166	89	59	54	46
1952	107	131	175	96	65	68	42
1953	105	130	175	95	62	64	40
1954	113	139	187	99	66	72	40
1955	121	150	205	103	68	73	45
1956	126	156	214	107	70	76	42
1957	138	165	230	122	77	86	49
1958	147	179	242	123	84	90	65
1959	157	191	255	134	89	103	58
1960	155	188	248	133	94	99	64
1961	156	189	247	133	95	103	64
1962	159	192	250	138	99	104	69
1963	161	194	246	142	103	114	68

Part II: The Residential Real Estate Market in Minnesota's Smaller Towns

INTRODUCTORY REMARKS

The real estate market in small towns and cities is unexplored territory. There is no record of any previous study of this market in Minnesota, although small towns are a prominent part of the state's economy. To fill this gap, a survey was made in 1963 of the market for residential properties in towns of under 5,000 population.

Real estate dealers, loan agents, and others with a knowledge of local real estate market trends were asked by mail questionnaire to report on present levels of value, sales made during the first six month of 1963, and the trend in values since 1960. Since no data are available for previous years, it is not possible to present a time-series of data on estimated values or actual sales prices. In order to obtain some idea of recent changes respondents were asked to estimate price trends since 1960. It is assumed that the memory bias introduced by passage of time will not result in serious error if the estimates are confined to the three preceding years.

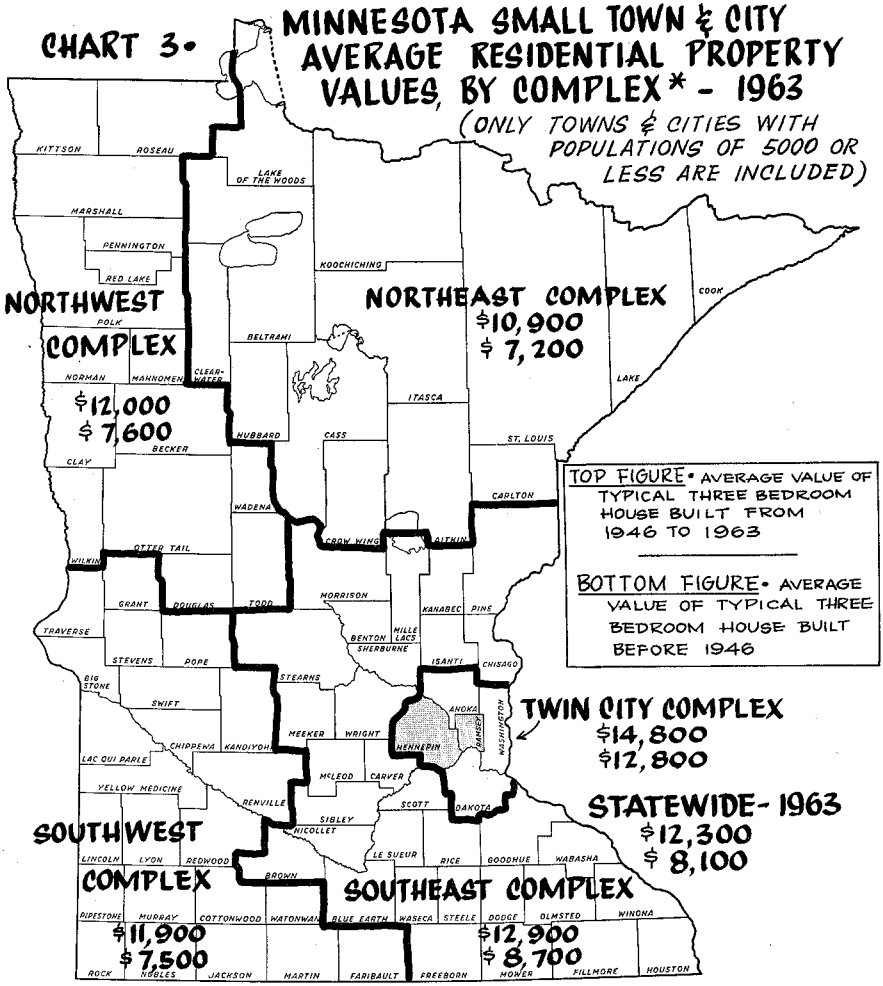
The war years, 1941-1945, marked a major break in residential construction. With this in mind respondents were asked to report separately on current values for houses built before 1946, and for those built during the period 1946-63. In the tables that follow, these estimates are grouped in accordance with the six "land market districts" used in reporting farm land market trends, as shown on the inside front cover. The estimates are also reported for five regional "complexes", as shown in Chart 3.

These complexes are based primarily on the nature of the labor and employment markets which employ the bulk of the labor force. The Southeast Complex is characterized by employment in agriculture and agriculturally-related businesses. The Northeast relies primarily on mining, forestry, recreation and tourism. Small towns in the Northwest and Southwest complexes are primarily agricultural service centers, without much farm related manufacturing activity. In the Twin City complex, employment in manufacturing and service trades predominates. In computing district averages, data from Hennepin and Ramsey counties were omitted.

The distribution of the 761 towns of under 5,000 population in 1960 is shown for these "complexes" in Table 18. The western half of the state accounts for almost exactly half of these smaller towns, with the bulk of them in the "Under 500" class. State-wide, 56 per cent of the "under 5,000" towns had less than 500 people each in 1960; 76 per cent of the total had under 1,000.

CHART 3. MINNESOTA SMALL TOWN & CITY AVERAGE RESIDENTIAL PROPERTY VALUES, BY COMPLEX* - 1963

(ONLY TOWNS & CITIES WITH POPULATIONS OF 5000 OR LESS ARE INCLUDED)



* THIS AREA DESIGNATION DIFFERS FROM THE FARM REAL ESTATE DISTRICTS CLASSIFICATION. HENNEPIN & RAMSEY COUNTIES ARE EXCLUDED.

Table 18. Distribution of Towns Under 5,000, By Size Class in 1960, Minnesota[1]

Population	Regional Complexes: Northwest and Southwest	Southeast	Northeast	Twin City	State Total	Percent
	Number of Towns					
Under 501	230	96	90	27	423	55.6
501 - 1000	71	50	16	15	152	20.0
1001 - 1500	25	21	7	7	60	7.9
1501 - 2000	13	19	9	2	43	5.7
2001 - 2500	16	8	1	9	34	4.5
2501 - 5000	17	13	9	10	49	6.4
Total	372	207	112	70	761	100.0

[1] U. S. Census of Population, 1960, Minnesota.

It is the towns of under 1,000 that have been particularly susceptible to population declines in recent years. All of the towns that experienced population declines of 20 per cent or more from 1950 to 1960 were in this class. As Table 19 reveals, 46 percent of the towns under 1,000 lost population in the 1950's. Of the towns in the 2,500 - 5,000 class, only 8.5 per cent showed population losses. The small town of under 1,000 is thus in a particularly vulnerable position in today's residential real estate market.

Table 19. Percentage Distribution of Towns by Extent of Population Change from 1950 to 1960 [1]

1960 Population Group	Population Change 1950-60: Increase 29% or more	19 to 28%	9 to 18%	0 to 8%	Decrease -1 to -19%	-20% or more	Total
	Per cent of towns						
Less than 1000	13.7	6.3	13.0	20.9	36.2	9.9	100.0
1001 to 2500	24.1	13.9	16.1	23.4	22.6	0	100.0
2501 to 5000	34.0	8.5	25.5	23.4	8.5	0	100.0

[1] U. S. Census of Population, 1960, Minnesota.

To explore characteristics of the residential real estate market in towns under 5,000, questionnaires were sent to real estate dealers, bankers, and others throughout the state with a knowledge of local property markets. Approximately 420

usable questionnaires were returned, reporting on estimated residential values in 273 towns of under 5,000 population. Reports were thus received from 36 per cent of the 761 towns of under 5,000 in the state. Respondents also furnished sales data on 737 residential sales that occurred between January 1 and July 1, 1963 in 211 towns.

Two types of data were collected: Estimates of residential property values, and data on actual sales. In the discussion that follows, the data on estimated values will be analyzed first, followed by an analysis of the data reported for properties that sold in 1963.

RESIDENTIAL PROPERTY VALUES BASED ON REPORTERS' ESTIMATES

Relationship of Area of State to Values

The data for this section were supplied in response to the question "What is the average value of a three-bedroom house and lot in your town?" The resultant estimates are shown in Table 20 by regional complexes and by land market districts, for two age groups of houses, those built before 1946 and those built after. The data are also shown in Chart 3 by regional complexes on page 20.

Table 20. Estimated Average Residential Values (Three-Bedroom House and Lot) for Towns of Under 5,000 Population, by Regional Complexes and by Districts, July 1963, Minnesota.

Complex or District	Number of Towns Represented	Average Present Value	
		Houses Built Before 1946	Houses Built Between 1946-63
		(dollars)	(dollars)
By Regional Complex			
Southeast Complex	112	8,700	12,900
Southwest Complex	102	7,500	11,900
Northwest Complex	33	7,600	12,000
Northeast Complex	18	7,200	10,900
Twin City Complex	4	12,800	14,800
By Land Market District			
Southeast	72	8,900	13,300
Southwest	86	7,600	12,000
West Central	45	8,100	12,300
East Central	32	8,100	12,300
Northwest	18	7,700	12,100
Northeast	16	6,900	10,400
Minnesota	269	8,100	12,300

State wide, the average small town residence built since the second world war is worth fifty percent more than a house built before 1946. Although average estimated values vary

significantly from district to district these pre and post war relationships are remarkably constant. Not surprisingly, the lowest average values are in the Northeast. What is surprising is to find small town residential property values in the Southwest ten to fifteen per cent lower than in the Southeast and slightly below value levels in the Northwest. Although farm land values in the Southwest are the highest in the state, that district's small town residential property values are among the lowest.

In the Western half of the state there is remarkably little variation among districts. Houses built since the war average roughly $12,000, and those before the war range from $7,500 to $8,000. In the eastern half of the state, the lower values in the Northeast and the higher values of the Southeast stand out.

For the state as a whole small town residential property values have changed very little since 1960. Within the state, however, there have been substantial variations among districts as shown in Table 21.

Table 21. Average Change in Value of Small-Town Residences, 1960-63, Minnesota, by Districts.

	Per Cent Change in Value, 1960-63[1]	
	Houses Built Before 1946	Houses Built Between 1946-63
	%	%
By Regional Complex		
Southeast	+ .5	+1.5
Southwest	-3.5	-1.0
Northwest	+2.0	+3.0
Northeast	+4.5	- .5
Twin City	+1.0	+1.0
By Land Market District		
Southeast	+1.0	+1.5
Southwest	-5.0	-2.5
West Central	- .5	+1.5
East Central	+3.5	+5.5
Northwest	+1.0	+4.5
Northeast	+4.0	-1.0
Minnesota	-1.0	+1.0

[1] Rounded to nearest one-half of one per cent.

The weakest market has been in the small towns of the Southwestern part of the state. In that district houses built before 1946 have dropped 5 percent in value since 1960, and post-1946 properties have also shown a decline of two and one-half percent.

The most vigorous market for small town residences has been in the East Central district, and for houses built since 1946. That class of property has increased in value over five per cent since 1960. This undoubtedly reflects the effect of the growing suburbanization of the Twin City metropolitan area and parallel industrial development in Twin City satellite cities and towns.

A related pattern of buoyant small town residential property values in reported from the Northwest. Since 1960 the increase in that district for post-1946 houses has been almost as great as in the East Central counties surrounding the Twin Cities.

Effect of Size of Town and Rate of Population Change on Residential Property Values

Although this study is confined to the smaller towns of under 5,000 population, within that size-class estimated residential property values showed substantial variation among towns of different size. In general, the lower values were in the smallest towns. But as Table 22 reveals, the trend is not a smooth one. Residential property values in the 21 towns in the population size-class 2001 to 2500 were only slightly below those reported for the 14 towns in the size-classes 3501 to 5000.

Table 22. Estimated Average Value of Three-Bedroom House and Lot in Towns Under 5,000 in 1963, By Size of Town

Population of Town	Number of Towns Represented	Estimated Average Value	
		Houses Built Before 1946	Houses Built Between 1946-63
		(dollars)	(dollars)
0 to 500	71	6,700	10,800
501 to 1000	73	7,400	11,600
1001 to 1500	39	7,900	12,500
1501 to 2000	31	9,100	13,700
2001 to 2500	21	10,100	14,300
2501 to 3000	13	9,000	13,500
3001 to 3500	7	9,900	14,200
3501 to 4000	4	8,900	13,100
4001 to 4500	8	11,100	15,000
4501 to 5000	2	9,600	14,700
	269		
Combined Population Classes			
0 to 1000	144	7,000	11,200
1001 to 2500	90	8,800	13,300
2501 to 5000	35	9,700	14,000
	269		

A distinct drop occurs in the estimates of value for residences in towns under 1500, and especially in towns under 500. For houses built since 1946, values in towns under 500 were approximately 23 percent below the values reported for towns in the size classes 2501 to 5000. For pre-1946 houses, the comparable difference was 31 percent.

An even greater spread in estimated values emerges when the towns are classified on the basis of population change from 1950 to 1960. In Table 23 the towns are grouped according to the percentage of population change in the 1950's. The variations are not great for properties in towns which experienced little population change from 1950 to 1960. This is the case for towns where population changes ranged from 5 percent decrease to 8 percent increase. The effects on property values become more significant with increasing rates of population change. Value differences are substantial for towns with population increases of over 9 percent, or with decreases exceeding 5 percent. And the largest differences were associated with towns that experienced more than a 19 percent increase in population in the 1950's, or more than a 15 percent decrease.

Table 23. Estimated Average Value of Three-Bedroom House and Lot for Towns Under 5,000, By Percentage of Population Change from 1950 to 1960. [1]

Population Change, 1950 to 1960	Number of Towns Represented	Estimated Average Value	
		Houses Built Before 1946	Houses Built Between 1946-63
(percent)		(dollars)	(dollars)
29% or more increase	20	8,700	13,400
19 to 28% "	25	9,500	13,600
9 to 18% "	64	8,700	13,000
0 to 8% "	79	7,700	11,900
1 to 5% decrease	37	8,200	12,100
6 to 10% "	18	6,300	11,100
11 to 15% "	13	7,800	11,100
16 or more "	10	5,100	8,200
	266		
Combined Groups			
9% increase or more	109	8,900	13,200
8% increase to 5% decrease	116	7,900	12,000
6% decrease or more	41	6,500	10,400
	266		

[1] The number of towns here differs from that of Tables 20 and 22 because of incomplete reports for several towns.

Residential property values for houses built since 1946 in towns showing population losses of over 15 percent in the 1950's were 39 percent below the values estimated for those towns that showed more than a 19 percent increase. For pre-1946 houses the difference was 44 percent.

These data emphasize the fact that the rate of change in population growth or decline exercises a more important influence on levels of residential property values than does the size of town, and especially for towns above 500 population.

ANALYSIS OF DATA FROM REPORTED SALES

Prices Received by Size of Town, Population Change, and Area

Data on sales between January 1 and July 1, 1963 were supplied by respondents for 737 residential sales in 211 towns under 5,000 population. [1] The average sales prices received are shown in Table 27 for the same regional complexes and land market reporting districts used in presenting the data on estimated values in the preceding section above.

Table 24. Average Sales Price of Houses Reported Sold From January 1 to July 1, 1963, Towns Under 5,000, by District, Minnesota.

Complex or District	Number of Sales	Average Sales Price (dollars)
By Regional Complex		
Southeast	327	10,600
Southwest	309	9,700
Northwest	73	9,100
Northeast	17	8,500
Twin City	11	14,500
By Land Market District		
Southeast	214	10,900
Southwest	263	9,800
West Central	112	10,200
East Central	100	9,200
Northwest	40	10,000
Northeast	8	9,100
All Sales	737	10,100

In the three western land market districts average sales prices were remarkably similar, at approximately $10,000 per property. The lowest prices were those received in the Northeast, while the highest prices were paid for properties in the Southeast. Differences appear more marked in the grouping by regional complexes. Highest prices were received in the smaller towns satellite to the Twin Cities, where sales prices were 43 percent above the state-wide average, and 50 percent higher than those received for residences in the smaller towns of the Southwest.

[1] In Tables 25, 26, and 28 the total number of sales does not add to 737 due to incomplete reports for several sales.

Variations in sales price are closely related to size of town when population falls below 1500. This emerges clearly from Table 25. Perhaps the most significant fact revealed by this table is the relatively small variation shown in sales prices received in towns ranging from 1,500 to 5,000 in size. For towns above 1500 the average sales price was $11,512, with less than $400 variation among the averages for the various population size classes.

Table 25. Average Sales Price of House and Lot, Towns Under 5,000, By Size Classes, Minnesota, 1963.

Population (1960 census)	Number of Reported Sales	Average Sales Price (dollars)
1 - 500	110	7,200
501 - 1000	144	8,500
1001 - 1500	109	10,400
1501 - 2000	103	11,200
2001 - 2500	88	11,500
2501 - 3000	59	11,900
3001 - 3500	48	11,200
3501 - 5000	66	11,900

The drastic effect of population decline on small town residential sales prices is shown in Table 26. The trends are similar to those shown in Table 23, for estimated values, but the range of variation is greater. The sales prices in Table 26 confirm the estimates shown in Table 23, in that insignificant value differences are reported for towns that experienced small population increases, or small declines, from 1950 to 1960. A population gain of up to 8 percent or a loss of not over 5 percent apparently has had little immediate effect on residential sales prices. As Table 26 shows, for towns in each of these two classes the sales prices received in 1963 averaged $10,000 per residence.

Population increases of 9 percent or more were associated with distinctly higher residential sales prices. The most dramatic effects are apparent on the downward side. A population loss of 6 to 10 percent was associated with sales prices that were 14 percent below those in towns showing little population change. And for towns showing population losses of 11 to 15 percent in the 1950's, residential sales prices were more than one-third below the sales prices received in towns with relatively stable populations.

Where population losses exceeded 15 percent in the decade, sales prices were more than 60 percent below those received for residences in towns showing little population change. Although no attempt was made in this survey to collect data on

Table 26. Average Sales Price of House and Lot in 1963, Minnesota Towns Under 5,000, Classified by Percentage Change in Population from 1950 to 1960.

Population Change 1950-1960 (U.S. Census)	Average Size of Town*	Number of Residential Sales Reported 1963	Average Sales Price (dollars)
29% or more increase	1,800	51	11,800
19 to 28% "	1,575	66	11,200
9 to 18% "	2,300	187	10,500
0 to 8% "	1,625	241	10,000
1 to 5% decrease	1,625	84	10,000
6 to 10% "	1,575	57	8,600
11 to 15% "	525	21	6,300
16% or more "	500	8	3,900

* Rounded to the nearest 25.

business and commercial properties, the comments volunteered by reporters indicate that population declines have also had a particularly depressing effect on this class of property.

Relation Between Sales Price and Age of House

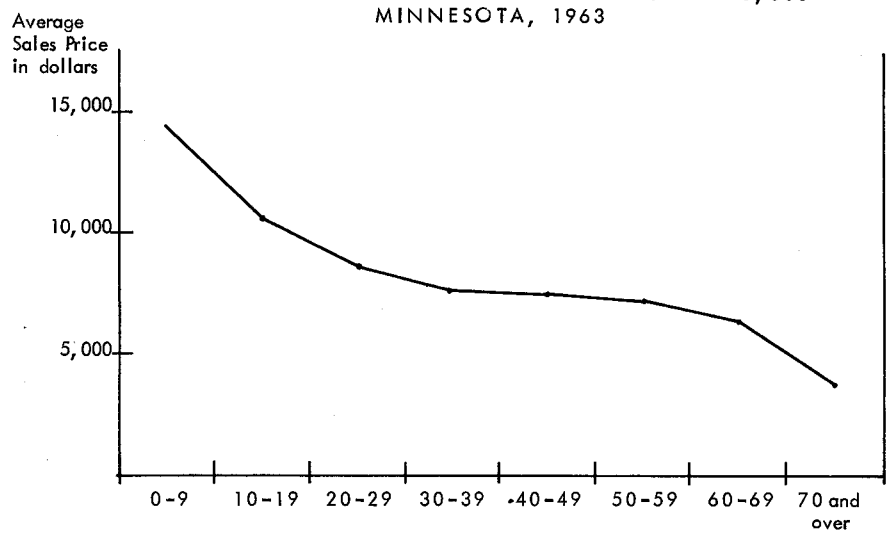
As would be expected, the relation between sales price and age of house exhibits the most orderly progression. Table 27 shows that properties less than ten years old (i.e. built after 1953) sold for prices that averaged 26 percent higher than those received for dwellings 10 to 19 years old. A further drop of some 20 percent was reported for houses 20 to 29 years old (built between 1934 and 1943).

Table 27. Average Sales Price by Age of House, Towns Under 5,000, Minnesota, 1963.

Age of House in Years	Number of Sales	Percent of Sales	Average Sales Price
0 - 9	202	28	14,500
10 - 19	123	17	10,700
20 - 29	98	13	8,600
30 - 39	98	13	7,800
40 - 49	113	16	7,600
50 - 59	49	7	7,300
60 - 69	35	5	6,500
70 and over	9	1	3,800

Remarkably little variation was reported for houses 30 to 60 years of age. Sales prices for 50 to 59 year old houses (built between 1904 and 1913) averaged only 6 percent below those reported for homes in the 30 to 39 year old class (built between 1924 and 1933). When age of dwelling exceeded 60 years, the fall in price was much more pronounced. These relationships are shown graphically in Chart 4.

Chart 4
RELATION OF SALES PRICE TO AGE OF HOUSE, RESIDENTIAL PROPERTIES IN TOWNS UNDER 5,000 MINNESOTA, 1963



The relationship between age of dwelling and sales price as shown in these data may be the result of several factors: depreciation undoubtedly shows its effect but so do quality differences due to plumbing, heating, and construction materials. Many of the older houses were constructed in an era in which interior plumbing, central heating, adequate electrical wiring, and thermal insulation were rare or non-existent in the homes of smaller rural communities.

The declines in value associated with age cannot be read as depreciation schedules, in the usual meaning of the term, since the variations in housing quality are so great over time. But they do reflect the degree to which the older houses are discounted in today's housing market. In this sense we can reach a tentative conclusion that for towns of under 5,000 the sales price decline is approximately 30 percent for houses built 15 years ago, and that this rate of decline is about 2 percent per year. For houses 15 to 30 years old, the sales prices decline another 15 to 20 percent, at a rate of one to one and one-third percent per year. For homes over 30 years of age, the rate of decline slows appreciably, to an average of one-third to one-half of one percent per year, for the next 30 years. Above 60 years of age, a rapid decline in sales prices set in again.

This interpretation must be accepted with caution, since quality of construction, degree of maintenance, and location can alter these trends in the individual case. Pending confirmation through further study, the data are presented here as a provisional guide for buyers, sellers, and credit agencies.

Types of Buyers

Who were the buyers? As Table 28 shows, in 1963 locally employed individuals bought 70 percent of the houses transferred by sales in towns under 5,000. Retired individuals accounted for one-fourth of the sales, with commuters making up a rather small fraction of the market.

Table 28. Residential Sales in Towns Under 5,000, by Type of Buyers, Minnesota, 1963.

Type	Number	Percent	Average Sales Price (dollars)
Locally employed people	500	70	10,300
Commuters	23	3	10,900
Retired Persons	185	26	9,600
Other	7	1	9,000
Total	717	100%	

Residential Finance

The financing of small town residential sales follows a distinctly different pattern from that reported for transactions in farm land. As shown in Table 14 on page 14, above, only 21 percent of the farm transfers in 1963 were cash transactions. Mortgages were used for 37 percent of farm transfers, and contracts for deed in 43 percent of the cases.

For small town residential properties the cash sale is more frequent, accounting for almost one-third of all transfers. Where credit financing was used, the mortgage was the favored instrument, accounting for about one-half of all sales. The contract for deed was used in only 20 percent of the residential sales, as shown in Table 29.

Table 29. House Purchases by Type of Financing Used, Minnesota, 1963.

Type of Financing	Percent
Cash	31
Mortgage	47
Contract for Deed	20
Other or Unknown	2
	100%

STATISTICAL NOTE TO PART II

Although the data presented in Part II were not obtained from a random sample we do believe that the averages presented are representative. The distribution of towns represented in our sample by population and by regional complexes is shown in Table 30.

Table 30. Distribution of Towns Represented in Sample by Population and by Regional Complex.

Population	Regional Complexes				Sample Total
	Northwest and Southwest	Southeast	Northeast	Twin City	
	Number of Towns				
Under 501	43	24	3	1	71
501 - 1000	37	32	4	0	73
1001 - 1500	19	17	3	0	39
1501 - 2000	7	19	5	0	31
2001 - 2500	12	7	0	2	21
2501 - 5000	17	12	4	1	34
Total	135	111	19	4	269

To simplify presentation of the data in the sales analysis of Part II, the sales prices have been presented as simple averages for the respective geographic districts or population size classes. One shortcoming of an arithmetic average is that it fails to indicate the degree of variation or "scatter" in the original data. An indication of this variability in the original data is presented in Table 31, for the regional complexes, and for population size classes.

On a regional basis, the variations were substantial, but approximately of the same magnitude for all of the regions except the Twin City complex. With standard deviations of about one-half of the average (or mean) values, one out of every three sales (outside the Twin City area) will on average be at a price either 50 percent above or 50 percent below the average price for that region.

When the sales data are grouped by size of town, the range of variability among size classes increases. The greatest variability occurs in small towns of under 500 population. An "average sales price" for residences in towns of this size class is least representative of any of the size classes shown.

The least variation occured in sales in towns of 2500 to 3500 population. Above 3500 the range of variability increased. An examination of the original data suggests that the primary reason lies in the fact that towns above 3500 are likely to include an increasing number of residences that will sell at

prices of $15,000 to $20,000, or higher. Sales at these prices in towns under 2500 are not as frequent.

Table 31. Number of Houses Reported Sold, Average Price per House, Standard Deviation and Coefficient of Variation by Economic Complex and Population Group, Towns Under 5,000, Minnesota, 1963.

	Number of Sales Reported	Average Sales Price (dollars)	Standard Deviation (dollars)	Coefficient of Variation (percent)
Regional Complex				
Southeast	327	10,629	5,090	47.9
Southwest	309	9,658	4,870	50.4
Northwest	73	9,138	4,760	52.1
Northeast	17	8,485	3,940	46.4
Twin City	11	14,455	4,670	32.3
Population Size Class				
under 500	110	7,159	4,070	56.8
501 - 1000	144	8,465	4,090	48.3
1001 - 1500	109	10,422	4,030	38.7
1501 - 2000	103	11,183	4,910	43.9
2001 - 2500	88	11,508	5,130	44.6
2501 - 3000	59	11,898	4,250	35.7
3001 - 3500	48	11,244	3,740	33.3
3501 - 5000	66	11,877	6,100	51.4