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THE MINNESOTA RURAL Real Estate MARKET 1967

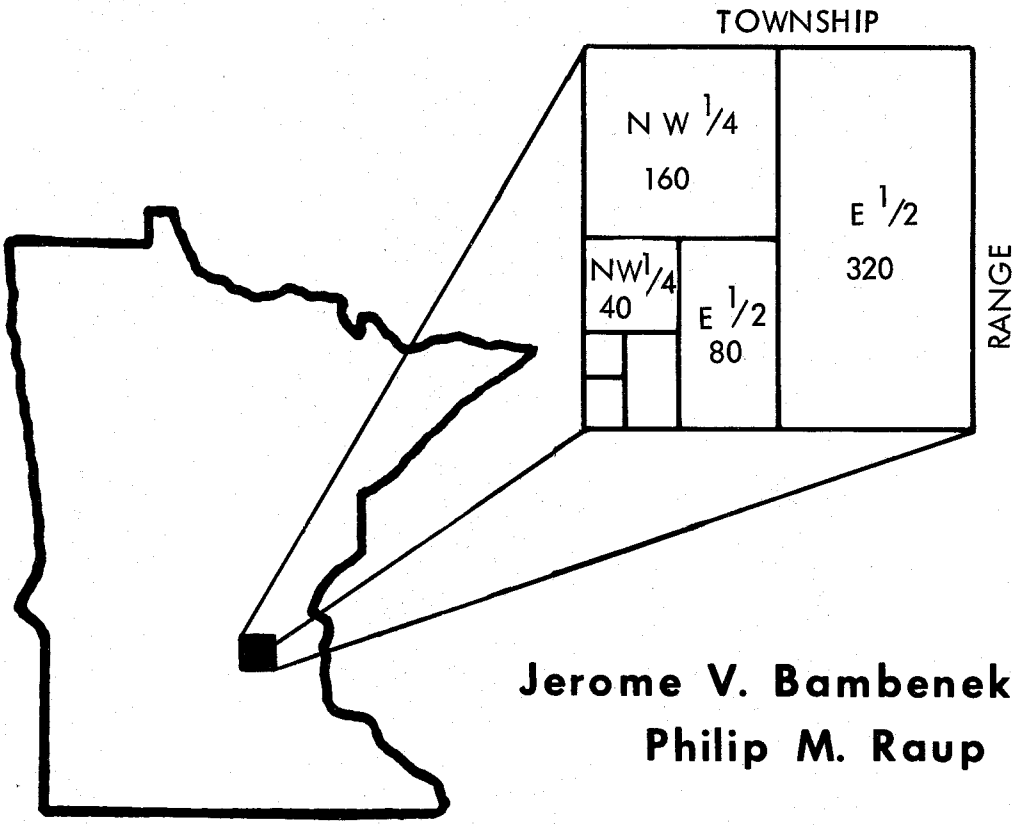

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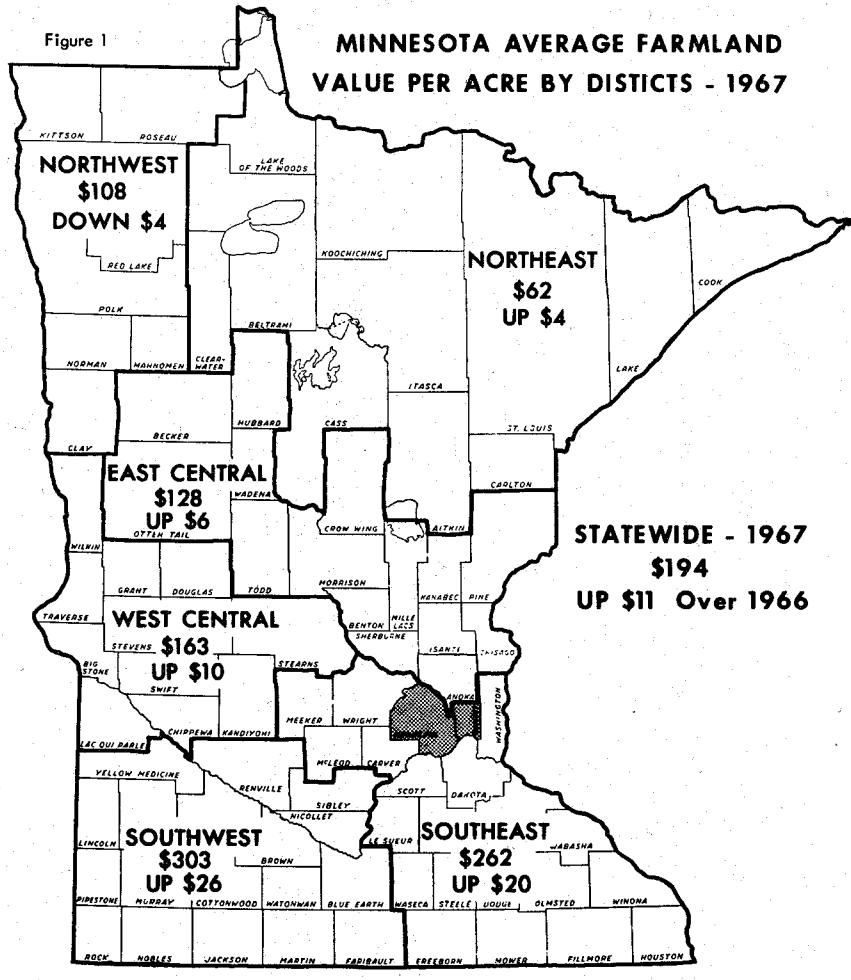
Figure 1



Hennepin and Ramsey Counties Excluded in Calculating Averages

The Minnesota Rural Real Estate Market In 1967

BY JEROME V. BAMBENEK AND PHILIP M. RAUP
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Summary

Farm land values rose 6 percent from the first half of 1966 to the first half of 1967. For 1967 the statewide average estimated value of farm land reached a record level of $194 per acre.

Most of the increase in land values is in the southern two-thirds of the state, especially in urbanizing areas. Increases from 1959 to 1967 have averaged about 40 percent in the East Central and Southeast Districts, but only about 20 percent in the more rural Southwest and West Central districts.

Transfers of farm land through voluntary sales are occurring at a rate of 37.5 per 1,000 farms, the highest rate since 1959. Forced sales or tax delinquency sales were at near-record lows, with only 1.4 farms per 1,000 transferred for these reasons.

Expansion buyers increased their purchases to 57 percent of all tracts sold in 1967, a trend that is especially prominent in the western half of the state.

Farm buildings add little to the sale price of farm land in predominantly rural areas. In urbanizing areas, on the contrary, buildings may be the major component of rural land values.

The rural land market is highly local in nature. In 1967, 53 percent of the buyers lived within 5 miles of the tracts purchased; 69 percent lived within 10 miles. Only in the East Central and Northeast districts are absentee buyers from more than 50 miles away a significant element in the market.

Contracts for deed were used to finance over half of all sales in 1967. This is the first time the use of this credit instrument has passed the 50 percent mark.

Buyers using contracts for deed paid somewhat higher prices for their lands, but also bought proportionately more of the better-quality lands.

Introduction

Land market data reported in this publication are collected in July of each year by mail questionnaires. These are sent to farm real estate dealers, agricultural loan representatives, bankers, lawyers, and others with specific firsthand knowledge of their local farm real estate situation. In 1967 questionnaires were sent to 1,339 individuals and 1,022 responded. 827 responses were sufficiently complete to form the basis of this report. The cooperation of these individuals and their assistance to the University of Minnesota make this report possible. The period covered is January through June. In the analysis, 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. They are:

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 values. The analysis of land values and trends in Section I of this report is based on these estimates.

Factual data are obtained on farms sold in the reporters' communities. Data include sales prices, characteristics of buyers and sellers, and methods of financing tracts sold for agricultural purposes. These data cover actual sales made during the annual survey period of January 1 to June 30. Data on sales are used in Section I 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 II of the report.

The estimates of farm land value are a more reliable basis for comparing year-to-year trends than are the reported sales prices received in actual sales. This is because of the erratic and occasionally wide variations in the qualities of land and buildings actually sold and the small number of sales that may occur in any given year and location.

Typically, there are 20 to 50 voluntary farm sales per year in a representative Minnesota county. A reported change in average sales prices may primarily reflect a variation in quality of land or buildings on farms sold during the period studied, or a change in average sales prices 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.

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

In analyzing farm sales the terms "improved" and "unimproved" are used. Unimproved lands are those without buildings or permanent structures. Improved lands are those with buildings, irrespective of condition.

The Appendix contains farm land price averages from 1910 to the present. It also contains a statistical analysis of the reported farm sales since 1958, showing the range of variation in sale prices within the districts and for the state as a whole.

Section I: Land Market Trends Based on Reporters' Estimates

LAND MARKET TRENDS BASED ON REPORTER'S ESTIMATES

Land Value Trends

Minnesota farm land values continued to increase rapidly between 1966 and 1967. The dollar value per acre went from 183 in 1966 to 194 in 1967, a new record high. This is a rise of $11 per acre or 6 percent. In 1966 the dollar value per acre rose $12 or 7 percent. Figure 2 shows that the 1965 to 1967 increase is similar to the one in 1956-59.

The substantial increase in net farm income in 1966 over 1965 is a reason for land prices to rise in the predominantly agricultural areas of Minnesota. Between 1965 and 1966 Minnesota farmers enjoyed a 28 percent increase in realized net farm income.[a] The optimism generated by this increase is at least partially responsible for the 6 percent increase in land values from 1966 to 1967 and the 13 percent increase from 1965 to 1967. The long-run effect on land values is less clear, in view of declining farm prices in 1967 and the prospect of lower net incomes for the year.

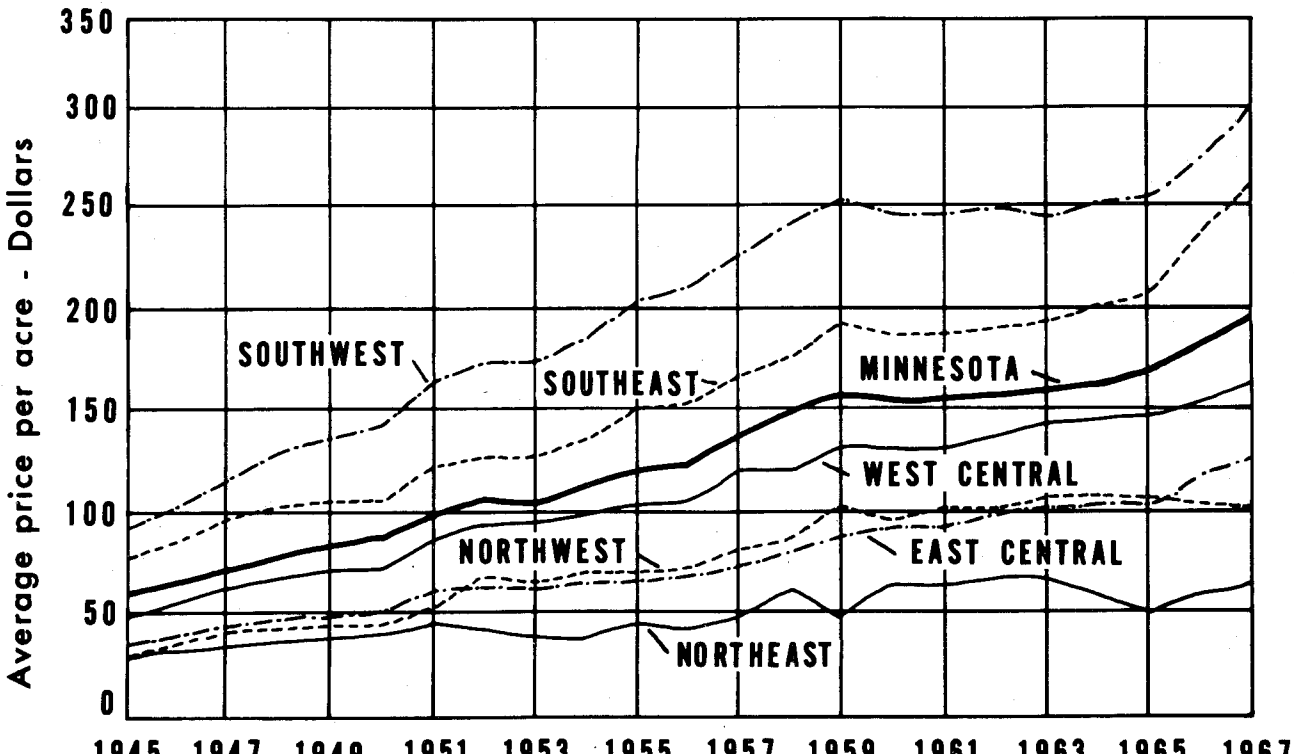
The greatest increase occurred in the Southwest District (table 1). This was a 9 percent or $26 increase per acre. The Southeast District follows with an 8 percent or $20 increase per acre. Both the percent and dollar value increases are largest in these two districts.

Table 1: Estimated average value per acre of farm land, by district, Minnesota 1962-67.

District	1962	1963	1964	1965	1966	1967
	Dollars					
Southeast	192	194	206	219	242	262
Southwest	250	246	252	261	277	303
West Central	138	142	145	146	153	163
East Central	99	103	111	112	122	128
Northwest	104	114	115	113	112	108
Northeast	69	68	59	51	58	62
Minnesota	159	161	166	171	183	194

[a] Source: "Farm Income Situation" F.I.S. 205, February 1967, Economic Research Service, U.S.D.A., 21.

FIGURE 2 - ESTIMATED AVERAGE VALUE PER ACRE OF MINNESOTA FARM LAND BY DISTRICTS 1945 - 1967



Moderate gains were reported in the two central districts of the state. The West Central District had a 7 percent or $10 increase per acre and the East Central a 5 percent or $6 increase per acre. Land value trends in these two districts have been relatively steady over the past 6 years, in contrast to several other districts where more erratic changes have taken place.

The only district in the state with a decline in farm land values in 1967 was the Northwest where values have declined for 3 consecutive years. The decline this past year was 4 percent or $4 per acre. The total decline from 1964 to 1967 has been 6 percent or $7 per acre.

Farm land values in the Northeast District increased this past year by 6 percent or $4 per acre. Land values declined in this district from 1963 through 1965 but increased in 1966 and 1967. The recent increases may be due to the influence of nonlocal buyers as well as to shifts to farming enterprises better adapted to the area.

Land Value Trends by Quality of Land

From 1959 through 1967 there have been substantial differences in value trends for land of high, medium, and low quality. The smallest increases were reported for high quality lands, which rose 18.5 percent in value over the 8 years, in contrast to a 25.2 percent increase for low quality land. As table 2 shows, the value increases for low quality lands, were especially marked in the East Central and Southeast Districts. These are the districts most affected by nonfarm demands for rural land generated by the Twin Cities and the smaller industrial cities of the Mississippi and lower Minnesota River Valleys.

Table 2: Estimated land values per acre and changes by quality of land, by district, Minnesota 1959-67.

District	Quality of Land: Highest		Medium		Lowest	
	Estimated Value 1967	Change Since 1959	Estimated Value 1967	Change Since 1959	Estimated Value 1967	Change Since 1959
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Southeast	354	24.2	259	31.5	182	44.4
Southwest	371	17.8	279	11.5	205	17.1
West Central	219	21.7	165	23.1	118	32.5
East Central	160	28.0	121	42.3	77	75.0
Northwest	162	16.5	104	-1.0	53	-13.1
Northeast	71	11.1	41	-2.4	25	31.6
Minnesota	250	18.5	188	19.7	129	25.2

A comparison of table 2 with table 3 shows that value increases in lands of medium to low quality have been primarily responsible for the sharply different trends in the more urbanized and districts of the state. Table 3 shows value increases in the more urbanized Southeast and East Central Districts from 1959 to 1967. These increases are approximately twice as great as the increases in the predominantly agricultural Southwest and West Central districts.

In addition to urbanizing influences, the East Central and Southeast Districts have been affected greatly by recent agricultural changes, including irrigation, reduction in the number of dairy farms and expansion in herd size, and farm consolidation.

Table 3: Estimated farm land values and percentage increases, by districts, Minnesota, 1959-67.

District	Estimated Value 1959	Estimated Value 1967	Percentage Increase 1959-67 a/
	---- Dollars ---		Percent
Most Urbanized			
Southeast	191	262	37.2
East Central	89	128	43.8
Least Urbanized			
Southwest	255	303	18.8
West Central	134	163	21.6
Northwest	103	108	4.8
Northeast	58	62	6.9
Minnesota	157	194	23.6

a/ The percentage increase, 1959 to 1967, in the average value of all land in a given district may fall above or below the range of percentage increases for the three grades of land, reported separately. For example, the average increase for all land in the Southwest District was 18.8 percent, which is greater than the percentage increases shown for any of the three grades of land separately reported in table 2. For the West Central District, the increase was 21.6 percent, which is below any of the percentages shown for the West Central District in table 2 for high, medium, or low quality lands. These differences result from differential rates of change in the estimated values for lands of different quality, over time, and from the fact that the distribution of the land area among the three grades does not remain constant.

Land value changes in the Southwest have been roughly similar throughout the range of land quality. In the Northwest district, recent trends have been quite different from those in the remainder of the state. High quality land increased 16.5 percent since 1959 while low quality land fell 13.1 percent. These trends are not surprising in view of the composition of the district. The high quality lands are concentrated in the Red River Valley, while the low quality lands are found to the east of the Valley. There have been few urbanizing or industrializing influences in this area to generate alternative demands for low quality farm land.

Activity in the Land Market

Activity in the land market has increased substantially in the past 2 years with voluntary sales in 1967 occurring at a rate of 37.5 per 1,000 farms. As table 4 shows, this is more that 50 percent increase in transfer by voluntary sale from the low of 24.1 sales per 1,000 farms in 1963. Sales resulting from mortgage foreclosures or nonpayment of taxes were at the low level of 1.4 per 1,000 farms in 1967. With the exception of 1954, this is the lowest level reported for transfers occasioned by foreclosure or tax delinquency since this series was started in 1926. Total transfers of farms, at 53.1 per 1,000 are at approximately the same level reached in 1957-59. With the exception of 1959, voluntary sales in 1967 took place at the highest rate reported since 1947.

Table 4: Estimated number of farm title transfers per thousand farms, by methods of transfer, year ending March 15, Minnesota, 1953-1967.

Year	Voluntary sales	Forced sales (foreclosures tax sales, etc.)	Inheritance, gifts, and all other transfers	Total All Classes
1953	28.4	1.6	9.2	39.2
1954	27.1	1.2	11.5	39.8
1955	32.5	3.0	9.8	45.3
1956	31.1	6.4	12.9	50.4
1957	34.0	2.8	15.6	52.4
1958	35.6	3.5	14.7	53.8
1959	39.7	2.6	11.4	53.7
1960	34.5	2.7	9.9	47.1
1961	29.0	2.6	7.7	39.3
1962	29.3	1.9	10.4	41.6
1963	24.1	1.9	10.1	36.1
1964	30.6	3.2	12.4	46.2
1965	29.7	2.8	10.6	43.1
1966	35.5	2.1	14.9	52.5
1967	37.5	1.4	14.2	53.1

Source: "Farm Real Estate Market Developments" CD-68 Economic Research Service, USDA July 1966, p. 29, plus supplemental data for 1967.

Section II: Analysis of Reported Sales

The first section of this report discussed levels of estimated land values in the districts of Minnesota. It also showed trends over recent years. This second section of the report contains an analysis of actual sales, as reported by respondents to the survey. This analysis will concern reasons for sale of the properties, the type and quality of property transferred, prices paid, categories of buyers, and the methods used to finance purchases.

Data for this section are taken from reports of 1,797 sales of farm land occurring in Minnesota between January 1 and June 30, 1967. As in previous years, these sales were predominantly in the southern half of the state. The regional distribution of reported sales is indicated in table 5.

Table 5: Number of reported sales, acreage of land sold, and acres per sale, by district, Minnesota, January-June 1967.

District	Number of Sales	Number of Acres Sold	Acres Per Sale
Southeast	458	71,922	157
Southwest	570	98,586	173
West Central	280	58,385	209
East Central	271	43,226	160
Northwest	160	40,791	255
Northeast	52	10,692	206
Minnesota	1,791	323,602	181

The Southeast and Southwest Districts, in which the price of farm land is high in comparison to the remainder of the state, account for 1,028 of the 1,791 sales and 170,508 of the 323,602 acres involved in reported sales. This means that the statewide average of all reported sales prices is not truly representative of the state as a whole, in any given year. But it is true that the unrepresentative nature of reported sales prices (their bias) is roughly the same from year to year. This permits us to make meaningful comparisons of trends.

As noted in Section I of this report, estimated farm land values increased 6 percent or $11 per acre in 1967. The same trend holds true for the reported sales price per acre (table 6). Sales prices for the state increased by 6 percent or $12 per acre between the first 6 months of 1966 and the same time period in 1967.

Table 6: Average reported sales price per acre for farm land, by district, Minnesota, 1961-67.

District	1961	1962	1963	1964	1965	1966	1967
	Dollars						
Southeast	189	196	214	213	213	253	272
Southwest	226	229	222	234	233	260	306
West Central	130	140	136	150	133	164	179
East Central	89	76	86	86	96	113	93
Northwest	92	74	109	104	106	103	117
Northeast	38	30	48	52	40	31	51
Minnesota	165	161	168	178	178	203	215

The Southwest District had an increase of $46 per acre or 18 percent in 1967. This followed an increase of $27 per acre or 12 percent in 1966. The Southeast District had an increase of 8 percent or $19 per acre in 1967, following an increase of 19 percent or $40 per acre in 1966. In these two Southern districts the price of land increased rapidly in 1966 and 1967 while from 1963 to 1965 the price per acre of reported sales remained nearly constant. Higher farm incomes in 1965-66, the pressures of urbanization, and the need to expand farm size have played prominent roles in the price increases in these two districts.

In the West Central Districts actual sales prices increased by 9 percent or $15 per acre. The East Central District was the only district in the state where actual sales prices declined in 1967, a decline of 18 percent or $20 per acre.

This is in contrast to the 5 percent increase in estimated land values reported for this district in Section I, table 1 above. This discrepancy is explained by the fact that actual sales in the East Central District in 1967 included a disproportionately large number of sales of poorer quality and lower-priced land.

A comparison will make this clear. In 1967 the average value of tracts sold in Anoka, Chisago, Isanti, and Sherburne Counties was $168 per acre. The average sale value of the land sold in the balance of the East Central District was only $81 per acre. In 1966, 21 percent of the district's reported sales were in the above four counties. In 1967, only 14 percent were in the same four counties, where prices were over twice as high as those prevailing in the rest of the district. Sales activity in 1967 had shifted away from the higher-priced lands.

In the Northwest District, prices of land in reported sales increased by 14 percent or $14 per acre, the largest increase

since 1963. In 1967 the Northeast District's price per acre of land sold increased by 65 percent or $20 per acre. As table 6 shows, prices received in actual sales in this district have fluctuated widely from year to year. The small number of sales, the great range in land quality, and the influence of recreational and residential demands make it almost impossible to derive meaningful trends from reported sales prices in this northeastern area of the state.

There is a strong temptation to regard prices received in actual farm land sales as the best evidence of trends in farm land values. An analysis of actual sales does yield valuable insight into trends in the land market, as this section of the report will show. But the danger involved in an exclusive reliance on sales prices can be illustrated by a comparison of estimated values, reported in table 1 above, and actual sales prices. The comparison is shown in table 7.

Table 7: Comparison of actual sales prices and reporter's estimates of average values per acre, by district, Minnesota, 1965-67.

	1965		1966		1967	
District	Sales	Estimates	Sales	Estimates	Sales	Estimates
	Dollars					
Southeast	213	219	253	242	272	262
Southwest	233	261	260	277	306	303
West Central	133	146	164	153	179	163
East Central	96	112	113	122	93	128
Northwest	106	113	103	112	117	108
Northeast	40	51	31	58	51	62
Minnesota	178	171	203	183	215	194

For the state as a whole, the prices received in actual sales averaged $21 higher than the statewide estimate of average value ($215 as against $194). Yet in not one of the six districts did sales prices exceed estimated values by more than $16 per acre. How is this possible? The answer lies in the fact that 58 percent of the reported sales were in the Southeast and Southwest Districts, where land values are the highest in the state. These two districts have only 45 percent of the state's farm land. Sales price data are thus disproportionately affected by what happens in these two southern districts. This bias is reduced when computing the estimated values for the state as a whole, since in the estimates each county, and each district, is given a weight that is determined by the number of acres of farm land in the area. In the reported sales prices, this weight is dependent on the number of acres actually sold. And as we have seen, sales activity is not evenly distributed over all types and values of land.

Reason for Sale

In 1967, as in previous years, retirement was the most frequently stated reason for the sale of farm land. accounting for 36.3 percent of the sales (table 8). Death and leaving farms for another job each accounted for about 21 percent of the sales. Motives for transfer are seldom as simple as this classification of reasons implies. It is probable that an element of semi-retirement is involved in some of these sales associated with decisions to leave farming for another job. The real reasons often involve age, health, or financial difficulties..

Shifts from one farm to another accounted for 8.9 percent of all sales in 1967, while sales by investor owners totaled 5.3 percent. Ill health was given as the stated reason in only 1.4 percent of the cases----a figure that almost surely understates the significance of this motive for sale of farm land. Financial difficulties were the principal reasons in 1.8 percent of the sales, also a probable understatement.

Table 8: Classification of farm land sales by reason for sale, by district, Minnesota 1967, and price received per acre by reason for sale Minnesota, 1967.

	Reason for Sale							
District	Death	Retirement	Left Farm for Another Job	Moved, Still Farming	Ill Health	Financial Problems	Investor Selling	Other
	Percent							
Southeast	16.5	39.1	20.9	10.7	1.4	2.3	6.3	2.8
Southwest	28.4	36.4	14.3	9.2	2.2	1.3	4.0	4.2
West Central	24.0	33.3	18.2	7.7	.7	1.8	6.6	7.7
East Central	11.4	31.2	32.3	8.7	---	1.5	4.9	10.0
Northwest	17.6	42.6	22.3	6.1	2.0	2.7	3.4	3.4
Northeast	5.9	35.2	49.0	5.9	2.0	---	2.0	---
Minnesota 1967	20.5	36.3	21.1	8.9	1.4	1.8	5.3	5.0
Minnesota 1966	22.0	40.0	27.0	10.0	NA	NA	NA	1.0
	Dollars							
Price Received Per Acre, Minnesota 1967	220	230	181	222	250	163	217	187

It has often been observed that in the best farming areas farm transfers are usually precipitated by death or old age and retirement. This is confirmed by the data for the Southwest District, where land values are the highest in the state. Death and retirement accounted for 65 percent of all sales.

The pull of a nonfarming job was weak in the best farming areas. Decisions to quit farming accounted for 14 percent of all sales in the Southwest, one-third of all sales in the East Central District, and half of all sales in the Northeast. It is also noteworthy that in the East Central and Northeast Districts

very few sales were occasioned by the death of the owner. This suggests that land owners in these districts are less committed to farming, find farming a greater burden as old age approaches, and typically shift out of agriculture while they can still find employment in alternative jobs.

The sales prices received were surprisingly similar in those sales occasioned by death, retirement, shift to another farm, or a decision by an investor-owner to sell out. In contrast, those who quit farming for another job received significantly lower prices for their land. There are several possible explanations of this lower average price. Farmers leaving to take other jobs may have been in possession of significantly poorer land. Alternatively, the decision to quit farming may have been paramount in their thinking. These farmers may have displayed this in a tendency to "sell out at any price", thus leaving them in a weak bargaining position when negotiating a sales price.

Sale of Land With and Without Buildings

There has been a significant increase in the past 5 years in sales of unimproved land (i. e. without buildings) as a proportion of total sales. For the 3 years 1961-63, unimproved tracts averaged 11 percent of all sales; in 1966 this percentage climbed to 18, and to 20 percent in 1967 (table 9).

Table 9: Unimproved tracts as a percent of all sales, by district, Minnesota 1961-63, 1966, 1967.

District	Unimproved Tracts As a Percent of All Sales		
	Average 1961-63	1966	1967
	Percent		
Southeast	6	16	15
Southwest	12	18	19
West Central	11	18	24
East Central	5	18	19
Northwest	20	36	37
Northeast	30	23	12
Minnesota	11	18	20

The increase has been particularly marked in the Southeast and East Central Districts where dairy farming has long prevailed. Fewer complete farm units are being sold in these areas, as are more tracts without buildings---presumably for farm expansion. This has long been a feature of the land market in the Northwest District, where 37 percent of all sales in 1967 involved land without buildings. This trend is also

marked in the West Central District, a clear indication of the demand for land for farm expansion.

The opposite trend prevails in the Northeast District. Five years ago, unimproved tracts accounted for 30 percent of sales in this district. In 1967 this had fallen to 12 percent, emphasizing the fact that much of the rural land in the Northeast District is being purchased for residential use rather than farming.

There are sharp differences in the relative prices of land with and without buildings in the various areas of the state. In the Southwest District land without buildings in 1967 sold for 95 percent of the price received for land with buildings (table 10).

Table 10: Average sales price per acre of improved and unimproved farm land, by district, Minnesota 1963-67.

District	Improved Land					Unimproved Land				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
	Dollars per acre									
Southeast	216	214	219	253	277	198	210	199	255	230
Southwest	228	238	234	264	309	176	211	228	232	293
West Central	138	155	137	167	186	109	122	114	151	148
East Central	88	89	109	119	99	68	48	49	72	56
Northwest	100	96	91	97	115	128	133	144	115	125
Northeast	52	46	40	51	54	20	NA	37	12	21
Minnesota	172	181	183	211	222	144	160	165	158	177

In the Northwest, unimproved land has consistently sold for higher prices than land with buildings. This relationship is in sharp contrast to the situation in the East Central and Northeast Districts, where land without buildings was heavily discounted in 1967 (table 11).

Table 11: Average sales price of unimproved farm land as a percent of improved farm land, by district, Minnesota 1963-67.

District	1963	1964	1965	1966	1967
	Percent				
Southeast	91	98	91	101	83
Southwest	77	89	97	88	95
West Central	79	79	83	90	80
East Central	55	55	56	60	57
Northwest	128	140	157	119	109
Northeast	38	NA	92	23	39
Minnesota	81	88	89	75	80

These contrasts point up a major feature of the current Minnesota farm land market. Buildings add very little to the price of land in the Southwest District and only slightly more in the Southeast. Buildings are a negative influence on land values in the Northwest. On the other hand, they are a major component of rural land values in the recreational and urbanizing areas of the East Central District, and especially in the Northeast.

These sharply different contributions of buildings and other improvements to total farm real estate values create serious problems for tax assessors, appraisers, and credit agencies.

If farm expansion demand dominates the land market, buildings are often undervalued. Where residential or recreational demand is strong, buildings may well be overvalued. Given this situation, it is easy to understand why it may sometimes be necessary to take facts other than "market price" into consideration in determining equitable values for tax assessment, eminent domain proceedings, or appraisals to settle estates.

Type of Buyer

Farm expansion buyers purchased 57 percent of the real estate tracts sold in 1967 (table 12). This is a new high, and the third consecutive year in which expansion buyers have accounted for over 50 percent of all farm purchases. Over the same 3 years, about 30 percent of the purchases were by operating farmers who intend to operate the farms as units, and are not adding to existing farms. Investor buyers purchased a smaller percent of the farms in 1967 than in recent years, and particularly in the Southeast and East Central Districts. Farm land that was purchased for nonfarm purposes is not included in this analysis of types of buyers. In total, nonfarm uses accounted for only 2.5 percent of the land purchased in 1967.

Table 12: Percent of tracts purchased by type of buyer, by districts, Minnesota 1965-67.

District	Operating Farmer Buyer (Sole Tract)			Farm Expansion Buyer (Operator or Investor)			Investor Buyer (Sole Tract)		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
	Percent								
Southeast	31	30	35	49	45	52	21	25	13
Southwest	22	27	26	68	64	63	10	8	11
West Central	28	26	26	57	62	65	15	13	9
East Central	45	39	45	26	31	40	30	30	15
Northwest	23	22	20	72	67	71	6	11	9
Northeast	42	39	64	39	27	33	19	34	3
Minnesota	29	29	32	55	54	57	16	17	11

There has been a gradual upward trend in the proportion of all farm sales made to expansion buyers in the Southeast and East and West Central Districts. If we consider the western half of the state as a whole, two-thirds of all sales in 1967 were to buyers who were adding the land to existing farms. Although the proportion is not as high in the East Central District, the upward trend in expansion buying in this district over the past 3 years is noteworthy.

In some recent years, investor buyers have been prominent in the East Central and Southeast Districts----the two areas of the state that are most influenced by the Twin Cities, Rochester, and adjacent urban-industrial centers. In 1967 there was a sharp reduction in investor buyer activity in these two districts. Statewide, investor-buyers accounted for only 11 percent of all sales. With the exception of 1962 (10 percent), this is the lowest level of investor-buyer activity reported since this series was begun in 1954.

On the average in 1967, operating farmers paid $200 an acre, investor buyers $214 per acre, and expansion buyers paid the highest price of $228 per acre (table 13). Expansion buyers are often in a favorable position to bid up the price for available land. They can spread their fixed costs in labor and depreciation on machinery over more acres and lower their costs of production per acre. They can also use their existing land as a credit base in arranging the financing of additional land. But they are not always the highest bidders. In the Southeast and West Central Districts the investor-buyers paid the highest price per acre, while in the Northeast District operating farmers paid the highest price per acre. This is the same district in which the largest premium was paid for land with buildings, and in which the smallest proportion of all sales

was to expansion buyers (see table 12). Although not shown in table 13, the 2.5 percent of the farm land in the state that was purchased for nonfarm purposes sold for an average price of $155 per acre.

Table 13: Average sales price per acre paid by type of buyer, by district, Minnesota 1965-67.

District	Operating Farmer			Expansion Buyer			Investor Buyer		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
	Dollars								
Southeast	216	236	247	211	241	284	214	299	293
Southwest	211	252	301	236	267	314	264	242	284
West Central	144	161	188	142	168	170	104	161	205
East Central	108	109	93	77	115	99	125	119	84
Northwest	91	94	100	121	110	133	71	80	86
Northeast	48	24	59	25	42	39	56	48	25
Minnesota	171	187	200	191	211	228	177	212	214

The Demand for Farm Buildings

Buildings are important to a buyer who intends to operate the farm as a unit. Over 81 percent of the operating farmer buyers bought land with buildings rated average or better than average in quality (table 14). And they paid a substantial premium for good buildings. Statewide, the operating farmers whose purchases included a good set of buildings paid 51 percent more per acre than did those who bought land without buildings or with poor buildings ($232 as against $154 per acre).

Table 14: Price per acre and percent of purchases by type of buyer for land with various building qualities, Minnesota 1967.

Type of Buyer	Building Quality							
	Good		Average		Poor		None	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Operating Farmer	232	38	189	43	154	16	153	3
Expansion Buyer	303	16	233	27	209	27	194	30
Investor	295	18	251	31	180	31	123	20
All	263	23	215	33	194	24	177	20

Whether the land included poor buildings, or no buildings at all, made little difference in the price that operating farmers or expansion buyers would pay. Since these two classes of buyers accounted for 89 percent of all purchases in 1967, it is clear that a poor set of buildings adds little or nothing to the value of farm land in today's market. The reasons are obvious. The operating farmer wants average or

above-average buildings and discounts poor buildings heavily. The expansion buyer is usually not interested in buildings of any kind, and especially not in poor buildings.

A substantial premium was paid by all classes of buyers for land with good buildings. If we take land with poor buildings as a base for each class of buyer, then expansion buyers paid 45 percent more per acre for land with good buildings, operating farmers 51 percent more, and investor buyers 64 percent more.

We must be careful in interpreting these statistics. Good buildings may reflect superior productive capacity of the land; poor buildings may indicate poor land. But by classifying the sales by type of buyer, we can gain some confidence from the probability that building quality in relation to land quality is randomly distributed over the sales made to any one class of buyer. And this confidence is reinforced by the fact that the concept of "poor", "average", or "good" building quality was interpreted by each respondent in terms of locally relevant standards.

This means that the "good" buildings in one part of the state may rate no better than "average" in another area. As a consequence, it is hazardous to compare the absolute dollar prices paid for land with a given quality of buildings, from area to area. But we can compare the percentage premium paid for good buildings as against average or poor buildings in a given area or for a class of buyers.

We have seen that land without buildings may sell for more than land with buildings in some areas (e.g. the Northwest District). And we have also seen that 57 percent of the expansion buyers bought land with no buildings (30 percent) or poor buildings (27 percent). Still our comparisons suggest that land with a good set of buildings will command a premium price from the right buyer.

The general lesson for sellers seems clear: If you have average or above average buildings, look for a buyer who intends to operate the farm as a unit. If you have below average or no buildings on your land, your market prospects may be largely confined to farm expansion buyers.

Spatial Extent of the Land Market

Taking the entire number of 1,797 reported sales as a group, over 53 percent of the buyers lived within 5 miles of the tract they purchased in 1967 (table 15). Over 28 percent of all buyers lived within 2 miles of the land they bought. This emphasizes the predominantly local nature of the farm land market, a characteristic that has grown with the increas-

ing importance of expansion buyers in recent years. *

Table 15: Classification of farm land sales by distance of buyer's residence from tract, by district, Minnesota 1967.

District	Distance of Buyer's Residence From Tract Purchased, In Miles						
	Less Than 2	2-4	5-9	10-49	50-299	300 and over	Median Distance
	Percent						Miles
Southeast	27.0	21.2	16.7	26.5	7.1	1.5	5
Southwest	29.0	31.5	15.9	15.8	6.2	1.6	3
West Central	33.9	28.8	15.2	8.9	11.3	1.9	3
East Central	22.0	16.0	12.9	23.2	16.0	9.9	8
Northwest	35.0	28.0	15.4	9.8	4.9	6.9	3
Northeast	14.9	10.6	6.4	27.6	19.2	21.3	20
Minnesota	28.3	25.1	15.2	18.4	9.0	4.0	4

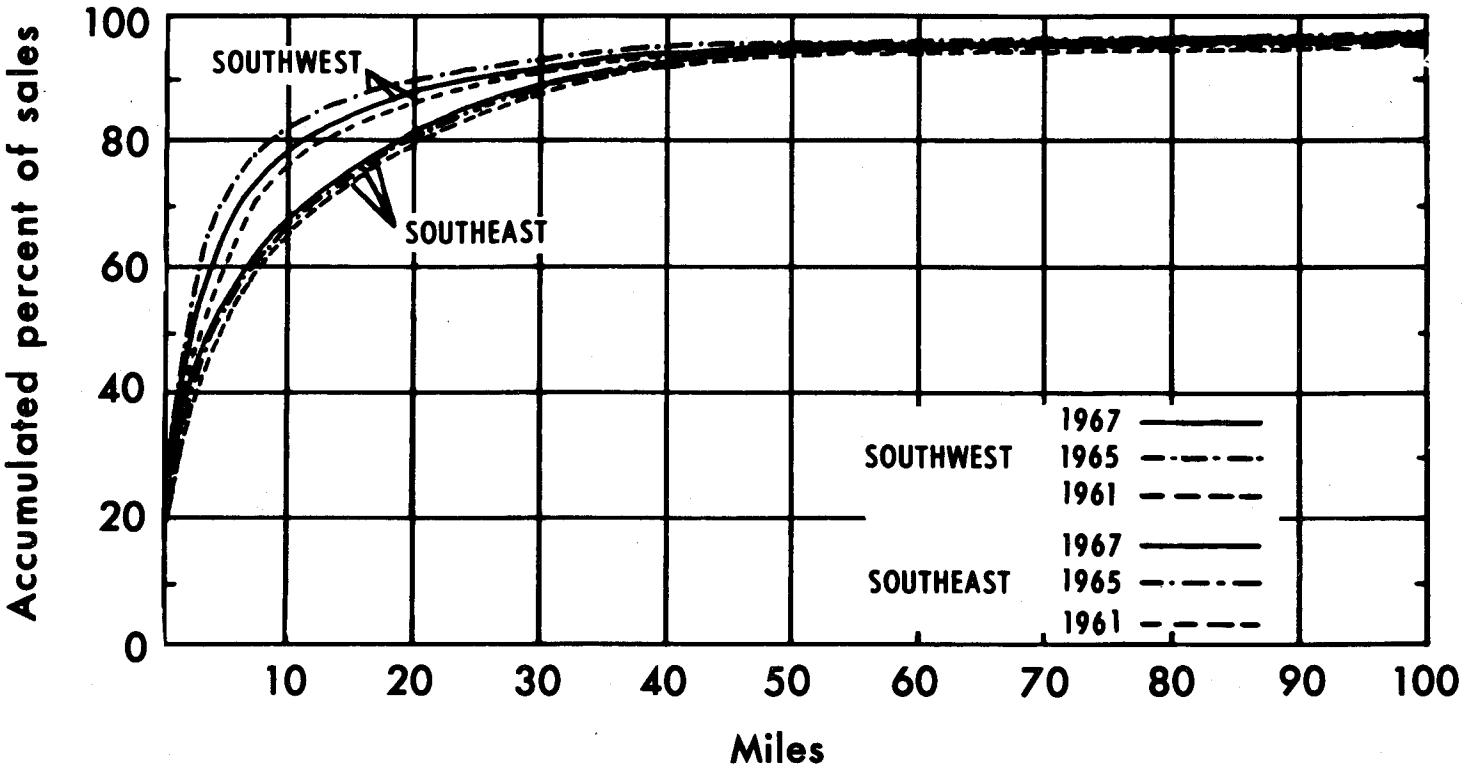
The localized nature of the market is especially pronounced in rural areas having few large towns and limited demands for land for nonfarm purposes. This can be seen more clearly if we regroup the districts to study the western and eastern halves of the state separately, as in table 16.

Table 16: Classification of farm land sales by distance of buyer's residence from tract, by district, Minnesota 1967.

District	Distance of Buyer's Residence From Tract in Miles		
	Under 10	10-49	50 and over
	Percent		
Southwest	76.4	15.8	7.8
West Central	77.9	8.9	13.2
Northwest	78.4	9.8	11.8
Southeast	64.9	26.5	8.6
East Central	50.9	23.2	25.9
Northeast	31.9	27.6	40.5
Minnesota	68.6	18.4	13.0

* John C. English and Philip M. Raup, The Minnesota Farm Real Estate Market in 1965 Report No. 529 March 1966. Department of Agricultural Economics, Institute of Agriculture, University of Minnesota, pp 16-18.

FIGURE 3 -
DISTANCE OF BUYER'S RESIDENCE FROM TRACT PURCHASED — CUMULATIVE FREQUENCY DISTRIBUTION



Over three-fourths of all sales in the three western districts were to buyers living within 10 miles of the land they bought. Only in the East Central and Northeast Districts is there any substantial market for land to buyers from outside the local community.

These data make it clear that, in a geographic sense, there is no statewide market in which land is bought and sold. There are instead hundreds of local markets, in which buyers and sellers may be handicapped by lack of information about relative values, trends in sales prices, or available alternatives. It is often observed that the land market is an imperfect market. The data underline the restricted nature of the market in the areas where farming predominates. Perhaps the most important consequence is the small number of potential buyers for any given tract.

This local nature of the farm land market has been a relatively stable characteristic in recent years. Data from 1961, 1965, and 1967 are shown graphically for the Southeast and Southwest Districts in figure 3. Although there have been small percentage changes since 1961, the impressive feature of the chart is the consistency of the data over time. In the principal agricultural areas, the farm market of the 1960's is distinctly local.

Method of Financing

In the modern history of farm credit in the United States the mortgage has played the major role. Before 1957 it was the most frequently used method of financing farm land purchases in Minnesota. Beginning with 1957 and in each subsequent year the contract for deed or land contract has replaced it as the most favored means of land sales financing. In 1967 half of all reported sales were financed by a land contract, 34 percent by a mortgage, and 16 percent by cash.

Table 17: Classification of sales reported, by method of financing, by district, Minnesota 1965-67.

District	Cash Sales			Mortgage Sales			Contract for Deed Sales		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
	Percent								
Southeast	17	17	14	33	35	28	50	48	58
Southwest	15	14	15	39	44	35	45	43	50
West Central	22	14	15	41	44	35	37	42	50
East Central	21	22	24	30	39	30	49	39	46
Northwest	29	23	16	27	51	47	44	25	37
Northeast	29	37	14	3	19	51	68	44	35
Minnesota	19	17	16	35	41	34	46	42	50

The frequency of cash sales has declined steadily, at a rate of roughly 1 percentage point a year since 1956. Only in the East Central District, where farm land purchases for rural residential and recreational land uses are frequent, has the cash sale remained an important part of the farm land market.

The current popularity of the land contract is greatest in the Southeast District, where dairying is prominent. Although relatively frequent and stable income receipts from dairying help explain the use of the land contract in dairy areas, its use has expanded steadily in all major farming areas except the Northwest District in the past decade.

In all except the East Central and Northwest Districts, land contract buyers paid higher prices than did mortgage or cash buyers (table 18). This differential has been increasing. For the state as a whole it was 11.7 percent in 1964, 5.5 percent in 1965, 6.3 percent in 1966, and 15 percent in 1967. The differential in 1967 was especially pronounced in the Southeast.

Table 18: Average price per acre of reported farm land sales by method of financing, by district, Minnesota 1965-67.

District	Cash Sales			Mortgage Sales			Contract for Deed Sales		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
	Dollars								
Southeast	209	242	262	203	250	228	220	257	294
Southwest	224	230	302	227	254	293	241	270	318
West Central	130	155	170	114	170	167	150	164	187
East Central	74	77	91	112	134	97	112	107	91
Northwest	60	96	97	138	105	129	135	104	116
Northeast	25	18	34	97	63	46	44	49	60
Minnesota	157	160	194	182	207	200	192	220	230

It is easy to understand the increased use of land contracts in view of rising land prices and sharply increasing requirements for farm operating capital. If the purchaser pays cash he can only purchase a tract equal in value to his available equity. If the same buyer uses a mortgage and must pay 40 percent down, he can purchase a tract two and a half times larger in value than the amount of this equity. If he could use a land contract with a 20 percent down payment, he could purchase a farm that is five times larger in value than his equity. Assume that a farmer can mobilize $10,000 to purchase land. He can purchase a $10,000 farm and pay cash, use a mortgage and purchase a farm worth $25,000, or buy a $50,000 farm on a contract for deed.

Two possible uses can be made of the greater financing capacity made possible by a contract for deed. The buyer can acquire more land than would otherwise be possible or buy

better quality land. Buyers who have used contracts for deed have apparently done both. Table 19 shows that they purchased a smaller percentage of poor land and a higher percentage of good land than did buyers who used cash or mortgage financing.

Table 19: Price paid per acre and percent of sales by method of finance used to purchase land of various qualities, Minnesota 1967.

Method of Finance	Land Quality Good		Average		Poor	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Cash	285	35	182	48	96	17
Mortgage	262	41	170	44	129	15
Contract for Deed	287	43	203	47	124	10
All	279	41	190	46	120	13

It has sometimes been argued that the lower down payment made possible by a contract for deed may lead to less cautious bidding and higher land prices than would be justified in a mortgage or cash sale. Although contract for deed buyers did pay more per acre for their land, it is clear from table 19 that a part of this higher price is explained by the fact that these buyers bought better land.

Contract for deed buyers also bought larger tracts. Table 20 reports the average size of tract purchased by method of financing. In all except the Northwest District, the purchases financed by contract for deed were substantially larger that those financed with cash or mortgages.

Table 20: Average size of tract by various financing methods, by districts, Minnesota 1967.

District	Method of Finance: Cash	Mortgage	Contract for Deed
	Acres		
Southeast	127	155	163
Southwest	150	158	189
West Central	194	189	229
East Central	107	149	196
Northwest	342	219	264
Northeast	164	141	316
Minnesota	158	168	196

One reason for the use of contracts for deed to finance sales of larger tracts and better lands is the advantage gained by the seller in spreading any capital gain from the sale over the life of the contract, if the down payment is under 30 percent of purchase price. The reduction in federal tax liability

achieved in this way is frequently of greater value to the seller than any increase in price he might be tempted to seek because of use of the contract for deed and a low down payment. Thus for the larger tracts of higher valued land the advantages of the contract for deed increase for both seller and buyer.

STATISTICAL APPENDIX

Two problems in interpreting the results of this survey arise from the fact that there is no accurate way to compare the quality of the land involved in the sales reported in the several districts of the state, or to make year-to-year comparisons of quality of land sold. 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. A measure of the variability of prices paid in any one district is given by the coefficient of variation. This is the ratio between the standard deviation and the average. If the distribution is normal, the standard deviation measures the range above and below the average within which approximately two-thirds of the observations will lie. For example, if for one land market district the average sales price were $100 per acre and the standard deviation $40, approximately two out of three sales reported were between $60 and $140 per acre. Thus for this district the coefficient of variation would be: $\frac{\$40}{\$100} \times 100 = 40.$ If the average were $120 and the standard deviation $40 the coefficient of variation would be $\frac{\$40}{\$120} \times 100 = 33.3.$

The Southeast District with a coefficient of variation of 42.3 shows greater variability in prices paid than does the Southwest District, with a coefficient of variation of 34.7 in 1967. These values are given for each district for the past 10 years in table 21.

Table 21: Average price per acre of reported farm sales, standard deviation and coefficient of variation, by district, Minnesota, 1958-1967.*

	Year	South-east	South-west	West Central	East Central	North-west	North-east	Minne-sota
Average Price per Acre (dollars)	1958	168.0	234.2	115.4	77.5	38.7	51.7	155.3
	1959	210.1	243.1	128.8	72.6	85.1	61.2	173.2
	1960	189.1	240.4	136.4	69.3	100.8	49.5	160.9
	1961	189.1	255.8	130.3	89.0	92.0	37.9	165.2
	1962	195.7	228.5	140.5	76.3	73.9	30.3	161.1
	1963	214.1	221.9	136.2	86.2	108.8	47.6	168.1
	1964	213.3	234.3	150.3	86.3	103.6	51.6	178.1
	1965	202.0	232.7	133.2	95.8	106.2	39.7	178.0
	1966	253.4	260.4	164.3	113.0	103.4	30.6	203.4
	1967	272.4	306.1	178.6	92.9	116.6	51.2	214.8
Standard Deviations (dollars)	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
	1964	91.6	77.3	70.1	52.4	89.9	39.0	97.2
	1965	96.3	87.0	82.1	63.5	91.1	31.7	98.1
	1966	142.7	95.3	56.7	66.5	65.7	32.2	119.4
	1967	115.3	106.2	62.8	67.6	85.4	29.8	127.6
Coefficients of Variation (percent)	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	40.7	63.8	54.8	52.7
	1964	42.9	33.0	46.6	60.8	86.7	75.5	54.6
	1965	47.6	37.4	61.6	66.2	85.8	79.8	55.1
	1966	56.4	36.7	32.6	58.9	63.8	105.4	58.7
	1967	42.3	34.7	35.2	72.8	73.2	58.2	59.4

* Each acre is treated as a unit in calculating standard deviations and coefficients of variation.

Table 22: Average estimated price per acre of farm real estate in Minnesota by districts, 1910-11 through 1944-45, by 2-year periods, and annually, 1946 through 1967.

Years	South-east	South-west	West Central	East Central	North-west	North-east	Minne-sota
1910-11	58	54	39	24	24	11	41
1912-13	69	69	46	29	29	13	49
1914-15	82	84	56	34	32	14	58
1916-17	92	100	67	41	37	15	68
1918-19	117	118	78	50	40	18	82
1920-21	141	152	98	68	57	24	104
1922-23	114	119	82	56	44	23	85
1924-25	104	110	74	49	44	22	78
1926-27	106	109	72	49	36	22	76
1928-29	100	102	67	44	33	21	71
1930-31	88	88	51	36	22	18	60
1932-33	64	65	42	27	20	14	45
1934-35	52	58	38	26	22	15	40
1936-37	59	64	38	29	22	24	44
1938-39	60	68	37	28	22	25	45
1940-41	59	68	36	26	22	24	43
1942-43	65	76	40	29	24	25	48
1944-45	78	90	48	35	29	28	56
1946	88	104	56	39	33	32	65
1947	96	116	62	43	37	35	72
1948	104	129	69	47	41	38	79
1949	107	136	73	49	44	39	83
1950	109	141	76	50	46	40	85
1951	125	166	89	59	54	46	99
1952	131	175	96	65	68	42	107
1953	130	175	95	62	64	40	105
1954	139	187	99	66	72	40	113
1955	150	205	103	68	73	45	121
1956	156	214	107	70	76	42	126
1957	165	230	122	77	86	49	138
1958	179	242	123	84	90	65	147
1959	191	255	134	89	103	58	157
1960	188	248	133	94	99	64	155
1961	189	247	133	95	100	64	156
1962	192	250	138	99	104	69	159
1963	194	246	142	103	114	68	161
1964	206	252	145	111	115	59	166
1965	219	261	146	112	113	51	171
1966	242	277	153	122	112	58	183
1967	262	303	163	128	108	62	194

Table 23: Number of acres of farmland sold as reported by respondents to this survey, by district, Minnesota, 1957-1967.*

		South-east	South-west	West Central	East Central	North-west	North-east	Minne-sota
Number of Acres Sold (acres)	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
	1964	66,400	73,114	45,624	32,579	21,045	4,857	243,619
	1965	46,881	73,265	40,669	19,915	11,912	6,365	199,007
	1966	75,423	113,018	70,633	30,222	26,062	12,140	327,498
	1967	71,922	98,586	58,385	43,226	40,791	10,692	323,602

* The variation in acreages reported sold from year to year is due to changes in coverage of this survey and is not necessarily due to changes in real estate market activity. These data do not report total farm land sales in the state since (a) they cover the first six months of each year only, and (b) they report only sales known explicitly to respondents to this survey.