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The Minnesota Rural Real Estate Market In 1974

The 1974 rural real estate market was the most active one ever recorded in Minnesota, and this was especially so in the strictly agricultural areas of the state. In this issue of Minnesota Agricultural Economist, **findings of a 1974 statewide survey are reported. The data show price and other marketing trends of Minnesota's rural real estate.**

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By Rodney Christianson and Philip M. Raup

Introduction

DATA FOR the 1974 annual survey of the Minnesota rural real estate market were collected by mail questionnaires sent to 1,675 people in July and August.[1] Potential respondents included real estate brokers, agricultural loan specialists, bankers, county extension agents, and others knowledgeable about Minnesota's rural land values.

Two types of data were collected. First, respondents were asked to estimate the average value per acre of farmland in their areas. Second, information was requested on actual farm sales during the first 6 months of 1974. This included sales price per acre, types of buyers and sellers,

[1]This article is a summary of a larger report published in January 1975, Economic Report Series, Department of Agricultural and Applied Economics, ER 75-1.

Table 1: Estimated average value per acre of farmland by district, Minnesota, 1964-1974*

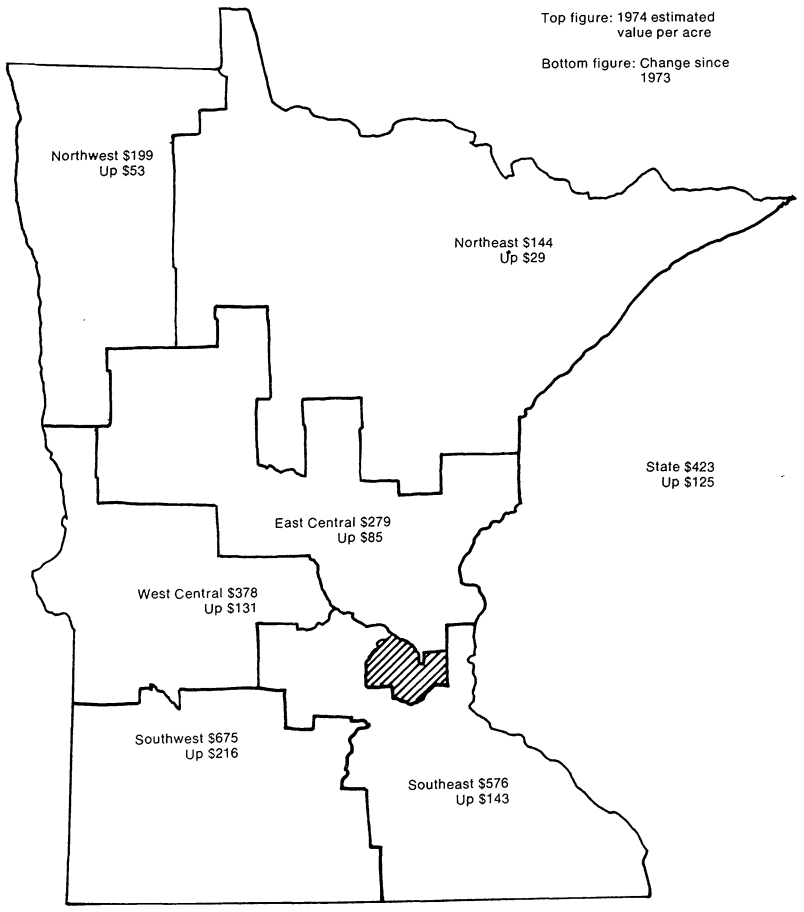
Years	South-east	South-west	West central	East central	North-west	North-east	Minn.
			—dollars per acre—				
1964	206	252	145	111	115	59	166
1965	219	261	146	112	113	51	171
1966	242	277	153	122	112	58	183
1967	262	303	163	128	108	62	194
1968	286	333	181	134	122	57	211
1969	308	350	196	146	120	54	223
1970	317	347	198	161	120	62	227
1971	333	351	204	155	119	63	232
1972	370	379	208	163	117	76	248
1973	433	459	247	194	146	115	298
1974	576	675	378	279	199	144	423

*Based on respondents' estimates of average value per acre of farm land in their areas.

Figure 1. Estimated average rural land values from reporters' estimates 1974

Top figure: 1974 estimated value per acre

Bottom figure: Change since 1973



*Hennepin and Ramsey Counties excluded.

methods of financing, and quality of land and buildings. Sales between close relatives were excluded.

This report of the 1974 study is divided into 3 parts. The first part discusses the Minnesota farm land market in 1974. The second part deals with the Red River Valley, a particularly active land market during the past 2 years. Part three deflates farmland values by several price indexes, providing a better perspective of the upward trend in land prices over the past 20 years.

Part I: 1974 farmland market

Unlike previous years, the most active part of the 1974 market was, by far, in strictly agricultural areas —particularly in the grain-growing regions in southern and western Minnesota and in the Red River Valley. Estimated 1974 average value of Minnesota farmland was $423 per acre (table 1). This is an increase of $125 per acre (42 percent over 1973). It represents, by far, the largest annual percentage increase in farmland values in this century. Even more significant, this 42 percent increase comes on top of a 20 percent increase in 1972-73 and a 7 percent increase in 1971-72—resulting in a 70 percent increase in estimated farmland values over the past 3 years. As shown in tables 1 and 2 and in figure 1, all 6 districts had substantial increases in estimated value over 1973. The percentage increases ranged from 25 percent in the least agricultural district, the Northeast, to 47 percent and 53 percent respectively in the Southwest and West Central, where agriculture dominates land use.

While the percentage increase in estimated land value in the Northeast was the lowest of all districts for 1973-74, it was significantly higher than all other districts in 3 of the 4 previous years. This was due to the erratic demand for nonfarm rural land for recreational and residential uses. Of the 5 remaining agricultural districts, the Southeast is most urban-oriented — influenced by the Twin Cities and Rochester. The 1971 and 1972 percentage increase in land values in this district was greater than in any of the 4 other more agricultural districts. This trend has been reversed for the past 2 years;

the more agricultural districts showed the largest percentage increases in both 1973 and 1974.

The Southwest District continues to lead the state as the most valuable farmland area; it has an estimated average value of $675 per acre. The Southwest also had the largest dollar increase in farmland value over 1973—$216 (figure 1). This is considerably higher than the second highest dollar increase of $143 in the Southeast. Over the last decade, farmland values have increased the greatest in the Southeast (180 percent), but the Southwest and West Central Districts are narrowing this lead. They had 93 percent increases over the past 5 years compared to the Southeast's 87 percent (table 2). For the state as a whole, farmland values increased 155 percent during the last decade, but over two-thirds of the dollar increase since 1964 occurred in the last 2 years.

Information was received on 1,676 farm sales. The statewide average reported sales price for farmland was $450 per acre (table 3). This represents a 49 percent increase over the 1973 average sales price and is somewhat greater than the 42 percent increase in estimated land values. This difference is due mainly to a disproportionately larger number of sales of high-priced land in 1974 compared to 1973, particularly in the more agricultural grain-producing Southwest, West Central, and Northwest Districts. The discrepancy between percentage increases in estimated values and actual sales price is especially marked in the Northwest—36 percent vs. 71 percent (compare tables 2 and 3). The more urbanized and less grain-producing districts, the Southeast and East Central, did not exhibit this geographic shift in sales distribution. In fact, an opposite shift from high-priced land to lower-priced land was evident in the Southeast.

Table 3 shows that, from July 1973 to July 1974, land prices increased more than 50 percent in each of the more agricultural districts—the Southwest, West Central, and Northwest. However, the more urban-influenced Southeast and East Central Districts continued to lead in sales price increases for the past 10 years (181 percent and 183 percent, respectively).

Table 2: Percentage changes in estimated value per acre, Minnesota, 1964-1974

District	Estimated 1974 value per acre	Percent change from 1964	1969	1973
	—dollars—		—percent—	
Southeast	576	180	87	33
Southwest	675	168	93	47
West Central	378	161	93	53
East Central	279	151	91	44
Northwest	199	73	66	36
Northeast	144	144	167	25
Minnesota	423	155	90	42

Table 3: Percentage changes in sales price per acre, Minnesota, 1964-1974.*

District	Sales price per acre in 1974	Percent change from 1964	1969	1973
	—dollars—		—percent—	
Southeast	598	181	75	30
Southwest	630	169	89	53
West Central	340	127	75	52
East Central	243	183	87	34
Northwest	204	96	69	71
Northeast	144	177	182	19
Minnesota	450	153	89	49

*Based on 1,676 sales reported for the period January 1-July 1, 1974.

Table 4: Average sales price per acre and proportion of sales of improved and unimproved farmland by district, Minnesota, 1974.

District	Improved land		Unimproved land		Unimproved as a percentage of improved
	$	%	$	%	percent
Southeast	599	68	596	32	99
Southwest	630	70	630	30	100
West Central	336	72	352	28	105
East Central	234	73	282	27	121
Northwest	203	57	206	43	101
Northeast	148	85	94	15	64
Minnesota	454	69	438	31	96

Analysis of reported sales

The two most frequent reasons for selling land in Minnesota—retirement and death—accounted for three-fifths of all decisions to sell in 1974. These two reasons were most prominent in the more agricultural districts of the Southwest, West Central, and Northwest. Statewide, only 12 percent of the sellers left farming for another job. This is a significant drop from 1973 and earlier years. Then, exit from agriculture consistently accounted for about one-fifth of all decisions to sell. And once again, this change has been especially marked in the more agricultural districts of the Southwest and Northwest where only 6 percent and 10 percent, respectively, of the sellers left farming for other employment.

Improved land (having buildings) accounted for only 69 percent of all 1974 sales (table 4). This proportion

has been steadily declining during the past 5 years. In the 1960's, improved land consistently made up 80 percent or more of all sales. Among the districts, the proportion varied in 1974 from 57 percent in the Northwest to 85 percent in the Northeast. The contrast in percentages in the 2 northern districts suggests that the major motivation in land purchase in the Northwest has been farm expansion through acquisition of unimproved land. In the Northeast, however, few farmers have increased the size of their holdings. In addition, buildings have little effect on statewide sales price of farmland. Table 4 reveals that unimproved land sold for 96 percent of improved land prices. This is significantly above the trend of the previous decade when unimproved land prices averaged 80 percent of prices paid for improved land. The 96 percent figure would be even higher if the basically nonagricultural Northeast District was excluded. In the other 5 districts, the sales prices of unimproved land equaled or exceeded the prices paid for improved land. This has been typical in agricultural areas dominated by farm expansion buyers. Such buyers place a higher value on land without buildings than do other buyers.

Agricultural buyers can be grouped into three classes: operating farmers who buy complete farm units as owner-operators; farm expansion buyers, who may be operating farmers or investors increasing the size of their holdings; and agricultural investor buyers, nonfarmers who have bought land to be rented out or managed for farming purposes (this land is not being added to land already owned). Over the previous 5 years (1969-73), the relative market shares of each class remained almost constant—averaging approximately 30 percent of farm sales to operating farmers, 52 percent to expansion buyers, and 18 percent to agricultural investors. In 1974, a significant change occurred in the proportion of land sold to these three classes of agricultural buyers. Purchases by operating farmers and agricultural investors declined to 26 and 15 percent, respectively (table 5). Expansion buyers increased their share and now account for almost three-fifths of the farm tracts purchased (59 percent, up 5 percentage points over 1973).

Farm expansion buyers were particularly active in the three major agricultural districts, accounting for 71, 70, and 60 percent of the sales in the Northwest, Southwest, and West Central, respectively (table 5). In the 2 urban-influenced districts, farm expansion purchases were also up substantially over 1973 levels: Southeast (43 to 54 percent); and East Central (27 to 39 percent). However, as they had done in the past, operating farmer buyers still dominated the land market in the East Central District in 1974 (46 percent of all farm land purchases). Operating farmers also dominated the market in the Northeast District. In both the East Central and Northeast Districts, this is associated with part-time and "hobby" farming. Investment buying was down in the Southeast and East Central, but increased substantially in the Northeast, 23 to 38 percent (table 5).

The major factor behind the substantial 1974 increase in farm land prices was the record net farm incomes in 1972 and 1973. With increased farm incomes, many farmers apparently decided to purchase additional land in 1974 to expand the sizes of their holdings. As a result, expansion buyers not only accounted for three-fifths of all 1974 purchases, but paid much higher prices than did other buyers. In past years, the highest prices have typically been paid by investor buyers, followed by expansion buyers, and operating farmers paid the lowest prices. This pattern was altered in 1974 (table 5). For the state as a whole, expansion buyers paid $492 per acre, agricultural investors $418, and operating farmers $404. This average price paid by expansion buyers represents a remarkable 65 percent increase over 1973. For operating farmers, the average sales price increased 42 percent, while investors were only willing to pay 30 percent more than in 1973.

Statewide, good land sold for $588 per acre in 1974 and accounted for 36 percent of sales. Land of average quality was $427 per acre and 46 percent, and land of poor quality was $278 per acre and 18 percent (table 6). Land purchased by differ-

Table 5. Average sales price per acre and percentage of tracts purchased by type of buyers and by district, Minnesota, 1973 and 1974.

	Operating farmer buyer (sale tract)				Farm expansion buyer (operator or investor)				Agricultural investor buyer (sale tract)			
	1973		1974		1973		1974		1973		1974	
	$	%	$	%	$	%	$	%	$	%	$	%
Southeast	453	31	583	26	418	43	607	54	470	25	602	21
Southwest	390	20	544	18	423	68	687	70	383	12	483	12
West Central	226	29	321	29	219	58	377	60	230	12	309	12
East Central	172	52	231	46	177	27	257	39	198	20	208	15
Northwest	104	15	196	19	124	76	204	71	108	9	189	10
Northeast	94	45	160	49	190	32	97	13	92	23	132	38
Minnesota	285	29	404	26	299	54	492	59	321	17	418	15

Table 6. Price per acre and percentage of purchases by type of buyers for land of various quality, Minnesota, 1974.

Type of buyer	Land quality: Good		Average		Poor	
	$	%	$	%	$	%
Operating farmer	531	37	349	52	282	11
Expansion buyer	613	39	489	44	259	17
Agricultural investor	613	24	398	45	321	31
All	588	36	427	46	278	18

ent types of buyers indicates that expansion buyers paid just as much or more than did other buyers for land of good and average quality (a reversal of past years). However, they paid less than the others did for poor land (table 6). Land rated good or average accounted for 89 percent of the purchases by operating farmers and 83 percent of the purchases by expansion buyers. This is to be expected since most agricultural buyers want to upgrade or maintain the quality of their farms. In sharp contrast, only 24 percent of the purchases by agricultural investors were of good quality land, while 31 percent of their purchases consisted of poor land.

Another change in Minnesota farmland price patterns is exhibited in table 7. Before 1974, land having poor buildings consistently sold for more than land without buildings. Statewide, this was reversed in 1974; land without buildings sold at $437 per acre that year while land with poor buildings averaged significantly less—$398 per acre. Coupled with the fact that expansion buyers paid more than did other buyers, regardless of building quality, this illustrates the intense demand for land for farm expansion. While 74 percent of purchases by operating farmers included buildings of good or average quality, 65 percent of purchases by expansion buyers involved land with poor buildings or none at all.

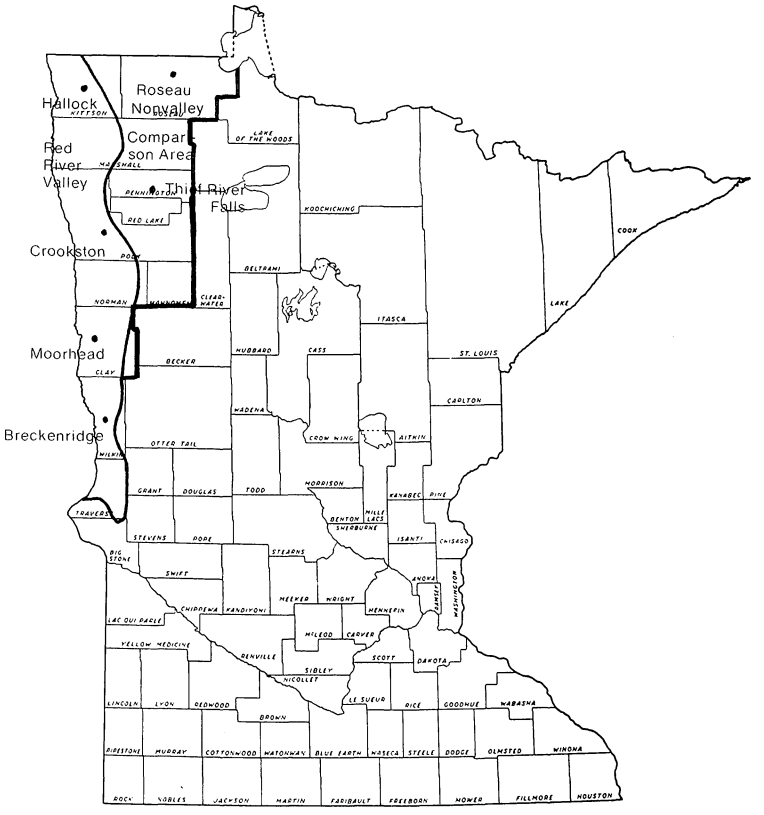
Since the mid-1950's, there has been a gradual decline in cash and mortgage financing of farm land sales, while the use of contracts for deed (or land contracts) has increased. For example from 1964 to 1974, use of contract for deed to finance farm sales increased from 44 to 60 percent. During that time, mortgage sales fell from 36 to 24 percent, and cash sales declined from 20 to 16 percent. Sales financed by contracts for deed in 1974 are at the highest proportion ever reported in this annual survey (60 percent); on the other hand, mortgage sales are at an alltime low (24 percent).

Statewide, the highest price paid per acre was $454 in contract for deed sales. This was followed by $448 per acre in mortgage-financed sales and $424 per acre in cash sales. However in the more agricultural districts—the Southwest, West Central, and Northwest—the price paid in cash sales exceeded that paid in mortgage-financed sales. In fact in the Southwest, the cash sales price substantially exceeded both contract for deed and mortgage sales prices ($674 versus $625 and $609). The same held true, but less significantly, for the Northwest. Cash buyers have apparently been able to outbid other buyers in the grain-producing areas. Also for the 4 years prior to 1974, the highest price for good quality land had always been paid by buyers who financed by contract for deed. But this was changed in 1974 as cash buyers paid a notably higher price for good quality land ($614 per acre) than did buyers using mortgage or land contract financing ($554 and $587, respectively). Buyers who used contracts for deed still paid more for average quality land in 1974 than did cash or mortgage buyers. This had been consistently true in the past.

Table 7. Price per acre and percentage of purchases by type of buyers for land with various quality of buildings, Minnesota, 1974.

Type of buyer	Building quality: Good		Average		Poor		None	
	$	%	$	%	$	%	$	%
Operating farmer	526	30	367	44	299	18	368	8
Expansion buyer	617	12	519	22	442	23	453	42
Agricultural investor	526	16	418	24	378	24	387	37
All	561	18	442	28	398	22	437	32

Figure 2. The Red River Valley and comparison areas



Part II. The farmland market in the Red River Valley

The Northwest District is sharply divided into two parts by soil differences. The Red River Valley, comprising the western part of the Northwest District, has fertile soil and relatively large-scale farming. The non-Valley area, on the eastern side, contrasts sharply in soil fertility, in type of farming, and in prices paid for land (figure 2).

The increased land values characterizing the more agricultural areas

in 1974 was especially evident in the Red River Valley. The average price paid per acre jumped from $201 in 1973 to $359 in 1974—an increase of $158 per acre (79 percent). From July 1972 to July 1974, the price paid per acre for Red River Valley land increased 138 percent—from $151 to $359. Although the number of sales and acreage sold declined in 1974, this decline was due to a shortage of sellers, not buyers. In the non-Valley comparison area, both number of sales and acres reported sold increased over the 1973 figures. The average price paid per acre increased $62 over 1973, going from $90 to $152. While this is a substantial percentage increase (69 percent), it results from a relatively low base-year price ($90 in 1973).

These substantial increases in prices paid per acre in the Northwest District the past 2 years point out an interesting feature of the farmland market in Minnesota's more agricultural districts. From July 1973 to July 1974, the average sales price per acre rose by more than 50 percent in each of the three most agricultural districts (table 3). However, the percentage increase was much greater in the Northwest (71 percent) than in either the Southwest (53 percent) or West Central (52 percent). The big increase in both actual sales prices and estimated land values in the Northwest District the past 2 years contrasts sharply with the trend in 1970-72. Then, both estimated values and actual sales prices had been declining in the Northwest, while they were generally increasing in the other two agricultural districts.

Undoubtably, some of the land price increase in the Northwest District is due to the enormous jump in sugar prices in 1974 and the upward trend in potato prices over the last several years. Although sugar and especially potato prices weakened in the latter months of 1974, they were still strong in the 1st half of the year. Prices also were up considerably for grain and soybeans in 1973 and 1974. However, there have been important shifts in the relative prices of the major grains in the several agricultural districts of the state. The principal grains grown in the Northwest are wheat, barley, and oats, while corn and soybeans are the major grains produced in the Southwest and West Central Districts. A comparison of grain prices shows that, before 1972, wheat and barley prices had generally been declining relative to corn prices. This trend reversed itself in the latter part of 1972, following the large grain purchases by the Soviet Union. Due to the greater desirability of wheat as a food grain, wheat prices would be expected to be at a premium over corn prices. This premium has been definitely trending upward for the past several years. In addition, for more than 1 year before December 1974, barley sold consistently at a premium over corn. Currently, there is a notable relative price difference between these two grains.

These significant and increasing price differentials over the last few years between grains grown in the Northwest and those produced in Minnesota's other two agricultural districts may also account for some of the larger percentage increases in land prices in the Northwest. Of course, these are differences in relative land price increases. The absolute amount of increase in actual sales prices has been greater in both the Southwest and West Central than it has been in the Northwest.

Expansion buyers continued to dominate the land market in the Valley in 1974, as they had in 1973. In 1974, expansion buying accounted for 87 percent of all farm purchases (table 8). But the interesting change lies in the columns presenting prices paid per acre in table 8. In 1973, agricultural investors paid the highest price, followed by expansion buyers, and then operating farmers. This order was completely changed in 1974, with expansion buyers leading all others in average price paid, while operating farmers also outbid investors. In the non-Valley area, operating farmers paid the most per acre, and they accounted for almost one-fourth of all purchases.

Good and average quality land continued to make up the bulk of sales in both the Valley and non-Valley areas, accounting for 88 and 80 percent of sales, respectively (table 9). These quality categories are relative terms used to compare land qualities within an area and not between areas, as seen in table 9. There it is shown that poor quality land in the Red River Valley sold for more per acre than good quality land in the non-Valley area ($223 versus $214). Again, the intense demand for farm land in 1974 is revealed by the fact that poor quality Valley land almost tripled in sales price over 1973 ($81 to $223 per acre), while average quality land in the Valley doubled ($162 to $321 per acre). Sales prices were also up significantly for all grades of land sold in the non-Valley area in 1974.

Table 8. Percent of sales and price per acre by type of buyer, Red River Valley and Non-Valley areas, Northwest District, Minnesota, 1973-74

Type of buyer	Red River Valley				Non-Valley Area			
	1973		1974		1973		1974	
	%	$	%	$	%	$	%	$
Operating farmer	5	154	7	285	21	100	23	188
Expansion buyer	90	202	87	373	65	89	66	142
Investor (agricultural)	5	219	7	272	14	90	10	151

Table 9. Sales prices per acre and percentage of sales by quality of land, Red River Valley and Non-Valley Area, Northwest District, Minnesota, 1973-74

Land quality	Red River Valley				Non-Valley Area			
	1973		1974		1973		1974	
	%	$	%	$	%	$	%	$
Good	54	242	48	424	28	160	27	214
Average	33	162	40	321	47	91	53	173
Poor	13	81	12	223	25	66	20	88

Part III: Deflated farmland values

Over the past 20 years, Minnesota farmland values have risen steadily —from an estimated $113 per acre in 1954 to $423 per acre in 1974. Over half ($175) of this increase of $310 per acre occurred in the last 2 years when estimated land values jumped by 20 and 42 percent. Although these increases are extremely significant by almost any measure, a better perspective on the upward trend since 1954 can be obtained by converting the estimated land values to an index and then comparing this index to other price indexes over the past 2 decades.

Using 1967 as the base year, indexes for both estimated land values and actual sales prices were calculated. Both measures of the worth of farmland in Minnesota moved upward rather closely over the last 20 years. The index of actual sales prices fluctuated more from year to year, due probably to the previously noted shifts in land market activity (from a disproportionate number of sales in high-priced areas in 1 year to relatively more sales in low-priced areas in another). To avoid these year-to-year fluctuations in the composition of market activity, only the index of estimated land values was used for comparison with other price indexes.

Many different price indexes are available for comparison with the index of estimated land values. For example, the consumer price index rose from 80.5 in 1954 to 147.7 in 1974, while the index of estimated land values increased from 58 to 218 during the same period (1967 = 100). As this comparison suggests, farmland prices since 1954 have been increasing almost twice as fast as the general price level. Two price indexes that are more directly related to land prices are the consumer price index for food items and the index of prices received by farmers.

The index of prices received by farmers remained relatively stable from 1954 to 1971—rising from 97 to 112. After 1971, prices received by farmers jumped notably, going from 112 to 184 in only 3 years. On the other hand, retail food prices closely followed the general consumer price index. They increased steadily almost every year since 1954—climbing from 82.8 to 123.5 in 1972. After 1972, retail food prices jumped significantly more than in previous years—reaching 161.7 in 1974. Two new price ratios were computed to compare the rise in land values with the increases in prices received by farmers and with retail food prices. In these ratios, the index of estimated land values was divided first by the index of prices received by farmers and second by the consumer price index for food items. Both of the resulting price ratios represent deflated indexes of estimated land values in Minnesota.

Land values deflated by prices received by farmers over the past 20 years are presented in figure 3. Generally, this deflated index of land values closely paralleled the unadjusted index of land values until 1968; both increased from 1954 to 1959, then levelled off for several years, and turned upward again. After 1968, the unadjusted index of land values continued upward while

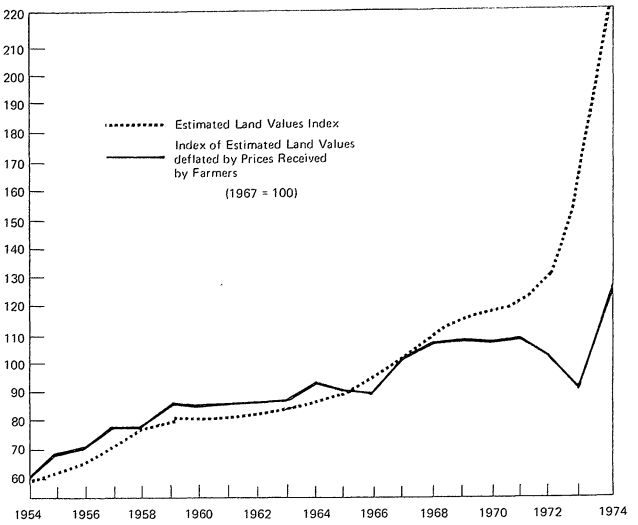


Figure 3. Minnesota farmland values deflated by Prices Received By Farmers, 1954-1974

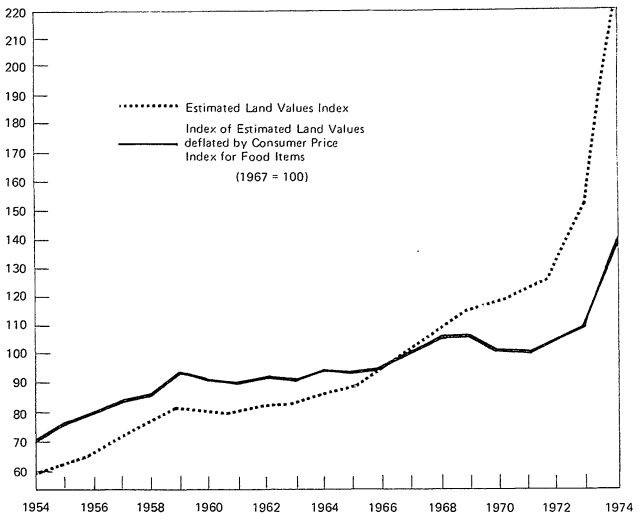


Figure 4. Minnesota farmland values deflated by Consumer Price Index — Food Items, 1954-1974

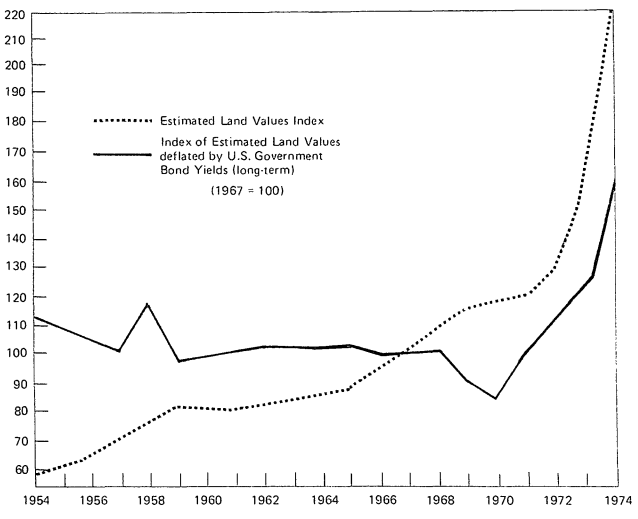


Figure 5. Minnesota farmland values deflated by Government Bond Yields Index, 1954-1974

the deflated index levelled off again and began declining significantly after 1971. As a result, land prices during 1972 and 1973 were actually falling relative to prices received by farmers. However in 1974, the deflated land value index jumped notably upward again as prices received by farmers slowed down from the previous rate of increase and farmland prices soared. Thus, when land values are compared to prices received by farmers, they did not increase and actually fell some years from 1969 to 1973. Only in 1974 did they significantly increase again. This was because of record farm real estate prices.

When land values are deflated by the consumer price index for food items, a similar upward trend is evident until 1970 (figure 4, preceding page). Land values, deflated by retail food prices, declined from 1969 to 1970, levelled off for 2 years, moved upward again in 1973, and jumped significantly in 1974. Consequently when land values are compared to the consumer price index as a whole and to the index for food items only, land prices have increased faster than did the general price level over the past 20 years. This is especially so during the past 2 years.

Throughout the past 2 decades, farm incomes have generally been significantly below those received in other sectors of the economy. In fact, annual net returns to farmland (rent) dropped from 8 percent of the current market value of farmland in the 1945-49 period to 4.2 percent in 1965-69. Over this same period, farmland values in Minnesota rose steadily at an average annual rate of 6 percent. Apparently, many buyers of farm real estate gave more weight to anticipated capital gains over time rather than to annual rental income.*

Land purchase as an investment was, in many respects, comparable to investing in longterm U.S. government bonds during most of the 1950's and 1960's until 1968. During those years, both were regarded as very safe investments, and bond yields increased at about the same rate as did land values. However in 1969 and 1970, bond yields jumped considerably above the annual percentage increase in land values. This situation was completely reversed after 1970; bond yields declined in both 1971 and 1972. Although bond yields picked up again in 1973 and 1974, the increase was far short of the large increase in land values during these past 2 years.

The trend in land values over the past 20 years can be compared with the yield on long term government bonds by deflating the index of land values with an index calculated for bond yields over the 1954-1974 period. The result is diagrammed in figure 5 (preceding page), showing that land prices did not increase relative to bond yields for most of this period and even declined significantly in 2 recent years (1969 and 1970). Only in the last 3 years have land price increases been notably above increases in longterm government bond yields.

*Factors other than investment considerations also contributed to rising land prices in the 1950's and 1960's. These include purchase for nonfarm use (suburban development, recreation, rural residence), capitalization of farm program benefits into higher land values, and the improved availability of credit for both farm and non-farm land purchase during this period.

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Roland H. Abraham, Director

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