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# MINNESOTA AGRICULTURAL ECONOMIST

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## The Minnesota Rural Real Estate Market in 1981

Matthew G. Smith and Philip M. Raup

### Introduction

Rural land prices in Minnesota have continued to increase during 1981, although the rates of increase varied markedly in different regions of the state. Prices in the cash-grain areas of western Minnesota continued on their strong upward track of recent years and farmland prices rebounded strongly in the northeastern third of the state after a slowdown in 1980, while the southeast saw its rate of increase lag behind the statewide average for the second consecutive year.

Data have been collected on regional and statewide developments in the Minnesota rural real estate market since 1910. For the past 30 years this information has been collected by questionnaires mailed in July and August of each year to real estate brokers, appraisers, loan agency officials, insurance brokers, county officials, and others knowledgeable of rural land values in their areas. An average of two-thirds of those surveyed have responded each year.

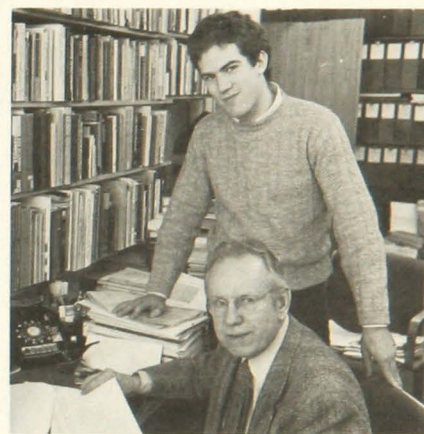
Respondents are asked to provide two types of information. First, they are asked to estimate the current average value of various grades of farmland in their communities. Second, they are asked to report on actual sales of farmland occurring during the first six months of the year, including acreage, price per acre, characteristics of buyer and seller, method of finance, and quality of buildings and land. Sales which

may not reflect current market conditions, such as those between close relatives, are excluded.

This report is divided into three parts. The first describes overall trends in the Minnesota farmland market in 1981. This section continues a report based on a six-district division of the state for which a series of land price data has been collected for more than 70 years. Part II deals with deflated farmland prices and comparisons among economic development regions, and Part III focuses on land prices in southwestern Minnesota.

### PART I— The 1981 Farmland Market Estimated Land Values

The estimated statewide average value of Minnesota farmland in July, 1981 was \$1,310 per acre (Table 1). This represents an increase of \$190 per acre, or 17 percent, over 1980, and reflects a resumption of the strong upward trend of recent years. In 1980 estimated land values had shown their smallest rate of increase (8 percent) since before the explosion of farmland prices which followed the massive So-



Professor P. M. Raup (seated) and Research Assistant M. G. Smith are from the Department of Agriculture and Applied Economics.

viet grain purchases of 1972.

All six districts showed rates of increase substantially above those of 1980, although they were unevenly distributed (Table 2). As in 1980, the two lowest rates of increase were in the east-central and southeastern districts (14 percent and 12 percent respectively), where livestock, agricultural, rural residential, and more recreation-ally oriented land uses predominate. Also as in 1980, the cash-grain farming

Table 1. Estimated Average Value per Acre of Farmland, by District, Minnesota, 1971-81

Years	Southeast	Southwest	West-Central	East-Central	Northwest	Northeast	Minn.
Dollars Per Acre							
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
1975	674	844	503	296	295	163	525
1976	856	1106	624	349	378	210	667
1977	1027	1316	730	415	427	279	794
1978	1191	1421	803	498	483	304	889
1979	1453	1620	883	573	599	368	1040
1980	1526	1750	962	596	683	390	1120
1981	1709	2083	1135	679	813	460	1310

### Notice to Readers

Due to financial and scheduling difficulties, the sequence of issues of this publication has been temporarily interrupted. The December 1981 and January 1982 issues will not be published, but their content will be available in this and subsequent issues of the *Minnesota Agricultural Economist*.

Dale C. Dahl, Editor



**Table 2. Annual Percentage Changes in Estimated Farmland Value per Acre, by Districts, Minnesota, 1971-81**

Years July to July	Southeast	Southwest	West- Central	East- Central	Northwest	Northeast	Minn.
1971-72	11	8	2	5	-2	20	7
1972-73	17	21	19	19	25	51	20
1973-74	33	47	53	44	36	25	42
1974-75	17	25	33	6	48	13	24
1975-76	27	31	24	18	28	29	27
1976-77	20	19	17	19	13	33	19
1977-78	16	8	10	20	13	9	12
1978-79	22	14	10	15	24	21	17
1979-80	5	8	9	4	14	6	8
1980-81	12	19	18	14	19	18	17

areas of western Minnesota (the southwest, west-central, and northwest) showed increases at or above the statewide average. The northwest district, along with the southwest district, showed the greatest rate of increase (19 percent) in 1981, making this the third straight year that the northwest district has led the state in the increase of estimated land values. The northeast, which is heavily influenced by recreational and residential land uses as well as livestock agriculture, rebounded sharply from the slowdown in 1980 to post an increase of 18 percent.

In dollar terms, the southwest continued to contain the most highly valued farmland in Minnesota, exceeding \$2,000 per acre for the first time in the history of this survey (Table 1). The southwest has held this leading position for more than 35 years. Second highest was the southeast, averaging \$1,709 per acre. Over the years the gap between average estimated land values in these two districts has fluctuated according to the varying demand for land

in cash-grain-oriented areas, such as the southwest, vs. the demand for the southeast's more livestock-oriented land, which is also more heavily influenced by non-farm uses, such as rural residences and recreation.

In the years immediately following the Russian wheat purchases and the resulting increases in farm commodity prices, the southwest widened its lead over the southeast. In the late seventies, as grain prices declined, the southeast narrowed the gap somewhat. Now this trend seems to be reversing once again, as the southwest has had greater increases than the southeast in 1980 and 1981.

The northwest, despite its recent large increases, is only the fourth highest-valued district (after the west-central). In recent years it has surpassed the east-central district, however. As late as 1978, the average estimated value per acre of land in the east-central exceeded that of the northwest (\$498 vs. \$483). On the strength of its large increases in the past several years, the

value of farmland in the northwest now exceeds that of the east-central by 20 percent (\$813 vs. \$679 per acre). This is another manifestation of the continuing strength of the land market in cash-crop areas and its recent relative weakness in areas where livestock agriculture is more important.

## Reported Sales

Based on reports of 1,278 transactions between January and July, the average sale price of Minnesota farmland in 1981 was \$1,367 per acre, an increase of 4 percent over the 1980 level (Table 3). This is far short of the 17 percent increase in estimated land values recorded this year. This result is due in large part to a shift of buyers to lower-valued lands, which occurred in three of the state's six districts, and a shift statewide to proportionally greater activity in the lower-valued land areas north and east of the Mississippi River.

In order to compensate for the effects of this shift of land market activity, an adjusted average sales price was computed holding the acreage distribution of sales constant at the 1980 levels. This removes the effects of shifts in land market activity in 1981. For example, if a large increase in average price was due mainly to an increase in the frequency of sales of better land, this would result in a smaller increase after adjustment. Conversely, a shift of the market toward land of poorer quality would have the opposite effect. The result is a statewide average adjusted price of \$1,468 per acre, an increase of 11 percent over 1980 (Table 4).

While the adjusted increase is larger than the unadjusted, it is still well below the average increase in estimated value, indicating that in most parts of the state the land market's performance did not live up to expectations. Only in the east-central district did the adjusted rate of increase of reported sales exceed that of estimated values (19 percent vs. 14 percent), as the farmland market in that part of the state strengthened after showing no increase in adjusted values in 1980. The northwest showed nearly equal rates of increase in reported and estimated prices (18 percent vs. 19 percent), but all other areas of the state had increases in adjusted sales prices that fell short of estimates.

When compared to the increase in the consumer price index (CPI) between January-June of 1980 and 1981

**Table 3. Average Reported Sales Price per Acre of Farmland, by District, Minnesota, 1971-81 (Unadjusted)**

Years	Southeast	Southwest	West- Central	East- Central	Northwest	Northeast	Minn.
1971	344	343	205	150	100	44	259
1972	389	366	222	145	107	76	293
1973	444	410	223	178	120	122	298
1974	598	630	340	243	204	144	450
1975	792	844	493	299	353	159	607
1976	937	1116	664	321	377	210	735
1977	1216	1340	709	446	432	198	859
1978	1352	1321	908	554	504	256	980
1979	1675	1680	949	618	612	411	1140
1980	1837	1868	1095	603	759	394	1318
1981	1965	2005	1171	680	919	483	1367
% Change 1980-1981	7	7	7	13	21	23	4

**Table 4. Annual Percentage Changes in Adjusted Sales Price per Acre, by District, Minnesota, and CPI and GNP Implicit Price Deflator, 1973-81**

District	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Percentage Change in Adjusted Sales Price								
Southeast	34	30	23	23	13	13	6	6
Southwest	52	34	33	20	2	22	12	15
West-Central	51	43	32	8	18	4	9	13
East-Central	34	24	6	32	37	16	0	19
Northwest	58	61	10	10	12	44	18	18
Northeast	4	10	21	8	-24	47	-27	-4
Minnesota	44	35	26	18	10	17	9	11
CPI <sup>1</sup>	10.2	10.4	6.2	6.4	6.8	10.3	14.3	10.5
GNP Implicit <sup>1,2</sup> Price Deflator	9.4	10.9	5.6	5.5	6.7	8.8	9.1	8.6

<sup>1</sup>The changes in price indexes were calculated by comparing the average prices for the first six months of the year with the average prices for the first six months of the previous year.

<sup>2</sup>Economists often contend that the gross national product (GNP) implicit price deflator is a better indicator of price changes than the consumer price index (CPI). The CPI measures prices for a specified collection of goods and services which are typically purchased by urban consumers. The GNP implicit price deflator indicates the price changes of all goods and services measured by the GNP. The widening gap between the two measures in recent years is due largely to the influence of mortgage costs on the CPI.

of 10.5 percent, the increase in adjusted sales price statewide was approximately even with the rate of inflation as measured by the CPI. This means that in real terms, when the effects of inflation are removed, average land prices in Minnesota showed little change in 1981. This can be compared with 1980, which was the first year since 1971 that adjusted sales prices failed to increase as fast as the CPI. The rates of increase in adjusted sales price varied among districts, and, as was true with estimated values, the cash grain areas of western Minnesota did better than the rest of the state. The northwest, west-central, and southwest districts all had increases greater than that of the CPI; that is, land prices in these areas increased in real terms in 1981 (Table 4). In contrast, the southeast and northeast, where livestock enterprises are more prominent and non-farm land uses exert more influence, showed rates of increase that for the second consecutive year failed to keep pace with inflation. The one sharp departure from the 1980 pattern was in the east-central district, which showed a 19 percent increase as the market there readjusted after no change at all in 1980.

### Activity in the Land Market

The U.S. Department of Agriculture has estimated that the overall rate of farm transfers in Minnesota in 1981 was 26.5 per 1,000 farms, up from 1980's record low of 23.5. Voluntary

sales, however, declined 13 percent, to a rate of 15.9 per 1,000 farms. This is the lowest rate of voluntary transfers in more than 45 years. Forced sales, on the other hand, including foreclosures and defaults of contract, went up significantly in 1981, from .5 to 2.9 per 1,000 farms.

Death and retirement have traditionally been the reasons for the majority of farmland sales in Minnesota, and they were again in 1981, accounting for 53 percent of all sales. The decision to leave farming for another job was cited as the reason for 16 percent of the sales statewide, up from 12 percent in 1980. This reverses an eight-year decline in the proportion of sellers who are quitting farming, but is still below the levels of earlier years. Exit from farming was highest in the livestock-dependent east-central district, accounting for nearly a quarter of the sales in 1981. The rate was lowest in the southwest.

### Type of Buyer

The farmland market has traditionally fulfilled several functions. One of these is to transfer farms between generations—from parents to children, from retiring to beginning farmers. The other role has been to change the size and structure of farms. Through the mechanism of the land market, farm units can be parceled into smaller independent tracts, or they can be consolidated into larger units, making one larger farm where several smaller ones

existed.

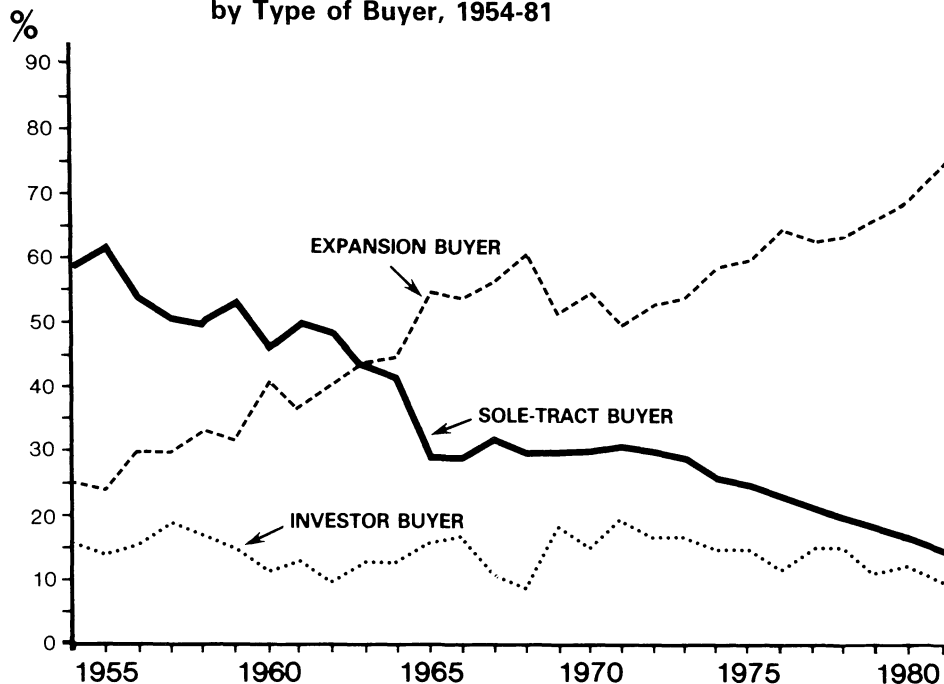
This survey divides farmland buyers into three classes, each of whose role in the land market tends to promote one or both of these functions. Sole-tract operators are farmers buying intact farms to be their only farm acreage. They exercise the function of farm transfer without contributing to the parceling or consolidation of farmland. Agricultural investors are those whose land purchase is not being used to enlarge a farm already owned, and who will rent out or otherwise manage the land for farming purposes. If they buy an intact farm they are completing a transfer, and if they buy a tract from an existing farm unit they are contributing to parceling. The third type of buyer, those operating farmers or investors whose purchases serve to enlarge their existing farm units, contribute solely to the consolidation process.

The rate of participation of each type of buyer in the Minnesota farmland market can help indicate the degree to which the state land market is fulfilling its various functions, and how these roles have shifted over time. This is illustrated by Graph 1. In the mid-1950s, sole-tract operators accounted for nearly 60 percent of all farmland purchases, indicating that at that time the market was primarily fulfilling a transfer function. The consolidation function, as reflected in the share of purchases by expansion buyers, was relatively less important, amounting to less than 30 percent of all land transfers.

Over the years these functions have gradually been reversed in importance, until by 1980 expansion buyers accounted for nearly 70 percent of all purchases and sole-tract operators figured in less than 20 percent of farmland transfers. Over the past 35 years the functional role of the state farmland market has shifted dramatically from that of facilitating the transfer of farm units to that of effecting the consolidation of farmland into fewer and larger farm units. Investor buyers have held a relatively constant share of the state land market over this time, ranging between 10 and 20 percent of all transfers each year.

These market trends continued in 1981. Expansion buyers accounted for 72 percent of all tracts purchased, a new all-time high. Sole-tract operators figured in 17 percent of all transfers, a new all-time low. Investors were responsible for the remaining 11 percent

**Graph 1. MINNESOTA: Percentage of Farmland Sales by Type of Buyer, 1954-81**



of purchases, down slightly from the 1980 level of 13 percent. Expansion buyers figure even more prominently in the higher-valued land areas such as the southwest, where they were responsible for 85 percent of the purchases. Sole-tract operators, on the other hand, have their biggest share of the market in the districts where farmland values are usually lowest. In 1981 they accounted for 45 percent of the purchases in the northeast and 42 percent in the east-central.

Expansion buyers continued to pay much higher prices than operators and investors paid in 1981. They paid a statewide average of \$1,495 per acre, 32 percent more than the price paid by investors (\$1,135), and 30 percent more than that paid on average by sole-tract operator buyers (\$1,149). Compared to last year, however, expansion buyers paid slightly less per acre in 1981 than they did in 1980 (\$1,514), while sole-tract operators paid 20 percent more and investors increased their bids by 4 percent. Both sole-tract operating and expansion buyers paid their highest average prices in the southwest in 1981, while investors paid the most in the southeast.

Local buyers tend to dominate the Minnesota rural land market. In 1981, 70 percent of buyers statewide lived within 10 miles of the tract purchases. This percentage was even higher in the cash-grain districts where expansion buyers predominate, as in the south-

west (82 percent). In contrast, in the northeast and east-central districts, where recreational land uses have greater influence and first-time buyers are more significant, less than 40 percent of purchasers lived within 10 miles of the tract. Only 4 percent of all purchasers lived more than 300 miles away, suggesting that "foreign buyers" do not exert a significant influence on the state land market.

### Method of Finance

Land sales financed by contracts-for-deed made up 61 percent of the total in 1981, equaling last year's record high. Mortgage sales, on the other hand, rebounded from last year's all-time low to a 1981 level of 23 percent. Cash sales accounted for the remaining 16 percent of transfers. The relative values of lands financed by the different methods shifted in 1981. Mortgage sales averaged the highest price per acre in 1980 (\$1,470), but were the lowest in 1981 (\$1,295), a decline of 12 percent. This may reflect the impact of continued high interest rates, as sellers are forced to compensate mortgage buyers for the added burden of finance charges, as well as a significant increase in mortgage sales in the northeast and east-central districts, where land values are below the statewide average. Cash buyers paid an average of \$1,613 per acre, an increase of 20 percent over 1980 (\$1,346), while con-

tract-for-deed sales went for an average of \$1,318 per acre, up just 2 percent from last year (\$1,290). Cash buyers paid the highest prices in the three western districts and the southeast, and mortgage and contract-for-deed buyers paid the most in the northeast and east-central districts, respectively.

### Improved vs. Unimproved Land

The statewide average price of improved land (meaning with buildings) in 1981 was \$1,337 per acre, while unimproved land averaged \$1,417 per acre. This reflects the dominance of expansion buyers, who place a premium on cropland free of buildings. The overall proportion of sales of improved land fell to 53 percent of total transfers, a new low since data on this subject were first collected in 1953. This is consistent with the decline of sole-tract operator buyers' share of the state land market.

In cash grain areas experiencing especially heavy expansion buying, improved land made up an even smaller proportion of sales. In the northwest, only 36 percent of land transactions involved buildings. In the areas where operator-buyers are still predominant, as in east-central and northeast Minnesota, and where recreational buyers of farmland also place high values on buildings, improved land accounted for a higher percentage of sales (69 and 66 percent, respectively).

Although at the statewide level unimproved land averaged more valuable than improved land, land with buildings sold for more than land without in every district except the west-central. This results from the concentration of the bulk of unimproved land sales in areas of higher land values, where expansion buyers predominate.

## PART II— Deflated Farmland Values and Trends by Economic Development Regions

In 1967 the State of Minnesota designated 13 economic development regions or groupings of counties designed to simplify the coordination of government planning and administrative activities at various levels. Previous to this, many separate regional delineations of the state existed, each for the sake of a different planning or

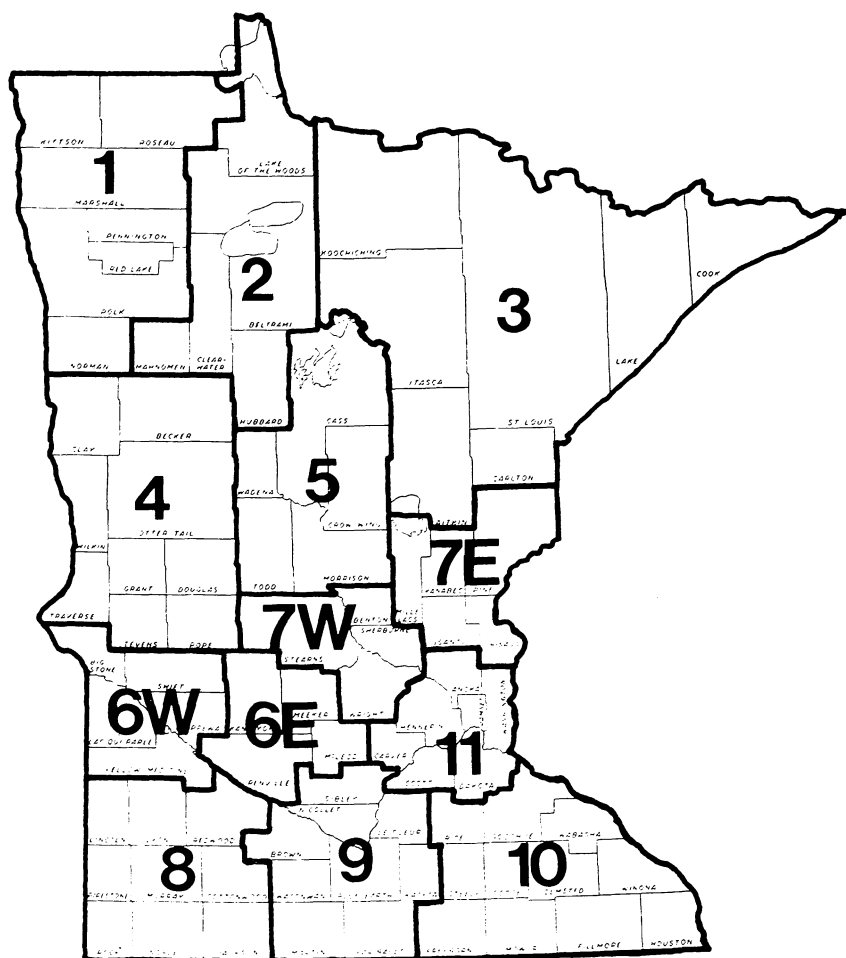
administrative function. This section discusses trends in the economic development regions, allowing a more detailed look at the Minnesota farmland market in 1981. Figure 1 shows the economic development regions, and Table 5 shows average reported sales prices by region from 1972 through 1981.

Regions 1, 4, 6W, 8, and 9 make up the major cash-grain farming areas of the state. While prices in these regions generally were up, the rates of increase varied substantially among areas (Table 6). Region 1, which contains the Red River Valley, was up 24 percent in average price, and since 1977 the average price paid for farmland in that region has increased 142 percent, from \$367 to \$888 per acre. Similarly, Region 9, which contains the highest-valued land in the state, also posted a 24 percent increase, to an average of \$2,865 per acre. Region 6W, around the upper Minnesota River Valley, also had a 24 percent increase, after much smaller gains the past two years. A much smaller increase was reported just to the north in Region 4, where land prices have increased 14 percent over the past three years after a 53 percent jump in 1978. In the southwest corner of the state, Region 8 had an absolute decline of 2 percent in prices paid in 1981. This decline is discussed further in Part III of this report.

Data at the regional level reveal two distinct trends in the eastern half of the state in 1981. Regions 2, 3, 5, and 7W, in northeast and central Minnesota, all recorded sharp increases after declines or small increases in 1980. Regions 2 and 3 posted increases of 43 percent and 42 percent, respectively, after both declining 13 percent in 1980. These two regions are heavily influenced by recreational and residential uses of rural land. To the south, the land market in Region 5 faces similar influences, but in its southern portion and in Region 7W dairying is very important. Land prices in these areas were up by 37 percent in Region 5 and 23 percent in Region 7W. (Figure 2)

The southeastern regions, including the Twin Cities metropolitan area (7E, 10, and 11), have similar recreational and urban-oriented influences on their land markets and a predominance of dairy and other livestock-oriented agriculture. Nevertheless, the

**Figure 1. Minnesota Economic Development Regions**



**Table 5. Average Reported Sales Price per Acre of Farmland, by Economic Development Regions, Minnesota, 1972-81**

Economic Development Region	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Dollars Per Acre										
1	105	114	199	344	330	367	433	560	732	888
2	83	108	141	206	250	277	321	520	452	645
3	81	126	148	157	162	179	280	310	271	386
4	170	192	317	446	542	558	853	828	868	973
5	127	164	197	259	235	297	478	483	506	695
6W	238	233	341	537	696	746	906	960	1051	1303
6E	361	374	569	691	923	1027	1171	1528	1735	1949
7W	290	291	430	472	596	778	927	1112	1056	1300
7E	216	203	254	316	455	473	575	768	741	790
8	323	354	534	710	906	1058	1199	1574	1674	1646
9	461	534	829	1115	1464	1835	1682	2111	2320	2865
10	368	411	565	753	915	1197	1373	1645	1864	1941
11	586	698	882	1035	1150	1437	1396	1799	1778	1830
Minnesota	293	298	450	607	735	859	980	1140	1318	1367

**Table 6. Annual Percentage Changes in Sales Price per Acre, by Economic Development Regions, Minnesota, and the CPI and GNP Implicit Price Deflator, 1972-81**

Economic Development Region	% CHANGE IN SALES PRICE								
	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1	9	75	73	- 4	11	18	29	31	21
2	30	31	46	21	11	16	62	-13	43
3	56	17	6	3	10	56	11	-13	42
4	13	65	41	22	3	53	- 3	5	12
5	29	20	31	- 9	26	61	1	5	37
6W	- 2	46	57	30	7	21	6	9	24
6E	4	52	21	34	11	14	30	14	12
7W	0	48	10	26	31	19	20	- 5	23
7E	- 6	25	24	44	4	22	34	- 4	7
8	10	51	33	28	17	13	31	6	- 2
9	16	55	35	31	25	- 8	26	10	24
10	12	37	33	22	31	15	20	13	4
11	19	26	17	11	25	- 3	29	- 1	3
Minnesota	2	51	35	21	17	14	16	16	4
CPI	4.8	10.2	10.4	6.2	6.4	6.8	10.3	14.3	10.5
GNP Implicit Price Deflator	4.2	9.4	10.9	5.6	5.5	6.7	8.8	9.1	8.6

performance of the market there in 1981 was quite different from that in the northeast. Average land prices in all three regions failed to keep pace with the rate of inflation; this is the second straight year that the rate of increase has fallen below that of the CPI. In Region 11, which contains the state's major urban area, land prices in 1981 averaged only 2 percent higher than those of two years before (\$1,830 vs. \$1,799 per acre).

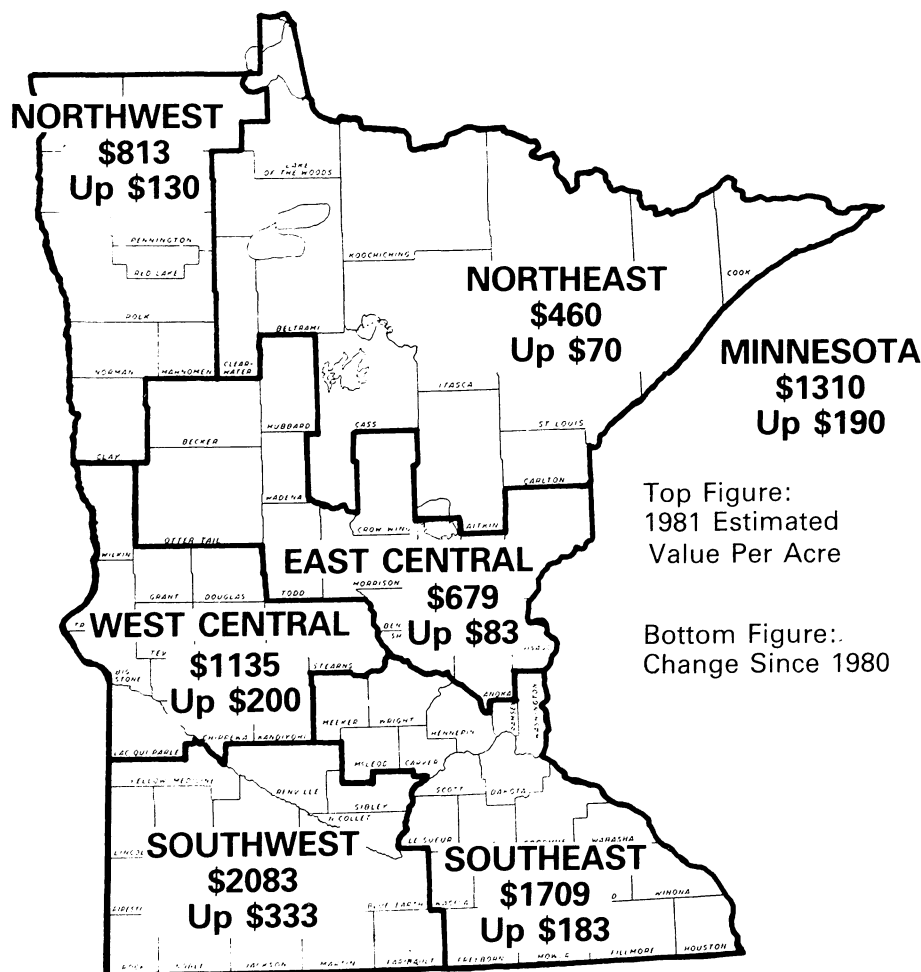
### PART III The Farmland Market in Southwestern Minnesota

Most of Minnesota's best farmland is in the southwestern quarter of the state, but some of these areas are susceptible to climatic risk, especially drought. This weather variability is reflected in crop yield fluctuations from year to year within counties. On the basis of these data, southwestern Minnesota has been divided into three regions, as shown in Figure 3. The low-risk region, in south-central Minnesota, is a block of nine counties that have traditionally had the highest-priced farmland in the state. The high-risk region of west-central Minnesota is a group of nine counties that historically have experienced large annual fluctuations in crop yields due to occasionally severe weather. Between these two is the transitional area, where land is of approximately the same quality as in the high-risk area, but climatic risks are less extreme.

When analyzed by crop-risk areas, the performance of the land market in the southwest is brought into clearer perspective. The phenomenon observed in Region 8, where average prices dropped slightly in 1981 while the regions on either side had large increases, seems to be strongly identified with the performance of the transitional area, where the rate of average price increases lagged well behind those of both the low- and high-risk regions.

The average price of farmland in the high-risk counties surged ahead by 22 percent in 1981, to \$1,159 per acre, the greatest percentage increase of the three crop-risk regions (Table 7). This followed a price decline of 3 percent in 1980. The upsurge in 1981 was chiefly on the strength of expansion purchasers, who increased their share of the

**Figure 2. Estimated Average Land Values Per Acre  
(Excluding Hennepin and Ramsey Counties)\***



\*Based on reported estimates of average value per acre of farmland for the first six months of 1981.

Figure 3. High-Risk, Low-Risk and Transitional Areas of Southwest Minnesota

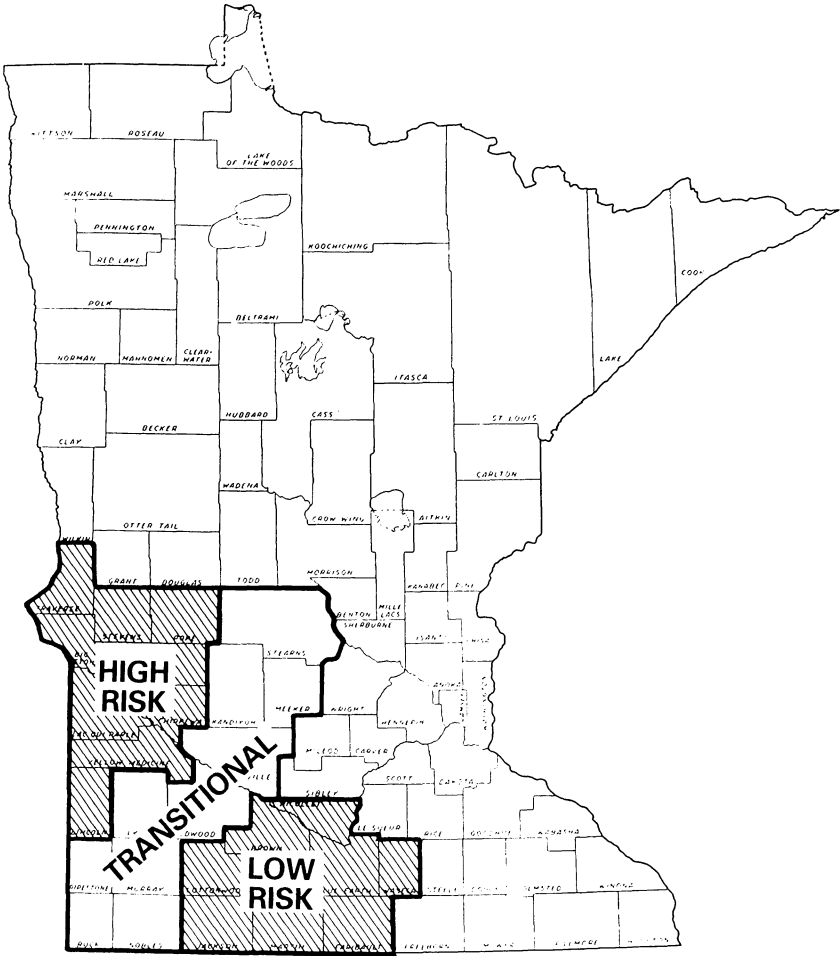


Table 7. Anaysis of Reported Farm Sales in the High-Risk, Transition, and Low-Risk Areas, Minnesota, 1978-81

ITEM	HIGH-RISK AREA				TRANSITION AREA				LOW-RISK AREA			
	1978	1979	1980	1981	1978	1979	1980	1981	1978	1979	1980	1981
Number of Sales (Jan.-June)	131	143	120	167	216	192	179	226	123	122	143	153
Average Size Tract (Acres)	188	221	167	191	150	252	152	156	130	127	140	111
Average Sales Price per Acre (Dollars)	810	981	951	1159	1130	1541	1558	1680	1699	2051	2314	2760
Change in Sales Price over Preceding Year (Percent)	26	21	-3	22	10	36	1	8	-6	21	13	19

market in the high-risk area from 79 percent in 1980 to 88 percent in 1981. In terms of actual numbers of sales reported by respondents, expansion buyers purchased 55 percent more tracts in 1981 than in the year before. Another evidence of the influence of expansion buyers was that on average unimproved land sold for only slightly less than improved land (\$1,141 vs. \$1,170 per acre), as buyers were more attracted to open cropland than to entire farms with buildings. All types of buyers increased their bids for land in the high-risk region in 1981, with investors paying the highest average price (\$1,172 per acre), followed closely by expansion buyers (\$1,170) and sole-tract operators (\$1,165).

Prices in the low-risk region (the south-central counties) were also up significantly in 1981, to an average of \$2,760 per acre. This represents a 19 percent increase over 1980, continuing a pattern of increases over the past decade. Except for a decline in 1978 and an increase just slightly below that of the CPI in 1980, the average price of farmland in the low-risk region has increased faster than the rate of inflation in seven of the nine years since the grain-export boom of the early seventies.

Expansion buyers dominate the land market of south-central Minnesota more heavily than they do in any other part of the state. In 1981, 93 percent of all transactions there involved purchasers adding to acreages already owned. As in the high-risk region, unimproved land sold for 98 percent of the price paid for land with buildings (\$2,725 vs. \$2,794 per acre), another indication of the influence of expansion buyers. This most valuable of Minnesota farmland is also apparently remaining in local hands, since 87 percent of all purchasers lived less than ten miles from the tract purchased, and only 1 percent resided more than 50 miles away.

One notable feature in the low-risk counties in 1981 was that 28 percent of all sales were reported as financed with cash, compared to 19 percent in the transitional and 14 percent in the high-risk regions. Cash buyers paid the highest prices in both the high- and low-risk regions, offering 28 percent more than mortgage-financed purchasers in the high-risk counties and 12 percent more in the low-risk area. Only in the transitional belt, which experienced a relatively small price increase in 1981, did mortgage buyers pay higher prices than either contract-



for-deed or cash purchasers.

For the transitional belt of counties running diagonally from the southwest corner into central Minnesota, 1981 marked the second straight year of below-average increases in reported sales prices. The average price of farmland there averaged \$1,680 per acre, up 8 percent from the 1980 level and only 9 percent over the average price paid in 1979. The 1979 price, however, was an increase of 36 percent over 1978, indicating that the land market in the transitional area may still be adjusting to the effects of the large price rise three years ago. While expansion buyers account for the bulk of transactions in the area (76 percent), they are not quite as dominant as in either of the other two regions. In contrast to the low- and

high-risk areas, there was a noticeable premium paid for improved land as compared to unimproved land (\$1,736 vs. \$1,694 per acre). Expansion buyers offered prices averaging only 7 percent above the 1980 level, significantly below the increases recorded by their counterparts in the high-risk (up 20 percent) and low-risk (up 17 percent) regions. Another point indicating the relative slowness of the 1981 farmland market in the transitional region was that investor buyers paid 3 percent less for land there than they did in 1980 (\$1,405 vs. \$1,453 per acre).

For a number of years, land rated by survey respondents as "good" in the high-risk area has brought lower average purchase prices than land rated "poor" in the low-risk area. In 1972,

just before the recent rapid escalation of land values began, good-quality land in the high-risk region sold for 79 percent of the price of poor-quality low-risk land (\$260 vs. \$328 per acre). As farmland prices soared shortly thereafter, the price of good high-risk land increased relative to that of poor low-risk land, reaching a peak relative price of 98 percent in 1975 (\$692 vs. \$704). Since 1975 this ratio has gradually reverted to earlier levels, standing at 75 percent in 1981 (\$1,342 vs. \$1,781). The historic relationship between relative land values among the two regions seems to have been disrupted by the initial land price inflation of 1973 to 1975, but now seems to have settled back closer to the pre-inflationary ratio.

Dale C. Dahl

Editor

Prepared by the Agricultural Extension Service and the Department of Agricultural and Applied Economics. Views expressed are those of the authors, not necessarily those of the sponsoring institutions. Address comments or suggestions to Professor Dale C. Dahl, Department of Agricultural and Applied Economics, 1994 Buford Avenue, University of Minnesota, St. Paul, MN 55108.

Please send all address changes for Minnesota Agricultural Economist to Vicky Weise, 231 Classroom Office Building, 1994 Buford Ave., University of Minnesota, St. Paul, MN 55108.

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