MINNESOTA AGRICULTURAL ECONOMIST

No. 653 January 1987

The Minnesota Rural Real Estate Market in 1986

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Summary

Several important trends may be seen in the Minnesota rural real estate market. The value of Minnesota farm real estate declined in 1986 for the fifth consecutive year. In an annual statewide survey of people familiar with the market, the *average estimated value*[2] of farmland for the first half of 1986 was $515 per acre, 25 percent lower than in the first half of 1985. Results from a survey of 980 actual farmland sales indicate that the *average reported price* was $650 per acre, 25 percent lower than the figure of $864 reported for 1985.

Value decreases were essentially statewide. Dividing Minnesota into six districts, *estimated values* declined by between 18 percent and 30 percent in each district. There is always more variability in *reported sales prices* than in *estimated values*. Reported sales prices were down from 1985 in five of the six districts by a range of 1 percent in the Northeast to 34 percent in the Southwest. The East Central district was the sole exception with several high priced sales resulting in a modest (9 percent) increase from 1985's average reported sales price. The recent price and value reductions have wiped out all of the gains made in the 1970's land boom. In discounting for inflation, the current price and values are at levels lower than at any time since 1956 (in the case of estimated value) and 1965 (in the case of reported sales price).

The expansion of existing operations was again the principal reason for purchase in the vast majority of transactions. Expansion buyers accounted for 72 percent of farmland sales in 1986 (close to 1985's 74 percent). Investment purchases comprised 17 percent of the 1986 sales compared to 13 percent of the 1985 sales. In acre terms, investors purchased 19 percent of the *acres* sold and only 10 percent went to whole-farm operator buyers. (The similar figures for 1985 were 19 percent and 13 percent respectively.) A more notable observation is that financial reasons and the reduction of size of operations motivated 52 percent of the reported sales (up from 34 percent in 1985). Death and retirement, together, motivated 30 percent of the sales (down from 42 percent in 1985). The percentage of acreage financed by cash (as opposed to mortgage or contract for deed financing) was 36 percent, up from 29 percent in 1985. The continuing decrease in value, the increase in financially motivated sales, the increased use of cash financing, and the increase in investment purchases are the highlights of this year's report.

Introduction

The University of Minnesota has been collecting information on rural land markets in the state for 76 years. Since 1953, the data have been obtained from an annual survey mailed to brokers, farm managers, insurance agents, bank officers, county officials and others familiar with the rural real estate market in their respective areas. The surveys are mailed out in the summer and returned by the end of September. For the 1986 survey, 1402 surveys were mailed out, of which 698 were returned for a response rate of 50 percent.

Respondents provide two types of information. The first type concerns their opinions about several questions. Most importantly, they are asked to estimate land prices in their areas (for low, medium, and high grade farmland). The second type of data concerns specific land sales with which the respondents are familiar. In addition to providing the location, price and acreage of each sale, the respondents answer multiple choice questions concerning the motivation of sale, quality of land and buildings, reason for purchase, etc. In analyzing these data, obvious multiple reports of the same sales transactions are eliminated. As in past years, Hennepin and Ramsey Counties (Minneapolis and St. Paul) were excluded from this study.

Data on both estimates and sales are reported regionally. In the first section of this report, the state is divided into six districts in order to be consistent with reporting procedures dating back to 1910. The division of the state into 13 Economic Development Regions is a more recent trend in statistical reporting and the sales data are reported according to that regionalization scheme in the second section. Section three examines the farmland markets in the Greater Twin Cities Metropolitan Area. A more extensive analysis of the survey data will be available in the spring of 1987. That report, to be titled *The Minnesota Rural Real Estate Market in 1986*, will be available from the University of Minnesota, Department of Agricultural and Applied Economics. Participants in the survey will receive the report automatically.

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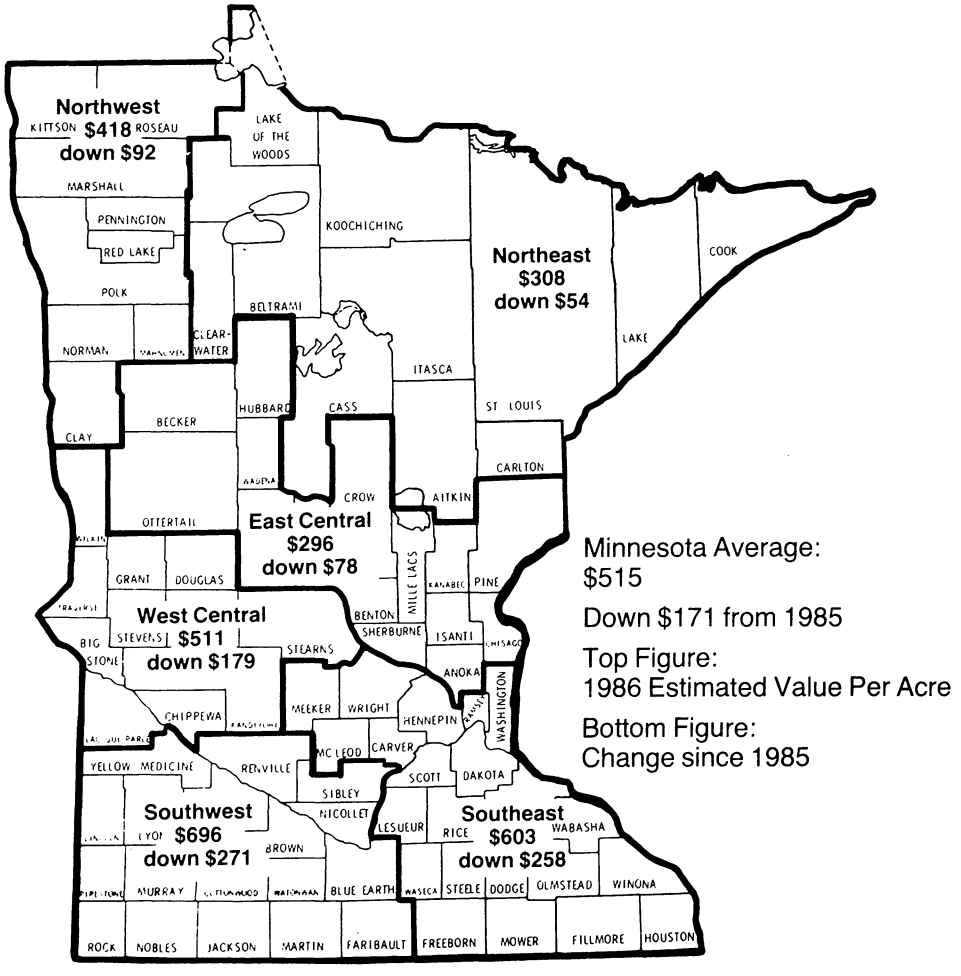
[2]The "average estimated value" is not a direct average of the reporters' estimates. Rather, it is calculated by applying the 1985-1986 percentage change in reporters' estimates to the "average estimated value" published for 1985. This has been the procedure since a base value was established in 1953. The direct average for reporters' estimates in 1986 was $636, 25 percent less than last year. We apply the 25 percent reduction to 1985's published value of $686 to arrive at this year's "average estimated value" of $515.

Table 1: Estimated Average Value Per Acre of Minnesota Farmland, by District, 1972-1986

Year	South-east	South-west	West Central	East Central	North-west	North-east	State average
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
1982	1504	1875	1044	584	748	483	1179
1983	1354	1669	981	561	658	411	1065
1984	1164	1401	873	505	586	436	927
1985	861	967	690	374	510	362	686
1986	603	696	511	296	418	308	515
% Change 1985-86	−30%	−28%	−26%	−21%	−18%	−15%	−25%

Figure 1: Estimated Land Values per Acre in 1986[1] (Excluding Hennepin and Ramsey Counties)



[1]Based on reported estimates of average value per acre of farmland for the first six months of 1986.

SECTION ONE

Estimated Values of Farmland in 1986

The *average estimated value per acre* of Minnesota farmland declined 25 percent from 1985, from $686 to $515. This continues a trend consisting of declines of 10 percent from 1981 to 1982, 10 percent from 1982 to 1983, 13 percent from 1983 to 1984, and 25 percent from 1984 to 1985. Of the six regions in the state, the Northeast experienced the smallest decline in 1986 with a drop of 15 percent. The Southeast had the largest decline at 30 percent (Table 1 and Figure 1).

The most valuable farmland, monetarily, is still in the Southwest district, which reported an average estimated value per acre of $696, followed in descending order of value per acre by the Southeast ($603), West Central ($511), Northwest ($418), Northeast ($308), and East Central ($296) districts.

Reported Sales

Data were collected on 980 reported farmland sales that took place between January 1 and July 1, 1986. The data are summarized in Table 2. This is an increase of 23 percent from the 796 sales reported for the first six months of 1985. However, in each of the six districts, the majority of respondents estimated that the number of farm sales had decreased in their communities since 1985. District and state average prices are calculated by multiplying each acre sold (in the relevant area) by its price, summing the proceeds, and then dividing by the total number of acres reported sold in that area. Based upon these reported sales, the average sales price per acre of Minnesota farmland in 1986 was $650. This figure represents a nominal price decline of 25 percent from the figure of $864 reported in 1985. The Northeast district experienced a mere $2.00 an acre decrease, and the East Central district experienced an increase of 9 percent in price. Every other district had a decrease even greater than the decrease in 1985. For inclusion in this study, reported sales may be of any number of acres. However, sales of fewer than 40 acres (which comprised less than 1 percent of total reported

sales) are scrutinized and eliminated if they are at a price substantially greater than the average price in each respective county.

Adjusted Sales Prices

Geographical shifts in real estate market activity from year to year can distort the calculated changes in sales prices. For instance, if more sales were tabulated in a higher priced area this year than last year, the overall sales price would appear higher than if the geographical distribution of sales were the same as last year. To account for this, adjusted average sales prices was calculated by district, and for the state. This data is presented in Table 3.

For each county in a district, the average reported sales price per acre for *1986* was calculated, and then multiplied by the number of acres sold in *1985*. The resulting figures were then summed across counties to yield a district figure. The district figure was then divided by the total acreage reported sold in that district in *1985* to arrive at the *1986* adjusted average sales price per acre. The figure for the state as a whole was similarly computed by taking the average reported sales price in *1986* for each district and multiplying that figure by the *1985* share of total acres sold for that district. This procedure removes the effect of shifts in the relative frequency of sales activity among counties and districts.

The results of this process for all districts were summed to obtain the adjusted 1986 average sales price per acre for the state. There was, in fact, a southward shift in acres of land reported sold between 1985 and 1986. The Southeast and Southwest districts comprised 51 percent of all acres reported sold in 1985 and 59 percent of all acres sold in 1986. Nevertheless, after considering shifts within districts and among districts, the statewide decline in adjusted sales prices is 24 percent, nearly the same as the 25 percent decline in unadjusted sales prices. The most dramatic result from this adjustment process was in the Northeast, where an adjusted price decrease of 39 percent was found (versus the 1 percent decline in unadjusted prices). The percentage changes in adjusted sales price for each district are presented in Table 4. Percentage changes in two major price indices (the Consumer Price Index and the Gross National Product (GNP) price deflator for Personal Consumption Expenditures) are included in Table 4 so that the adjusted price changes can be easily compared with economy-wide price changes. The Consumer Price Index is used also in the section on deflated land prices.

Table 2: Average Reported Sales Price per Acre of Farmland by District, Minnesota, 1972-1986 (Unadjusted)

Year	South-east	South-west	West Central	East Central	North-west	North-east	Minnesota
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	644	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
1982	1749	2022	1168	746	887	406	1360
1983	1470	1872	1068	679	711	328	1291
1984	1386	1665	1062	644	700	223	1263
1985	1013	1181	872	510	575	222	864
1986	673	830	602	556	411	220	650
% Change 1985 to 1986	−34%	−30%	−31%	9%	−29%	−1%	−25%

Table 3: Adjusted Sales Price for 1986 by Region

Region	1985 Price	% Change 1985 to 1986	1986 Adjusted Price
Southeast	1013	−.27	744
Southwest	1181	−.30	823
West Central	872	−.21	619
East Central	510	.11	565
Northwest	575	−.13	503
Northeast	222	−.39	134
Minnesota	864	−.24	647

Table 4: Percentage Changes in Adjusted Sales Price per Acre and in Two Nationally Recognized Price Indices[1]

Years	South-east	South-west	West Central	East Central	North-west	North-east	Minn	Index 1	Index 2
75-76	23	33	32	6	10	21	26	6.2	5.5
76-77	23	20	8	32	10	8	18	6.4	5.7
77-78	13	2	18	37	12	−24	10	6.8	6.3
78-79	13	22	4	16	44	47	17	10.3	8.7
79-80	6	12	9	0	18	−27	9	14.3	10.1
80-81	6	15	13	19	18	− 4	11	10.5	9.2
81-82	− 8	− 8	− 9	4	−14	−18	− 8	7.2	6.6
82-83	−14	−11	− 9	− 7	−20	−17	−12	3.5	4.0
83-84	− 7	−13	− 3	6	− 4	−44	− 8	4.4	3.2
84-85	−25	−35	−20	−12	−16	− 8	−25	3.7	3.2
85-86	−27	−30	−21	11	−13	−39	−24	2.4	2.4

[1]Index 1 is the Consumer Price Index. Index 2 is the Gross National Product (GNP) implicit price deflator for Personal Consumption Expenditures. The percentage changes in each index are calculated by comparing the average for the first six months of the year with the average for the first six months of the previous year.

Deflated Land Prices and Estimated Values

This year, a frequently asked question is, "Have farmland prices bottomed out?" There is no clearcut answer. However, there are some survey highlights that each reader may wish to consider in forming an individual opinion. Figure 2 and Tables 1 and 2 show that in current dollars the 1986 *average sales price* ($650) is lower than in any year since 1975. Similarly, 1986's *average estimated value* of $515 is at a level lower than any since 1974. Figure 2 shows quite clearly that the farmland boom began in 1973. In current dollars, prices and values have not yet fallen to the 1972 "pre-boom" levels of $248 for estimated value and $293 for average sales price.

A somewhat different picture emerges, however, when real estate values and prices are adjusted for inflation. The Consumer Price Index (CPI) is used to restate each year's figures in 1967 dollars. Roughly speaking, the CPI states that a basket of goods costing $100.00 in 1967 would have cost $326.90 in the first half of 1986, due to inflation. Dividing the 1986 price of land by 3.269 gives the price of land as if there had been no inflation since 1967. Similarly, dividing the price of land in any year by the appropriate CPI number results in a price in constant (1967) dollars.

The 1986 average estimated value per acre of $515 in current dollars is $158 in constant (1967) dollars. Figure 3 shows the constant dollar trend in estimated values and prices. To find a constant dollar value below the 1986 level, it is necessary to go back to 1956 when the constant dollar price was $155. After removing the effects of general inflation from the year to year values, the 1986 estimated value has dropped to the lowest level in thirty years. In 1985, the constant dollar estimated value was the lowest since 1972, the last year before the "boom" in farmland prices began. That is, by 1985, the gains in real value from the 1973-1981 boom were essentially wiped out. The additional fall in values from 1985 to 1986 has completely eroded the value gains made in the relatively stable period from 1956 to 1972.

The 1986 average reported sales price of $650 in current dollars is $199 in constant (1967) dollars, approximately the same as in 1965. It is again apparent that the recent falls in sales prices have more than wiped out the gains made during the 1970's farmland boom.

Figure 2: Minnesota: Average Sales Price and Average Estimated Value per Acre, 1958-1986

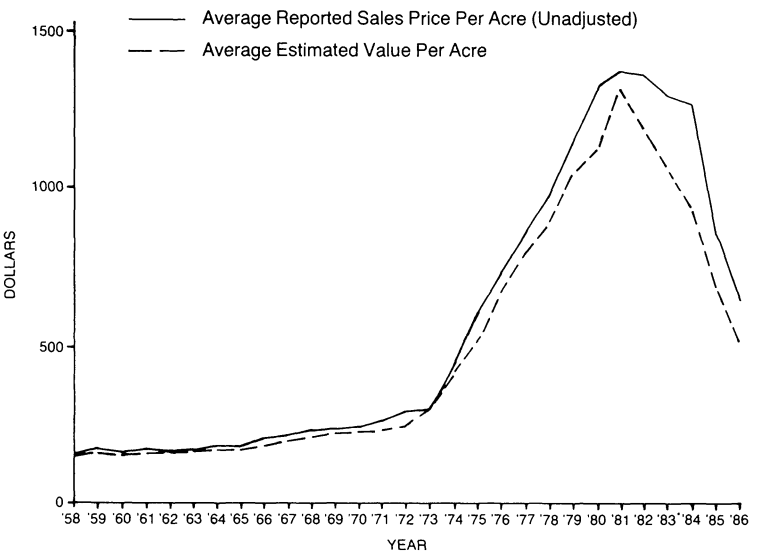
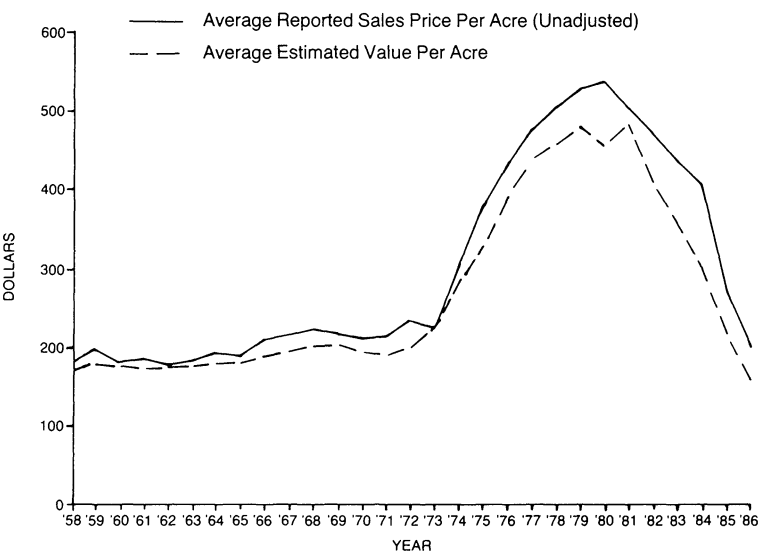


Figure 3: Farmland Values Adjusted to Constant 1967 Dollars by the Consumer Price Index



Type of Buyer

Respondents to the Minnesota Rural Real Estate Market Survey are asked to classify the buyer in each reported sale into one of three major groups. *Sole-tract buyers* are operating farmers who intend to farm the purchased land themselves and are not using the purchase to expand an existing land holding. *Expansion buyers* are those who are adding to existing land holdings (they may be investors or owner operators). *Agricultural investor buyers* are non-expansion buyers who do not plan to operate the land themselves and who may rent out the land or operate the farm through a manager. This classification of buyers is presented for the years 1973 to 1986 in Figure 4. The data for 1985 and 1986 are given by district in Table 5.

Expansion buyers in 1986 ac-

counted for 72 percent of all farmland sales, compared to 74 percent in 1985. This is also below the 1984 figure of 79 percent, which was the peak of a thirty-year trend toward an ever-higher proportion of sales to expansion buyers. Sole-tract buyers were at an all time low in 1986, comprising 11 percent of all farm purchases. Investors increased their share to 17 percent of farm purchases, compared to 13 percent in 1985. The proportion of sales to investor buyers reached a low in 1982 when it first became clear that prices were slipping. In 1985 and 1986, the investor share picked up considerably, and by the first half of 1986, it was at a level higher than at any time during the 1970's land boom, and approximately equal to the level of the mid-1960s. The percentage of sales going to sole-tract buyers has shrunk steadily since 1973, both as prices were going up, and as they have come down.

However, the rural real estate market remains largely localized. Buyers living less than five miles from their purchased land accounted for 46 percent of all acres sold; buyers living less than 10 miles from their purchase bought 71 percent of the acres sold; and 90 percent of all farmland sold was purchased by buyers living within 50 miles.

Reasons for Sale

Financial concern was the overwhelming reason for sale in 1986, comprising 35 percent of all reported sales. Of those sales, almost 9 out of 10 (88 percent) were noted as relating to a mortgage foreclosure or contract for deed cancellation. An additional 17 percent of all reported sales were for the purpose of reducing the seller's size of operation. Although not known with certainty, if it is assumed that all of the size-reduction sales were motivated by financial stress, such stress would be the reason for over half (52 percent) of all sales in 1986 (35 percent plus 17 percent). Applying a similar assumption about size-reduction sales for 1985 and 1984 means that 34 percent and 16 percent of the sales, respectively, were due to financial stress.

Death accounted for 12 percent of the sales in 1986, compared to 17 percent in 1985. Retirement motivated 18 percent of the sales, compared to 25 percent last year. "To leave farming" was given as the reason for 11 percent of the sales in 1986, similar to the 12 percent figure in 1985. Figures 5 and 6 present the reasons for sale in 1985 and 1986.

Method of Finance

One feature of the decline in land prices since 1981 has been a steady increase in the proportion of sales for cash. The trend continued in 1986, when 36 percent of all acreage sold was financed by cash. The use of mortgages was at an all time low, involving only 18 percent of the sales. Contracts for deed were used to finance 46 percent of all land transferred, continuing the consistent decline from 1980 when contracts were used to finance an all time high of 61 percent of all acres sold.

There is wide regional variation in methods of finance. The Southwest district leads the state in proportion of land sold for cash. Cash sales comprised 56 percent of acres sold in that district, 49 percent in the Northwest, 32 percent in the Southeast, and 19 percent in the Northeast. Conversely, contract sales were at a low in the Southwest (26 percent), with the highest proportion occurring in the Northeast (56 percent).

Using aggregate data, it is difficult to interpret the relationship between method of financing and sale price. On a statewide basis, mortgage financed land brought the highest price per acre

Figure 4: Percent of Minnesota Farmland Sales By Type of Buyer, 1973-1986

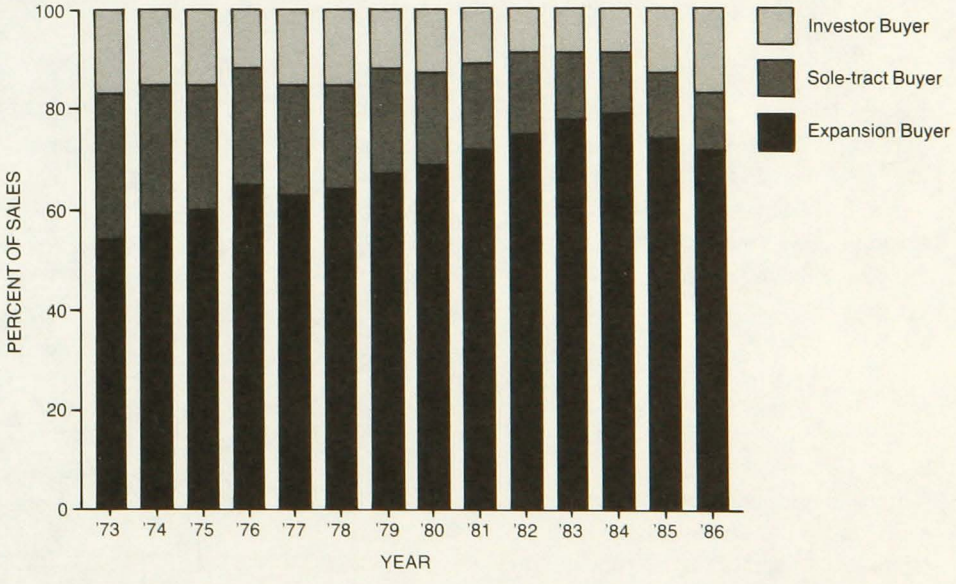


Table 5: Proportion of Farmland Sales and Average Sales Price per Acre by Type of Buyer, by District, 1985-1986

	Sole-Tract Operator Buyer				Expansion Buyer				Investor Buyer			
District	1985 %	1985 $	1986 %	1986 $	1985 %	1985 $	1986 %	1986 $	1985 %	1985 $	1986 %	1986 $
Southeast	17	1064	11	749	69	992	68	656	14	1051	21	692
Southwest	4	1000	5	842	80	1192	79	824	16	989	16	841
West Central	16	775	11	585	77	916	77	612	7	817	13	594
East Central	29	471	38	709	60	551	42	523	11	507	19	520
Northwest	3	578	4	409	86	611	91	421	11	398	5	305
Northeast	33	284	32	231	39	246	45	168	28	129	23	295
Minnesota	13	742	11	681	74	915	72	645	13	717	17	717

at $674, followed by cash financed land at $646 per acre, and contract financed land at $635 per acre. This same order applied to the Southwest and East Central districts. The Northwest was notably different, with the highest price of $491 resulting from cash sales, and mortgage financed sales associated with the lowest price of $338. These prices are all *unadjusted* sales prices.

SECTION TWO

Market Trends by Economic Development Regions

In 1967, the State of Minnesota replaced some 160 different systems of dividing the state into regions with a uniform system of 13 Economic Development Regions (EDR). Since 1970, the Minnesota Rural Real Estate Market Survey has provided an alternative analysis of land market data, using the 13 EDRs. This larger number of divisions of the state allows for a more detailed study of market activity. Reported sales for each of these 13 development regions are summarized in Table 6.

For the second consecutive year, the Seven County Metro Area (Region 11) had the highest average sales price for farmland at $1,127. (Note that Hennepin and Ramsey Counties were excluded from this study.) Region 9, which had been the highest from 1975 through 1984, was second highest in 1986, at $953 per acre.

Adjusted sales prices decreased in all but one district. The one exception, District 7E, was up 52 percent from 1985 due to several high priced farmland sales in Mille Lacs County. The biggest decreases were in District 3 (where the adjusted price fell 55 percent), and in 6W and 6E where adjusted prices fell 35 percent and 36 percent respectively. District 3 prices can fluctuate considerably due to the small number of reported sales from which to calculate the adjusted price.

Figure 5: Reasons for Sale, 1985

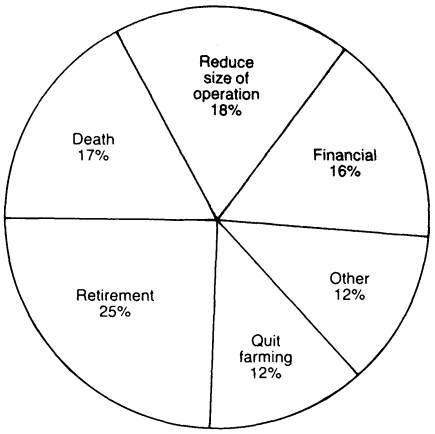


Figure 6: Reasons for Sale, 1986

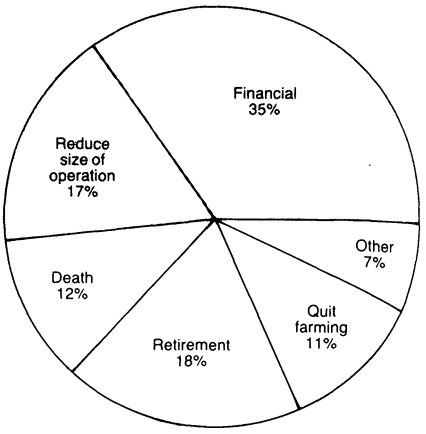
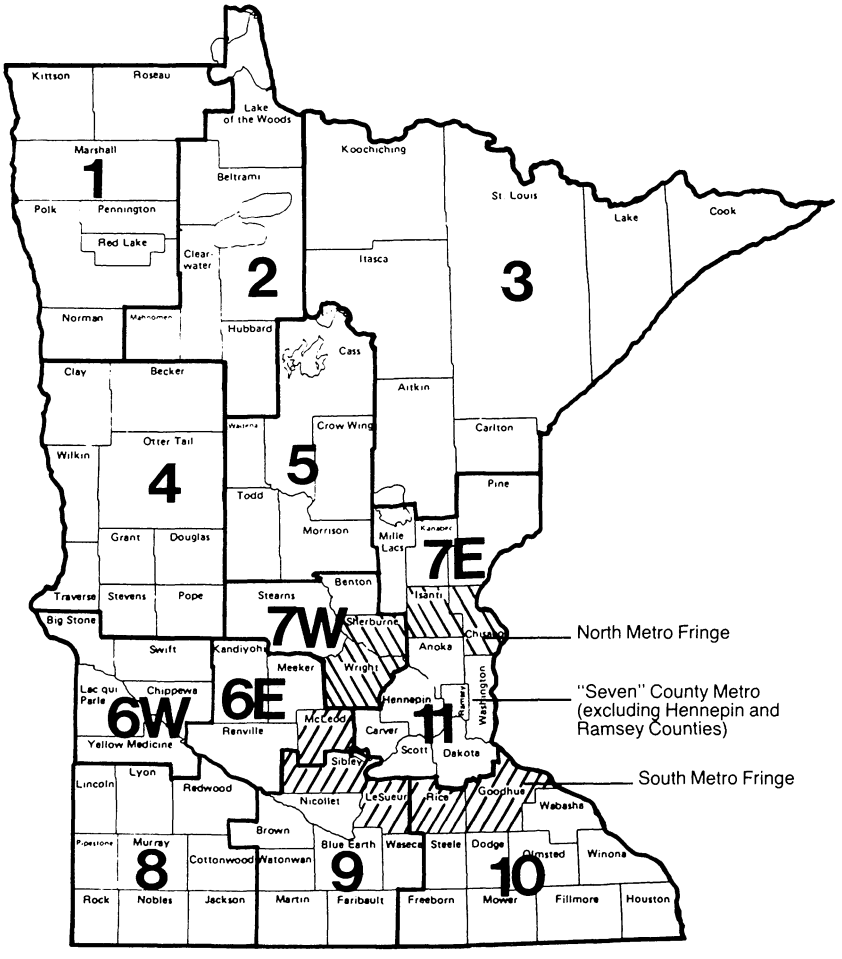


Figure 7: Minnesota Economic Development Regions and the Greater Twin Cities Metropolitan Area.



SECTION THREE

The Rural Real Estate Market in the Greater Twin Cities Metropolitan Area

The Greater Twin Cities Metropolitan Area is defined in this study as a 14 county region surrounding the Twin Cities (Figure 7). As before, Hennepin and Ramsey Counties (Minneapolis and St. Paul) are excluded from consideration because of the overwhelming urban influence. To permit closer analysis, the Greater Metropolitan Area has been divided into three sub-areas based upon population levels, recent rates of population growth, productivity of the land, and historical trends in land values. The *Seven County Metro Area* is Economic Development Region 11, minus Hennepin and Ramsey Counties: Anoka, Washington, Carver, Scott, and Dakota (actually five counties for

Table 6: Average Reported Sales Price per Acre of Farmland by Economic Development Regions, Minnesota, 1974-1986 (Unadjusted) and 1986 Adjusted Sales Price Data

Year	Economic Development Regions 1	2	3	4	5	6W	6E	7W	7E	8	9	10	11	Minnesota
Unadjusted														
1974	199	141	148	317	197	341	569	430	254	534	829	565	882	450
1975	344	206	157	446	259	537	691	472	316	710	1115	753	1035	607
1976	300	250	162	542	235	696	923	596	455	906	1464	915	1150	735
1977	367	277	179	558	297	746	1027	778	473	1058	1835	1197	1437	859
1978	433	321	280	853	478	906	1171	927	575	1199	1682	1373	1396	980
1979	560	520	310	828	483	960	1528	1112	768	1574	2111	1645	1799	1140
1980	132	452	271	868	506	1051	1735	1056	741	1674	2320	1864	1778	1318
1981	888	645	386	973	695	1303	1949	1300	790	1646	2865	1941	1830	1367
1982	806	459	325	987	556	1259	1876	1240	873	1701	2484	1713	1711	1360
1983	671	515	141	874	605	1090	1569	1187	780	1743	2139	1395	1878	1291
1984	636	460	256	955	502	1098	1391	1123	828	1405	1964	1337	1642	1263
1985	533	390	192	691	467	872	1163	869	604	986	1392	929	1423	864
1986	342	231	268	622	499	552	746	738	889	701	953	629	1127	650
% Change of Unadjusted Prices 1985 to 1986	−36%	−41%	40%	−10%	7%	−37%	−36%	−15%	47%	−29%	−32%	−32%	−21%	−25%
Adjusted 1986 Prices	425	256	87	638	403	566	744	771	918	687	975	674	1119	647
Percent Change from Unadjusted 1985 to Adjusted 1986 Prices	−20%	−34%	−55%	−8%	−14%	−35%	−36%	−11%	+52%	−30%	−30%	−27%	−21%	−25%

reporting purposes). This area is bordered on the north by the *North Metro Fringe* area, including Chisago, Isanti, Sherburne and Wright Counties. The counties to the south of the Seven County Metro Area make up the *South Metro Fringe:* Goodhue, McLeod, LeSueur, Rice, and Sibley Counties.

Table 7 shows that the highest average reported price per acre for 1986 was for land in the Seven County Metro Area ($1,127 per acre). The South Metro Fringe is the most agriculturally active sub-area in the Greater Metropolitan Area. It had an average reported sales price of $846 per acre. The North Metro Fringe counties have historically been less agriculturally productive than the counties of the South. In 1984, the gross income of North Fringe farmers from crops, livestock, and government payments totaled $246 per acre, 29 percent less than the $347 per acre gross income received by South Fringe farmers.[1] This has been traditionally reflected in lower farmland sales prices in the North Fringe. For example, in 1980, sales prices realized in the South Fringe counties averaged $2,097 per acre, compared to $1,170 per acre in the North Fringe area. That gap in prices narrowed from 1980 to 1985, but has become wider again in 1986, with a $125 per acre difference in price between the two subregions.

Table 7: Average Reported Sales Price per Acre, Greater Twin Cities Metropolitan Area and Sub-areas, 1973-86

Year	"Seven" County Metro[1]	South Metro Fringe[2]	North Metro Fringe[3]	Greater T. C. Metro (14 counties)[4]	Minnesota
1973	698	475	353	516	298
1974	882	647	556	689	450
1975	1035	808	599	839	607
1976	1150	1086	718	1045	735
1977	1437	1285	752	1198	859
1978	1396	1313	892	1185	980
1979	1799	1799	1309	1694	1140
1980	1778	2097	1170	1781	1318
1981	1830	1955	1334	1791	1367
1982	1711	1867	1446	1759	1360
1983	1878	1614	1325	1581	1291
1984	1642	1464	1280	1458	1263
1985	1423	1069	1051	1152	864
1986	1127	846	721	855	650

[1]Anoka, Carver, Dakota, Scott, Washington Counties. (Hennepin and Ramsey are excluded for reporting purposes.)

[2]Goodhue, McLeod, Le Sueur, Rice and Sibley Counties.

[3]Chisago, Isanti, Sherburne, Wright Counties.

[4] All fourteen counties named above.

Reported sales price averages for both the South Metro Fringe and the Seven County Metro Area reflect nominal declines of 21 percent from 1985 to 1986. The average reported sales price per acre for the North Metro Fringe declined during the same period by 31 percent. Overall, the 14 county Greater Metropolitan Area experienced a price decrease of 26 percent, nearly the same as the State's 25 percent decrease.

There are a number of factors which may be at play in this recent expansion of the gap between South Fringe prices

[1]From *Minnesota Agricultural Statistics*, Minnesota Agricultural Statistics Service, July, 1986, and the *1982 Census of Agriculture*, Volume 1, Geographic Area Series, United States Department of Agriculture.

and North Fringe prices. As farmland prices in general were falling after 1981, the metro area land prices approached a range reflecting metro location more than agricultural value. As the agricultural component of value decreased in importance, relative to the locational component, the gap in prices between the two areas narrowed.

If the widening of the price gap in 1986 is the beginning of a trend, it may be due to some recovery in the way in which buyers and sellers view the agricultural quality of the land as a significant factor in the land's value. For the first time since statewide farmland prices began to fall (1982), the 1985-1986 percentage fall in South Fringe prices was smaller than that of the North Fringe prices. The agricultural component of farmland value may have passed its lowest level of importance in the greater metropolitan area and is now increasing.

Another difference between the farms of the North Metro Fringe and those of the South Metro Fringe is that the dairy industry is a larger part of agricultural activity in the North Fringe. Farmland price declines in the North Fringe may have been greater in anticipation of the 1986 dairy cattle buyout. Grain production per acre is much lower in the North Fringe than in the South fringe, so declines in the dairy industry may then be expected to hurt farmland values more in the North than in the South.

A further consideration is that the interstate highway system was developed later in the North Metro Fringe than in the South Metro Fringe, delaying the positive impact of this development on land prices in the North. As prices have generally declined since 1981, the farmland values in the North Fringe may have been initially supported by the more recent ex-urban development of that area. This "interstate highway" effect may be starting to wear off.

The analysis of farmland prices is a very complex subject. Several likely factors in the relative shifts of Greater Metropolitan Area farmland prices have been discussed: the agricultural (versus locational) component of farmland value, the product mix (dairy versus grains), and highway development. The precise impact of each one, and the effect of other unmentioned factors, may be impossible to specify. However, it is possible to gain some general insights into understanding the operation of the farmland market.

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No. 653 January 1987