



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Farmland Ownership Transitions

By Charles B. Dodson

Abstract

Individuals with less than 15 years of life expectancy own nearly 30 percent of all farmland in the U.S. This is expected to result in millions of acres of farmland being sold or transferred in upcoming years. Immediate impacts on farmland markets are expected to be minimal, as these transfers will be spread over a long period. Over the long run, it is expected that farmers will increase their share of farmland while landlords' ownership decreases. The increased number of farmland transfers is not expected to have any notable impact on the size distribution of farms.

Most of those who live and work in rural America are acutely aware that farmland owners are becoming older. This trend is substantiated through statistics showing that in 1999, individuals over 65 years of age represented 37 percent of all farmland owners and owned 30 percent of all farmland (USDA). This suggests the potential for a major transformation in farmland ownership in upcoming years as this land is sold or transferred to younger owners. What impacts could this impending transfer of farmland ownership have on the structure of agriculture and the picture of rural America?

Structural transformation has been a persistent theme in U.S. agriculture, generally involving the consolidation of farms into fewer and larger farming units. But recently, there has been a growth in demand for smaller land parcels for purposes of a part-time or hobby farm or for a home in the country. The consolidation of farms combined with growth in demand for part-time/hobby farms have contributed toward the well-known bimodal distribution of farms. One group consists of a relatively few large commercial farms that account for most commodity production. Another group consists of many small part-time operations that produce little, yet account for most of farms. How these groups evolve could have very different implications for the emerging picture of rural America.

Will the greater availability of farmland perhaps encourage the entry of more part-time farmers resulting in rural America being a patchwork of small farms and rural residences? Or, will the greater availability of farmland encourage expansion by the already large commercial farms resulting in a rural America dominated by a few large, mega farms? On the one hand, a potential buyer of farmland currently owned by aging landowners would need to have access to capital either using debt or accumulated wealth. This could lead to greater consolidation, as owners of larger farms would likely have greater access to the capital needed to make a real estate purchase. On the other hand, non-farm development potential could result in farmland being priced beyond what commercial farmers could justify paying. This could lead to more farms being sold in smaller parcels that would facilitate purchase by hobby or lifestyle farmers.

The progressive transformation concerning land ownership could be considered part of an ongoing change from the agriculture of our parents to the modern industrialized agriculture of today. For the most, part the management and control of farm assets have already been transferred to a younger generation of farmers. While the ownership of land and the population of farmers remain weighted toward an older population, farmers under 55 already account for 70 percent of farm production.

In this paper, results from the 1999 Agricultural Economics and Land Ownership Survey (AELOS) are utilized to obtain insights concerning changes in farmland ownership among different groups of landowners. The AELOS is an integrated survey of farm finance and land ownership characteristics conducted in connection with the Census of Agriculture. The 1999 AELOS was conducted in 2000 and collected data for the 1999 calendar year. Prior to 1999, the AELOS was conducted for 1988 and 1979.

Landowners were classified as either a farm owner/operator or non-operator landlord (Table 1). If a landowner was both a farm operator and a landlord, they were only counted as a farm operator. Farm operators were further disaggregated based on the farms' labor requirements and the capability of providing net farm incomes sufficient to support a household. Hobby farms were defined to depict those circumstances where the farm was

Table 1. Definition of Groups Used to Classify Landowners

Farm operators and farm operator landlords	
Hobby farms	Annual sales less than \$5,000.
Small farm	Annual sales of \$5,000 to \$50,000
Family-size farms	Annual sales of \$50,000 to \$250,000
Low equity	Net worth less than \$500,000
High equity	Net worth greater than/equal to \$500,000
Commercial-sized farms	Annual sales greater than \$250,000
Low equity	Net worth less than/equal to \$1 million
High equity	Net worth greater than \$1 million
Non-operator landlords	
Land barons	Total owned acres greater than/equal 1.66 times county average farm size.
Rural resident	Living in rural region and owning land less than 1.66 * average farm size in county
Absentee	Landlord living outside of region and owning land less than 1.66 * average farm size in county

likely to reflect a lifestyle choice of the owner rather than a source of income. Most hobby farms produced negative net farm incomes and had minimal labor requirements, averaging fewer than 15 hours per week. Small farms were defined to depict those farm operations with more moderate labor requirements and the capability of producing a small, but positive net income. On average, labor requirements for small farms averaged 1,000 hours per year. With annual sales ranging from \$5,000 to \$50,000, these small, or part-time, farms could not be expected to generate enough net income to support a household. Both high- and low-equity family-size farms would likely have fully employed one or more individuals. While net income from the family-size or commercial-size farm business may comprise a notable portion of the household's income, an off-farm income would likely still be required. Low- and high-equity commercial farms represent the largest farms and would be likely to provide sufficient net incomes to support a household.

Non-operator landlords were disaggregated based on the amount of acres owned and proximity of the landowner's residence to the farmland (Table 1). Non-operator landlords owning the greatest amount of land were termed as land barons for purposes of this study. Land barons owned a number of acres greater than 166 percent of the average farm size in the county, as determined using the Census of Agriculture. Landlords with fewer acres were classified as either a resident or absentee landlord. Resident landlords lived on or near the farm, while absentee landlords lived away from the land.

Transitioning from Small Farms to Rural Lifestyles

One of the more visible changes in the structure of U.S. agriculture has been the emergence of hobby or lifestyle farms. This trend is reflective of a strong general economy providing incomes sufficient to meet obligations associated with farmland

ownership. It also reflects the greater availability of farm acreage in smaller land parcels. Nearly 70 percent of farmland owners owned less than 160 total acres of farmland (Table 2). Many of these land parcels were once economically viable farming units. A generation ago, these small farms characterized U.S. agriculture. Over time however, the economic viability of these farms declined such that many can no longer generate a profit or much less support a family. This is reflected in statistics showing that over the past 15 years, 40 percent of farms with sales between \$5,000 and \$250,000 have lost money (Hoppe et al).

Table 2. Characteristics of Farmland Owned by Age of Landowner

	Age of Landowner					All Land-owners
	Under 35	36-45	45-54	55-64	Over 65	
Landowners	184.34	564.2	865.11	863.15	1,446.55	3,923.34
Acres owned	21,098	94,484	273,360	179,794	348,580	917,316
	Per landowner					
Acres owned	114	167	316	208	241	234
	Percent					
Share of Landowners	4.7	14.4	22	22	36.9	100
Share of acres	2.3	10.3	29.8	19.6	38	100
Share owning:						
< 20 acres	43.5	34	24.4	19.1	13.3	21.4
20- 80 acres	25.5	28.5	28.1	30.8	27.2	28.3
81 – 160 acres	14.3	16.1	18.1	20.1	23.1	19.9
161- 320	9.4	11.1	14.2	16.1	18.1	15.4
321-640	3	4.7	7.9	5.9	7.9	6.8
Over 640 acres	2.8	4.5	7.5	5.7	7.3	6.4
With farm debt	54.4	50.2	38.4	27.9	10.5	28.3

Source: 1999 Agricultural Economics Land Ownership Survey

The economic reality is that many small farms are simply no longer economically viable. Many are profitable because of their cost structure. Operators of small farms tend to be older and have owned the farm for a long period of time. Consequently, their investment in land and equipment is low, debt is minimal or nonexistent, and their living expenses are low. Those acquiring the assets of these farms will not likely have the same cost structure. Even those that inherit land may have to take on additional debt to buy out the interests of other heirs. Consequently, future owners of small farms will likely require an even greater reliance on non-farm income. In some cases, those acquiring these small parcels of farmland will choose not to manage the land as a farm. Future owners of small farms may be less inclined to subsidize farming operations from non-farm sources of income viewing farm enterprises as an expensive and unnecessary endeavor. For example, it may be cheaper to allow a property to return a more natural state rather than trying to manage it as a farm. Or, the

owner may manage the property as a rural residence or a country estate. Another alternative may be to rent out rather than to farm any tillable land.

Table 3. Selected Characteristics of Land owners in 1999 by Landowner Group

	Farms						Non-operator landlords			
	Hobby farms Sales < \$5,000	Small farms \$5,000< Sales< \$50,000	Family Size farms \$50,000< Sales< \$250,000		Commercial-size farms Sales> \$250,000		Small or average size owner			
			Net worth < \$500,000	Net worth ? \$500,000	Net worth < \$1 Million	Net Worth ? \$1 Million	Rural resident	Absentee	Land barons	All land owners
Landowners	692.7	525.5	126.2	119.4	61.4	51.2	924.7	805.3	109.2	3,415.59
Acres owned	51,287	98,844	28,907	100,709	16,785	83,925	132,414	181,837	238,719	933,427
Acres gained in 1999 ^{1,2}	1,010	969	665	1,511	280	621	384	218	-2,650	3,008
	Percent of total									
Landowners	20.3	15.4	3.7	3.5	1.8	1.5	27.1	23.6	3.2	100
Acres	5.5	10.6	3.1	10.8	1.8	9	14.2	19.5	25.6	100
	Annual percentage change									
Acres gained in 1999	1.97	0.98	2.3	1.5	1.67	0.74	0.29	0.12	-1.11	0.31
Landowner Age	Years									
Buyers	49.7	52	44.3	52.8	47.2	52.4	58.6	57	62	53.2
Sellers	58.2	59.2	54.7	58.3	50.4	50.9	65.7	65.1	67.2	61.8
All other	56.5	56.3	50.4	54.7	48.8	54	64.4	65.9	66.4	60.1
Occupation-farmer	Percent									
Buyers	15.3	46.6	87.8	87.7	95.8	83.1	0	0	0	28.5
Sellers	19.5	58.5	84.1	82.4	92.4	89.3	0	0	0	24.2
All other	20.4	44.1	85.7	85.4	89.9	90.6	0	0	0	21
Retired	Percent									
Buyers	30.7	33.9	8.5	30.1	12.2	25.9	38.1	31	34.7	30.4
Sellers	52.3	48.8	21.5	40.1	7.3	22.9	52.6	51.7	45.8	48.7
All other	45.5	41.6	21.9	29.5	16.6	22.4	34	51.9	51.7	45.5
Total income ³	Dollars per landowner									
Buyers	113,578	56,586	32,283	53,800	97,179	205,423	36,393	44,156	126,217	63,949
Sellers	68,473	45,661	34,316	37,948	106,111	258,003	30,547	48,337	111,645	52,504
All other	34,482	52,050	40,225	40,929	102,112	203,307	31,578	38,265	93,212	47,397

¹ Acres purchased less acres sold in 1999. ² While this indicates that the amount of farmland in the U.S. increased by 3 million acres in 1999, it represents on 0.2

Source: 1999 Agricultural Economics Land Ownership Survey

Table 3. Selected Characteristics of Land owners in 1999 by Landowner Group

	Farms						Nonoperator landlords			
	Hobby farms Sales < \$5,000	Small farms \$5,000< Sales< \$50,000	Family Size farms \$50,000< Sales< \$250,000		Commercial-size farms Sales> \$250,000		Small or average size owner			
			Net worth < \$500,000	Net worth ? \$500,000	Net worth < \$1 Million	Net Worth ? \$1 Million	Rural resident	Absentee	Land barons	All land buyers
Land buyers	34.2	18.5	8.1	8.4	3.9	5.2	22.2	19.3	5.4	125.2
	Dollars per									
Total farm assets	306,468	485,144	472,266	1,285,753	935,873	4,248,181	193,617	203,090	809,311	579,062
Farm dwelling ¹	116,770	101,930	56,396	113,039	85,606	139,634	69,883	51,129	52,687	103,572
Total farm debt	49,669	70,694	211,804	153,069	417,340	737,548	35,173	24,970	85,794	105,659
Net worth	256,799	414,450	260,662	1,132,684	518,533	3,510,633	158,444	178,120	723,517	473,403
	Dollars per acre									
Average land price paid per acre	1,229	848	966	626	1,191	1,440	1,727	1,484	1,414	1,211
	Acres per landowner									
Owned at year-end	103	363	310	1,361	342	1,958	200	267	2,217	457
Acres purchased-Acres sold	56	121	132	250	113	308	84	105	-338	121
	Percent									
Debt-to-asset	16.2	14.6	44.8	11.9	44.6	17.4	18.2	12.3	10.6	18.2
Buyers under 45 years of age	39	32	62	30	51	24	22	16	6	31
Share using debt to fund purchase	48.7	54.8	83.6	64.1	75	66	38.6	35.1	38.1	50.1
Downpayment ²	36.3	37.6	19.8	35.1	17.2	30	22.8	21.1	37.1	28.9

¹ For landowners reporting an operator dwelling on the farm. ² For buyers using debt to fund purchase.

Source: 1999 Agricultural Economics Land Ownership Survey

Despite the lack of economic viability, a strong interest in purchasing farmland by small farm operators remains. Both hobby and small farm owners notably expanded their farmland ownership in 1999. For hobby farms, farmland ownership increased by over one million acres, representing a 1.97 percent annual increase in farmland ownership (Table 3). Nearly one-fourth of all land buyers in 1999 were hobby farmers. But, these new landowners are not likely acquiring land for farming. The characteristics of hobby farm buyers were more reflective of a rural homeowner than of farmers. The AELOS data

showed that farmers meeting the hobby farm definition typically did not consider themselves farmers, had high off-farm incomes, and had a relatively large investment in the farm dwelling. Over one-third of total assets were associated with the farm dwelling resulting in an estimated house value of \$116,435 compared to a median value of \$108,000 for the U.S. in 1999 (Table 4). This would be above average, especially for rural America. With a total household income of \$113,578, earnings of hobby farm buyers were well above average. On a per acre basis, farmland values for hobby farms exceeded those of other small farms, possibly reflecting the added value the dwelling or an urban influence. For the 48.7 percent of hobby farms that used credit to finance a land purchase, down payments averaged 36 percent of the purchase price (table 4). The combination of high incomes and high down payments would make this a very low-risk group for lenders.

Farmland ownership among the small farm group increased by almost one million acres, representing a one percent annual growth rate (Table 3). Compared to hobby farm buyers, small farm buyers reported less total income. Average land values averaged only \$848 per acre compared to \$1,229 dollars per acre for hobby farm buyers (Table 4). Compared to hobby farmers, more buyers of small farms considered themselves farmers. Also, the farm dwelling made up a smaller share of total farm assets. Most of those buying small farms did not consider farming as their primary occupation (Table 3). This would suggest a declining interest in farming among new owners of small farms. The availability of real estate credit did not appear to be an important factor for many small farmers acquiring land in 1999. Somewhat more than half, 54.8 percent, financed the purchase using debt (Table 4). For those who used credit, down payments averaged 37 percent of the purchase price.

Among both the hobby and small farm group, sellers were older and more likely to be retired than buyers. Still, there is no indication that this farmland is being transferred to what could be considered young or beginning farmers. The average age of buyers was nearly 50 years of age (Table 3). It appears that many of the small and hobby farm buyers are older individuals who may be annuitants or retirees who have managed to accumulate wealth and are choosing a rural lifestyle for retirement.

Larger Farms Buying Largest Farmland Tracts

Family-size farms with net worth of greater than \$500,000 reported the largest nominal gains in owned acres, 1.5 million acres, representing a 1.5-percent annual increase (Table 3). However, with 100 million acres currently owned, this group represented the largest owner of farmland among farmers and will likely remain so.

Given the large sums of money required to purchase larger tracts of land, farmers with the strongest balance sheets would represent a likely group of buyers. In 1999 this was indeed the case with the largest farmland tracts being acquired by farmers with the largest net worth. For commercial size farms with over \$1 million in net worth, the average acquisition was 308 acres (Table 4). For family-size farmers with over \$500,000 in net worth, the average acquisition was 250 acres. There may be opportunities for these groups to further expand their farmland ownership in upcoming years as older landowners tend to own larger amounts of farmland. In 1999, older landowners owned 232 acres compared to an average for all landowners of 189 acres (Table 2).

But, a strong balance sheet may not be the only factor influencing farmland acquisitions. Both the family and commercial size farm groups with less equity reported some of the largest percentage gains in farmland ownership. Low-equity family size farmers expanded their ownership of land by 1.67 percent while low-equity commercial-size farmers expanded their land ownership by 2.3 percent (Table 3). While farmers with the strongest balance sheets bought larger land tracts, only a small share actually made purchases. Despite an average net worth of \$3.5 million, commercial farm groups with larger amounts of equity increased their share of farmland ownership by only 0.74 percent. This may reflect the interrelationship between age and wealth. Farmers with the greatest wealth tend to also be older and less interested in expanding their farmland ownership.

Over half of the buyers among low-equity family and commercial size farms were less than 45 years of age (Table 4). The availability of credit appears to play an important role in enabling these younger farmers to acquire land. This was especially true among low-equity family size farms where credit

was used in nearly 85 percent of their land purchases. For those that use credit, the down payment was less than 20 percent.

Non-operator Landlords Divesting of Farmland

While farmers were increasing their share of farmland ownership, non-operator landlord share of farmland decreased. In 1999, acres of farmland owned by non-operator landlords declined by over two million acres suggesting a divestiture of farmland by aging landlords. The average age of a non-operator landlord was 67 years with nearly 80 percent over 55 years of age (USDA). There appeared to be few young non-farm investors with an interest in purchasing the farmland of older landlords. The average age of landlords who purchased land in 1999 was nearly 60 years of age with less than 15 percent under 45 (Table 3, Table 4). The decline in landlord ownership was most apparent among the largest landowners. There was little change in the share of farmland owned by absentee and rural resident landlords; total land owned was less than 166 percent of the average farm size in the county. Land barons decreased their land ownership by over 2.6 million acres for a 1.11 percent decline (Table 3). Still, this group represented the largest group of landowners considered, owning nearly one-fourth of all farmland in the US.

Transitions Will Be Slow and Gradual

Despite the increasing age of farmland owners, short-run impacts on farmland markets should be minimal. The transfer of farmland from older landowners will be a slow and gradual process. While individuals over 65 years of age own 37 percent of all farmland, transfers associated with this farmland could be spread out over many years. In addition, much of the farmland may already have a succession plan already in place. Such is likely the case for farmland owned as a corporation or partnership. The potential impact of farmland transfers on farmland markets was examined through incorporating years of life expectancy by age with AELOS data on landowner age. Information on life expectancy by age and sex was obtained from the Internal Revenue Service (IRS) (IRS Publication 590, Individual Retirement Arrangements). The years of life expectancy was estimated for each landowner that owned land either individually or jointly. The estimated years of life

expectancy for an individual landowner was estimated using the following calculation:

$$\begin{aligned} \text{Number of years of life expectancy for a landowner with an age} \\ \text{of } X = \\ \text{Life expectancy for landowner with an age of } X - \\ \text{Age of landowner in 1999} \end{aligned}$$

This calculation was applied to the AELOS data to determine the distribution of farmland ownership by the life expectancy of the owner. A landowner's life expectancy was estimated based on standard life expectancy tables obtained from IRS publications. The AELOS did not include data on the age of joint landowners, which in nearly all cases were spouses. Therefore, for land that was owned jointly, it was assumed that the surviving owner lived an additional seven years. The age of the landowner as reported by the landowner in the 1999 AELOS.

Life expectancy was not estimated for farmland owned by corporations, partnerships, or public entities such as local, federal, and state governments. Combined, these entities represented 12.3 percent of all landowners and owned 27.6 percent of all farmland (Table 5). Still, the results show that about 30 percent of all farmland was owned by individuals with less than 15 years of life expectancy (Table 5).

Table 5. Acres of Farmland by Life Expectancy of Owner.

	Life Expectancy in Years for Land Owned Individually or Jointly				Land Owned by Corporations, Partnerships, and Public Entities
	Less than 10	10 to 15	15.1 to 20	Over 20	
	Percent				
Share of acres	14.9	14	11.3	32.3	27.6
Share of landowners	17	14	12.4	44.1	12.3
	Per landowner				
Acres owned	336	299	271	218	559
Landowner age	79.6	71.3	64.6	48.9	54.6

Source: 1999 Agricultural Economics Land Ownership Survey

This does not mean, however, that there will be an abundance of available land for purchase in the near future. In any year, the additional land available for purchase will be small relative to total land sales. Even if it assumed that all farmland is sold as landowners reach their full life expectancy, the amount of land transferred per year would only increase between 2.5 and 3.0 million acres annually. According to the AELOS, 17.1 million acres were transferred in 1999. Thus, the amount of

farmland transferred per year would be expected to increase by about 20 percent. While this is a noteworthy percentage increase, the turnover rate would still only be once every 52 years as opposed to once every 60 years. A potential buyer may have to wait a long time if they want to purchase a specific farmland tract.

Likely to be Sufficient Buyers

Because land transfers from older landowners will be spread out over a long period, there is likely to be plenty of farmers and non-farmers that have the cash or capacity to purchase farmland as it comes on the market. If the trends noted for 1999 continue, current farm operators could have the repayment capacity sufficient to purchase an additional 100 million acres¹. Of this 100 million acres, small and hobby farms would make up 35 million acres, family-size farms an additional 22 million acres, and commercial size farms 45 million acres. This is only an approximation since debt repayment capacity would require information on living expenses, taxes, depreciation, principal, and financing terms, not available in AELOS. Nonetheless, it does indicate that current farmers are in a strong position to purchase much of the farmland coming available in upcoming years. Continued low interest rates and a strong general economy will contribute toward strong demand for hobby and small farms. Strong balance sheets, stable farm incomes, and an availability of low cost credit should provide many commercial farmers with the capability to purchase farmland.

How Are Young and Beginning Farmers Likely to be Affected?

The greater availability of farmland could benefit young and beginning farmers, but there are concerns that young and beginning farmers may not have access to the capital needed to acquire farmland. However, this did not seem to inhibit the transfer of assets to a younger generation in 1999. Among family and commercial size farms, younger and less capitalized farmers were successful in acquiring much of the farmland of older landowners. Family-size farm buyers with low equity averaged 44 years of age while commercial-size farm buyers with low equity averaged 47 years of age (Table 3). And, these particular groups displayed some of the largest growth rates in farmland ownership, expanding land ownership by over one

million acres. But they relied very heavily on credit. Many utilized non-commercial sources of credit including credit programs administered by USDA or loans from individuals (Dodson).

Why is Landlord Farmland Ownership Decreasing?

Does the apparent shift in land ownership from large landlords to farmers reflect an increasing interest among farmers, a decreasing interest among non-farm investors, or perhaps both? Much of the expansion in farmland ownership is occurring among hobby and small farmers for whom the desire to purchase farmland is related more to general economic factors than the farm economy. The relatively strong general economy experienced during the 1990s combined with low interest rates enabled many individuals to purchase small and hobby farms. One should not discount the economic importance of these groups. While their contribution to the production of food and fiber is minimal, their wealth and income should make them an important component of the rural economy. In many ways they may be more important to the rural economy than larger commercial farms. Increases in farm real estate values during the 1990s provided farmers with strong balance sheets. As a result of expected government farm program payments, farm incomes are more likely to remain stable. Therefore, many family size and commercial size farmers are also well positioned to purchase additional farmland.

The decline noted for land barons may reflect a limited interest by investors in owning farmland. There are several characteristics that have historically made farmland less attractive to investors. Farmland is illiquid and requires some specialized knowledge of agriculture and rural real estate. The general expectation, which may not always be true, is that farmland provides low, but stable returns. Transaction costs tend to be high, requiring potential investors to have a long holding period. While these factors have been true for decades, it still greatly limits the pool of potential non-farm investors. In more recent years, increases in farmland values have made raised the average capital investment for farmland. This would especially be true for the land baron group where the average land investment is over three million dollars. Thus, a potential investor must not only have an interest and knowledge of rural real estate, but also a long planning horizon and comfort with

low, stable returns. They must also have access to large sums of capital.

Much of the farmland owned by non-operator landlords was acquired through inheritance. And, there also may be a general lack of interest on the part of heirs in continuing the tradition of farmland ownership. Many of the current landlords acquired their farmland through inheritance and may live on or have once have operated the farm. Consequently, they possess the necessary knowledge of agriculture and may have an emotional attachment to the land. For many older landlords, farmland's illiquidity and low returns may not be a concern. But their heirs may have a very different attitude. In some cases, heirs may be two or more generations removed from the farm. With many heirs and little attachment to the land, there may be greater pressure to liquidate the investment.

How May Rural America Change?

The aging population of farmland owners suggests that a significant change in farmland ownership may be ensuing. However, short-run impacts on U.S. farmland markets are likely to be unnoticeable, as the amount of farmland transferred in any year is too small to have a notable impact on farmland markets. Over the longer term, however, there is likely to be major changes in the structure of farmland ownership if these trends continue. The most noteworthy change is the declining importance of non-operator landlords, especially those owning large amounts of land.

Each group of farm operators increased their ownership of farmland in 1999. There was no indication that owners of larger commercial farms were expanding their ownership of farmland more than owners of smaller size farms. The percentage change in farmland ownership among the groups of farmer/landowners considered ranged from 0.75 to 2.5 percent. Thus, the ensuing land transfers are not likely to have any impact on the size distribution of farms. Neither can it be inferred that those farmers with the greater wealth are likely to obtain a greater share of available farmland. Both low and high equity family-size farms appeared to be holding their own, at least with respect to farmland ownership. The most noteworthy impact is likely to be in how farm assets are managed. Rather than renting land, operators of family and commercial size

farms may own a greater share of acres farmed. Small and hobby farms will less likely to be managed as farms, transitioning from working part-time farms to hobby or lifestyle farms.

Summary

Analysis of the 1999 AELOS indicates those individuals with less than 15 years of life expectancy own 30 percent of US farmland. Thus, in upcoming years there may an increase in farmland transfers, possibly changing the structure of farmland ownership. Despite the large amount of land owned by older individuals, short-run impacts on farmland markets are likely to be minimal. Much of the land owned by older landowners may not be sold. In many cases, succession plans may already be in place. In others, land will continue to be held by heirs. The amount of additional land likely to come onto the market in any given year is not likely to be sufficient to affect farmland markets. Longer run impacts, however, will likely be more noticeable. The most noteworthy impact may be the declining presence of non-operator landlords in farmland ownership. If 1999 were indicative of current trends, we would expect farmers to own a greater share of the land they farm. Small and hobby farms will remain an important component of the rural landscape. Though, over time it is likely that there will be a transition from small farms to rural residences and lifestyle/hobby farms. There is no indication that farmland transfers are affecting the consolidation of farms. Larger commercial farms were expanding their ownership of farmland no more than family size farms.

Endnotes

- ¹ The amount of income available to service additional debt was estimated as the sum of net cash farm income and off-farm income less \$30,000 that was assumed for withdrawals. A maximum additional debt was calculated based on a 30-year amortization and 7 percent interest rate. Plus, it was assumed that maximum additional debt could not exceed 50 percent of net worth.

References

Dodson, Charles B., "A Study of the Risk of Issuing FSA Guarantees on Contract Land Sales to Beginning Farmers", Regional Research Committee NC-221 Meeting, "Regulatory, Efficiency, and Management Issues Affecting Rural Financial Markets," Denver, CO, (Oct. 1, 2002).

Hoppe, Robert A., James Johnson, Janet E. Perry, Penni Korb, Judith E. Sommer, James T. Ryan, Robert C. Green, Ron Durst, and James Monke. Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report. AIB-768. USDA Economic Research Service. May 2001

U.S. Department of Agriculture. 1997 Census of Agriculture, Agricultural Economics and Land Ownership Survey (1999). Volume 3, Special Studies Part IV (December 2001).