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**RESULTS OF THE NORTH DAKOTA
LAND VALUATION MODEL
FOR THE 2016
AGRICULTURAL REAL ESTATE ASSESSMENT**

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ABSTRACT

This report summarizes the 2016 results of the North Dakota Land Valuation Model. The model is used annually to estimate average land values by county, based on the value of production from cropland and non-cropland. The county land values developed from this procedure form the basis for the 2016 valuation of agricultural land for real estate tax assessment. The average value for all agricultural land in a county from this analysis is multiplied by the total acres of agricultural land on the county abstract to determine each county's total agricultural land value for taxation purposes. The State Board of Equalization compares this value with the total value assessed to agricultural property in each county.

The average value per acre of all agricultural land in North Dakota increased by 2.83 percent from 2015 to 2016 based on the value of production. Cropland value increased 3.14 percent, and non-cropland value increased by 2.55 percent. The formula capitalization rate was 4.82 percent.

The increase in the values for cropland and all agricultural land was primarily due to increased value of crop production. The value of production for most counties has been considerably higher since 2007 than for prior years. This increase in value of production is a combination of increased yields, higher prices and a change in cropping mix. The capitalization rate change increased land valuations by 2.69 percent in all counties; while the cost of production index decreased land values in all counties by 5.53 percent. The value of production increased cropland valuation between 3.55 percent up to 13.42 percent across individual counties.

Non-cropland values increased by 2.55 percent, all due to an increase in the price received for calves and cull cows.

Changes in market value are included for comparison. Market value data are from the annual County Rents and Values survey conducted by North Dakota Agricultural Statistics Service.

Key Words: Land valuation, real estate assessment, agricultural land

RESULTS OF THE NORTH DAKOTA LAND VALUATION MODEL FOR THE 2016 AGRICULTURAL REAL ESTATE ASSESSMENT

Dwight G. Aakre and Ronald Haugen¹

NORTH DAKOTA LAND VALUATION MODEL

North Dakota state statute mandates that the Department of Agribusiness and Applied Economics at North Dakota State University annually compute an estimate of 1) the average value per acre of agricultural lands on a statewide and countywide basis, and 2) the average value per acre for cropland and non-cropland (N.D.C.C. 57-02-27.2). These estimates are provided to the State Tax Department.

The model determines agricultural land values as the landowner share of gross returns divided by the capitalization rate. *Landowner share of gross returns* is the portion of revenue generated from agricultural land that is assumed to be received by the landowner, and is expected to reflect current rental rates. The Legislature has specified that the landowner share of gross returns is 30 percent of gross returns for all crops except sugar beets and potatoes (20 percent), non-cropland (25 percent), and irrigated land (50 percent of the dry land rate).

Capitalization Rate

The capitalization rate is an interest rate that reflects the general market rate of interest adjusted for the risk associated with a particular investment or asset (in this case, agricultural land in North Dakota). The Legislature specified the gross Federal Land Bank (Agri-Bank, FCB) mortgage interest rate for North Dakota be used as the basis for computing the capitalization rate. The capitalization rate used in the North Dakota Land Valuation model is a twelve-year rolling average with the high and low rates dropped. The 2003 Legislature amended the capitalization rate formula by introducing a minimum level of 9.5 percent with no upper limit. The 2005 Legislature amended the capitalization rate formula again, specifying a rate no lower than 8.9 percent to be used for the 2005 analysis. For subsequent years the capitalization rate was not to be lower than 8.3 percent. The 2009 Legislature amended the capitalization rate formula to set a minimum of 8.0 percent for 2009, 7.7 percent for 2010 and 7.4 percent for 2011. The minimum rate was allowed to sunset after 2011. The capitalization rate calculated according to the formula was used for the 2016 analysis. This rate was 4.82 percent. Lowering the capitalization rate from 4.95 percent to 4.82 percent raised the land values by 2.69 percent without any other changes.

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Cost of Production Index

Beginning with the analysis for the 1999 assessment, a cost of production index was incorporated into the land valuation model to account for the increasing proportion of the total cost of production represented by variable costs. The source of data for this index is the *Items Used For Production* from the *Prices Paid Index* published by National Agricultural Statistics Service. The index developed for this analysis was determined by averaging the values of the latest ten years after dropping the high and low values; and dividing this value by the base index. The base index was developed by averaging the index values from the years 1989 through 1995 after dropping the high and low values. The base index value is 102. The index value used in the 2016 analysis was 186.89, which resulted in a reduction in the landowner share of gross returns of 46.49 percent. The landowner share of gross returns is the amount that is capitalized to determine the land values. Therefore, land values are 46.49 percent lower than they would have been if the cost of production index was not included in the model.

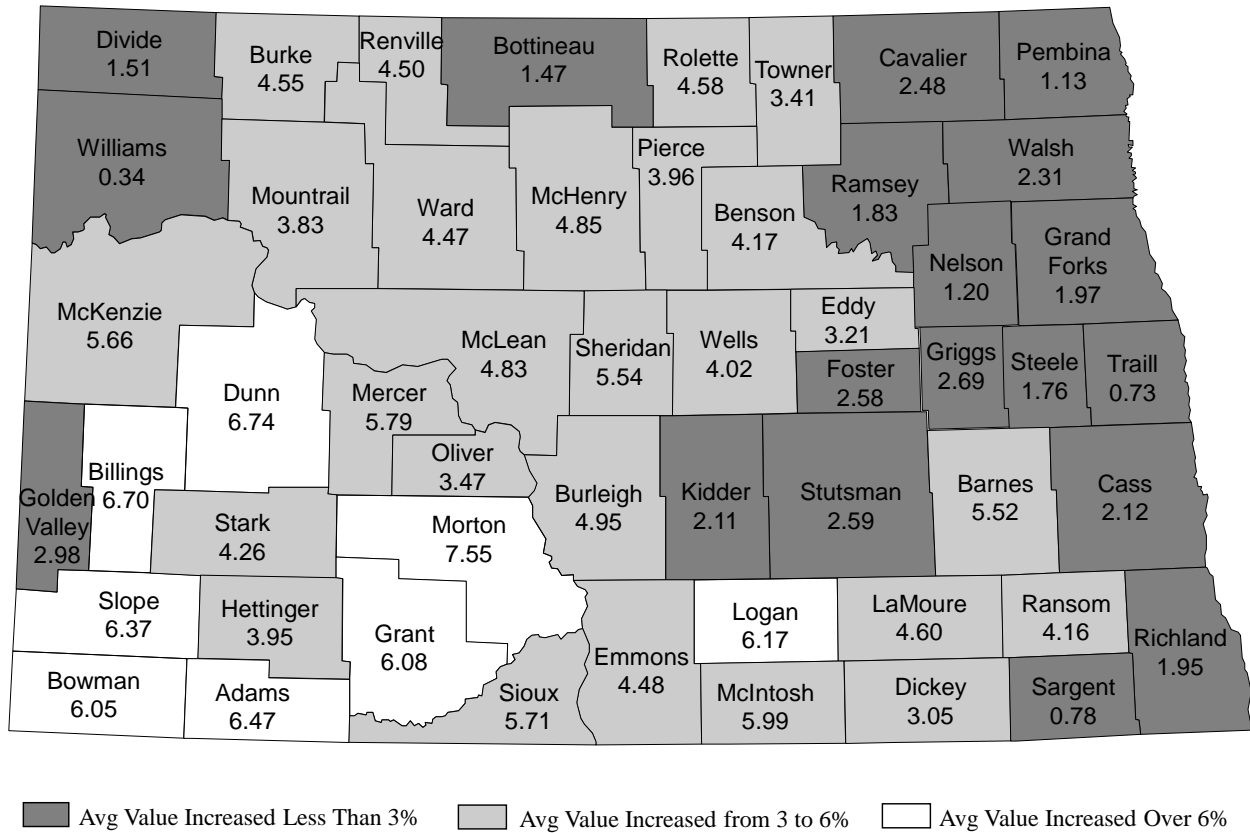
The index used for 2016 increased from 176.59 in 2015, for a one-year change of 10.30 points. This change in the cost of production index from 2015 had the effect of reducing calculated land values by 5.53 percent from 2015.

The cost of production index and the capitalization rate apply equally to all land in all counties. The net impact of the change in value from the previous year for these two factors was to lower land values by 2.84 percent. Therefore, any change in county values more or less than a negative 2.84 percent from 2015 values is due primarily to an increase or decrease in productivity. Values may be impacted by a shift in ratio between cropland and non-cropland, but this is usually a minimal change.

RESULTS: ALL AGRICULTURAL LAND VALUE

Valuation of all agricultural land in North Dakota, for the 2016 assessment, increased by 2.83 percent or \$16.88 per acre over the previous year. The largest percentage increase occurred in Morton County at 7.55 percent. The smallest increases were in Sargent, Traill and Williams Counties, all with less than 1 percent increases. Results are shown in Figure 1.

Figure 1. Percent Change in Average Productivity Value of All Agricultural Land, 2015-2016



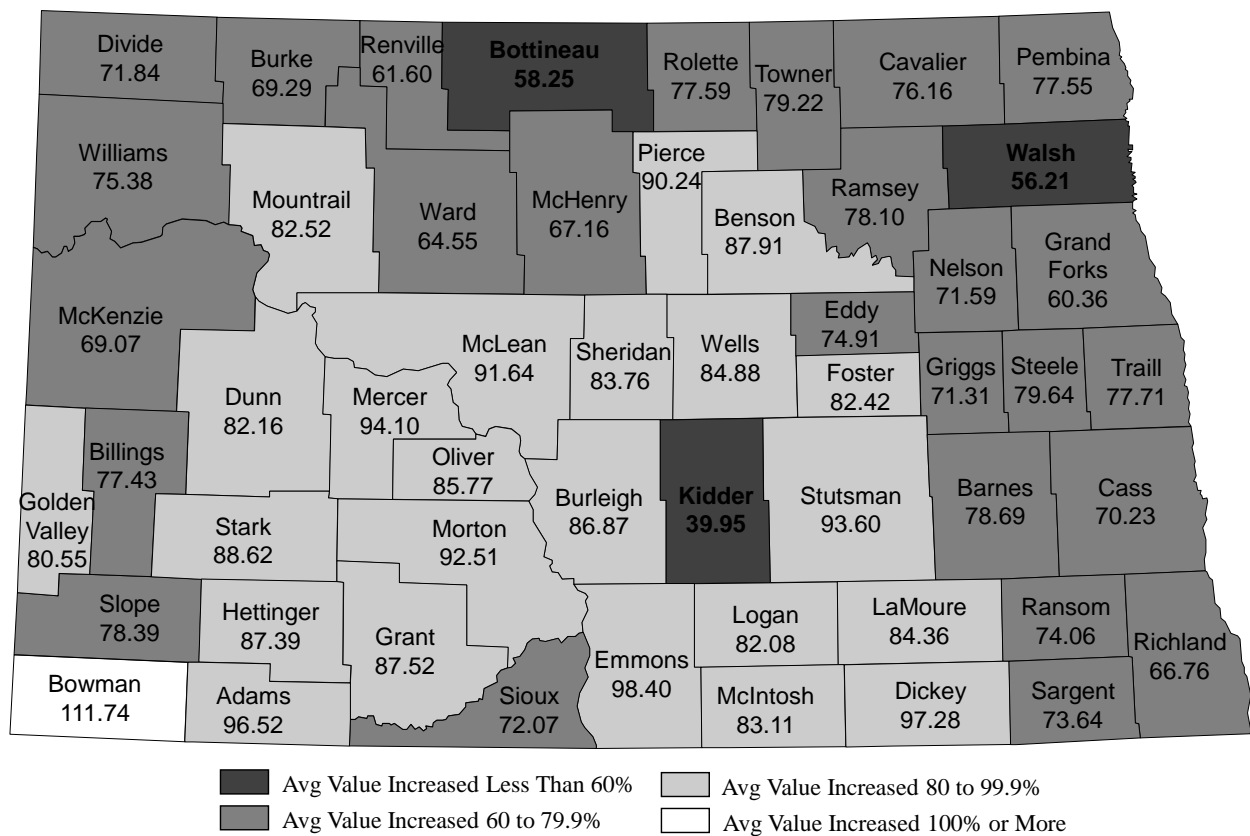
The value for all agricultural land is a weighted average of cropland and non-cropland in each county. Calculated values for cropland generally are three to five times the value of non-cropland in each county. Therefore, a shift in acres between these two categories will alter the “all land” value even if all other factors remain unchanged. County Directors of Tax Equalization are surveyed each year to determine total taxable acres of cropland and non-cropland as well as inundated land for each category. Changes in reported acres tend to be minimal most years. Shifting acres from cropland to non-cropland results in a lower value for all agricultural land independent of what happens to gross revenue, the capitalization rate and the cost of production index.

For the 2016 tax year, Golden Valley, Pembina and Williams Counties reported a significant shift in acreage from cropland to non-cropland. This change in acres resulted in a decrease in the weighted value of all agricultural land. Barnes and Traill Counties reported increases in cropland relative to non-cropland, resulting in higher all agricultural land values.

Five-Year Trend: All Agricultural Land Value

Estimated values for 2016 were compared with values estimated for 2011 to see how they have changed over time. The percent change in value by county is shown in Figure 2. The average value for all agricultural land in North Dakota increased 75.18 percent from 2011 to 2016. The values increased by 111.74 percent in Bowman County. The smallest increase over this 5-year period was in Kidder County at 39.95 percent. The increase in most counties was between 60 and 90 percent in 2016 relative to 2011.

Figure 2. Percent Change in Average Productivity Value of All Agricultural Land, 2011-2016

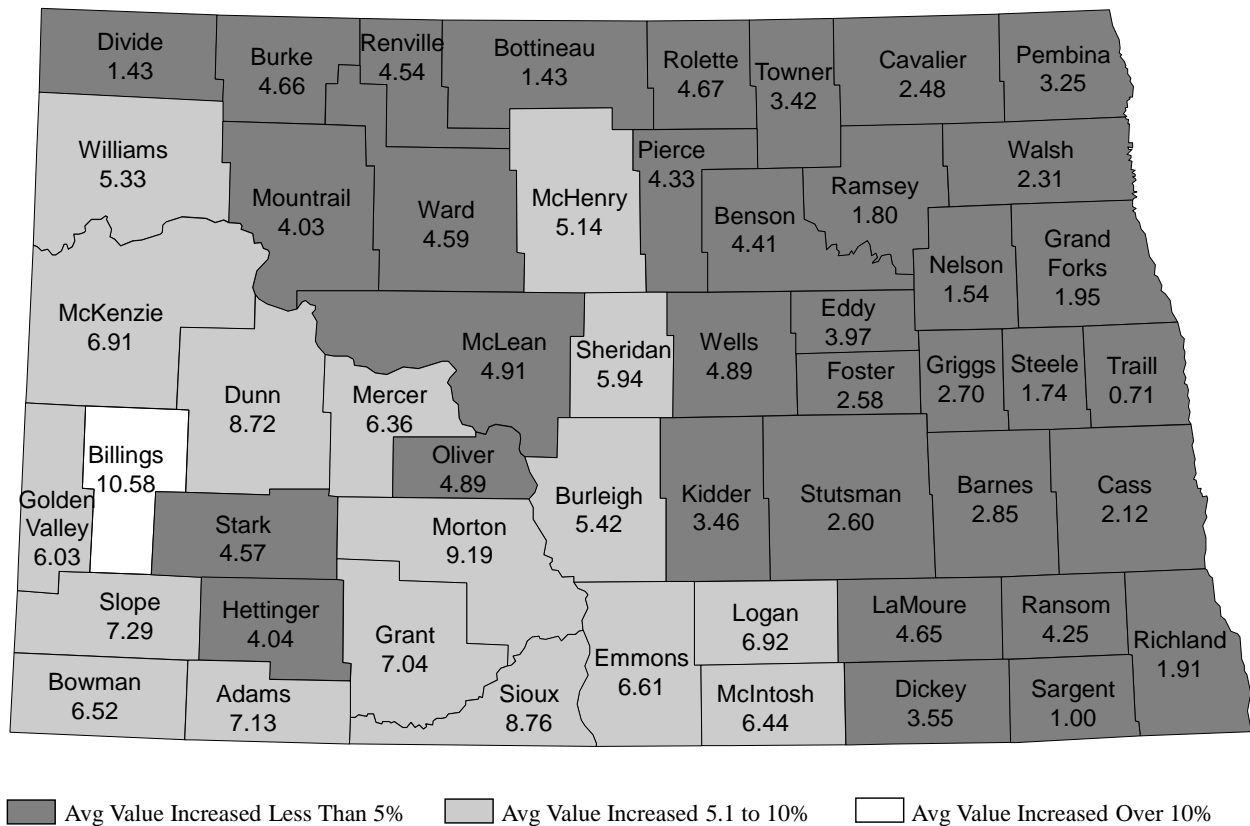


RESULTS: CROPLAND PRODUCTIVITY VALUE

The value of cropland increased an average of \$25.21 per acre for 2016 across the state. This was an increase of 3.14 percent over 2015. Cropland value increased by 10.58 percent in Bowman County, which was the only county in double figures. See Figure 3.

Changes in the capitalization rate and cost of production index impact all counties equally. The capitalization rate used for the 2016 analysis was 4.82 percent. The change in the capitalization rate increased values in all counties by 2.69 percent. The increase in the cost of production index resulted in a downward shift in land values in all counties of 5.53 percent from 2015. The net effect of these two components is that cropland values in all counties declined by 2.84 percent before any changes in productivity were included. Therefore, increased gross revenue primarily due to increased yields and higher crop prices was the cause of the increase in cropland values calculated for 2016.

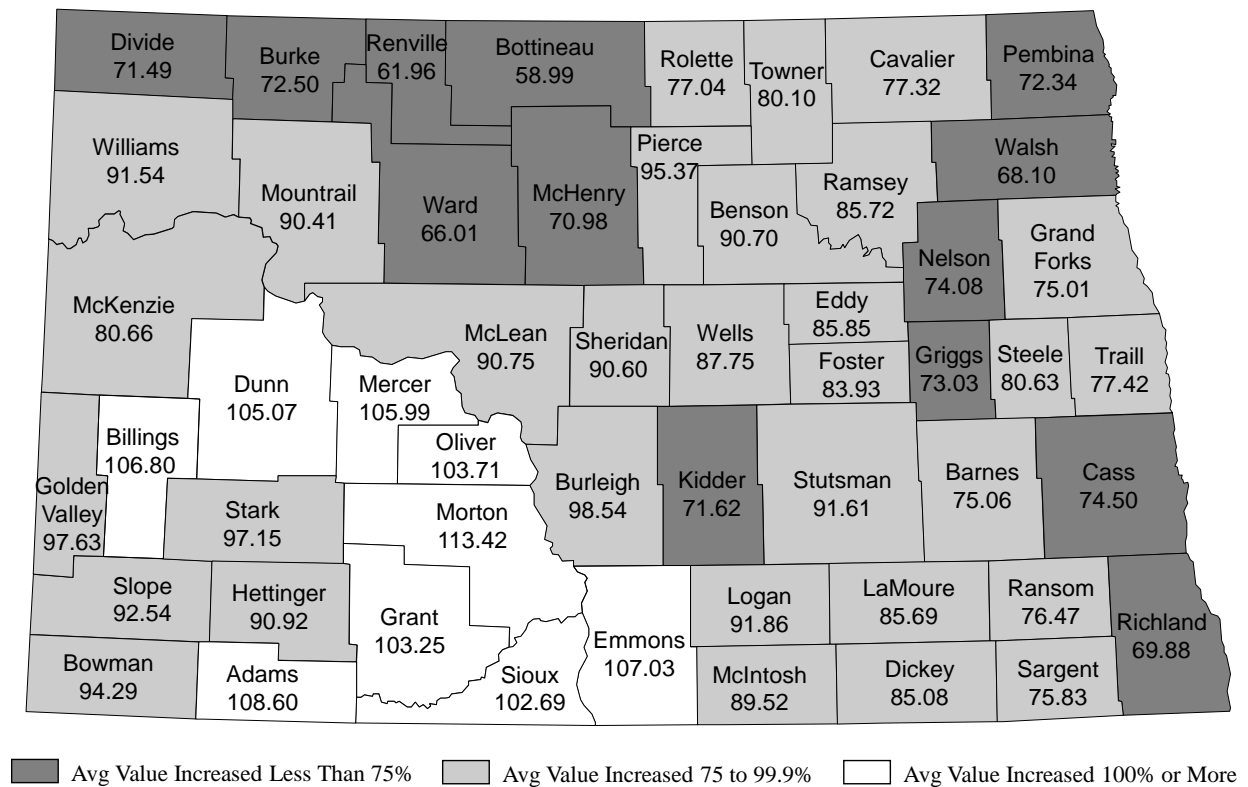
Figure 3. Percent Change in Average Productivity Value of Cropland, 2015-2016



Five-Year Trend: Cropland Productivity Value

Cropland value based on the value of production has increased in all counties from 2011 to 2016. The average value of North Dakota cropland was 78.94 percent higher in 2016 than in 2011. The rate of increase has been highly variable around the state as can be seen in Figure 4. The smallest increase in cropland value over this 5-year period was in Bottineau County at 58.99 percent. The largest increase was in Morton County at 113.42 percent. Value of cropland increased by more than 100 percent in eight additional counties.

Figure 4. Percent Change in Average Productivity Value of Cropland, 2011-2016



RESULTS: NON-CROPLAND PRODUCTIVITY VALUE

The value of non-cropland (grazing land) based on the value of production increased by 2.55 percent or \$3.57 per acre for the 2016 assessment. The value of non-cropland is derived by calculating the value of the beef produced from grazing. The carrying capacity and the production per cow are held constant in the model. As a result, all change in non-cropland value is due to changes in the price of calves and cull cows and changes in the capitalization rate and the cost of production index. All of these factors apply equally across all counties. Therefore, all counties experienced the same percentage increase in non-cropland values relative to 2015.

The price of calves and cull cows are used to determine the value of an animal unit month (AUM) of grazing. AUM is used as the measure of productivity of grazing land. Based on the price of calves and cull cows, an AUM had a value of \$171.85 for the 2014 marketing year, the most recent year added to the data set. This was up from \$115.14 the previous year. The AUM value used to determine productivity, is based on the average of the latest ten years after dropping the high and low years. Therefore, the average gross return is heavily influenced by the comparative values for the latest year added to the data set, relative to the year just removed from the data set. The average value per AUM for 2004, the year rolled out of the data set for this analysis, was \$78.01. As a result, the increase in value for non-cropland is a combination of an increase due to the increase in the value of production, a decrease due to the increase in the cost of production index and the increase due to the lower capitalization rate.

Five-Year Trend: Non-Cropland Value

Non-cropland values increased \$44.45 per acre from 2011 to 2016. This is a 44.84 percent average increase for the state over this five-year period. All counties experienced the same change.

CAPITALIZED AVERAGE ANNUAL VALUES PER ACRE BY COUNTY

Two tables are provided displaying county values for 2015 and 2016. North Dakota Capitalized Average Annual Values per Acre by County for 2015 are shown in Table 1. North Dakota Capitalized Average Annual Values per Acre by County for 2016 are shown in Table 2.

Table 1. North Dakota Capitalized Average Annual Values Per Acres by County for 2015**Assessments**

<u>County</u>	<u>Cropland</u>	<u>Non-cropland</u>	<u>All Agricultural Land</u>
Adams	477.78	130.71	346.07
Barnes	982.84	181.67	844.38
Benson	771.00	160.81	637.63
Billings	387.07	122.42	206.57
Bottineau	670.51	155.56	583.92
Bowman	471.52	108.08	337.48
Burke	591.31	143.03	454.77
Burleigh	616.57	143.64	401.81
Cass	1,222.83	184.65	1,165.63
Cavalier	932.12	157.78	824.68
Dickey	1,020.40	181.21	810.92
Divide	572.73	142.22	467.18
Dunn	482.22	130.51	262.07
Eddy	685.05	161.62	512.64
Emmons	799.80	142.22	533.87
Foster	897.58	155.56	765.00
Golden Valley	510.71	107.07	283.81
Grand Forks	1,134.95	181.21	967.94
Grant	506.06	131.11	314.29
Griggs	841.41	158.38	690.17
Hettinger	663.84	130.10	531.38
Kidder	540.00	145.05	311.52
LaMoure	1,059.80	187.47	945.12
Logan	654.34	143.03	407.50
McHenry	543.23	154.55	423.41
McIntosh	692.73	142.22	479.30
McKenzie	497.37	130.91	278.04
McLean	750.30	142.63	657.24
Mercer	571.72	130.30	380.57
Morton	575.35	130.71	318.26
Mountrail	638.59	142.02	431.31
Nelson	698.59	157.58	603.84
Oliver	663.03	131.11	353.08
Pembina	1,323.23	188.69	1,242.83
Pierce	686.06	154.75	570.05
Ramsey	767.88	162.02	623.51
Ransom	998.59	178.59	753.81
Renville	721.21	155.15	677.52
Richland	1,288.69	183.43	1,115.98
Rolette	663.23	157.37	583.99
Sargent	1,064.65	183.03	933.55
Sheridan	639.19	142.22	446.33
Sioux	489.09	130.71	208.83
Slope	559.60	119.19	327.06
Stark	565.66	131.31	403.71
Steele	1,150.91	161.01	1,014.32
Stutsman	875.96	178.99	681.23
Towner	773.13	161.62	743.99
Traill	1,366.06	183.03	1,280.52
Walsh	1,123.23	168.89	952.51
Ward	712.53	142.02	578.68
Wells	881.01	156.16	754.71
Williams	583.84	142.42	414.84
State	804.04	8 140.00	596.90

Table 2. North Dakota Capitalized Average Annual Values Per Acres by County for 2016**Assessments**

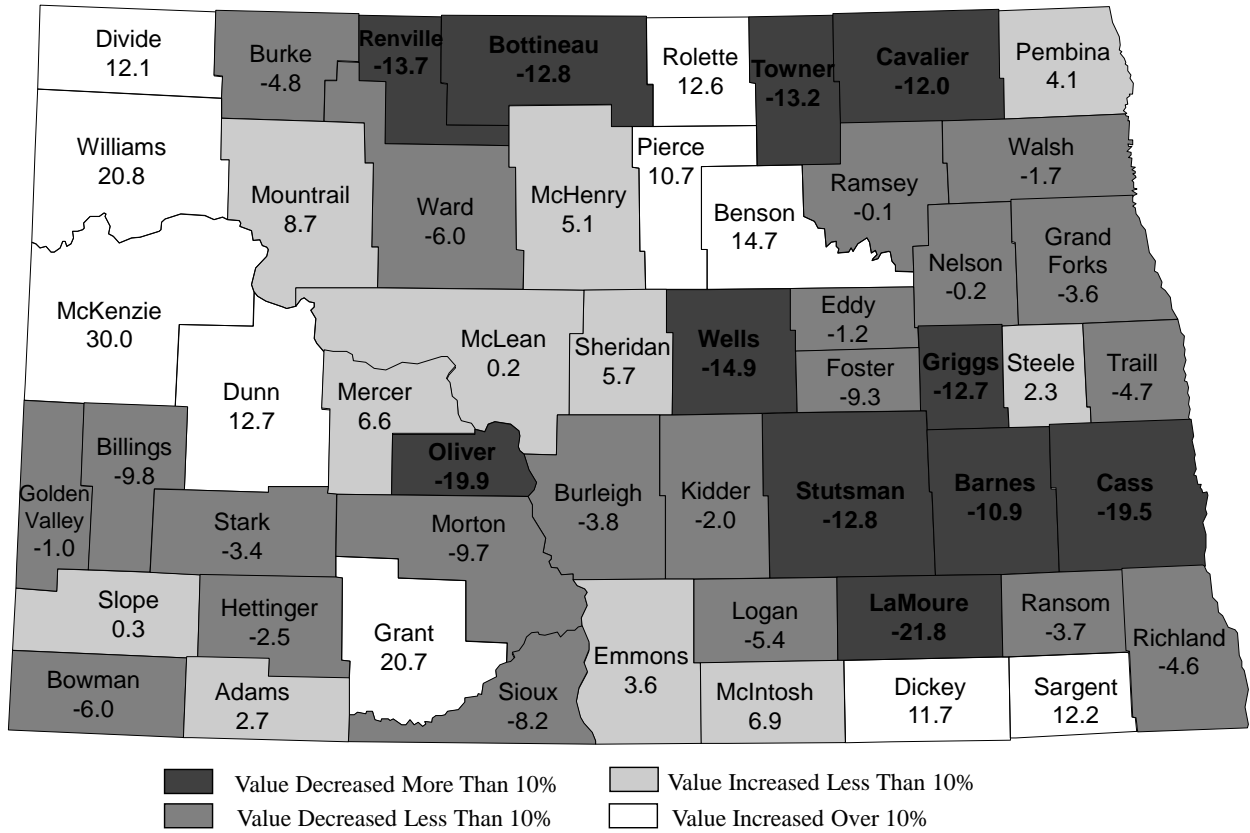
<u>County</u>	<u>Cropland</u>	<u>Non-cropland</u>	<u>All Agricultural Land</u>
Adams	511.83	134.02	368.45
Barnes	1,010.82	186.18	890.99
Benson	805.00	164.73	664.19
Billings	428.01	125.52	220.40
Bottineau	680.08	159.54	592.50
Bowman	502.28	110.79	357.89
Burke	618.88	146.68	475.46
Burleigh	650.00	147.10	421.69
Cass	1,248.76	189.21	1,190.39
Cavalier	955.19	161.83	845.11
Dickey	1,056.64	185.68	835.67
Divide	580.91	145.85	474.24
Dunn	524.27	133.61	279.73
Eddy	712.24	165.56	529.08
Emmons	852.70	145.64	557.81
Foster	920.75	159.34	784.70
Golden Valley	541.49	109.75	292.28
Grand Forks	1,157.05	185.89	986.99
Grant	541.70	134.44	333.40
Griggs	864.11	162.45	708.75
Hettinger	687.34	133.40	549.88
Kidder	563.49	148.55	320.13
LaMoure	1,109.13	192.12	988.58
Logan	699.59	146.68	432.64
McHenry	571.16	158.51	443.95
McIntosh	737.34	145.85	508.02
McKenzie	531.74	134.23	293.79
McLean	787.14	146.27	689.00
Mercer	608.09	133.61	402.62
Morton	628.22	133.82	342.30
Mountrail	664.32	145.64	447.81
Nelson	709.34	161.41	611.06
Oliver	695.44	134.23	365.34
Pembina	1,366.18	193.36	1,256.90
Pierce	715.77	158.51	592.61
Ramsey	781.74	165.98	634.93
Ransom	1,041.08	182.99	785.18
Renville	753.94	158.92	708.02
Richland	1,313.28	187.97	1,137.69
Rolette	694.19	161.20	610.72
Sargent	1,075.31	187.55	940.83
Sheridan	677.18	145.85	471.04
Sioux	531.95	134.02	220.76
Slope	600.41	122.20	347.91
Stark	591.49	134.65	420.92
Steele	1,170.95	164.94	1,032.14
Stutsman	898.76	183.40	698.89
Towner	799.59	165.56	769.38
Traill	1,375.73	187.55	1,289.82
Walsh	1,149.17	173.03	974.55
Ward	745.23	145.64	604.55
Wells	924.07	159.96	785.04
Williams	614.94	146.06	416.27
State	829.25	143.57	613.78

MARKET VALUE OF FARM LAND IN NORTH DAKOTA

The North Dakota Land Valuation Model was designed to estimate the value of agricultural land dependent solely on the revenue generated from the production of crops and beef cattle. The results of this model were not intended to reflect market value. Market value of farm land is influenced by numerous factors in addition to its productivity value. These include farm enlargement to gain economies of scale, land as an investment, recreational uses, development potential and the effect of government fiscal, monetary and tax policies. As a result, market value and productivity value often differ by a significant amount.

The North Dakota Agricultural Statistics Service conducts an annual survey of farmers and ranchers to obtain rental rates and the value of rented land. The data from the 2016 survey are compared with the 2015 survey for cropland and pasture. Changes in market values by county for cropland varied widely across the state. This survey showed values declined in thirty-two counties, twenty-one by less than 10 percent. However, greater than 10 percent decreases were reported in eleven counties. At the opposite end of the price change spectrum were increases of 30.0 percent in McKenzie County, 20.8 percent in Williams County, and 20.7 percent in Grant County. Percentage changes in market value for cropland by county are shown in Figure 5.

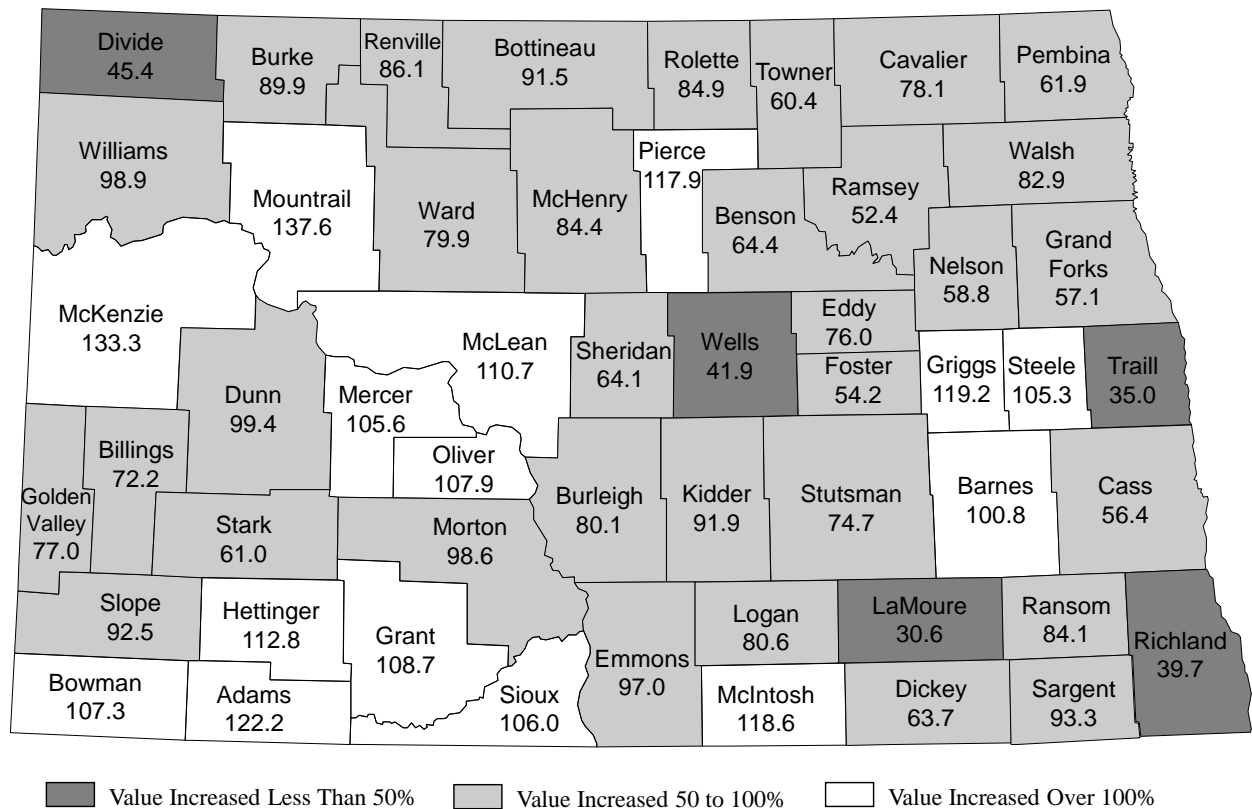
Figure 5. Percent Change in Estimated Market Value of Cropland, 2015-2016



Five-Year Trend: Market Value of Cropland

The estimated market value of cropland reported by NASS has increased significantly more than the increase in productivity value from 2011 to 2016. Cropland values increased by more than 100 percent in fifteen counties, distributed throughout the state. Estimated market values increased less than 50 percent in five counties. The largest reported increase was 137.6 percent in Mountrail County. LaMoure County had the smallest increase of 30.6 percent. Percentage changes in cropland market values are shown in Figure 6.

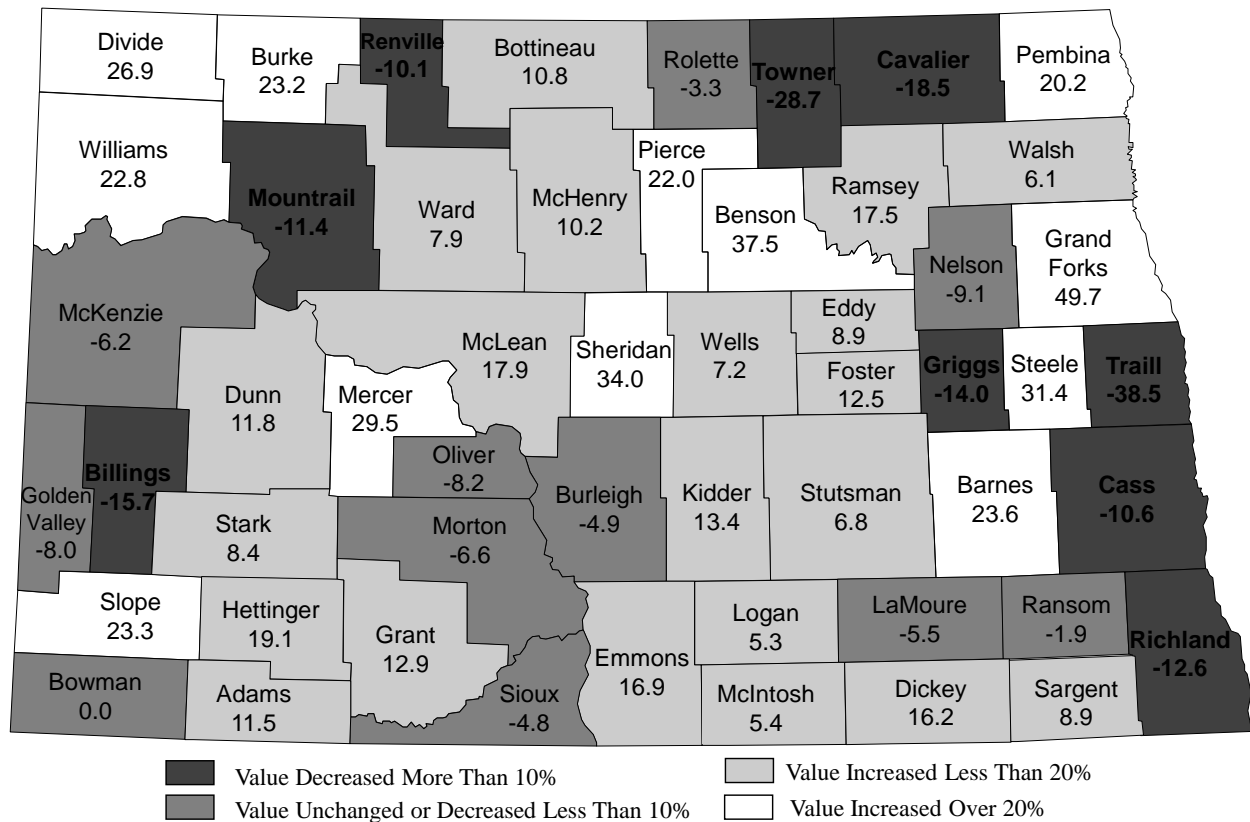
Figure 6. Percentage Change in Estimated Market Value of Cropland, 2011-2016



Market Value of Pasture

The change in market value of pasture was highly variable across the state. Nineteen counties reported a decrease in value from 2015. Pasture values increased less than 20 percent in 21 counties. Values increased more than 20.0 percent in 12 counties. Bowman showed no change in value from 2015. Percentage changes in the market value of pasture are shown in Figure 7.

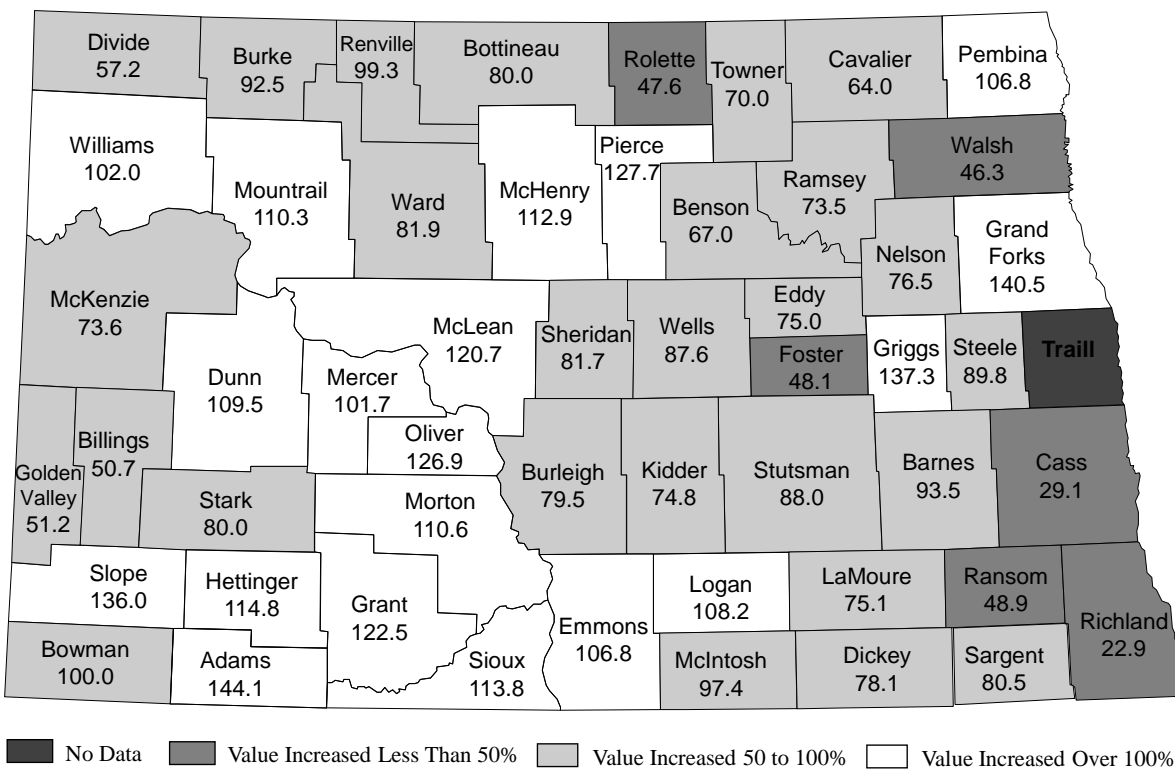
Figure 7. Percent Change in Estimated Market Value of Pasture, 2015-2016



Five-Year Trend: Market Value of Pasture

Since 2011, market value estimates of pasture have increased significantly across the state. Increases have been extremely variable across county lines. See Figure 8. Nineteen counties showed increases greater than 100 percent. Values increased between 50 and 100 percent in 27 counties. Six counties showed increases of less than 50 percent. Data were missing for Traill County.

Figure 8. Percentage Change in Estimated Market Value of Pasture, 2011-2016



CONCLUSIONS

Valuation of all agricultural land in North Dakota, based on productivity, increased by 2.83 percent or \$16.88 per acre for the 2016 assessment as compared to the previous year. The average value of all agricultural land increased in all counties. The largest increase was in Morton County at 7.55 percent. Values increased less than 3 percent in 19 counties and between 3 and 6 percent in 26 counties. Values increased more than 6 percent in 8 counties, primarily in the southwest.

Valuation of cropland in North Dakota increased \$25.21 per acre. This was a 3.14 percent increase over 2015. Non-cropland values for all counties increased by 2.55 percent from the previous year. The production of grazing units is held constant for non-cropland, only the values per unit change from year to year. The price of cull cows and calves, cost of production index and the capitalization rate are applied uniformly across all counties. Therefore, the percentage change in non-cropland value is the same for all counties.

The increase in values for cropland and all agricultural land was primarily due to an increase in the crop revenue. The analysis for 2016 added data from 2014 and dropped data from 2004. The crop revenue for most counties has been considerably higher since 2007 than prior years. Ten years of data are included in the analysis, however, the high and low years are dropped to calculate an Olympic average. This increase in crop revenue is a combination of increased yields, higher prices and a change in cropping mix. The change in crop revenue caused an increase in land values of 3.55 percent to as much as 13.42 percent by county. The decline in the capitalization rate resulted in an increase of 2.69 percent in land values. This change was more than offset by the increase in the cost of production index. The cost of production index decreased land values in all counties by 5.53 percent.

The increase in non-cropland value was due almost entirely to the increase in the 2014 price for calves and cull cows. As with cropland, the capitalization rate decrease and the increase in the cost of production index offset each other.

The capitalization rate used for the 2016 analysis was the legislative formula rate of 4.82 percent.

The cost of production index increased 10.30 points over the previous year, to 186.89. The cost of production index reduced the landowner share of gross returns by 46.49 percent before this value was capitalized.

Changes in market value of cropland and pasture, based on the survey of farmers and ranchers by North Dakota Agricultural Statistics Service, is included for comparison. Reported market values changed considerably more than productivity values from 2015 to 2016. However, market value changes were both negative and positive across the state. This is expected due to the additional factors that influence market values along with the current weakness in land markets since the decline in crop prices began in 2013.

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