Mary Ahearn and David Banker

Urban Farming Has Financial Advantages

Nearly a third of all U.S. farms are in metro areas. Farms in the city's shadow produce most of the Nation's high-value crops (like fruits and vegetables), account for nearly a third of the total value of U.S. farm sales, and generally have a stronger financial position than nonmetro farms.

An area's level of urbanization influences farm size, production specialty, and financial characteristics. Farms in metro counties have higher per-acre farmland values, lower average farm incomes, and higher average off-farm incomes.

The common belief that farms are in isolated rural farming communities is less true today than ever. Although most U.S. farms are in nonmetro areas, 31 percent were in metro areas and they accounted for 29 percent of farm sales in 1987. All but one of the top 10 counties in terms of the number of farms are metro counties.

The remaining 69 percent of U.S. farms were located in the 2,443 nonmetro counties and they had about 71 percent of total farm sales. Most of these farms are in counties that are not adjacent to metro counties, making farm operators and their households even more removed from the effects of urbanization. The differences in the community settings of metro and nonmetro farms are a major cause of the differences in the opportunities and challenges facing farming operations and their households between the two areas. Some types of farming operations and practices simply are incompatible with high levels of urbanization: operations that require large amounts of land, or farming practices that may have undesirable or even unhealthy effects on the surrounding environment, such as field-burning or heavy pesticide use.

For farming operations that do not require large tracts of land and can coexist with nearby populated areas without imposing large environmental costs, the financial benefits to farm businesses and households are significant. The benefits can go both ways too—communities assess special lower tax rates on nearby farmland, often for esthetic reasons and as a means to limit urban sprawl. Lower tax rates for farmland can help make farming in metro areas more attractive and feasible.

Here's how the key farm financial variables stack up between metro and nonmetro areas.

Land Values and Taxes

Almost 85 percent of U.S. farmland was in nonmetro areas in 1987. Of the land owned by farm operators in nonmetro areas, the value per acre was $855 in nonmetro areas adjacent to metro areas, $450 in nonmetro areas not adjacent to metro areas, and $1,950 in metro counties. Although the average nonmetro farm is larger (in acres) than the average metro farm, the lower per-acre value means that the average total value of all land and buildings per farm is actually less. The trends are similar for rented land. Cash rents, for example, averaged $38 per acre of cash-rented land in metro areas, $22 in nonmetro counties adjacent to metro areas, and $16 in nonmetro counties not adjacent to metro areas.

These large differences in land values and cash rents can be explained by the land's ability to generate income. An acre of farmland in a metro area generates more income on average than an acre of farmland in a nonmetro area. Metro farms are more likely than nonmetro farms to produce high-value commodities, such as fruits, vegetables, and nursery and greenhouse products. By definition, high-value commodities use less land relative to their market value. Their production is more economically suited to metro areas, where land is more expensive, than commodities that require many acres of land, such as cash grains. For example, of the top 10 counties in terms of the market value of agricultural commodities, all but 2 are metro counties; but most top 10 counties in terms of cropland are nonmetro. The value of crop and livestock sales per acre in metro areas in 1987 was $234, in nonmetro-adjacent areas it was $145, and in nonmetro-nonadjacent areas it was $94. More than two-thirds of the most common high-value commodity operations, that is vegetable, fruit, and nut farms, greenhouses, and nurseries, are in metro areas.

USDA photo

Farms in the city's shadow accounted for a third of all farms, two-thirds of all high-value farms, and a third of total farm sales.

About the Data

Data in this article are based on the 1987 Farm Costs and Returns Survey, USDA. The survey is known to undercount farms compared with the official number of U.S. farms, particularly the smaller farms. The 1987 survey data by metro status appear to be in line compared with the most recent year for the only other agricultural data available by metro status, the 1982 Census of Agriculture.

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High-value production is more likely to be found in metro areas because of the higher perishability of many of these commodities and the economic advantage of being closer to final markets. However, with improved transportation and refrigeration, fresh fruits and vegetables are now produced year-round in southern climates and shipped throughout the country, reducing the importance of proximity to final markets.

A second reason for lower farmland values in nonmetro areas is lower expectations about the land's current and future value compared with metro areas. As urbanization increases, nonfarm uses of farmland become more likely, bidding land values up. As this occurs, farmland owners receive "income" in the form of unrealized capital gains on the value of their land. The value of the farm operator's home also rises because of the higher value of housing in metro areas.

The tax rate per dollar of farmland value is similar across county types and even slightly lower in metro areas. However, the higher per-acre land value in metro areas means higher per-acre taxes to farm businesses there.

Farm and Off-Farm Income

The average total income of farm operator households from all sources is similar without regard to location: $42,482 for metro areas, $39,174 for nonmetro-adjacent areas, and $43,257 for nonmetro-nonadjacent areas. However, the share of income from farm and off-farm sources differs dramatically. Farm operator households in metro areas received more than 75 percent of their income from off the farm in 1987. In nonmetro-adjacent areas, off-farm income was 60 percent and in nonmetro-nonadjacent areas 45 percent of household income. The proportion of off-farm income from each of the off-farm sources (such as wage and salary income, business income, interest and dividend income) is similar no matter what the level of urbanization. Farms are generally larger and off-farm employment opportunities scarcer in nonmetro areas. About half of the metro farm operators reported that they spent most of their work time at occupations other than their farms, compared with a third of nonmetro farm operators. These differences in employment practices exist even though the age and educational characteristics of metro and nonmetro farm operators are similar.

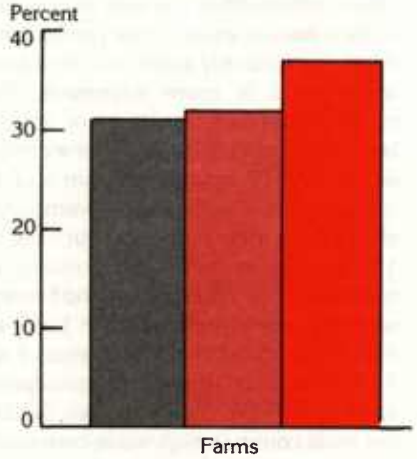
Financial Position

The pivotal roles of farmland values and off-farm incomes are reflected in the differences in overall financial position of metro and nonmetro farm operator households. About 7 percent of all U.S. farm operator households are in the most vulnerable financial position; that is, a farm debt/asset ratio above 0.40 (which means that their debts amount to 40 percent or more of the value of their assets) and negative net cash household income from farm and off-farm sources after debt obligations and family living expenses are met. For farm operator households in metro areas, only 4 percent are in the most vulnerable position, compared with 7 and 9 percent in adjacent and nonadjacent nonmetro areas.

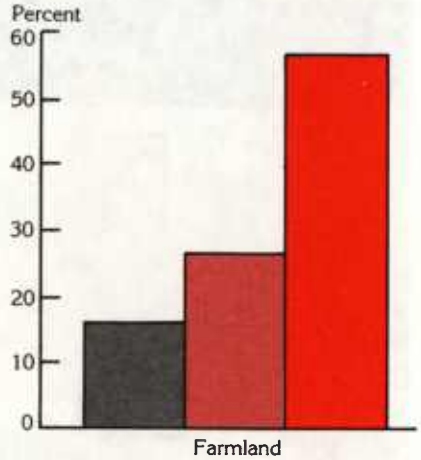
Regional Differences

The geographical distribution of farms by degree of urbanization differs across the 10 farm production regions, in part because some regions are more urbanized than others (see map). The Pacific, Northeast, and the Southeast regions have the greatest number of their farms in metro areas. These three regions are also the regions with the greatest number of high-value commodity farms, most of which are located in metro areas. For example, the Pacific region alone has over 40 percent of all high-value commodity farms in the United States. Most of these farms are located in metro areas of California. The Northern Plains region is at the other extreme with only 5 percent of its farms in metro areas, 15 percent in nonmetro-adjacent areas, and 80 percent in nonmetro-nonadjacent areas. Although that region has approximately 9 percent of all U.S. farms,

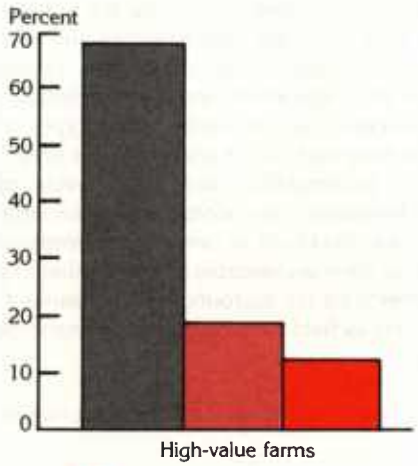
Metro farms make up a third of all U.S. farms . . .



. . . on less than a fifth of total farmland . . .



. . . with two-thirds of all high-value farms.



Metro counties

Nonmetro adjacent counties

1987 data.

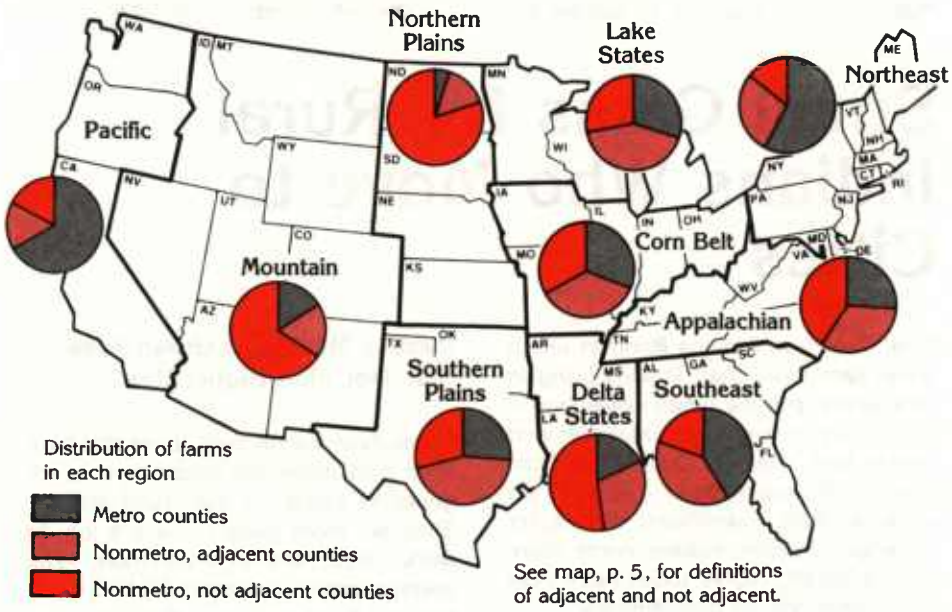
it has only 1 percent of the high-value farms.

Each region exhibits the same general financial trends: farms in metro areas operate fewer acres and produce more high-value commodities than farms in nonmetro areas; farmland values are highest in metro areas, lowest in nonmetro, nonadjacent areas; farm operator households in metro areas depend more on off-farm income than those in less urbanized areas; and farms in metro areas are less likely to be in a financially vulnerable position.

* * *

The overall farm economy has recovered from the financial stress of the early part of the decade. Farm operator households in metro and nonmetro areas have shared in the recovery, although nonmetro households less than metro. Two major reasons for this difference are fewer off-farm employment opportunities and lower appreciation of land values in nonmetro areas. Many types of farming operations will continue to be concentrated in nonmetro areas or simply decrease in number because of basic incompatibilities with the higher population densities of metro areas and the higher cost of land which prevents certain types of farming from being economically viable. However, proposed policy changes to international trade agreements and Government commodity programs have greater potential to affect the financial position and viability of farm operator households in nonmetro areas because they produce commodities, such as cash grain and cotton, most affected by the proposed policies. RDP

Farms on East, West coasts are more commonly located in metro areas



See map, p. 5, for definitions of adjacent and not adjacent.

For Additional Reading...

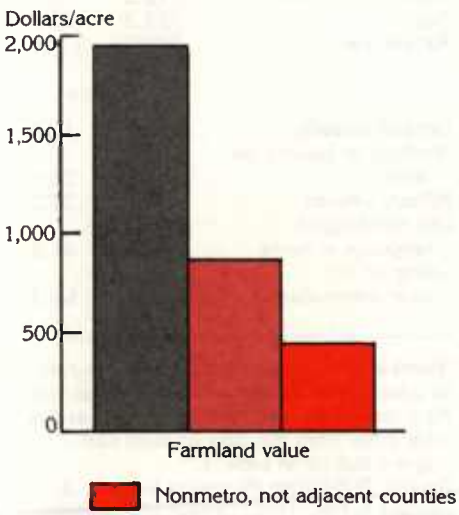
Mary Ahearn, Susan Bentley, and Thomas Carlin, *Farming Dependent Counties and the Financial Well-Being of Farm Operator Households*, AIB-544, July 1988, U.S. Dept. of Agr., Econ. Res. Serv.

Ralph Heimlich, "Metropolitan Growth and High-Value Crop Production," in *Vegetable and Specialties Situation and Outlook*, TVS-244, Feb. 1988, pp. 17-26.

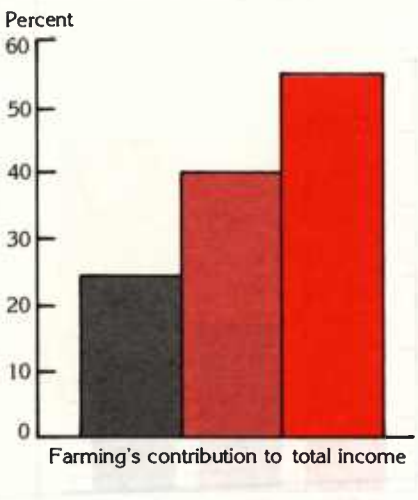
U.S. Dept. of Agr., Econ. Res. Serv., *Economic Indicators of the Farm Sector: Farm Sector Review, 1986,* ECIFS 6-3, Jan. 1988.

U.S. Dept. of Agr., Econ. Res. Serv., *Agricultural Income and Finance Situation and Outlook Report*, AFO-29, May 1988.

Metro farmland is worth more than twice as much per acre as nonmetro farmland.



Metro farm households are far less dependent on farm income than nonmetro farm households . . .



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