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Farmland Ownership Transfer: Patterns and Implications

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska - Lincoln

Farmland Ownership Transfer: Patterns and Implications

Market Report	Yr Ago	4 Wks Ago	6/14/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$ *	\$66.89	\$63.96
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	95.25	87.75	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	103.93	95.39	88.98
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	117.94	106.57	100.46
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	53.50	37.00	34.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	45.52	*	18.16
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	138.40	*	100.30
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	72.62	67.85	81.60
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	171.00	141.15	150.32
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.11	2.89	3.17
Corn, No. 2, Yellow Omaha, bu	1.67	1.95	1.94
Soybeans, No. 1, Yellow Omaha, bu	4.38	4.78	4.79
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.23	3.50	3.48
Oats, No. 2, Heavy Minneapolis, MN, bu	1.46	2.13	2.21
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	102.50	105.00	112.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	92.50	60.00	60.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	90.00	90.00
* No market.			

While the market for agricultural real estate is unique in numerous ways, one very significant way is the low rate of ownership turnover. For many market participants, the buying or selling of farmland may be a once-in-a-lifetime event. Numerous agricultural properties continue to remain under a family's ownership for generations. Even in those instances where individuals are actively buying and selling agricultural real estate, the activity is still relatively infrequent. In short, agricultural land tenure is very stable.

Just how active, in terms of ownership turnover rate, is the market of agricultural real estate in Nebraska? Historically, this has not been easy to answer, even though all real estate ownership transfers are recorded and publically accessible in county courthouse records. Any aggregate estimates of this activity beyond localized measures was too cumbersome to do. However, for several years now, Nebraska statutes have required that a real estate transfer statement (commonly referred to as a 521 Statement) be officially filed in public record for each transfer. These transfer statements have been compiled into an electronic database maintained by the Nebraska Department of Property Assessment and Taxation. This file, of all real estate transfers, can be sorted into the general classes of real estate such as residential, commercial and agricultural. Using this database for the agricultural real estate transfers, we were able to observe, for the first time, county and state detail of the magnitude of real estate activity. We compiled total acreage transferred for each county for the three-year period, June 1998 to June 2001. We then divided this total transfer acreage by three to get an annual average acreage, which was then expressed as a



percentage of total agricultural acreage for each respective county and the state as a whole. These annual percentages of ownership transfer are presented in Figure 1.

The actual ownership turnover rates not only confirm our *conventional wisdom*, but actually suggest the rates are even more limited than what we once thought. For the state as a whole, the rate of ownership turnover has averaged less than three percent per year. And in more than half of the counties, the turnover rate has been even lower – less than 2 percent per year. What this infers is that only about 1.2 million acres of Nebraska’s 46 million acres of farmland changes ownership annually. It also suggests that for a given parcel of land, ownership typically changes hands no more frequently than once every 35 to 40 years!

Furthermore, it is also important to recognize that the market for agricultural real estate is actually only a sub-set of this ownership turnover. Obviously, a significant amount of ownership transfers occur within families and organizations and may not even involve dollar transfers. They are not true *arms-length* transactions arising from negotiated financial agreements in an active real estate market. Consequently, one must conclude that the actual market for agricultural real estate in Nebraska is extremely thin.

This situation carries a number of implications. First, the fact that so little of the agricultural land base is offered on the market at any given point in time certainly contributes to a generally robust bidding on the demand side of the market, whatever the short-run economic conditions may be. Active farm buyers, seeking to expand the land base of their operations, cannot wait for better economic times – they must buy it when it becomes available. Moreover, for the individual who would like to acquire a specific parcel, such as an adjoining property, he/she will likely bid even more aggressively for it, knowing it may be a once-in-a-lifetime opportunity. In essence, this inelasticity of the supply side of the market explains much of the recent strength of agricultural land values in the face of rather dismal aggregate net farm income levels for Nebraska.

A second implication pertains to the process by which Nebraska assesses agricultural land for property tax purposes. Unlike the majority of other farm states which assess agricultural land on the basis of an income-capitalization approach, Nebraska relies upon a market approach, essentially assigning assessed value on the basis of recent representative sales in the market. To be sure, the market itself can be the best indicator of value **if** it is active. But if, as these data suggest, it is extremely thin, then what we have is a situation in which there are simply too few transactions to truly test the market. Moreover, given the fact that land is classified into some 24 unique land classes for assessment purposes, the acreage amount of each particular land class that actually shows up in recent *arms-length* transactions may be paltry. The county assessor then must assign assessed value to perhaps thousands of acres in that land class on the basis of sales of a few hundred acres or less. The implication should be obvious – the current basis of relying upon the market for agricultural land assessment could certainly be challenged on the basis of insufficient sales activity.

Finally, limited agricultural land market activity implies that local land markets tend to be increasingly restricted on the demand side to relatively few individuals who have both the financial means and first-hand market experience. And while we are far from being in a situation of a *landed aristocracy*, nevertheless, these are not markets open to the vast majority of people.

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