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Nebraska Farm Real Estate Market Developments in 1979-80

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DEPARTMENT OF
AGRICULTURAL
ECONOMICS

REPORT NO. 105
JUNE 1980

NEBRASKA FARM REAL ESTATE MARKET DEVELOPMENTS IN 1979-80

THE AGRICULTURAL EXPERIMENT STATION
UNIVERSITY OF NEBRASKA-LINCOLN
INSTITUTE OF AGRICULTURE AND NATURAL RESOURCES

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June, 1980

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The authors wish to express their appreciation to the survey reporters for their participation in completing and returning the Nebraska farm real estate market survey questionnaire. Without their efforts and interest, the availability and publication of the data within this report would not be possible. Special thanks is also extended to the Federal Land Bank of Omaha for providing the farmland sales data for Nebraska published in this report.

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Summary and Outlook

The Department of Agricultural Economics conducted its third annual farm real estate market survey for 1979-80. Questionnaires were mailed in January, 1980 to nearly 500 survey reporters across Nebraska which included rural appraisers, real estate brokers, professional farm managers, and farm mortgage lenders.

These reporters estimated the average per acre value of farmland in their respective or surrounding counties as of February 1st for both 1979 and 1980 by the major land uses for that area. With exception of center pivot irrigated land in the Northwest Crop Reporting District, land values generally demonstrated strong gains during 1979 with the largest increases being reported in the East, Northeast and Southwest Districts. Additional information in the survey was collected for current farm real estate market developments, seller financing (land contracts) and cash rental rates for Nebraska.

Given the economic problems and uncertainties of the past few months, a follow-up telephone survey was conducted in May among a sample of survey reporters to determine any further changes in Nebraska's farm real estate market than earlier reported. These results indicated that land values had remained relatively stable since February 1, 1980. However, many mentioned that there had been little or no market activity since the early months of 1980.

This present "market mood" may well be indicative of the outlook for the remainder of 1980; namely, a generally less active market with fairly stable land values into 1981. Some forced sales due to farm financial problems may occur toward the end of 1980, but these sales are not expected to be prevalent in Nebraska. However, a degree of caution will probably prevail in the land market dampening price bidding by buyers until present economic conditions improve.

NEBRASKA FARM REAL ESTATE
MARKET DEVELOPMENTS IN 1979-80

Introduction

Few aspects of the farming sector have undergone more dramatic change in recent years than land values in the farm real estate market. Implications of these changes are many and far-reaching. In addition, current economic uncertainities associated with inflationary trends in the economy further magnify these developments.

The purpose of this 1979-80 report is to provide new and updated information about farm real estate market developments and trends across Nebraska. This report is the third in a continuing annual series. Market information regarding land values and farm sales is compiled from a number of sources, including the 1980 Nebraska Farm Real Estate Market Survey conducted by the Department of Agricultural Economics.

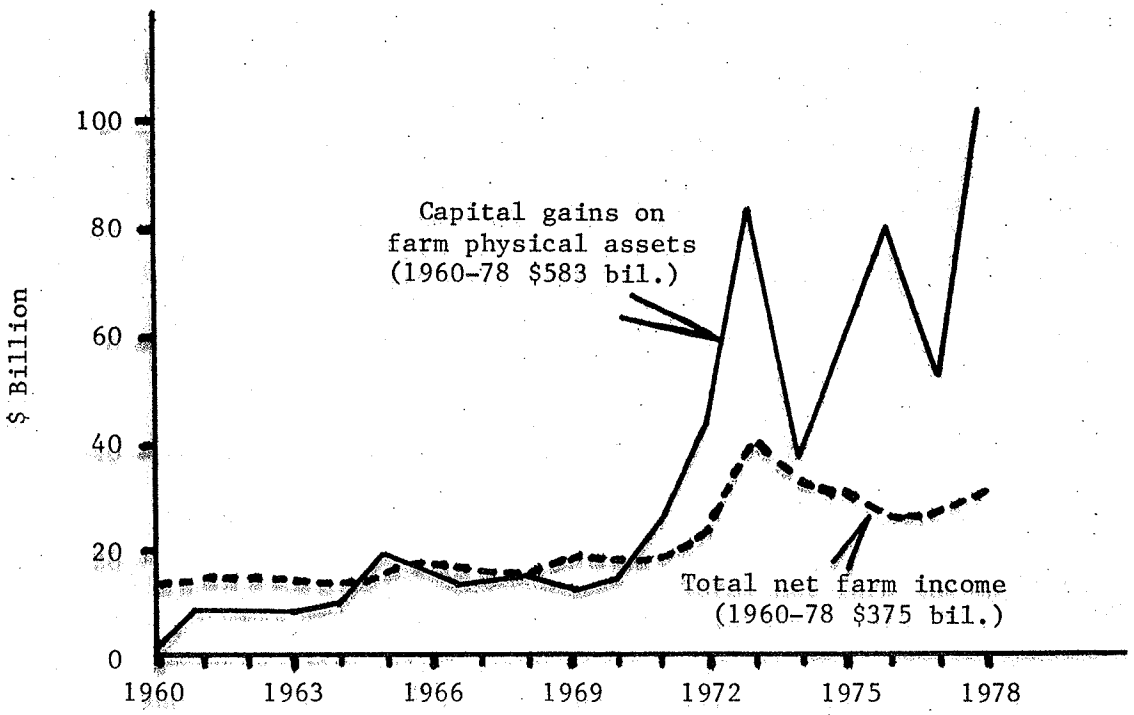
A Perspective on the Past Decade

The decade of the 1970's will long be remembered as a time of rapidly escalating land values. Throughout most of the nation, three-fold and even fourfold increases in the value of farmland occurred, primarily during the latter half of this decade. Both the magnitude and duration of this "land boom" period are without historical precedent.

For the United States, farmland values appreciated at an average rate of 13 percent per year (compounded annually) during the 1970's.

As a result, nominal capital gains for farm physical assets (primarily land) in the farming sector exceeded net farm income each year during the decade (See Figure 1).

Figure 1. Farm Income and Capital Gains



Source: Balance Sheet of the Farming Sector, 1979 Supplement, Agriculture Informative Bulletin No. 430, Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture, February, 1980.

As one economist has pointed out, the economics of agriculture in the 1970's has been the economics of capital gain. He goes on to suggest

> "-- during the 1970s it has been much more profitable just to hold land and let it appreciate than to go to all the work and take the risk of farming it."[1]/

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[1]/ Breimyer, Harold F., "Problems for Great Plains Agriculture Caused By Resource Price Inflation", paper presented at Seminar on Ownership and Management of Resources in Great Plains Agriculture, Black Hills, South Dakota, June 7, 1978.

In addition to the apparent economic returns to landowners, other more subtle implications follow. Because of impact upon farm management planning decisions, the farm's expanded equity base for financing, and "after-tax" earning potential, some suggest that the function of the land market has been transformed in the process.[2/] Spiraling land prices have also contributed to a selection process among potential buyers -- favoring the financially-established investors over the beginning farmer.

Nebraska farmland values have paralleled national trends (Table 1). Over the past decade, the market value for Nebraska cropland (both dryland and irrigated) increased an average of 14 percent annually while grazing land appreciated over 12 percent per year. Substantial year-to-year variations are evident, in part reflecting the short run responsiveness of the land market to existing economic conditions.

For the 12-month period ending February 1, 1980, the USDA series indicated a 14 percent average increase for Nebraska farmland. Among the three land types reported, dry cropland recorded the largest value gain, nearly twice the estimated appreciation rate of grazing land (See Appendix Table 3 for the historical series of USDA Indexes of Average Value for Farm Real Estate in Nebraska.)

While the recent percentage increase is consistent with the 10-year average, it is interesting to consider these trends in light of general inflation levels. Inflation during the 1970's, as indicated by

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[2/] Raup, Philip M., "Recent Trends in Land Values, Use, and Ownership in the United States," Testimony in meeting on the structure of American agriculture and rural communities, Washington, DC, April 29, 1980.

Table 1. Annual Percentage Change in Average Value of Nebraska Farm Real Estate by Type of Land, 1970-1980.[a]

Period	Irrigated Land	Dry Cropland	Grazing Land	All Land
		Percent		
March 1970-March 1971.....	0.8	1.8	2.6	1.7
March 1971-March 1972.....	7.3	9.5	6.8	8.6
March 1972-March 1973.....	10.6	13.4	17.6	14.2
March 1973-March 1974.....	31.5	27.8	21.1	26.2
March 1974-March 1975.....	24.0	16.3	16.3	17.5
March 1975-February 1976.....	23.1	27.6	23.4	26.0
February 1976-February 1977....	17.8	12.3	12.8	13.3
February 1977-February 1978....	-6.0	-2.0	-6.0	-4.0
February 1978-February 1979....	21.9	22.0	22.9	22.0
February 1979-February 1980....	14.0	17.0	8.0	14.0
10-Year Average % Increase. (compounded annually)	14.0	14.1	12.2	13.5

[a] Source: Based on index of average value per acre (1967 = 100) as reported by Economics, Statistics, & Cooperatives Service, U. S. Department of Agriculture.

the General Price Level, averaged 6.8 percent annually in the U.S. economy. Farmland appreciated approximately twice as fast over this same 10-year period. However, for the 12-month period ending February 1, 1980, the General Price Level advanced 10 percent (See Appendix Table 2). Thus, on average, the real (purchasing power) increase for land investment was roughly 30 percent of the nominal increase. In other words, inflation eroded some 70 percent of this gain in land values. For owners of Nebraska grazing land, the current average gain did not keep pace with general inflation; therefore, the purchasing power of their asset values in land declined slightly from February, 1979, to February, 1980.

In general, one can conclude from these tables that farmland investments have performed well as a hedge against inflation, with landowners benefitting greatly during inflationary periods.[3]/ However, any real gains in value above inflation can vary in the short run and may not continue at these historical rates should the 1980's bring even higher levels of inflation.

Relationship of Farmland Values and Income Potential

In an economic system, a direct relationship is expected between the earnings from a productive asset (such as farmland) and its value. In essence, a prospective buyer in the land market is purchasing a future stream of earnings or income.

The events of recent years in the farmland market have brought about a reassessment of this relationship. Certainly, aggregate farm income levels do not appear to justify these dramatic land value

[3]/ Economic gains are further enhanced by equity leveraging and specific tax structure.

increases. For example, it is not uncommon for Nebraska farmland now selling for $1,500 per acre to yield a residual return to land of $60 annually. If this land had been purchased with a 20 percent down payment and a mortgage bearing a 10 percent interest rate, the annual debt repayment would exceed $120 per acre, more than twice the current earnings from the land.

Indeed, current earnings seldom justify today's market prices. However, it is the anticipation of the future income stream which enters into the price determination. Apparently, in recent years market participants have expected growth in both the annual income stream to land and the accompanying appreciation in the asset's value.

There obviously have been cases of over optimism with regard to future earnings beyond what would have seemed reasonable. However, studies of historical trends regarding this relationship of land values to net returns do suggest a degree of stability over time.[4]/ Annual earnings attributed to farmland have generally trended upward, at the same that farmland values appreciated. Thus, there is some historical basis for market participants to expect continued growth in annual earnings from a land investment.

It has been suggested that land represents what a stock market analyst would describe as a "growth stock". It is characterized by a relatively high price-earnings ratio, particularly during first years after the purchase.[5]/

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[4]/ Melichar, Emanuel, "Capital Gains Versus Current Income in the Farming Sector," American Journal of Agricultural Economics, Volume 61, No. 5, December, 1979.

[5]/ Melichar, Emanuel, "Rural Banking Conditions and Farm Financial Trends," paper presented at Wharton Agricultural Forcasting Meeting, Philadelphia, Pennsylvania, March, 1980.

The above situation implies a cash-flow problem for many potential buyers of farm real estate. Short run earnings simply do not cover debt repayment obligations, even though the investment may be profitable in the long run. For the beginning farmer who must rely heavily on these short run returns, cash flow limitations may prohibit land acquisition in today's economic setting. In contrast, well-established farmers and wealthier investors may actually prefer this type of earnings flow, largely in the form of capital gains, due to tax savings advantages. In short, this gradual shift in emphasis from short run to longer run income flows may hold major structural implications concerning the emerging ownership and control of farmland.

1980 Nebraska Farm Real Estate Market Survey Results

For the third time in as many years, the Department of Agricultural Economics at the University of Nebraska--Lincoln conducted a statewide farm real estate market survey. Questionnaires were mailed in early January, 1980 to about 500 reporters across the State. This reporting group was comprised of rural appraisers, real estate brokers, professional farm managers, farm mortgage lenders, and others knowledgeable of the current land market in their area.

In addition to land value information, the respondents also provided information concerning cash rental rates, the status of seller financing, and general market activity. These findings are reported in the following sections.

Reported Farmland Values

As in earlier surveys, reporters were asked to estimate the average market value of farmland in their localities as of February 1, 1980. Estimates were collected for each of seven major classes of farmland and averaged by Crop Reporting District (Figure 2).

In general, a rather strong market for farmland prevailed across Nebraska for the 12-month period ending February 1, 1980 (Table 2). With the exception of center pivot irrigated land in the Northwest Crop Reporting District, reported values were above year-earlier estimates. Generally modest increases were evident in the Northwest and North Districts. In contrast, relatively larger gains occurred for most of the land classes in the Northeast and East. Perhaps this reflects a "rippling effect" from higher land values and larger increases occurring in Iowa and other Corn Belt states to the east.

With the exception of irrigated land, substantial gains were reported in the Southwest. Income improvement, particularly for wheat producers during 1979, may have sparked a more active market in that area of the State.

The extreme variation in the land values across the State is evident in Table 2. Market value of grazing land still remains in the $150 per acre range in the Sandhills; while irrigated cropland in the East and South averages in excess of $2,000 per acre. However, even within a sub-state area and particular land type, substantial variation in values exists. In recognizing this situation, reporters were asked to estimate the average per acre values of both high grade and low

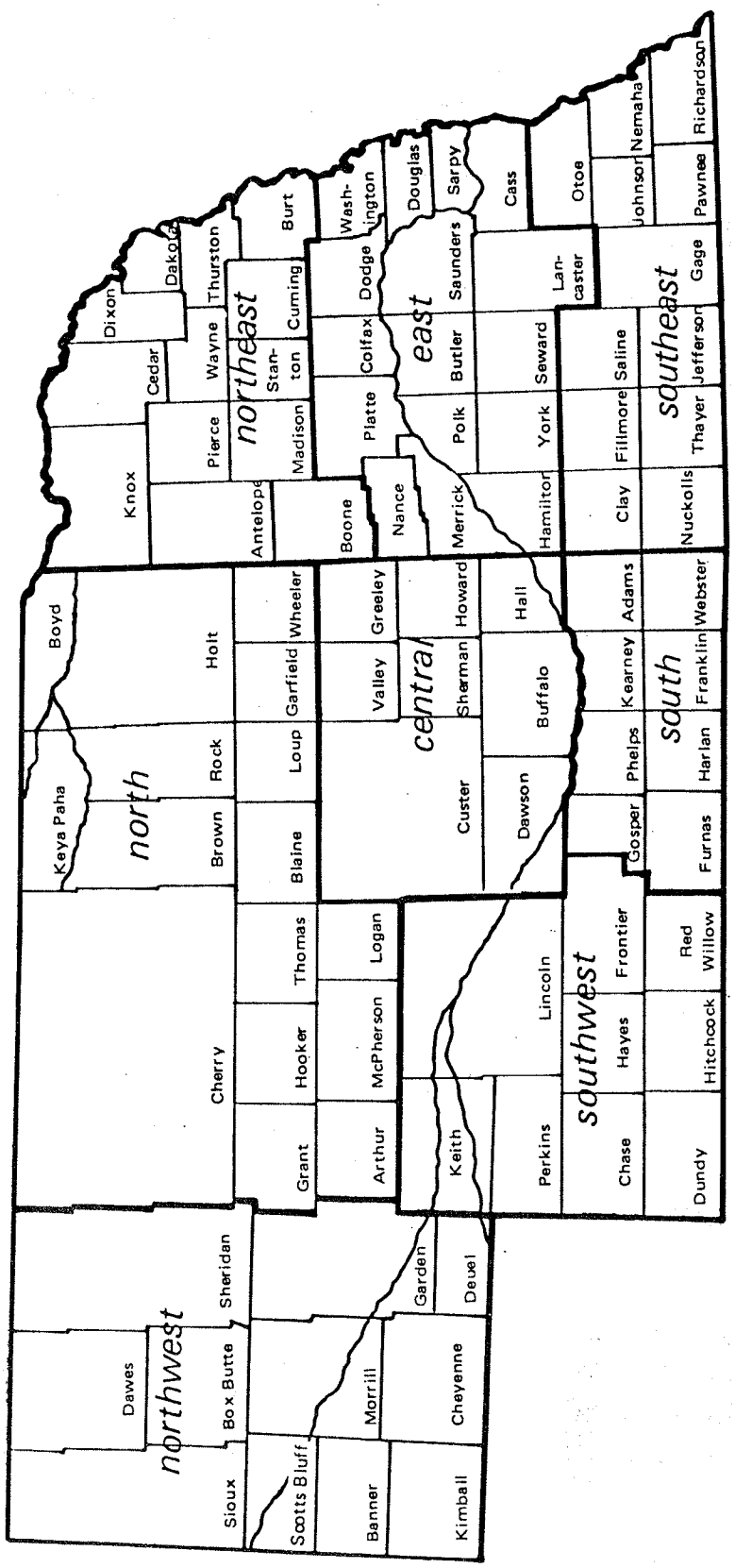
NEBRASKA CROP REPORTING DISTRICTS
northwest
north
northeast
central
east
southeast
southwest
south
Dawes
Sheridan
Box Butte
Sioux
Scotts Bluff
Morrill
Garden
Deuel
Banner
Cheyenne
Kimball
Keya Paha
Boyd
Brown
Rock
Holt
Blaine
Loup
Garfield
Wheeler
Cherry
Thomas
Hooker
Grant
Logan
McPherson
Arthur
Valley
Greeley
Sherman
Howard
Custer
Hall
Buffalo
Dawson
Lincoln
Keith
Perkins
Gosper
Phelps
Kearney
Adams
Frontier
Hayes
Chase
Red Willow
Furnas
Harlan
Franklin
Webster
Hitchcock
Dundy
Knox
Cedar
Dixon
Dakota
Thurston
Burt
Pierce
Wayne
Stanton
Cuming
Madison
Antelope
Boone
Nance
Platte
Colfax
Dodge
Washington
Douglas
Sarpy
Merrick
Polk
Butler
Saunders
Cass
Hamilton
York
Seward
Lancaster
Otoe
Johnson
Nemaha
Richardson
Clay
Fillmore
Saline
Jefferson
Gage
Nuckolls
Thayer
Pawnee

Figure 2

Table 2. Average Reported Value of Nebraska Farmland For Different Types of Land by Crop Reporting District, Feb. 1, 1979 and Feb. 1, 1980.[a/]

Type of Land & Year	Crop Reporting District							
	North-west	North	North-east	Central	East	South-west	South	South-east
	Dollars Per Acre							
Dryland Cropland (No irrigation potential)								
Rpted in 1980....	347	340	920	471	1,296	454	626	971
Rpted in 1979....	317	319	813	397	1,061	387	541	808
Percentage Change	9.5	6.6	13.2	18.6	22.2	17.3	15.7	20.2
Dryland Cropland (Irrigation potential)								
Rpted in 1980....	533	563	1,132	767	1,733	628	1,282	1,352
Rpted in 1979....	449	514	930	708	1,411	520	1,102	1,152
Percentage Change	18.7	9.5	21.7	8.3	22.8	20.8	16.3	17.4
Grazing Land (Tillable)								
Rpted in 1980....	200	261	583	395	760	307	621	643
Rpted in 1979....	186	229	521	347	701	259	479	574
Percentage Change	7.5	14.0	11.9	13.8	8.4	18.5	29.7	12.0
Grazing Land (Nontillable)								
Rpted in 1980....	143	169	394	304	549	190	346	473
Rpted in 1979....	134	156	340	267	486	148	309	417
Percentage Change	6.7	8.3	15.9	13.9	13.0	28.4	12.0	13.4
Hayland								
Rpted in 1980....	301	338	506	441	699	349	402	554
Rpted in 1979....	287	308	436	397	593	281	345	509
Percentage Change	4.9	9.7	16.1	11.1	17.9	24.2	16.5	8.8
Gravity Irrigated								
Rpted in 1980....	1,369	1,020	1,547	1,976	2,317	1,329	2,046	1,968
Rpted in 1979....	1,300	964	1,289	1,705	1,910	1,197	1,746	1,772
Percentage Change	5.3	5.8	20.0	15.9	21.3	11.0	17.2	11.1
Center Pivot Irrigated[b/]								
Rpted in 1980....	894	886	1,372	1,223	2,043	971	1,535	1,795
Rpted in 1979....	915	779	1,164	1,076	1,690	895	1,291	1,590
Percentage Change	-2.3	13.7	17.9	13.7	20.9	8.5	18.9	12.9

[a/] Source: 1979 and 1980 Nebraska Farm Real Estate Market Survey.

[b/] Pivot not included in per acre value.

grade land for each land type. Interpretations of "high grade" and "low grade" was left to the discretion of each individual reporter. The ranges in value for each land type based upon these estimates are presented in Table 3.

Given the uncertainties of the economic climate during the early months of 1980, it is reasonable to question its possible impact on the farm real estate market since February 1st. Consequently, a special telephone follow-up survey involving a random sample of survey respondents was conducted in early May, 1980. These individuals were asked if farmland values had changed over the past 3 months, and if so, by which direction and how much. The major concensus from this telephone survey was that the market value of Nebraska farmland had remained relatively stable since February 1st. Many also mentioned that there had been little or no market activity taking place in the early months of 1980. Apparently, most potential buyers and potential sellers are preferring to delay transactions.

Farm Real Estate Market Activity in Nebraska

According to USDA estimates, the annual turnover rate in the ownership of Nebraska farmland dropped slightly (4 percent) this past year, falling from 39.8 transfers per 1000 farms in the year ending February 1, 1979 to 38.3 transfers in 1980 (see Table 4). The number of voluntary sales which increased sharply during 1979 (up 59 percent from 1978) showed a slight reduction for 1980 (down 4 percent). Voluntary sales accounted for over 57 percent of all farmland ownership transfers in Nebraska for

Table 3. Average Reported Value Per Acre of Nebraska Farmland For Different Types of Land and Grade by Crop Reporting District, Feb. 1, 1980.[a/]

Type of Land & Quality[b/]	Crop Reporting District							
	North-west	North	North-east	Central	East	South-west	South	South-east
	Dollars Per Acre							
Dryland Cropland (No Irrigation Potential)								
Average.....	347	340	920	471	1,296	454	626	971
High Grade...	459	386	1,292	624	1,447	531	801	1,262
Low Grade....	303	241	731	357	905	326	463	736
Dryland Cropland (Irrigation Potential)								
Average.....	533	563	1,132	767	1,733	628	1,282	1,352
High Grade...	560	625	1,448	1,136	2,011	734	1,489	1,603
Low Grade....	397	466	877	594	1,182	483	788	1,019
Grazing Land (Tillable)								
Average.....	200	261	583	395	760	307	621	643
High Grade...	215	320	742	491	940	359	736	735
Low Grade....	135	242	480	308	638	241	428	524
Grazing Land (Nontillable)								
Average.....	143	169	394	304	549	190	346	473
High Grade...	162	219	576	347	655	229	413	524
Low Grade....	111	148	301	226	479	152	283	358
Hayland								
Average.....	301	338	506	441	699	349	402	554
High Grade...	340	385	552	601	822	465	523	623
Low Grade....	230	263	369	363	570	289	363	471
Gravity Irrigated								
Average.....	1,369	1,020	1,547	1,976	2,317	1,329	2,046	1,968
High Grade...	1,542	1,247	2,157	2,321	2,620	1,522	2,146	2,343
Low Grade....	954	863	1,300	1,321	1,816	1,032	1,418	1,550
Center Pivot Irrigated[c/]								
Average.....	894	886	1,372	1,223	2,043	971	1,535	1,795
High Grade...	929	929	1,691	1,431	2,260	1,114	1,695	2,018
Low Grade....	650	571	1,073	826	1,473	796	1,055	1,414

[a/] Source: 1980 Nebraska Farm Real Estate Market Survey.

[b/] The terms, High Grade and Low Grade Lands, were interpreted by the individual reporter to represent an approximation of range in average values for each particular type of land in his area. No specific designation as to particular soil type or other quality classification was made.

[c/] Pivot not included in per acre value.

Table 4. Estimated Number of Farm Title Transfers Per Thousand Farms in Nebraska, by Type of Sale, Year Ending March 1, 1960-1980.[a/][b/]

Year	Voluntary Sales	Estate Settlements or Tax Sales	Forced Sales (Foreclosures, Tax)	Inheritance, Gifts, and All Other Transfers	Total
	Number per 1,000 Farms				
1960	19.5	.7	.8	16.6	37.6
1961	21.5	.9	.9	17.2	40.5
1962	18.0	.2	.4	15.3	33.9
1963	22.0	.3	-	13.3	35.6
1964	18.5	-	.4	15.9	34.8
1965	27.6	.7	.5	11.8	40.6
1966	28.2	-	1.0	19.2	48.4
1967	27.0	-	.7	12.6	40.3
1968	26.9	-	-	12.1	39.0
1969	22.1	.3	-	13.5	35.9
1970	23.5	-	0.6	12.0	36.1
1971	19.4	-	0.7	12.6	32.7
1972	29.7	8.0	1.0	3.8	42.5
1973	32.8	5.5	0.4	4.0	42.7
1974	31.7	11.3	0.5	11.3	54.8
1975	19.2	5.8	-	3.3	28.3
1976	20.6	6.7	.2	5.4	32.8
1977	19.8	8.1	1.2	5.7	34.8
1978	14.4	8.4	1.9	6.0	30.6
1979	22.9	9.0	1.9	6.1	39.8
1980	21.9	8.2	1.1	7.0	38.3

[a/] Source: Farm Real Estate Market Developments, report series, U.S. Department of Agriculture.

[b/] Since 1976, the year refers to the year ended February 1st.

1980. The number of total transfers in 1980, compared to the years between 1975-78 continued to represent a higher turnover rate in farm real estate ownership as was first shown in 1979.

This stability in market activity as reported by these USDA figures for the past two years was fairly consistent with the responses by reporters from 1980 Nebraska farm real estate market survey. A majority of the respondents (54 percent) indicated that the number of farmland tracts sold in their area had remained unchanged during the past year. Only 22 percent of the respondents indicated that the number of land tracts sold in their area had increased, with an average of 16 percent more sales, while another 24 percent said fewer sales had taken place (down an average of 20 percent). These results are presented in Table 5.

When projecting farm real estate market activity for the coming 12 months, (1980-81), 67 percent of all survey reporters expected no change in the number of farmland tracts to be offered for sale (see Table 6). Another 13 percent expected more land tracts to be offered for sale (up an average of 10 percent more sales). However, 19 percent of the respondents felt fewer tracts would be offered for sale during the next year (down an average of 20 percent fewer sales).

Reasons for Buying and Selling Land in Nebraska During 1979

Survey respondents were asked to report the reasons among buyers for purchasing farmland/ranchland in their local areas during 1979. Referring to the frequency of responses presented in Table 7, expansion of the present operation continued to be the predominant reason reported,

Table 5. Survey Respondents' Estimates of the Percentage Change in the Number of Nebraska Farmland & Ranchland Tracts Sold During the Past Year (Feb. 1, 1979 to Feb. 1, 1980).[a/]

	The Number Sold:		
	Increased	Decreased	Remained the Same
Proportion of Responses Reported.....	22%	24%	54%
Average Percentage Change Reported.....	+16%	-20%	

a/ Source: 1980 Nebraska Farm Real Estate Market Survey.

Table 6. Survey Respondents' Estimate of the Expected Percentage Change in the Number of Nebraska Farmland and Ranchland Tracts Which Will Be Sold During the Next Year (1980-1981).[a/]

	The Number To Be Sold Will:		
	Increase	Decrease	Remain the Same
Proportion of All Responses Reported.....	13%	19%	67%
Average Percentage Change Reported.....	+10%	-20%	

a/ Source: 1980 Nebraska Farm Real Estate Market Survey.

followed by land as an investment or hedge against inflation. Farm expansion accounted for 52 percent and 55 percent of all responses in 1977 and 1978 respectively. Tax advantages were fairly important in the North District while starting out in farming showed some frequency in the Northeast District.

It should be pointed out that these reasons reported are not necessarily mutually exclusive of each other. For example, farm expansion and the desire for an investment against inflation may both be important in the final decision to purchase additional land. Likewise, investment interests are tied closely to tax advantage considerations.

The most frequent reasons reported in Table 8 for offering farmland/ranchland for sale in Nebrsaka during 1979 were (1) estate settlement, (2) retirement or health, (3) financial problems and (4) investment profit taking. The frequency or ranking of these reasons presented in Table 8 have remained consistent with the survey results of the two previous years. However, the findings in Table 8 show that there are some differences in the relative frequency of these reasons among the various crop reporting districts.

As in the two previous survey reports, the results presented in Tables 7 and 8 continue to suggest that land in Nebraska is held in "tight hands." Most land owners are not willing to sell their land unless forced to by death, health, or financial pressures. In essence, most farmland is locked into an existing farming operation with little or no intention of offering it for sale within the immediate future. These characteristics of the farm real estate market in Nebraska tend to stablize land values during periods of economic uncertainty and push prices even higher during improved economic conditions.

Table 7. Reasons Given by Reporters Why Land Was Purchased in 1979 by Crop Reporting Districts in Nebraska.[a/]

Crop Reporting District	Reasons for Buying							
	Expansion of Operation	Investment or Inflation Hedge	Starting Farming	Irrigation Development	No Land To Rent	Tax Advantage	Other	Total
	Percentage							
Northwest	49	17	9	-	-	4	13	100
North	27	32	9	4	-	14	14	100
Northeast	44	16	11	-	7	2	20	100
Central	50	15	2	-	7	5	21	100
East	63	13	9	1	7	3	4	100
Southwest	43	30	5	5	7	2	8	100
South	60	23	7	-	3	-	7	100
Southeast	57	23	8	-	-	4	8	100
STATE	52	20	8	2	2	5	11	100

[a/] Source: 1980 Nebraska Farm Real Estate Market Survey.

Table 8. Reasons Given by Reporters Why Land Was Sold in 1979 by Crop Reporting Districts in Nebraska.[a/]

Crop Reporting District	Reasons for Selling						
	Estate Settlement	Retirement or Health	Profit Taking	Reduce Taxes	Financial Problems	Other	Total
Northwest.....	24	39	6	-	18	12	100
North.....	26	37	11	4	7	15	100
Northeast.....	23	31	19	-	15	11	100
Central.....	33	25	16	-	13	13	100
East.....	37	26	12	1	14	8	100
Southwest.....	27	31	22	-	8	12	100
South.....	30	32	7	2	20	9	100
Southeast.....	38	33	7	-	18	5	100
STATE.....	32	31	13	1	14	9	100

[a/] Source: 1980 Nebraska Farm Real Estate Market Survey.

Farmland Sales in Nebraska During 1979

The Federal Land Bank of Omaha maintains a comprehensive data series on farmland and ranchland sales for their entire four-state district. All FLBA's and their respective branch offices complete a land sale data reporting sheet for each bona fide land sale in their area. Using this procedure, information on nearly 1000 land sales in Nebraska was collected for 1979. Several interesting aspects from these sales can be identified from Table 9.

The average size of land tract sold varied widely among the crop reporting districts in Nebraska as shown in Table 9. For example, the 140 acre average for the East District suggests that many sales were for land tracts between 80 and 160 acres in size. In contrast, land tracts sold in the northern and western areas of Nebraska were considerably larger.

As reported in previous survey reports, the average size of each land tract sold is smaller than the average size of a farming operation. This implies that most sales in the Nebraska farm real estate market consist of land parcels rather than whole unit farms being sold. This would also suggest that some smaller farming operations are being absorbed in the market by larger units.

Results presented in Table 9 further show that 43 percent of all acreage sold during 1979 was cropland while the remaining 57 percent of land sold in Nebraska was pasture. As would be expected, these proportions varied widely among the crop reporting districts across Nebraska.

Nearly all sales in 1979 involved credit in the purchase transaction. Only 8 percent of the sales reported were cash purchases. This

Table 9. Characteristics of Bona Fide Farmland Sales by Crop Reporting Districts in Nebraska, 1979.[a/]

Crop Reporting District	Average Size of Tract Sold	Percent of Acreage:		Average Price		Percent of Sales:	
		Cropland	Pasture	Per Acre	Per Tract	For Cash	Where Debt Was Incurred
	Acres	Percent	Percent	Dollars	Dollars	Percent	Percent
Northwest.....	385	55	45	578	222,400	6	94
North.....	1,195	12	88	251	299,400	9	91
Northeast.....	174	76	24	914	159,100	11	89
Central.....	226	50	50	830	187,500	10	90
East.....	140	81	19	1,509	211,200	6	94
Southwest.....	352	45	55	499	175,500	7	93
South.....	192	61	39	912	175,000	8	92
Southeast.....	157	73	27	1,106	167,000	5	95
State.....	307	43	57	627	192,600	8	92

[a/] Source: Sales data for 1979 collected by the Federal Land Bank Associations in Nebraska of the Federal Land Bank of Omaha.

compares to 10 percent and 13 percent of the total sales reported respectively for 1977 and 1978.

Characteristics of Seller Financing in Nebraska

Sellers themselves have historically been an important source of credit for farmland transfers through land contracts. In the Northern Plains, more than 4 of every 10 credit-financed transfers have been seller-financed in recent years.

Given (1) the historical magnitude of seller financing and (2) recent credit conditions, a series of questions concerning seller financing were included in the 1980 Nebraska survey.

Reporters were first asked to estimate the proportion of farmland transfers involving credit which were seller land contracts. For the State, more than half of the credit transfers (51 percent) were estimated to be of this type during the past year. By crop reporting district the estimated percentage of credit sales being seller financed were as follows: Northwest, 48 percent; North, 72 percent; Northeast, 50 percent; Central, 51 percent; East, 46 percent; Southwest, 57 percent; South, 45 percent; and Southeast, 51 percent. Obviously, the current incidence is substantial across the State, with particular importance in the North District. The majority of reporters believed the relative frequency of seller financing during 1979 had not changed from year-earlier levels.

Respondents were asked to characterize the typical seller-financed land contract in their area according to the amount of downpayment,

interest rate charged, and length of contract. Very little variation was evident among the crop reporting districts. Figure 3 summarizes this information reported for the State.

The most frequent downpayment rate reported was 29 percent of the purchase price. This rate reflects the special Federal tax provision which allows installment-sale tax treatment if no more than 30 percent of the sale price is received by the seller in the year of sale.[6]/

In terms of interest rates charged, more than four out of every ten reporters believed 9 percent was the most typical rate. Another one-fourth reported 10 percent as currently being the most typical rate. These rates are somewhat below those currently charged under conventional long-term financing. Generally, sellers will tend to accept a lower interest rate due to more advantageous capital gains tax provisions associated with this form of sale.

The most frequent length of contract reported was 10 years, although the incidence of 15 and 20 year contracts was also substantial. Again a contrast exists relative to conventional financing which is typically of a longer repayment duration. One reason for a shorter repayment period is the preference of the seller. The tax advantage of installment payments is essentially captured in full within 10 to 15 years. Cash flow limitations often prevent a buyer from meeting both interest and principal obligations in this relatively shorter repayment period. Thus, it is common to set up a repayment schedule whereby there

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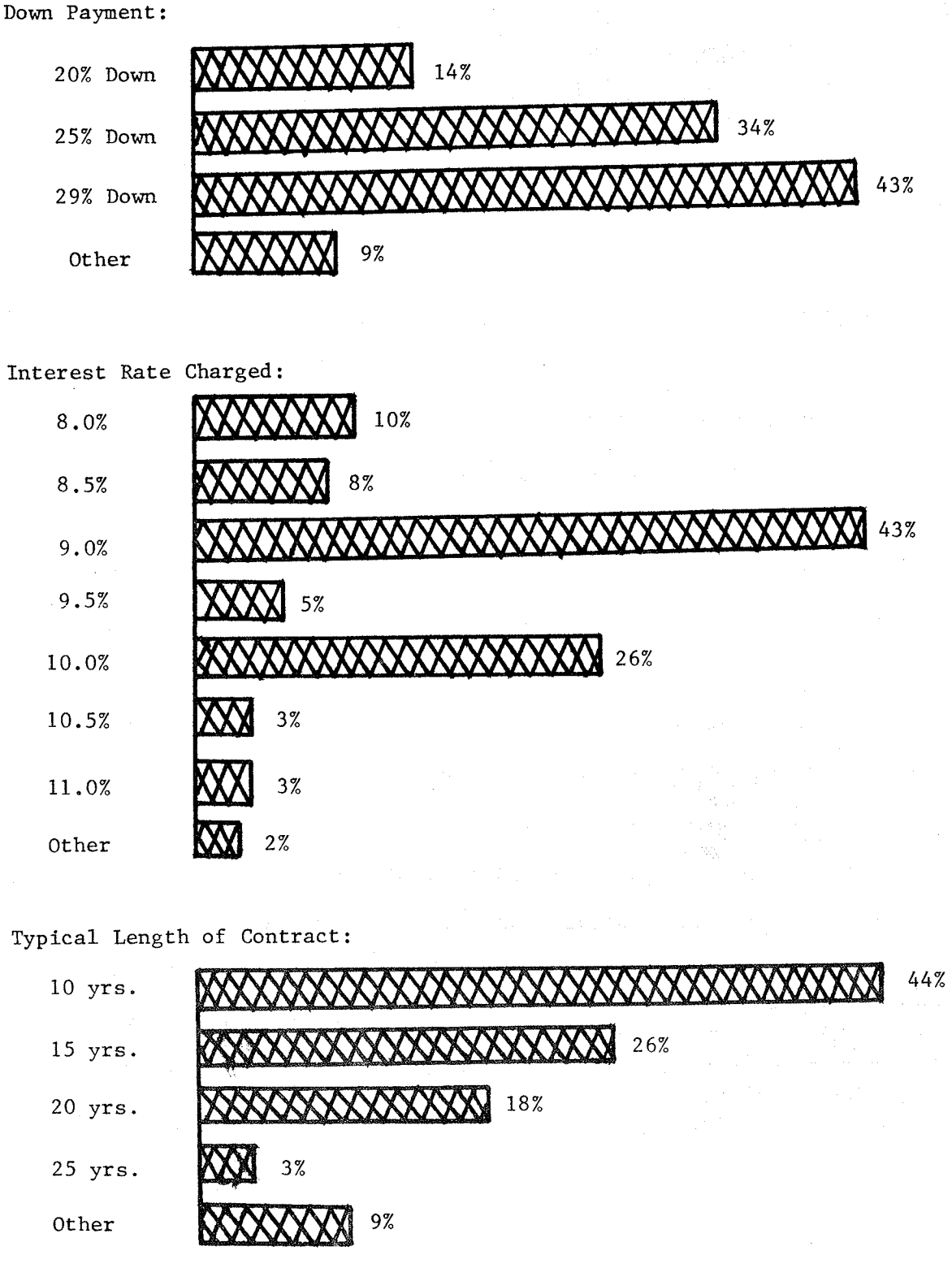
[6]/ Year of sale usually means the year when the land contract is signed and actual possession of the property is transferred to the buyer. For a complete description, see Nelson, Doug C. and Philip A. Henderson, Long-Term Installment Land Contracts, North Central Regional Extension Publication No. 56, October 1978.

Figure 3. Characteristics of Seller-Finance Land Contracts
(Percentage Distributions)



is a large final principal payment due at the end of the repayment period (balloon payment) which the buyer makes by using conventional mortgage financing.

Cash Rental Market Situation

Reporters were asked to estimate 1980 cash rental rates for various types of farmland in their area. As noted in Table 10, annual cash rents varied considerably among districts as well as within each district. Dryland cropland rates ranged from an average of $21 per acre in the North to $64 per acre in the Eastern district reflecting the various production potentials. However, even within the East district, average reported cash rents ranged from $42 to $90 per acre for the current crop year.

Typical rental rates on irrigated cropland exceeded $100 per acre throughout the eastern two-thirds of the state. Highest reported cash rents occurred in the South and the Southeast.

The 1980 average cash rental rates are higher than year-earlier levels for most types of land. Dryland cropland rates were up substantially in the Northeast, Central, and Southwest. Apparently, favorable crop production conditions during 1979 resulted in increased rates being negotiated between tenants and landlords.

Sizable cost increases for several production inputs (fertilizer, fuel, short-term interest rates, etc.) during the first half of 1980 with lack of optimism concerning commodity price levels at harvest would seem to suggest a dampening of cash rental rates. Even though

Table 10. Annual Cash Rental Rates of Nebraska Farmland For Different Types of Land Use By Crop Reporting Districts in Nebraska, February 1, 1980.[a/]

Type of Land	Crop Reporting District							
	North-west	North	North-east	Central	East	South-west	South	South-east
	Dollars Per Acre							
Dryland Cropland								
Average Rate	[b/]	21	58	43	64	32	38	56
Range	[b/]	19-25	30-100	30-70	42-90	20-50	25-50	40-85
Irrigated Cropland								
Average Rate	78	82	101	112	108	93	113	115
Range	50-110	60-100	60-150	80-135	80-125	70-100	80-145	75-150
Dryland Alfalfa								
Average Rate	[b/]	23	53	41	54	30	48	32
Range	[b/]	19-40	25-80	30-75	20-75	20-50	25-70	15-50
Irrigated Alfalfa								
Average Rate	[b/]	[b/]	75	87	86	85	95	[b/]
Range	[b/]	[b/]	40-110	50-120	55-100	65-100	60-125	[b/]
Other Hayland								
Average Rate	[b/]	16	39	41	38	[b/]	[b/]	30
Range	[b/]	15-20	20-60	30-50	20-50	[b/]	[b/]	25-35
Pastureland (Per Ac.)								
Average Rate	5	10	30	15	28	9	15	24
Range	4-10	5-13	10-45	7-20	10-45	5-12	10-20	12-45
	Dollars Per Animal Unit/Mo.							
Pastureland (Per Animal Unit/Mo.)[c/]								
Average Rate	11.00	12.60	12.45	13.95	13.20	13.30	12.60	12.70
Range	10-12	11-16	9-16	10-16	9-17	10-16	10-15	9-17

[a/] Source: 1980 Nebraska Farm Real Estate Market Survey.

[b/] Insufficient number of reports.

[c/] A cow and calf combination is assumed to be 1¼ animal units.

the February 1 estimates did not indicate a weakening, it is possible that cash rental contracts negotiated later may have been somewhat lower. If current conditions persist throughout 1980, it is likely that 1981 cash rental rates will not be bid up further.

As noted previously, earnings to land have generally trended upward with rising land values over time. However, in more recent years, the market value of farmland has been bid up to reflect further anticipated growth in earnings. This change is indicated in the historical relationship between average gross cash rents and associated market values for farmland. Table 11 summarizes in three-year moving averages the average gross rent and associated rent-to-value ratio for irrigated land, dry cropland, and grazing land. During the past seven year period of dramatic land value increases, cash rents as a percentage of market value have declined steadily for all classes. At present, average gross cash rents as a percent of market land values approximate the following: irrigated land, 7 percent; dry cropland, 6 percent; and grazing land, 5 percent. If the structure of the land market persists with the emphasis on longer run potential earnings, a further gradual decline in these ratios can be expected.

Table 11. Reported Gross Cash Rents and Ratio of Rent-to-Value For Various Types for Nebraska, 3-Year Moving Average, 1974-80.[a/]

Time Period (3-yr. moving average)	Irrigated Land		Dry Cropland		Grazing Land	
	Rent Per Acre	Rent to Value Ratio	Rent Per Acre	Rent to Value Ratio	Rent Per Acre	Rent to Value Ratio
	Dollars	Percent	Dollars	Percent	Dollars	Percent
1974-76.....	69.17	8.3	27.93	6.9	7.17	5.3
1975-77.....	79.23	7.8	31.40	6.6	7.97	5.1
1976-78.....	85.17	7.5	34.17	6.4	8.60	5.1
1977-79.....	89.23	7.3	37.47	6.3	9.50	5.1
1978-80.....	93.13	6.9	41.20	6.1	9.83	4.9

[a/] Based upon information published in Farm Real Estate Market Developments Series, Economics, Statistics, & Cooperatives Service, USDA.

Appendix Table 1. Farm Real Estate Values in Nebraska, Historical Series, 1915-1980.[a/]

Year	Ave. Value of Land & Buildings		Year	Ave. Value of Land & Buildings	
	Per Acre	Per Farm		Per Acre	Per Farm
	Dollars	1.000 Dollars		Dollars	1,000 Dollars
1915...	$50	15.9	1950...	58	25.5
1916...	51	16.5	1951...	66	29.7
1917...	54	17.8	1952...	72	32.9
1918...	62	20.7	1953...	75	34.6
1919...	71	23.8	1954...	70	33.0
1920...	88	29.8	1955...	73	35.1
1921...	82	27.5	1956...	73	35.9
1922...	71	23.7	1957...	72	36.5
1923...	68	22.6	1958...	79	41.0
1924...	63	20.7	1959...	86	45.1
1925...	60	19.8	1960...	89	48.3
1926...	60	19.9	1961...	90	49.8
1927...	58	19.5	1962...	95	54.1
1928...	57	19.5	1963...	97	56.2
1929...	57	19.6	1964...	105	62.5
1930...	56	19.3	1965...	111	67.2
1931...	52	18.0	1966...	120	73.6
1932...	44	15.4	1967...	132	81.2
1933...	35	12.2	1968...	143	88.8
1934...	35	12.2	1969...	150	94.3
1935...	34	11.9	1970...	154	97.9
1936...	34	12.1	1971...	157	100.7
1937...	32	11.8	1972...	170	115.2
1938...	30	11.3	1973...	195	132.6
1939...	28	10.6	1974...	242	166.3
1940...	24	9.4	1975...	285	196.2
1941...	22	8.9	1976...	355	247.0
1942...	24	9.9	1977...	401	283.1
1943...	27	11.1	1978...	385	271.8
1944...	33	13.9	1979...	470	351.0
1945...	37	15.8	1980[b/]	536	406.7
1946...	42	17.9			
1947...	47	20.5			
1948...	56	24.3			
1949...	62	27.1			

[a/] Source: Farm Real Estate Historical Series Data: 1850-1970 and Farm Real Estate Market Developments Series, released by the U.S. Department of Agriculture.

[b/] Preliminary estimate.

Appendix Table 2. Deflated Indexes of Nebraska Farmland Values and Percent Changes, 1950-1980.[a/]

Year	Index of Average Value/Acre (1967=100)	GNP Price Deflator[b/] (1967=100)	Deflated Index of Average Value/Acre[c/]	Year-toYear Change in: Index of Deflated Farmland Values[d/]	Year-toYear Change in: GNP Price Deflator
				Percent	Percent
1950	46	67.5	68.1	-	-
1951	53	73.1	72.5	6.5	8.3
1952	59	74.7	79.0	8.8	2.2
1953	62	76.2	81.4	3.0	2.0
1954	58	77.1	75.3	-7.5	1.2
1955	61	77.7	78.5	4.3	0.8
1956	60	79.8	75.2	-4.2	2.7
1957	59	83.1	71.0	-5.6	4.1
1958	63	85.6	73.6	3.7	3.0
1959	67	87.1	76.9	4.5	1.8
1960	69	88.4	78.1	1.6	0.6
1961	70	89.9	77.9	-0.3	1.7
1962	75	90.8	82.6	6.0	1.0
1963	75	91.9	81.6	-1.2	1.2
1964	81	93.4	86.7	0.2	1.6
1965	86	95.0	90.5	4.4	1.7
1966	92	97.0	94.8	4.8	2.1
1967	100	100.0	100.0	5.5	3.1
1968	108	103.4	104.4	4.4	3.4
1969	113	108.4	104.2	-0.2	4.8
1970	115	114.3	100.6	-3.5	5.4
1971	117	120.6	97.0	-3.5	5.5
1972	127	124.7	101.8	4.9	3.4
1973	145	129.1	112.3	10.3	3.5
1974	183	141.0	129.8	15.6	9.2
1975	215	156.9	137.0	5.5	11.3
1976	271	165.7	163.5	19.3	5.6
1977	307	174.1	176.3	7.9	5.1
1978	295	183.4	160.9	-8.7	5.3
1979	360	200.0	180.0	11.9	9.1
1980	410	220.0[e/]	186.4	3.6	10.0

[a/] Refers to year ending March 1, except for 1976-79 which is the year ending February 1.

[b/] Implicit price deflator for the 1st Quarter.

[c/] Computed by dividing the Farmland Value Index by the GNP Price Deflator.

[d/] A positive value entry in this column represents a real increase in asset value for the year (i.e., the rate of land value appreciation exceeded the rate of inflation).

[e/] Preliminary.

Appendix Table 3. Farm Real Estate: Indexes of Average Value Per Acre of Irrigated Land, Dry Cropland, and Grazing Land In Nebraska, 1960-1980 (1967=100).[a/]

Year[b/]	Index of Average Value Per Acre:			
	Irrigated Land	Dry Cropland	Grazing Land	All Land
1960.....	66	71	67	69
1961.....	67	71	67	70
1962.....	71	75	77	75
1963.....	73	75	75	75
1964.....	79	80	85	81
1965.....	84	85	88	86
1966.....	93	91	94	92
1967.....	100	100	100	100
1968.....	110	108	109	108
1969.....	117	112	113	113
1970.....	122	114	114	115
1971.....	123	116	117	117
1972.....	132	127	125	127
1973.....	146	144	147	145
1974.....	192	184	178	183
1975.....	238	214	207	215
1976.....	293	273	256	271
1977.....	345	306	290	307
1978.....	324	300	271	295
1979.....	395	366	333	360
1980.....	450	428	360	410

[a/] Includes improvements. Published in Farm Real Estate Market Developments Series, Economics, Statistics & Cooperatives Service, USDA.

[b/] March 1 indexes of value for 1960-1975 and February 1 indexes of value for 1976-1980.

$\frac{29}{67} = \frac{x}{360}$

$x = \frac{29(360)}{67}$

$\frac{360}{74}$

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