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## EC879 Can You Pay for the Farm You Buy?

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# CAN YOU Pay For The Farm YOU BUY?

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THOSE WHO USE THEIR SAVINGS as a down payment for a farm and expect to pay the balance over a period of years with earnings from the land should do so only after careful investigation of the income that can be expected. There is now much more information about land values and more experience to guide us than existed following World War I. Let us make good use of this information and experience.

A person who buys a farm for a home and a business should consider its value from two points of view: (1) The value as an owner-operated farm; (2) The value of the property as an investment, if the purchaser should want to sell or rent.

It is also important to make a careful estimate of the amount of debt that can be carried safely through good years and bad years.

If the purchase price is higher than the long time earning value of the farm, the premium should be paid in cash and included as a part of the down payment. It should not be included in the debt.

Buying a farm is usually the most important transaction a farm family makes in a lifetime. Before investing savings or assuming a large debt in a section of the country which is not familiar to the buyer, it will probably pay to rent in the area for a few years in order to become thoroughly familiar with the conditions found there. Once a decision is made to buy, the checks in this circular will help in determining the value.

# Consider These Questions Before Buying

## I. Type and Size of Farm

In most localities, there are several types of farms from which to choose. It will pay to select a suitable farm of the type and size the family likes.

1. Is this farm adapted to the type of enterprises in which the family is interested? .....
2. Are there several successful farms of this type in the community? .....
3. Will the farm provide full employment for all members of the family who expect to work on it now? .....
4. What are the opportunities for expanding the business, if more help becomes available? .....
5. Is the unit large enough for efficient use of labor and equipment? .....
6. Can additional land be rented on satisfactory terms? .....

## II. Location

1. How many miles to a good market and trading center? .....
2. Will the trading facilities be permanent? .....
3. How many miles to grade school? .....
4. How many miles to a high school? .....
5. How many miles to church of preference? .....
6. How many miles to the nearest neighbor? .....
7. How far to gravel or paved road? .....
8. How far to good medical services? .....

## III. Farm Services

Farm services, such as telephones and electric lines, are becoming increasingly important to satisfactory living conditions for the family and to efficiency of farm operations.

1. Is telephone service available? .....
2. Is electricity available? .....
3. How far is it to the mail box? .....
4. Do milk or cream routes pass by the farm? .....
5. Is there transportation to school? .....

## IV. The Community

1. Is the community organized for Home Extension Clubs, 4-H Clubs, farm organizations? .....
2. Is the farm in a Soil Conservation District? .....
3. Do the schools provide adequate training? .....
4. Are there good Sunday schools and churches? .....
5. Are the neighbors friendly and cooperative? .....
6. Is the farm in this location a satisfactory place for the family to live? .....

## V. Soils

The soil is one of the most important factors to consider in buying a farm. Fortunately, Nebraska has soil maps and use-suitability maps for most counties. There are also use-capability maps, prepared by the Soil Conservation Service, for several thousand farms in the state that give the characteristics of individual fields. It will pay to consult these maps very carefully when considering the purchase of a farm. They do not, however, take the place of careful inspection and a detailed analysis of all parts of the farm.

1. To what crops are the soils adapted? .....
2. How seriously has the soil been damaged by erosion? .....
3. What conservation practices are needed? .....
4. Will there be unusual expenses or inconveniences in maintaining or increasing production? .....
5. Is the land subject to floods? .....
6. Is there a drainage problem? .....
7. How does the productivity compare with other land in the community? .....

## VI. Climate

1. What is the average annual rainfall in the community? .....
2. Has annual rainfall in the summer been adequate for satisfactory yields of the crops usually grown in the community? .....
3. In what proportions of the years are yields of corn and small grain no more than one-third of average? .....
4. Is the area subject to frequent hail damage? .....
5. Do unusual freezes damage crops frequently? .....

## VII. Water Supply

1. Is the present supply adequate for family use and for the livestock to be kept on the farm? .....
2. Is the water conveniently located? .....
3. Is the present supply palatable and safe for drinking? .....
4. If the water supply is not suitable and adequate, what will it cost to make it so? .....

## VIII. Noxious Weeds

The cost of eradicating such plants as bindweed, perennial smartweed, white weed, perennial pepper grass, dogbane, or leafy spurge often is \$10 or more per acre.

1. How many acres of these weeds are on the farm? .....
2. What will be the cost of eradication? \$.....
3. What will be the loss in crops until the weeds are destroyed? Years without crop.....  
Value \$.....

## IX. Irrigation Possibilities

In many sections of Nebraska, there are possibilities for further development of irrigation. It will pay the man who is interested in irrigation to investigate these possibilities.

1. Is irrigation water available? .....
2. Is the supply dependable? .....
3. How many acres will the available water irrigate? .....
4. How many acres are suitable for irrigation? .....
5. How much will it cost to level the land and put the water on it? \$.....

## X. Taxes

Unless offset by other factors, such as the opportunity to market farm products at low costs, each dollar of taxes reduces the value of a farm \$20 or more.

1. What is the assessed valuation of the farm? \$.....
2. How does it compare with the valuation of surrounding farms? .....
3. What is the total real estate tax? \$.....
4. How much of the total is for retirement of bonds? \$.....
5. Are there any reasons for probable increases? .....
6. Is there much land in the community on which taxes have not been paid for several years? .....

## XI. Buildings

1. Are the buildings suitable for the type and size of the enterprises to be included in the business? .....
2. Is the house adequate for the family? .....
3. Are the improvements more elaborate than needed? .....
4. Will the upkeep on the buildings be excessive in comparison to farm income? .....
5. How much will it cost to modernize and to put the buildings and fences in good condition, or to provide new buildings and fences that are needed? .....



# Normal Agricultural Value of the Farm Based on Its Long-Time Earning Power

AFTER ALL OTHER ITEMS have been checked, determine the "normal agricultural value of the land, based on its long-time earning power." The following procedure is suggested: (Use Table 1 as a worksheet.)

1. Put down the average number of acres of each crop that will be grown on the farm.

2. Estimate the average yields, taking into consideration poor years as well as good years.

3. Use long-time average prices, the customary rent share of crops, and cash rent for buildings and pasture to determine the gross income to the landlord. The following prices are suggested as possible long-time averages for Nebraska: Corn \$.55; wheat \$.85; oats \$.35; barley \$.45; alfalfa \$9.00.

4. Subtract from this gross income all landlord expenses such as taxes, repairs and depreciation on improvements.

5. Capitalize the net rent income at the rate of interest you think you should have on money invested in this particular piece of land.

**Table 1. The normal agricultural value of the farm based on its long-time earning power.**

Crop	Acres	Normal Yield	Total Production	Landlord's Share	Amount to Landlord	Price	Landlord's Total Income
Corn	50	24	1200	$\frac{2}{5}$	480	\$ .55	\$264.00
Oats	30	30	900	$\frac{1}{3}$	300	.35	105.00
Wheat	50	16	800	$\frac{2}{5}$	320	.85	272.00
Alfalfa	10	2	20	$\frac{1}{2}$	10	9.00	90.00
Cash Rent	10	xxxx	xxxx	xxxx	xxxx	8.00	80.00
Lots, roads, waste, etc.	10	xxxx	xxxx	xxxx	xxxx	xxxx	
Total Acres	160	A. Landlord's Gross Income					\$811.00

## Landlord's Expense Items

Buildings: Depreciation, repairs, insurance.....	\$100.00
Taxes.....	130.00
Pump cost (Irrigation).....	
Fertilizer and seed.....	25.00
Other.....	15.00
Total .....	\$270.00
Net Income to Landlord.....	\$541.00

Net Income \$541 ÷ by Int. rate .05 = \$10,820 Value of farm

Value of Farm \$10,820 ÷ by No. of Acres 160 = \$67.73 Value per acre

**Table 1. The normal agricultural value of the farm based on its long-time earning power.**

Crop	Acres	Normal Yield	Total Production	Landlord's Share	Amount to Landlord	Price	Landlord's Total Income
Corn							
Oats							
Wheat							
Alfalfa							
Cash Rent		xxxx	xxxx	xxxx	xxxx		
Lots, roads, waste, etc.		xxxx	xxxx	xxxx	xxxx	xxxx	
Total Acres		A. Landlord's Gross Income					

## Landlord's Expense Items

Buildings: Depreciation, repairs, insurance \$	
Taxes .....	
Pump cost (Irrigation).....	
Fertilizer and seed.....	
Other .....	
Total .....	\$
Net Income to Landlord.....	\$
Net Income \$..... ÷ by Int. rate .....	= \$..... Value of farm
Value Farm \$..... ÷ by No. Acres.....	= \$..... Value per A.

# Operator's Income and Expense on an Owner-Operation Basis

A TRACT OF LAND may be worth the price asked but be too small to furnish a living for the family of the purchaser, and at the same time pay off the debt that must be assumed. Use Table 2 to calculate the probable income that will be available for family living and payment on principal and interest.

In many instances it will be possible to rent additional land if the unit is too small, but the availability of such land, conveniently located near the unit which is considered for purchase, should be investigated carefully before the contract is closed.

**Table 2. Operator's income and expenses on owner-operation basis.**

## A. Income from sale of crops

Crop	Units (bu., lbs., tons)	Price per Unit	Total
Wheat	760	.85	\$ 646.00
Oats	200	.35	\$ 70.00
			\$
Total crop income			\$ 716.00

## B. Livestock and livestock products to be sold

Cattle	2,000 lbs.	.06	\$ 120.00
Butterfat	1,000 lbs.	.30	\$ 300.00
Eggs	2,000 doz.	.20	\$ 400.00
Chickens	880 lbs.	.14	\$ 123.00
Hogs	14,000 lbs.	\$8.50	\$1,190.00

Total livestock income ..... \$2,133.00

Total Farm Income ..... \$2,849.00

## C. Expenses of production

Labor	\$130.00	Machinery and fuel	\$ 500.00
Seed	\$ 75.00	Repairs and Imp.	\$ 200.00
Feed	\$300.00	Replacement stock	\$ 60.00
Taxes and Ins.	\$125.00	Miscellaneous	\$ 80.00
		Total Farm Expenses	\$1,470.00

Family living expenses ..... \$ 900.00

Total Cash Expenses (deduct from total income) ..... \$2,370.00

Balance available for int. and prin. in avg. year ..... \$ 479.00

At \$57.50 per \$1,000 of debt \$479.00 will carry an \$8,330.00 mortgage at 4 per cent interest and pay it off in 30 years.

At \$52.50 for each \$1,000, the \$479.00 will pay off an amortized mortgage of \$9,124.00 in 36 years, if the interest rate is 4 per cent and payments on interest and principal are made annually.

**Table 2. Operator's income and expenses on owner-operation basis.**

## A. Income from sale of crops

Crop	Units (bu., lbs., tons)	Price per Unit	Total
		\$	\$
			\$
			\$
Total crop income			\$

## B. Livestock and Livestock Products to be Sold

	\$	\$
		\$
		\$
		\$
		\$
		\$
Total livestock income		\$

Total Farm Income ..... \$

## C. Expenses of Production

Labor	\$	Machinery and fuel	\$
Seed	\$	Repairs and Imp.	\$
Feed	\$	Replacement stock	\$
Taxes and Ins.	\$	Miscellaneous	\$
Total farm expenses		\$	

Family living expenses ..... \$

Total Cash Expenses (deduct from total income) ..... \$

Balance available for int. and prin. in avg. year ..... \$

At \$ ..... per \$1,000 of debt this will carry a \$ ..... mortgage and pay it off in ..... years.

Prepared by the staff of the Department of Rural Economics and Agricultural Extension Service.

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