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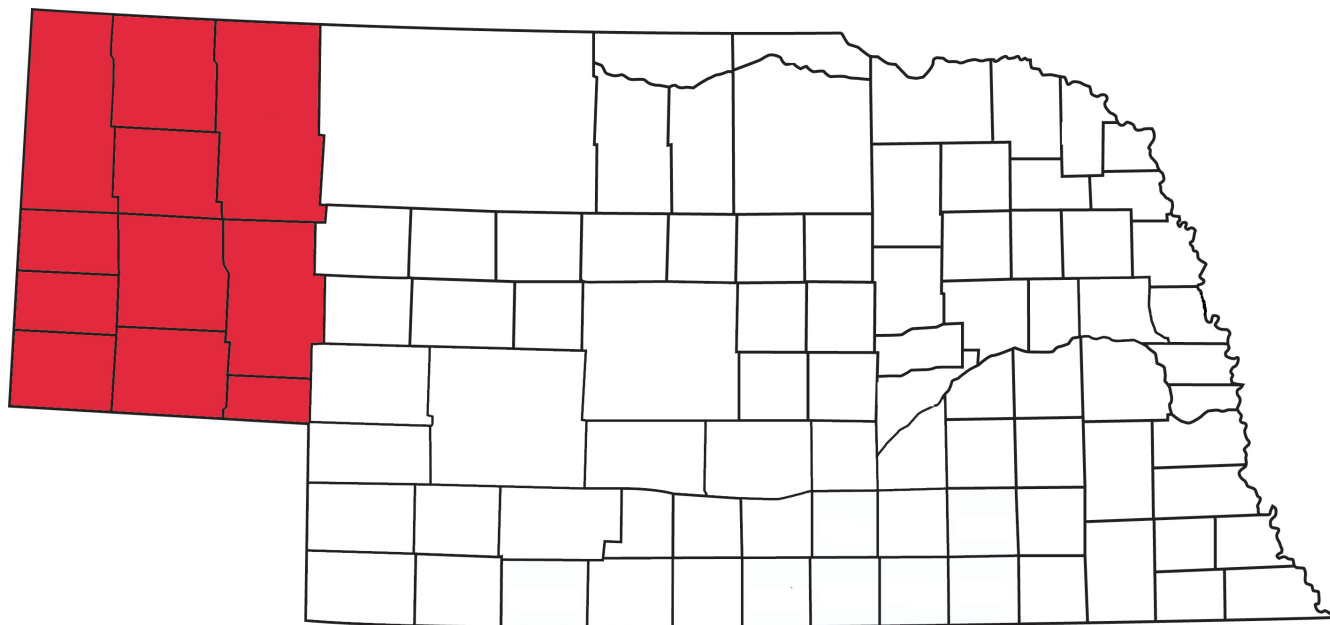
Farm Real Estate Ownership Transfer Patterns in Nebraska's Panhandle Region

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The Situation

Nebraska is richly endowed with agricultural land, which, by either total acreage or total market value, places it among the top five states in the country. As of 2007, the wealth value of privately-held agricultural real estate is nearly \$57 billion.

While production agriculture and associated agricultural income motives continue to be the primary economic driver underlying agricultural land ownership and transfer decisions, a host of other factors also appear to impact today's market. In recent years, reporters to the annual UNL Nebraska Farm Real Estate Market Developments Survey have indicated that non-farmer investor interest (and demand) has also been a strong force. Tax-motivated acquisitions occur with some frequency. (Johnson, et al., 2004). Likewise, a variety of "non-agricultural" uses for agricultural land are noted — including hunting and other outdoor recreation opportunities, eventual land development, access to scenic amenities and personal space, etc.

The above is simply a reflection of the capitalistic market system at work — the highest bidder is the purchaser; with the real estate gravitating, via these economic signals, towards its *highest and best use*. Open access to property ownership is a fundamental right of our democratic system. However, various concerns do arise over some of the outcomes of this market process, both real and perceived. For example:

- Are non-farmer buyer/investors bidding land away from active-farmer buyers?
- Is entry into production agriculture made increasingly difficult by land values that are reflecting values and motives beyond the agricultural income potential?

- Will the day come when absentee land ownership will be the prevailing pattern, leaving agricultural producers with less real estate ownership (the asset which has historically been the primary basis of their retirement savings and financial estate)?

While the annual agricultural real estate surveys provide some general trend data, no definitive study of the buyer side of the real estate market has been done in Nebraska. Anecdotal information about the market abound; but an objective and comprehensive investigation of actual market transfers is needed. That is the focus of this study.

The Purpose

The purpose of this study was to review and analyze the entire universe of recent agricultural real estate activity in the multi-county, Panhandle Region of Nebraska. This region was chosen because of the widely-held perception that a considerable number of acquisitions in recent years were by absentee owners. By investigating all recorded agricultural land transfers (filed in public records) for the period 2003 through the first half of 2006, we were able to identify the true characteristics of the market and analyze the associated implications.

The Process

The study was comprised of two phases. Phase One reviewed county courthouse records of ownership transfers in each of the 11 counties in the Nebraska Panhandle (*Figure 1*). This was accomplished during the summer of 2006.

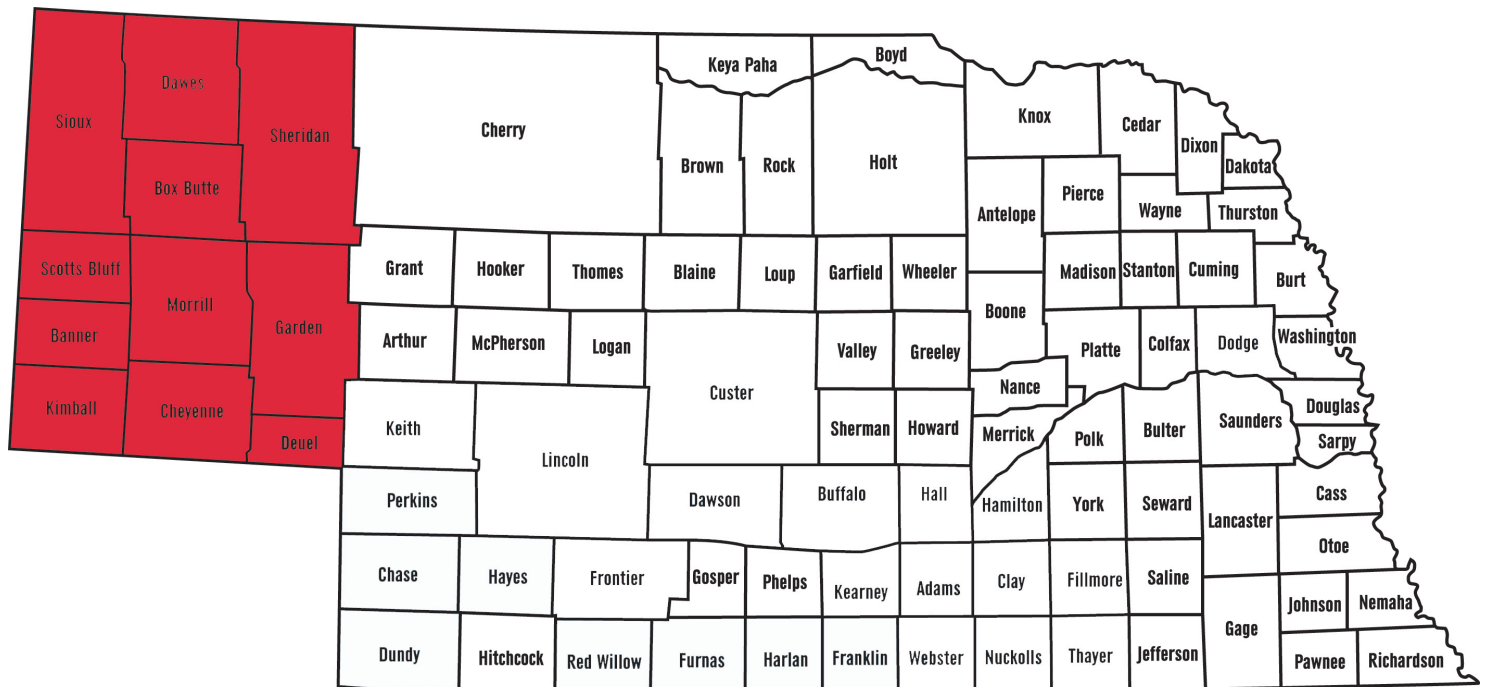


Figure 1. Nebraska county map.

Table 1. Agricultural Real Estate Transfers in the Nebraska Panhandle Region for the Period 2003-2006, by County¹

County	Total Number of Transfers ²	Total Acres Transferred	Acreage Size of Parcels		Range of Acre-Size of Parcels	
			Average	Median	Low	High
Banner	23	17,265	751	640	52	2,560
Box Butte	70	24,372	348	226	60	2,125
Cheyenne	53	20,832	393	320	80	1,464
Dawes	78	63,595	815	500	40	7,720
Deuel	37	20,790	562	235	44	5,936
Garden	28	114,399	4,086	392	78	77,400
Kimball	34	16,877	496	327	133	3,905
Morrill	37	38,585	1,043	480	103	14,280
Scotts Bluff	62	9,247	149	137	40	640
Sheridan	48	82,444	1,718	538	116	21,000
Sioux	84	77,219	919	268	40	12,169
Region	554	485,625	877	316	40	77,400

¹Time period covered: January 1, 2003 through June 30, 2006.

²Agricultural transfers were defined as rural parcels of 40 or more acres.

Using county public records of sales transfers (521 State-ments) and assessors' files on the specific parcels, all agricul-tural property transfers of 40 acres or more occurring since January 2003 were reviewed and recorded by the investigator. (County officials are required to maintain only a three-year historical file of real estate transfer statements, thus precluding the investigation of earlier transfers.)

In addition to the detail regarding specific characteristics of the properties, the nature of the transactions (with emphasis on buyer detail) was assembled into spreadsheet format for later analysis.

In sum, information was compiled for 554 transfers for the 3 ½ year period — in essence, the total universe of trans-actions in the region.

In addition to analyzing the data from the first phase, Phase Two involved following up with a telephone survey of the real estate buyers previously identified. Due to incomplete and non-current records, not all the buyers could be reached. Moreover, the survey was voluntary and some declined to partici-pate.

Consequently, the number of buyers interviewed was 111, or 20 percent of the total universe of buyers. While this percentage was considerably smaller than the total, it was still a number believed sufficient for drawing some general infer-ences about buyer motivations, etc.

The Findings

Total Transfer Activity

For the 3 ½ year period covered by the analysis, a total of 554 transfers were recorded in the 11-county region (*Table 1*). These transactions (of at least 40 acres in size) totaled more than 485,000 acres of agricultural land, averaging 877 acres per parcel with the median acreage size being 316 acres per parcel. The acreage transferred was characteristic of the land resource configuration of the region: 80 percent was classified as grazing land, 12 percent was dryland cropland, and the re-mainder (8 percent) was irrigated cropland.

As would be expected, particularly in this region of the state where very large contiguous holdings of ranchland ex-ist, there was a considerable range in size of transfers. Con-sequently the median acreage size (that size where as many transfers are larger in size as those which are smaller) is a more representative measure of acreage size of transfers. However, even across the counties, the size variation was substantial, reflecting differing market characteristics and land parcel configurations. For example, in Scotts Bluff County the median size of a transferred parcel was just 137 acres during the study period; while in Banner County the median acreage size was more than four times larger.

On a dollar basis, these agricultural transfers represented more than \$171 million. of sales volume during the 3 ½ year period. The average dollar volume per transfer was nearly \$310,000 (*Table 2*).

Table 2. Dollar Volume of Agricultural Real Estate Transfers in the Nebraska Panhandle Region for the Period 2003-2006 by County.

County	Total Dollar Volume of Transfers	Average Price Per Acre	Dollar Volume Per Parcel Average
Banner	\$4,974,900	\$288	\$216,300
Box Butte	12,997,730	533	185,500
Cheyenne	7,499,520	360	141,500
Dawes	27,863,341	438	172,100
Deuel	9,166,343	441	247,800
Garden	25,887,166	226	923,400
Kimball	5,294,483	314	155,700
Morrill	2,482,260	324	337,900
Scotts Bluff	9,909,462	1,072	159,700
Sheridan	25,146,041	305	524,000
Sioux	30,193,950	391	359,300
Region	171,415,196	353	309,600

¹Time period covered: January 1, 2003 through June 30, 2006.

²Agricultural transfers were defined as rural parcels of 40 or more acres.

Rate of Ownership Transfer

A common measure of real estate market activity is ownership transfer rate (expressed as a percentage) over a specified time period. Using the total land acreage in agricultural operations for each county from the 2002 Census of Agriculture, the percentage of ownership transfer was calculated for

each county and the region — first, over the 3 ½ year period being studied and also on an annualized basis.

The results are presented in *Table 3*. Overall, 5.7 percent of the region's agricultural land base underwent ownership transfer during the 3 ½ year study period. Across counties, the turnover rate over that time ranged from 2.2 percent in Scotts Bluff County to 10.7 percent in Garden County (where a small number of very large parcels transferred ownership).

Table 3. Rate of Ownership Transfer of Agricultural Land in the Nebraska Panhandle Region for the Period 2003-2006 by County¹

County	Total Agricultural Acreage	Total Acreage Transferred 2003-2006	Percent of Ownership Transfer Rate	
			For Period 2003-06	Annual Average
Banner	411,153	17,265	4.20	1.20
Box Butte	675,091	24,372	3.61	1.03
Cheyenne	803,181	20,832	2.59	0.74
Dawes	786,277	63,595	8.09	2.31
Deuel	293,995	20,790	7.07	2.02
Garden	1,072,156	114,399	10.67	3.05
Kimball	549,646	16,877	3.07	0.88
Morrill	872,35	138,585	4.42	1.26
Scotts Bluff	427,400	9,247	2.16	0.62
Sheridan	1,485,895	82,444	5.55	1.59
Sioux	1,103,122	77,219	7.00	2.00
Region	8,480,267	485,625	5.73	1.64

¹Time period covered: January 1, 2003 through June 30, 2006.

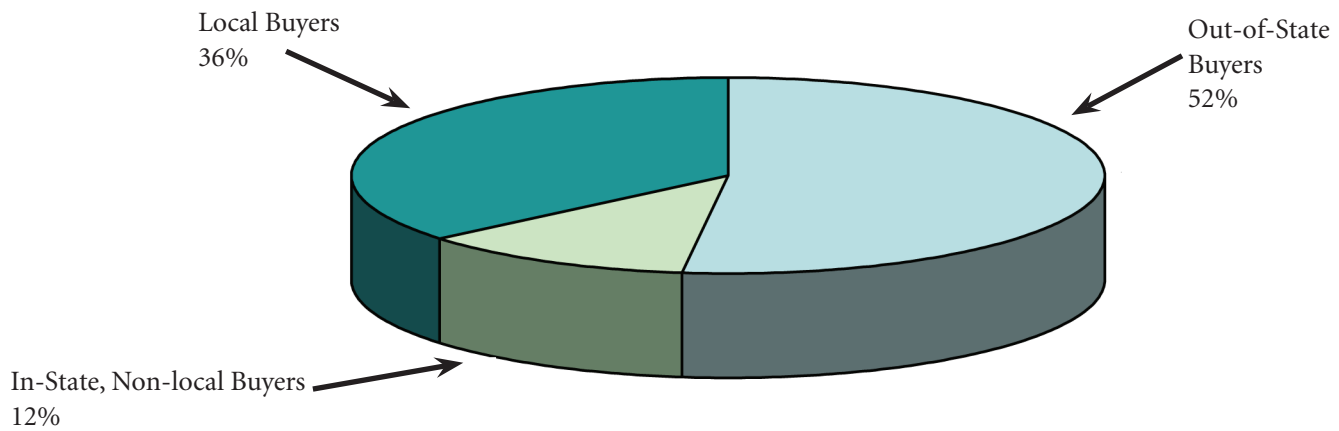


Figure 2. Percent of Land Acreage Purchased by Buyer Type, Panhandle Region, 2003-2006.

On an annualized basis, the rate of ownership transfer for the region is quite low — just 1.6 percent per year. And in some of the counties, the annualized rate is even below 1 percent. This means that the market for agricultural real estate is quite “thin,” with only a tiny fraction of land coming on the market at any given point in time.

As a general rule, the ownership turnover rate of agricultural land across Nebraska is about 3 percent per year (Johnson, 2005). In other words, a given parcel of land may come up for sale and/or change ownership no more than once every 30 years. However, in the case of these recent patterns in the Panhandle region, the implied frequency of ownership change of any given agricultural parcel is more like once every 60 years.

One underlying reason for a relatively lower rate of turnover rate is that land holdings in the region tend to be in much larger-sized ownership parcels. Economists refer to this as *lumpy resources* which typically can not or do not become parceled out in small increments through the market mechanism. Thus, the real estate sales will tend to be less frequent, albeit much larger when they do occur.

Purchases by Buyer Classes

As previously noted, the agricultural real estate market is an open and fairly competitive market. Any individual with the financial means can acquire land holdings, regardless of the underlying motives. Consequently, in any given local market, there will tend to be a full array of buyer types represented. As a general pattern, however, the local active farmer/rancher group tends to dominate on the buying side of the market.

For example, for the calendar year 2006, sales reported in the annual UNL Nebraska Farm Real Estate Market Survey indicated that 71 percent of the purchases were by active farmers/ranchers, 12 percent by local non-farmers, 8 percent by non-local Nebraska residents, and 9 percent by out-of-state buyers (Johnson, 2007). There were sizable variations in these distributional patterns across regions, but still active farmers/ranchers represented the primary buyer class across the state in 2006.

Therefore it comes as a significant finding of this study that for the 3 ½ year period of 2003 through the first half of 2006, that more than half (52 percent) of the transferred acreage in the region was purchased by out-of-state buyers, while 36 percent was acquired by active farmers/ranchers and other local buyers (*Figure 2*). To be sure, there were substantial differences in the buyer breakdowns of the turn-over acreage (*Figure 3*). In Box Butte County, for example, 79 percent of the acreage was acquired by local buyers, while in Garden County, nearly the opposite pattern was observed with 75 percent of the transferred acreage being purchased by out-of-state buyers. One large acquisition altered this Garden County pattern considerably. Nevertheless, the presence of out-of-state buyers was considerably more in every one of the Panhandle counties than what has generally been observed across the state in recent years.

Even when the distribution of ownership turnover was considered using the dollar-volume basis versus acreage, the patterns still indicated a pronounced presence of out-of-state buyers (*Figure 4*). While variations did occur at the county level, the financial involvement of out-of-state buyers in the Panhandle Region land markets was essentially comparable to that of the acreage turnover distributions.

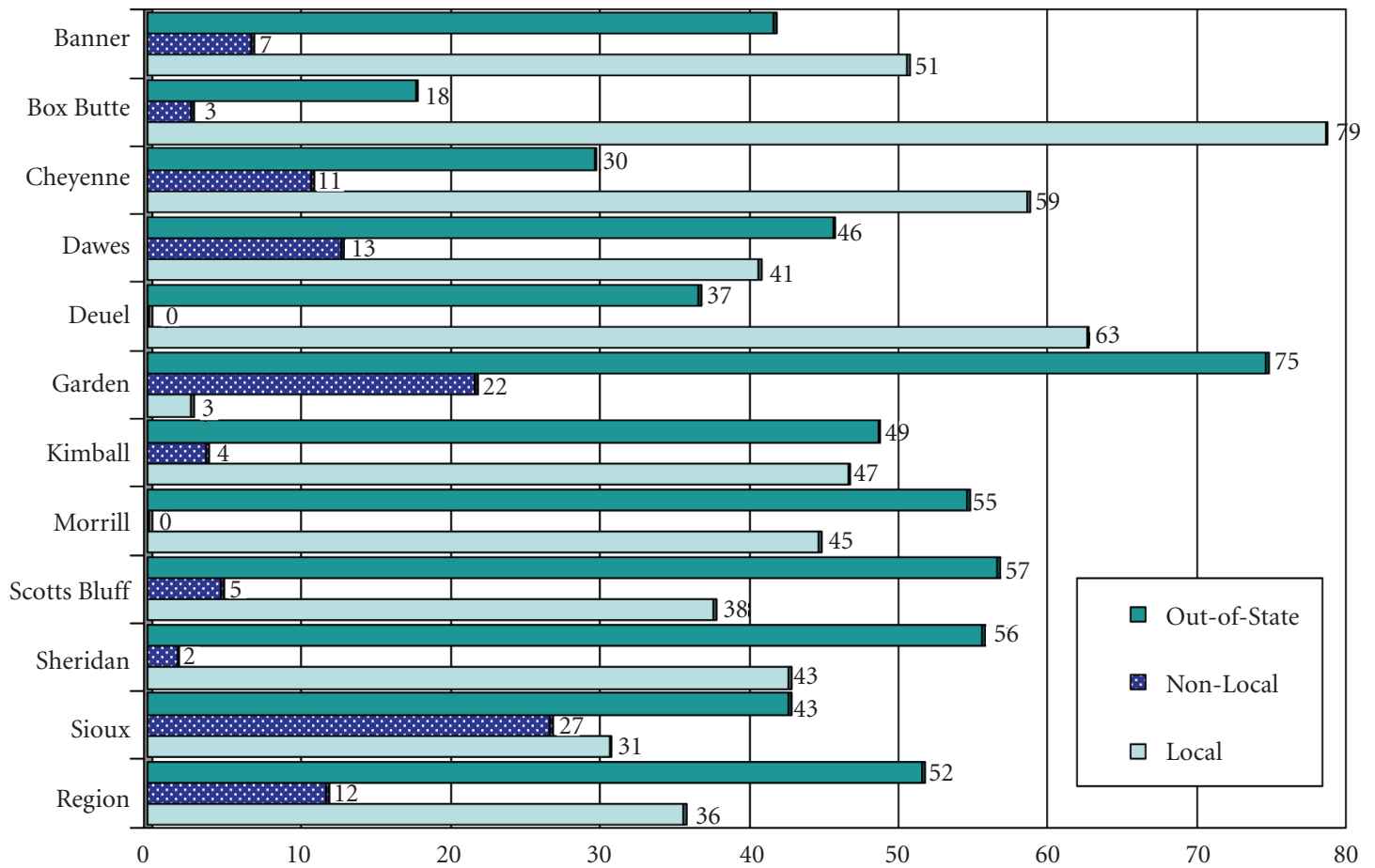


Figure 3. Percent of Land Acreage Purchased by Buyer Type, By County, 2003-2006.

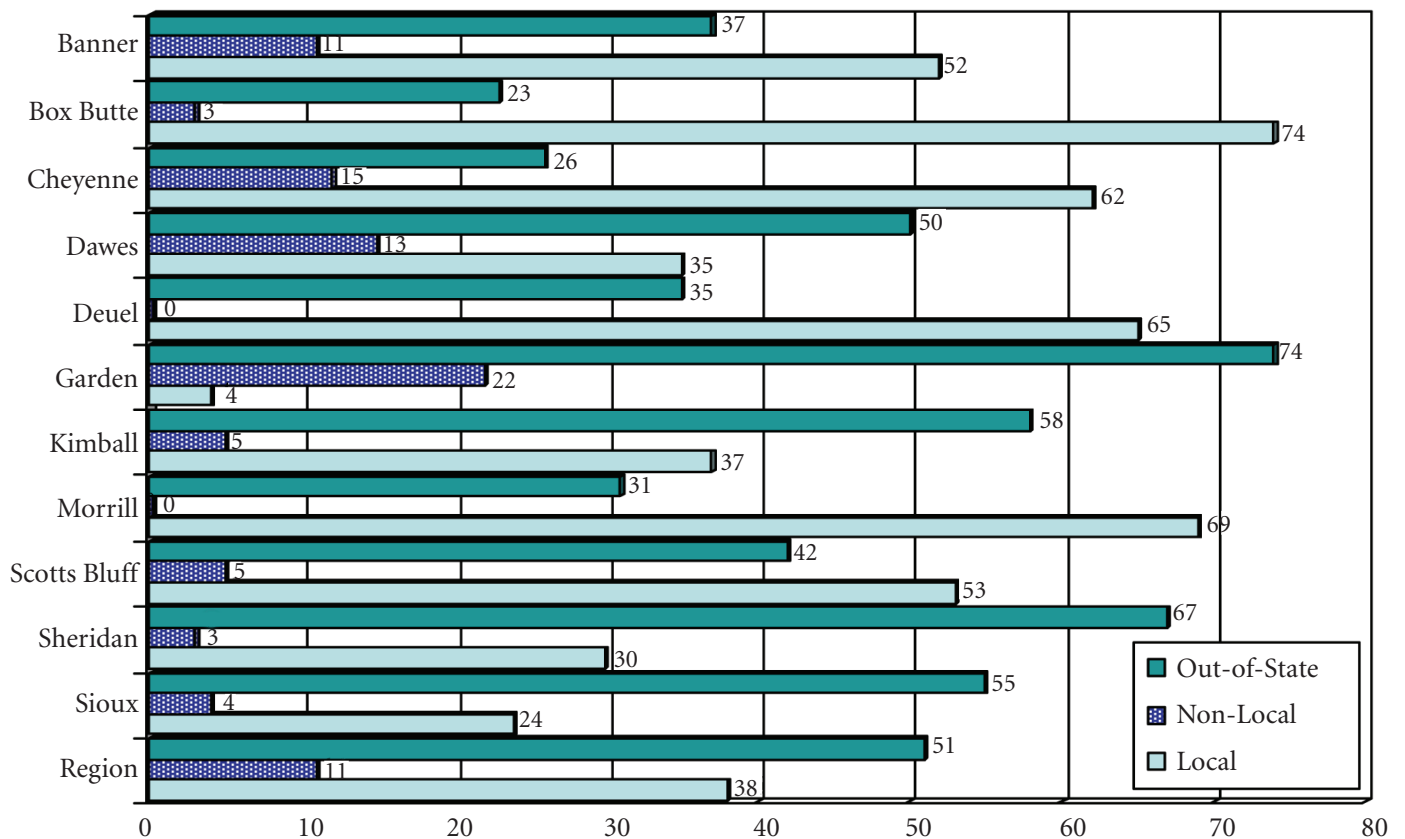


Figure 4. Percent of Dollar Volume of Agricultural Land Ownership Turnover by Buyer Type, By County, 2003-2006.

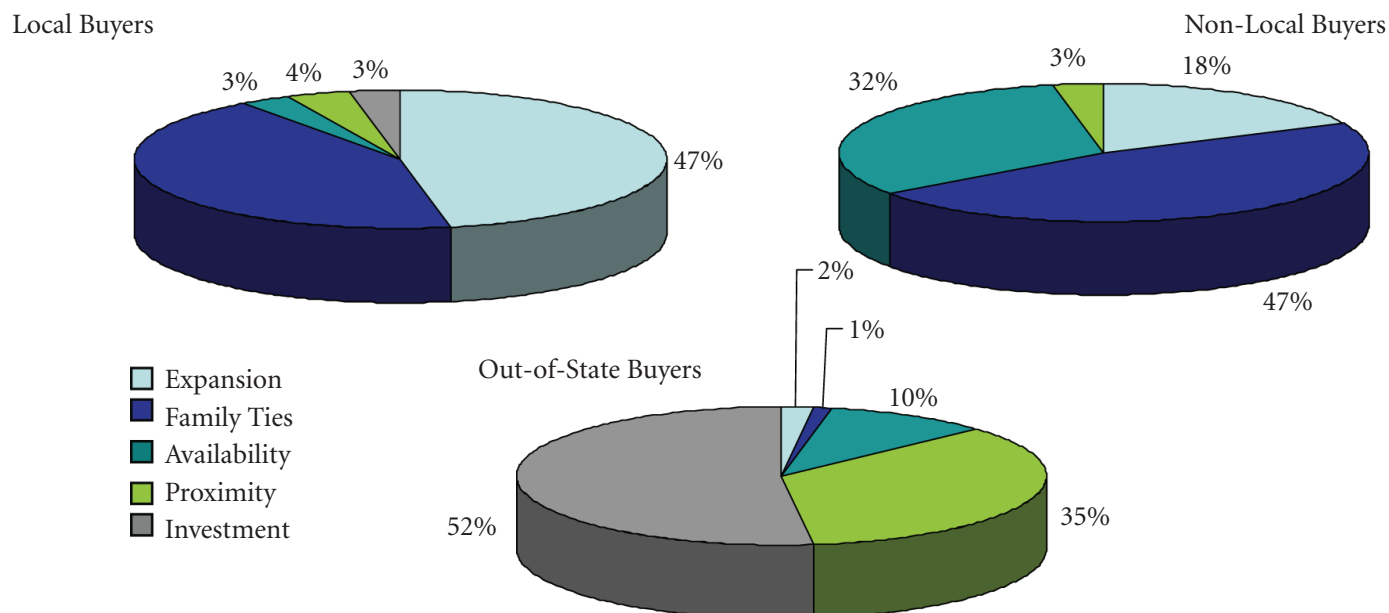


Figure 5. Reasons for Purchase by Buyer Type, Panhandle Region, 2003-2006.

Reasons for Purchase

Through the follow-up telephone interview survey of agricultural land buyers, we were able to identify the primary motivations behind the land purchases in the Panhandle region, which varied substantially across the buyer classes (Figure 5).

As was expected, *expansion* (of holdings) was the primary motivation reported by the local buyer group — many of which were active farmer/ranchers who were adding to their operations as opportunities arose. *Family ties* also ranked high among this group as a primary motivator, implying that familial connections still remain quite important in the configuration of agricultural land holdings.

For the non-local buyers (who were from Nebraska), *family ties* also ranked very high as a primary motivation for purchase, followed by the fact of their *moving to the area*. In short, there was a clear connectedness to the region that led to the purchase.

In rather dramatic contrast to the above patterns, more than half (52 percent) of the out-of-state buyers indicated that *investment* was the primary motivation for their agricultural land acquisition(s) during the period. A good portion of this buyer group (35 percent) indicated that *proximity* (to some other factor) was a primary motivation for purchase. Although

just what this *proximity* response represented was not clearly identified, the fact that several out-of-state buyers lived relatively near-by in Colorado and Wyoming may imply that purchase might relate at least in part to proximity of their current residence.

Sales by Seller Classes

While the buyer side of the agricultural land market has been heavily influenced by non-local and out-of-state buyers in recent years, the overall effect on land tenure patterns can not be fully determined without also investigating the seller side of the market as well. In other words, all classes of owner groups are continually buying AND selling agricultural land such that the relative distribution of overall ownership patterns is always in a dynamic state. Whether a particular ownership group is increasing or decreasing its relative agricultural holdings depends on this flow.

In this study, we attempted to classify the sellers according to addresses specified on the 521 Transfer Statements and, thus determine the magnitude of agricultural land, in terms of acreage and dollar value, that was sold by seller type. The difference between this amount and the purchased amount essentially gives us an indication of net changes in ownership patterns over the 3 ½ year study period (see Figure 6 and Table 4).

Table 4. Total Agricultural Real Estate Acreage Purchased and Sold by Owner Type and the Net Change in the Nebraska Panhandle Region 2003-2006 by County.

County	Local	Ownership Group	
		Non-Local	Out-of-State
Banner:			
Purchased	8,876	1,104	7,285
Sold	828	898	15,539
Net Change	+8048	+206	-8,254
Box Butte:			
Purchased	19,144	932	4,296
Sold	10,407	6,239	7,726
Net Change	+8,737	-5,307	-3,430
Cheyenne:			
Purchased	12,209	2,440	6,183
Sold	9,916	3,375	7,541
Net Change	+2,293	-935	-1,358
Dawes:			
Purchased	26,090	8,033	29,472
Sold	13,355	6,105	44,135
Net Change	+12,735	+1,928	-14,663
Deuel:			
Purchased	13,024	0	7,766
Sold	11,622	6,736	2,432
Net Change	+1,402	-6,736	-5,334
Garden:			
Purchased	3,838	25,218	85,343
Sold	23,909	11,211	79,279
Net Change	-20,071	+14,007	6,064
Kimball:			
Purchased	7,997	645	8,235
Sold	3,426	2,447	11,004
Net Change	+4,571	-1,802	-2,769
Morrill:			
Purchased	17,257	160	21,168
Sold	10,649	6,637	21,299
Net Change	+6,608	-6,477	-131
Scotts Bluff:			
Purchased	5,267	437	3,543
Sold	8,008	333	906
Net Change	-2,741	+104	+2,637
Sheridan:			
Purchased	35,043	1,536	45,865
Sold	11,542	6,266	64,636
Net Change	+23,501	-4,730	-18,771
Sioux:			
Purchased	24,183	20,104	32,932
Sold	7,954	1,313	67,952
Net Change	+16,229	+18,791	-35,020
Region:			
Purchased	172,928	60,609	252,088
Sold	111,616	51,560	322,449
Net Change	+61,312	+9,049	-70,361

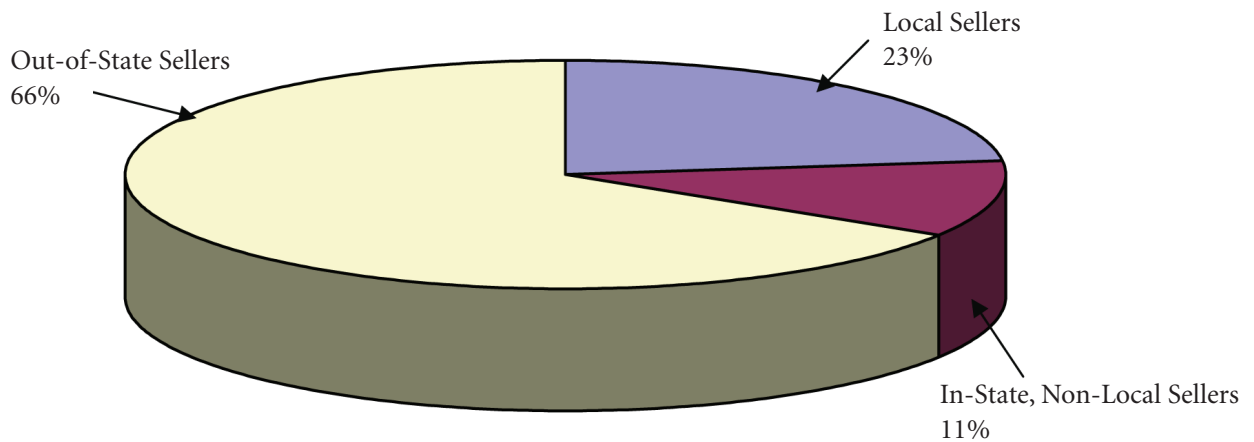


Figure 6. Percent of Land Acreage Sold by Seller Type, Panhandle Region, 2003-2006.

The results are quite revealing in terms of net impacts of ownership shifts across the three market groups. While out-of-state market participants were capturing the major share of the buyer side of the Panhandle agricultural land market, they were simultaneously dominating the seller side as well. In fact, during the 3 ½ year study period, they actually sold some 70,000 acres of land more than they purchased — leading to a loss of their net holdings of this amount. In contrast, both the local and the non-local buyer groups sold fewer acres than they purchased in the region, which led to some build-up in their aggregate holdings over the time period.

County patterns tended to show considerable variation in the patterns of net changes in land holdings by the three market participant groups. However for nine of the 11 counties, the out-of-state market group registered a *net decrease* in agricultural acreage holdings over the study period (selling more land than buying). Simultaneously, the local market participants experienced a *net increase* of holdings in nine of 11 counties.

The reasoning underlying this relatively large sell-off of agricultural land by out-of-state sellers is worthy of further research. However, at this juncture, one plausible factor is the propensity of estate settlement heirs to liquidate their holdings after taking ownership. Often these can be individuals living out-of-state who are not too interested in owning the property, and so will tend to sell agricultural property. In the process of this estate settlement and follow-up sale of land, the new out-of-state owners actually hold ownership rights for a relatively short time. And, in turn, the land ownership reverts to new owners who may often be local and/or in-state buyers.

The above would tend to imply that absentee ownership, particularly by out-of-state owners, was NOT a growing pattern over the study period; and, in fact, was actually decreasing by an amount equivalent to nearly 1 percent of the total agricultural land base of the region. To be sure, there are a number of nuances to the dynamics observed in this analysis, all of which make the implications to be drawn somewhat muted. But, clearly, there is strong evidence from this study to suggest that a build-up of absentee ownership is not occurring in the Nebraska Panhandle.

Major Conclusions and Implications

This multi-year study of the market for agricultural real estate properties in the Nebraska Panhandle region provides a solid perspective of the market. Among the key findings were:

- The rate of ownership turnover of agricultural holdings in the Nebraska Panhandle region is very thin, averaging less than 2 percent per year over the study period.
- Out-of-state buyers have a strong presence in the agricultural land market of the region, acquiring more than half of the transferred agricultural land.
- While out-of-state market participants were quite active on the buyer side of the market, they were also quite active on the seller side of the market. In fact, for every 10 acres purchased by this group, they sold nearly 13 acres; thus leading to a net decrease in this group's holdings of some 70,000 acres (equivalent to about one percent of the region's total agricultural base). In short, there is no evidence to suggest a major shift in land tenure towards out-of-state owners.
- There are a variety of reasons for acquiring agricultural land, and this was certainly in evidence in this study. Moreover, the primary reasons tended to show marked differences across the buyer classes. Among the out-of-state buyer group, *investment* was reported as the primary reason for purchase. In contrast, local buyers most frequently reported *expansion* (of existing property holdings) as their primary motive.
- The overall dynamics of the market for agricultural real estate in the Panhandle area of the state show eclectic market conditions — markets no longer limited to local participants, but, instead, markets with a heavy presence of individuals from around the region and state and beyond. In turn, the motivations for buying and selling in the current market environment are highly variable, and are likely to remain so.

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