

# FARM AND RANCH BULLETIN

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## THE DUAL LAND MARKET

Although farmland values in the Southwest increased further during 1968, some noticeable changes occurred in important underlying variables. On November 1, 1968, farmland values in the Southern Plains (Texas and Oklahoma) were 7 percent higher than a year earlier. This increase in farmland values affected both the number of transactions and the acreage involved in the transfer of farmland.

### Farm Real Estate Transfers

During the year ended March 1, 1968, a total of 2.2 million acres of farmland in Texas and Oklahoma were transferred, a sharp decline from the 2.9 million acres that changed hands in the previous 12-month period. As a percentage of total land in farms in the two states, the acreage of land transferred fell from 1.6 percent in 1967 to 1.3 percent in 1968. Approximately 2 percent of U.S. farmland changed hands during the year ended March 1, 1968.

The value of the transferred acreage in the two states amounted to around \$500 million. For small tracts, the average sales price per acre was higher than that for large tracts. For example, tracts with 10 to 69 acres sold at an average price of \$340 per acre; those with 100 to 179 acres brought an average of \$257 per acre; and tracts with 500 or more acres sold at an average price of \$160 per acre. The average price for all size tracts advanced from the previous year, but the average price for the smallest tracts increased the sharpest.

The higher price for small tracts reflects physical differences in the land, as well as variations in its intended use, according to a survey by the

Economic Research Service. Small tracts frequently are in better locations and are near large population centers; consequently, they demand higher prices. These tracts often contain buildings and sometimes are purchased for nonagricultural uses. In contrast, the large tracts frequently are purchased primarily for agricultural uses. In the Southern Plains, the largest tracts often are range land or nonirrigated cropland; therefore, average values are lower.

The large spread between prices for different size tracts in Texas and Oklahoma is typical of other regions in the country, and, in some areas, price differences are much greater. For example, in the Pacific States, prices for the smallest tracts averaged over \$1,000 per acre, compared with \$195 for the largest tracts.

### Size of Transfers

Despite the fact that the average size of farms in the Southern Plains has increased substantially during recent years, farmland usually is bought and sold in tracts consisting of relatively small acreages. On the national level, more than 7 out of 10 transfers in the year ended March 1, 1968, involved less than 180 acres. The average size of all transfers was about one-half the average farm size. During the year ended March 1, 1967, the average size of tracts sold in the Southern Plains was approximately 267 acres, or 41 percent of the average farm size. This percentage probably declined in 1968.

Nationally, there are several reasons for the increased interest in smaller tracts, according to the ERS. On the supply side of the market, fewer

tracts now are complete farm units at the time of sale. Approximately 70 percent of the tracts sold in the late 1950's were complete farm units before sale, but only one-half of the units were in that category last year. With the decline in the proportion of complete-unit sales, the number of partial units and part-time farms has increased.

Forces on the demand side of the market have encouraged the transfer of relatively small tracts. Farmers and ranchers make up a large proportion of the land buyers, and, in many cases, they are interested in obtaining property to supplement their own farms. Purchases for farm enlargement accounted for 58 percent of sales occurring in Texas and Oklahoma during the year ended March 1, 1968. In the early 1950's, only about a fourth of U.S. land sales were purchases for farm enlargement. Limited capital also may force the purchase of smaller tracts.

According to the ERS, a potential buyer looking for a part-time farm also tends to buy smaller tracts. Purchases of land for part-time farms have been rising steadily during the 1960's and in the year ended March 1, 1968, accounted for 17 percent of land sales in the Southern Plains. Most of these purchases are made by nonfarmers, reports the ERS. Since farming will seldom be their primary source of income, these buyers are more interested in the location of their land with respect to the location of their off-farm employment. The value of farmland near urban centers is often influenced by these "city-farmers."

High land values and large and efficient operating farms have had an impact on the purchase of land to be used as a complete unit. The percentage of all land transfers for use as complete units has declined sharply in the 1960's; and in the year ended March 1, 1968, such purchases accounted for only one-fourth of all transfers in the Southern Plains. These purchases accounted for nearly two-thirds of all transfers in the 1950-54 period.

### **Buyers of Farm Real Estate in Texas and Oklahoma**

Farmers and ranchers are the most important group of farm real estate buyers in Texas and Oklahoma. They accounted for 58 percent of all farm real estate transfers in the Southern Plains during the year ended March 1, 1968, down only slightly from 60 percent in the previous 12-month

period. Since the acreages of many of the more profitable crops in these two states have been under marketing quotas and acreage allotments, there is incentive for farmers to obtain control over additional land subject to Government programs.

Purchases by owner-operators continue to make up a large share of all farm real estate bought. As buyers, owner-operators accounted for 47 percent of farm real estate transfers during the year ended March 1, 1968. However, the share held by owner-operators has declined in recent years as tenants and retired farmers have become more active in the farm and rural land markets.

Tenants accounted for 8 percent of all land purchases in Texas and Oklahoma during the year ended March 1, 1968, up from 7 percent in the previous year. Retired farmers increased their share of all purchases from 1 percent in 1967 to 3 percent last year.

Nonfarmers were more active in the farm and rural land markets during the year ended March 1, 1968, than in other recent years. In the Southern Plains, local nonfarmers are becoming less active buyers, but absentee nonfarmers (buyers not living in the same or adjoining county) are becoming more active buyers of farm real estate. Absentee nonfarmers accounted for nearly one-fifth of all transfers in Texas and Oklahoma during the year ended March 1, 1968, up from one-seventh in the previous year.

Absentee owners also are becoming more active buyers of farm real estate in other regions of the country. These buyers increased their share of purchases in all nine farm production regions, with the most noticeable gain occurring in the Northeast.

### **Buyers by Type of Business Organization**

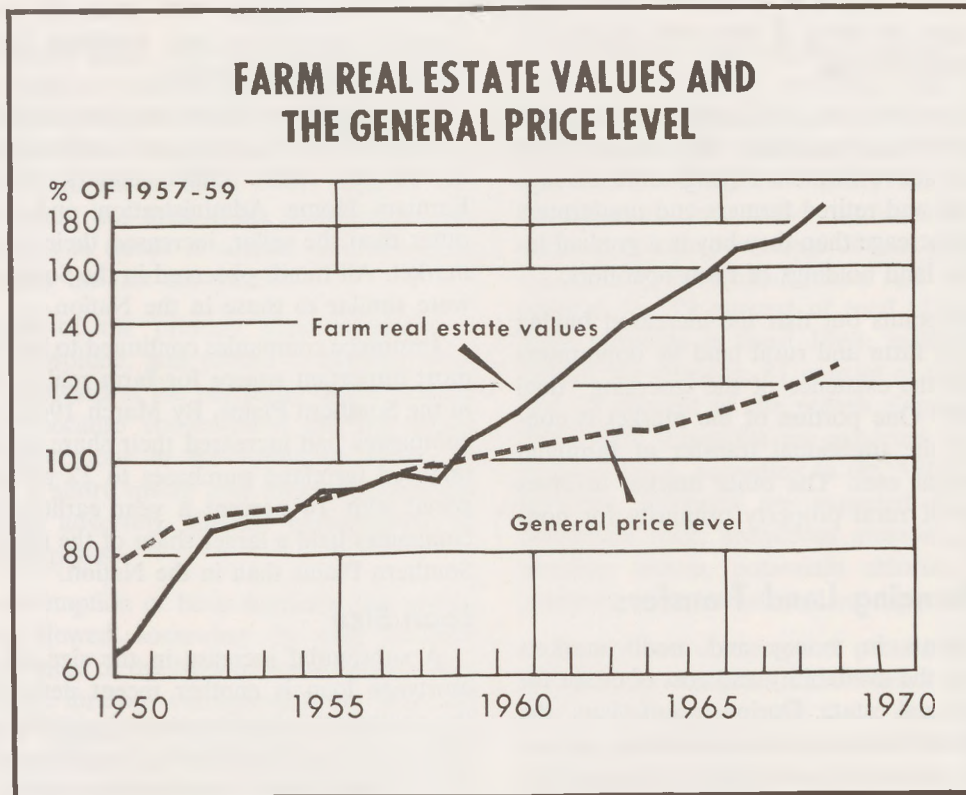
Several forms of business organization can be found in the farmland market in Texas and Oklahoma. In addition to individual proprietors, farm real estate buyers include partnerships, private corporations, and public corporations. Most land transfers (87 percent) were reported to be purchased by individual proprietors in Texas and Oklahoma during the year ended March 1, 1968. Partnerships accounted for 1 out of 10 farmland purchases, and privately and publicly held corpo-

rations and other types of buyers accounted for the remainder.

The purchases made by partnerships and corporations, however, tended to involve larger tracts. Consequently, these groups weighed more heavily in the market, in terms of percentage of total acreage of all transfers, than the numbers above imply. For example, partnerships and corporations accounted for only 11 percent of the total number of transfers, but such buyers purchased one-fourth of the total acreage involved in all transfers.

ferred by active farmers increased. These farmers accounted for 31 percent of all transfers in Texas and Oklahoma during the year ended March 1, 1968, up from 28 percent in the previous 12-month period. However, the percentage of the market held by active farmers in these two states was still below the share held by such farmers in the Nation.

The percentage of land sold by retired farmers and local nonfarmers in the Southern Plains increased during the year ended March 1, 1968. This



NOTE. — Farm real estate values are for Texas and Oklahoma; the general price level is for the United States.

SOURCE: U.S. Department of Agriculture.

### Sellers of Farm Real Estate in Texas and Oklahoma

According to the ERS survey, active farmers also were the most important sellers of farm real estate in Texas and Oklahoma during the year ended March 1, 1968. National and regional changes were primarily in the direction of smaller percentages of sales by active farmers, but in the Southern Plains, the percentage of all land trans-

sition was contrary to that in the Nation, which showed no change in these proportions from year to year. However, directional changes did occur among regions, and such movements in the Southern Plains were not of an unusual nature.

Absentee owners were involved in a large share of land transfers, accounting for 24 percent of sales in Texas and Oklahoma during the year ended March 1, 1968. This percentage is up from

22 percent in the previous 12-month period. Absentee owners bought and sold a larger share of land transfers in the two states than in the Nation.

## Net Acreage Transfers

Despite the fact that active farmers are the most important buyers and sellers of farm real estate, these farmers are buying substantially more acreage than they are selling in the Southern Plains, as well as in the Nation. Active farmers in Texas and Oklahoma purchased almost 2 acres for every 1 acre they sold in the year ended March 1, 1968. Active farmers in the United States purchased 3 acres for every 2 acres sold during the same 12-month period.

Retired farmers and nonfarmers in the two states sold more acreage than they bought. The net effect of active farmers buying more acreage than they sell and retired farmers and nonfarmers selling more acreage than they buy is a gradual increase in the land holdings of farm operators.

The ERS points out that the increased buying and selling of farm and rural land by nonfarmers substantiates the existence of the emerging "dual land market." One portion of the market is concerned with the traditional transfer of farmland for agricultural uses. The other market involves the transfer of rural property primarily for non-farm uses.

## Financing Land Transfers

Developments in money and credit markets have affected the availability and cost of credit for buying farm real estate. During recent years, the supply of loanable funds has contracted, and interest rates have risen sharply. Consequently, farmers and ranchers in the Southwest, as well as those in the Nation, have turned increasingly to sources other than the conventional institutional credit lenders.

The seller has long been the most important credit source for buying farm real estate, but, in recent periods, the seller has provided an increasing share of needed credit. The percentage of seller-financed farm transfers in Texas and Oklahoma reached 46 percent in March 1968, 9 percentage points greater than the proportion in March 1966. Nationwide, sellers extended over half of the credit for farmland transfers in the year ended March 1, 1968, implying that the

trend toward seller-financing is not a regional phenomenon.

With an increased proportion of sales being financed by sellers, shares held by major institutional lenders in the Southern Plains also have changed. The importance of commercial banks in financing farmland purchases in Texas and Oklahoma declined during the last 3 years. During the years ended March 1, 1966, and March 1, 1967, commercial banks financed approximately 15 percent of all credit-financed land transfers, but the proportion dropped to 11 percent in 1968. As a general rule, regions with relatively low seller-financed proportions had relatively high shares held by commercial banks.

The proportion of credit-financed farmland purchases held by Federal Land banks also declined in the two states. Other lenders, such as the Farmers Home Administration and individuals other than the seller, increased their share of the market. All trends observed in the Southern Plains were similar to those in the Nation.

Insurance companies continued to be the second most important source for farm real estate credit in the Southern Plains. By March 1968, insurance companies had increased their share of all credit-financed farmland purchases to 22 percent, compared with 18 percent a year earlier. Insurance companies held a larger share of the market in the Southern Plains than in the Nation.

## Loan Size

A substantial increase in the size of the farm mortgage loan is another recent development in the commercial lending market, according to the ERS. On the national level, the average loan size for all lenders was 8 percent larger during the first half of 1968 than a year earlier; insurance companies reported a 21-percent gain.

In Texas and Oklahoma, the average size of the farm mortgage loan was \$36,000 during the year ended March 1, 1968. The loan size ranged from \$16,400 for commercial banks to \$74,700 for insurance companies. Seller-financing averaged \$42,400 per transfer. The average size of the farm mortgage loan made by commercial banks in the Southern Plains was below the national average for all commercial banks, but the average size of loans made by sellers and insurance companies in Texas and Oklahoma exceeded that for the United States as a whole.