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Trends in Oregon Farmland Value

The 1982 *Census of Agriculture* provides information on the value of farmland and buildings—useful information for evaluating the trends in Oregon farmland values and for comparing the differences in land values among counties.

The average value of farmland and buildings per acre and the annual percentage changes for the state are presented in table 1. Since 1959, the average value per acre has increased from $87 to $705. This is equivalent to a 9.5% average compounded annual rate of increase.

The percentage change in real estate values, however, has not been constant over the two decades. The annual change was 5.7 and 5.5% for the first two 5-year periods. During the two periods in the 1970's, the rate of increase jumped to 10.8 and 17.5%, then back to 10.3% in the 1978-1982 period.

The 1982 figures are already obsolete as an indication of current land values. *Farm Real Estate: Outlook and Situation Summary, May 23, 1984,* published by the U.S. Department of Agriculture, provides current data. According to this source, the average value of Oregon farmland and buildings decreased by 5.5% from 1982 to 1984.

This decrease in farmland values is consistent with what has happened across the United States. For this same period, 1982-1984, USDA reports an average 7% decrease for the contiguous 48 states. After many years of increasing land values, these decreases are a real shock to the financial structure and stability of agriculture.

Table 1.—Average value of farmland and buildings per acre and annual percentage change (Oregon, 1959-1982)

Census year	Average value per acre ($)	Annual change (%)[a]
1959	87	.....
1964	115	5.7
1969	150	5.5
1974	250	10.8
1978	477	17.5
1982	705	10.3

Source: U.S. Census of Agricultural reports.

[a] Average rate of change, compounded annually.

County land value trends

A number of factors affect the value of farmland, including its location, earning capacity, and size of the parcel. The differences in the land values among counties (table 2) indicate the importance of these factors. The average value per acre of farmland and buildings in 1982 ranged from $177 in Wheeler County to $5,787 in Multnomah County.

Except for Hood River County, with its established orchards, the higher farmland values tend to be associated with the more populated counties in the Willamette Valley and a few other counties. Rainfall, frost-free days, and demand for residential and recreational development also affect value differences among counties.

As you can see in table 2, land value increases were greatest in the years 1974-1978 with an annual average change of +17.5%. The increases slowed to +10.3% in the 1978-1982 period. And USDA estimates that farmland values have decreased 2.5 to 3.0% per year from 1982 to 1984.

Differences in the rates of change exist from county to county over the 13-year period in table 2. However, the righthand column, which shows the annual change over the *whole* period, 1969-1982, tells us that the changes are surprisingly consistent from county to county.

What do these changes mean?

These census data, and other data on Oregon farmland values, indicate that the average value per acre of land consistently increased from 1969 through 1982. However, since 1982, there has been a reversal in this long-term upward trend.

During the 1970's, land values increased as a result of low interest rates, inflation in the general economy, and a generally favorable outlook for agricultural income. These increases in land values increased the value of assets held by landowners, providing additional collateral for financing. Many farmers used this additional collateral to finance the purchase of additional land to expand farm size.

In the 1980's, as a result of substantial increases in interest rates and declining demand for U.S. agricultural exports, the real estate market turned around. Land values continue to be weak. Although larger numbers of farms are available for sale, buyers appear to have a "wait and see" attitude—they're probably hoping for lower interest rates.

The downturn in values in the early 1980's eroded the financial position of Oregon farmers. For some, particularly those with high debt loads, their reduced collateral, along with higher interest rates, has created difficult financial problems. This may further increase the supply of land on the market as a result of bankruptcies, foreclosures, and complete or partial liquidation of farm assets.

Land purchase considerations

Purchasing land is one of the most important decisions that farmers and ranchers make. Poor judgment can cause the business to fail. The capital position of the business changes with added mortgage liability and makes the operation more susceptible to risk. Three considerations are important: the market value of the property, its economic value to the purchaser, and the financial feasibility of the purchase.

Market value depends on the characteristics of the particular tract of land you're considering. Such factors as location, access to roads and markets, size, buildings, irrigation water availability, rainfall, frost-free days, and demand for alternative use will affect the land's market value.

Farm appraisers make adjustments for all these factors to estimate the value of the property. They compare recent sales of

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similar property, using the market data approach.

The two remaining factors depend not only on the characteristics of the specific tract, but also on the buyer's desired rate of return on investment, income tax situation, and expectations of future agricultural prices and changes in land values. Another consideration: Does the purchase fit in with the buyer's existing farm or ranch operation?

The financing terms and cash flow situation for the overall business are important for evaluating the financial feasibility (down payment, interest rate, and length of loan) of a particular land purchase. You'll find procedures for considering these factors when you evaluate a purchase decision in WREP-34, *How to Analyze an Investment in Farmland* (available from local offices of the OSU Extension Service, or enclose 75¢ plus 25¢ postage and order a single copy from Bulletin Office, OSU, Corvallis 97331). Worksheets are provided to guide the analysis.

Computer programs are also available to further simplify your calculations. For additional information, see your county Extension agent or write to the Department of Agricultural and Resource Economics, Oregon State University, Corvallis 97331.

What does the future hold?

The future trend in land values is very uncertain. Although land values are not expected to change significantly over the next 2 to 3 years, there's no way to predict whether any changes that do occur will be positive or negative. Improved outlook for farm income will tend to strengthen the land market. On the other hand, surplus production capacity, rising production costs, high interest rates, and increasing numbers of unsold farms on the market will tend to push the values lower. Although interest rates have declined, many people feel that they are still high, relative to the prospects for income.

Any further major decline in farm values in Oregon is not likely, but any improvement will depend on farmers' expectations. Farmers continue to be the primary purchasers of farm real estate, accounting for three-fourths of the purchases (non-farmers account for the other one-fourth). Until these buyers, mostly farmers, believe they can generate income adequate to justify their investment and obtain financing for that investment, land sales are likely to remain low—which means only small changes in land values.

As long as farm production remains high, relative to current market demands, there is little reason to expect a general upward movement in land values. However, local variations will continue to occur. These county data on farm land values from the 1982 *Census of Agriculture* give an indication of the extent of variation that is possible.

Table 2.—Average values of farmland and buildings per acre and annual percentage (by county and state, 1969-1982)

County and state	Value per acre				Annual change (%) [a]			
	1969	1974	1978	1982	1969-74	1974-78	1978-82	1969-82
District 1								
Benton	$ 409	$ 665	$1,399	$2,226	10.2	20.4	12.3	13.9
Clackamas	852	1,451	2,815	3,766	11.2	18.0	7.6	12.1
Lane	550	774	1,677	2,215	7.1	21.3	7.2	11.3
Linn	387	672	1,254	1,789	11.7	25.7	9.3	12.5
Marion	630	1,076	2,154	2,881	11.3	19.0	7.5	12.4
Multnomah	892	1,775	3,181	5,787	14.8	15.7	16.1	15.5
Polk	384	687	1,436	2,087	12.3	20.2	9.8	13.9
Washington	851	1,416	2,618	3,801	10.7	16.6	9.8	12.2
Yamhill	446	925	1,778	2,717	15.7	17.7	11.2	14.9
District 2								
Clatsop	437	673	1,134	2,226	9.0	13.9	18.4	13.3
Columbia	498	706	1,359	2,193	7.2	17.8	13.1	12.1
Coos	226	422	894	1,068	13.3	20.6	4.6	12.7
Curry	180	325	761	879	12.5	23.7	3.7	13.0
Lincoln	315	631	1,194	1,639	15.0	17.3	8.2	13.5
Tillamook	555	901	1,965	2,954	10.2	21.5	10.7	13.7
District 3								
Douglas	191	358	743	992	13.4	20.0	7.5	13.5
Jackson	224	334	871	1,236	8.3	27.1	9.1	14.0
Josephine	534	821	2,123	4,119	9.0	26.8	18.0	17.0
District 4								
Gilliam	62	117	169	325	13.5	9.6	17.8	13.6
Hood River	1,229	1,937	4,411	5,627	9.5	22.8	6.3	12.4
Morrow	67	169	286	302	20.3	14.1	1.4	12.3
Sherman	97	148	215	316	8.8	9.8	10.1	9.5
Umatilla	142	230	442	584	10.1	17.7	7.2	11.5
Wasco	65	119	196	346	12.9	13.3	15.3	13.7
Wheeler	31	43	97	177	6.8	22.6	16.2	14.3
District 5								
Baker	74	149	279	394	15.0	17.0	9.0	13.7
Malheur	98	165	278	466	11.0	14.0	13.8	12.7
Union	140	254	456	767	12.7	15.8	13.9	14.0
Wallowa	79	146	273	418	13.1	16.9	11.2	13.7
District 6								
Crook	55	81	140	382	8.1	15.5	28.5	16.1
Deschutes	267	461	885	1,108	11.5	17.7	5.8	11.6
Grant	43	92	176	319	16.4	17.6	16.0	16.7
Harney	40	93	141	311	18.4	11.0	21.9	17.1
Jefferson	102	190	259	414	13.3	8.1	12.4	11.4
Klamath	169	236	481	816	7.0	19.5	14.1	12.9
Lake	58	125	233	387	16.6	16.9	13.5	15.7
State	$ 150	$ 250	$ 477	$ 705	10.8	17.5	10.3	12.6

Source: U.S. Census of Agriculture reports.

[a] Average rate of change, compounded annually.

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