Farm Real Estate

situation in California reviewed

David Weeks and Charles H. West

THE AVERAGE PRICE OF FARM LAND in California is higher than it has ever been.

By March, 1947, California values reached 102% above prewar level, while United States values had advanced 92%.

Up to 1947, orchard and vineyard lands had increased the most in price; dry farmed grain lands and range lands, the least. Field crops and dairy lands experienced an increase intermediate between these extremes.

Value and Price

For any indicated time or area, the market value of farm real estate has the same meaning as the average price per acre of improved farm land.

Permanent rises are caused by: 1 Farm real estate improvements. 2 More acreage put into intensive crops. 3 Increase in land irrigated. 4 Subdivision of land into small farms.

Temporary rises are caused by commodity prices, through their relation to land income.

There are other influences at work which are more difficult to measure. Among these are California's population increase, cost-reducing improvements in methods of farming, and construction of the Central Valley Project.

In addition, there are the uncertainties of the international situation together with plans for aiding foreign countries, the public monetary policy, legislative supports to agriculture, and, perhaps most important of all, the general employment situation in the United States.

Crop Prices and Land Values

Commodity prices are basic in accounting for changes in farm land values.

Gross returns from farming are made up from commodity prices and the physical volume of production.

Cost prices, including wages and prices of materials and equipment which farmers buy, tend to lag behind the rise and fall of farm commodity prices.

Net farm income temporarily becomes a greater-than-normal proportion of the gross return when farm commodity prices are rising. When farm commodity prices are declining, the net returns may be eliminated entirely.

Net land income is the most important basis of farm land value. It is seldom measured statistically, except where land is rented. In the case of owner-operated farms, buyers and sellers can make only rough estimates of the portion of net farm income that can be considered as net income of the land and fixed improvements.

Other factors tend to bring land prices into line with commodity prices. When the general purchasing power of money declines, farm land price trends resemble those of commodity prices.

Crop and Farm Prices

In California, different types of farming have shown, in general, similar responses of land price to commodity price. Both have risen sharply under the influences of inflation.

Grape prices in 1946 were nearly six times as great as the 1935–1939 average. Vineyard land prices, on the other hand, had reached in that year a level just over three times their 1935–1939 average. In 1947, grape prices turned sharply downward. Lagging land prices had failed, up to the middle of 1947, to record a corresponding downward turn.

Like grapes, deciduous fruit prices turned sharply downward in 1947 but not to such an extent. Like those of vineyards, prices of deciduous orchard lands had not, up to the middle of 1947, indicated the pending drop which may be expected if the declining commodity prices are sustained.

Average citrus fruit prices reached a peak in 1944 nearly double their prewar average. Citrus farm real estate prices reached their peak in 1946.

Factors other than commodity prices contributing to these greater increases in citrus farm land values include the phenomenal suburban development in southern California.

In 1947, average citrus fruit prices declined sharply, and citrus farm land prices also turned downward. This variation has been due to many causes including differences in the behavior of the prices of lemons, grapefruit, and oranges, which have deviated considerably from the general average.

Prices of intensive field crops were still rising in the closing months of 1947—as were the prices of field crop and dairy farm lands. There seems to be a shorter lag of field crop land prices behind field crop prices than has been indicated for the fruit industries.

Commodity prices are an important aid where judgment must be made with respect to future trends in the farm real estate situation.

Farm Financing

In 1920, the farm mortgage debt in California was 376% of that in 1910, while in 1945 it was only 69% of that in 1935.

As an inflationary period advances, financial institutions can handle a smaller proportion of the necessary loans because the amount required to finance the purchase of a farm is too great a proportion of the normal value of the security. As a result, more financing must be handled by individuals, usually the sellers.

In 1939, individuals held 36.6% of the farm mortgage debt in California and in 1946, they held 57.6%.

In 1946, the average size of loans held by individuals was 109.3% larger than in 1940.

In this period, land prices and the amount of the average mortgage have doubled.

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