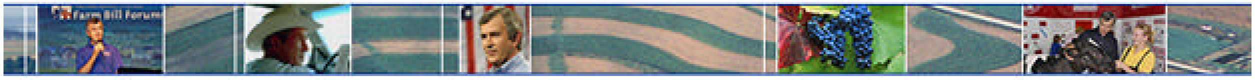

LAND VALUES AND RENTAL RATES

Background

Farm real estate accounts for nearly 79 percent of U.S. farm assets. Rental rates and market values for land affect returns from agricultural production, wealth of agricultural landowners, and the number of new entrants into agriculture.

Agricultural land value for the most part reflects the value of production from that land, but may also include the potential for development and recreational uses. Agricultural policies designed to increase agricultural income may become capitalized into land values and therefore increase land prices. This dynamic affects landowners and tenant farmers differently.

Agricultural land values rose sharply in the 1970s and early 1980s, declined rapidly between 1982 and 1987, and have risen steadily since 1987. However, the 2002 inflation-adjusted land value was still 23 percent below the 1981 peak. In 2003, there were 927 million acres on U.S. farms and ranches; 29 percent were fully owned and operated by the landowner, 11 percent were managed by tenants, and 60 percent of agricultural operations were partially owned and partially rented by the operator. In 2002, approximately 38 percent of all farmland was rented, while approximately 50 percent of planted cropland was rented.

Tax law can affect agricultural land values. For example, Like-Kind (Tax-Deferred) Exchanges, or IRS “1031 tax deferments,” can affect rural farmland values. Under “1031 tax deferments,” landowners selling land at a profit can defer taxes on that profit by using the proceeds to acquire similar property for business or investment purposes. These taxes can be significant because urban expansion has caused a rapid increase in nearby agricultural land values. As farmers and ranchers sell land in these urban affected areas, they may acquire farmland in more rural locations to avoid taxes. Some contend that this process increases demand for agricultural land in rural locations, thereby raising rural agricultural land prices.

Land value increases also affect new farmers differently than other farmers. High land values are a barrier for new farmers seeking to purchase land. High rental rates are a barrier for new farmers seeking to lease land. However, rental rates reflect, among other things, the demand for agricultural land in an area. Often, demand for this land comes from established farmers seeking to expand their operations. Policies that lower land values would decrease the value of assets of current landowners and would not necessarily reduce competition for cropland.

General Opinions Expressed

- The prominent issue raised over land values and rental rates was a broad concern over the availability of agricultural land for agricultural production. Many respondents raised farmland availability as a concern—whether the next generation of farmers and ranchers would be able to acquire lands and enter agriculture. Responses revealed a diverse set of perceived forces threatening agricultural lands, but at the core was a belief that agriculture was under pressure from the loss of good productive land caused by a number of sources.
- Respondents either stated or implied that higher land values were caused by increased nonfarm competition for agricultural land. Estate taxes preventing families from passing operating farms and ranches to the next generation, urban expansion, agricultural subsidies, corporate acquisitions, global markets, the Conservation Reserve Program, "1031 tax deferments," and land purchases for hunting use were each cited as increasing agricultural land values. Recommendations ranged from a generic "lower land values," to ending agricultural subsidies, ending estate taxes, restricting use of productive lands to agricultural use, and purchasing developmental, agricultural, or conservation easements; several proposals involved matching new farmers with farmers approaching retirement.
- Not all respondents were concerned over increasing agricultural land values, and the idea was presented that young people should pay the fair market value for the land.
- Several respondents noted that land is like a retirement fund for the landowner—a reduction in earnings would negatively affect them. These comments tend to propose a system to link retiring landowners with beginning farmers, and a transition mechanism to assist the beginning farmer and compensate the retiring farmer. These proposals often included purchase of development rights, tax incentives, or Government assistance.
- Other respondents expressed concern over eminent domain and/or threats to property rights.
- Several comments concerned direct farm ownership loans. The respondents suggested increasing the maximum loan limit for the Beginning Farmer Down Payment Program and increasing loan lengths.

Detailed Suggestions Expressed:

- Prohibit non-farmers and corporations from buying farmland.
- Require land prices to be based on actual value of the land for agricultural production. Phase out farm subsidies and let the market determine production and prices, except where environmentally sensitive lands are concerned.
- Buy development rights on prime agricultural land, especially near urban areas.
- Provide tax breaks to farmers who protect the land and do not pollute.
- Begin to narrow and cancel out loan, insurance, and crop subsidies.
- Create subsidies for new farmers to obtain land for the purpose of growing organic food only.
- Provide measures to help farmers buy land at a fair farm use price. The farmer should be required to keep the land as is, even if sold to another farmer, for a specified time—such as 50 to 75 years.
- Limit size of farm and/or number of animals.
- Put money into buying developmental rights.
- There should be some type of incentive for those who sell land to beginning farmers so that the money can be used, or set aside for retirement, without a huge tax.

- Eliminate like-kind (tax-deferred) exchanges—IRS 1031.
- Modify 1031 tax-deferred exchange to mitigate unintended consequences.
- Phaseout 1031 tax-deferred exchanges.
- Limit 1031 tax-deferred exchanges at $50,000 to reduce the "artificial money" from metropolitan areas that is driving up land prices.
- Expand IRS 1031 exchange for farmland to also include value-added, ag-related investments such as ethanol plants.
- High land prices could be addressed with an agreement between older and younger farmers. For example, the agreement could stipulate that older farmers can continue to farm the land until they are ready to retire. When that time comes they agree they will sell the land to the younger farmer. In the meantime the younger farmer could begin to pay for the land. Another way to pay for land would be an agreement that a certain percentage of the profits from that land would first go towards the young farmer's expenses and a smaller percentage to the older farmer, and then another percentage to pay for the land. The Government should reserve a certain amount of money, which farmers could apply for—depending on their average income, farm size, size of their livestock herd, etc.—to pay for their land.
- Do away with the "wildlife" subsidies. This is the cause of soaring land prices.
- All land owners should be required to pay taxes on the land at purchase price.
- Permanent repeal of the death tax so that we can pass farms and ranches on to the next generation.
- The asset value of agricultural land is estimated at $1.2 trillion. Some of the Government payments right now boost the land prices. If adjustments are going to be made for Government support programs that affect land prices, those adjustments must be evaluated very carefully and over a period of time.
- Tax laws should recognize agricultural land and forest land as productive resources and such land therefore should not be taxed as development resources.
- Offer landowners the opportunity to zone their land permanently for farming only, so one cannot do anything except grow food or feedstuffs on it. This will reduce the price of that land forever.
- Increase the loan limits for Direct Farm Ownership and Farm Operating Loans. Increase the current limit of $250,000 to $400,000.
- Provide tax incentives or benefits to landowners that sell or rent their property to beginning farmers.
- In order to help beginning farmers, the $250,000 limit on the purchase price or appraised value for property in the Farm Service Agency's (FSA) Beginning Farmer Down Payment Program should be increased to $350,000.
- Allow the use of FSA guaranteed loans in conjunction with tax-free bonds.
- Increase the maximum FSA term loan for beginning farmer downpayments from the present 15 years to 20 or 25 years.
- Permit FSA to offer guarantees of seller-financed contracts for deed and facilitate a secondary market to purchase those contracts.
- Eliminate or modify capital gains taxes payable by sellers on land sales to beginning farmers.
- Allow tax incentives for interest paid to sellers on land contracts to beginning farmers.

- Allow tax incentives for interest income received by commercial lenders on guaranteed long- term loans to beginning farmers for acquisition of capital assets.

- North Carolina's Farm Transitions Network uses a mentoring program to match young men and women who would like to enter agriculture with established farmers in their operation. They also provide farmers with counseling and opportunities to sell and lease development rights for income. This lowers the cost of farmland so that young farmers can transition into those very same operations. This program should be modeled at the Federal level.
- Local towns and cities need incentives to offset land cost and could help new farmers acquire land as they do for strip malls.
- Give farmers incentives and tax breaks to have their land designated forever as "farm production" land.
- Lower property taxes for those willing to engage in conservation pursuits.
- Somehow index production value of land back onto the land. Use a formula to get this land back into the hands of the next generation.
- Help young farmers to start by giving a financial benefit to a retiring farmer who is willing to help, either through loan guarantees or payments. This would help offset the high price of land, so they could sell it to a young farmer at a lower cost.
- Promote farmland protection/preservation with funding. Encourage partnerships with community agencies and farmland protection organizations whose objective is land protection.
- Agricultural and conservation easements will help ensure that agricultural land remains designated as agricultural.
- New farmers and ranchers should be strongly encouraged to begin farming and if that means offering land discounts, or even better, land trusts, we [society] should do it. The offer must not be for industrial or agri-business farms.
- Provide funding for States to establish programs to link available farmland with new start-up farmers.
- The Government should subsidize land for agricultural use. If, however, the land fell out of agricultural production, the subsidy would have to be paid back.
- Restrict development to land that makes sense for its intended use. Keep the best farmland off limits to developers and the value will stabilize at farming values. This would provide a disincentive to convert the land.
- Extend and fund the Beginning Farmer and Rancher Development Program, which was passed by Congress in the 2002 farm bill.
- Increase promotion of the Beginning Farmer Land Contract Pilot program.
- Link beginning and retiring farmers by providing incentives for retiring farmers to rent or sell land and other assets to beginning farmers on favorable terms.