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Estimating A Farm's Value

What is the value of a farm now and what was it in some earlier year? This question is frequently asked not only out of pure curiosity but for more practical reasons. A farm estate may have to be settled with no way to calculate the capital gain or loss without establishing a value in some former year. Another case is the farm buyer or seller who wants to estimate present value by using a sale in some previous year.

The first example is finding the value in some former year, in this instance, estimating the value of a farm in March 1913. We can take any county and for our example will select Cherokee County. First, the Cherokee County value for 1910 from the Census was $114 an acre. To get to 1913 we use the United States Department of Agriculture estimate which shows the state average in 1913 to be $118 as compared to $96 in 1910, an increase of 23 per cent. When we apply this 23 per cent to the Cherokee County figure of $114 we get an average value for Cherokee County in 1913 of $140 an acre. If our farm is about 10 per cent above the county average, the value in 1913 was about $155 an acre.

The year 1913 was selected for this example be-
cause it is frequently the year for which values are wanted in determining capital gains and losses on Federal income taxes. The Federal Income Tax Law, which went into effect in 1913, uses this year as its base for valuations, and it does not require the taxpayer to use any years prior to 1913, unless the value before 1913 was higher, which is not likely in Iowa.

We can find the November 1966 value for our Cherokee County farm by starting with the Federal Census figure for November 1964 which was $303 an acre. The annual farm broker survey published by Iowa State University shows for the Northwest District (which includes Cherokee County) an increase from 1964 to 1966 of 25 per cent. A 25 per cent increase of $303 brings the Cherokee average in 1966 to $379 an acre. If our farm is still 10 per cent above the county average, which we will assume is the situation, then the estimated market value of our farm in November 1966 was $420 an acre.

Instead of using the Federal Census we can use the annual broker figures after 1940. If our Cherokee County farm sold in the fall of 1952 for $275 an acre, what was its value in November 1966? The 1952 broker survey figure for the Western Livestock area, which includes Cherokee County, was $224, and the 1966 figure was $340. Since our farm at $275 in 1952 was 23 per cent above the district average, the November 1966 estimate
would be 23 per cent higher than $340 or $418, which we will round off at $420 an acre. This $420 figure assumes, of course, that no major changes, like a new set of buildings, has occurred on the farm between 1952 and 1966. If they have, an adjustment is necessary. As an example new buildings erected in 1964 might raise the 1964 value by $40 an acre, to a market value estimate of $460.

Sometimes we want to estimate the value of a farm which is far below or far above the county average. This can be done by using the high grade and low grade broker estimates. If we have a Cedar County farm which sold for only $130 an acre in 1958 (the 1959 Federal Census average was $343), we can refer to our broker estimates for low grade land to obtain an estimate for 1966. We find the low grade estimate for the East Central District in 1958 was $143 and for 1966 was $201. Our farm is nine per cent below the district which means a 1966 value estimate of around $185 an acre.

If, on the other hand, we had a Cedar County farm which sold in 1958 for $500 an acre, with no major changes between 1958 and 1966, then we would turn to the broker estimates for high grade farms in the East Central District which were $440 in 1958 and $525 in 1966. In this example the farm is 14 per cent higher than the district which gives a 1966 estimate of $600 an acre.
One final word of caution should be added. All of the figures—from the Federal Census, brokers, U. S. Department of Agriculture, Federal Reserve Bank of Chicago, and actual sales—are estimates and should be treated as such. It is not only extremely difficult to get an average value for a large group of farms of which only a few have been sold in any one year, but it is also true for the value of an individual farm on any given day as is evident when a farm is sold at auction.

Our market value estimates, we will grant, are only approximate, but it is important to remember that we do have to make decisions on farm values—in buying and selling, in assessing for property taxes, in condemning for highways and other public use, and in appraising for loans. In all these operations we need the best information we can get on market values and the factors which cause them to change.

It is encouraging to note the progress we have made, especially in the last 30 years, in providing more farm value estimates and a better understanding of what lies behind them. But this is not enough! We must continue to press forward in our study of farm value estimates because there is much improvement still to be made, as the situation in property tax assessments so clearly indicates. Iowa’s farm value, the state’s greatest resource with a price tag of $12 billion, deserves more rigorous study than given it in the past.