How Do Owners Get Their Farms?

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The pathway to farm ownership seldom has been an easy one. And along with some of the changes in the pattern of Iowa farmland ownership, we find that the ways in which owners acquire their land are changing, too.

by Roger W. Strohbehn and John F. Timmons

THE ROAD to farm ownership has often been difficult for Iowa farm operators ever since settlement days. But the road has been improved over the years by various public programs to help farm operators gain ownership of their land.

The Land Sales Act of 1820, the Pre-emption Act of 1841, the Homestead Act of 1862, the Federal Land Bank Act of 1916, the Farm Credit Act of 1933 and the Bankhead-Jones Act of 1937 have highlighted federal legislation in this area. States also have encouraged land ownership by farmers by enacting homestead and moratoria laws. And federal and state agencies have had research and educational programs to aid and encourage owner-operators.

The struggle for farm ownership continues today. Rising land prices—plus the larger size farms permitted by modern technology—have meant that potential owners must accumulate more capital than before. One result has been that farm property transfers within families and low-equity financing arrangements, such as installment land contracts, are becoming more important in transferring or acquiring farm ownership.

To get a fairly complete picture of how Iowa farm operators are currently acquiring ownership, we conducted a statewide survey in 1958. This article summarizes some of the results from that survey.

**How Obtained?**

According to our survey, 49 percent of all owners acquired their land wholly or partly within their families. This is a slight increase from the 46-percent figure found when we conducted a similar study in 1946. But it does lend support to the old adage, "the surest way to farm ownership is through inheritance and marriage."

We found that women owners generally acquired ownership in different ways than did men owners. Two-thirds of the women acquired land within their families. The comparable percentage for men owners was 45 percent.

Chart 1 shows more specifically how men and women owners acquired ownership. We considered joint ownership of land by husband and wife to be controlled or managed by the husband. So land held in this manner is included in the men-owner group.

The greater use of methods involving gifts or inheritances...
among women is mainly because many women outlive their husbands and receive land owned by their husbands through the inheritance process.

**Occupations** of the owners are closely related to the ways they acquired land ownership. Women and business and professional people acquired land most frequently through gifts or inheritance. Three-fifths of the women and two-fifths of the business and professional owners reported receiving gifts and inheritances of land. For farm operators, the proportion was one-fourth. For retired farm operators, the proportion was one-third.

**Tenure** also is related to the methods by which ownership was acquired. We classified owners into four tenure groups: (1) owner-operators operating all of the land they own; (2) part-owner operators who own part of the land they operate and rent some additional land; (3) operator-landlords, operating part of their land and renting some to others; and (4) nonoperating-landlords who do not operate any of the land they own.

Using this classification, 39 percent of the operator landlords obtained land by methods involving gifts or inheritance. Owner-operators and part-owner operators generally were alike, and more than four-fifths purchased their land.

Among nonoperating landlords, one-fifth of them acquired land through combinations involving gifts or inheritance. The main implication here is that many of the nonoperating landlords acquired ownership of the land without actively seeking it. As a result, they may not be as interested in the operation and maintenance of the farm as are owners who bought land or who operate the land, regardless of how they acquired ownership.

**Family assistance through gifts or inheritance other than land** is another important factor. Nearly 37 percent of all owners reported receiving such assistance. And, of this group, 60 percent reported using such gifts or inheritances especially for land purchase or land improvement. Not all of the recipients of nonland resources used them directly for the purchase of land. It may be assumed, however, that gifts used anywhere in farm operations have at least indirectly helped the operators acquire land.

Gifts and inheritance are affected to a large extent by age. Owners in the older age groups, particularly women and retired farmers, received relatively more nonland gifts and inheritances than other groups. How these nonland gifts and inheritances are used, however, depends more importantly on the various interests of the person receiving them. Closer associations with farming by operators, retired farmers, and their wives or widows are responsible for their greater use of nonland gifts for buying or improving land as compared with those not so closely associated with farming.

The information gathered in our survey shows that inheritances other than land are playing important roles in the plans of many young farm families seeking ownership of the land they operate.

**Age at Ownership**

Land can’t be purchased until an individual has had sufficient time to accumulate a down payment. This period varies for different persons according to their capabilities, family help and economic conditions.

For 71 percent of the owners in our survey, the first opportunity to own land came between the ages of 25 and 44. These owners were about equally divided between age groups 25-34 and 35-44. Owners who received all of their land through gifts or inheritances generally were older when
they first acquired land than were owners who acquired their land by other means. About 30 percent of those who obtained all of their land by gifts or inheritance were 45 years of age or older before they acquired ownership. Except for this group, however, the ages of first ownership for all other groups were quite similar. So it seems that the method used has little bearing on the age at which an owner first acquired land, except for inheritances and gifts.

Finance Methods . . .

Most of Iowa's farm owners in 1958 held their land free of debt (see chart 2). The remaining two-fifths of the owners reported mortgages or other real estate debts.

The drop in farm income lately has been reflected in a greater use of credit—both for farm operations and for real estate purchases. Increased real estate loan activity is evident in the expansion in the use of farm mortgages and installment land contracts. Since 1950 all major sources of farm credit have greatly increased the amount of outstanding loans. The largest increases have been by lenders specializing in low-equity financing.

The installment land contract is one means of low-equity financing. This was the method being used by 15 percent of the owners making payments on their farms in 1958. The total outstanding debt for this group of owners, however, makes up 22 percent of the debt of all owners.

Land contracts are a greater risk to both the buyer and seller because of the low equity involved. (See "Land Contract or Mortgage?" in the November issue or reprint FS-836.) Land contracts are sometimes made with little or no down payment. With a contract, the title of a farm usually doesn't pass to the buyer until he attains a substantial equity in the farm—and sometimes not until the last installment is paid.

Owners using land contracts were younger, on the average, than those using mortgages as a means of acquiring ownership. About a third of the owners using land contracts were under 35 years of age. Of the mortgaged owners, only 4 percent were 35 or less. At the other extreme, two-fifths of the mortgaged owners were over 55 years old, but only 8 percent using land contracts were over 55.

Future Plans . . .

The plans reported by 1958 owners for transferring their farm property in the future provide some insight as to possible changes in acquisition methods (see table). Very few farm owners reported actual transfer of all or part of their holdings to the next generation—in spite of possible savings in income and death taxes.

Almost three-fourths of the owners, however, reported having made wills covering the disposition of their land, and another 15 percent reported making definite plans to transfer ownership in their land. These findings indicate substantial progress in farm estate planning in Iowa since 1946. During the 12 years since, the proportion of farm owners reporting transfer plans has doubled.

Within-family transfer plans made by Iowa farm owners.

<table>
<thead>
<tr>
<th>Type of transfer plan</th>
<th>1946</th>
<th>1958</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have transferred land</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Have made wills</td>
<td>31%</td>
<td>58%</td>
</tr>
<tr>
<td>Have other definite plans</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>TOTAL owners with transfer plans</td>
<td>34</td>
<td>75</td>
</tr>
</tbody>
</table>

In total, the findings on future plans indicate that within-family farm ownership transfers may continue to increase as a means of obtaining farm ownership. But as heirs or prospective heirs of farm owners move into nonfarm employment, the ownership of farmland may be expected to shift more toward nonoperating landlords.