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FARM LAND PRICES HAVE MANY ASPECTS

Higher land prices!!! A reassuring statement to some people; to others a messenger of gloom. To the present owner, it means an increase in his net worth; to the prospective buyer, a reduction in his potential earnings and a goal harder to reach.

LAND AS AN ASSET

The owner of land likes having the value of his holdings rise continuously and as much as possible. To the farmer looking to retirement, land ownership represents a major portion of his old-age security. It often represents a lifetime of work and savings. Low annual incomes may be at least partly offset by the increase in the value of his land. Declining prices of land would erode the savings of the farmer who owns it.

LAND AS A COST

But the coin has another side. To the purchaser of the higher-priced land, it will require greater output or higher-product prices to pay for it. Until it is substantially paid for, the new owner's investment is in a precarious position, and the return to his own labor and management will be lower than it would have been with lower-priced land. The new owner will also be at a competitive disadvantage with those who bought at lower prices.

The new owner soon becomes interested in climbing land prices as an increase in his net worth and as a guarantee against his old age, however.

The quandary should now be apparent: how can land prices be low to some and high to others? What can be done to help young farmers to get started with "high" land prices? But--first--why do land prices keep rising?

THE SUPPLY OF LAND

The various demands for land, a limited supply, and government farm programs have resulted in rising land prices over a long period of time. The supply of land is limited in total area as well as in various grades. The productivity of the land, as well as its location, provides a measure of its worth in various uses. However, the supply of land can be altered, in effect, by various management practices.

Practices that allow erosion or depletion of the soil nutrients reduce the amount the land will produce. Conversely, soil-building practices combined with weed control and new and improved seeds in effect increase the productivity of the land. In recent years, irrigation has added to productivity. It is these factors that have caused farm production to be maintained or increased even though considerable land has been diverted to other purposes.

THE DEMAND FOR LAND

Many people who are not farmers want to own agricultural land. A principal reason seems to be the record of steadily rising land prices which, while annual returns may be low, continually

enhances their original investment, and with limited risk as compared with many possible investments.

Bigger and better machinery, particularly in areas where emphasis is placed on larger acreages, and improved farming practices, tend to make present farmers want to add more land to their farms, again increasing the demand for land--and the price of it! In fact, the farmer who wants to expand and who bought at lower prices may be able to pay more for near-by land than the new farmer because of his ability to "average" his land costs.

LAND PRICE TRENDS IN SOUTH DAKOTA

The magnitude of the problem faced by the young farmer can be illustrated by the following table:

Value of Land and Buildings, So. Dakota
(Census data)

<u>Year</u>	<u>Value per acre</u>	<u>Value per farm</u>
1954	39.31	28,263
1959	50.76	40,852
1964	61.60	56,615
1969	83.69	83,427

Care must be taken using such figures because they are averages for

all types of farms (which have changed over the period) and some inflation is involved in the estimates. They also reflect continuing increases in sizes of farms.

NEW APPROACHES TO FINANCING

Thus the question of how a young farmer gets started remains, particularly with the steadily increasing amounts of money needed for equipment, buildings, and operating funds. More and more economists are suggesting that the time may be approaching when the farmer will borrow a page from his brother businessman in town.

Since it is operating capital that actually produces incomes--or at least higher rates of return--most businessmen, big and small, prefer to put all available funds into operating capital and rent their buildings and land.

Farming in the near future will require new methods of financing, new sources and new approaches. Arrangements for permanent land rental rather than ownership may well be one of them. Another potential is incorporation with other family members as land is passed from one generation to another.

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