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FARMLAND MARKET IN SOUTH DAKOTA

by

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South Dakota agricultural land values declined 7 percent from April, 1982 to April, 1983. This is the first year since 1954 that the State's farmland values have declined. Farmland values also dropped during the past year in each surrounding state, ranging from -5 percent in Wyoming to -13 percent in Iowa. Nationwide, farmland values have declined for two successive years after more than 25 years of steady increase.

Many farmland market observers believe that farmland values have now stabilized and soon will resume a modest upward trend. Others believe the agricultural economy is not yet strong enough to support a sustained upward movement in farmland values.

Knowledge of farmland market trends is of interest to farmers, ranchers, lenders, and state and local government officials. In this newsletter, South Dakota farmland market trends, past and current, are presented and analyzed. Emphasis is placed on land value/price trends and changing characteristics of buyers and sellers of farmland.

Trends in South Dakota Farmland Values

During the first half of the Twentieth century, South Dakota farmland values behaved like a rollercoaster. They increased from 1900 to 1920 when they reached a peak of \$71 per acre. Land values then declined for 20 years, reaching a low point of \$13 per acre. By the end of the Korean War farmland values had increased to \$39 per acre.

During the past 30 years, South Dakota farmland values have increased every year except two—1954 and 1983. They have increased nearly seven times since 1953 and have about tripled since 1973 (Table 1). From 1953 to 1973 the annual rate of increase in South Dakota's land values was roughly three to five percent. From 1973 to 1983, however, farmland values increased at an average annual rate of 13 percent with some year-to-year increases exceeding 25 percent.

Table 1. South Dakota Farm and Ranchland Value, Dollars Per Acre, 1953-1983.

Year	Reported Farmland Value (current \$)	Real Farmland Value ^a (1983 \$)
1953	39	161
1958	46	181
1963	59	215
1968	76	246
1973	94	217
1974	119	238
1975	145	267
1976	163	270
1977	194	306
1978	227	343
1979	256	337
1980	273	319
1981	290	306
1982	291	299
1983	271	271

Source: Reported farmland values are from USDA Farm Real Estate Market Developments, various years. Reported land values are based on survey of farmers, ranchers, lenders and realtors in February, March or April.

^aReal farmland values are deflated in 1983 dollars based on the price index for Farm Production Items, Wage, Interest and Taxes.

Recent declines have lowered South Dakota nominal farmland values to 1980 levels. The decline is more dramatic if one views land values in terms of real purchasing power, i.e., with land values adjusted for the effect of inflation. In real terms, farmland values in 1983 are only as high as they were in 1976 (Table 1).

Except for recent years, farmland has been an effective inflation hedge.

During the past 30 years, farmland values increased at an annual rate of 1.7 percent above the rate of inflation. During most of this period, real rates of increase in farmland values varied from one to three percent.

1982 Farmland Sales Prices by Region and County

Land values reported in the previous sections are U.S. Department of Agriculture estimates of the per acre value of all farm real estate in South Dakota. Procedures used in estimating per acre values reflect the amount of land in farms and ranches in each region (Crop Reporting District) of the State.

By contrast, the land sales prices by region and county in this section are the average per acre prices of farmland and ranchland sold during specific time periods. Relative frequency of land sales by region and type (quality) of land can vary considerably from year-to-year. Thus, these average farmland sale price data are only a rough indicator of land values.

Average per acre sales prices of farm real estate sold in 1982 are shown by region in Table 2 and by county in Figure 1. Data on cropland as a percent of total acres sold are included as a measure of land use and quality. Information is drawn from data collected by the Federal Land Bank of Omaha and includes most bonafide sales, whether or not they were financed by the Federal Land Bank. The sample is based on 930 farm real estate sales of nonirrigated cropland and rangeland exceeding 40 acres per tract.

Table 2. South Dakota Regional Farmland Sales Statistics, 1982

Region ^a	Average Sale Price (\$/acre)	Average Number of Acres Sold per Tract (acres)	Cropland as Percent of Total Acres Sold (percent)
West	193	647	25
North Central	389	279	62
Central	315	317	46
South Central	278	358	41
Northeast	569	184	68
East Central	705	151	75
Southeast	884	117	82

Source: Compiled from Databank of Reported Farmland Sales, Federal Land Bank of Omaha. All reported nonirrigated cropland and pasture sales of greater than 40 acres are included. Based on 930 reported farmland sales totaling 216,200 acres transferred.

^aRegions are based on Crop Reporting Districts except for the west region which combines three Crop Reporting Districts--Northwest West Central and Southwest. See Figure 1 for regional boundaries.

The 930 farmland sales covered 216,200 acres with a value of \$98,891,000. The average tract sold consisted of 232 acres with a total selling price of \$106,400 or \$457 per acre. Sales activity was concentrated in four regions--southeast, east central, northeast and north central South Dakota. Three-fourths of reported sales and 59 percent of farmland acres sold were in these regions. By contrast, these regions have two-thirds of farm numbers and only 35 percent of the farmland in South Dakota.

Farmland sale prices vary greatly by region in South Dakota. Land prices are generally higher as one moves from the western region to the east-central and southeastern regions. Cropland as a percent of total acres sold also increases from west to southeast.

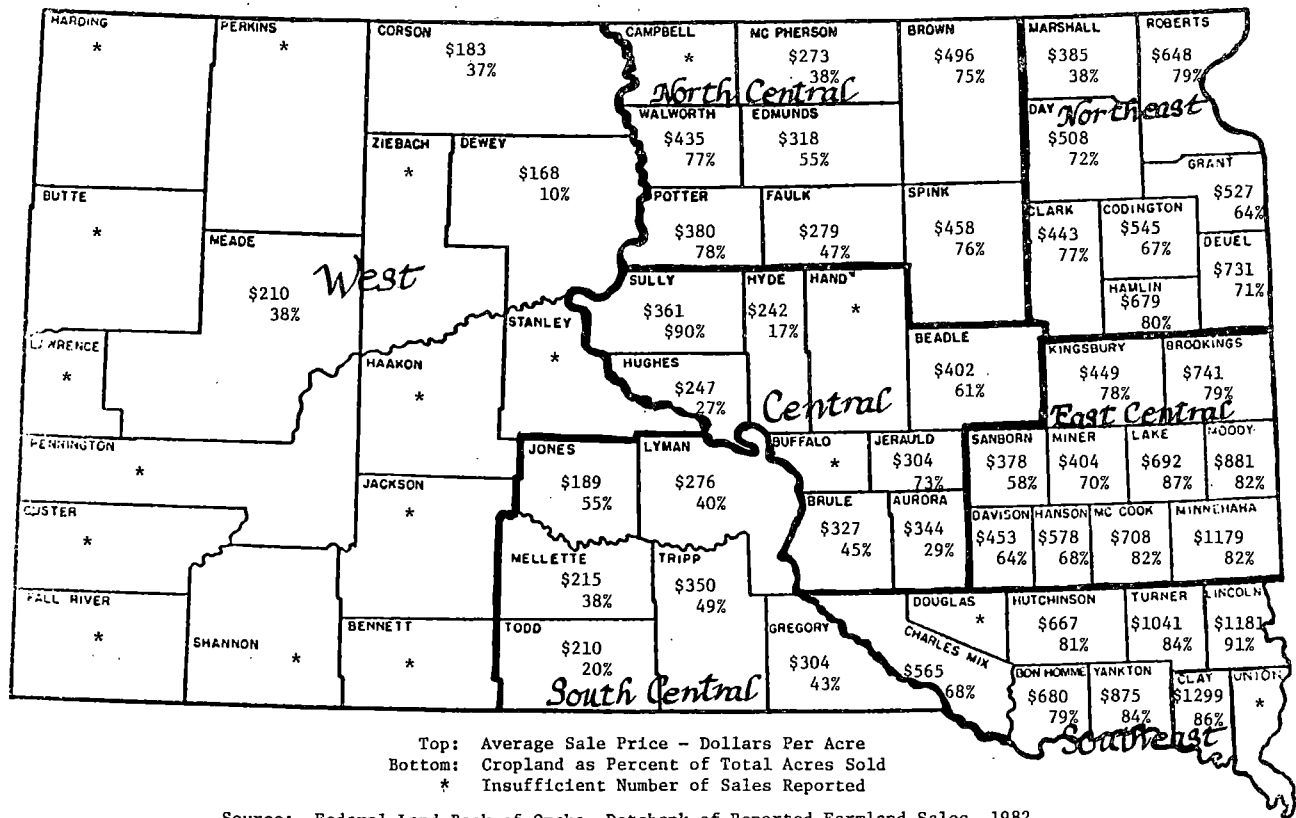
The average 1982 sale price of agricultural land in the western region was \$193 per acre, with only 25 percent of this land being cropland. Land sale prices increased to \$278 per acre in the south central region and \$315 per acre in central south Dakota. Cropland represented over 40 percent of all farmland sold in both regions.

The highest regional average price of \$884 per acre was reported in southeast South Dakota where cropland was 82 percent of total acres sold. The east-central region ranked second with an average price of \$705 per acre (three-fourths of the area in cropland). Average sale price exceeded \$1,000 per acre in four east-central and south-eastern counties--Clay, Lincoln, Minnehaha and Turner.

Average number of acres sold per tract tends to vary inversely with land prices per acre. As a result, the average value per tract sold only ranges from about \$100,000 in central South Dakota to \$125,000 in the west.

Farmland sales activity (number of sales) has declined during the past two years in South Dakota, reflecting tighter credit and lack of profits in agriculture. County average per acre sale prices reported in Figure 1 are generally based on eight to 50 reported sales in each county. Sales price data

Figure 1. Average Per Acre Sale Price of Farm Real Estate Sold by County, South Dakota, 1982



Source: Federal Land Bank of Omaha, Databank of Reported Farmland Sales, 1982

are generally not reported for counties with fewer sales. Variations in farmland prices across the state are explained largely by differences in land productivity and use.

Major Characteristics of the South Dakota Farmland Market

Farm owner-operators are the major buyers and sellers of South Dakota farmland. Two-thirds of farmland acres sold are by active farmers or retired farmers; the remaining land is sold by nonfarmers or to settle estates. Since 1978, two-thirds of South Dakota farmland sold has been purchased by established operators expanding their farm business. Buyers just getting started in farming purchased 15 to 20 percent of acres sold while nonfarm investors purchased the remaining one-tenth of the land. Foreign investors have purchased very little South Dakota farmland.

Credit availability and terms are extremely important variables in the farmland market. From 1978 to 1982, over 90 percent of South Dakota farmland sales were credit-financed. By mid-1983, 82 percent of farmland acres sold were credit-financed. The average debt-

to-purchase price ratio has exceeded 80 percent during the last five years.

Seller financing (contract for deed and mortgage) -- the most important source of real estate credit -- accounted for nearly one-half of farmland acres sold from June 1982 to June 1983. The Federal Land Bank financed almost one-fourth of the land sold. Other lenders (FmHA, insurance companies, banks) each financed another 8 percent of farmland acres. The remaining 18 percent of the land sold was equity (cash payment) financed.

The trend toward greater credit financing with lower downpayment requirements has been a major structural change in South Dakota's farmland market. During the early 1950's only one-half of farmland transfers were credit-financed and the ratio of debt-to-purchase price on credit-financed transfers was 50 to 60 percent. Credit-financing of more than 80 percent of farmland transfers with average debt-to-purchase price ratios of 75 to 80 percent became common in the 1970's. During the past two years there has been some reduction in credit-financing--an abrupt change from trends over the past 30 years. This change -- related to tighter credit

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standards -- has resulted in a reduced number of tracts sold.

Explanation of Farmland Price Trends

Many economic factors affect the market price of farmland. The most important variables are expected net returns to land, farm enlargement pressures and expected capital appreciation of land. Net income is influenced by crop, livestock and livestock product prices, gains in agricultural productivity, taxes and government farm programs. Growing dependence on borrowed money and sharply increased interest rates have caused credit terms to also become a major factor affecting net income expectations.

Farm enlargement pressures reinforce the net income effect because net returns often are increased from an add-on farm unit due to fuller utilization of labor and machinery. This enhances the ability of established farm operators, with relatively low debt levels, to compete effectively in the farmland market.

Capital appreciation potential is an important consideration for all farmland buyers. The rate of capital appreciation is related to the expected

growth rate of net returns to land over time. Sustained increases in net returns to land increase the rate of capital appreciation while declining (or negative) rates of net returns lead to lower rates of land price increases and may even cause actual declines. During the past 30 years increased land prices have been supported largely by net income growth over time.

Farmland represents a stock of wealth as well as a source of income. During periods of rapid inflation there is some tendency for investors to shift from financial assets (stocks, bonds) to real assets, including farmland. Continuing high interest rates and lower inflation rates have reduced investor incentive to purchase and hold land primarily as a financial investment.

In many areas of the United States, farmland conversion to higher-valued uses--residential housing, industrial parks, recreational sites, and rural acreages--has been important in influencing land prices. However, conversion potential to urban uses has not been a major force affecting farmland prices in most areas of South Dakota, except near the largest cities like Sioux Falls and Rapid City.