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Recent Trends in South Dakota's Farmland Market

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The U.S. Department of Agriculture estimates that South Dakota's agricultural land values declined 3% from April 1983 to April 1984. This is the second consecutive year of decline.

Background

Nationwide, farmland values have declined since 1981 - a major reversal after more than 25 years of increases. During 1983, farmland values held steady in North Dakota, Montana and Wyoming, while dropping in Minnesota (-11%), Iowa (-11%) and Nebraska (-12%). Farmland values continued to decline in the Nation's Cornbelt while holding steady in the western states.

South Dakota farmland values increased at a steady 3-5% rate from $31 per acre in 1950 to $94 per acre in 1973. From 1973 to 1981 farmland value increases accelerated to 15% per year with some year-to-year increases exceeding 25%. This boom in land values was directly related to rapid growth in export demand and major changes in international economic and trade policies.

South Dakota farmland values peaked in late 1981 and early 1982 ($291/per acre), and have since declined. The estimated average value of $263 per acre in April 1984 is about the same nominal value as 5 years earlier and the same real (inflation adjusted) value as 10 years ago.

In this newsletter, recent trends in South Dakota's farmland market are presented and analyzed. Emphasis is placed on regional and statewide trends in farmland sale prices and types of tracts sold, and on major market characteristics in the early 1980's.

Recent trends in farmland sale prices

The data in this and the following sections were collected by and made available by the Federal Land Bank of Omaha. They include most bonafide farmland sales of 40 acres or more whether or not financed by the FLB.

The data in Table 1 reflect 4,251 farm real estate transactions taking place in various regions of South Dakota from 1981 to early (January-May) 1984. The data in Figure 1 reflect average per acre sales price data and the percentage of cropland sold (as a measure of land use and quality) for those counties in South Dakota with more than 10 sales transactions during the 17-month period of Jan 1983 to May 1984.

Table 1. South Dakota Regional Farm Real Estate Sales Trends, 1981-84.

Region[a]	(Average Sale Price ($/acre))[b] 1981	1982	1983	early 1984	Percent decline from peak price[c]	Average number of acres sold per tract[c]	Cropland as percent of total acres sold[c]
Southeast	958	889	763	645	-32	124	77
East Central	636	698	680	590	-15	161	74
Northeast	554	548	451	480	-13	209	67
North Central	383	391	350	326	-17	290	63
Central	328	318	314	289	-12	353	58
South Central	262	272	252	264	-3	369	45
West	186	176	178	172	-8	1124	30
Black Hills	849	422	461	*[d]	*	241	30
State	418	428	350	345	-19	300	52

Source: Compiled from Databank of Reported Farmland Sales, Federal Land Bank of Omaha. All reported non-irrigated cropland and pasture bonafide sales of greater than 40 acres are included. Sales of irrigated land are also included in the Black Hills region because they comprise over one-third of total farmland tracts and acres sold. Based on 4,251 reported farmland sales recorded from January 1981-May 1984.

[a]Regions are based on Crop Reporting Districts in eastern and central South Dakota. Western South Dakota is divided into two regions: Black Hills (including foothills) and the West region. See Figure 1 for regional boundaries.

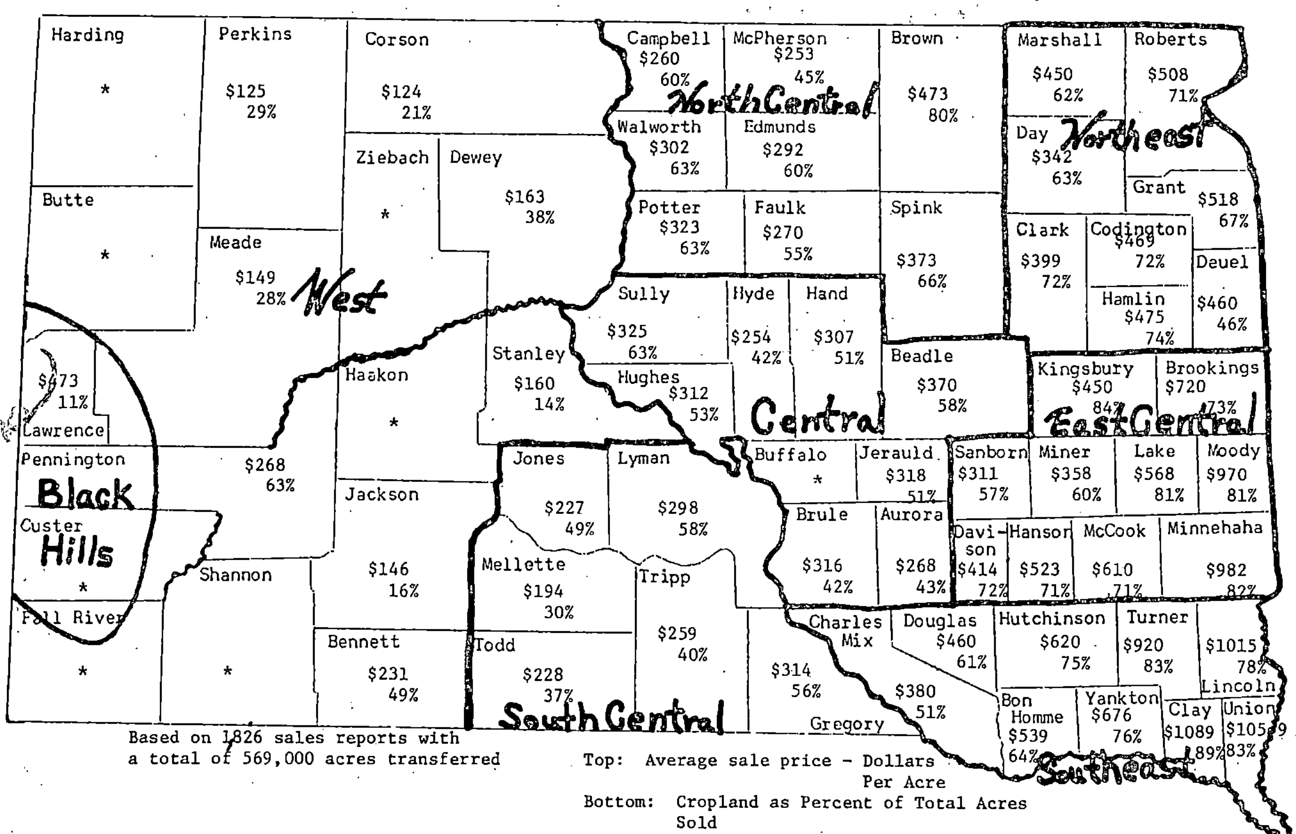
[b]The sales prices per acre are weighted by acres sold per tract in each region and for the state.

[c]Percent decline expressed as (early 1984 sale price-highest sales price)/highest sales price. The highest average sales price was in 1981 or 1982 depending on region.

[d]*Insufficient number of sales reported.

The 4,251 farmland sales cover almost 1.28 million acres with a total value of $498 million. The average

Figure 1. Average Per Acre Sale Price of Farm Real Estate Sold by County, Jan. 1983-May 1984



Based on 1826 sales reports with a total of 569,000 acres transferred

Top: Average sale price - Dollars Per Acre
Bottom: Cropland as Percent of Total Acres Sold
*Insufficient Number of Sales Reported

Source: Federal Land Bank of Omaha, Databank of Reported Sales, January 1983 - May 1984.

tract sold consists of 300 acres with a selling price of $117,200. Farm buildings, present on 22% of the tracts, contributed an estimated 5.5% of total value. About 52% of the total farmland sold each year is cropland. Almost 90% of tracts sold have some cropland while 60% have some pasture or rangeland. In general, cropland tracts involve smaller acreages than pasture or rangeland tracts.

Sales activity in South Dakota was greatest in 1981 and 1983, and was sharply reduced in 1982. Average farmland values in most regions of the State peaked in the second half of 1981 and declined through early 1983. Prices held steady in most regions during the rest of 1983, but declined again in early 1984.

Sales activity was concentrated in southeast, east central, northeast and north central South Dakota. Seventy-two percent of reported sales and 46% of the acreage sold were in these regions. By comparison, these regions have two-thirds of farm numbers and only 35% of the State's agricultural land.

Regional variations in farmland sale prices are great. Variations across the State are primarily explained by differences in land productivity and use and the changing economics of agricultural enterprises. Prices generally decrease from southeastern to western South Dakota (excluding the Black Hills). Cropland as a percent of total acres sold also decreases from southeast to west. Average sale prices tend to vary inversely with the average number of acres sold per tract.

Land prices have been consistently highest in southeastern South Dakota. Average size of tract sold (124 acres) is the lowest there of any region, while percent of cropland sold (77%) is the highest. Farmland prices have declined faster in the southeast, however, than in any other region of the State — dropping from $958 in 1981 to $645 in early 1984. Price trends in this heavily corn, soybean and feeder livestock region are closely related to price declines in the Cornbelt regions of neighboring states.

Farmland prices in the east central

region are second highest, with an early 1984 average price of $590 per acre (75% cropland acres). The average price peaked in early 1982, but the decline since then has been at a slower rate than in the southeast (-15% vs. -32%).

The northeast region ranks third in the annual average per acre sale price (about two-thirds cropland). Prices declined from 1981 through 1983, but were holding steady or slightly increasing in early 1984. Farmland prices in this region are influenced by the varied fortunes of corn, dairy, beef cattle, oil-seeds, wheat and numerous small grains. Good crop yields in 1983 have probably helped to stabilize prices in early 1984.

Farmland prices in the north central and central regions are related to the changing fortunes of spring wheat, small grains and cattle. Farmland prices have declined less in these regions than in the southeast.

Agricultural land prices have been relatively stable to slowly declining in the south central and western regions. Rangeland represents the dominant type of land sold, followed by winter wheat and spring wheat. Farmland sale prices are closely related to relative proportions of cropland versus rangeland sold.

The western region has the lowest average price per acre ($172 in early 1984), lowest percent cropland (30%) and highest number of acres sold per tract (1,124 acres) of any region in South Dakota.

Relative price stability of western lands is related to several consecutive years of low profits in the cow-calf industry and to low turnover in tracts sold. The number of reported sales in most western counties is much lower than that in eastern and central South Dakota.

Sale price, acres sold and many other characteristics of land transfers are substantially different in the Black Hills (including foothills) region than in the rest of western South Dakota. Over one-third of farmland tracts sold contained irrigated land. Altogether irrigated acres consist of 20% of total acres sold. Non-farm factors (recreation, forestry, residential) were also reported to affect the sale price of more than one-third of farmland sold in this region compared to less than 6% in any other region. Sales reports showed a sharp price decline from 1981 to 1982 with no major trend since then.

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 are sold by active farmers or retired farmers; the remaining land is sold by nonfarmers or to settle estates. At the time of sale, about two-fifths of the land had previously been farmed by tenants. Since 1980, 70-75% of South Dakota farmland sold has been purchased by established operators expanding their farm businesses. Buyers just getting started in farming purchased 10-15% of acres sold, while nonfarm investors purchased the remaining 10-15% of the land.

Credit availability and terms are extremely important variables in the farmland market. During the past 2-3 years, there has been a reduction in credit financing -- an abrupt change from trends over the previous 30 years. An increased percent of sales are cash financed, and average downpayment requirements on credit-financed purchases have increased. From 1978 to early 1982, over 90% of South Dakota farmland sold was credit financed. Since then, 80-82% of farmland sold has been credit financed. The average debt-to-purchase price in 1984 is 76%, compared to 80% and above in previous years.

Seller financing (contract for deed and mortgage) remains the most important source of farm real estate credit -- 35% of tracts sold the past year are seller financed. The Federal Land Bank ranks second in market share with 25%. Other significant sources of credit are commercial banks, Farmers Home Administration and insurance companies.

Factors affecting farmland prices

Many economic factors affect the market price of farmland. Over a several year period the most important factors have been expected net returns to land, expected capital appreciation and farm enlargement pressures.

Net income is influenced by domestic and export market impacts on crop and livestock prices, gains in agricultural productivity and changes in government farm programs and taxation. Recent high interest rates and debt-servicing costs have caused credit terms to become a major factor affecting net income expectations.

Capital appreciation — an important consideration for all farmland buyers and sellers -- is related to the expected growth rate of net returns to land over time. Sustained increase in net returns to land increases the rate of capital appreciation, while declining (or negative) rates lead to slower increases or to decreases in land prices.

In the recent past, market prices of farmland have been adjusting downward to sharply reduced profits in agriculture and poor prospects for a quick turnaround. Profit prospects in today's agriculture are greatly influenced by Federal monetary-fiscal policies, international economic conditions and worldwide weather conditions. Continued high real interest rates have improved returns for savers. But they have raised production costs of farmer/borrowers and increased the required rates of return on investments into agriculture. A strong dollar overseas makes U.S. exports more expensive to trading partners. Weakened export demand and reduced domestic demand for many farm products produced in this region of the country have kept farm prices and profits down.

Negative factors in the market are continuing surplus production capacity, increasing interest rates and production costs and heavy debt loads on many established farms -- the same farmers who previously were the strongest bidders in the land market. Reduced profit prospects have in turn reduced capital gains expectations. A significant number of tracts on the market have not sold. Potential buyers have held back due to already heavy cashflow commitments and expectations of further farmland price reductions. Future international economic conditions, government programs and fiscal/monetary policies are also uncertain.

On the positive side, land values do have a bottom. Farmland cash rents have been fairly steady. This provides downside support for farmland sale prices. High rent-to-land value ratios indicate improved ability to cash flow land purchases from current earnings.

The near-term outlook for sustained increases in South Dakota farmland sales prices is not favorable. Considerable improvement in the agricultural and general economic outlook is needed for that to occur.

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