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LONG TERM AND RECENT FARMLAND MARKET DEVELOPMENTS IN SOUTH DAKOTA

by

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A recent Economics Newsletter (No. 213) reported on declining farmland market prices and related farmland market developments in South Dakota in the past 3 years. A longer term perspective is presented in this report.

Long-Term Farmland Market Trends

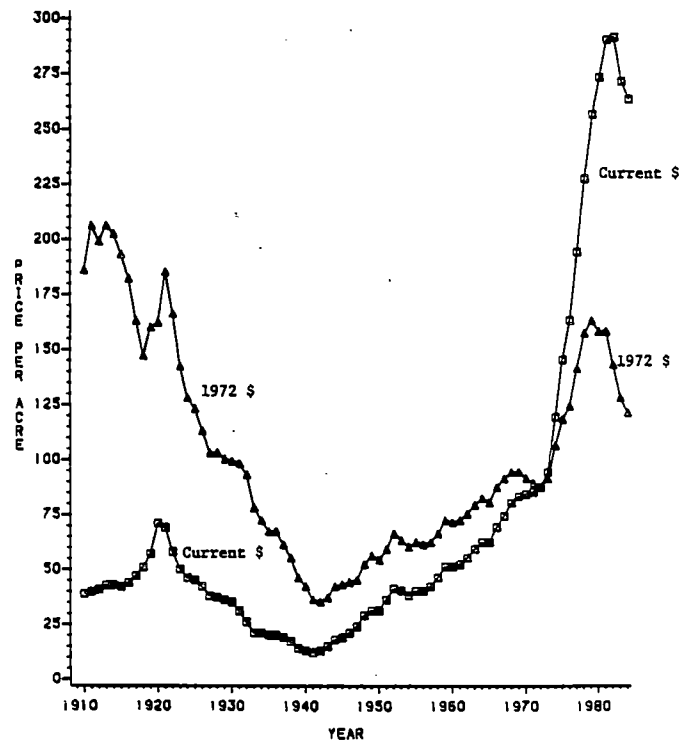
USDA-reported farmland values have fluctuated considerably in the 20th Century (Figure 1). South Dakota average farmland values, in current dollars, increased from \$39 per acre in 1910 to a peak of \$71 in 1920. Values then declined for the next 21 years to low of \$12 per acre in 1941. Farmland values then began an upward trend--reaching \$40 per acre in 1955 and \$85 in 1971.

Land values accelerated during the export boom period of the 1970's reaching a peak of \$291 per acre in early 1982. The annual rate of increase in South Dakota farmland values was 4-5% from 1955-1971 and 12-13% from 1971-1982.

Farmland values and sale prices have declined since early 1982. Based on Federal Land Bank data, mid-1984 farmland sale prices were down about 20% from their peak. Price declines were sharpest in the southeast region (down 30-35%) of the State.

The decline is more dramatic if one views farmland values in terms of real purchasing power--with land values adjusted for the effect of inflation. In real terms (1972 dollars), farmland values in mid 1984 had come down to 1975 levels (Figure 1). Further, and perhaps somewhat surprisingly, real farmland values were higher in the 1915-1920 time period than they have been at any time since then.

Figure 1. SOUTH DAKOTA FARM REAL ESTATE PRICES, 1910-1984



Source: USDA, Farm Real Estate Market Developments, various issues

Farmland price trends from 1920-1941 contributed greatly to more tenancy, higher foreclosure rates and changes in ownership. By the late 1930's, one-fourth of South Dakota's farmland was in foreclosure and less than one-half of the State's farmers owned any farmland. During the 1940's, many farmers were able to regain title to their land.

Post World War II trends of generally rising farmland values have contributed to the dominance of part ownership (part owners are farmers who own some land and rent additional land).

See the back page for an announcement of AGRIBUSINESS DAY 1985

Many farmers have desired or needed to expand their land holdings, while many others (retired farmers and nonfarm investors) wanted to own farmland for investment and other purposes. Farmers continue to own about two-thirds (68% in 1978) of South Dakota's agricultural land, while a majority of farmland owners today are non-operator landlords.

A main determinant of farmland price trends is current actual and expected trends in farmland net returns (rent). South Dakota farmland values and rents have moved, annually, in the same direction for 55 of the past 64 years (1921-1984). The ratio of annual net rent-to-value varied from 3.0-5.0% from 1921-1949 and 4.1-6.6% since then.

During the 1970's, farmland rents were rapidly rising, reflecting rising exports and commodity prices. Farmland buyers bid up the price of farmland such that rates of return to farmland, in the year of purchase, were less than rates of return on other long term investments such as corporate bonds. Farmland buyers were essentially competing for the right to obtain expected future increases in net returns with the additional income used to help make the loan payments. When expected increases in net returns did not materialize in the early 1980's, however, market prices of farmland also declined.

Recent Farmland Market Trends, 1971-1983

Information on recent (1971-1983) farmland market trends was developed from a data base of over 11,600 farmland sales provided by the Federal Land Bank of Omaha.

The average price per acre for farmland sold in South Dakota increased 4.4 times from 1971 to 1982, when it peaked at \$428 per acre. [For the difference between the FLB-based data and the USDA-based data in the earlier section, see Econ Newsletter No. 200.] The average annual rate of increase in farmland sale prices during this period was 14.5%.

The average total sales price per tract increased each year from 1971 to 1981, when it peaked at about \$133,300. The average tract sold involved 366 acres which was almost equally divided

between cultivated land and pasture. —

The average price of farmland varies widely within South Dakota. Most of the price variation can be attributed to differences in land productivity and use in different parts of the State.

The peak prices, which occurred in 1981-82, ranged from \$155-195 per acre in northwestern South Dakota to \$900-965 per acre in southeastern South Dakota. Since then, sale prices have dropped in all regions of South Dakota, with the largest dollar and percentage declines in the southeast.

The characteristics of farmland sale transactions also vary regionally. The majority of agricultural land sales occurred in eastern South Dakota, although more acres were sold in central and western South Dakota. Tracts sold in eastern South Dakota averaged 145-224 acres in size while tracts sold in central South Dakota were between 327-477 acres, on average, and tracts sold in western South Dakota averaged more than 1,000 acres.

Eastern South Dakota land sold was predominately cultivated (66-76%), while land sold in western South Dakota was mostly pasture (72-75%). Land sold in central South Dakota was a mixture of cultivated land and pasture land.

Irrigation systems were present on 1.8% of the farmland tracts sold. Western South Dakota had the highest percent (8.4%) of irrigated tracts sold.

Nearly 27% of farmland tracts sold in South Dakota had building sites on them. Farm houses comprised 52% of reported building values.

Non-agricultural factors influenced the sale price of 5.2% of farmland tracts sold. Residential development was listed as a factor in more than half of these sales.

Farmland Financing Trends

A major structural change in the post World War II farmland market has been greater credit financing. From 1945-1955, only 45-53% of farmland transfers in Northern Plains states were credit financed. Since 1970, 81-94% of

farmland transfers were credit financed. Further, since 1970, the average percent of purchased price borrowed increased from 50-57% to 76-83%.

Sellers and the Federal Land Bank (FLB) are the principal financiers of farm real estate in South Dakota. From 1971-1983, sellers financed 41% of the land sales and the FLB financed about 30%. All other lenders (Farmers Home Administration [FmHA], commercial banks, insurance companies, and others) were involved in financing another 15% of farmland sales. The rest were 100% equity financed.

The average percent of purchase price financed has also varied by lender over time. The FmHA financed a larger percent of the sales price than any other lender, averaging 89%. The FLB has, on average, financed 79% or more of the purchase price, while sellers have typically financed 75-80% of the purchase price.

Average loan size increased steadily until 1979, and has shown no clear trend since then. Average loan size was \$91,800 in 1983 compared to \$43,100 in 1971. The annual average size of seller financed loans and (and contract for deeds) was always larger than for FmHA loans and usually greater than the average size of FLB loans.

The annual average interest rate on credit-financed sales was less than 8% from 1971-1978. Interest rates accelerated to an average rate of 11% in 1982. A slight decline in the average rate of interest charged by each type of lender was noted in 1983.

The lowest average interest rates were reported on FmHA loans from 1971-1978, and on seller financed sales since then. The FLB and commercial banks charged about the same rates until 1978, when commercial bank interest rates increased at a faster pace.

The average number of years to repay loans has declined for most lenders during this 13 year period. The FmHA financed sales reported the longest number of years to repay (34.2-39.6). Average repayment periods on FLB financed sales have slowly declined from 30 years in the early 1970's to an

average of 26.9 years in 1983. The average repayment period for seller financed sales was 10.4-13.5 years. Sales financed by commercial banks usually had the shortest repayment periods.

Future Trends

Major changes have occurred during the 20th Century in South Dakota farmland values and the nature of farmland sale transactions. In the midst of massive changes, certain factors have remained important.

First, farm operators have almost always been the major owners, buyers and sellers of farmland. This trend is expected to continue.

Second, farmland market prices are derived from current actual net returns (rents) and expected net returns. Rents and market prices of farmland generally move together. What has changed is the growing impact of international commodity and financial markets and Federal fiscal-monetary policies on the level of net returns and expected returns. In this sense, U.S. and South Dakota farmland markets are more responsive to worldwide and national economic policy conditions than they were in the 1950's through the early 1970's. The major impact of these factors in recent years and most likely in the next few years is continued downward pressure on farmland prices.

Finally, farm real estate credit terms are important to functioning of farmland markets. The terms during the 1970's were attractive to many buyers to finance farmland purchases with debt capital. Farm credit terms have tightened and future loan requests will be largely based on careful cashflow projections of repayment ability.

Forthcoming publication

Readers may request a copy of "Long Term and Recent Trends in South Dakota's Farmland Markets", Bulletin, South Dakota Agricultural Experiment Station, from the authors for a more detailed report of this study. A copy should be available within 4-6 weeks from the release of this Newsletter.

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Twenty-third Annual Agri-Business Day

Thursday, March 28, 1985

9:00 a.m. - 3:45 p.m.
Staurolite Inn,
Brookings, SD

AFTERNOON TOPIC: OUTLOOK, MARKETING
TIPS AND COPING WITH STRESS

IMPLICATIONS OF AND OUTLOOK FOR CHANGING
LAND VALUES IN SOUTH DAKOTA-
Larry Janssen

GUIDELINES FOR IMPROVING THE MARKETING
OF GRAIN-Brian Schmiesing

GUIDELINES FOR IMPROVING MARKETING OF
LIVESTOCK-Gene Murra

COPING WITH STRESS RELATIVE TO CRISIS
SITUATIONS IN FARMING & RANCHING-
Steve Small

MORNING TOPIC: FARM FINANCE TIPS FOR
SAVING \$15,000

AN OVERVIEW OF THE FINANCIAL CRISIS IN
SOUTH DAKOTA-Mark Edelman

TIPS FOR FINANCIAL MANAGEMENT-Mark
Edelman and Wallace Aanderud

PRESENTATION OF AGRI-BUSINESS PERSON OF
THE YEAR & RESPONSE FROM THE RECIPIENT

Lunch-A DEMONSTRATION OF INFOTEXT-
Tom Bare

The 31st ANNUAL BANQUET AND AWARDS
PROGRAM of the SDSU Student Economics
Club will be held in the Volstorff
Ballroom of the University Student
Center, 6:30, March 28th.

Richard McCrossen, President of
Citibank (South Dakota), will be the
guest speaker.

Tickets must be purchased in advance
from the Economics Department or at the
registration desk for Agri-Business Day.