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South Dakota Farmland Market Trends—Another Year of Declining Prices

by
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South Dakota farmland prices have declined for three consecutive years. The average per acre price of South Dakota farmland sold from January-July 1985 declined 34% from the 1981-1982 peak. Mid-1985 South Dakota farmland prices are about the same as land prices observed in 1977-1978 and the same as the real (inflation-adjusted) 1974 value.

Background

Nationwide, farmland values have declined since 1981. This represents both a major reversal from the prior 25 consecutive years of increase and the longest period of decline since the Great Depression. During 1984, U.S. farmland values declined 12%—the largest annual percentage decline since 1933. According to USDA statistics, 1984 farmland price declines exceeding 20% occurred in eight Cornbelt and Great Plains states including South Dakota, Nebraska, Minnesota and Iowa. Farmland prices declined at a lesser rate in other states surrounding South Dakota.

South Dakota farmland values increased at a steady 3-5% annual rate from 1950 to 1973. From 1973 to 1981, farmland value increases accelerated to 17% 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 and have since declined. Changing Federal economic policies (leading, for example,

to high deficits/spending, interest rates and exchange rates) and unfavorable export market developments have been the major contributing factors.

Trends in South Dakota's farmland markets through July 1985 are presented in this newsletter. Emphasis is placed on regional and statewide trends in farmland sale prices and types of tracts sold. In the next newsletter, emphasis will be placed on underlying reasons for declining farmland prices and the implications for South Dakota.

Regional farmland sales data

The data in this and the following sections were collected and made available by the Federal Land Bank (FLB) 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 5,430 farm real estate transactions in different regions of South Dakota from 1981 to early (January-July) 1985. In Table 2, data on early 1985 average per acre sale prices for mostly cropland (85-100% cropland acres) tracts are compared with those for majority pasture/rangeland (typically 70-75% pasture) tracts. The data in Figure 1 show average per acre sales prices and the percentages of cropland sold (as a measure of land use and quality) for those counties in South Dakota with more than eight sales transactions during the 13-month period of July 1984 to July 1985.

Statewide overview

The average tract sold consists of about 300 acres. Farm buildings, present on 20% of the tracts, contributed an estimated 5.7% of total value. About 51% of the total farmland sold each year is cropland. A majority of the acres in one-fourth of the tracts are pasture/rangeland, while another 45% of the tracts contain mostly (85-100%) cropland. The remaining 30% of tracts

Table 1. South Dakota Regional Farm Real Estate Sales Trends, 1981-85.

Region ^a	Average Sale Price (\$/acre) ^b				early 1985 ^c	Percent decline from peak price ^d	Average number of acres sold per tract ^e	Cropland as percent of total acres sold ^f
	1981	1982	1983	1984				
Southeast	958	889	763	681	515	-46	128	73
East Central	636	698	680	532	460	-34	151	74
North-east	545	548	451	450	378	-32	209	65
North Central	383	391	350	344	324	-17	246	65
Central	328	318	310	281	250	-24	340	56
South Central	262	272	252	248	247	-10	348	44
West	186	176	178	158	157	-16	1156	32
Black Hills	849	422	416	338	ef	ef	295	26
State	418	428	350	310	280	-34	302	51

Source: Compiled from Databank of Reported Farmland Sales, Federal LandBank of Omaha. All reported nonirrigated cropland and pasture bonafide sales of 40 acres or more are included. Sales of irrigated land are also included in the Black Hills region because they comprise three-eighths of total farmland tracts and acres sold. Based on 2427 reported farmland sales recorded in 1981-1982 and 3003 reported farmland sales from January 1983-July 1985.

- 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 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 Sales reported from January 1985-July 1985.
- d The difference between the Jan.-July 1985 average sale price and the highest average sale price is expressed as a percentage of the highest sale price. The highest average sale price was in 1981 or 1982 depending on region.
- e Average number of acres sold and cropland percent statistics are based on tracts sold from January 1983-July 1985. These statistics are similar for earlier years.
- f Insufficient number of sales reported.

have a majority of cropland but contain significant amounts of pasture/rangeland.

In most regions, average farmland sale prices peaked in the second half of 1981 or first half of 1982. Sale prices declined through early 1983 and held steady in most regions for the rest of that year. Prices since then have declined sharply. Voluntary sales activity has also declined substantially.

There are considerable variations in farmland sale prices both within and among regions (Table 2). Research findings by the author indicate 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.

The average per acre price of majority pasture/rangeland tracts is 48-

Table 2. Pasture and Cropland Sale Prices by Region, January - July 1985

Region	Land Use ^{a,b,c}	
	Majority pasture --average sale price per acre--	Mostly cropland price per acre--
Southeast	\$330	\$680
East Central	350	600
Northeast	246	458
North Central	200	376
Central	210	276
South Central	198	326
Western	136	260

Data source and list of regions: See Table 1

- a "Majority pasture" are those tracts where pasture and rangeland was 50-100% of the total acreage sold. The typical land use was 70-75% pasture/rangeland and 25-30% cropland.
- b "Mostly cropland" are those tracts where 85-100% of the total land sold was cultivated.
- c The average sale prices of tracts with 50-84% of acres in cropland are not included. Their sale prices are generally in between the prices for the "majority pasture" and "mostly cropland" tracts.

60% of the average price of mostly cropland tracts in all regions, except the Central region.

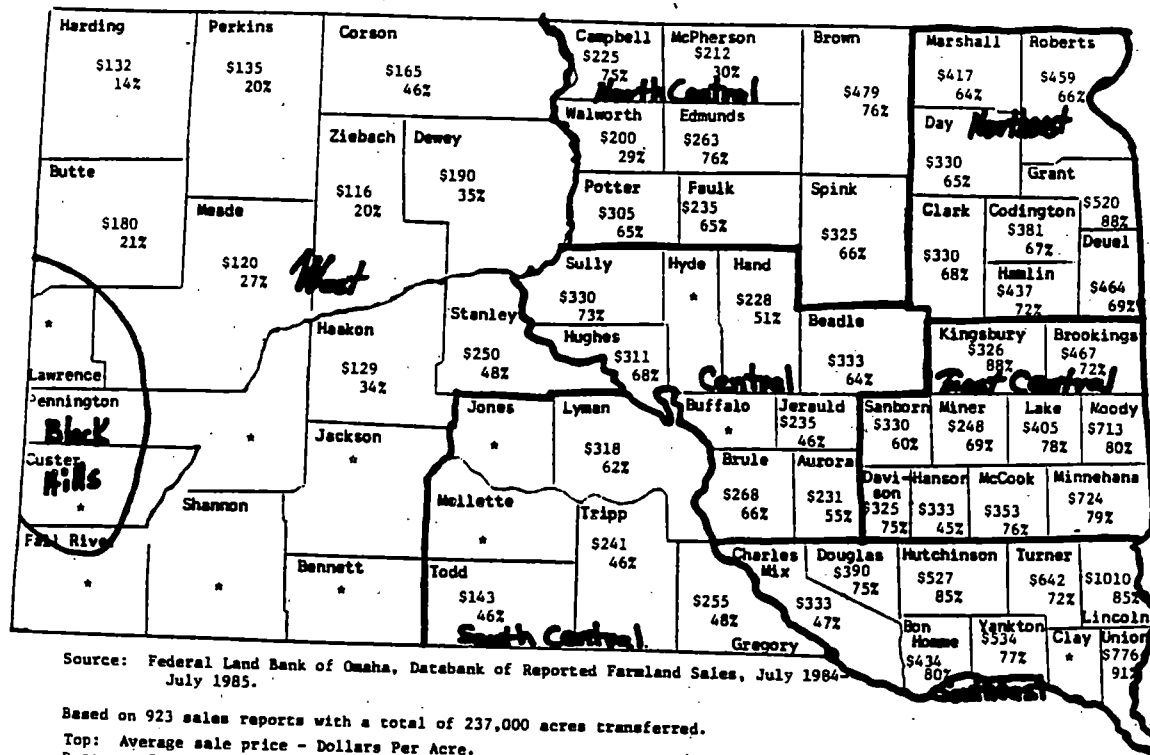
Eastern South Dakota

Land prices have been consistently highest in southeastern South Dakota. Average size of tract sold (128 acres) is the lowest there of any region, while percent of cropland sold is the highest there and in the east central region (73-74%). Average farmland prices have declined faster in the southeast, however, than in any other region of the State -- dropping from \$958 in 1981 to \$515 in early 1985. 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 1985 average price of \$460 per acre. Average prices peaked in early 1982 and have declined at a somewhat slower rate than in the southeast (-34% vs. -46%).

The northeast region ranks third in the annual average per acre sale price (65% cropland). Prices there have also declined about one-third. Farmland

Figure 1. Average Per Acre Sale Price of Farm Real Estate Sold by County, July 1984 - July 1985



Source: Federal Land Bank of Omaha, Databank of Reported Farmland Sales, July 1984 - July 1985.

Based on 923 sales reports with a total of 237,000 acres transferred.

Top: Average sale price - Dollars Per Acre.

Bottom: Cropland as Percent of Total Acres Sold.

*Insufficient Number of Sales Reported.

prices in this highly diversified grain-livestock region have been hit by the declining returns for most commodities in 1984-85.

regions of South Dakota. The dominant type of land sold in these counties is rangeland, followed by winter wheat and spring wheat.

Central and Western South Dakota

The western region has the lowest average price per acre (\$157 in early 1984), second lowest percent cropland (32%) and highest number of acres sold per tract (1,156 acres) of any region in South Dakota.

Farmland prices in the north central and central regions have declined at a slower rate than further east in the State. The price decline in the northern section of the James River Valley appears to be less than elsewhere in these two regions. In these regions, the changing economics of spring wheat, small grain and range cattle have the strongest impact on agricultural land prices. The Federal wheat program provisions have tempered cropland price declines there.

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. Three-eighths of farmland tracts sold contained irrigated land. Altogether, irrigated land consists of 14% of total acres sold. Nonfarm factors (recreation, forestry, residential) are also reported to affect the sale price of more than one-third of farmland tracts sold in this region compared to less than 6% in any other region. Prices sharply declined in 1981-82 and again in 1984.

Agricultural land prices have generally declined less in the south central and western regions (west of the Missouri River). Low turnover of tracts sold is a contributing factor. The numbers of reported sales in most western and south central counties (except for Tripp, Gregory, Meade and Butte) are much lower than for other

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Major characteristics of the South Dakota farmland market

Farm owner-operators are the major buyers and sellers of South Dakota farmland. Since 1983, 68% of farmland tracts have been purchased by established farmers/ranchers expanding their business. Buyers just getting started in farming purchased 14% of tracts sold while nonfarm investors purchased 13% of tracts sold. The remaining tracts (5%) were purchased by other types of buyers.

Credit availability and terms are extremely important variables in the farmland market. An increased proportion of sales is fully cash financed. Average downpayment requirements on credit-financed purchases have increased. Both features represent major reversals from trends observed from

1945-1982. Since 1982, for example, 27% of farmland tracts sold have been cash financed, compared to only 10-14% of tracts sold from 1971-1981. The average debt-to-purchase price in 1984 and 1985 is 76% compared to 80% and above in previous years.

Seller financing remains the most important source of farm real estate credit (36% market share of tracts sold since 1982), followed by the Federal Land Bank with 23%. Other significant sources of credit are commercial banks, Farmers Home Administration and insurance companies.

In the next newsletter, underlying reasons for declining farmland prices will be examined in more detail. The future prospects and implications for South Dakota will also be explored.