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Long Term and Recent Trends in South Dakota Farmland Markets

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LONG TERM AND RECENT TRENDS IN SOUTH DAKOTA FARMLAND MARKETS

by
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South Dakota farmland values are beginning to increase again after major declines over the previous five years. According to the U.S. Department of Agriculture (USDA), average per acre farmland value in South Dakota on Feb. 1, 1988 was \$187 per acre, compared to \$178 per acre in 1987 when land values bottomed out and \$349 per acre in early 1982 when farmland values peaked.

These recent developments are examined in a longer term context in this Newsletter. Long term trends (1910 - 1988) in farmland values and more recent trends (1971 - 1987) in farmland sales characteristics are discussed.

Long Term Trends in Farmland Values

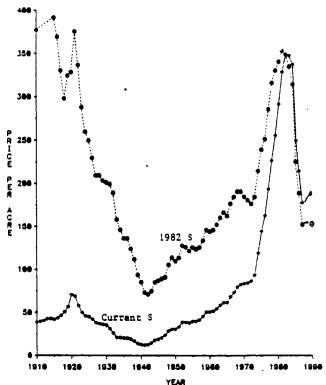
USDA - reported farmland values have fluctuated considerably in the Twentieth Century throughout South Dakota (Figure 1). Average per acre farmland values increased from 1910 to 1920 in all regions of South Dakota. Farmland values declined substantially from 1920 to the early 1940's, with the highest rates of decline occurring in the central and eastern regions of the State. By 1941, farmland values statewide were one-sixth of the peak value reported in 1920.

Farmland values showed a steady upward trend from the early 1940's to the early 1970's and exploded during the agricultural export boom period of 1972 to 1981. Statewide, farmland values were \$12 per acre in 1941, \$87 per acre in 1971, and \$349 in early 1982. During this 41 year period, farmland values increased at more rapid rates in central and western South Dakota than in the State as a whole.

Farmland values and sale prices sharply declined from the early 1980's to 1987. In 1987, farmland values statewide were less than one-half of their peak values only 5 years earlier. This is the greatest 5-year decline in South Dakota during this century. During this past year, South Dakota farmland values increased again by 5%.

Real (inflation adjusted) land values also declined for 20-25 years until the early 1940's (Figure 1). From 1945 to 1972, South Dakota farmland values doubled in real terms and doubled again from 1972 to 1981. Farmland values declined sharply (-57%) from 1981 to 1987, however, remained unchanged in 1988. Changes in real land values reflect changes factors economic (export markets, crop/livestock prices and costs, interest rates and inflation rates) that affect per acre net returns and real interest rates over time.

Figure 1. SOUTH DAKOTA FARMLAND VALUES, 1910-1988



Source:

USDA, <u>Agricultural Resources</u> and <u>Farm Real Estate Market Developments</u>, various issues. Real (inflation adjusted) farmland values are expressed in 1982 S using the GNP-PCE deflator for Personal Consumption Expenditures.

Recent Farmland Sales Trends, 1971-1987

Information on recent (1971 - 1987) farmland sales trends has been developed from a data base of over 15,000 farm real estate sales provided by the Federal Land Bank of Omaha.

Tremendous variation in tract size and agricultural land use exists for farm Dakota. sold in South estate Statewide, the average size of tract sold of 366 acres is almost evenly divided between cropland and rangeland Nearly 69% of the tracts sold are 40 - 249 acres in size; those tracts comprise 26% of total acres sold. These tracts are predominantly cropland and are primarily located in eastern and central regions of South Dakota. Large tracts of 1000 acres or more are only 5.7% of the total number of tracts sold, but they constitute 42.7% of total acres sold. These tracts are mostly rangeland and are primarily located in western and central South Dakota.

Statewide, 40% of the reported sales are mostly cropland tracts (85% - 100% cropland acres), 35% are majority cropland tracts (51 - 84% cropland acres), and 25% are majority pasture/rangeland tracts. Two-thirds of the mostly cropland and

majority cropland tracts are located in eastern regions of the State, while 71% of the majority pasture/rangeland tracts are located in central and western South Dakota.

Overall, the statewide average sale price for all farm real estate increased from about \$100 per acre in 1971 - 1972 to \$205 per acre in 1975 to a peak of \$436 per acre in 1982 (Figure 2). From 1982 to farmland sales prices average declined nearly 60% to \$174 per acre. Average price levels varied substantially by land use. For example, the statewide average sale price of mostly cropland increased from \$160 per acre in 1971 to a of \$672 per acre in 1982 subsequently declined to \$319 per acre in By comparison, the average sale price of majority pasture/rangeland tracts increased from \$60 per acre in 1971 to \$245 per acre in 1981 and subsequently declined to \$88 per acre in 1987 (Figure 2).

Tremendous variation also exists in farm real estate sales prices across South Dakota. Average prices per acre are compared across counties through a percentage price index keyed against 100 in Lincoln County where the highest

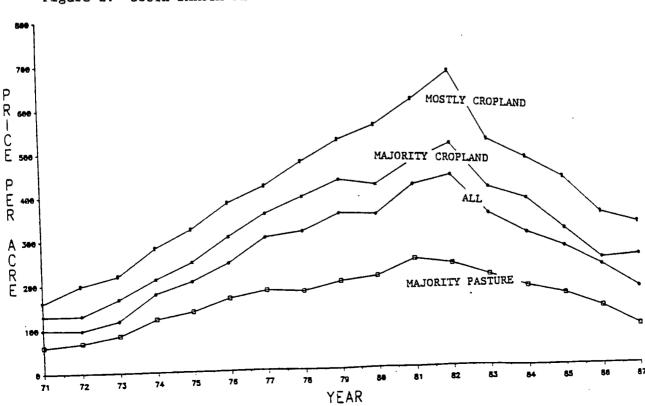
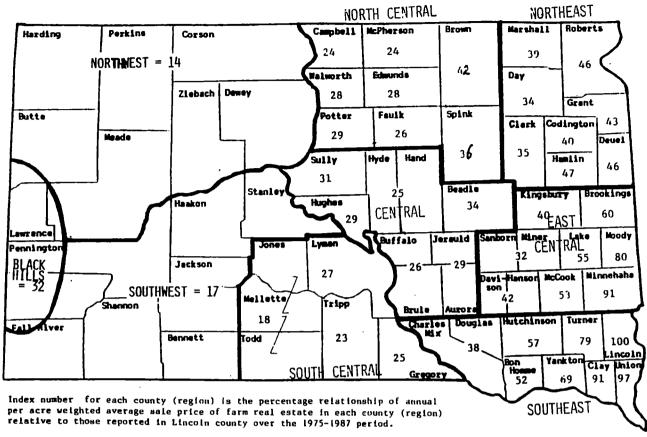


Figure 2. SOUTH DAKOTA FARM REAL ESTATE PRICES BY LAND USE, 1971-1987

Source: Derived from Databank of Reported Farmland Sales, Federal Land Bank of Omaha.

FIGURE 3. SOUTH DAKOTA FARM REAL ESTATE PRICE RELATIONSHIPS, 1975-1987



Source: Derived from regression analysis of datasets provided by the Farm Credit Banks of Omaha.

average prices occurred (Figure 3). percentage index of average per farmland prices from 1975 - 1987 is as low as 14 and 17 in northwest and southwest South Dakota. Only 11 counties in the southeast and east central regions have per acre average farmland sale prices exceeding 50% of per acre prices Lincoln County. Farm real estate prices in other counties of eastern and central South Dakota are between 18% and 47% of average farmland sale prices in Lincoln County. A majority of the variation in farmland sale prices can be explained by variation in land quality and productivity.

Average size of tract sold increases from 100-140 acres in southeast South Dakota to over 1000 acres in northwest and southwest South Dakota. Conversely, the proportion of farmland sold which is cropland exceeds 70% in most counties of southeast and east central

South Dakota, but it is less than 35% the western regions of the State. majority of tracts sold in most regions contain both cropland and permanent pasture or rangeland. The per acre sale price is directly related of cropland and proportion inversely related to the proportion of rangeland in tracts sold in all regions.

Overall, South Dakota has substantial diversity of farmland values and sale prices across the State and within each region. This diversity reflects the differences in agricultural enterprises and land productivity across the State. South Dakota also has experienced tremendous variation in farmland values over time in all regions of the State.

New Publications on Farmland Markets

Two recent Economics Research Reports containing detailed data on South Dakota

farmland markets are now available from the SDSU Economics Department. Both are written by Larry Janssen. The first publication, South Dakota Farmland Values and Sale Prices (Feb. 1988, 63 pages), contains long term statewide and regional data on farmland values and more recent (1975 - 1987) farmland sales data by region and for 51 counties in South

Dakota. The second publication, South Dakota Cropland and Rangeland Sales, Statewide and Regional, 1971 - 1987 (June 1988, 74+ pages), contains detailed statewide and regional data on majority cropland and majority rangeland sales tract characteristics, including average annual sale price.