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ECONOMICS COMMENTATOR

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2009



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We wish to thank the individuals who participated in the 2009 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Emmanuel Opoku and Justin Harer for conducting the survey and inputting data and Penny Stover for maintaining the mailing list and varied survey tasks.

South Dakota's agricultural land values increased 7.7% this past year, which is the lowest rate of increase in this decade. The average value of agricultural land (as of February 2009) varies from \$307 per acre in the northwest region to \$2,634 per acre in the east central region. These are key findings from the 2009 South Dakota Farm Real Estate Market Survey completed by 227 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the nineteenth annual SDSU survey designed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The information in this *Economics Commentator* provides an overview of current findings across South Dakota. We caution the reader to use this information as a general reference, and to rely on local sources for more specific details.

Respondents provided county land value and cash rental rate information by agricultural land use. Responses, grouped by region with average values for all classes of land, are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, hayland, rangeland, and tame pasture are provided in Figures 2-4.

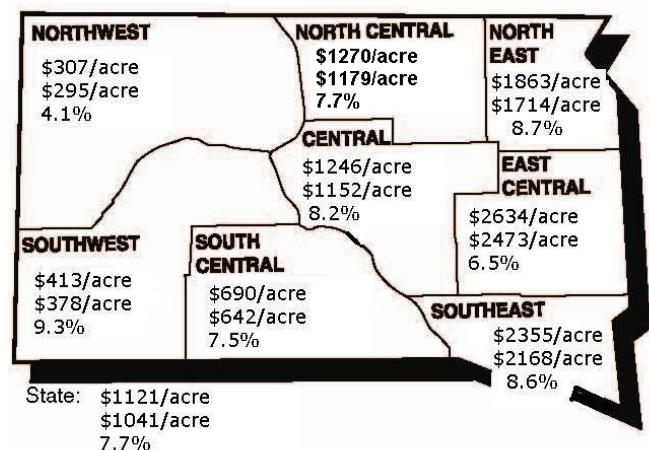
Average Land Value Summary

As of February 2009, the average value of all agricultural land in South Dakota was \$1,121 per acre, a 7.7% increase from one year earlier. This rate of increase is the lowest in this decade and is directly related to

impacts of the economic recession and financial turmoil during the latter months of 2008 and early 2009.

From 2001 to 2008, South Dakota agricultural land values increased more than 10% each year, with a 22.5% increase reported for the previous period of 2007-2008. Overall, agricultural land values in South Dakota have doubled since 2004 and have increased five-fold since 1991.

Figure 1. Average value of South Dakota agricultural land, February 1, 2008 and 2009, and percent change from one year ago.



Regional and statewide average values of agricultural land are the weighted averages of dollar value per acre and percent change by proportion of acres of each nonirrigated land use by region.

Top: Average per-acre value— February 1, 2009

Middle: Average per-acre value— February 1, 2008

Bottom: Annual percent change in per-acre land value.

Source: 2009 South Dakota Farm Real Estate Market Survey, SDSU.

The all-land average values are highest in the three eastern regions with per acre values ranging from \$2,634 in the east-central region to \$2,355 in the southeast region and \$1,863 in the northeast region. In the central and western regions, per acre all-land values vary from \$1,270 in the north-central to \$307 in the northwest region. In all regions, agricultural land values increased from the previous year (figure 1).

Agricultural land values are highest in the east central region, followed by the southeast region. Cropland and hayland are the dominant land uses in these regions, which contain the most productive land in South Dakota. The lowest average land values are found in the northwest and southwest regions, where rangeland is the predominant land use.

In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland or tame pasture, and native rangeland. Within each region, there is substantial variation in per acre land values by use and land productivity (figures 2 and 3).

Non-irrigated cropland values in South Dakota, as of February 2009, averaged \$1,900 per acre, a 9.6% increase from one year earlier. Average values of non-irrigated cropland vary from \$3,155 in the east-central, to \$428 per acre in the northwest region (figure 2)

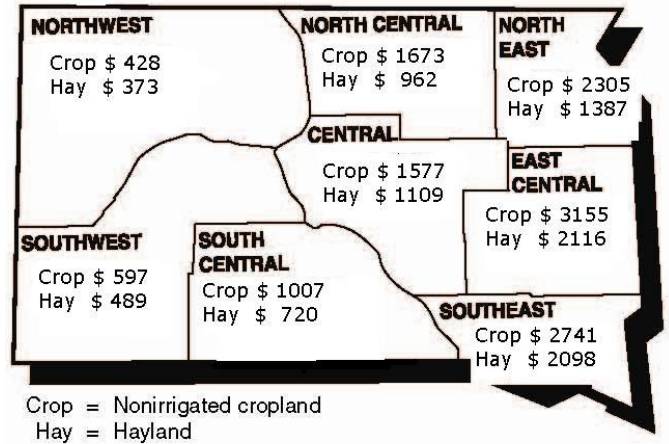
South Dakota hayland values averaged \$1,142 per acre as of February 2009, a 5.8% increase from one year earlier. Average values of hayland vary from \$2,116 in the east-central to \$373 per acre in the northwest

In February 2009, the value of South Dakota native rangeland averaged \$530 per acre, a 4.3% increase from one year earlier. The average value of tame pasture was \$857 per acre, a 5.9% increase (figure 3). Native rangeland is concentrated in the western and south-central regions of South Dakota, while tame pasture is concentrated in the central and eastern regions.

Across regions, native rangeland values vary from \$1,458 in the east-central to \$277 per acre in the northwest region; tame pasture values vary from \$1,803 in the east-central to \$314 per acre in the northwest region (figure 3).

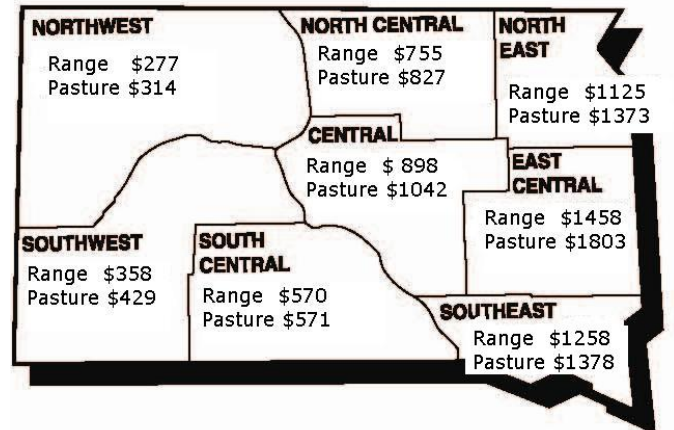
During the past year, cropland values increased in all regions, while per-acre values for other land uses increased in most regions. However, the rates of increase were considerably lower than those reported in most prior years from 2001 to 2008.

Figure 2. Average value of South Dakota cropland and hayland, by region, February 2009, dollars per acre.



Source: 2009 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2009, dollars per acre.



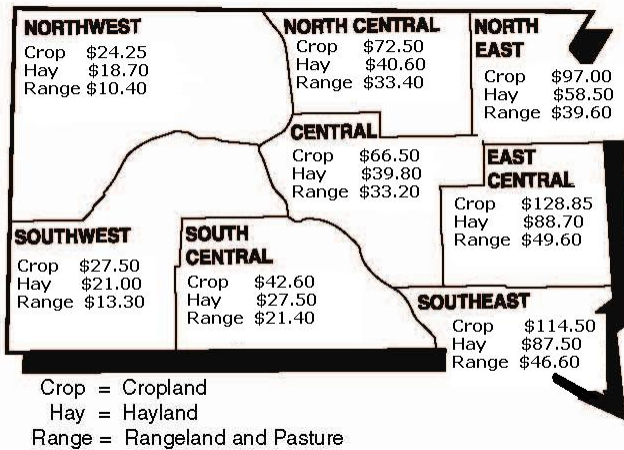
Source: 2009 South Dakota Farm Real Estate Market Survey, SDSU.

Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agricultural land. Cash rental rates are quite variable among South Dakota regions. Within each region, the average annual cash rental rates are highest for cropland and lowest for pasture and rangeland. Cash rental rates are highest in the east-central region for cropland and rangeland and lowest in the western regions for all land uses (figure 4).

Cash rental rates continued to increase substantially, especially for cropland. From 2008 to 2009, statewide average cash rental rates increased \$9.20 per acre for cropland, \$2.75 per acre for hayland, and \$1.30 per acre of pasture/rangeland. The average percentage increase was 12.3% for cropland, 7.0% for rangeland, and 5.8% for hayland.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2009, dollars per acre.



Source: 2009 South Dakota Farm Real Estate Market Survey, SDSU.

For most regions, the average annual change in cash rental rates per acre, in both dollar and percent amount, were higher in the past two years than any time in the previous 17 years of the survey (1991 – 2007).

For the first time in this decade, the annual percentage increase in cash rental rates per acre was higher than the annual percent increase in land value.

In general, cash rental rate increases were greatest in the regions where the strongest land value increases were reported. Average cash rental rates in 2009 for non-irrigated cropland vary from \$24.25 to \$27.50 per acre in the western regions to \$114.50 per acre in the southeastern region and \$128.85 per acre in the east-central region.

Hayland cash rental rates in 2009 vary from an average of \$18.70 to \$21.00 per acre in western South Dakota regions and from \$87.50 to \$88.70 per acre in the southeast and east-central regions, respectively.

Rangeland and pasture average cash rental rates vary from \$10.40 to \$13.30 per acre in western South Dakota regions to \$46.60 per acre in the southeast region and \$49.60 in the east-central region. Rangeland rates per Animal Unit Month (AUM) in 2009 vary from an average of \$21.05 per AUM in the northwest region to \$29.40 per AUM in the east-central region. Rates in the three central regions varied from \$26.40 to \$28.90 per AUM.

Rates of Return to Agricultural Land

The gross rent-to-value ratio (gross cash rent as a percent of reported land value) is a measure of gross rate of return to land, before deduction of property taxes and other landlord expenses. In 2009, the statewide average

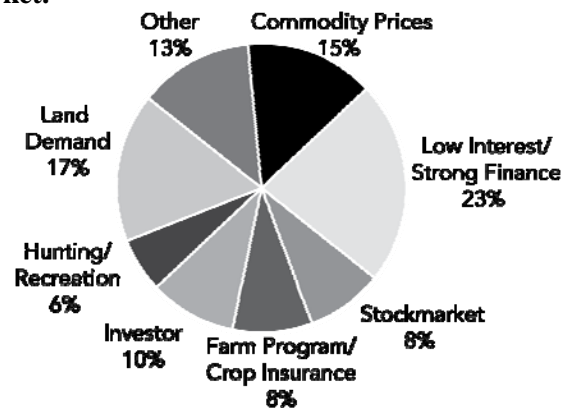
gross rate of return (rent-to-value ratio) is 4.7% for non-irrigated cropland, 4.5% for hayland, 4.1% for rangeland, and 4.4% for all agricultural land. From 2006-2009, the statewide average gross rate of return to all non-irrigated agricultural land has been lower than 5%, compared to 7.4% during the 1990's and above 6% from 2000-2003.

Respondents were asked to estimate net rates of return to agricultural land ownership in their locality, given current land values. Average net rates of return for 2009 varied from 4.3% for non-irrigated cropland to 3.8% for hayland, and to 3.0% for rangeland and pasture, and averaged 3.6% for all agricultural land. This is the fifth consecutive year during the past 19 years that average net rates of return for all-agricultural land were below 4%.

Ag Land Market Factors

Respondents listed major positive and negative factors affecting the farm real estate market in their localities. These factors help explain changes in the amount of farmland for sale, sale prices, and rental rates (figures 5 and 6). This year, more respondents listed negative factors than positive factors.

Figure 5. Positive factors in the farm real estate market.

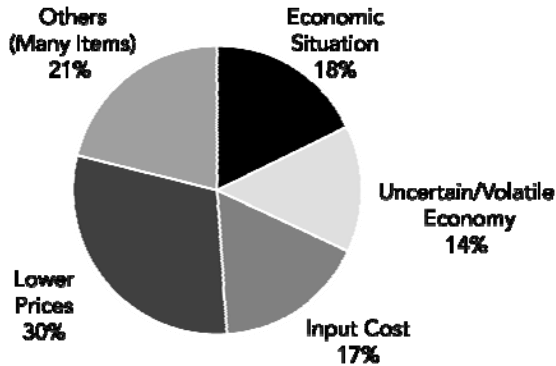


Low interest rates and favorable financing, strong demand for farmland, and relatively high commodity prices were the three major positive factors. Continued investor interest in farmland, federal farm programs and crop insurance and a shift of funds from the stock market to land purchases were also listed (figure 5). The prospects of lower commodity prices or land prices, rising input costs, impact of economic recession, and heightened uncertainty and volatility in the economy were the main negative factors (figure 6). Numerous “other” positive and negative factors were also listed, but no single “other” factor exceeded 2% of responses.

Respondents identified major reasons for buying and selling farmland. Farm expansion and investment purposes remain the two most common responses for

purchasing farmland. Hunting / recreation, commodity prices and farm profits, and location / availability of farmland were also frequently cited as major reasons for purchasing.

Figure 6. Negative factors in the farm real estate market.



Retirement from farming, settling estates, and realizing gains from high sale prices were the three major reasons for selling farmland with more than 85% of responses. Cash flow problems and reducing debt were 7% of total responses reflecting some increase in financial pressures for selling.

Compared to the “booming market” psychology of recent years, respondents to the 2009 survey were much less optimistic about current and prospective land market conditions.

Depending on land use, between 12 to 18% of respondents reported declines in land values during the previous 12 months (February 2008 to February 2009), while two-fifths reported land value declines from October 2008 to February 2009 – a period of substantial financial turmoil.

Overall, these responses indicate that most or all of the farmland value increases occurred prior to October 2008, with land values stable or declining through the winter of 2009.

A plurality of respondents, 38 to 48% depending on land use, expected land values to decline in the next 12 months, while only 12 to 18% project increasing land values, and the remainder project no change. This is a major turnaround in responses from the past several surveys when very few respondents reported actual declines in land values (from the previous year) or prospects of declining land values in the next year.

Prospects of further increases in input expenses, possible increases in long-term interest rates and reduced availability of credit, and growing concerns or uncertainty about future federal legislation and changing federal regulations affecting finance, energy, and agriculture are some factors changing respondent outlook. However, many respondents also indicate the farm sector is reasonably well positioned, from a financial perspective, to withstand many of the negative impacts of the current economic recession.

For more detailed information, a full copy of South Dakota Agricultural Land Market Trends, 1991-2009, by Janssen and Pflueger, has been published. It may be accessed at: <http://agbiopubs.sdstate.edu/articles/C275.pdf>

NOTE: This special edition of the *Commentator* is available electronically on our website at: <http://econ.sdstate.edu/research/commentator/no508.pdf> .

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