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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2013

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We wish to thank the individuals who participated in the 2013 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to student co-author Bronc McMurtry for helping conduct the survey, inputting data and preparing tables and charts and to Penny Stover for maintaining the mailing list and varied survey tasks.

South Dakota's agricultural land values continued to boom during the past two years for all land uses and regions. The most recent two years of annual increases for all agricultural land values, 33.6% from 2012 to 2013 and 26.8% from 2011 to 2012, are the highest annual rates of increase in the past 23 years of this survey. Overall, agricultural land values have nearly doubled since 2009 and increased six-fold since 2001!

The average value of all agricultural land (as of February 2013) in South Dakota was $2,328 per acre, varying from an average of $5,504 in the east-central region to $536 in the northwest region. These are key findings from the 2013 South Dakota Farm Real Estate Market Survey completed by 215 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension field specialists.

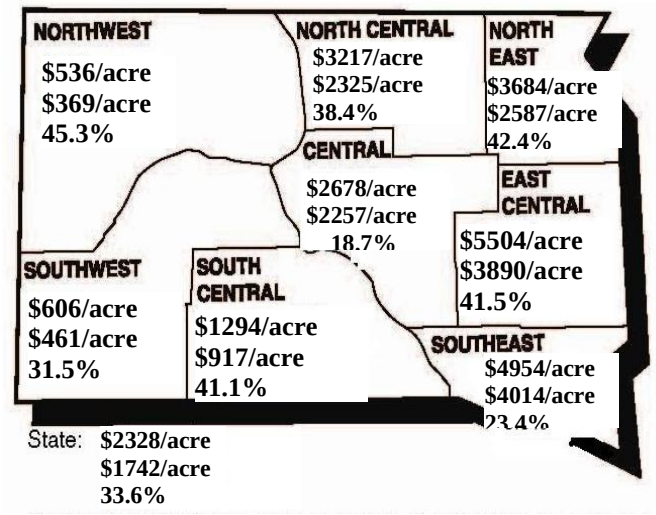
This was the twenty-third annual SDSU survey designed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The information in this ***Economics Commentator*** provides an overview of current findings across South Dakota. We caution the reader to 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, 3, and 4.

Average Land Value Summary

The all-land average values are highest in the three eastern regions with per acre values ranging from $5,504 in the east-central region to $4,954 in the southeast region and $3,684 in the northeast region. In the central and western regions, per acre all-land values vary from $3,217 in the north-central to $536 in the northwest region. In six regions, agricultural land values increased more than 30% from the previous year (figure 1).

Figure 1. Average value of South Dakota agricultural land: 2013, 2012, 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, 2013
Middle: Average per-acre value – February 1, 2012
Bottom: Annual percent change in per-acre land value.

Source: 2013 South Dakota Farm Real Estate Market Survey, SDSU.

Agricultural land values are generally 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).

Nonirrigated cropland values in South Dakota averaged $4,249 per acre in 2013, a 37.8% increase from one year earlier. Average values of nonirrigated cropland vary from $6,828 in the east-central to $3,580 in the central region and $792 per acre in the northwest region (figure 2).

South Dakota hayland values averaged $2,285 per acre in 2013, a 30% increase from one year earlier. Average values of hayland vary from $4,196 in the southeast to $610 per acre in the northwest

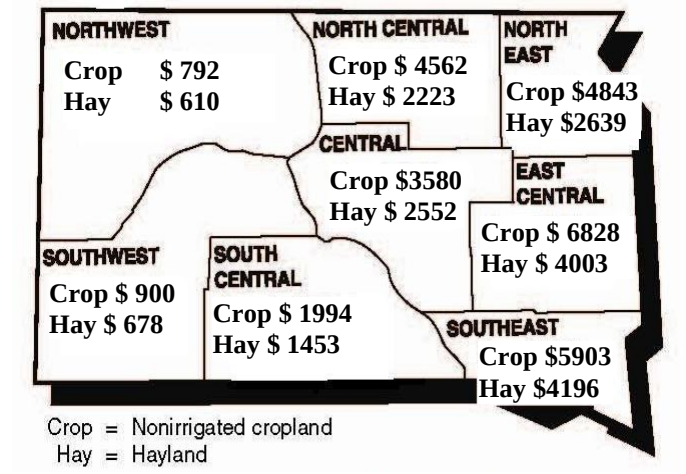
In 2013, the value of South Dakota native rangeland averaged $909 per acre, a 23.3% increase from one year earlier. The average value of tame pasture was $1,542 per acre, a 26.6% increase. Native rangeland is concentrated in the western and south-central regions of South Dakota, while tame pasture is concentrated in the central and eastern regions.

Average rangeland values are highest in the east-central and southeast regions ($2,765 and $2,308 per acre, respectively) and lowest in the southwest and northwest regions ($529 and $444 per acre, respectively). In other regions average rangeland values vary from $1,759 in the northeast region to $994 per acre in the south central region.

Tame pasture values in each region were higher, but followed a similar pattern with average values varying from $3,176 in the east-central region to $523 per acre in the northwest region (figure 3).

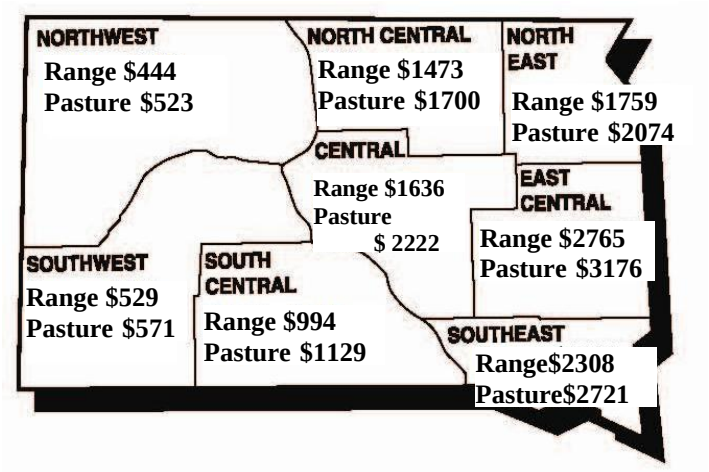
During the past year, per acre land value increases were reported in all regions for all land uses. Cropland values increased more than 20% in all regions, while pasture, tame pasture, rangeland, and hay land values increased more than 20% in six of eight regions of South Dakota.

Figure 2. Average value of South Dakota cropland and hayland, by region, February 2013, per acre.



Source: 2013 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2013, per acre.



Source: 2013 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. Three fourths of South Dakota farmers and ranchers renting land are involved in one or more cash leases. A majority of cash leases are annual renewable agreements.

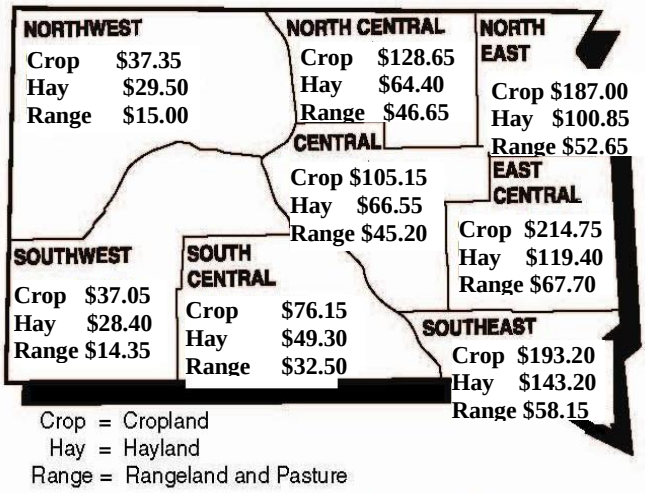
Cash rental rates also increased more during each of the past two years than in any other period in the past 23 years. Since 2011, cash rental rates for cropland and hayland increased more than 15% per year statewide and in most regions. Cash rental rates for pasture and rangeland also increased in all regions, but rates of increase varied considerably depending on the impact of 2012 drought conditions on forage availability.

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 and lowest in the western regions for all land uses (figure 4).

Average cash rental rates in 2013 for nonirrigated cropland vary from $37.05 to $37.35 per acre in the western regions to $105.15 in the central region and $214.75 per acre in the east-central region (figure 4). This is the first time that average cash rental rates for cropland exceed $100 per acre in all five regions east of the Missouri River.

Cropland cash rental rates increased substantially in all regions of South Dakota. From 2012 to 2013, cash rental rates for cropland increased more than $25 per acre in the three eastern regions and nearly $20 per acre in the north-central region. Cash rental rates for cropland increased about $12 per acre in the south central region and $3 per acre in the southwest region. The statewide average increase in cropland cash rental rates was $22.80 per acre.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2013, dollars per acre.



Source: 2013 South Dakota Farm Real Estate Market Survey, SDSU.

East of the Missouri River, cash rental rates for hayland vary from an average of $143.20 per acre in the south east region to $64.40 and $66.55 per acre, respectively, in the north central and central regions. West of the Missouri River, hayland cash rental rates in 2013 vary from an average of $49.30 in the south central region to $28.40 in the southwest region.

Cash rental rates for hayland increased more than $10 per acre in each of the three eastern regions, compared to increases varying from $3.00 to $8.75 per acre across the central and western regions.

Respondents were asked to report 2013 cash rental rates per acre and per Animal Unit Month (AUM) on privately owned rangeland and pasture. Average cash rental rates per acre reflect regional differences in productivity and carrying capacity of pasture and rangeland tracts. Average cash rental rates vary from $14.35 to $15.00 per acre in western regions to $45.20 in the central region and $67.70 in the east central region (figure 4).

Rangeland rates per AUM in 2013 vary from an average of $31.40 to $32.90 in the two western regions to $43 per AUM in the southeast region. The number of responses for AUM rates is too low to provide estimates for other regions (east-central, northeast, and north-central).

Statewide, rangeland and pasture cash rental rates increased an average of $4.00 per acre from 2012 to 2013, with substantial variation across regions. For example, rangeland cash rental rates increased $2.45 to $2.70 per acre in the two western regions to $10.20 per acre in the south central region. Strong increases in average AUM rates were also reported, with increases varying from $4 to $9 per AUM across regions.

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 the return to land before deduction of property taxes and other landowner expenses. It is a common measure of returns used in analysis of farmland markets.

Current average rates of gross cash return on agricultural land in South Dakota are lower in 2013 than in any of the past 22 years. For 2013, the average ratio of gross cash rent to current land value for all agricultural land was 3.3%, for nonirrigated cropland was 3.5%, and for rangeland was 3.0%. The pattern of higher cash rates of return to cropland compared to rangeland has occurred in all years this survey has been conducted.

This is the fourth consecutive year that gross cash rates of return for all agricultural land in South Dakota has been 4.0% or lower and compares to an average of 5.5% from 2000 to 2009 and 7.4% during the 1990's.

Longer Term Trends

Cash rates of return to agricultural land were relatively stable during the 1990's and declined substantially from 2001 to 2013. These findings indicate that increased farmland values during the 1990's were supported by comparable rates of increase in cash rental rates. However, from 2001 to 2013 cash rental rates increased at a slower percentage rate than increases in cropland or rangeland values.

The longer term trends in land values, cash rental rates, and cash rates of return are closely related to key economic factors. These factors include:

1. Sharp declines in farm mortgage interest rates from early 2001 to late 2004 and continued relatively low mortgage interest rates.

2. A substantial increase in use of federal crop insurance for yield or revenue protection along with other federal farm program provisions.

3. Technology changes in agriculture that expanded the geographic range of corn and soybean production, along with rapid development of ethanol production in South Dakota.

4. General economic conditions of low inflation rates in most years.

From 1991 to 2013, agricultural land values increased more rapidly than the rate of general price inflation. Also, continued increases in cash rental rates provided underlying support for increases in land values. These basic economic factors, along with relatively low mortgage interest rates, attract interest in farmland purchases by investors and farmers expanding their operations.

Ag Land Market Factors:
Respondents to each survey are asked for their assessment of major factors influencing buyers and sellers of farmland, along with the major positive factors and negative factors influencing farmland market decisions.

Farm expansion and investment potential, along with strong profits and high commodity prices, continued to be cited by 2013 survey respondents as the major reasons for purchasing farmland. The major reasons for selling farmland are realizing gains from high sale prices, retirement from farming, and settling estates.

High farm commodity prices, low mortgage interest rates, high farm profits and crop insurance protection were the major positive factors in the farmland market.

Drought conditions, high input costs, and considerable uncertainty about future conditions, both agricultural and economic factors, were the three major negative factors. The fear of future commodity price declines and the possibility of a farmland bubble were other major negative factors cited.

The booming market psychology has been very strong in the past three years. Most respondents remain optimistic about farmland market conditions for the coming year, but also express growing concerns about projected commodity price declines and general uncertainty about future conditions affecting land markets.

Most respondents providing forecasts, 81% to 87% depending on land use, expect land values to increase in the next 12 months and most of the remainder projected no change in land values.

In summary, respondents to the 2013 survey remain optimistic about farmland market conditions for the following year. This optimism reflects the impact of very high commodity prices on farm profits and on cash rental rates which are capitalized into increasing land values. There are growing concerns about impacts of projected commodity price declines and uncertainty concerning future federal policies for deficit reduction, taxation, credit and finance, agriculture, and renewable energy.

This issue of the ***Commentator*** highlights some key findings from the 2013 farmland market survey. Considerably more detailed information, including historical (1991–2013) annual data on land values and cash rental rates is available in the full copy of South Dakota Agricultural Land Market Trends, 1991-2013, by Janssen, Pflueger and McMurtry. An electronic copy of this publication may be accessed at: http://igrow.org OR http://igrow.org/up/resources/03-7007-2013.pdf

NOTE: This special edition of the ***Commentator*** is available electronically on our website at: http://www.sdstate.edu/econ/commentator/index.cfm

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