

South Dakota State University
**Open PRAIRIE: Open Public Research Access Institutional
Repository and Information Exchange**

Economics Commentator

Economics

5-11-1978

What's a Fair Price -- A Fair Rent for this Farmland?

Russell L. Berry
South Dakota State University

Follow this and additional works at: http://openprairie.sdstate.edu/econ_comm

 Part of the [Agricultural and Resource Economics Commons](#), and the [Regional Economics Commons](#)

Recommended Citation

Berry, Russell L., "What's a Fair Price -- A Fair Rent for this Farmland?" (1978). *Economics Commentator*. Paper 122.
http://openprairie.sdstate.edu/econ_comm/122

This Newsletter is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Economics Commentator by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.



Economics Newsletter

Editor:
Robert J. Antonides
Extension Economist

Economics Department

South Dakota State University

Brookings, S.D. 57007

(605) 688-4141

No. 124

May 11, 1978

WHAT'S A FAIR PRICE -- A FAIR RENT FOR THIS FARMLAND?

Russell L. Berry
Associate Professor of Economics

What's a fair price for this farmland? The market price of farmland has been booming. Between 1960 and 1976 U.S. farmland prices increased 259 percent -- about 16 percent a year. Last year, 1976-77, they increased 17 percent. This year 1977-78 they increased 9 percent. This suggests that farm incomes are booming but except for 1973 land prices have been rising faster than farm incomes (see Fig. 1).

One problem with these increases in land prices is that they are paper increases that can only be realized by selling the land. Furthermore these prices are based on only a few sales. For example only 4.3 tracts were sold per 100 farms for the year ending February 1, 1977. Of the tracts sold 47 percent were part-time farms. Therefore, little land has been moving.

Should the current price-cost squeeze force more farmers to sell land at a

time when other farmers lacked funds for purchase, the prices received are likely to fall below these that have been reported for the past few years.

When farmers can't buy land they must rent. But what's a fair rent for this high priced land? This question is frequently raised by both landlords and tenants. One answer is that they should get a fair return on their investment. But what's a fair return? Some savings accounts pay over 7 percent. U.S. farm mortgage interest rates on new loans are 8-10 percent. This suggests that landlords should be receiving at least 8 percent on their land.

But what is their land worth? For reasons already given land prices may be misleading. Farmland prices have been increasing steadily for many years while the stock market has been depressed. Hence farmland has been attractive to both farm and non-farm investors. As a

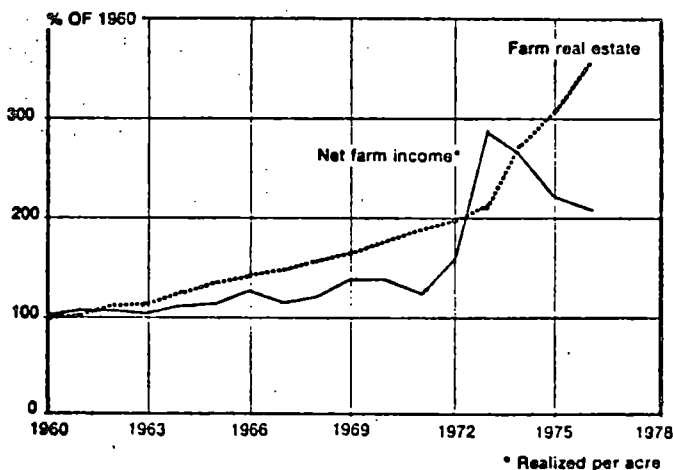


Figure 1 -- Farm Land Prices and Net Farm Income

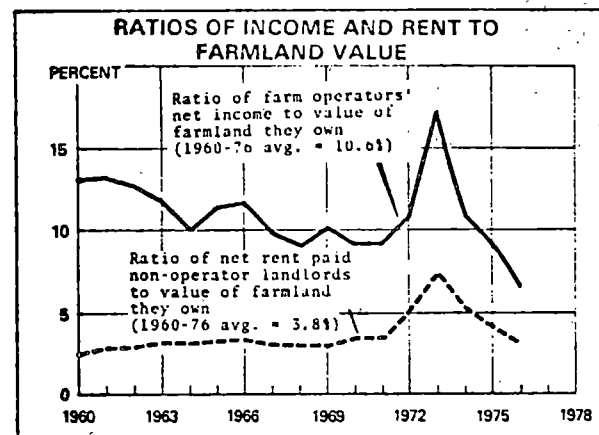


Figure 2

result its price has exceeded its value as farmland -- at least in the opinion of farmers who lease the land. Nationally, these farmers paid their landlords only 3.8 percent on their average investment between 1960 and 1976. (Fig. 2) Based on current local cash rents it appears that returns in South Dakota are higher than this average.

Why do landlords accept these low returns? There are probably two important reasons: (1) farmers are unable or unwilling to pay more rent and (2) landlords receive in addition to their rent the yearly increase in land values.

So what's a fair price -- what's a fair rent for this farmland? There is no easy answer. The land market is highly imperfect. There is no central exchange as there is for corn or wheat. Land varies greatly in its productivity. It cannot be graded as can grains. It cannot be moved. Hence there is no central land market. Each tract is unique.

The answer to the question is another: What can I sell it for? What can I rent it for? To find out landowners need to consult local realtors or advertise their land for sale or rent.

2500 printed for educational purposes at an estimated cost of 2¢ each

Educational programs and materials are offered to all people without regard to race, color, religion, sex or national origin.

Cooperative Extension Service
U. S. Department of Agriculture
South Dakota State University
Brookings, South Dakota 57007

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300

Postage and Fees Paid
U. S. Department of
Agriculture
AGR 101



Third class mail
(Bulk Mail)

Economics Newsletter