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Larry Janssen

South Dakota State University, larry.janssen@sdstate.edu

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Editor: Donald C. Taylor

Economics Department SDSU, Box 504A. Brookings, SD 57007

Tele: (605) 688-4141

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FARMLAND TENURE AND OWNERSHIP TRENDS IN SOUTH DAKOTA

by
Dr. Larry Janssen
Assistant Professor
of
Economics

The subject of this newsletter is recent trends in farmland ownership and tenure in South Dakota. Knowledge of farmland ownership and tenure trends is important for several reasons. First, land owners generally decide how their land will be used. Decisions by landowners impact food supplies, natural resource development, conservation and environment, employment and distribution of wealth and income. Second, public policies affecting land use also affect those who own it, pay taxes on it and earn income from it. Third, a major controversial issue in our nation's land policies is whether or not family-size farm units should dominate land ownership and tenure patterns. Concern also is expressed about absentee ownership, foreign ownership, concentration of landholdings and fragmentation of productive agriculture units. Current information on land ownership and tenure can address these issues and help assess accomplishment of "family farm" objectives.

Information presented in this newsletter is based on data from the U.S. Census of Agriculture and the most recent (1978) survey of landownership in the United States. Prior to 1978, the most recent nationwide landownership survey was conducted in 1946.

Recent Land Tenure Trends

Land tenure involves the issue of who operates (controls) the land resource. Land tenure statistics classify farm operators into three main

categories: (1) **Full owners**--farm operators who own all of the land they operate. They also may rent land to other farmers. (2) **Part owners**--farm operators who own some of the land they operate and also rent or lease additional land. Some part owners also rent land to other farmers. (3) **Tenants**--farm operators who rent or lease all of the land they operate.

Recent trends in South Dakota land tenure, shown in Tables 1 and 2, are consistent with U.S. trends and have been influenced by changing economic and public policies concerning agriculture. Early (19th century) land settlement in South Dakota favored land ownership by families who tilled the soil--a direct result of the Homestead Act and similar legislation.

Farm Tenancy Trends

Declining economic conditions during the 1920's and 1930's drastically increased farm tenancy in South Dakota, reaching a peak in 1940 when 53 percent of farmers were tenants and 39 percent of farmland was rented by tenants. Since 1940, farm tenancy has declined dramatically--a trend aided by passage of farm credit legislation which made it easier to obtain real estate credit based on future repayment ability.

Tenants have declined rapidly in total numbers, percent of farms and proportion of land in farms. By 1978, tenants were less than one-sixth of South Dakota farm operators renting less than 10 percent of its farmland and ranchland. Tenants, typically, are young farmers with small to medium sales volume--53 percent are less than 35 years old and 50 percent sold from \$20,000 to \$100,000 of farm products.

Full Ownership Trends

Full owners have declined in actual numbers but have increased as a proportion of all farm operators and

ownership of land in farms. Full ownership has recovered from its low point in 1940 when only 20 percent of South Dakota farmers were full owners. However, full ownership is not the major indicator of economic status or well being in agriculture that it once was. As shown in Table 2, full owners are concentrated among older farmers with lower farm product sales volume--50 percent are 55 years or older and 54 percent sold less than \$20,000 of farm products in 1978. Also a substantial proportion of full owners (over 30 percent in South Dakota) rely on nonfarm income for most of their family living expenses. Part owners and tenants rely more heavily on current farm income.

Nearly one-fourth (24 percent) of full owners also are landlords renting some of their farmland to others. Twelve percent of land owned by full owners is rented to other farmers. Land rental income is a major source of income for many of these full owners.

Part Ownership is the Dominant Trend

Since World War II, part-owners have emerged as the largest tenure class in terms of farm numbers and land in farms and generally operate larger farm units than full-owners and tenants. In 1978 the average size part-owner farm

Table 1. Farmland Tenure Trends in South Dakota, 1950-1978

Tenure Class	Number of Farms		
	1950	1964	1978
	-----percent-----		
Full owner	31.2	33.2	38.8
Part owner	38.3	44.5	45.1
Tenants	30.5	22.3	16.1
Total	100.0	100.0	100.0
Thousands of farms reporting	66.4	49.7	39.7
Tenure Class	Land in Farms		
	1950	1964	1978
	-----percent-----		
Full owner	17.5	19.2	29.3
Part owner	63.8	66.8	60.9
Tenants	18.7	14.0	9.8
Total	100.0	100.0	100.0
Tenure Class	Average size of farm/ranch		
	1950	1964	1978
	-----number of acres-----		
Full owner	365	485	849
Part owner	1,083	1,263	1,516
Tenants	398	532	684
All farms	674	916	1,123

Source: U.S. Department of Commerce, Bureau of Census, U.S. Census of Agriculture, South Dakota, Vol. 1, 1978, 1964 and 1950 reports.

operation was 1,516 acres with 895 acres owned and 620 acres rented. This compares with an average of 849 owned acres operated by full-owners and 684 acres rented by tenants. The ratio of rented to owned land operated by part-owners has increased slowly over time.

Some part-owners (10 percent) also are landlords renting a portion of their farmland to others. Approximately 3.5 percent of farmland owned by part owners is rented to other farmers.

Part-owners predominate in the middle-age group (one-half are 35 to 54 years of age) and the higher sales volume classes. Part-owners are by far the dominant tenure class among medium and large scale commercial farms of today--especially farms expanding in number of acres operated. Part-owners also are more likely to have real estate loans and operating loans for larger dollar amounts. Very few part-owners in South Dakota rely on nonfarm income as their major source of income for family living expenses.

Part-ownership has emerged as the dominant trend in land tenure for two major reasons. First, farm operators needed to expand their land holdings to obtain a larger-size unit. At the same time people viewed farmland ownership as an effective inflation hedge. Nonfarm investors, retired farmers and nonfarm heirs wished to hold land in their investment portfolio but did not have

Table 2. Relationship of Farm Tenancy in South Dakota to Operator Age and Farm Sales Volume, 1978.

Age of Operator	Farm Tenure Class ^a			
	Full Owner	Part Owner	Tenant	All Farms
years	-----percent of farms-----			
Less than 35	13.0	15.0	52.9	20.3
35-54	35.9	50.6	28.3	41.7
55 and over	51.1	34.4	18.8	38.0
Total	100.0	100.0	100.0	100.0
Farm Sales volume	Full Owner	Part Owner	Tenant	All Farms
	-----percent of farms-----			
\$2,500-19,999	53.7	17.4	47.0	35.3
20,000-99,999	41.1	66.7	49.5	54.7
100,000 or over	5.2	15.8	3.5	10.0
Total	100.0	100.0	100.0	100.0
Thousands of farms	13.4	17.6	5.9	36.9

Source: U.S. Department of Commerce, Bureau of Census, U.S. Census of Agriculture South Dakota, 1978 Vol. 1.

^aThis table is based on data for all farms selling \$2,500 or more of farm products in 1978. This includes 93 percent of farms with 99.8 percent of farm product sales.

the expertise nor the willingness to farm. As a result, the trend to part-ownership has increased.

Landownership Trends

Compared to land tenure data, less information is available about land ownership and characteristics of farm landlords. Key findings from the 1978 land ownership survey are shown in Table 3. Data are reported by proportion of farm and ranchland owned and not by proportion of ownership units.

Over two-thirds (69.3 percent) of South Dakota farm and ranchland is owned by persons operating and working on farms and ranches. South Dakota is one of the top three states in percentage of farm and ranchland owned by farm and ranch operators. For the United States, 56.7 percent of farm and ranchland is owned by farmers and ranchers.

Retired persons and persons engaged in nonfarm occupations each owned an additional 15 percent of agricultural land in South Dakota. For the U.S., retired and nonfarm persons owned over 43 percent of the nations privately owned agricultural lands.

Increased Trend to Nonfarmer Ownership

Since 1946, the number of farm operators in the United States has declined over 60 percent, but the number of farmland owners has remained between 6-7 million. The proportion of farmland owners who are active farmers and the percentage of farmland owned by farmers has declined significantly. In 1946, 65 percent of farmland owners were active farmers who owned 70 percent of the nations privately owned farm and ranchland. In 1978, less than 30 percent of farmland owners were active farmers and they owned 57 percent of the nation's farmland. Similar trends hold for South Dakota although the reduction in active farmer ownership has been less dramatic.

Some of the nonfarm and retired landowners previously were farm operators, but a majority probably are nonfarm investors or heirs of past farm operations. Increased land values, attractiveness of farmland as a long-

term inflation hedge, inheritance and tax laws and active land rental markets all have been contributing factors toward increased number of nonoperator landlords. Most nonoperator landlords report some nonfarm income and many are in a position to absorb short-run fluctuations in agricultural income while waiting for long-term gains in farm real estate values. By contrast, nonfarm income is only 25-30 percent of net income received by South Dakota farm operators and more than one-half of owner operators rely solely on farm income.

Other Landownership Trends

Approximately two to three percent of South Dakota's agricultural land changes ownership each year. Four-fifths of farm land acquired was purchased, primarily from nonrelatives, while one-fifth of farmland acquired was gifts or inheritance. Most land purchases are credit-financed. Major sources of real estate credit are individuals, Federal Land Bank, insurance companies, commercial banks and Farmers Home Administration.

South Dakota and the United States have similar relationships by type of landowner. Over three-fourths of agricultural land in South Dakota is owned by husband and wife or as a sole proprietor. Twenty percent of agricultural land is owned by family partnerships and family corporations. Nonfamily corporations and partnerships own only 1.3 percent of South Dakota's agricultural land. Foreign ownership of South Dakota farmland is less than 0.1 percent of acreage.

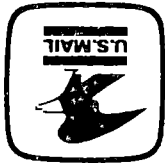
Concentration of farm and ranchland ownership is relatively high in the United States and South Dakota. The largest one percent of agricultural landowners own 30 percent of U.S. farmland and 16 percent of South Dakota's agricultural land. The largest five percent own 57 percent and 38 percent of farmland in the U.S. and South Dakota, respectively.

Farm and ranchland ownership is concentrated in the hands of older people. Roughly one-fourth of South Dakota and U.S. farmland is held by each

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of four age groups: Less than 45 years old, 45-54 years, 55-64 years and 65 years and older.

Concentration of land ownership by number of landowners, type of landowner and by age group has not changed much since 1946. The only exception is the increased importance of family farm corporations.

Future Trends

The principal farmland buyers during the past 30 years have been established farmers who already owned some farmland and perhaps rented additional land. Their decision to buy additional land, usually with borrowed money, was "correct" in hindsight when: credit was readily available at relatively low interest rates and with favorable repayment terms; farmland values were increasing at or above the rate of inflation adding to the wealth and credit base of farm land owners; and land payments for one acre could be financed from earnings generated by one to two acres plus increases in productivity over time.

During this period, it was fairly difficult but not impossible for tenants to buy land and pay for it from farm earnings. Since the late 1970's, interest rates have increased sharply, returns from farming have declined, and land prices have remained stable or declined. These conditions have made it extremely difficult for leveraged farm operators to buy more land and also have made it less attractive for most potential nonfarm buyers. Regardless of the present "financial storms", expanding farm operators probably will continue to dominate the farmland market along with some increase in nonfarm ownership.

Table 3. Agricultural Landownership Facts for South Dakota and the United States, Late 1970's.^a

Distribution of acres owned, farm and ranchland by:

I. Occupation:	Farming	Nonfarm		Total
		Employment	Retired	
	-----percent of acres-----			
South Dakota	69.4	15.2	15.4	100.0
United States	56.7	26.6	16.7	100.0

II. Type of Landowner:	Sole Proprietor	Husband & Wife	Family Partnership	Family Corporation	All Other	Total
South Dakota	43.0	33.9	15.1	4.5	3.5	100.0
United States	35.8	35.7	12.1	6.6	9.8	100.0

III. Age of Landowner	Under 35	35-44	45-54	55-64	65 and over	Total
South Dakota	9.6	13.0	24.5	28.3	24.6	100.0
United States	5.9	14.1	24.0	25.3	29.7	100.0

IV. Proportion of Acreage held by:	Largest 5% of Owners		Largest 1% of Owners	
	South Dakota	United States	South Dakota	United States
	38	52	16	30

Source: U.S. Department of Agriculture 1978 Landownership Survey, various reports.
^aU.S. statistics exclude data for Alaska.