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## Continued Declines in South Dakota Farmland Prices

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40 acres

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Continued Declines in  
South Dakota Farmland Prices

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South Dakota farmland prices have sharply declined for four consecutive years. The average per acre price of South Dakota farmland sold from January-July 1986 is 45% below the peak prices observed in late 1981 and early 1982. Rental rates have also declined, but not to the same extent as land prices.

Mid-1986 South Dakota farmland sale prices are about the same as land prices in 1976 and the same as real (inflation adjusted) values during 1970-1972. The number of voluntary sales and the proportion of credit-financed sales have declined substantially since 1984.

These farmland market trends provide further evidence of the continued economic depression in South Dakota agriculture.

Background - USDA Statistics

Nationwide, farmland values have declined since 1981 - a major reversal after more than 25 consecutive years of increases and the longest period of decline since the Great Depression. According to USDA statistics, U.S. farmland values declined 12% in 1984 and another 12% in 1985. These declines in value are the largest back-to-back declines since 1932 and 1933.

Farmland value declines from April 1985 to February 1986 exceeded 12% in 18 states, including in most states in the Great Plains and Cornbelt regions (USDA, Figure 1). The highest annual rates of decline were in the surrounding states of Minnesota (-26%), Iowa (-21%) and Nebraska (-18%). South Dakota farmland values declined 14% during this period.

These changes have taken place in the following historical context. South Dakota farmland values increased at a steady 3-5% annual rate from 1950 to 1973. From 1973 to 1981, farmland value increases accelerated to 17% per year with some year-to-year increases exceeding 25%. This boom in land values was directly related to rapid growth in export demand and major changes in international economic and trade policies.

South Dakota farmland values and sales prices peaked in late 1981 and early 1982 and have since declined. Changing Federal economic policies and unfavorable export market developments have been the major contributing factors.

Recent trends in South Dakota's farmland markets through July 1986 are presented in this newsletter. Emphasis is placed on regional and statewide trends in farmland sale prices and types of tracts sold. Underlying reasons for declining farmland prices and current outlook are also discussed.

Regional Farmland Sales Data  
for South Dakota

The data in this and the following sections were collected and made available by the Federal Land Bank (FLB) of Omaha. They include most bonafide farmland sales of 40 acres or more whether or not financed by the FLB.

The data in Table 1 reflect sales price data for 6,298 farm real estate transactions in different regions of South Dakota from 1981 to early (January-July) 1986. In Table 2, average per acre sale prices of "mostly cropland" tracts and "majority pasture/rangeland" tracts are compared for each region from 1984 to early 1986. The data in Figure 2 reflect county-by-county average per acre sales price data and the percentage of cropland sold (as a measure of land use and quality) for those counties in South Dakota with more



than 6 sales transactions during the 13-month period of July 1985 to July 1986.

Statewide Overview

The average tract sold consists of approximately 300 acres. Farm buildings, present on 20% of the tracts, contributed an estimated 5% of total value. About 51% of the total farmland sold each year is cropland. A majority of the acres in one-fourth of the tracts are pasture-rangeland, while another 42% of the tracts contain mostly (85-100%) cropland acres. The remaining one-third of the tracts have a majority of acres in cropland but contain significant amounts of pasture/rangeland acres.

In most regions, average farmland sale prices peaked in the second half of 1981 or the first half of 1982. Sale prices declined through early 1983 and held steady in most regions for the rest of that year. Sale prices have declined sharply through 1984, 1985 and 1986.

Voluntary sales activity has also declined substantially. The number of bonafide sales in 1985 was nearly 800 compared to over 1,300 per year in 1981, 1983 and 1984 and nearly 1,100 farmland sales in 1982. The number of 1986 sales (January-July) is running about 10 percent higher than during the comparable 1985 period.

There is considerable variation in farmland sale prices within each region and between regions in South Dakota. Research findings by this author indicate that variations in farmland sale prices across the State are primarily explained by (1) differences in land productivity and use and (2) the changing economics of agricultural enterprises. Further, prices generally decrease from southeastern to western South Dakota. Average tract size increases and the proportion of cropland decreases from southeast to northern and western South Dakota. In each region, mostly cropland tracts are much smaller in average size and command higher per acre prices than pasture/rangeland tracts.

Eastern South Dakota

Land prices have been consistently highest in southeastern South Dakota. Average size of tract sold (129 acres)



is the lowest of any region, while percent of cropland sold (74%) is the highest. Farmland prices have declined fastest in the Southeast region, dropping 56% from \$958 in 1981 to \$422 per acre in early 1986 (Table 1).

"Mostly cropland" tracts are sold for about twice the per acre price of "majority pasture" tracts. Price trends in this heavily corn, soybean and feeder livestock region are closely related to price declines in nearby regions of Iowa and Nebraska.

Average sale prices are highest in Lincoln, Union and Clay counties - about \$600 per acre in each county (Figure 2). Average sale prices in these same counties were about \$1,000 per acre as recently as 1983.

Average farmland prices in both regions peaked in early 1982 and by early 1986 had declined 54% in the east central regions and 41% in the northeast region. In early 1986, the average per acre sale price of farmland was virtually equal in the east central and northeast regions and about \$100 per acre lower than sale prices in the southeast region. In previous years, average prices were significantly lower in the northeast region.

Price declines in eastern South Dakota have generally been greatest in counties with the highest proportion of cropland in corn and soybeans - commodity markets characterized by declining export markets, growing international competition and production surpluses at prevailing prices. Since 1984, highly diversified grain-farms in the northeast have also been hard hit by declining net returns for almost all commodities.

#### Central and Western South Dakota

Farmland prices in the north central and central regions have declined at a slower rate than per acre prices elsewhere in South Dakota.

Price declines in the central region have been gradual and consistent since 1981. They show the least percentage (-26%) and dollar per acre (\$84) decline of any South Dakota region. In the north central region, average per acre sale prices slowly declined from 1981-84, but since then they have



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plunged by 26%.

In these regions, the changing economics and farm program provisions affecting spring wheat and small grains and changing economics of cow-calf enterprises have the strongest impact on agricultural land prices.

In early 1986, sales prices of "mostly cropland" tracts in the north central and central regions are about equal (\$295/acre - Table 2). This is a major change from 1977-1985 when cropland prices in the north central region were significantly higher than cropland prices in the central region.

The combined impact of farm/ranch financial stress, the 1985 drought and the changing Federal wheat program on agricultural land prices is evident in south central and western South Dakota.

Prior to 1985, agricultural land price declines had been slower in the western and south central regions than elsewhere in South Dakota. Since then, the rate of decline has been comparable to farmland price declines in eastern South Dakota (Table 1).

Agricultural land prices in the south central region varied from \$250-272 per acre during 1981-84 and plunged to \$158 per acre in early 1986. In western South Dakota, agricultural land prices were relatively stable from 1981-1983 (\$176-\$186 per acre), followed by declines to \$107 per acre in 1986.

Rangeland represents the dominant type of land sold, followed by spring wheat and winter wheat tracts. From 1984 to early 1986, average per acre sale price of majority rangeland/pasture tracts declined 33-38% in these regions. Prices of "mostly cropland" tracts also declined but remained at twice the average price of rangeland/pasture tracts in both regions.

Low turnover of tracts sold is another characteristic of these regions. The numbers of reported sales in most western and south central counties (except for Tripp, Gregory and Meade) are much lower than those found in other regions of South Dakota.

The western region has the lowest average price per acre (\$107 in early



1986), second lowest percent cropland (30%) and highest number of acres sold per tract (1,185 acres) of any region in South Dakota.

Sale price, acres sold and many other characteristics of land transfers are substantially different in the Black Hills (including foothills) region than in the rest of western South Dakota. Irrigation is present on 45% of farmland tracts sold and irrigated acres consist of 14% of total acres sold. Nonfarm factors (recreation, forestry, residential) were also reported to affect the sale price of more than one-half of farmland tracts sold in this region compared to less than 5% in all other regions. Average prices sharply declined in 1981-82 and again in 1984 and 1985. Per acre sale prices in 1985 were only 43% of 1982 price levels and 22% of peak prices in 1981.

#### Major Characteristics of the South Dakota Farmland Market

Farm owner-operators are the major buyers and sellers of South Dakota farmland. From 1983-1986, 67% of farmland tracts were purchased by established farmers/ranchers expanding their business. Buyers just getting started in farming purchased 13% of tracts sold, while nonfarm investors purchased 15% of tracts sold. The remaining tracts (5%) were purchased for other reasons.

A rising proportion of farmland tracts is purchased by nonfarm investors--20% of 1985-86 buyers compared to 12% of buyers in 1983-84. The number of nonfarm investors has remained steady, but the number of tracts purchased by farm and ranch operators has sharply declined.

Credit availability and terms are extremely important variables in the farmland market. An increased proportion of sales is equity financed. Many credit financed sales have higher down payment requirements, shorter repayment periods and tightened eligibility requirements. These are major reversals from trends observed from 1945-1982.

Equity financed sales were 25% of 1983-84 farmland sales and nearly 50% of 1985-86 sales in the FLB database. The number of equity financed sales has not changed very much, but the number of



credit financed sales has declined more than 50%.

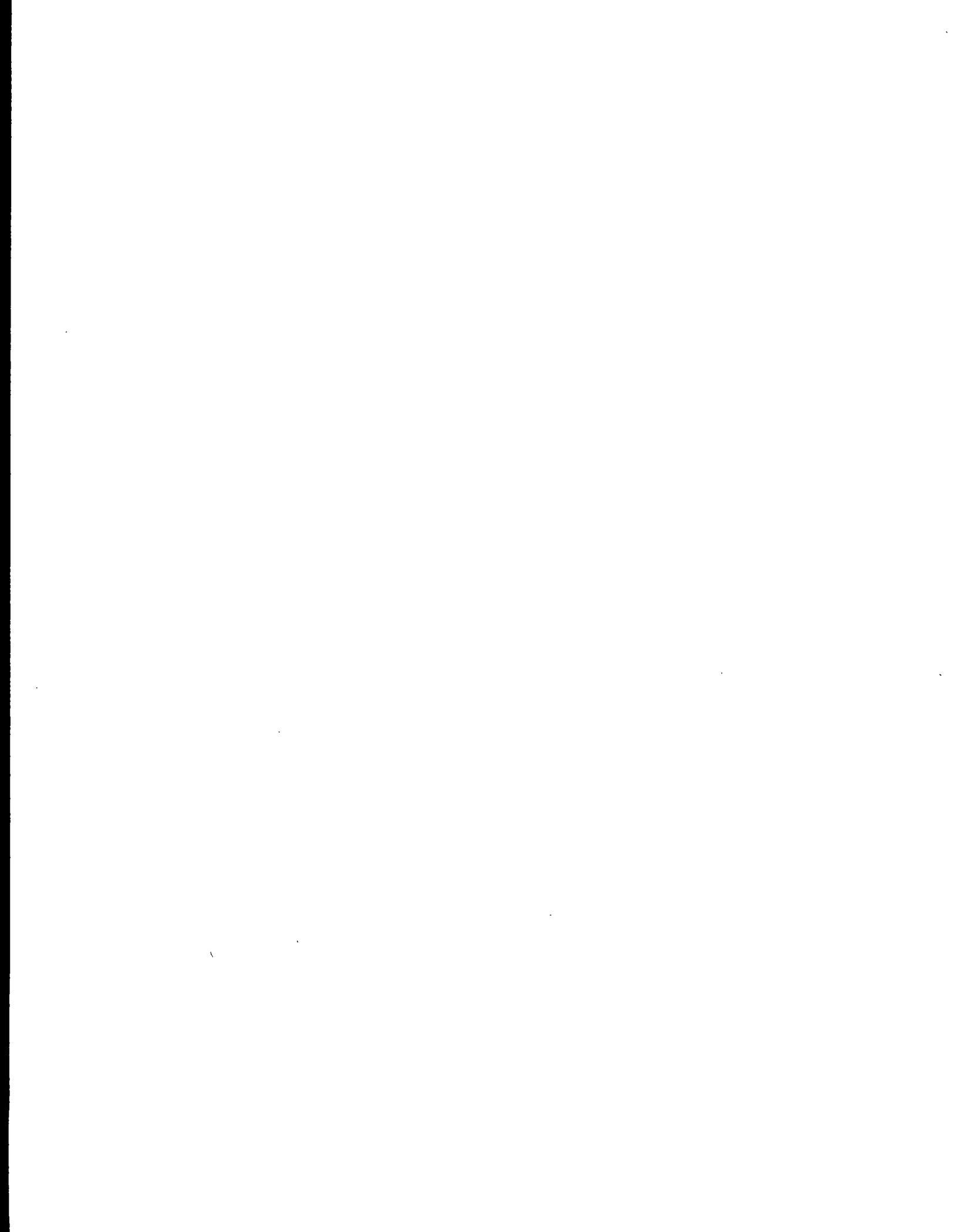
Seller financing remains the most important source of farm real estate credit followed by the Federal Land Bank. One of these two sources was involved in 77% of credit financed sales in 1985-86. Other significant sources of credit are commercial banks, Farmers Home Administration and insurance companies. The Federal Land Bank has experienced the greatest decline in market share.

#### Farmland pricing factors and outlook

The level of farmland prices is fundamentally determined by current and expected future net returns earned from using farmland. Net returns are influenced by (1) domestic and export demand for crop and livestock commodities, (2) Federal economic policies concerning international trade and finance, interest rates, taxation and farm programs, and (3) gains in agricultural productivity and farm enlargement pressures.

Market prices of farmland continue to move downward because profits in agriculture are reduced and few prospects for a quick turn around exist, especially for crops. Record carryover of feed grains, wheat and soybeans will likely keep grain and oil-seed prices at depressed levels. World stocks of food and feed grains have doubled in the past 5 years and the U.S. holds nearly 80% of these stocks. Federal commodity programs now emphasize lower loan rates as an attempt to competitively price agricultural exports. Farm incomes and cropland values are now very dependent on Federal commodity program changes.

Recent reductions in exchange rates with our major importing customers have been matched by many of our export competitors (through their monetary policies) which reduced potential gains for U.S. exports. Furthermore, many high debt Third World nations are not importing as many agricultural products from any source. Other nations (Brazil, India, China) have improved their agricultural production levels, thereby reducing their food imports and/or increasing their export marketings. A major "battle" in agricultural trade and export market share is underway.



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Reduced energy-based input costs and lower interest rates for operating/equipment loans represent another favorable development. However, lower input costs for grain production are not sufficient to offset reduced commodity prices, so the squeeze on net returns continues. A major drawback to stabilized land values is a prospective decline in net returns to cropland in the next 2-3 years.

The profit potential in the cow-calf industry has improved as reduced feeding costs occur in cattle finishing. This development improves prospects for stabilized pasture rents and may reduce the slide in rangeland values.

The current rate of return on South Dakota farmland has improved in the 1980's. For example, the average rent-to-value ratio for South Dakota farms rented for cash has increased from less than 6% in the early 1980's to 8.4% in 1985-86. Higher current rates of return and stable to lower interest rates improve buyers' ability to cash flow land payments from current earnings.

Substantial debt loads remain on many established farms--the same farmers who previously were the strongest bidders in the land market. Data for 1985-86 indicate potential buyers have been holding back on land purchases. Existing cash flow commitments and expectations of further farmland price declines are contributing factors.

The near term outlook (1987-1988) for stabilized or increased farmland prices is not favorable. The negative impacts of lower commodity prices, farm liquidations and uncertainty about future Federal support for agriculture will likely outweigh the benefits of lower prices for operating inputs. However, the rates of decline are not likely to be as steep as occurred in the past 2-3 years.

Stable land market prices are not likely until net returns in agriculture have improved and come to be expected to remain that way.

