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## South Dakota Farmland Price Trends and Outlook

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## South Dakota Farmland Price Trends and Outlook



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South Dakota farmland prices have declined sharply for five consecutive years. The average per acre price of South Dakota farmland sold from January-July 1987 is 59% below the peak prices observed in late 1981 and early 1982. Mid-1987 South Dakota farmland sale prices are about the same as land prices in 1974 and the same as real (inflation-adjusted) values during 1960-1962.

Recently reported data on farmland sales from several regions of South Dakota show the downward spiral in per acre sale prices to have slowed or stopped. In some locations, sale prices have increased from their winter 1986-87 lows. The number of sales in early 1987 has also rebounded from 1985-86 levels.

These trends are important because farm real estate represents 60-65% of the total value of farm business assets in South Dakota and is used to secure over 60% of farm debt. Changes in farmland prices and values have major impacts on: (1) the wealth and credit (collateral) base of farmland owners, (2) credit policies established by agricultural lenders, and, eventually, (3) property tax assessments to support local governments.

### Background - USDA Farmland Value Statistics

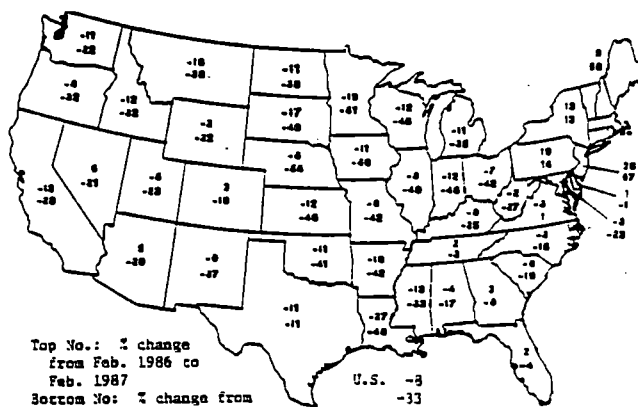
Farmland values in the U.S. and in South Dakota have declined since early 1982. This is the longest period of decline since the Great Depression and a major reversal from post World War II

trends of annual increases in reported values. By February, 1987, U.S. farmland values declined 33% and South Dakota farmland values declined 49% from peak values in 1982 (Figure 1).

South Dakota farmland values declined 17% in 1986 (Figure 1). This sharp rate of decline was exceeded in only three states - Minnesota, Montana and Louisiana. U.S. farmland values declined 8% in this period. Declines in farmland values of 8% or more were recorded in 23 states, including most states in the Great Plains and Cornbelt regions.

Changes reported for South Dakota 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%. The 1970's boom in land values was directly related to rapid growth in export demand and major changes in international economics and trade policies. The more recent decline in land values is related to the changing Federal economic policy mix (restrictive

Figure 1. Percent Change in Farmland Values by State.



Source: USDA Agricultural Resources, AR-6, July 1987

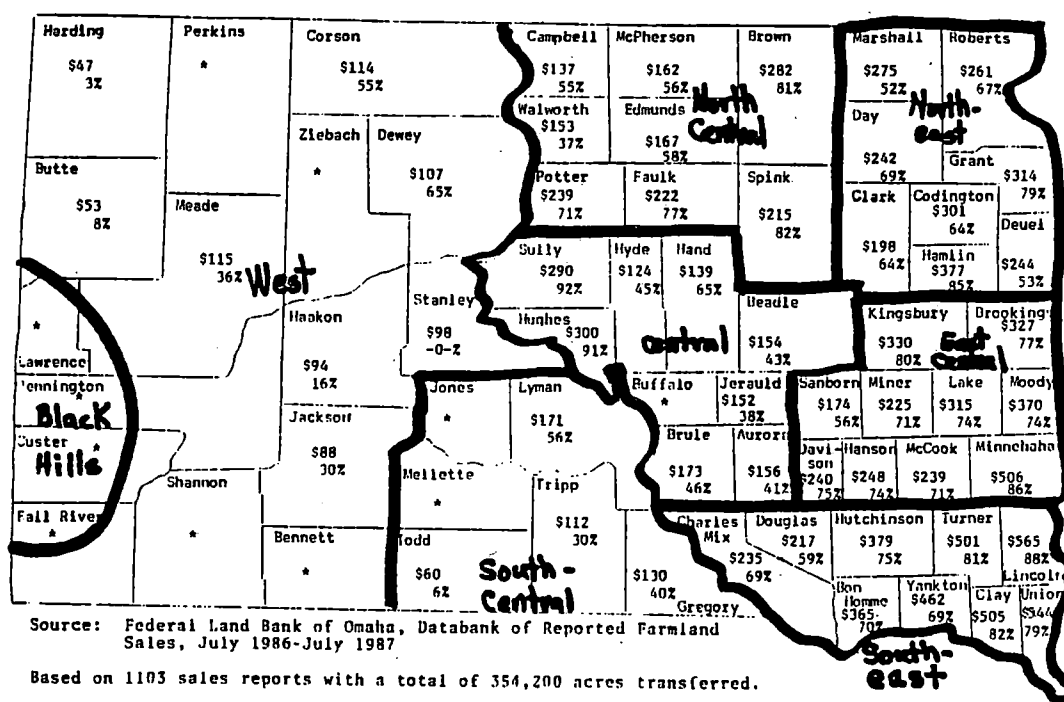
Table 1. South Dakota Regional Farm Real Estate Sales Trends, 1981-87

Region <sup>a</sup>	Average Sale Price (\$/acre) <sup>b</sup>							Percent decline peak price <sup>d</sup>	Percent decline from 1985 average price <sup>e</sup>	Average number of acres per tract <sup>f</sup>	Cropland as % of total acres sold <sup>f</sup>
	1981	1982	1983	1984	1985	1986	1987 <sup>c</sup>				
South-east	\$958	\$889	\$763	\$671	\$925	\$424	\$400	-59%	-24%	129	75%
East Central	636	698	676	531	414	305	294	-58	-29	159	72
North-east	545	548	451	457	351	288	271	-51	-18	196	67
North Central	383	391	350	340	306	252	204	-48	-33	264	67
Central	328	318	310	28	261	233	149	-56	-43	340	55
South Central	262	272	252	250	230	119	119	-56	-48	425	53
Western	186	176	178	152	120	104	62	-66	-48	1,135	24
Black Hills	457	387	416	310	183	256	188	-59	+2	343	21
State	418	428	350	300	269	225	174	-59	-35	304	48

Source: Compiled from Data bank of Reported Farmland Sales, Federal Land Bank of Omaha. All reported nonirrigated cropland and pasture bonafide sales of 40 acres or more are included. Sales of irrigated land are also included in the Black Hills region because they comprise 38% of total farmland tracts and irrigated land is 11% of acres sold. Based on 3,375 reported farmland sales recorded in 1981-1983 and 3,768 reported farmland sales from January 1984-July 1987.

- a. Regions are based on Crop Reporting Districts in eastern and central South Dakota. Western South Dakota is divided into two regions: Black Hills (including foothills) and Western region. See Figure 2 for regional boundaries.
- b. The sales prices per acre are weighted by acres sold per tract in each region and for the state.
- c. Sales reported from January 1987-July 1987.
- d. The percentage difference between the Jan.-July 1987 average sale price and the highest average sale price. The highest average sale price was in 1981 or 1982 depending on region.
- e. The percentage difference between the Jan.-July 1987 average sale price and the 1985 average sale price.
- f. Average number of acres sold and cropland percent statistics are based on tracts sold from January 1984-July 1987. These statistics are similar for earlier years.

Figure 2. Average Per Acre Sale Price of Farm Real Estate Sold by County, July 1986-1987



monetary policy, higher interest rates, lower inflation rates, increasing Federal budget deficits) and unfavorable export market developments.

Recent trends in South Dakota's farmland markets through July 1987 are presented in this newsletter. Emphasis is placed on regional and statewide trends in farmland sale prices and types of tracts sold. Farmland financing trends and current outlook are also discussed.

### Regional Farmland Sales Data for South Dakota

Information reported in this and the following sections is based on the author's analysis of farmland sales data collected and made available by the Federal Land Bank (FLB) of Omaha. The data include most bonafide farmland sales of 40 acres or more whether or not financed by the FLB.

The data in Table 1 reflect 7,503 farm real estate transactions in different regions of South Dakota from 1981 to early (January-July) 1987. For each region, the average per acre sale prices of "mostly cropland" tracts and "majority pasture (rangeland)" tracts are compared from 1984 to early 1987 (Table 2). The data in Figure 2 reflect average per acre sales price data and

Table 2. Pasture and Cropland Sale Prices by Region, January 1984-July 1987

Region	Land Use <sup>a,b</sup>							
	Majority Pasture				Mostly Cropland			
	1984	1985	1986	1987	1984	1985	1986	1987
-----average sale price per acre-----								
South-east	\$412	\$285	\$257	\$157	\$800	\$671	\$495	476
East Central	343	338	235	187	597	504	364	400
North-east	533	250	198	162	548	437	379	315
North-Central	241	212	194	126	438	365	288	293
Central	220	208	152	116	313	310	279	177
South Central	204	180	87	96	348	329	244	*
Western	122	104	74	55	268	186	163	155

Data source and list of regions: See Table 1 and Fig. 2

a "Majority pasture" are those tracts where pasture and rangeland was 50-100% of total acres sold. For these tracts the typical percentage of pasture/rangeland acres was 86-92% in western South Dakota, 73-80% in central South Dakota regions and 62-80% pasture/rangeland acres in eastern regions of South Dakota. The remaining acres were in cropland or hay.

b "Mostly cropland" are those tracts where 85-100% of the total acres sold were cultivated.

\* Insufficient data.

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 1986 through July 1987.

### 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 48% of the total farmland sold is cropland. A majority of the acres in one-fourth of the tracts are pasture or rangeland, while another 43% of the tracts are mostly (85-100%) cropland. The remaining 32% of the tracts have a majority of acres in cropland but contain significant amounts of pasture or rangeland.

Price declines (in percentage terms) were much more rapid in eastern South Dakota from 1982 to early 1985. Since then, price declines have been more rapid in the central and western regions of the state. Average sale prices in early 1987 were stabilizing in eastern South Dakota. Total percentage declines from 1981-82 to mid-1987 across regions of the state, however, were fairly uniform.

Voluntary sales activity has increased from its 1985 low point and is approaching levels recorded in the early 1980's. The number of bonafide sales in 1985 was nearly 800 compared to over 1,300 per year in 1983 and 1984, and over 1,000 in 1982 and 1986. The number of 1987 sales (January-July) is running about 16% higher than during the comparable 1986 period.

Variations in farmland sale prices within each region and among regions in South Dakota are primarily explained by (1) differences in land productivity and use and (2) the changing economics of agricultural enterprises. Further, prices and proportion of cropland generally decrease, while average tract size increases, from southeastern to western South Dakota.

In each region, mostly cropland tracts are much smaller in average size and command higher per acre prices than

pasture or rangeland tracts. Since 1984, average sale prices of "mostly cropland" tracts have declined at a slower rate than per acre sale prices of rangeland or pasture tracts in all regions (Table 2). Federal grain program subsidies strongly influence cropland values but have minimal impact on rangeland.

#### 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 (75%) is the highest. Farmland prices declined earlier and more rapidly in this region than in other regions of eastern and central South Dakota--dropping from \$958 in 1981 to \$525 in 1985 and to \$400 per acre in early 1987.

Average per acre sale prices are highest in Lincoln and Union counties (\$565 and \$544 per acre). Average sale prices in these counties were above \$1,000 per acre in 1983.

Average farmland prices in the northeast and east central regions are two-thirds to three-fourths of per acre farmland prices in the southeast region. In both regions, average farmland prices peaked in early 1982 and by early 1987 had declined 58% in the east central region and 51% in the northeast region (Table 1).

Price declines occurred earlier in eastern South Dakota because most of the agricultural land is used to produce export-dependent crops--corn, soybeans and wheat. Regions producing these crops were most affected by the export market boom of the 1970's and subsequent declines in the mid-1980's.

#### Central and Western South Dakota

Farmland price declines in the north central, central and south central regions were gradual and consistent until 1985, but declined sharply in 1986 and 1987. In these regions, the changing economics of cow-calf enterprises and farm program provisions affecting wheat and small grains have importantly influenced agricultural land prices.

Average sale prices are higher in the north central region than in other regions in the central and west. Average sale prices peaked at \$391 per acre in 1982, declined to \$306 in 1985 and to \$204 in 1987 (Table 1). Sale prices of mostly cropland tracts declined 35% from 1984 to 1986 in the north central region, but appear to have stabilized in early 1987. Cropland sale prices continued to decline into 1987 in the central region (Table 2).

Agricultural land prices in the south central region varied from \$250-272 per acre from 1981-84 and plunged to \$119 per acre in 1986 and early 1987.

In western South Dakota, agricultural land prices were relatively stable from 1981-1983 (\$176-186 per acre) and have consistently declined since then to \$120 per acre in 1985 and \$62 in 1987. Some of the reduction in per acre sale prices from 1986 to 1987 is due to the sharply increased proportion of rangeland tracts sold in 1986 and early 1987. This region has the lowest per acre price, lowest percent cropland (24%) and highest number of acres sold per tract (1,135 acres).

Rangeland represents the dominant type of land sold, followed by spring wheat and winter wheat tracts. From 1985 to early 1987, average per acre sale price of "majority rangeland/pasture" tracts declined 47% in the western region. Prices of "mostly cropland" tracts only declined 17% during the same period.

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 found in other regions of South Dakota.

Sale prices, 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. Three-eighths of farmland tracts (including 11% of total acres) sold contained irrigated land. 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 from 1981 through 1985 and have been variable since then.

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

Farm owner-operators are the major buyers and sellers of South Dakota farmland. From 1984-1987, 65% of farmland tracts have been purchased by established farmers/ranchers expanding their business. Beginning farmers purchased 11% of tracts sold while nonfarm investors purchased 17% of tracts sold. The remaining tracts (7%) were purchased by others.

A rising proportion of nonfarm investors is purchasing South Dakota farmland. In 1986-87, 22% of buyers are nonfarm investors compared to 14% of buyers in 1984-85.

Credit availability and terms are extremely important variables in the farmland market. An increased proportion of sales is cash financed, and average down payment requirements on credit-financed purchases have increased --both are major reversals from trends observed from 1945-1982.

Cash financed (100% equity, no debt) sales increased from 25% of farmland sales in 1983-84 to more than 50% in 1987. Statistics from USDA indicate similar trends but lower reliance on cash financing -- 15% of 1983-84 farmland sales and 36% of farmland sales in 1987.

Seller financing remains the most important source of farm real estate credit followed by the Federal Land Bank and commercial banks. One of these three sources was involved in about 90% of credit-financed sales in 1985-87. Other significant sources of credit are Farmers Home Administration and insurance companies. The Federal Land Bank has experienced the greatest decline in market share of credit-financed sales, while seller financing has declined the most in market share of all farmland sales.

Analysis of farm real estate credit terms from 1985 through early 1987 shows substantial declines in loan repayment periods and interest rates charged. Commercial banks and sellers usually have much shorter repayment periods (average of 7-10 years) than Federal Land Bank loans (average of 17-27 years). By early 1987, average interest rates of 8 1/2-9% were charged by sellers, while higher rates were normally charged by commercial banks and the Federal Land Bank.

#### Farmland pricing factors and outlook

The level of farmland prices is fundamentally determined by current and expected future net returns earned from using farmland. Many factors affect both actual and expected net returns including: (1) domestic and export demand for crop and livestock commodities, (2) Federal farm programs, (3) Federal monetary, fiscal and international trade policies, and (4) long-term interest rates.

Increased number of farmland transfers and recent stabilizing of cropland sale prices in several regions suggests that the rollercoaster slide in South Dakota farmland prices has slowed or stopped. There is considerable evidence that farmland prices have reached a lower "support level". The main issue is whether this "support level" is temporary or sustainable in the next few years.

Improved rates of return to farmland and lower interest costs are two fundamental factors that provide support to current farmland prices. 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 about 10% in 1987 which compares favorably with rates of return on many other investments and with long-term interest rates. Higher current rates of return have attracted many cash buyers who have held back in recent years. Lower interest rates and increased rates of return improve a buyer's ability to cash flow land payments from earnings.

Farm incomes and cropland values are very dependent on Federal commodity

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program changes and grain export market developments. World grain stocks have nearly doubled in the past six years and the U.S. holds 75% of these stocks. Federal commodity programs emphasize lower loan rates as an attempt to competitively price grain exports. Loan rates and target prices are projected to decrease each year from 1988-1990.

Export markets for grains are improving but not enough to boost market prices above target prices. U.S. wheat and feed grain export shipments have increased 15-20% from their 1985-86 low point and further increases are likely. However, world grain trade volume is only 88% of peak levels in 1980-81 and several nations have emerged as export market competitors.

South Dakota producers have received near-record levels of cash farm income in the past 2 years due to record harvests, favorable livestock prices, record government payments and reduced input costs. Debt reduction has been a major use of these funds, but some net cash flow is available and used for farmland purchases.

However, record harvests are not likely to continue each year, profit margins on livestock will probably decline, government payments will decline and long-term interest rates are likely to increase. Thus, substantial increases in farmland market prices are not likely to be sustainable and some downside potential remains for farmland prices in the next 2-3 years.

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