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6-8-1988

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Recommended Citation

Janssen, Larry, "Long Term and Recent Trends in South Dakota Farmland Markets" (1988). *Economics Commentator*. Paper 257.
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No. 261

June 8, 1988



LONG TERM AND RECENT TRENDS IN SOUTH DAKOTA FARMLAND MARKETS

by

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South Dakota farmland values are beginning to increase again after major declines over the previous five years. According to the U.S. Department of Agriculture (USDA), average per acre farmland value in South Dakota on Feb. 1, 1988 was \$187 per acre, compared to \$178 per acre in 1987 when land values bottomed out and \$349 per acre in early 1982 when farmland values peaked.

These recent developments are examined in a longer term context in this Newsletter. Long term trends (1910 - 1988) in farmland values and more recent trends (1971 - 1987) in farmland sales characteristics are discussed.

Long Term Trends in Farmland Values

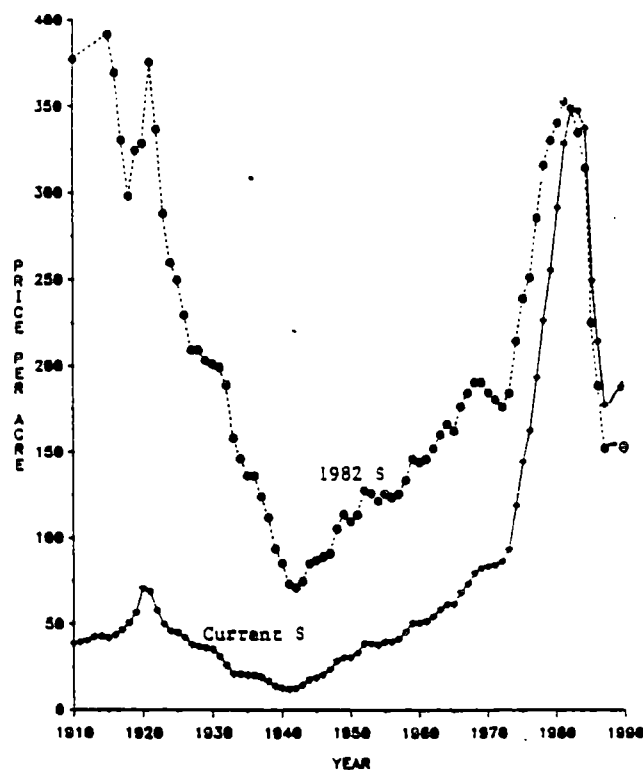
USDA - reported farmland values have fluctuated considerably in the Twentieth Century throughout South Dakota (Figure 1). Average per acre farmland values increased from 1910 to 1920 in all regions of South Dakota. Farmland values declined substantially from 1920 to the early 1940's, with the highest rates of decline occurring in the central and eastern regions of the State. By 1941, farmland values statewide were one-sixth of the peak value reported in 1920.

Farmland values showed a steady upward trend from the early 1940's to the early 1970's and exploded during the agricultural export boom period of 1972 to 1981. Statewide, farmland values were \$12 per acre in 1941, \$87 per acre in 1971, and \$349 in early 1982. During this 41 year period, farmland values increased at more rapid rates in central and western South Dakota than in the State as a whole.

Farmland values and sale prices sharply declined from the early 1980's to 1987. In 1987, farmland values statewide were less than one-half of their peak values only 5 years earlier. This is the greatest 5-year decline in South Dakota during this century. During this past year, South Dakota farmland values increased again by 5%.

Real (inflation adjusted) land values also declined for 20-25 years until the early 1940's (Figure 1). From 1945 to 1972, South Dakota farmland values doubled in real terms and doubled again from 1972 to 1981. Farmland values declined sharply (-57%) from 1981 to 1987, however, and remained unchanged in 1988. Changes in real land values reflect changes in economic factors (export markets, crop/livestock prices and costs, interest rates and inflation rates) that affect per acre net returns and real interest rates over time.

Figure 1. SOUTH DAKOTA FARMLAND VALUES, 1910-1988



Source:

USDA, *Agricultural Resources and Farm Real Estate Market Developments*, various issues. Real (inflation adjusted) farmland values are expressed in 1982 \$ using the GNP-PCE deflator for Personal Consumption Expenditures.

Recent Farmland Sales Trends, 1971-1987

Information on recent (1971 - 1987) farmland sales trends has been developed from a data base of over 15,000 farm real estate sales provided by the Federal Land Bank of Omaha.

Tremendous variation in tract size and agricultural land use exists for farm real estate sold in South Dakota. Statewide, the average size of tract sold of 366 acres is almost evenly divided between cropland and rangeland acres. Nearly 69% of the tracts sold are 40 - 249 acres in size; those tracts comprise 26% of total acres sold. These tracts are predominantly cropland and are primarily located in eastern and central regions of South Dakota. Large tracts of 1000 acres or more are only 5.7% of the total number of tracts sold, but they constitute 42.7% of total acres sold. These tracts are mostly rangeland and are primarily located in western and central South Dakota.

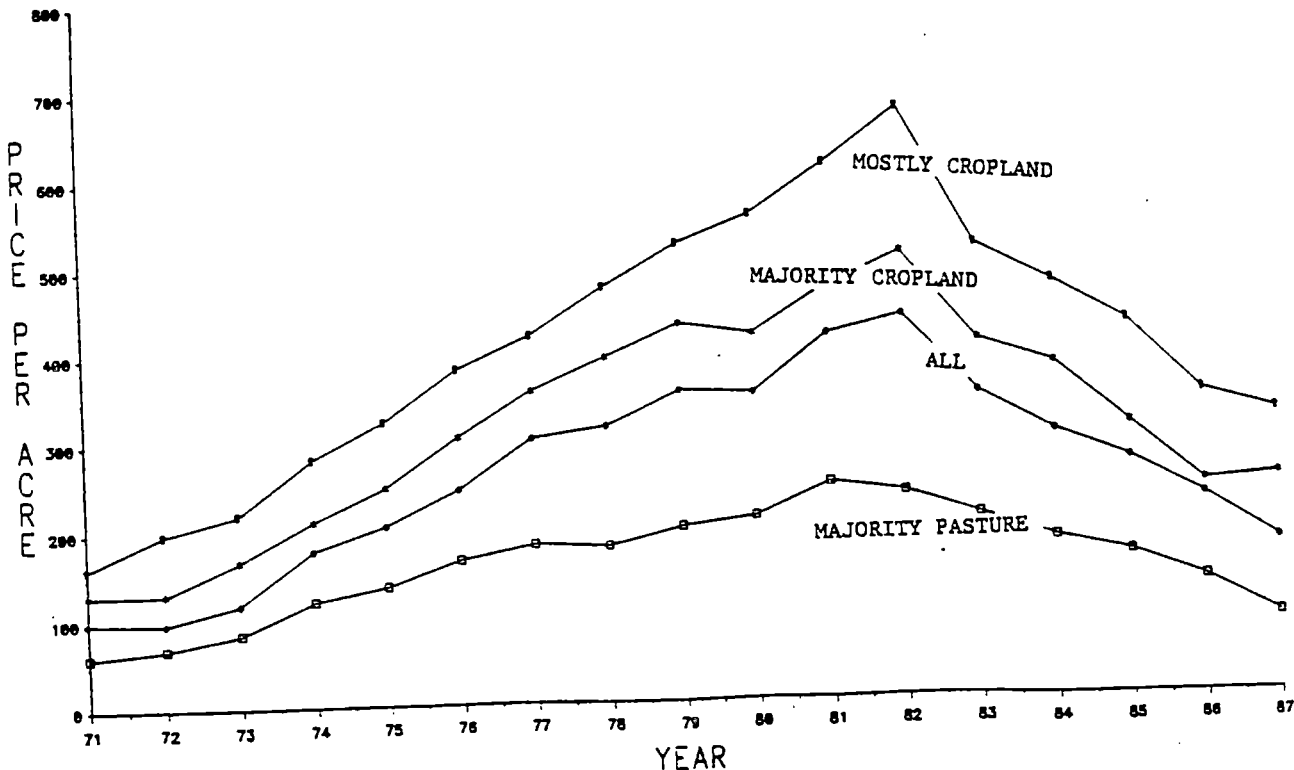
Statewide, 40% of the reported sales are mostly cropland tracts (85% - 100% cropland acres), 35% are majority cropland tracts (51 - 84% cropland acres), and 25% are majority pasture/rangeland tracts. Two-thirds of the mostly cropland and

majority cropland tracts are located in eastern regions of the State, while 71% of the majority pasture/rangeland tracts are located in central and western South Dakota.

Overall, the statewide average sale price for all farm real estate increased from about \$100 per acre in 1971 - 1972 to \$205 per acre in 1975 to a peak of \$436 per acre in 1982 (Figure 2). From 1982 to 1987, average farmland sales prices declined nearly 60% to \$174 per acre. Average price levels varied substantially by land use. For example, the statewide average sale price of mostly cropland increased from \$160 per acre in 1971 to a peak of \$672 per acre in 1982 and subsequently declined to \$319 per acre in 1987. By comparison, the average sale price of majority pasture/rangeland tracts increased from \$60 per acre in 1971 to \$245 per acre in 1981 and subsequently declined to \$88 per acre in 1987 (Figure 2).

Tremendous variation also exists in farm real estate sales prices across South Dakota. Average prices per acre are compared across counties through a percentage price index keyed against 100 in Lincoln County where the highest

Figure 2. SOUTH DAKOTA FARM REAL ESTATE PRICES BY LAND USE, 1971-1987



Source: Derived from Databank of Reported Farmland Sales, Federal Land Bank of Omaha.

farmland markets are now available from the SDSU Economics Department. Both are written by Larry Janssen. The first publication, South Dakota Farmland Values and Sale Prices (Feb. 1988, 63 pages), contains long term statewide and regional data on farmland values and more recent (1975 - 1987) farmland sales data by region and for 51 counties in South

Dakota. The second publication, South Dakota Cropland and Rangeland Sales, Statewide and Regional, 1971 - 1987 (June 1988, 74+ pages), contains detailed statewide and regional data on majority cropland and majority rangeland sales tract characteristics, including average annual sale price.