

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

Economics Commentator

Department of Economics

6-22-1992

South Dakota Agricultural Land Values and Cash Rental Rates: 1992

Burton Pflueger

South Dakota State University, burton.pflueger@sdstate.edu

Larry Janssen

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

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

Pflueger, Burton and Janssen, Larry, "South Dakota Agricultural Land Values and Cash Rental Rates: 1992" (1992). *Economics Commentator*. Paper 279.

http://openprairie.sdstate.edu/econ_comm/279

This Newsletter is brought to you for free and open access by the Department of 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.

SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 1992



by

Burton Pflueger
Extension Economist
and

Larry Janssen
Economics Professor

South Dakota's agricultural land values increased 3.4% in 1991, paced by strong increases in farmland values in the north central region. Average agricultural land values (as of Feb. 1, 1992) vary from \$533/acre in the southeast region to \$95/acre in northwest South Dakota. These are key findings from the SDSU 1992 South Dakota Farm Real Estate Market Survey reports completed by 258 respondents (appraisers, lenders and Extension agents) knowledgeable of farmland market trends in their locality.

The 1992 SDSU Farm Real Estate Market Survey is the second annual survey developed to estimate agricultural land values and cash rental rates by type of land in different regions of the state. The 1991 survey results were reported in the *Economics Commentator* #299 issue, June 20, 1991.

Respondents were asked to provide land value and rental rate information by agricultural land use in their county. Responses were grouped by regional location (Figures 1,2,3). Land value and cash rental rate information is provided for nonirrigated (dryland) cropland, rangeland, tame pasture, hayland and irrigated land.

The information in this report provides an overview of general agricultural land values and cash rental rates across South Dakota. We caution the reader to use this information as a general reference, while relying on local sources for more specific details.

Average Land Value Summary

As of February 1992, the South Dakota all-agricultural land average value was \$245 per acre, an estimated 3.4% increase in value from one year earlier (Figure 1). Respondents' estimate of percentage change in land value (3.4%) is very close to the estimate of +4% in the 1992 USDA report, although the average per acre value in the SDSU survey is considerably lower. The regional and statewide all-land value estimates in the SDSU survey excluded farm building values and are weighted averages based on the relative amount of each agricultural land use in each region of S.D. The USDA farm real estate value of \$365/acre includes building values and is based on reporters estimates of "all agricultural land" in their county.

According to survey reports, there were substantial regional differences in average percentage changes in agricultural land values from 1991 to 1992. The greatest increases in agricultural land values (+13.8%) occurred in the north central region, followed by increases of 6.5%-6.7% in western South Dakota. Overall, the largest percentage increases occurred in the major wheat-cattle regions of South Dakota. Several respondents in these regions commented that strong wheat and cattle prices and recovery from drought conditions in some areas were leading to upward pressure on land prices

Agricultural land value changes were minimal in the three eastern regions and in the central region of S.D. (-1.1% to +1.9%). The southeastern region is the only S.D. region where nominal land values declined. Several respondents in the southeast region indicated that drought conditions, poor crop prices (especially for corn and hay), and reduced government payments led to steady or slightly declining land prices.

Agricultural land values are highest in the southeast region, followed by land values in the east central and northeast

region. The lowest average land values are found in western S.D. In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland or tame pasture, and native rangeland.

Average nonirrigated cropland values vary from \$616/acre in the southeast region to \$300/acre in the central region and \$167/acre in the northwest region. Average cropland values exceed \$800 per acre in a few counties of eastern S.D. Average rangeland values vary from about \$270/acre in the southeast and east central regions to about \$74-\$80 per acre in western S.D. (Figure 2 and 3).

Average Cash Rental Rate Summary

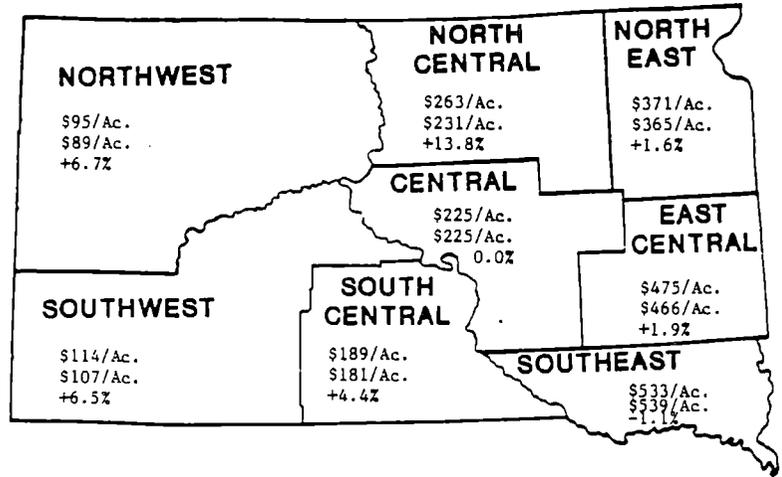
The cash rental market provides important information on returns to agricultural land. Nearly three-fourths of South Dakota's farmland renters and three-fifths of agricultural landlords are involved in one or more cash leases for cropland, hayland or pasture/rangeland. A majority of cash leases are annual renewable agreements.

Cash rental rates per acre are quite variable within each region and highly variable among South Dakota regions. Within each region, the average annual cash rental rates are highest for irrigated land, followed by cropland, hayland and pasture/rangeland. For each land use, cash rental rates are highest in southeast and east central S.D. and lowest in northwest and southwest S.D. (Table 1).

Cropland average cash rental rates vary from \$15.10-\$17.70 per acre in western S.D. regions to \$45.70 in east central S.D. and \$48/acre in the southeast. For rangeland, cash rental rates vary from \$4.90-\$5.30 per acre in western S.D. to \$19.60 in east central S.D. From 1991 to 1992, cash rental rates increased more than 10% for cropland and rangeland in some regions of western S.D.; in other regions cropland and rangeland cash rental rates per acre changed very little (Table 1).

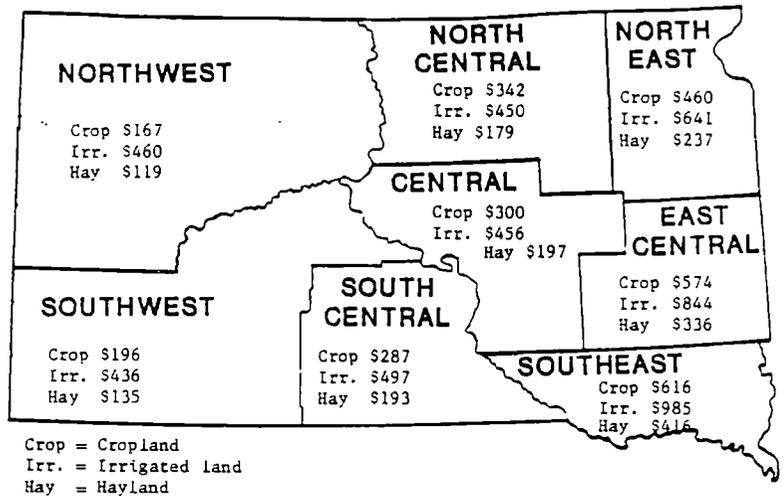
Rangeland rates per AUM (Animal Unit Month) in 1992 are fairly uniform across South Dakota, averaging \$12.50 per AUM in the northeast region, to \$15.90 in the south central region.

Figure 1. Average Value of South Dakota Agricultural Land, February 1, 1992 and 1991, and Percent Change From One Year Ago.



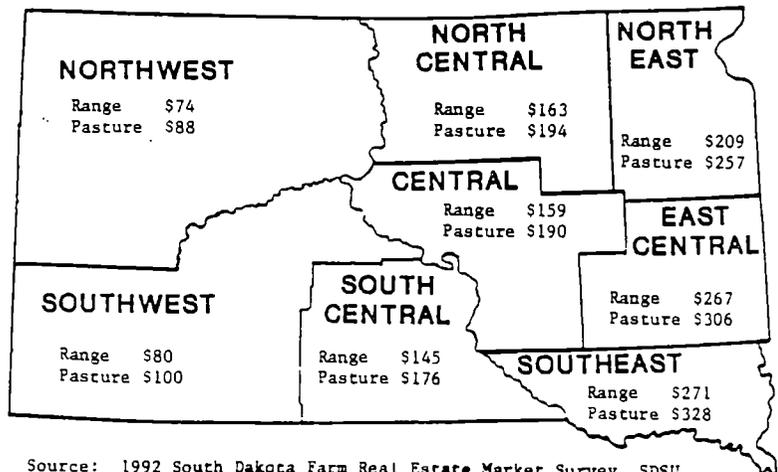
State: \$245/Ac. Average value, Feb. 1992
 \$237/Ac. Average value, Feb. 1991
 +3.4% Percent change

Figure 2. Average Value of South Dakota Dryland Cropland, Irrigated Land and Hayland, by Region, February, 1992, Dollars per Acre.



Source: 1992 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average Value of South Dakota Rangeland and Tame Pasture, by Region, February, 1992, Dollars per Acre.



Source: 1992 South Dakota Farm Real Estate Market Survey, SDSU.

Average cash rental rates for hayland vary from \$11.40-\$12.10 per acre in western S.D. to \$33.30 per acre in south-eastern S.D. Hayland cash rental rates decline in most regions, reflecting lower hay prices.

Market Forces and Market Outlook

Respondents were asked to provide reasons for reported changes in land values and the major factors motivating buyers and sellers.

Favorable prices for livestock and crops, especially higher wheat prices, and lower interest rates were the two major reasons cited for increasing land values. Farm size expansion, competitive bidding, and buyer perception that farmland is a good long-term investment were other key reasons cited for increased land values in 1991.

Almost one-fourth of the reasons listed for land value changes, emphasized negative (bearish) factors including: poor commodity prices, drought, reduced commodity program payments, substantially

higher real estate taxes, and uncertainty over the direction of the economy.

According to respondents, the major reasons for purchasing farm real estate are for farm expansion (49%) and/or for investment purposes (15%). Profitable livestock operations, lower interest rates, and tract location were also major reasons for farmland purchases. Other reasons included: (1) buying land to start farming/ranching, (2) buying land previously leased from a landlord, or (3) purchasing land for use as a hunting reserve.

The major reasons that landowners are selling farm real estate are due to retirement, estate settlement, financial pressure, and good market conditions for selling farmland.

Farm expansion is the major reason for purchasing farmland while farm retirement or estate settlement are the major reasons for selling farmland. These motives are consistent with the major reasons for agricultural land market transactions since the mid-1950s.

Table 1. Reported Cash Rental Rates of South Dakota Agricultural Land by Type of Land by Region, 1992 Rates

Type of Land	South-east	East Central	North-east	North Central	Central	South Central	South-west	North-west
-----dollars per acre-----								
Dryland Cropland								
Average 1992 rate	48.00	45.70	39.70	25.50	22.70	21.40	17.70	15.10
Range of 1992 rates	28-85	20-80	28-60	15-40	18-30	14-30	10-32	8-20
Average 1991 rate	49.30	43.20	38.50	24.50	23.20	22.20	15.90	13.50
Irrigated Land								
Average 1992 rate	85.20	70.00	69.20	**	48.30	**	46.50	48.10
Range of 1992 rates	50-125	55-100	50-115	**	25-75	**	25-75	25-85
Average 1991 rate	82.70	69.00	59.00	**	41.70	**	35.10	39.00
Hayland								
Average 1992 rate	33.30	25.90	20.00	14.20	15.60	15.60	11.40	12.10
Range of 1992 rates	15-90	15-50	10-55	8-20	8-23	8-23	6-22	6-20
Average 1991 rate	38.50	30.90	22.30	14.20	15.70	14.80	12.10	10.40
Pasture/Rangeland								
Average 1992 rate	18.00	19.60	16.50	12.00	13.50	9.50	5.30	4.90
Range of 1992 rates	10-25	13-28	10-25	8-16	5-20	5-15	3-10	3-7
Average 1991 rate	19.20	18.60	16.30	12.50	13.80	9.90	5.30	4.40
-----dollars per Animal Unit Month-----								
Average 1992 rate	15.40	14.50	12.50	13.10	15.50	15.90	14.00	15.00
Range of 1992 rates	11-25	8-20	8-16	10-16	13-18	13-18	11-18	12-20



SOUTH DAKOTA STATE UNIVERSITY
 Economics Department
 Box 504A
 Brookings, SD 57007

Address Correction Requested

Page 4

Financial position remains an important, through secondary, motivation factor for many buyers and sellers. Finally, there are many other motivations for purchasing and selling farmland and the relative importance of various reasons may change over time.

Most respondents expect stable to modest increases in agricultural land values in 1992. Many respondents commented that lower long-term interest rates and reduced yields on other investments should stabilize or increase land values in the next 12 months. Continued profitability of cow-calf enterprises may cause some increases in rangeland and pasture value. Respondents from the wheat farming regions generally expect increased cropland values, while cropland values are expected to remain stable (or decline slightly) in eastern S.D.

Overall, respondents' projections of farmland value changes are lower than most forecasts of 1992 inflation rates, indicating some decline in inflation-adjusted

farmland values is likely. This represents a major change from the strong increases in S.D. farmland values from 1987-1991.

For more detailed information, readers are encouraged to contact the SDSU Economics Department or the authors and ask for Economics Research Report 92-1, South Dakota Agricultural Land Values and Rental Rates:1992, June 1992, 36 pages. This detailed report is available at a cost of \$3.00 per copy.

ECONOMICS COMMENTATOR



EDITOR: Don Peterson, Agricultural Economist



ECONOMICS DEPARTMENT
 South Dakota State University
 Box 504A
 Brookings, SD 57007
 Phone: (605) 688 - 4141

400 copies of this publication were produced at a cost of less than \$100.