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6-1-1993

## South Dakota Agricultural Land Values and Rental Practices: 1993

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### Recommended Citation

Janssen, Larry and Pflueger, Burton, "South Dakota Agricultural Land Values and Rental Practices: 1993" (1993). *Economics Commentator*. Paper 290.

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# ECONOMICS COMMENTATOR



SOUTH DAKOTA STATE UNIVERSITY

No. 321

June 1, 1993

## SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 1993

by

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South Dakota's agricultural land values increased 4.5% in 1992, paced by strong increases in rangeland and hayland values. Cropland values increased in most regions, but declined slightly in the north central and northwest regions. Average agricultural land values (as of Feb. 1, 1993) vary from \$561 per acre in the southeast to \$97 per acre in northwest S.D. These are key findings from the SDSU 1993 South Dakota Farm Real Estate Market Survey reports completed by 261 respondents (appraisers, lenders, and Extension agents) knowledgeable of local farmland market trends.

This is the third annual SDSU survey developed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The 1991 and 1992 survey results were reported in *Economics Commentator* issues #299 (June 29, 1991) and #310 (June 22, 1992).

Respondents provided county land value and cash rental rate information by agricultural land use. Responses were grouped by regional location (Figures 1,2,3). Land value and cash rental rate information is provided for nonirrigated cropland, rangeland, tame pasture, hayland, and irrigated land. The 1993 survey also included information on cropshare rental practices.

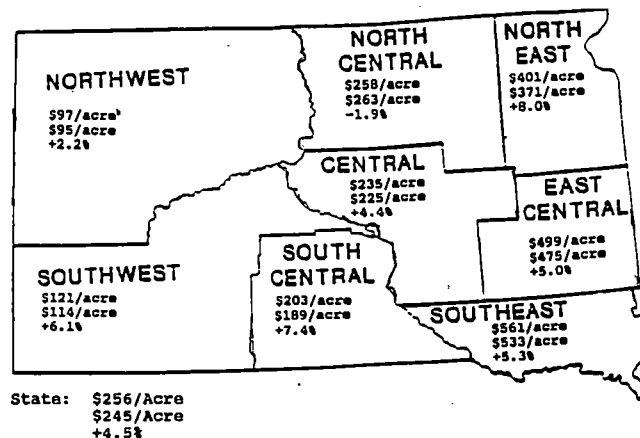
The information in this report provides an overview of agricultural land values, cash rental rates, and cropshare practices across South Dakota. We caution the reader to use this information as a general reference, while relying on local sources for more specific details.

## Average Land Value Summary

Farmland values are a "barometer" of current and expected returns in agriculture. During the agricultural export and finance boom from 1972 until the early 1980's, farmland values rapidly increased. During the depths of the farm finance crisis (1984 - 1987), farmland values sharply declined. Farmland values rebounded sharply from 1987 to 1991 and continued to increase at a much slower pace in 1992 and early 1993.

As of Feb. 1993, the estimated South Dakota all-agricultural land value average was \$257 per acre, 4.5% higher than one year earlier (Figure 1). Compared to the 1993 USDA report, the SDSU survey results show substantially lower average land values (\$257 vs. \$370 per acre) and greater increases in land values during 1992 (4.5% vs. 1.5%). The USDA farm real estate value estimate is higher because building values are included, while the SDSU survey excludes building values. The USDA estimate is based on reporters' estimated value of "all agricultural land" in their locality, while the SDSU all-land value estimate is based on the relative amount and value of different agricultural land uses in each region.

Figure 1. Average value of South Dakota agricultural land, February 1, 1993 and 1992, and percent change from one year ago.\*



\*Regional and statewide average value of agricultural land are the weighted averages of dollar value per acre and percent change by proportion of acres of each land use by region.

Top: Average per acre value - February 1, 1993

Middle: Average per acre value - February 1, 1992

Bottom: Annual percent change in per acre land value

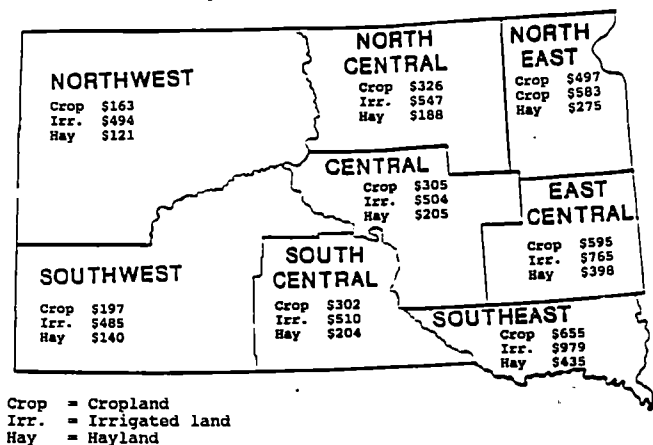
Source: 1993 South Dakota Farm Real Estate Market Survey, SDSU.



According to survey reports, minimal changes in agricultural land values occurred in the northwest (+2.2%) and the north central (-1.9%) region. Land values increased from +4.4% to +8.0% in other regions (Figure 1).

Agricultural land values are highest in the southeast and east central region, followed by the northeast. Cropland and hayland are the dominant land uses (70% - 74% of farmland acres) in these eastern regions, which contain the most productive land in South Dakota. The lowest land values are found in western S.D., where over 70% of farmland acres are in native rangeland or pasture.

Figure 2. Average value of South Dakota dryland cropland, irrigated land and hayland, by region, February 1993, dollars per acre.



Source: 1993 South Dakota Farm Real Estate Market Survey, SDSU.

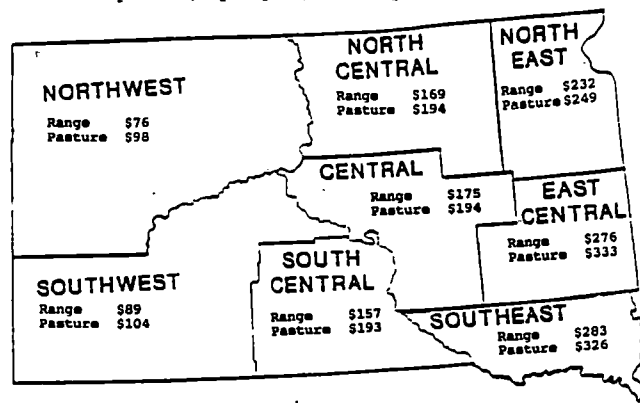
In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland or tame pasture, and native rangeland. Within each region, there is substantial variation in per acre land value by land use and land productivity.

Average nonirrigated cropland values range from \$655 per acre in the southeast, to \$302-326 per acre in the central regions of the State, to \$163 per acre in northwest S.D. Average cropland values exceed \$800 per acre in a few counties in eastern S.D. Average rangeland values vary from about \$280 per acre in the southeast and east central regions, to \$157-\$175 per acre in the central regions, to \$76-\$89 per acre in western South Dakota (Figure 2 and 3).

#### Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agri-

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 1993, dollars per acre.



Source: 1993 South Dakota Farm Real Estate Market Survey, SDSU.

cultural land. Nearly three-fourths of South Dakota 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 are quite variable within each region and highly variable among S.D. regions. Within each region, the average annual cash rental rates are highest for irrigated land, followed by nonirrigated cropland, hayland and pasture/rangeland. For each land use, cash rental rates are highest in southeast and east central S.D., and lowest in western S.D. (Figure 4 and 5).

Cash rental rates for nonirrigated cropland vary from an average of \$66-\$68 per acre in a few counties of eastern S.D. to \$14.60-\$16.60 in western S.D. Rangeland cash rental rates vary from an average of \$20.10-\$20.30 per acre in the east central and southeast regions to \$5.60-\$6.10 per acre in western S.D.

From 1992 to 1993, rangeland rental rates increased in all regions of South Dakota. Cash rental rates for cropland and hayland increased throughout the central and eastern regions, but remained the same or decreased slightly in western S.D. In most regions, average cash rental rates for cropland increased \$0.60-\$3.80 per acre, while average hayland and rangeland cash rental rates increased \$0.40 to \$2.40 per acre.

Rangeland rates per AUM (Animal Unit Month) in 1993 are fairly uniform across regions, averaging \$13.25 per AUM in the

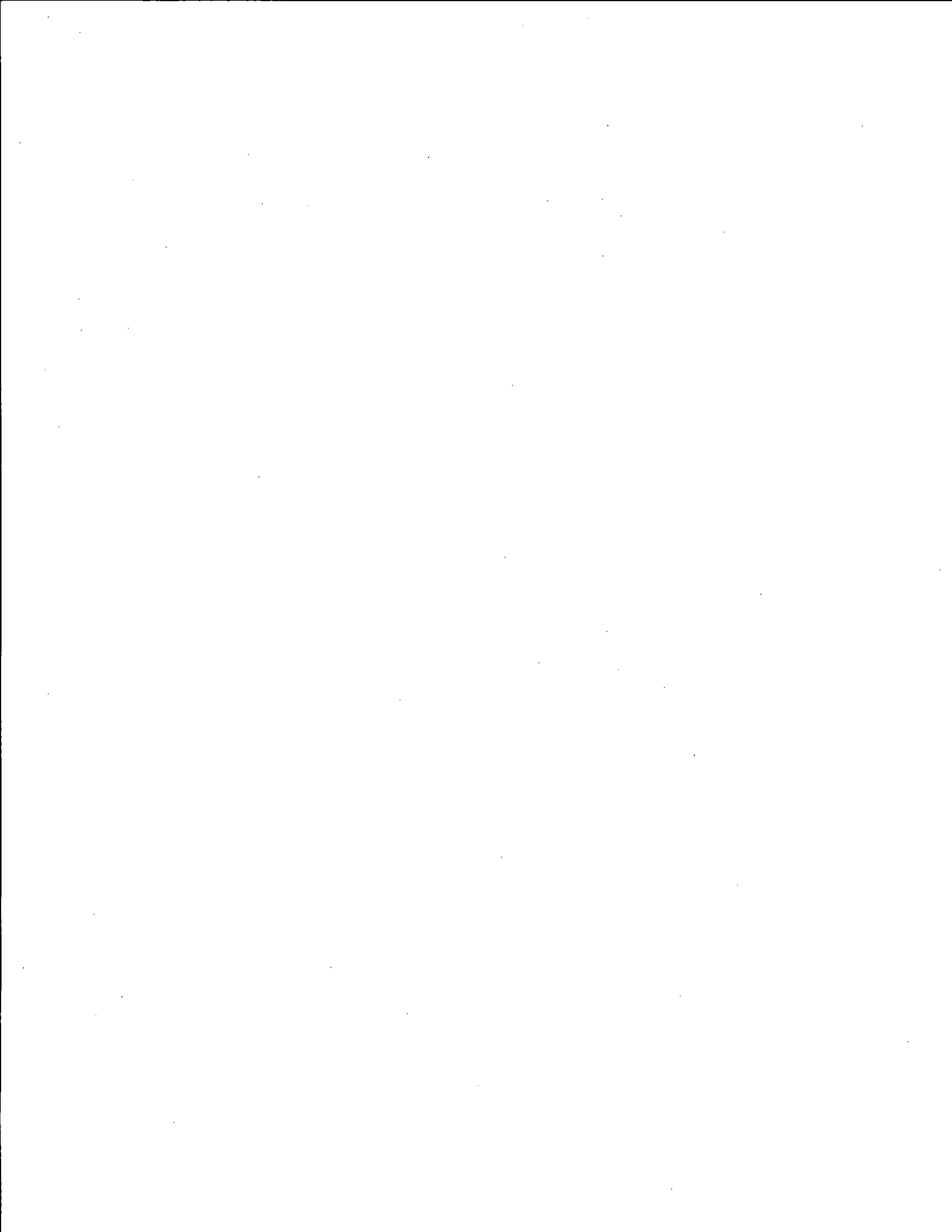
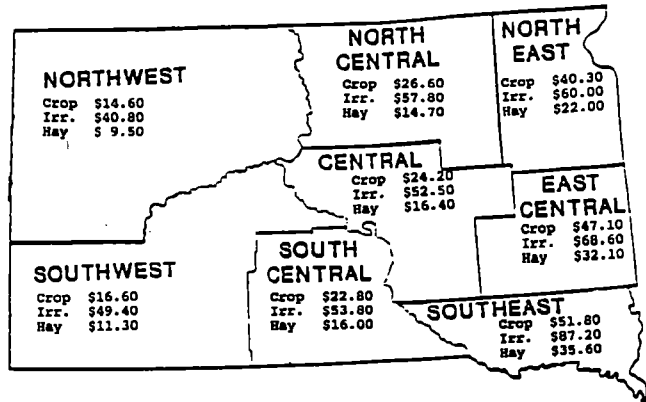


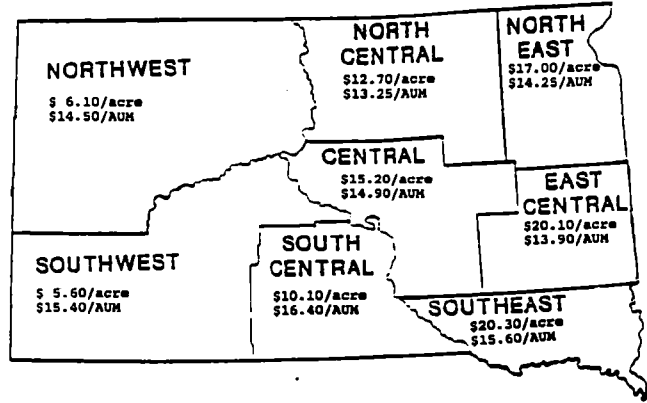
Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, irrigated land and hayland, by region, 1993 dollars per acre.



Crop = Cropland  
Irr. = Irrigated land  
Hay = Hayland

Source: 1993 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 1993, dollars per acre and dollars per AUM.



Source: 1993 South Dakota Farm Real Estate Market Survey, SDSU.

north central region to \$16.40 per AUM in the south central region (Figure 5). In most regions, this represents a rate increase of \$2.00-\$5.00 per AUM from 1988 to 1993.

**Rates of Return to Agricultural Land**

Gross rent-to-value ratios (gross cash rent as a percent of reported land value) are a measure of GROSS rate of return to land, before deduction of property taxes and other landlord expenses. Gross rent-to-value ratios averaged 7.6% for all agricultural land, 8.1% for nonirrigated cropland, and 7.1% for rangeland. From 1991 to 1993, changes in the gross cash rent-to-value ratio by region and land use were minimal.

Respondents were asked to estimate NET rates of return to agricultural land ownership in their locality, given current land values. Statewide, the estimated net rate of return to agricultural land declined from 6.6% in 1991 to 5.5% in 1993. During this period, estimated net rates of return declined for all land uses and in all regions. A major reason is substantial increases in real estate taxes.

**Cropshare Rental Practices**

Cropshare rental practices have changed relatively little since 1986. The 2/3 - 1/3 tenant-landlord cropshare lease is dominant in most of South Dakota. In the east central and southeast regions, the 3/5 - 2/5 and 2/3 - 1/3 cropshare leases are both common, with some 1/2 - 1/2 cropshare leases as well.

There is a greater likelihood of input cost sharing on a 3/5 - 2/5 cropshare lease than on a 2/3 - 1/3 cropshare lease arrangement. The input costs most commonly shared are fertilizer, herbicide, and insecticide. Chemical application, crop drying, and crop insurance expenses are reported as shared by 25% or more respondents (Table 1). There were few differences in the incidence of shared expenses by tillage system (conventional or reduced tillage) or by cropping pattern (row crops or small grains).

Table 1. Percentage of respondents reporting shared input expenses by cropshare lease, South Dakota, 1993

Selected inputs	Cropshare lease	
	tenant - landlord share	
	2/3 - 1/3	3/5 - 2/5
	percent of respondents reporting shared expense	
Seed	12	35
Fertilizer	71	93
Herbicide	51	86
Insecticide	42	70
Chemical application	31	40
Crop insurance	36	32
Combining	6	7
Hauling	7	10
Crop drying	27	33
Custom hire	5	16
Hired labor	1	3

Source: 1993 S.D. Farm Real Estate Market Survey, SDSU





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Market Forces and Market Outlook

Major reasons for higher reported land values are good livestock prices, lower interest rates, competitive bidding/farm expansion pressures, and buyer perception that farmland is a good investment. The 1992 crop year was cited as a reason for increased land prices in some localities where yields were excellent. It also contributed to stable or reduced prices in locations plagued by drought, early frost, late harvest, or poor quality crops.

Major reasons for purchasing farm real estate are farm expansion (50%) and/or investment purposes (16%). Lower interest rates and tract location were each cited by 9% of respondents. A variety of other reasons, including starting farming and purchasing land for hunting purposes, were also mentioned.

Major reasons for landowners selling farm real estate are retirement (42%), estate settlement (21%) and financial pressure (20%). Favorable market conditions for selling farmland was mentioned by fewer respondents than in the previous two years.

Overall, farm expansion is the major reason for purchasing farmland, while farm retirement or estate settlement are the major reasons for selling farmland. These

major reasons for selling and buying farmland have been dominant since the 1950's. Also, financial position/pressure are important motivations for many buyers and sellers, and is a contributing factor to market weakness in some localities.

Most respondents project stable to slightly increasing agricultural land values during 1993, with an average projected increase of 1.5%. The projected increase is lower than most forecasts of 1993 inflation rates, indicating continued decline of inflation-adjusted farmland values is likely.

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For more detailed information, readers are encouraged to contact the SDSU Bulletin Room, 112 Lincoln Music Hall, (688-5628), for one free copy of AES Circular No. 256: South Dakota agricultural land values, cash rental rates, and cropshare rental practices: 1993. More than one copy will involve a nominal fee.

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



