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Recommended Citation

Pflueger, Burton; Janssen, Larry; and Brovold, Karen, "South Dakota Agricultural Land Values and Rental Practices: 1994" (1994). *Economics Commentator*. Paper 306.

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 1994

by

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South Dakota's agricultural land values increased 3.5% in 1993, paced by strong increases in the Central and North Central regions. Slight declines in agricultural land values were reported in the Northeast and South Central regions and no change was reported in the East Central region. The average value of agricultural land (as of February 1, 1994) varies from \$581 per acre in the Southeast region to \$100 per acre in northwest South Dakota. These are key findings from the SDSU 1994 South Dakota Farm Real Estate Market Survey reports completed by 228 respondents (appraisers, lenders, and Extension agents) knowledgeable of local farmland market trends.

This is the fourth annual SDSU survey developed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. Summaries of the 1991, 1992, and 1993 survey results were reported in *Economics Commentator* issues #299 (June 29, 1991), #310 (June 22, 1992), and #321 (June 1, 1993).

Respondents provided county land value and cash rental rate information by agricultural land use. Responses were grouped by the regional locations shown in all figures included with this newsletter. Average values for all classes of land are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, rangeland, tame pasture, hayland, and irrigated land are provided in Figures 2 - 5.

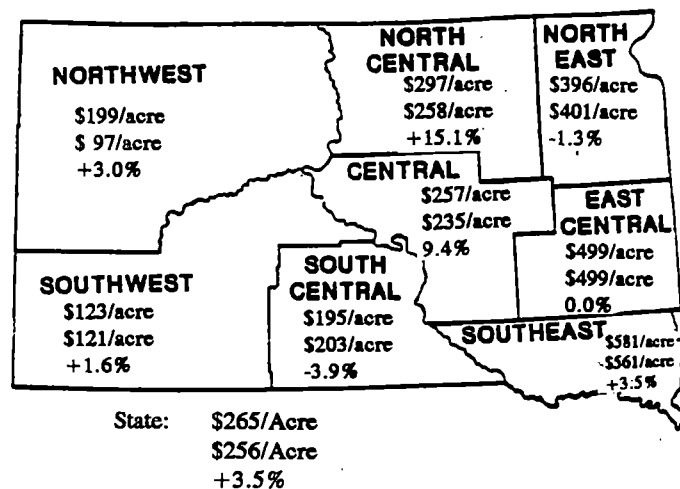
The information in this report provides an overview of agricultural land values and cash rental rates across South Dakota. We caution the reader to use this information as a general reference, while relying on local sources for more specific details.

Average Land Value Summary

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 have continued to increase at a much slower pace for the past three years.

As of February 1, 1994, the estimated South Dakota all-agricultural land value average was \$265 per acre, an estimated 3.5% increase in value from one year earlier (Figure 1). Compared to USDA's recent report, the SDSU survey estimate of South Dakota's agricultural land value is considerably lower (\$265 per acre versus \$388 per acre), and the survey's estimated 1993-1994 increase is lower (3.5% versus 5.0%). One major reason for these differences is that the USDA farm real estate value series includes the estimated value of all agricul-

Figure 1. Average value of South Dakota agricultural land, February 1, 1994 and 1993, and percent change from one year ago.^{a, b}



^aRegional 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.

^bTop: Average per acre value - February 1, 1994
Middle: Average per acre value - February 1, 1993
Bottom: Annual percent change in per acre land value

Source: 1994 South Dakota Farm Real Estate Market Survey, SDSU.

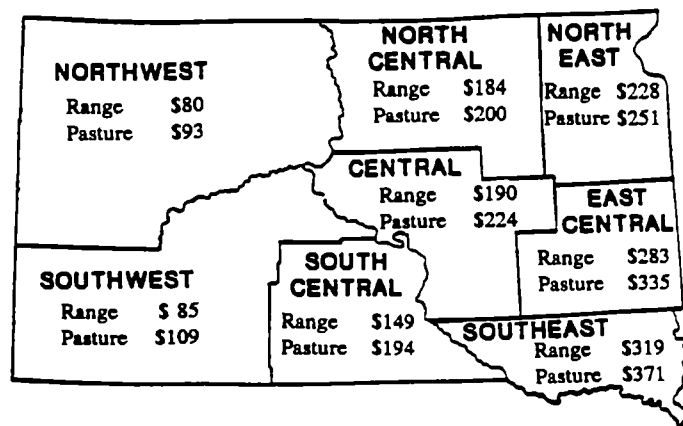
tural land and farm buildings. The USDA estimate is based on reporters' estimated value of "all agricultural land" in their locality, while the SDSU all-land value estimate is based on the relative amount and value of different agricultural land uses in each region.

According to SDSU survey reports, agricultural land values sharply increased in the North Central region (+15.1%) and the Central region (+9.3%). Land values declined slightly in the Northeast (-1.3%), did not change in the East Central region, and increased modestly (+3.5%) in the Southeast. Slight increases in agricultural land values were reported in the Northwest (+3.0%) and Southwest (+1.6%). On the other hand, a slight decline in values was reported in the South Central (-3.9%) region.

Agricultural land values are highest in the Southeast followed by the East Central region. 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 average land values are found in the Northwest and Southwest regions.

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 (Figures 2 and 3). Within each region, there is substantial variation in per acre land value by land use and land productivity.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 1994, dollars per acre.



Source: 1994 South Dakota Farm Real Estate Market Survey, SDSU.

Average nonirrigated cropland values range from \$661 per acre in the southeast, to \$287-\$382 per acre in the central regions of the state, to \$169 per acre in northwest South Dakota. Average rangeland values vary from \$319 and \$283 per acre in the Southeast and East Central regions, respectively, to \$149-\$190 per acre in the Central region, to \$80-\$85 per acre in western South Dakota.

Average Cash Rental Rate Summary

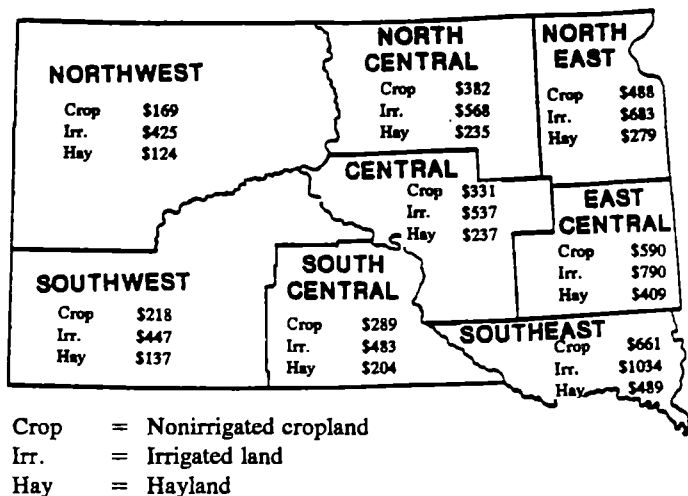
The cash rental market provides important information on returns to agricultural land. Nearly three-fourths of South Dakota farmland renters and three-fifths of agricultural landlords are involved in one or more cash leases for cropland, hayland, or pasture/rangeland. A majority of cash leases are annual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

Cash rental rates are quite variable within each region and highly variable among South Dakota 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 regions of South Dakota, and lowest in western S.D. (Figures 4 and 5).

Cash rental rates for nonirrigated cropland vary from an average of \$51.90 per acre in southeastern South Dakota to \$14.90 in northwestern South Dakota. Rangeland cash rental rates vary from an average of \$20.30-\$20.90 per acre in the East Central and Southeast regions to \$5.40-\$5.60 per acre in western South Dakota.

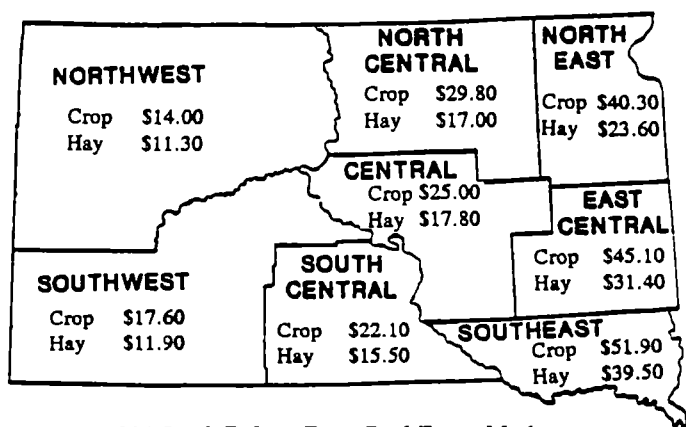
From 1993 to 1994, average cash rental rates for cropland decreased \$2.00 per acre in the East Central region and \$0.70 per acre in the South Central region.

Figure 2. Average value of South Dakota cropland, irrigated land and hayland, by region, February 1994, dollars per acre.



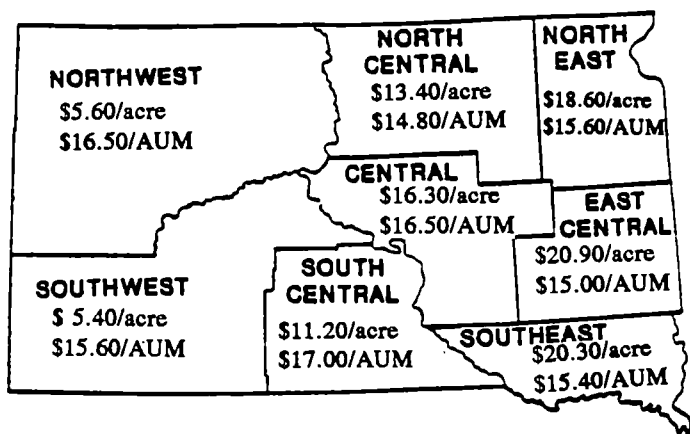
Source: 1994 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland and hayland, by region, 1994 dollars per acre.



Source: 1994 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 1994, dollars per acre and dollars per AUM.



Source: 1994 South Dakota Farm Real Estate Market Survey, SDSU.

Cropland cash rental rates were steady to \$1.00 higher in most other regions, and increased an average of \$3.20 per acre in the North Central region. Average cash rental rates for hayland increased in all regions except the East Central and South Central regions.

Rangeland rates per AUM (Animal Unit Month) in 1994 are fairly uniform across regions, ranging from an average of \$14.80 per AUM in the North Central region to \$17.00 per AUM in the South Central region (Figure 5). On an individual county basis, cash rental rates vary from \$12-\$20 per AUM.

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 8.0% for nonirrigated cropland and hayland, and 7.0% for rangeland. From 1992 to 1994, 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 5.8% in 1992 to 5.5% in 1994. Net rates of return were relatively stable from 1993 to 1994.

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 1993 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 flood, early frost, late harvest, or poor quality crops.

The major reported reason for purchasing farm real estate was farm expansion (48%). The second and third reasons for purchasing farmland are for investment purposes and lower interest rates, respectively. A variety of other reasons -- including starting farming, tract location, favorable crop/livestock prices, and purchasing land for hunting purposes -- were also mentioned.

A major reason for landowners selling farm real estate was retirement (44%). Other reasons include estate settlement, financial and cash flow pressure, and favorable market conditions for selling agricultural land.

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 is an important motivation for many buyers and sellers, and is a contributing factor to market weakness in some localities.

Most respondents project slightly increasing agricultural land values during 1994 due to improved sub-soil moisture during the last two years. Many respon-



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dents commented that lower long-term interest rates, reduced yields on other investments, and favorable crop/livestock prices should stabilize or increase agricultural land values in the next 12 months.

For more detailed information, readers are encouraged to contact the SDSU Economics Department or the authors and ask for SDSU AES Circular No. 257: South Dakota Agricultural Land Values, and Cash Rental Rates: 1994.

ECONOMICS COMMENTATOR

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