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## South Dakota Agricultural Land Values and Rental Practices: 1995

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# ECONOMICS COMMENTATOR



South Dakota State University

No.352

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## SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 1995

by

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South Dakota's agricultural land values increased 4.2% in 1994, paced by strong increases in southern regions. Slight declines in agricultural land values were reported in the north central and east central regions and no change was reported in the central region. The average value of agricultural land (as of February 1, 1995) varies from \$642 per acre in the southeast region to \$106 per acre in northwest South Dakota. These are key findings from the SDSU 1995 South Dakota Farm Real Estate Market Survey reports completed by 247 respondents (appraisers, lenders, and Extension agents) knowledgeable of local farmland market trends.

This is the fifth 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, 1993, and 1994 survey results were reported in *Economics Commentator* issues #299 (June 29, 1991), #310 (June 22, 1992), #321 (June 1, 1993), and #337 (June 20, 1994).

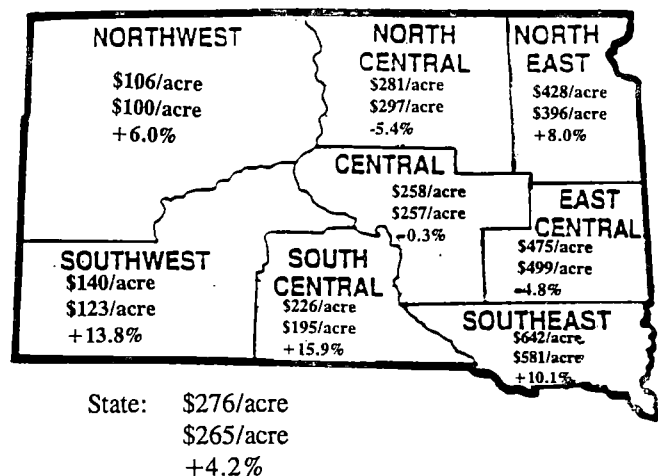
Respondents provided county land value and cash rental rate information by agricultural land use. Responses were grouped by the regional locations shown in the figures included with this newsletter. Average values for all classes of land are provided in Figure 1. Separate estimates of land value and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

The information in this newsletter 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

As of February 1, 1995, the estimated South Dakota all-agricultural land value average was \$276 per acre, an estimated 4.2% 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 (\$276 per acre versus \$388 [1994 value] per acre). One major reason for this difference is that the USDA farm real estate value series includes the estimated value of all agricultural 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.

Figure 1. Average value of South Dakota agricultural land, February 1, 1995 and 1994, and percent change from one year ago.<sup>a,b</sup>



<sup>a</sup>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.

<sup>b</sup>Top: Average per acre value - February 1, 1995  
Middle: Average per acre value - February 1, 1994  
Bottom: Annual percent change in per acre land value

Source: 1995 South Dakota Farm Real Estate Market Survey, SDSU

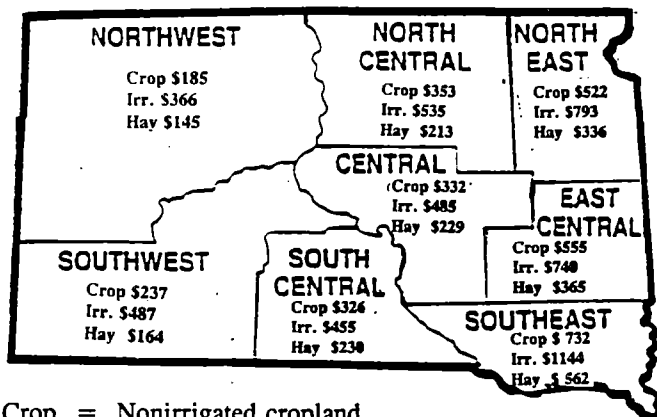
According to SDSU survey reports, agricultural land values sharply increased in the south central region (+15.9%) and the southwest region (+13.8%). They also increased in the southeast (+10.1%), northeast (+8.0%), and northwest (+6.0%). Land values declined slightly in the north central (-5.4%) and east central (-4.8%) regions, and did not change in the central 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.

Average nonirrigated cropland values range from \$732 per acre in the southeast, to \$326-\$353 per acre in the central regions of the state, to \$185 per acre in northwest South Dakota. Average rangeland values vary from \$354 and \$303 per acre in the southeast and east central regions, respectively, to \$180-\$197 per acre in the central regions, to \$83-\$101 per acre in western South Dakota.

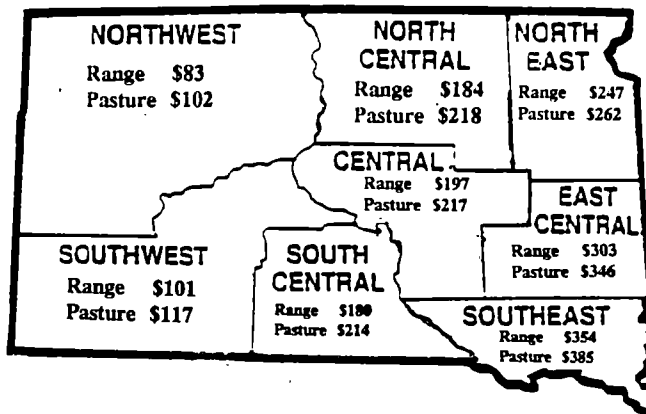
Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 1995, dollars per acre.



Crop = Nonirrigated cropland  
 Irr. = Irrigated land  
 Hay = Hayland

Source: 1995 South Dakota Farm Real Estate Market Survey, SDSU

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 1995, dollars per acre.



Source: 1995 South Dakota Farm Real Estate Market Survey, SDSU

### Average Cash Rental Rate Summary

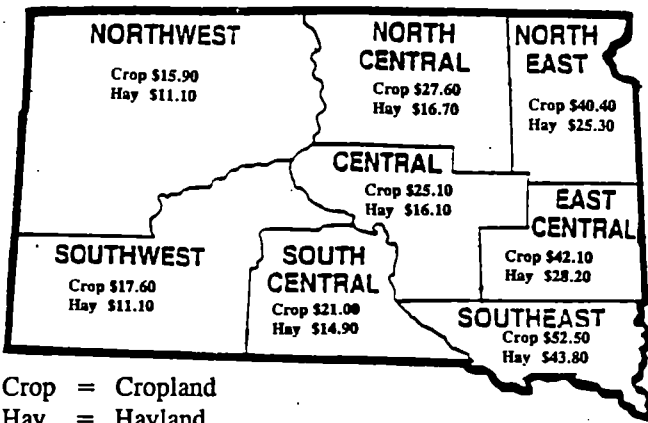
The cash rental market provides important information on returns to agricultural land. Nearly three-fourths of South Dakota farmland renters and three-fifths of agricultural landlords are involved in one or more cash leases for cropland, hayland, or pasture/rangeland. A majority of cash leases are annual 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 (not reported in this newsletter), 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 \$52.50 per acre in southeastern South Dakota to \$15.90 in northwestern South Dakota. Rangeland cash rental rates vary from an average of \$21.60-\$21.90 per acre in the east central and southeast regions to \$6.10-\$6.30 per acre in western South Dakota.

From 1994 to 1995, average cash rental rates for cropland decreased \$3.00 per acre in the east central region and \$1.10 per acre in the south central region. Cropland cash rental rates were steady to \$2.00 higher in most other regions, and increased an average of \$2.20 per acre in the north central region.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland and hayland, by region, 1995, dollars per acre.



Source: 1995 South Dakota Farm Real Estate Market Survey, SDSU

## 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 7.5% for all ag land, 7.8% for non-irrigated cropland, and 7.1% for rangeland. From 1992 to 1995, 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 1995. Net rates of return were relatively stable from 1993 to 1995.

## Market Forces and Market Outlook

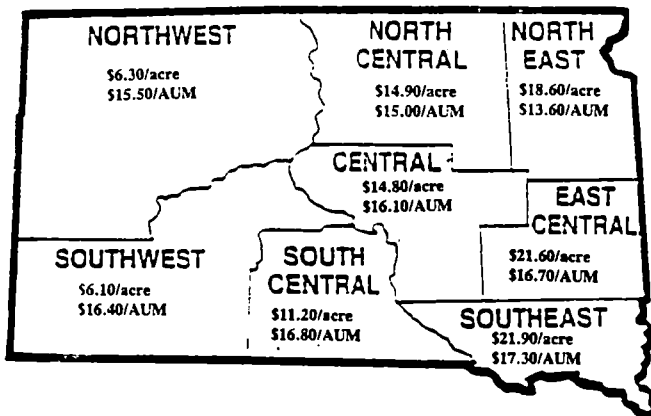
Reasons for higher reported land values varied greatly by respondent and respondent location. Strongest reasons, however, are good recent years of crop production, competitive bidding/farm expansion pressures, and buyer perception that farmland is a good investment. Additional major positive factors include high demand for farmland, low interest rates, demand for land for hunting and/or recreation, government programs, the desire for a rural lifestyle, and high income potential from farmland.

The major reported reason for purchasing farm real estate was farm expansion (45%). The second and third most important reasons for purchasing farmland are for investment purposes and location of land tract, respectively. A variety of other reasons -- including starting farming, low interest rates, and purchasing land for hunting purposes -- were also mentioned.

A major reason for landowners selling farm real estate was retirement (46%). 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.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 1995, dollars per acre and dollars per AUM.



Source: 1995 South Dakota Farm Real Estate Market Survey, SDSU

Average cash rental rates for hayland increased in the northeast and southeast regions and held steady or declined in other regions.

Rangeland rates per AUM (Animal Unit Month) in 1995 are fairly uniform across regions, ranging from an average of \$13.60 per AUM in the northeast region to \$17.30 per AUM in the southeast region (Figure 5). On an individual county basis, cash rental rates vary from \$12-\$20 per AUM.



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Overall, respondents' land market expectations for 1995 are less optimistic than in previous years. Many respondents commented that lower cattle prices, somewhat higher interest rates, and uncertainty about Federal farm program provisions could lead to minimal changes or to reductions in agricultural land values. Since the survey was conducted, grain prices (especially wheat) have increased greatly from early summer prices of one year ago. However, prevented plantings or very late plantings have occurred in many counties of eastern and central regions of South Dakota. These changing conditions are likely to influence agricultural land markets during the next 12 months.

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For more detailed information, readers are encouraged to contact the authors and ask for SDSU AES Circular No. 258: South Dakota Agricultural Land Values and Cash Rental Rates: 1995, which should be available in mid-September.

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**ECONOMICS COMMENTATOR**

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