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ECONOMICS COMMENTATOR

SOUTH DAKOTA STATE UNIVERSITY

No. 364 June 5, 1996

SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 1996



by

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South Dakota's agricultural land values increased 4.2% in 1995, paced by strong increases in the northwest and central regions. Slight declines in agricultural land values were reported in the northeast, south central and southwest regions. The average value of agricultural land (as of February 1, 1996) varies from \$636 per acre in the southeast region to \$112 per acre in northwest South Dakota. These are key findings from the SDSU 1996 South Dakota Farm Real Estate Market Survey reports completed by 218 appraisers, lenders, and Extension agents knowledgeable of local farmland market trends.

This is the sixth 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, 1994 and 1995 survey results were reported in *Economics Commentator* issues #299 (June 29, 1991), #310 (June 22, 1992), #321 (June 1, 1993), #337 (June 20, 1994) and #352 (August 21, 1995).

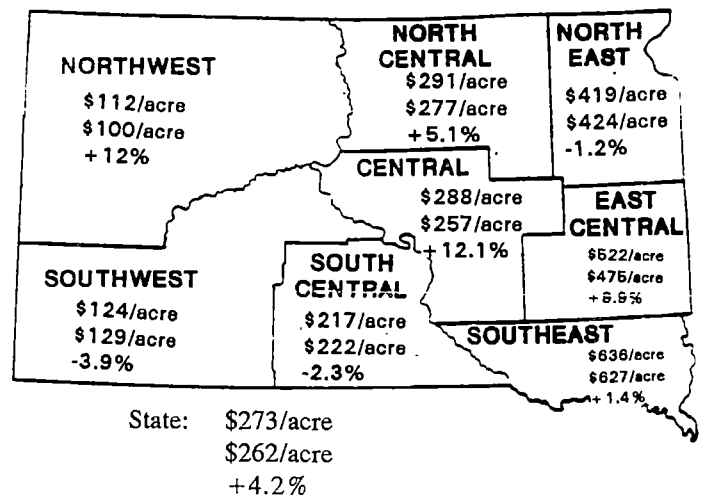
Respondents provided county land value and cash rental rate information by agricultural land use. Responses grouped by region with average values for all classes of land are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, 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, 1996, the estimated South Dakota all-agricultural land value average was \$273 per acre, an estimated 4.2% increase in value from one year earlier (Figure 1). The all-agricultural land values reported in this *Commentator* are based on

Figure 1. Average value of South Dakota agricultural land, February 1, 1996 and 1995, 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 nonirrigated land use by region.

^bTop: Average per acre value - February 1, 1996
Middle: Average per acre value - February 1, 1995
Bottom: Annual percent change in per acre land value

Source: 1996 South Dakota Farm Real Estate Market Survey, SDSU

(1992 Census of Agriculture) land use data showing more range/pasture land than earlier reports and does not include the contribution of irrigated land. The net effect of these changes is to slightly reduce reported all-land values in most regions.

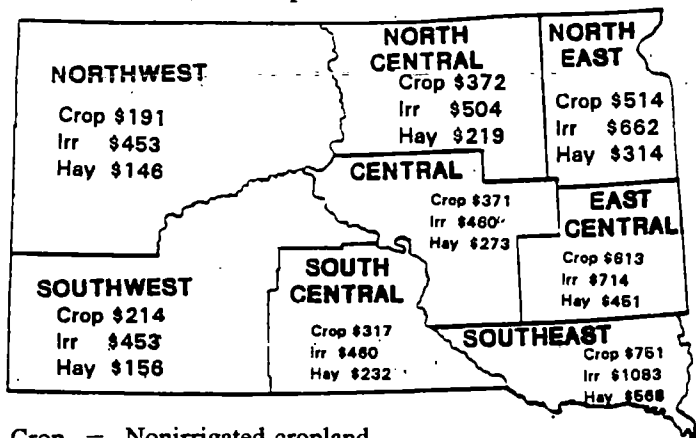
According to SDSU survey responses, agricultural land values sharply increased in the central region (+12.1%) and the northwest region (+12.0%). They also increased in the east central (+9.9%), north central (+5.1%), and southeast (+1.4%) regions. Land values declined slightly in the northeast (-1.2%), south central (-2.3%), and southwest (-3.9%) regions.

Agricultural land values are highest in the southeast followed by the east central region. Cropland and hayland are the dominant land uses 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 \$751 per acre in the southeast to \$371 and \$372 per acre in the central and north central regions of the

Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 1996, dollars per acre.

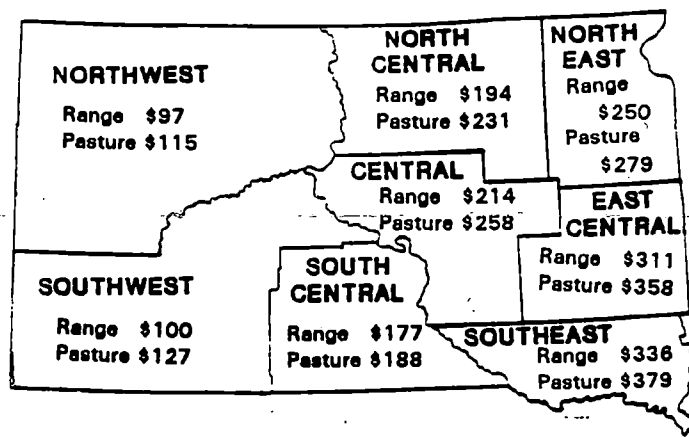


Crop = Nonirrigated cropland
 Irr. = Irrigated land
 Hay = Hayland

Source: 1996 South Dakota Farm Real Estate Market Survey, SDSU

state respectively to \$191 per acre in northwest South Dakota. Average rangeland values vary from \$336 and \$311 per acre in the southeast and east central regions, respectively, to \$177-\$214 per acre in the central regions, to \$97-\$100 per acre in western South Dakota.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 1996, dollars per acre.



Source: 1996 South Dakota Farm Real Estate Market Survey, SDSU

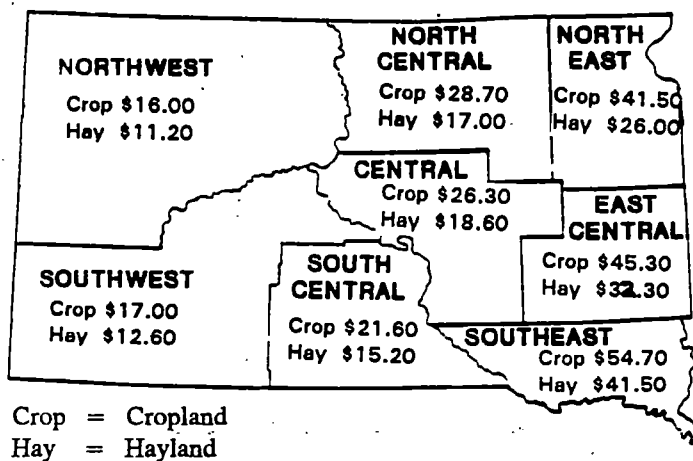
Average Cash Rental Rate Summary

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, 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).

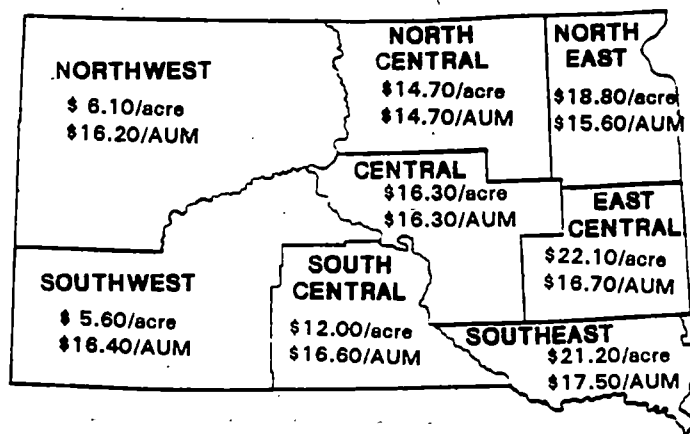
Cash rental rates for nonirrigated cropland vary from an average of \$54.70 per acre in southeastern South Dakota to \$16.00 in northwestern South Dakota. Average cropland cash rental rates range from \$70-\$85 per acre in a few eastern counties. Rangeland cash rental rates vary from an average of \$21.20 and \$22.10 per acre in the east central and southeast regions; respectively, to \$5.60 and \$6.10 per acre in western South Dakota regions.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland and hayland, by region, 1996, dollars per acre.



Source: 1996 South Dakota Farm Real Estate Market Survey, SDSU

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 1996, dollars per acre and dollars per AUM.



Source: 1996 South Dakota Farm Real Estate Market Survey, SDSU

From 1995 to 1996, average cash rental rates for cropland increased \$3.20 per acre in the east central region and \$2.20 per acre in the southeast region (not shown in figures). Cropland cash rental rates were steady to \$1.20 higher in most other regions. Average per acre cash rental rates for hayland increased in the east central (\$4.10), central (\$2.50), and southwest (\$1.50) regions. Average per acre cash rental rates for hayland decreased in the southeast region (-\$2.30) and were steady to slightly higher in other regions.

Rangeland rates per AUM (Animal Unit Month) in 1996 are fairly uniform across regions (Figure 5). Rates range from an average of \$14.70 per AUM in the north central region to \$17.50 per AUM in the southeast region.

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 7.1% for all ag land, 7.9% for non-irrigated cropland, and 6.4% for rangeland.

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 5.1% in 1996.

Land Values and Cash Rent Trends, 1991-1996

South Dakota ag land values generally increased more than the rate of general price inflation from 1991 to 1996. During the past five years, agricultural land value increases have been close to the inflation rate in the east central and northeast regions and above the inflation rate in all other regions. Rangeland values increased more than cropland values during most of this period.

From 1991 to 1996 average cash rental rates increased for rangeland, hayland and cropland. However, hayland and cropland cash rental rates increased at slower percentage rates than corresponding land values in all regions.

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, lower interest rates, and buyer perception that farmland is a good investment. Additional major positive factors include high demand for farmland, 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 (47%). 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 farm start-up, low interest rates, and purchasing land for hunting purposes -- were also mentioned.

A major reason for landowners selling farm real estate was retirement (41%). 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.

Many respondents commented that lower cattle prices and uncertainty about Federal farm program provisions could lead to minimal changes or to reductions in agricultural land values. Respondents also commented on the expectations of land market

activity in 1996. Most respondents (61%) expect no change in market activity, while 36% expect an increase in the number of farms for sale in 1996. One major item to note is that at the time the survey was conducted, the 1996 Farm Bill was not yet enacted. Farmers and ranchers have been making, and will continue to make, changes in their operations to adjust to the new farm bill provisions. These changing conditions are likely to influence agricultural land markets during the next few years.

For more detailed information, readers are encouraged to contact the authors and ask for SDSU AES Circular #259, South Dakota Agricultural Land Market Trends, 1991-1996, available August, 1996.

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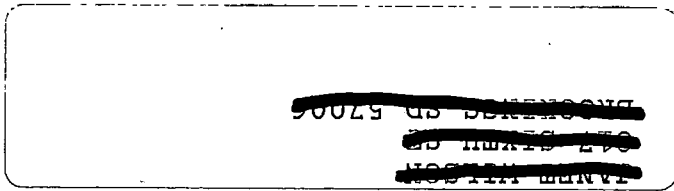
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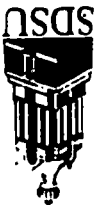
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